LEBANON

Table 1	2023
Population, million	5.8
GDP, current US$ billion	20.1
GDP per capita, current US$	3477.7
National poverty rate[a]	27.4
Gini index[a]	31.8
Life expectancy at birth, years[b]	74.4
Total GHG emissions (mtCO2e)	23.2

Source: WDI, Macro Poverty Outlook, and official data.
a/ Most recent value (2011).
b/ Most recent WDI value (2022).

Since October 2023, and as a direct spillover of the conflict in the Middle East, military confrontation on the southern border with Israel has been escalating, adding strain to Lebanon's crisis-ridden economy. The conflict has damaged key sectors like tourism and agriculture, caused infrastructure destruction, and triggered a consumption shock from mass displacement, driving a GDP contraction of 0.8 percent in 2023. Before the significant escalation of conflict in September 2024, real GDP was projected to contract by 1 percent in 2024. The ongoing conflict is inflicting a heavy human toll and widespread destruction, leaving its impact on Lebanon's economy severe and uncertain.

Key conditions and challenges

Military confrontation between Lebanon and Israel has been steadily escalating in South Lebanon since October 2023, resulting in hundreds of deaths and thousands of injuries. By August 2024, 102,523 individuals were displaced from Southern 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.

The conflict has introduced another shock to Lebanon's already crisis-ridden economy. While the economic contraction was anticipated to bottom out in 2023, following five years of sustained sharp contraction totaling 34 percent of real GDP, the conflict and its spillovers have had negative knock-on effects on economic growth in 2023, continuing into 2024. The primary channel of impact in 2023 and 2024 H1 has been the fall in receipts from tourism services due to a sharp decrease in tourist arrivals, the main remaining pillar of economic growth. The prolonged economic contraction undermines Lebanon's prospects for economic recovery, amidst continued institutional and political paralysis, and lack of political will for reforms.

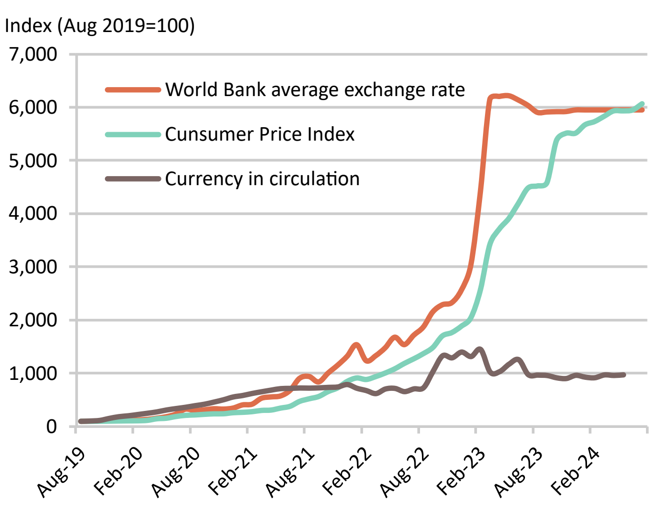
According to the 2024 Lebanon Poverty and Equity Assessment, monetary poverty among Lebanese households has tripled (from 11 percent in 2012 to 33 percent in 2022 across Akkar, Beirut, Bekaa, North Lebanon, and most of Mount Lebanon). The poverty gap—measuring how far the poor are below the poverty line—has also widened. Since 2019, rampant inflation and a depreciating currency have severely eroded purchasing power, leading to increased food insecurity and changing consumption habits. Income inequality has deepened, with wealthier households often shielded by dollarized incomes, while poorer families struggle to cope by cutting expenses, particularly on food, and relying on savings, borrowing, and external assistance.

Recent developments

The conflict has led to a substantive shock to tourism receipts in 2023 Q4, following nine months of an upward trajectory, driving an estimated economic contraction of 0.8 percent in 2023. The conflict has caused significant destruction and internal displacement from South Lebanon and El Nabatieh governorates, which have weighed on consumption and economic activity.

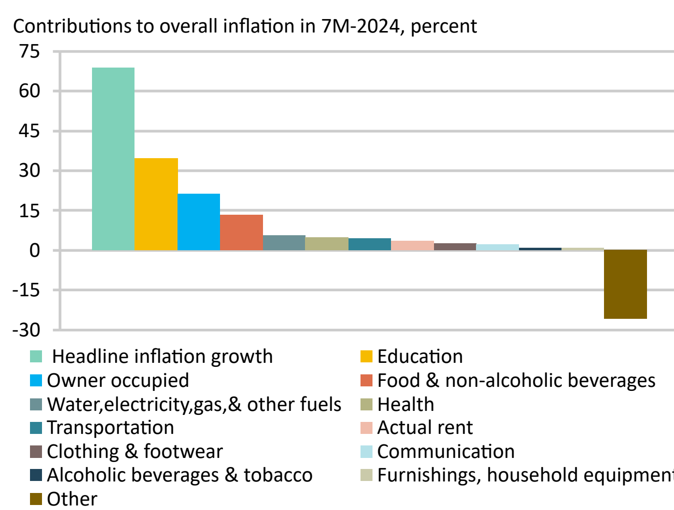
The fiscal surplus of 2023 is expected to extend into 2024. Increased revenues, resulting from the correction of exchange rate mis-valuations for customs and taxes, and expenditure restraints in part driven by the lack of a ratified budget in 2023, resulted in an estimated fiscal surplus of 0.5 percent in 2023, with revenues and expenditures at 13.7 percent and 13.2 percent of GDP, respectively. In addition, monetary financing of the budget has been halted since July 2023, further supporting the overall fiscal and primary surplus. The 2024

FIGURE 1 Lebanon / Exchange rate depreciation drives the surge in consumer prices



Sources: Lebanese authorities and World Bank staff calculations.

FIGURE 2 Lebanon / Inflation of basic items propelled overall inflation, hurting the poor and the middle class



Sources: Lebanese authorities and World Bank staff calculations.

government budget, ratified in February 2024, projected a zero fiscal balance with revenues and expenditures at 13.6 percent of GDP (based on World Bank GDP estimates for 2024). 2024 revenues are expected to exceed estimations of the ratified government budget and reach about 15 percent of GDP. This is in part due to better-than-expected tax collection rates in 2024 H1. As expenditures are expected to remain below collected revenues, a fiscal surplus (on a cash basis) of 0.2 percent is projected for 2024. However, the fiscal balance does not take into account past accumulated arrears (including overdue invoices from certain line ministries and public institutions, arrears owed to bilateral and multilateral organizations, and more recently Iraqi fuel import dues).

The Lebanese pound has been stable at 89,500 LBP/US$ since July 2023, following years of rapid depreciation. The stabilization of the exchange rate is primarily supported by higher fiscal revenue from taxes and fees in LBP cash. Increased fiscal revenues coupled with the lack of need for monetary financing of the budget, has led to a decrease in currency in circulation by 31.2 percent in 2023, easing exchange rate pressures. Furthermore, the termination of the Sayrafa platform, coupled with caps on spending by line ministries—despite such spending being below the (monthly) spending ceiling approved in the budget—and exchange rate operations of State-Owned Enterprises, curbed money supply and the demand for $US. Central bank gross reserves (liquid reserves) have increased by US$546 million in the first five months of 2024, reaching US$10.2 billion. The increase in liquid reserves has been primarily driven by the halt of the Sayrafa platform and monetary financing of the government budget since July 2023, and BdL purchases of US$ supply from foreign currency inflows.

Exchange rate stabilization since the second half of 2023 has driven a steady deceleration in monthly inflation. The acceleration of inflation to 221.3 percent in 2023, was primarily on account of the steep depreciation of the LBP in the first half of 2023. Since then, the exchange rate stabilization has led to a steady decrease in month-to-month inflation, to an average of 1.2 percent between August and December 2023 (excluding October which witnessed a six-fold increase in the education CPI component). Year-on-year inflation has also started to decelerate in 2024, registering a double-digit figure for the first time in March after recording triple-digit figures since July 2020; annualized inflation has decreased to 35.4 percent in July 2024.

Despite the ongoing economic crisis and sovereign default, Lebanon continued to post a significant current account (CA) deficit in 2023, driven primarily by a trade-in-goods deficit. Following a dramatic increase to 34.6 percent of GDP in 2022, the current account deficit slightly decreased to 28.1 percent of GDP in 2023. Although the trade-in-services balance remained positive, its contribution to reducing the current account deficit diminished due to the shock to tourism receipts in 2023 Q4. That being said, historically weak BOP data and the prevalence of a pervasive dollarized cash economy are likely to skew official estimates of hard currency inflows to Lebanon, potentially overstating the current account deficit.

Outlook

In 2024, the impact of the ongoing conflict has intensified, marked by escalating military confrontation, widespread destruction, displacement, and shocks to tourism and consumption. Before the significant escalation in September 2024, real GDP was projected to contract by 1 percent. However, this escalation, which has resulted in a severe human toll, further mass displacement, and substantial physical damage, is likely to drive a significantly steeper contraction that remains difficult to assess. As more components of the CPI basket become increasingly dollarized, and assuming exchange rate stability is maintained for the remainder of 2024, inflation is projected to decline to double digits, with an expected yearly average of 45 percent.

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

	2021	2022	2023	2024e
Real GDP growth, at constant market prices	-7.0	-0.6	-0.8	-1.0
Private consumption	2.1	2.3	0.2	-0.6
Government consumption	-76.0	34.9	-18.4	16.6
Gross fixed capital investment	-67.6	-88.6	4.5	-31.6
Exports, goods and services	13.1	0.3	-1.1	-3.7
Imports, goods and services	-12.2	3.5	-0.3	-0.1
Real GDP growth, at constant factor prices	-5.3	-0.6	-0.8	-1.0
Agriculture	-7.1	-0.8	-0.2	-1.0
Industry	-6.9	-0.6	0.1	-1.0
Services	-4.9	-0.6	-1.0	-1.0
Inflation (consumer price index)	150.0	171.2	221.3	45.7
Current account balance (% of GDP)	-14.7	-34.6	-28.1	-20.0
Net foreign direct investment inflow (% of GDP)	8.5	2.2	2.9	1.2
Fiscal balance (% of GDP)	0.9	-2.9	0.5	0.2
Revenues (% of GDP)	7.5	6.1	13.7	15.0
Debt (% of GDP)	172.5	179.7	179.7	142.0
Primary balance (% of GDP)	1.8	-2.5	1.4	0.6
GHG emissions growth (mtCO2e)	-16.6	-6.1	2.7	-4.8
Energy related GHG emissions (% of total)	68.5	68.6	73.1	72.1

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