

# LEBANON

## **Lebanon's Current Challenges**

The Lebanese economy has been struggling in the last few years to generate inclusive growth and to reduce poverty. In fact, Lebanon has suffered from financial and economic instabilities that have created systemic macro financial failures. Inflation rates have surged, the exchange rate for the Lebanese pound has dramatically depreciated in the parallel market, and dollar deposits in the Lebanese banks are blocked.

All these factors have placed Lebanon in the midst of a sovereign, banking, and economic crisis with a large fiscal deficit, macroeconomic imbalances, and deteriorating social indicators. This multi-faceted crisis has been aggravated by the impact of the COVID-19 pandemic: Lebanon responded with lockdowns that further exacerbated economic and financial stresses.

On August 4, 2020, a massive explosion rocked the Port of Beirut, destroying much of the port and severely damaging dense residential and commercial areas within five kilometers of the site of the explosion. The disaster left more than 200 people dead, thousands injured, and tens of thousands homeless. The economic impact of the explosion is notable at the national level despite the geographic concentration of the destruction. The main economy-wide effects include: (i) losses in economic activity caused by the destruction of physical capital; (ii) trade disruptions resulting in higher transaction costs of external trade; and (iii) the loss of fiscal revenues.

The above challenges, added to the effect of the conflict in Syria and resulting influx of Syrian refugees into Lebanon, have exposed Lebanon's severe economic vulnerabilities.

## **Outlook for the future**

Following the financial crises and the suspension of settlement of its Eurobonds, the Government of Lebanon has been preparing its reform program to deal with debtors, the international community, and its own people. Negotiations with the IMF have already started.

The coming period will be challenging for the Lebanese government to fulfil its commitment to reducing the deficit. This reduction will materialize by implementing sound fiscal policies and investment projects to enhance the economy.

We look for the support of the EBRD to help Lebanon in carrying out its commitments and in facing the extraordinary burden due to the COVID-19 pandemic, Beirut's port explosion, the impairment of the banking system, the devaluation of its currency, and the Syrian crisis through engaging in a range of sectors that can further stimulate our private sector and boost jobs to lift the economy by reducing the unemployment rate, increase the productivity in different sectors, and alleviate the living costs for the poorer Lebanese households.