

# LEBANON

**Table 1** **2019**

Population, million	6.9
GDP, current US\$ billion	51.6
GDP per capita, current US\$	7492.3
National poverty rate <sup>a</sup>	27.4
Gini index <sup>a</sup>	31.8
Life expectancy at birth, years <sup>b</sup>	78.9

Source: WDI, Macro Poverty Outlook, and official data.  
Notes:

(a) Most recent value (2011).  
(b) Most recent WDI value (2018).

*Lebanon's macroeconomy is in dire straits due to compounded crises. On October 2019, the economy plunged into a financial crisis brought about by a sudden stop in capital inflows, which precipitated banking, debt (including sovereign default) and exchange rate crises. End-March 2020, the Government imposed a lockdown to counter COVID-19. Lastly, on August 4, 2020, a massive explosion rocked the Port of Beirut (PoB), destroying much of the port and severely damaging the dense residential and commercial areas within 1- to 2-mile radius. Lebanon is in its third government in less than a year.*

## Recent developments

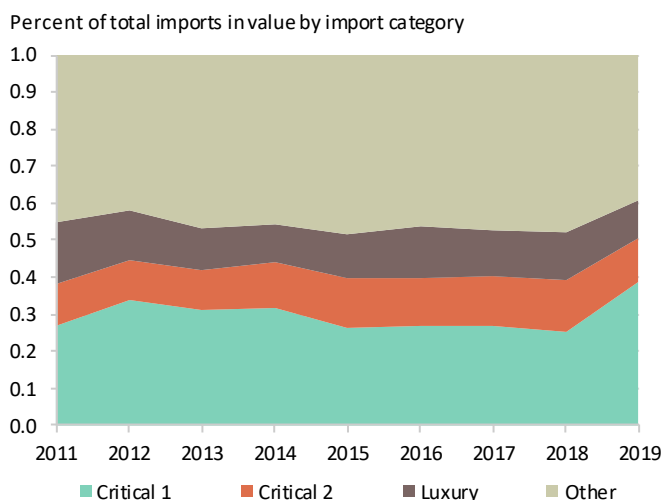
Real GDP is projected to decline by 19.2 percent in 2020. High frequency indicators support such a substantial contraction in economic activity. Tourist arrivals fell by 71.5 percent, year-on-year (yoy), over the first five months of 2020 (5M-2020), compared to an increase of 5.5 percent in the same period in 2019. The BLOM-PMI index, which captures private sector activity, averaged 38.7 in 5M-2020 (<50 represents a contraction of activity), the lowest since it was first published in 2013. Meanwhile, the real estate sector has been subject to two offsetting factors; on the one hand, facilitation by the financial sector to allow real estate purchases using pre-October 2019 dollar deposits under conditions of capital controls (and therefore, lack of alternatives to get those deposits out) has led to an increase in such purchases. On the other hand, construction permits and cement deliveries, which are more accurate indicators of construction activities in the real estate market, suffered yoy declines of 67.9 and 55.7 percent, respectively, in Q1-2020. On the demand side, net exports, is expected be the sole positive contributor to GDP, driven by falling imports (the total value of merchandize imports declined by 48.7 percent in 6M-2020, compared to the same period in 2019). Partial-year fiscal data confirm severe fiscal stress. Over the 5M-2020 period, total revenues declined by 15.4 percent (yoy), driven by 54.5, 51.1 and 37.9 percent

yoy decreases in telecoms, VAT and customs revenues, respectively. Total expenditures over 5M-2020 have also decreased by 15.5 percent. This, however, is almost exclusively due to cuts in interest payments on foreign debt, which is the result of the Eurobond default decision in March 2020, whereas primary spending remained largely unvaried. Monetary conditions continue to mirror crisis conditions centered around exchange market pressures. The highly volatile black-market exchange rate breached LL 10,000/ US\$. This is within the context of a multiple exchange rate system, which includes the official exchange (LL 1,515/ US\$) as well central bank (BdL)-backed lower rates for critical imports (Figure 1). Exchange rate pass through effects on prices have resulted in triple-digit inflation rates (the CPI rose to 112% (yoy) in July). Meanwhile, discussions with the IMF have stalled and remain at the diagnostic stage, with highly publicized differences between Government and BdL (especially on debt and banking sector restructuring), or between the IMF and BdL-Government (e.g. exchange rate).

## Outlook

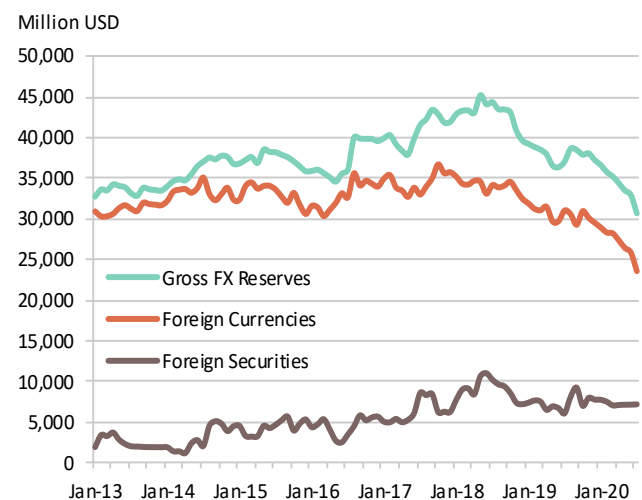
Subject to unusually high uncertainty, we project real GDP to contract by a further 13.2 percent in 2021. Our projection assumes the following key factors: COVID-19 effects carry through H1-2021, macro policy responses continue to be absent,

**FIGURE 1 Lebanon** / Plot of BdL-backed critical imports; C1 (fuel, medicine and wheat) and C2 (essential food items)



Sources: Lebanese authorities and WB staff calculations.

**FIGURE 2 Lebanon** / Gross foreign exchange position at BdL



Sources: Customs, MOET, BdL and WB staff calculations.

and limited reconstruction and recovery efforts in the aftermath of the PoB explosion. We are not assuming runaway inflation, but it is a realistic downside risk.

Lebanon's recession is likely to be arduous and prolonged given the lack of policymaking leadership. Exchange market pressures will continue to stifle trade finance and corporate finance in the highly dollarized economy, constraining the importation of capital and final goods, and inducing disruptions all along the supply chain. This implies an inability to tap international markets for foreign financing, and an impaired banking system. As a result, capital controls will continue to be needed, but are also projected to become less effective over time, in line with international evidence.

The sudden stop in capital inflows for an economy with a high import ratio for its consumption basket, and an inability to sufficiently produce substitute goods in the short term, has implied a steady depletion in foreign exchange (FX) reserves at BdL (Figure 2). As of August 31, 2020, gross FX reserves at BdL reached \$28.5 billion, declining by \$8.8 billion since end-2019. The gross position, however, guises key pressure points (BdL, contrary to other central banks, does not publish net reserves). The breakdown includes \$5 billion in Lebanese Eurobonds and an unpublished amount lent out to banks since

October 2019, leaving much of the remainder as required reserves on banks' customer FX deposits. BdL officials have made statements to the effect that their FX reserves will reach required reserves levels in the next few months, at which point they will be unable to back up critical imports at lower exchange rates, further exacerbating inflation.

A contraction of the Lebanese GDP per capita in real terms and two-digit inflation in 2020 will undoubtedly result in substantial increase in poverty rates affecting all groups of population in Lebanon through different channels such as loss of productive employment, decline in real purchasing power, stalled international remittances and so forth. Tracking population wellbeing on a regular basis and protecting the poor and the most vulnerable is an urgent priority for the country nowadays.

## Risks and challenges

Macroeconomic stabilization is a key prior action for Lebanon's recovery process. This necessitates a credible strategy that identifies measures along a number of dimensions, especially, the external, fiscal and financial sectors, social safety nets, a growth framework and the

governance deficiency. A key risk is hyperinflationary.

The Social impact already dire, could become catastrophic; half the population is falling below the poverty line, unemployment is rising rapidly. Currency deterioration and the resulting inflationary effects are highly regressive factors, disproportionately affecting the poor and middle class. In fact, inflation in the food and non-alcoholic beverages category has averaged 142.2 percent over 7M-2020, and has been a key driver of overall inflation. Those paid in LL—the bulk of the labor force—are seeing potent purchasing power declines. Violent street action has erupted across the country even under COVID conditions.

In the absence of formal capital controls, the lack of harmonization between banks, and between customers within the same bank, has generated considerable popular backlash against banks and the central bank. De facto liraification and haircuts on dollar deposits are ongoing despite BdL's official commitment to safeguarding deposits. When paying out dollar deposits to customers, banks are exchanging at rates below the black-market rate and paying out in LL, implying a loss in real value. The burden of the ongoing adjustment/deleveraging is highly regressive concentrated on the smaller depositors and SMEs.

**TABLE 2 Lebanon / Macro poverty outlook indicators**

(annual percent change unless indicated otherwise)

	2017	2018	2019	2020 e	2021 f
<b>Real GDP growth, at constant market prices</b>	0.9	-1.9	-6.0	-19.2	-13.2
Private Consumption	0.1	-1.3	-5.7	-13.8	-23.1
Government Consumption	9.9	6.7	-6.2	-49.4	-13.2
Gross Fixed Capital Investment	-1.9	-0.2	-16.9	-46.6	17.7
Exports, Goods and Services	3.9	-4.7	-1.2	-28.1	3.1
Imports, Goods and Services	2.1	1.2	-9.2	-32.6	-14.3
<b>Real GDP growth, at constant factor prices</b>	0.9	-1.7	-3.0	-15.1	-13.4
Agriculture	13.4	-4.0	28.6	8.6	-12.7
Industry	-3.3	-4.2	-0.5	-15.0	-12.9
Services	1.0	-1.1	-5.3	-17.0	-13.5
<b>Inflation (Consumer Price Index)</b>	4.5	6.1	2.9	70.0	37.0
<b>Current Account Balance (% of GDP)</b>	-22.8	-24.3	-22.4	-4.4	4.4
<b>Net Foreign Direct Investment (% of GDP)</b>	2.3	3.7	3.6	5.3	2.6
<b>Fiscal Balance (% of GDP)</b>	-6.7	-11.0	-10.6	-14.5	-14.8
<b>Debt (% of GDP)</b>	149.7	154.9	172.4	178.2	196.0
<b>Primary Balance (% of GDP)</b>	2.7	-1.2	-0.5	-4.0	-2.2

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices.  
Notes: e = estimate, f = forecast.