LEBANON

Table 1	2023
Population, million	5.4
GDP, current US$ billion	17.9
GDP per capita, current US$	3350.3
National poverty rate[a]	27.4
Gini index[a]	31.8
Life expectancy at birth, years[b]	75.0
Total GHG emissions (mtCO2e)	23.3

Source: WDI, Macro Poverty Outlook, and official data.
a/ Most recent value (2011).
b/ Most recent WDI value (2021).

In Q4 2023, Lebanon was hit by yet another large shock: the spillover effects from the conflict in the Middle East centered in Gaza. The escalation in military confrontation in southern Lebanon has caused substantive infrastructural damage, and primarily affected the tourism and agriculture sectors, further weighing down on Lebanon's crisis-ridden economy, amidst prolonged political paralysis. With the ongoing conflict the economy is expected to have contracted by 0.2 percent in 2023. Subject to high uncertainty, and assuming a cessation of clashes in H2-2024, real GDP growth is projected at 0.5 percent for 2024.

Key conditions and challenges

Military confrontation between Lebanon and Israel has been escalating and widening in South Lebanon since October 2023, resulting in hundreds of casualties and injuries, and mass displacement of close to 90,000 individuals in Lebanon. Tens of thousands of households in South Lebanon have lost their livelihoods, and hundreds of houses have been destroyed amid massive destruction to local infrastructure. Agricultural lands in the south have suffered substantial damage, burning and contamination. For a tourism dependent economy, the shock to tourism that started in Q4 of 2023 has knock-off effects for economic growth.

The conflict is further weighing on Lebanon which remains mired in a crippling socio-economic crisis, amidst political and institutional vacuum. A presidential vacuum since October 2022, a caretaker government with restricted executive powers, an interim central bank governor, limited legislative action by parliament, and no political appetite to undertake urgent reforms necessary to get the country out of the four-year-old unprecedented crisis, all contribute to a bleak outlook on sustainable economic recovery.

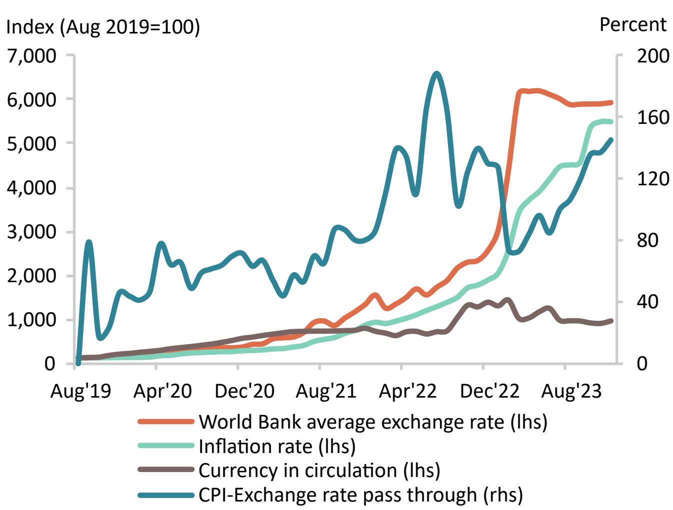
Food insecurity is on the rise in Lebanon, with average annual and food inflation rates soaring in recent years. The gradual removal of foreign exchange subsidies on food has led to significant increases in food prices, which were further exacerbated by the war in Ukraine. Almost two-thirds of households surveyed in early 2023 reported having to reduce their food purchases compared to pre-crisis 2019, with many relying on less preferred or cheaper food options. Close to a third of households have had to cut back on meals or limited adult consumption to feed children, with Syrian refugee households being disproportionately affected. Recent surveys by Gallup and Arab Barometer further confirm the severity of the situation, with a high percentage of households running out of food or lacking money to buy more, and many children going to bed hungry or skipping meals.

Recent developments

After four years of sharp contraction, equivalent to 33.7 percent of real GDP between 2018-2022 and marking one of the worst economic downturns in modern history, the pace of Lebanon's contraction in economic activity decelerated to 0.2 percent in 2023. Prior to the conflict, a slight economic expansion of 0.2 percent was projected for 2023, in part driven by strong tourism receipts in the first 9 months of the year. The continued contraction in economic activity is primarily driven by the sharp shock to tourism spending undermining consumption growth, compounded by reduced business activity, and a disruption to trade activity, all materializing in Q4 of 2023.

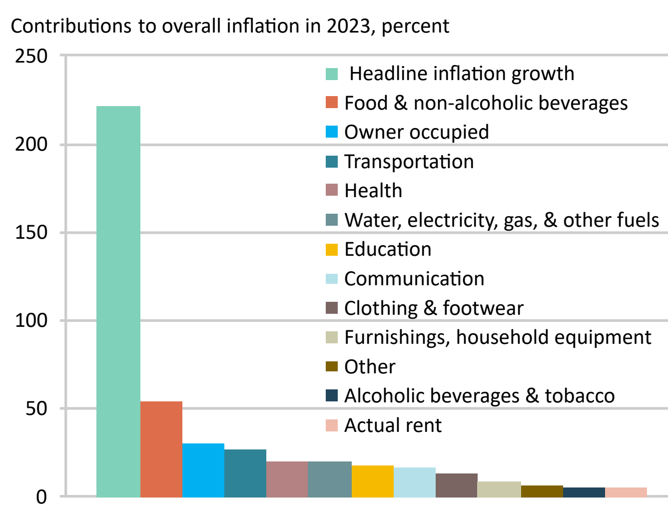
Increased revenue, resulting from the correction of exchange rate mis-valuations

FIGURE 1 Lebanon / Exchange rate depreciation drives the surge in 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.

for customs and taxes, coupled with expenditure restraints in the absence of a ratified budget and monetary financing, resulted in a fiscal surplus of 0.5 percent of GDP in 2023. Revenues are estimated to have increased from 6.1 percent of GDP in 2022 to 15.3 percent of GDP in 2023 thanks to revenue mobilization measures in the 2022 budget which materialized in 2023 and the decision to collect port and airport fees in US$ starting in 2023. The new BdL management's halt of decades long monetary financing of the budget in the second half of 2023, has also supported the overall fiscal and primary surplus. Parliament ratified the 2024 government budget in February 2024, within the constitutional deadline for the first time in two decades. The 2024 government budget projects a zero fiscal balance, with revenues and expenditures at 17.3 percent of GDP. The fiscal balance, however, does not take into account past arrears and foreign currency loans of the government. In essence, the budget 2024 represents a missed opportunity to enact much needed comprehensive change to deficient budget processes and fiscal policy. The ratified budget remains a simple summation of the cost of inputs for each of the ministries, and a compilation of regressive tax revenues, as tax revenues constitute 79 percent of total revenues, of which 76 percent are indirect taxes.

After losing more than 98 percent of its value since the onset of the crisis, the Lebanese pound has stabilized at an exchange rate of 89,700 LBP/US$ since mid-2023, in tandem with the change in BdL management. The stabilization of the exchange rate is primarily owed to (i) the stoppage of the Sayrafa platform (the main platform used for foreign exchange interventions by the central bank) in July 2023, (ii) an increase in foreign exchange inflows from tourism and remittances for the most of 2023, and a (iii) a decrease in currency circulation which is easing exchange rate pressures. Central bank gross reserves (liquid reserves) have increased by US$883 million in the last five months of 2023, primarily driven by the halt of the Sayrafa platform and BdL purchases of US$ supply from foreign currency inflows.

Inflation accelerated to 221.3 percent in 2023, primarily on account of the steep depreciation of the LBP in the first half of 2023. The exchange rate stabilization in the second half of 2023 has, however, steadily decreased month-to-month inflation to an average of 1.2 percent between August and December 2023 (excluding October that witnessed a more than sixfold increase in the education CPI component); this supports a positive outlook for decelerating inflation in 2024.

The current account (CA) deficit is projected to narrow to 11 percent of GDP in 2023, following a dramatic increase to 32.7 percent of GDP in 2022. The estimated contraction in the CA deficit, from US$6.9 billion in 2022 to US$2 billion in 2023, has been driven by a narrowing trade-in-goods deficit. According to customs data, imports of goods have decreased by 9.4 percent (yoy) in 7M-2023. A 10 percent of GDP surplus in trade-in-services, primarily driven by tourism receipts in the first three quarters of 2023, also contributed to a lower CA deficit.

Outlook

As the country adjusts to a volatile security situation, and assuming a cessation of hostilities in 2024 H2, real GDP growth is projected at 0.5 percent in 2024. Growth in private consumption supported by tourism, remittances and a stabilization in private sector activity will underpin a continued yet volatile bottoming out of the economy and drive modest growth in 2024. Because tourism tends to be volatile and subject to external and internal shocks (the spillover of the current conflict being a case in point), the sector cannot substitute for more sustainable and diverse drivers of growth. Without a crisis resolution plan, and a new sustainable growth model, further erosion of the country's physical, human, social, and natural capital stock is likely. As the components of the CPI basket are increasingly dollarized, inflation is projected to decrease in 2024 to double digits at 83.9 percent.

TABLE 2 Lebanon / Macro poverty outlook indicators (annual percent change unless indicated otherwise)

	2021	2022	2023e	2024f
Real GDP growth, at constant market prices	-7.0	-0.6	-0.2	0.5
Private consumption	2.1	2.3	0.2	0.4
Government consumption	-76.0	34.9	-18.4	1.5
Gross fixed capital investment	-67.6	-88.6	-57.9	-18.1
Exports, goods and services	13.1	0.3	2.8	-0.9
Imports, goods and services	-12.2	3.5	-0.3	-0.6
Real GDP growth, at constant factor prices	-5.3	-0.6	-0.2	0.5
Agriculture	-7.1	-0.8	0.5	0.5
Industry	-6.9	-0.6	0.7	-0.2
Services	-4.9	-0.6	-0.4	0.7
Inflation (consumer price index)	150.0	171.2	221.3	83.9
Current account balance (% of GDP)	-12.5	-32.7	-11.0	-10.4
Net foreign direct investment inflow (% of GDP)	8.5	0.8	0.6	1.5
Fiscal balance (% of GDP)	0.9	-2.9	0.5	0.0
Revenues (% of GDP)	7.5	6.1	15.3	17.3
Debt (% of GDP)	172.5	179.7	201.2	180.4
Primary balance (% of GDP)	1.8	-2.5	1.6	0.4
GHG emissions growth (mtCO2e)	-16.6	-6.1	3.2	-3.8
Energy related GHG emissions (% of total)	68.5	68.6	73.2	72.5

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