

LEBANON

Key conditions and challenges

Table 1 **2020**

Population, million	6.8
GDP, current US\$ billion	31.7
GDP per capita, current US\$	4661.8
National poverty rate ^a	27.4
Gini index ^a	31.8
Life expectancy at birth, years ^b	78.9
Total GHG Emissions (mtCO ₂ e)	26.7

Source: WDI, Macro Poverty Outlook, and official data.
 (a) Most recent value (2011).
 (b) Most recent WDI value (2019).

On September 10, Lebanese leadership formed a new Government under PM Mikati and with the participation of major political parties. This followed a 13-month vacancy in the executive branch and inadequate policy responses in face of compounded crises — the country’s largest peace-time economic and financial crisis, COVID-19 and the Port of Beirut explosion. The Lebanese lira (LBP) continues to lose value as inflation rates remain in the triple digits. For the fourth year in a row, real GDP is projected to decline (by 10.5 percent in 2021).

The Spring 2021 Lebanon Economic Monitor finds that Lebanon economic and financial crisis is likely to rank in the top 10, possibly top three, most severe crises episodes globally as observed by Reinhart and Rogoff (2014) over the 1857–2013 period. In fact, Lebanon’s GDP plummeted from about US\$55 billion in 2018 to a projected US\$20.5 billion in 2021, while real GDP per capita fell by 37.1 percent. Such a brutal contraction is usually associated with conflicts or wars.

Monetary and financial turmoil continue to drive crisis conditions. The exchange rate deteriorated more briskly over the past six months (March–August 2021), with the US\$ banknote rate depreciating by 68 percent to LBP 19,800/US\$, compared to an 18 percent depreciation over the preceding six-month period. This is within a multiple exchange rate system that also includes the official exchange (LBP 1,507.5/ US\$), central bank (BdL)-backed lower rates for critical imports. Overall, the World Bank Average Exchange Rate depreciated by 213 percent year-on-year (yoy) in August 2021 (Figure 1). Meanwhile, inflation rate averaged 131.9 percent over the first six months of 2021 (6M-2021).

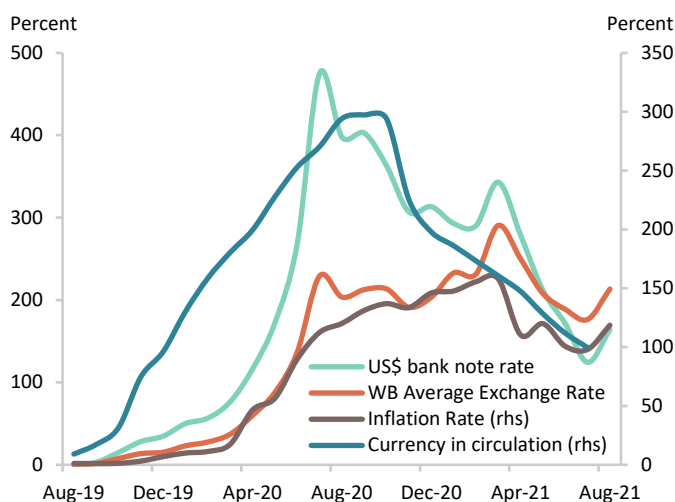
Poverty is on the rise with the share of the Lebanese population under the US\$5.50 international poverty line estimated to have risen by 13 percentage points (pps) by end-2020 and is expected to further increase by

as much as 28 pps by end 2021. The proportion of households facing challenges in accessing food, healthcare and other basic services are on the rise. Inflationary effects are highly regressive factors, disproportionately affecting the poor and middle class. Inflation in the food and non-alcoholic beverages category averaged 64.7 percent in 6M-2021 and has been a key driver of overall inflation (Figure 2). Phone surveys conducted in June–July 2021 by the World Food Program with support from the WB, found that 46 percent of households reported challenges in accessing food and other basic needs, up from 40 percent from July–August 2020. Half of the households surveyed reported adults restricting consumption in favor of children. The share of households having difficulties in accessing health care has increased sharply from 25 percent (July–August 2020) to 48 percent (June–July 2021). Lebanon has witnessed a dramatic collapse in basic services, driven by depleting foreign exchange (FX) reserves and the high cost of the FX import subsidies on food, fuel and medication. Acute shortages of fuel for both the private and public utilities have led to severe electricity blackouts across the country, with the public utility, EdL, supplying a little as 2 hours per day. Further, medication is in severe shortage, while health services have suffered heavily.

Recent developments

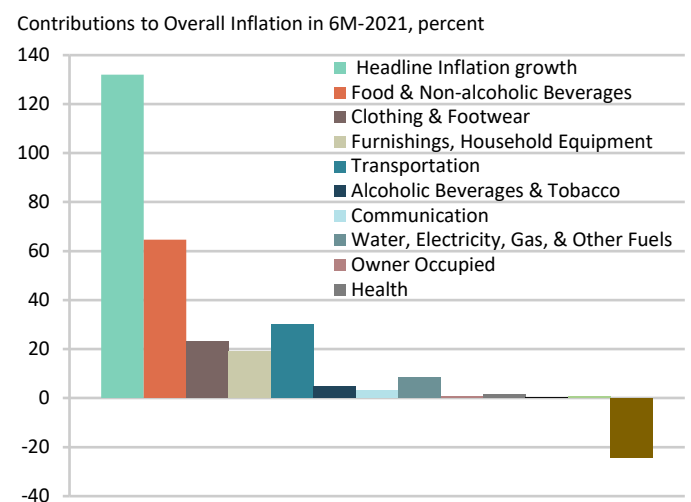
Real GDP is projected to decline by 10.5 percent in 2021, on the back of a 21.4

FIGURE 1 Lebanon / Exchange rate depreciation along with surging inflation



Sources: Lebanese authorities and World Bank staff calculations.

FIGURE 2 Lebanon / Inflation in basic items has been a key driver of overall inflation, hurting the poor and the middle-class



Sources: Lebanese authorities and World Bank staff calculations.

contraction in 2020. High frequency indicators support continued albeit slower contraction in economic activity. The BLOM-PMI index, which captures private sector activity, averaged 45.6 over 7M-2021 (<50 represents a contraction of activity), compared to 40.2 over 7M-2020.

By July 2021, gross FX reserves at BdL reached US\$20.1 billion, declining by US\$4 billion since end-2020. The gross position, however, guises key pressure points (BdL, contrary to other central banks, does not publish net reserves; these are however estimated to be negative). The breakdown includes US\$5 billion in Lebanese Eurobonds and an unpublished amount lent out to banks since October 2019, leaving the remainder as required reserves on banks' customer FX deposits. Official fiscal data are distorted by exchange rate considerations. In 2020, total revenues declined by 8 percent, driven by 42.8 and 28.4 percent decreases in VAT and customs revenues, respectively. Total expenditures also decreased by 23.6 percent,

led by 63.7 percent fall in interest payments—resulting from the Eurobond default and a favorable arrangement with BdL on TBs it holds—and to a lesser extent, due to cuts in primary spending (38.6 and 30.9 percent decreases in transfers to EdL and municipalities, respectively). As a result, the official overall fiscal deficit narrowed by 54.1 percent in 2020 even as the primary balance deteriorated. A key distortion on both the revenue side and expenditures side has been the exchange rate. The official exchange rate continues to be the basis for custom duties and VAT—lowering revenue generation—as well as transfers to EdL, which are mainly for fuel imports.

Outlook

BdL is soon expected to remove most of the FX subsidies. The impact can vary based on (i) the new exchange rate(s) used for these imports; and (ii) the source of the

FX supply. BdL proclaimed that it will offer credit lines for fuel imports based on the market exchange rate. It is not clear what BdL considers the market rate, but one option is the BdL-administered Sayrafa platform rate, which has been moving at about 2000 LBP lower than the US\$ banknote exchange rate. This proclamation also suggests that BdL will provide the FX supply from its reserves. Implications of this modality include: a reduction of subsidy to a value determined by the gap between the Sayrafa and the banknote rates; a spike in prices of these goods and a commensurate drop in their demand; continued, albeit slower, depletion of valuable FX reserves at BdL. On the other hand, if importers resort completely to the market for both the rate and FX supply, implications are: the complete removal of the subsidy; a more pronounced first-degree spike in prices and drop in demand; a worsening of the US\$ banknote exchange rate and second-degree effects on pricing and demand.

TABLE 2 Lebanon / Macro poverty outlook indicators

(annual percent change unless indicated otherwise)

	2018	2019	2020	2021 e
Real GDP growth, at constant market prices	-1.9	-6.7	-21.4	-10.5
Private Consumption	-1.3	-5.7	-10.0	-5.0
Government Consumption	6.7	-6.2	-58.1	-43.5
Gross Fixed Capital Investment	-0.2	-16.9	-71.9	-26.9
Exports, Goods and Services	-4.7	-1.2	-57.1	3.7
Imports, Goods and Services	1.2	-9.2	-50.4	1.4
Real GDP growth, at constant factor prices	-1.7	-5.3	-17.0	-8.5
Agriculture	-4.0	6.0	53.5	-10.5
Industry	-4.2	-17.4	-21.8	-10.5
Services	-1.1	-4.0	-21.0	-7.9
Inflation (Consumer Price Index)	6.1	2.9	84.3	130.0
Current Account Balance (% of GDP)	-24.3	-21.2	-6.9	-10.1
Net Foreign Direct Investment (% of GDP)	3.7	3.4	9.6	7.2
Fiscal Balance (% of GDP)	-11.0	-10.5	-3.3	-3.0
Debt (% of GDP)	154.9	171.0	179.1	197.5
Primary Balance (% of GDP)	-1.2	-0.5	-0.8	-2.3
GHG emissions growth (mtCO₂e)	-3.5	-6.2	-16.9	5.8
Energy related GHG emissions (% of total)	74.3	73.8	70.9	74.1

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD.
Notes: e = estimate, f = forecast.