

LEBANON

Table 1	2021
Population, million	6.8
GDP, current US\$ billion	22.1
GDP per capita, current US\$	3263.6
Life expectancy at birth, years ^a	78.9
Total GHG Emissions (mtCO ₂ e)	28.8

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

Real GDP is estimated to have declined by 10.5 percent in 2021, on the back of a 21.4 percent contraction in 2020 as policy makers have still not agreed on a plan to address the collapse of the country's development model. The exchange rate continued to deteriorate sharply in 2021, keeping inflation rates in triple digits. Politically, Lebanon heads into parliamentary elections on May 15, which are highly anticipated in light of systemic failures in governance. The economic consequences of the Russian invasion, war and associated sanctions are adding to Lebanon's plights, in particular given its critical net imports of wheat (quasi-exclusively from these two countries) and oil. Assuming continued no policy reform, real GDP is projected to contract by 6.5 percent in 2022.

Key conditions and challenges

Lebanon is almost three years into an economic and financial crisis that is among the worst the world has seen (Lebanon Sinking (to the Top 3)). Nominal GDP plummeted from close to US\$52 billion in 2019 to an estimated US\$22 billion in 2021. The crisis has also led to a triple-digit depreciation and inflation, decimating the country's gross foreign reserve base.

The share of the Lebanese population under the national poverty line estimated to have risen by 9.1 percentage points (pp) by end-2021. Phone surveys conducted in November-December 2021 by the World Food Program with support from the World Bank, found that, of households surveyed (i) 61 percent reported challenges in accessing food and other basic needs, up from 41 percent in the same period in 2020; (ii) 64 percent reported adults restricting consumption in favor of children; and (iii) 52 percent have difficulties in accessing health care, compared to 36 percent in the same period in 2020.

Lebanon has witnessed a dramatic collapse in basic services, driven by depleting FX reserves. 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 as little as 2 hours per day. Further, medication have at times been in substantial shortages, while health services have suffered heavily.

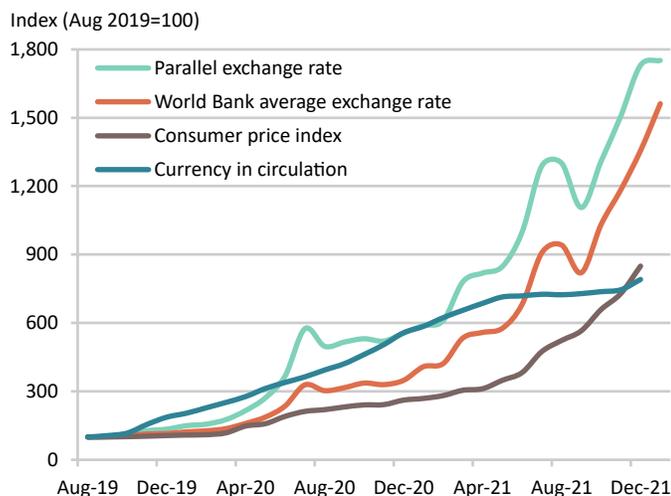
Recent developments

Real GDP is projected to decline by 10.5 percent in 2021, on the top of a 21.4 percent contraction in 2020. A scarce source of growth is the tourism sector, where tourist arrivals surged by 101.2 percent, from a low base, over the first seven months of 2021.

Public finances improved in 2021, paradoxically, as spending collapsed faster than revenue generation. Revenues are estimated to have declined from an already low 13.1 percent of GDP in 2020 to a mere 6.3 percent of GDP in 2021—the third lowest revenue ratio worldwide in 2021, ahead of only Somalia and Yemen. The expenditure contraction was even more pronounced, shrinking by 9.2 pp to 7.3 percent of GDP in 2021. This partly reflects low interest payments due to the Eurobond default and a favorable arrangement with Banque du Liban (BdL, central bank) on domestic debt as well as drastic cutbacks in primary spending (falling by 4.3 pp of GDP over 6M-2021). As a result, the overall fiscal (primary) balance is estimated to have reached -1 percent (0.2 percent) of GDP in 2021, compared to -3.3 percent (-0.8 percent) in 2020.

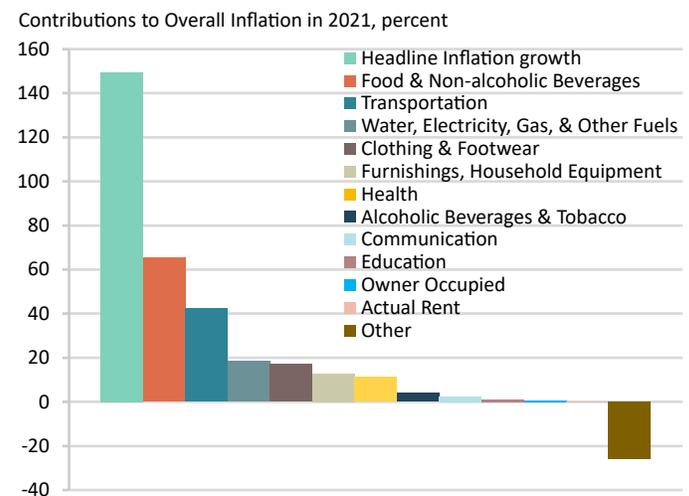
The depreciation of the Lebanese pound (LBP) picked up speed in H2-2021; the US\$ banknote exchange rate (BNR) went from LBP15,000/US\$ in June 2021 to breach LBP30,000/US\$ in January 2022. This was largely due to a disorderly termination of the FX subsidy, which had covered essential imports (fuel, medication, wheat etc.)

FIGURE 1 Lebanon / Exchange rate depreciation and rising prices



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.

since end-2019. The World Bank Average Exchange Rate (AER) depreciated by 211 percent in 2021, compared to 250 percent depreciation in 2020 (Figure 1).

In December 2021, BdL began aggressive FX interventions using its gross reserves, managing to bring the BNR back down to LBP20,000/US\$. Nonetheless, dwindling FX reserves render such measures non-sustainable. By December 2021, gross FX reserves (excluding gold reserves) at BdL reached US\$17.8 billion (equivalent to 12.6 months of imports), declining by US\$6.3 billion since end-2020. Since this includes around US\$5 billion in Lebanese Eurobonds, on which the Government defaulted in March 2020, gross reserves are now less than required reserves on banks' customer FX deposits—estimated at US\$14.4 billion. BdL does not publish net reserves data, but these are estimated to be highly negative (potentially several times GDP).

Large exchange rate pass-through effects have implied surging inflation, which after falling to 100.6 percent (yoy) in June 2021, spiked to a crisis-peak of 240 percent (yoy)

in January 2022, as effects of the FX subsidy removal materialized. Average inflation for 2021 is estimated at 150 percent (Figure 2)—the 3rd highest globally after Venezuela and Sudan.

In October 2021, the Lebanese authorities and the IMF resumed discussions, which were interrupted for many months since their initial launch in May 2020. Disagreements persist on how to account for losses in the financial sector. A critical audit of the BdL—necessary to any recovery plan—remains a longstanding pending issue.

Outlook

Subject to extraordinarily high uncertainty, real GDP is projected to contract by a further 6.5 percent in 2022 under the assumptions of continued inadequate macro policy responses and a minimum level of stability on the political and security scenes. A runaway inflation-depreciation spiral, a plausible scenario, is not assumed.

Inflation rates will remain in triple digits, subdued only by BdL's ability to control narrow money supply.

The projections come with wide confidence intervals attributed to (i) a downside risk of gross FX reserves depletion, renewed COVID-19 outbreaks, higher commodity prices, especially oil; and (ii) upside risk if Government agrees to and implements a comprehensive macroeconomic stabilization and reform program.

Considering the scale and scope of Lebanon's financial and economic crisis, the negative impact of the economic consequences of the Russian invasion, war and associated sanctions is of a different magnitude. It is nonetheless large and negative as Lebanon will have to quickly tap new alternatives for its wheat imports from Russia and Ukraine to guarantee food security. Additionally, surging energy prices will further exacerbate already existing, crisis related exchange market pressures, highly elevated inflation rates, and likely reduce further the limited amount of electricity supplied by EdL.

TABLE 2 Lebanon / Macro poverty outlook indicators

(annual percent change unless indicated otherwise)

	2019	2020	2021e	2022f
Real GDP growth, at constant market prices	-7.2	-21.4	-10.5	-6.5
Private Consumption	-5.9	-15.3	-5.4	-7.2
Government Consumption	6.2	-53.7	-65.9	-28.0
Gross Fixed Capital Investment	-40.7	-55.4	-71.0	-54.9
Exports, Goods and Services	-1.7	-53.7	-0.4	8.2
Imports, Goods and Services	-13.0	-46.0	-15.2	-4.4
Real GDP growth, at constant factor prices	-5.9	-17.6	-7.8	-6.8
Agriculture	6.1	53.5	-10.5	0.0
Industry	-17.6	-21.8	-10.5	0.0
Services	-4.7	-21.7	-7.0	-8.6
Inflation (Consumer Price Index)	2.9	84.3	150.0	120.0
Current Account Balance (% of GDP)	-21.9	-9.3	-18.1	-12.8
Net Foreign Direct Investment (% of GDP)	3.4	8.9	6.6	4.9
Fiscal Balance (% of GDP)	-10.5	-3.3	-1.0	-1.6
Debt (% of GDP)	171.1	179.2	180.6	272.0
Primary Balance (% of GDP)	-0.5	-0.8	0.2	-0.8
GHG emissions growth (mtCO2e)	-6.2	-16.1	6.7	-24.4
Energy related GHG emissions (% of total)	73.8	71.2	74.5	67.5

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD.