



## Lebanon

### Highlights

- **Lebanon is sinking further into financial and economic crisis.** The currency's depreciation has continued, with multiple exchange rates still in place, while inflation is soaring, pushing more vulnerable population groups into poverty.
- **The pressure on the government's finances continues to rise.** The government is still unable to access international financial markets. Improved remittances and tourism revenues are offering some relief, but rising food and energy prices have added more pressure on depleted foreign-currency reserves.
- **Lebanon was unable to pass the reforms outlined in the April 2022 staff-level agreement with the International Monetary Fund (IMF).** This has delayed a final agreement with the Fund that would unlock access to much-needed financing, including from other sources.

### Key priorities for 2023

- **Meeting the requirements of an IMF-supported stabilisation and structural reform programme is the most immediate priority.** An agreement with the IMF would help rebuild credibility on reform commitment and provide access to necessary external financing.
- **A comprehensive social safety net is needed so that households can better access energy and food.** Wider coverage and a more transparent ration-card system are essential to the success of targeted subsidies to combat deepening poverty levels, but significant donor support will be vital.
- **Progress on energy reforms is necessary to unlock the financing needed to develop the sector's capacity.** A stronger commitment to greener energy production and improved efficiency would greatly help to address severe shortages and limit import dependence.

TABLE Main macroeconomic indicators %

	2018	2019	2020	2021	2022 proj.
GDP growth	-1.9	-6.9	-25.9	-10.0	-2.0
Inflation (average)	6.1	2.9	84.9	150.0	186.0
Government balance/GDP	-11.3	-10.4	-3.5	0.7	0.5
Current account balance/GDP	-28.6	-28.2	-15.8	-12.5	-14.2
Net FDI/GDP [neg. sign = inflows]	-3.7	-3.4	-5.3	-2.1	-2.3
External debt/GDP	193.6	200.6	349.1	n.a.	n.a.
Gross reserves/GDP	57.3	48.2	72.1	n.a.	n.a.
Credit to private sector/GDP	100.4	88.3	54.3	n.a.	n.a.

## Macroeconomic developments and policy response

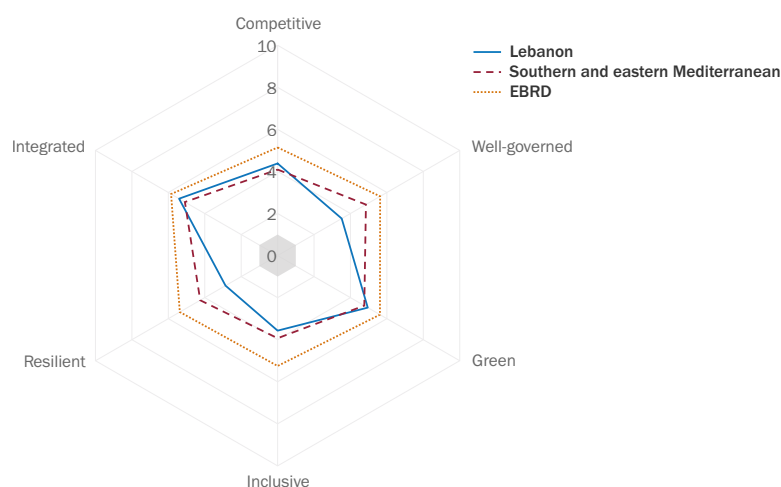
**Lebanon has sunk into an even deeper economic crisis.** The economy contracted by an estimated 10.5 per cent in 2021, on top of a decline of 25 per cent in 2020. Political inaction throughout the year undermined the country’s ability to attract necessary external financing to shore up dwindling reserves. As a result, the Lebanese pound depreciated by an additional 70 per cent in 2021 on the black market (95 per cent since March 2020), fuelling even higher triple-digit inflation, which reached 168 per cent in July 2022. Political inaction has prolonged the economic crisis and exacerbated unemployment and poverty during 2022. As a result, the economy is expected to have contracted further in the first half of the year. According to the International Labour Organization (ILO), the unemployment rate was 29.6 per cent as of January 2022, and more than 80 per cent of the population was estimated to be living in poverty as of the end of 2021 (official data are not available, but a 2019 analysis of multidimensional poverty suggested that 53 per cent of residents suffered from multidimensional poverty).

**Spiralling depreciation and parallel exchange rates persist.** The official pegged exchange rate of 1,507.5 Lebanese pounds per US dollar for pricing customs, dubbed the “customs dollar”, was recently increased to 15,000. The Banque du Liban’s (BDL’s) Sayrafa platform rate stood at 29,800 pounds to the US dollar at the end of September 2022, while the black market rate surpassed 38,000 pounds per dollar.

**Access to wheat and energy imports remains uncertain.** In the past year, Lebanese households have faced repeated price hikes and shortages of medicines, bread, fuel and electricity. However, the government is committed to maintaining the price of basic subsidised bread until spring 2023, thanks to a US\$ 150 million World Bank loan approved in July 2022. Fuel prices have continued to change based on availability, exchange-rate fluctuations and global prices, while access to electricity in most areas is limited to two hours per day, increasing households’ dependence on private generators. A gas import agreement was signed by Egypt, Syria and Lebanon in July 2022 (but is yet to be implemented) and the fuel supply deal with Iraq was extended for another year, but more progress is needed to improve energy access. An agreement signed with Jordan in January 2022 to import electricity is also awaiting implementation. Meanwhile, fiscal space remains extremely limited and public debt had soared to an estimated 360 per cent of GDP (end 2021) as the Lebanese pound has depreciated.

**The short-term outlook remains bleak.** We expect a further GDP contraction of at least 2.0 per cent in 2022 as the ongoing crisis is exacerbated by a costlier and intermittent supply of energy and food, as well as delays in implementing critical reforms and the drying up of financial resources. There could be some improvement in 2023, when we forecast growth of 4.0 per cent, but this is conditional on an IMF-supported programme being successfully implemented by a reform-minded government, which would allow negotiations on further aid to resume with international partners.

**CHART** Assessment of transition qualities (1-10)



## Structural reform developments

**Progress on an IMF programme has stalled.** Staff-level agreement on a 46-month US\$ 3 billion Extended Fund Arrangement was reached in April 2022, but further progress has been delayed by the failure so far to form a new government following general elections in May 2022. The 2022 budget law received parliamentary approval, but controversy continues on the appropriate exchange rate for operational revenues and expenses. A watered-down version of amendments to the bank secrecy law received the parliamentary stamp of approval in July 2022, but was rejected by the president after comments from the IMF. The law was returned to parliament for further amendments, while the draft capital controls law also remains stuck in parliament.

**Lebanon's stakeholders have yet to reach consensus on the proposed economic recovery plan.**

The current plan, passed by the caretaker cabinet in May 2022, rests on sweeping banking-sector restructuring, including BDL. The plan estimates banking-sector losses at roughly US\$ 72 billion, much of which might have to be borne by depositors. The Association of Banks in Lebanon (ABL) has repeatedly expressed strong opposition to the plan, citing severe risks to public confidence in the banking system and calling on the government to shoulder more of the losses. The ABL is also critical of plans to write off a large proportion of BDL foreign-currency obligations to commercial banks.

**The central bank's forensic audit has been stalled.** The audit was agreed with management consultants Alvarez & Marsal in September 2020, but faces several obstacles, mainly BDL management's refusal to share necessary documentation, citing bank secrecy laws. Parliament voted to lift bank secrecy for public officials in December 2020, but the audit has still faced multiple delays due to lack of cooperation and transparency from BDL management.

**Public procurement reform is advancing steadily, but faces severe capacity constraints.**

Approved in 2021, the public procurement law came into effect in July 2022. An implementation action plan was also approved in June, but progress depends heavily on sweeping governance reforms and building capacity at ministries and public enterprises.

**The cabinet passed a plan to reform the electricity sector, but it faces strong pushback in parliament.** Restructuring the country's electricity sector is the main condition of the World Bank providing financing for regional deals to increase Lebanon's power supply. The plan, approved by the cabinet in March 2022, involves creating an electricity regulatory authority, expected to be in place by the end of the year provided parliamentary opposition can be overcome. It also includes a revision of an earlier plan to increase electricity tariffs, which forecasts a US\$ 3.5 billion investment in the sector to secure 24-hour power across the country by 2026.

**The rollout of the ration cards programme has faced multiple delays.** Approved in June 2021, the programme aims to support 500,000 households at an estimated cost of US\$ 556 million a year. This would provide the most vulnerable households (those facing extreme poverty) with some relief, but the application process has raised criticism with regard to accessibility. In addition, targeting is likely to be complicated, amid weak transparency and political concerns, and is further undermined by the fact that 80 per cent of Lebanese households (versus 40 per cent in 2019) are estimated to face multidimensional poverty.