Contents

Report
Introduction
I. Real Sector
II. Fiscal Conditions
A. Fiscal Deficit
B. Public Indebtedness
III. Financial Sector Conditions
A. Monetary Conditions
B. Banking Conditions
C. Capital Market
D. Financial Institutions
IV. Foreign Trade and Balance of Payments
A. Trade Balance
B. Capital Balance
C. Balance of Payments
V. Economic Prospects
Study: The Potential Trends of Lebanon's Economy during the 2020 - 2024 Period
I. Current Features of the Overall Crisis
II. Two Future Economic Scenarios
III. Conclusions and Policy Recommendations
References

Report | **LEBANON'S MACROECONOMY in the first nine months of 2020**

Introduction

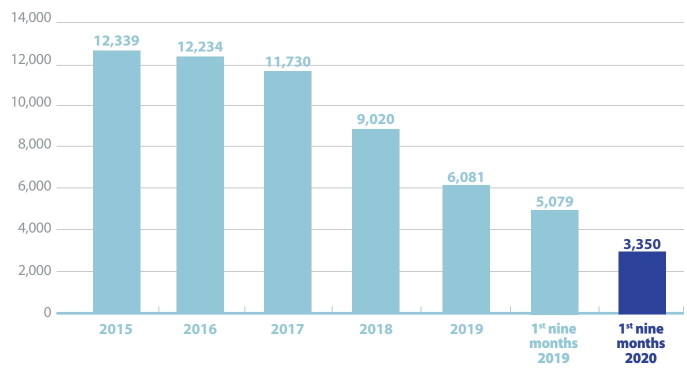
During the first nine months of 2020, the socio-economic and financial conditions have further worsened. The fast spread of COVID-19 in all Lebanese regions has added further pressures on Lebanon's macro-economy and its private sector, as well as living and social conditions. The partial lockdown of the country and the continued economic crisis have adversely affected the domestic economic sectors, especially the trade, industrial, construction, transport, banking, and tourism sectors.
The public finances of the State remains a major source of destabilization in the national economy, with growing fiscal deficits and indebtedness. The banking sector and financial markets continue to suffer from unfavorable conditions. The monetary market is still operating under multiple exchange rates and higher inflation.
The country's balance of payments remains under a substantial deficit, caused by declining capital inflows and high trade deficits.
The overall confidence in the country and its future has experienced a substantial degradation. The new government to be formed has to implement fast recovery measures and radical reforms in order to restore confidence, domestic and international confidence, and growth prospects.

I. Real Sector

The aggregate economic activity has slumped into further contraction during the first nine months of 2020. This is largely caused by the declining activity of almost all economic sectors. The current socio-economic crisis, the aggravating COVID-19 problem and the related partial lockdown, and the declining incomes and purchasing power of real incomes, are major drivers of decreasing consumption and demand for all types of goods and services.

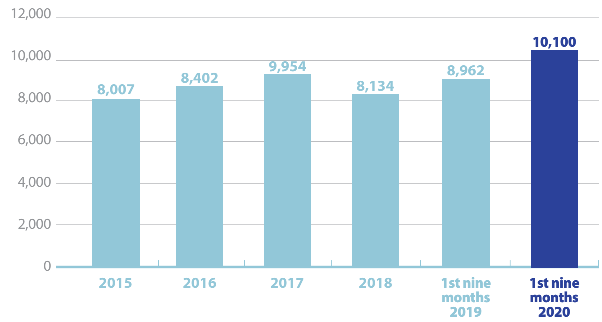
The economic sectors continue to suffer and try to survive as long as possible, in hopes that the new government would implement effective measures and reforms to restore economic growth.
The **construction sector** experienced a further retarding activity, with the area of construction permits falling by annual rate of 34% to 3,350,129 thousand square meters in the first nine months of 2020. In addition, cement deliveries fell by 54.4% during this period. These figures reflect a paralysis in the future construction activity.

• | **Area of Construction Permits** (Thousand SQM)



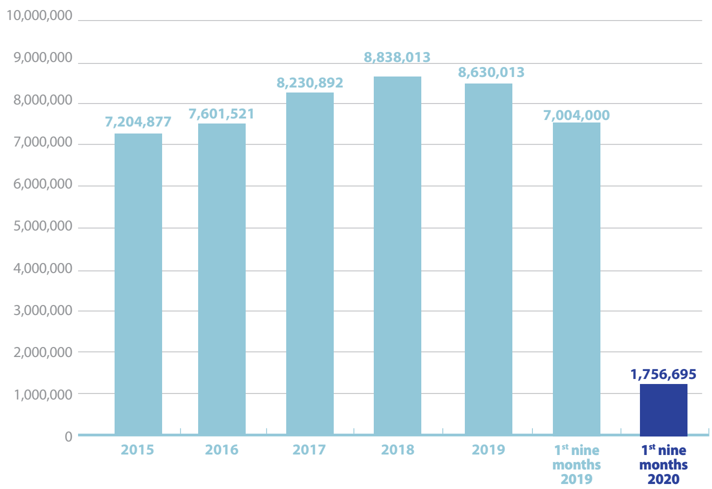
The **property sector** witnessed a remarkable improvement, with the number of real-estate transactions increasing by an annual rate of 49% to 55,108 operations in the first nine months of 2020, and the value of property transactions surged by 112.7% to USD 10.1 billion during the same period.
This expansion in the real estate sector is motivated by the growing transfer of bank deposits to investments in this sector.

• | **Value of Real-Estate Transactions** (USD, million)

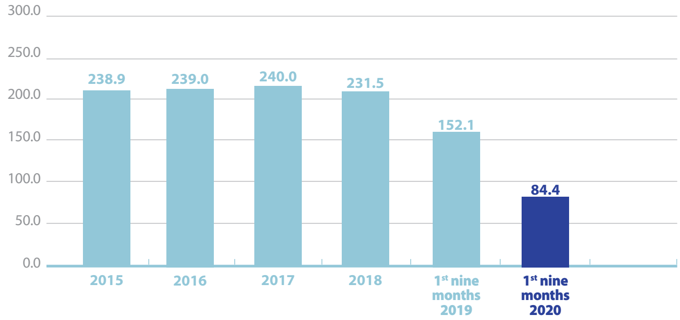


The performance of the **transport sector**, both the air transport and the maritime transport, was inferior in the first nine months of 2020 relative to the same period last year 2019. Passengers via Rafic Hariri International Airport declined in number by an annual rate of 75% to nearly 1.8 million passengers, and its aircraft activity dropped by 65.6% to 19,515 planes in the first nine months of 2020. This is due to the closure of the airport during the period of 18 March – June 2020, and the lockdown of the country during some intervals, and the closure of some international airports during this period. The Port of Beirut's number of containers, number of ships and the quantity of goods all declined by an annual rate of 43.9%, 23.5% and 37% respectively in the first nine months of 2020. Also, the port's revenues decreased by an annual rate of 44.5% to reach USD 84.4 million in the first nine months of 2020. This was mainly due to the explosion, which took place at the port and caused overall damages to its infrastructure and Beirut city besides economic losses in excess of USD 7 billion. This led to a larger dependence on other smaller ports like Tripoli Port and Saidon Port.

Passengers at the Airport

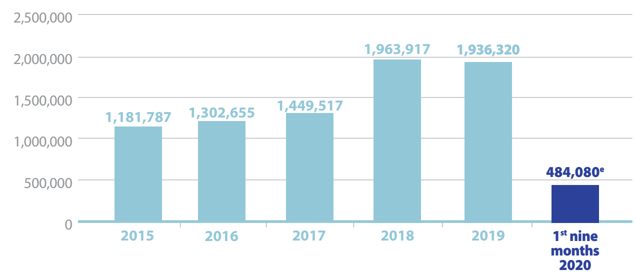


Port of Beirut Revenues (USD, million)



The **tourism sector** experienced a weak performance in the first nine months of 2020, due to the absence of tourists in accordance with the difficult times in Lebanon. Their number decreased by 75% and their spending declined by 73% during the first nine months of 2020 relative to the same period of 2019. The hotel sector was negatively affected by a retarding tourism activity, where the occupancy rate of Beirut 4 and 5 stars hotels was at nearly 13% in the first nine months of 2020, against 72% for the first nine months of 2019.

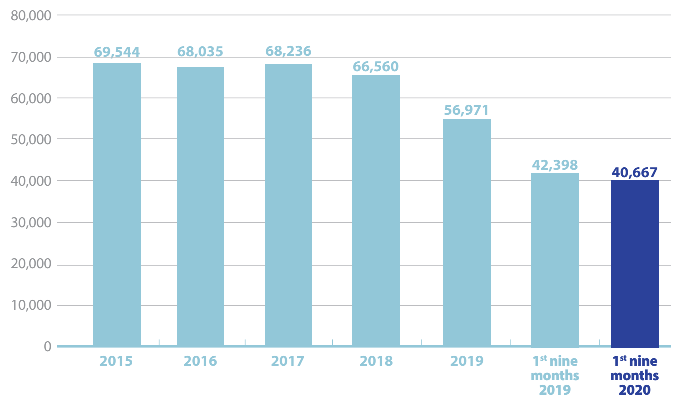
Tourists Activity in Lebanon



e: Estimate.

The **internal trade sector** witnessed a contraction in its activity, with the value of cleared checks dropping by an annual rate of 4.1% to USD 40.7 billion in the first nine months of 2020. This indicator also reflects a declining private consumption and investment spending during this period.

• | **Clearing Activity** (USD, million)



The **export sector** recorded a retarding activity in the first eight months of 2020, with total industrial and agricultural exports decreasing by 8% on annual basis to reach USD 2.3 billion.

• Real-Sector Indicators

Indicators	1st nine months 2019	1st nine months 2020	% Change
Construction permits surface area (thousand sqm)	5.079	3.350	(34.0)
Value of property sales transactions (USD, billion)	8.96	10.1	112.7
Passengers activity via HIA (million)	7.04	1.76	(75.0)
Hotel occupancy rate (%)	72.0	13.0	-
Value of cleared checks (USD, billion)	42.4	40.7	(4.1)
Total exports (USD, billion)*	2.5	2.3	(8.0)
Port of Beirut's Revenues (USD, million)	152.1	84.4	(44.5)

* First eight months

Source: Official Directorates

II. Fiscal Conditions

During the first nine months of this year, the revenues of the State experienced a drop due to the economic slowdown, weak performance of the private sector, and growing pressures on living and social conditions. On the other hand, government spending has increased in recent months, mainly on healthcare and social security, due to the negative consequences of the coronavirus on the overall economy and social conditions. This is fueling further deficits and debt and thus further fiscal pressures on Lebanon's macro economy and society.

A- Fiscal Deficit

Lebanon's fiscal balance remains largely in deficit, due to weakened public revenues, which fell by 20.0% over the first eight months of 2020 relative to its corresponding level last year to reach USD 6.1 billion as of end-August 2020. In addition, this fiscal imbalance is caused by the substantial amount of public spending which decreased by 18.5% to reach USD 8.7 billion during the same period. In this sense, public revenues represent some 70.1% of public expenditures.

Because of such mismatching between public revenues and spending, the fiscal deficit continues to emerge on continued basis. The level of this deficit reached USD 2.5 billion as of end-August 2020, decreasing by an annual rate of 14.1% during the period under consideration. The fiscal deficit constitutes nearly 28.7% of public spending which is high.

Both tax revenues (which dropped by 24.8%) and non-tax revenues (which declined by 36.6%) are weak, caused by people's declining incomes and lower purchasing power of these incomes in line with continued exchange rate depreciation and increasing prices of goods and services. On the other hand, the high levels of debt service and government's financial transfers to EDL are major driving factors of public spending growth.

- **Public Finances Indicators** (USD, billion)

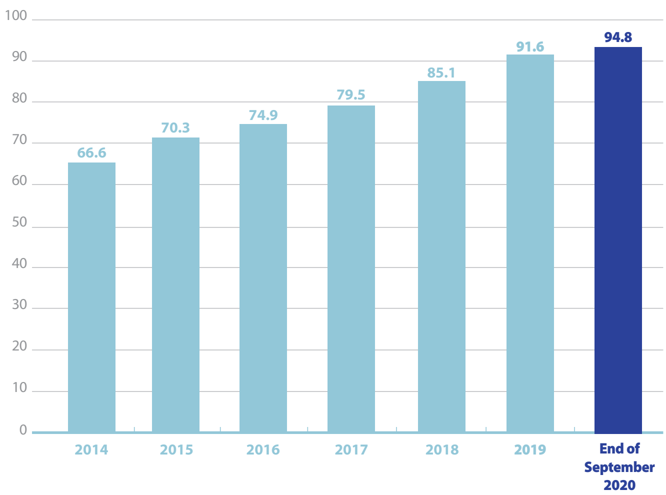
Indicators	1st eight months 2019	1st eight months 2020	% Change
Public revenues	7.7	6.1	(20.2)
Public spending	10.7	8.7	(18.5)
Fiscal deficit	3.0	2.5	(14.1)

Source: Ministry of Finance

B- Public Indebtedness

The State's public debt remains on growth trajectory, fueled by continued fiscal deficits and debt servicing. So far, the government did not implement any actions and measures to establish fiscal consolidation and debt control. The government seized the payment of any Eurobond issues to creditors, in light of the aggravating financial and economic conditions in recent months, and is currently undertaking debt-restructuring negotiations with international creditors.
Lebanon's gross public debt grew by an annual rate of 9.3% to reach USD 94.8 billion at the end of September 2020. The domestic debt increased by 9.4% to USD 59.4 billion, and the foreign debt grew by 8.9% to USD 35.4 billion during this period. The net public debt expanded by 8% to reach USD 85.1 billion during the same period.

- | **Evolution of the Gross Public Debt** (USD, billion)



- **Public Debt Indicators** (USD, billion)

Indicators	1st nine months 2019	1st nine months 2020	% Change
Gross debt:	86.4	94.8	9.3
Domestic debt	54.3	95.4	9.4
Foreign debt	32.5	35.4	9.0
Net debt	78.8	85.1	8.0

Sources: Ministry of Finance and Central Bank of Lebanon

III. Financial Sector Conditions

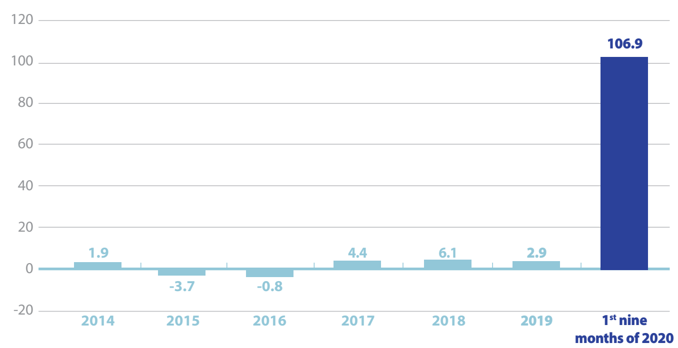
The financial sector of Lebanon has experienced further pressures during the first nine months of 2020 due to the unfavorable socio-economic conditions and fiscal conditions prevailing in the country since 2019. The banking sector continues to witness a relative paralysis in its overall activity, coupled by declining banking indicators. The monetary situation continues to experience the pressures of exchange rate deterioration, and shrinking foreign-currency reserves of the Central Bank. The activity of both the capital market and financial institutions have worsened in the first nine months of 2020.

A- Monetary Conditions

Regarding the Central Bank's situation, its balance sheet increased by 13.3% on annual basis to reach USD 153.3 billion at end-September 2020. The Bank's foreign-currency assets dropped by 8.9% on annual basis to reach USD 25.9 billion at end-September 2020. The latter assets reached USD 20.8 billion at end-September 2020, when excluding Lebanese Eurobonds. The value of the Bank's gold reserves rose by 24.6% on annual basis to reach USD 17.4 billion at end-September 2020. Deposits of the financial sector at the central Bank reached USD 107.6 billion at end-September 2020, down by USD 4.4 billion from end-September 2019.

The inflation rate was 106.9% in the first nine months of 2020 relative to 1.2% in the same period last year, according to the Research and Consultations Institute. The inflation rate rose gradually since the end of 2019, due to the sharp depreciation in the value of the national currency against the US Dollar, which in turn was affected by the expansion of the supply of the Lebanese Pound in the domestic market by an annual rate of 111% in the first nine months of 2020 to reach USD 13.7 billion. To control this monetary expansion and absorb excess liquidity in Lebanese pound in the domestic market, the Central Bank issued two circulars: the first to importers asking them to put the requested amount in Lebanese Pound at banks which they want to transfer to US dollar by the central Bank at the official exchange rate if they want to benefit from the Bank's financing mechanism, and the second is directed to banks where they are subject now to certain ceilings on withdrawals in Lebanese Pound according to their account sizes.

Evolution of Average Annual Inflation Rate (%)



• **Monetary Indictors**

Indicators	1st nine months 2019	1st nine months 2020	% Change
LBP/USD Official Exchange Rate	1507.5	1507.5	-
Central Bank's Total Assets (USD, billion)	135.4	153.3	13.3
CB Assets in Foreign Currencies (USD, billion)	28.5	25.9	(8.9)
CB Assets in Foreign Currencies without Eurobonds (USD, billion)	23.4	20.9	(10.8)
Deposits of Financial Sector (USD, billion) at Central Bank	112.0	107.6	(3.9)

Source: Central Bank

B- Banking Conditions

The unstable banking conditions prevailing in recent months can be traced through the development of the major indicators of the banking sector. The consolidated assets of commercial banks decreased by 26.6% on annual basis to reach USD 192.6 billion at end – September 2020. The loans extended to the private sector declined by 29.2% to reach USD 38.6 billion during this period. In addition, the loans extended to the public sector dropped by 27.4% on annual basis to reach USD 23 billion during this period. The private sector deposits declined by 16.5% on annual basis to reach USD 142.2 billion during the same period. The banks' aggregate capital accounts recorded an annual drop of 10.8% to reach USD 18.5 billion at end – September 2020.

On the dollarization of the economy front, the dollarization of private sector loans was 61.5% at end – September 2020, relative to 70.3% at end – September 2019. On the other hand, the dollarization of private sector deposits was 80.2% at end – September 2020, while it was 73.0% at end – September 2019. In this sense, the dollarization of deposits increased during the period under consideration.

• **Banking Indicators**

Indicators	1st nine months 2019	1st nine months 2020	% Change
Total Assets (USD, billion)	262.2	192.6	(26.6)
Loans to Private Sector (USD, billion)	54.5	38.6	(29.2)
Loans to Public Sector (USD, billion)	31.7	23.0	(27.4)
Deposits of Private Sector (USD, billion)	170.3	142.2	(16.5)
Total Capital (USD, billion)	20.7	18.5	(10.8)
Loan Dollarization (%)	70.3	61.5	-
Deposit Dollarization (%)	73.0	80.2	-

Sources: Central Bank of Lebanon and Association of Banks in Lebanon

C- Capital Market

The Beirut Stock Exchange (BSE) was negatively affected by the deteriorating economic and financial conditions during the first nine months of 2020. The total trading volume declined sharply by 77.1% on annual basis to reach 44,059,211 shares at end – September 2020. Aggregate turnover also fell by an annual rate of 77.4% to reach USD 189.4 million during the same period. The BSE market capitalization shrank by 20.5% on annual basis to reach USD 6.2 billion at end – September 2020. The market liquidity ratio dropped from 10.7% in the September 2019 to 3% in September 2020.

• BSE Indicators

Indicator	1st nine months 2019	1st nine months 2020	% Change
Total trading volume (shares)	192.542.592	44.059.211	(77.1)
Aggregate Turnover (USD, million)	838.4	189.4	(77.4)
Market capitalization (USD, billion)	7.9	6.2	(20.5)
Market Liquidity Ratio (%)	10.7	3.0	-

Source: BSE

D- Financial Institutions

In the first nine months of 2020, the activity of financial institutions operating in Lebanon was inferior to that recorded during the same period of 2019.
The total assets of these financial institutions decreased by 19% on annual basis to reach USD 1.2 billion at end – September 2020. In addition, the claims on resident customers fell by 26.2% on annual basis to reach USD 504.4 million during this period. Claims on the public sector declined by 6.3% to USD 4.7 million during the same period. On the other side, resident customer deposits dropped by 11.3% to USD 147.5 million during the same period. The capital accounts of these financial institutions shrank by 6.1% to USD 457 million during the same period.

• Indicators of Financial Institutions (USD, million)

Indicators	1st nine months 2019	1st nine months 2020	% Change
Total Assets	1.496	1.212	(19.0)
Claims on Resident Customers	683.5	504.4	(26.2)
Claims on Public Sector	5.0	4.7	(6.3)
Resident Customer Deposits	166.3	147.5	(11.3)
Capital Accounts	486.7	457.0	(6.1)

Source: Central Bank

IV- Foreign Trade and Balance of Payments

The aggravating economic conditions during the first nine months of 2020, the weaker activity of the RHIA with respect to merchandise activity and Beirut port, the newly emerging controls on airports around the world due to COVID-19, and domestic banking controls on certain types of imports, all were driving forces that led to weaker imports, exports, and foreign trade of Lebanon. On the other side of the foreign sector, the balance of payments continued to record further deficits, caused mainly by shrinking foreign capital inflows and lower remittances from the Lebanese expatriates.

A- Trade Balance

The volume of foreign trade of Lebanon totaled USD 9.2 billion in the first eight months of 2020, declining by an annual rate of 43.6%. This is caused by lower imports (50% to USD 6.9 billion), and lower exports (8% to USD 2.5 billion) during the same period.
Because of such trade exchanges, Lebanon's trade deficit shrank by 59% from the first eight months of 2019 to USD 4.7 billion in the same period of 2020.
The export-to-import ratio was 33.3% at end - August 2020, relative to 18.2% at end - August 2019.
The decline in the volume of Lebanon's foreign trade is caused by the aggravating socio-economic conditions, closure of banks for two weeks with rise of its crisis, seizure of documentary credits' opening to traders and industrialists, seizure of transfers to abroad, and setting limits on depositors' withdrawal of their funds at banks in Lebanese Pound and US Dollar.

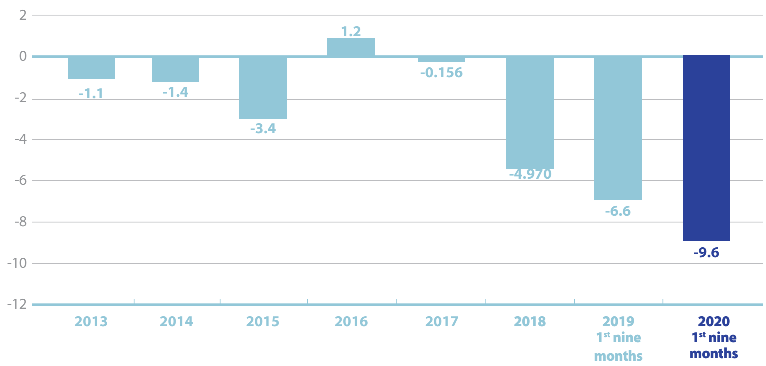
B- Capital Balance

Lebanon continues to experience lower foreign capital inflows to its national economy, to its banking sector, capital market, real estate sector, and productive sectors. Several factors are behind this: economic contraction in many countries around the world, lower capital exchanges between international borders, and shrinking remittances from expatriates due to bad economic conditions in host countries and domestic capital controls which are expected to decrease this year by 6.6% to reach 6.9 billion.

C- Balance of Payments

The weaker inflows of capital and investments from abroad in the first nine months of 2020, besides capital flight and weak export activity have all led to a further deficit in the country's balance of payments during this period.
The deficit recorded in the balance of payments in the first nine months of 2020 totaled USD 9.6 billion, relative to a deficit of USD 6.6 billion for the same period of 2019. This deficit is based on the net foreign assets of both the Central Bank and commercial banks. The former declined by USD 12.0 billion, and the latter increased by USD 2.4 billion during the same period.

• | **Balance-of-Payments** (USD, billion)



• **Balance-of-Payments Components** (USD, billion)

Components	1st eight months 2019	1st eight months 2020	% Change
Trade Balance:	(11.4)	(4.7)	(59.0)
Imports	13.8	6.9	(50.0)
Exports	2.5	2.3	(8.0)
Capital Balance	Na	Na	Na
Balance-of-Payments*	(6.6)	(9.6)	-

* First nine months

Sources: Central Bank of Lebanon and Higher Customs Council

V- Economic Prospects

It is clear that the socio-economic and financial conditions in Lebanon have become unsustainable in the short, medium, and long terms. It is now the time for the ruling class and official institutions to form a new government and to implement radical economic, financial, and sectoral reforms, which are indeed requested by the international community and donor countries and institutions. Such reforms constitute a major prerequisite for Lebanon to benefit from the pledged financial support: USD 11 billion from CEDRE Conference, and nearly USD 8 billion from the IMF. This political and reform path is very crucial to halt the ongoing socio-economic fall, which erupted last year for restoring domestic and international confidence in the country and its future, and for restoring stability and growth to the national economy and its financial and trade sectors.

If the new government and concerned ruling class do not choose to follow this path with the required momentum and speed, Lebanon could be subject to further falls on all grounds. The IMF, World Bank, and Institute of International Finance all estimate economic contraction to range between 24-25% this year in Lebanon, which means greater unemployment and emigration and further paralysis in the activity of economic sectors, and hence more lost opportunities.

In case a new government is formed soon and it implements radical economic, financial, and sectoral reforms, economic growth could be restored at rates ranging between 4% and 5% in the coming four years. With such growth, inflation could decrease from its current high levels, with a seizure of national currency depreciation.

Study | The Potential Trends of Lebanon's Economy during the 2020-2024 Period

This study sheds light on the current crisis in Lebanon, on the socio-economic level, and its correlation with the ongoing political instability. It also highlights the recent indicators of the overall crisis and the future pathways. The study then presents two scenarios for the potential trends of the Lebanese economy during the period 2020-2024: The first scenario assumes the occurrence of important political change and real economic reforms, and the second scenario assumes no significant political change and no real economic reforms, both within a medium-term frame.

I. Current Features of the Overall Crisis

On the political level, the country is dominated by a continuous culture of political conflict, denial, and corruption of the ruling class. Over the past years, conflicts and disagreements between politicians have continued over almost every issue. This has hindered the work and decision-making process in the political institutions, mainly the Council of Ministers and Parliament. The ruling class is adopting a state of denial and negligence approach towards the October 17 Revolution or the civil protests, the recent explosion of the Beirut port and its devastating human and material damages in Beirut, and the current adverse living and social conditions prevailing in all regions in Lebanon and across the majority of social classes.

Confidence has greatly degradated between most Lebanese towards the ruling political parties. Currently, antigovernment and anti-political protests have resumed in the face of aggravating socio-economic conditions. It is true that Lebanon enjoys a parliamentary democracy, but it is constrained by a sectarian-based, power-sharing and deal-sharing systems, which have paved the way for growing corruption. The control of corruption in Lebanon is considered low compared to other countries of the region. The percentage of corruption control stands at nearly 10% in Lebanon, compared to Algeria (25%), Egypt (30%), in Morocco (50%), in Jordan (60%), in Saudi Arabia (70%), and the United Arab Emirates (85%).

The cost of corruption in Lebanon is estimated in excess of USD 5 billion annually, which is equivalent to about 10% of the level of GDP for the year 2019.

- **Corruption control in some Arab countries**

Countries	Control Rate (%)
United Arab Emirates	85.0
The Kingdom of Saudi Arabia	70.0
Jordan	60.0
Morocco	50.0
Egypt	30.0
Algeria	25.0
Lebanon	10.0
Iraq	8.0

Sources: World Bank, Governance Indicators, 2019
Remark: The higher the rate, the better is control.

Therefore, it is very crucial to address the country's endemic corruption. This requires strong political will to activate official institutions in order to establish and promote good governance and accountability in the public sector, and the independence of the judicial system. The authorities should introduce an anti-corruption legal framework that includes legislations that criminalize all kinds of corruption, and position an appropriate Code of Conduct and rules for disclosure for public officials.

The country witnessed on August 4 this year a massive explosion at the Port of Beirut, which significantly aggravated the country's socio-economic conditions. The explosion's damages are estimated at nearly USD 7 billion, equivalent to almost 14% of 2019 GDP. Over 160 people were dead, at least 5000 people were injured, and more than 300,000 people left their destructed homes. The explosion's damages were direct physical damage at the Port of Beirut and almost half Beirut, besides indirect damages in the form of economic losses. The Port of Beirut handles nearly 75% of Lebanon's trade. Some reconstruction of the Port's infrastructure is taking place today, but this needs time and cost. Hence, external financing is crucial to activate the Port's operations. Lebanon is now forced to rely on two smaller ports, the Port of Tripoli and the Port of Sidon.
This explosion at the Beirut Port will deepen economic contraction in the country, perhaps by nearly 24-25% in 2020, relative to a lower contraction of 7.3% in 2019 and 1.9% in 2018.

• Evolution of Nominal GDP and Real Growth Rates

Years	Nominal GDP (USD,Biliion)	Real GDP Growth (%)
2011	40.0	1.0
2012	44.0	3.0
2013	47.0	4.0
2014	48.0	3.0
2015	49.0	0.0
2016	51.0	1.0
2017	52.0	0.5
2018	55.0	-1.9
2019	52.0	-7.3
2020	33.0	-25.0

Sources: Institute of International Finance and IMF

With this contraction, the country's GDP is expected to decrease from nearly USD 52 Billion in 2019 to almost USD 33 Billion in 2020. The Lebanese pound has experienced a sharp depreciation against the US dollar since last year where it approached in July 2020 to the level of LP 9000 per US dollar in the parallel market whereas its official rate is LP 1500 per US dollar. Today, the parallel rate has dropped to within a range of LP 6500-7000 per US dollar with Mr. Saad Hariri resuming the position of a designated Prime Minister on October 22.This exchange rate depreciation triggered a massive rise in inflation since July 2019. The country is currently experiencing hyperinflation with an inflation rate exceeding 100% per month since July 2020.

• Evolution of Inflation and Parallel Exchange Rate Depreciation

Month	Inflation (%)	LP per US dollar (Parallel Rate)
July 2019	2.0	1500
September 2019	2.0	1600
November 2019	5.0	1700
January 2020	8.0	2100
March 2020	15.0	2700
May 2020	50.0	3700
July 2020	115.0	7500
August 2020	120.0	8000
September 2020	130.0	8500
October 2020	150.0[e]	7000

E: estimate.
Sources: Central Directorate of Statistics and Media, Daily Reports on the parallel exchange rate.

This dual trend of currency depreciation and hyperinflation have eroded the purchasing power of real incomes and real deposits of people by more than 80%. Consequently, unemployment and poverty rates have surged to unprecedented levels of 35% and 50% respectively. Besides, the country has witnessed a bankrun and a shortage of liquidity in US dollars since last year. Banks are challenged by the current unfavorable political, financial, and economic conditions.

The external financial position and the internal fiscal position are expected to move in different directions. Due to the collapse in demand in Lebanon's economy, caused mainly by declining imports (by a rate of 4.5% in 2019 and an estimated 36% in 2020), the current account deficit is expected to go down from 22% in 2019 to an estimated 11% in 2020, and it will be more than offset by plunge in net capital inflows. This is expected to lead to a further decrease in the Central Bank's usable foreign exchange reserves, by nearly USD 6.5billion to USD 15.8 billion by the end of 2020 relative to its 2019 level (USD 22.3 billion). Due to the collapse of revenues in general and tax revenues in specific, and based on the fiscal results of the first 5 months of 2020, the fiscal deficit is expected to be in the range of 8-10% of GDP this year. The country defaulted on foreign debt payments and debt service payments.

• Leading Economic Indicators in Lebanon

Indicators	2018	2019
Nominal GDP (USD,billion)	55.0	52.0
Real GDP Growth (%)	-1.9	-7.3
Current Account Balance as a % of GDP	-24.3	-22.3
Liquid FX Reserves of Central Bank (USD,billion)	25.0	22.3
Fiscal Balance as a % of GDP	-11.5	-12.1
Inflation Rate (%)	6.1	2.9
Official exchange Rate LP-US dollar	1508	1508
Parallel Exchange Rate LP-US dollar	1508	1620

Sources: : IMF, Institute of International Finance, Central Bank of Lebanon, Central Directorate of Statistics.

The official Lebanese negotiations with the IMF have halted. This is because the IMF, The World Bank, and other official donors have been seizing financial support to Lebanon due to the repeated failure of the ruling political class (the government and parliament) to implement radical economic and fiscal reforms, including significant ones like the approval of a law guaranteeing the Judiciary Body's Independence, appointment of the Board of Directors and Regulatory Authorities for the electricity sector, and a law for public procurement.

Instead of doing such important reforms and others, the political parties wasted much time on debating the volume of banking losses and how to distribute them among the Central Bank, Banks, and depositors, leaving the State out of this circle. To implement these reforms and to resume negotiations with the IMF, there is a great need to have a competent government and majority support in the parliament for these reforms and their implementation.

II. Two Future Economic Scenarios

Economic prospects in Lebanon could follow two scenarios in the medium term (2020-2024), depending on two major factors: The development of the political scene, and the implementation of radical economic reforms. These two scenarios are due to the fact that there is uncertainty regarding the political authorities' willingness to carry on the needed radical reforms to resume negotiations with the IMF. As we mentioned earlier, there are extensive actions today to form a new government, which has to have a strong determination to implement radical reforms on the economic, financial, social, and sectoral levels; to rescue the national economy from the current adverse conditions; and to rebuild the port of Beirut and the destructed areas of the city.

In the first scenario, we will assume that there will be significant political change and real implementation of economic reforms. The desired political change will be envisaged in the formation of a new and competent government, with a unified team of ministers who are specialized in diverse fields (finance, economics, medical, foreign affairs, energy, and others). The new government should be able to implement an effective and practical economic plan that matches the French and IMF directions. The new government should strive to meet the aspirations of the Lebanese people and to work independently of the political parties. The new government should seek to release the laws and legislations locked at the parliament to activate the economic, financial, and social life.

As for reforms, the domestic authorities (the government and parliament) should quickly implement radical economic, financial, social, and sectoral reforms already highlighted by the French President and by the IMF, which were mentioned above, and are related to the electricity secor, fighting corruption, independence of judicial system, public procurement and others. The State needs to downsize its public sector and inforce accountability, transparency, and governance in its public institutions. It should adopt a hands-of policy regarding its vital sectors such as electricity and telecoms, and paving the way for the private sector (domestic and foreign) to participate in infrastructure projects and the reconstruction of Beirut Port.

Under this scenario, the economic conditions are expected to improve significantly. The nominal GDP of the country could increase from USD33 billion in 2019 to nearly USD35-50 billion thereby improving between 2021 and 2024. The national economy could resume its growth, mainly by going up annually by an average of 4-5% during the coming 4 years, relative to an expected contraction of nearly 24-25% in 2020, 7.3% in 2019 and 1.9% in 2018. Private consumption, private investment, exports of goods and services, and imports of goods and services are expected to be the major drivers of this economic growth. The current account deficit as a percentage of GDP could decrease from high levels of 22-24% in 2018 and 2019 to 10% in the coming 4 years.

The Central Bank's liquid FX reserves could be rebuilt with the expected inflow of foreign capital and aid, moving from a low level of USD 15.8 billion in 2020 to nearly USD 30 billion in 2024. The fiscal balance as a percentage of GDP could drop to below 10% in the coming 4 years. Inflation could be controlled to below the expected level of 95% in 2020 to almost 15% in 2024. This is expected due to the limited move of the official and parallel exchange rates of the LP against the US dollar. The parallel exchange rate could appreciate to below LP 6500 per US dollar by early 2021, and inflation could decline gradually between 2020 and 2024 (from nearly 95% to 15%), thereby allowing the Central Bank to unify the current multiple exchange rates at nearly LP 6500 per US dollar in 2021 and at nearly LP 8000 per US dollar in 2024, keeping in mind that the IMF requests the freeing of the exchange rate in its economic program for Lebanon. The new government discipline on the political and economic fronts would improve domestic and foreign confidence, thereby encouraging strong capital inflows from international donors, including the USD 11 billion CEDRE Financial Aid, USD 8.5 billion from the IMF and possibly some billions of dollars from the GCC countries. These results would increase the Central Bank's liquid FX reserves (from USD 15.8 billion in 2020 to USD 30 billion in 2024), stimulate economic growth, narrow the trade and fiscal deficits, and reduce the public debt down to below 100% of GDP in the coming 4 years.

In this sense, the first scenario assumes positive political and economic changes that would restore stability, growth, and development. Of course, with improving economic conditions, unemployment and poverty rates could be reduced, economic sectors could resume strong activity, youth's immigration could be contained, and living conditions could be improved.

In the second scenario, we will; assume that there will be no significant political change and no or limited implementation of economic reforms. This means that the new government, which is expected to be formed with the interference of political parties, will not be able to take actions and decisions that secure public interests on all fronts. This government will not have the ability to implement an effective economic plan and the much needed economic reforms, thereby not meeting the aspirations of the Lebanese people and the international community. This will cause local and foreign confidence to deteriorate further.

With the currently inflated public sector and its ineffectiveness, continued corruption and waste of public funds, deteriorating activity of economic sectors, and no concrete reasons for optimism, the parallel exchange rate of the Lebanese pound vis-à-vis the US dollar is expected to depreciate further to above LP 8000 per US dollar, thereby fueling further inflation to nearly 60-80% in the coming 4 years, and keeping the Central Bank's liquid FX reserved at a low level of USD 15 billion. Capital inflows could be limited, with the capital account deficit as a percentage of GDP at nearly 15-20% between 2021 and 2024, thereby putting further pressures on economic growth which could range between -1% and 1% during this period, and also on the fiscal balance whose deficit as a percentage of GDP is expected to remain between 7-10% during the same period.

With these negative developments, the country's GDP is expected to remain around the USD 30-35 billion range and the public debt could remain at high levels, perhaps above 120% in the coming 4 years. With such adverse trends, unemployment and poverty rates as well as youth's immigration could continue their escalating path.

• The Lebanese Economic Trends under the two Scenarios (2021-2024)

Indicators	Scenario 1	Scenario 2
Nominal GDP (USD,billion)	35 to 50	30 to 35
Real GDP Growth (%)	4 to 5	-1 to 1
Current Account Balance as a % of GDP	-10	-15 to -20
Central Bank Liquid FX Reserves (USD,billion)	18 to 30	15
Fiscal Balance as a Percentage of GDP	-10	-7 to -10
Inflation Rate (%)	15	60 to 80
Exchange Rate (Unified) LP-USD	6400-8000	Above 8000
Public Debt as a Percentage of GDP	Below 100	Above 120

Sources: : IMF, World Bank, IIF and own estimates

III. Conclusions and Policy Recommendations

The Lebanese economy stands at a cross-road between getting out of the vicious circle of economic contraction and unsustainable social conditions, or sinking further into an aggravated socio-economic crisis. This choice is the responsibility of the ruling parties in Lebanon, namely the new government and the current parliament. What is needed as soon as possible is the formation of a new government, which should be a capable and competent one, a government that implements the much needed reforms on all fronts, on the political, judicial, economic, financial, sectoral, and social fronts, a government that can restore domestic and foreign confidence. With such a government, the country can gradually get out from the current overall crisis, and hence restore stability, growth, and development. The government should strive to attract foreign aid and capital from international donor countries and institutions. This foreign aid and capital is very crucial to the revival of the Lebanese economy, due to the fact that the country is currently experiencing a sharp shortage in foreign currencies, especially the US dollar. With such capital inflows, economic growth could be resumed, internal and external imbalances (namely the fiscal and trade deficits) could be contained and reduced, the balance of payments could improve, and stability of the monetary and financial market could be restored. The international foreign aid and capital constitute in itself a major source of confidence in the country and its future.
This virtuous circle of confidence, foreign aid, and socio-economic recovery could put Lebanon on the right track towards sustainable growth and stability, and the resumption of its vital role on the economic, financial, and cultural fronts, in the region and worldwide.

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