

Social Hardship and Economic Uncertainty in Crisis Ridden Lebanon

Prof. Subhendu Bhattacharya, Assistant Professor, Amity Global Business School, Mumbai, India,

subh.econ@gmail.com

Ms. Radhika Singh, Management Student, Amity Global Business School, Mumbai, India.

contact.radhikaaa@gmail.com

ABSTRACT - Lebanon has gone through tough time in recent past due to economic mismanagement, political instability, pandemic and failure in decision making exercise. Citizens showed their discontent from time to time and protested against corruption and maladministration. The shocking explosion in Beirut in August 2020 claimed numerous lives and injured many that left a scar in public mind and people grumbled about the credibility of investigation. Pandemic affected economy adversely, turned social life miserable and lingered hardships unimaginably. Sectarian political stance by influential leaders caused disturbance in Lebanon's system of governance. Debt mounted severely, inflation escalated and poverty level increased to great extent. Foreign exchange reserve depleted to alarming low and impeded procurement of necessary imports. The misfortune of civil war afflicted nation aggravated as affluent rulers remained busy to accumulate their wealth rather than rolling out policy reform to rescue economy from downfall. Future of Lebanon looks bleak as there is lack of political goodwill, leadership discretion, effective direction and corrective policy measure.

Key Words: *Debt burden, Economic collapse, Social hardship, Political instability, Public outcry, Poverty*

I. INTRODUCTION

Lebanon is a country on the Mediterranean Sea's eastern shore. It is one of the world's smallest sovereign governments, consisting of a limited tract of land. Beirut is the capital. Lebanon has always been an important commercial centre for the Middle East, characterized by its high literacy rate and ancient mercantile culture. Despite its modest size, it has frequently been at the centre of Middle Eastern crises due to its borders with Syria and Israel, as well as its peculiar communal structure. The main population groupings of a country that has been a haven for the region's minorities for millennia are Shia Muslims, Sunni Muslims, Christians, and Druze. Lebanon has a chequered past full of economic and political upheavals. Lebanon was integral part of Ottoman Empire for a lengthy period running from 1516 to 1918. In 1920, the League of Nations granted France the mandate for Lebanon and Syria, and the provinces of Mount Lebanon, north Lebanon, south Lebanon, and the Bekaa form the State of Greater Lebanon. The Lebanese Representative Council ratified a constitution, and the French sanctioned unified Lebanese Republic was declared in 1926. On January 1, 1944, France agreed to hand over control to the Lebanese government. The inglorious civil war started in Lebanon in the year 1975 and continued till 1990 due to conflict between Maronite and Palestinian forces who belonged to Palestine Liberation Organization. Prolonged civil war ruptured political stability and tormented civil life of the region. Rafik Hariri, a rich businessman, was elected as Prime Minister in 1992 and it was long after the first

election held in 1972. Israel withdrew its troops from southern Lebanon in May 2000, more than six weeks ahead of their July 2000 schedule, following the collapse of the South Lebanon Army and the speedy progress of Hezbollah forces. There was pressure on foreign soldiers to leave Lebanon, according to a UN Security Council resolution directed at Syria. Israel withdrew from southern Lebanon in 2004. President Emile Lahoud's term was extended by three years by Parliament. Weeks of political gridlock came to an end with Rafik Hariri's surprising retirement as prime minister who made his initial opposition to the extension. In February 2005, Rafik Hariri was assassinated by a vehicle bomb in Beirut. Anti-Syrian protests erupted in response to the attack, prompting Prime Minister Omar Karami's cabinet to resign. Syria's troops were expected to leave in April, 2005 prompting further calls for them to go. Political assassinations of anti-Syrian figures have grown commonplace. At elections, the anti-Syrian alliance led by Saad Hariri took control of parliament. Fouad Siniora, a close supporter of Hariri, was elected Prime Minister in June 2005. In July 2006, Israel launched an airstrike after Hezbollah kidnapped two Israeli troops. During the 34-day battle, civilian casualties were high, and damage to civilian infrastructure was extensive. For the first time in decades, a UN peacekeeping force was deployed along the southern border, followed by Lebanese army troops. Following confrontations between Islamist militants and the military, the Palestinian refugee camp Nahr al-Bared was besieged in May 2007. Before the army took control of the camp, more

than 300 individuals died and about 40,000 escaped. After a six-month political standstill, parliament elected army chief Michel Suleiman as president. In May 2008, General Suleiman re-appointed Fouad Siniora as Prime Minister of the National Unity Government. In October 2008, Lebanon and Syria established diplomatic relations for the first time since both nations earned independence in the 1940s. In June 2009, Saad Hariri formed a unity government after the pro-Western alliance won parliamentary elections. In January 2011, the government fell apart when Hezbollah and allied ministers quit. The Syrian crisis, which began in March 2011, flowed into Lebanon, resulting in violent riots in Tripoli and Beirut between Sunni Muslims and Alawites. In December 2012, the United Nations lauded Lebanese families for accommodating more than a third of the 160,000 Syrian refugees who had swamped the nation. Syrian jets and helicopters fired missiles into northern Lebanon days after Damascus urged Beirut in March 2013 to prohibit militants crossing the border to assault Syrian government forces. In April 2014, the United Nations declared that the number of Syrian refugees registered in Lebanon had topped one million. As a result of the rapid inflow, one out of every four people residing in Lebanon was a Syrian refugee. Economy of Lebanon had to bear the burden of excess population. In January 2020, uprisings against economic stagnation and corruption brought down Saad Hariri's administration, which was replaced by scholar Hassan Diab. After months of protests against currency depreciation and the Covid-19 shutdown, the Diab government resigned in August 2020, unleashing violence after a huge chemical explosion in Beirut's port. Lebanon had been troubled by economic and financial crisis since 2019. Despite its geographical concentration, the consequences of the Port of Beirut explosion had national ramifications, in addition to the human tragedy. These appended to Lebanon's long-term structural vulnerabilities, which include dilapidated infrastructure—a dysfunctional electricity sector, scarcity of water supply, insufficient solid waste treatment and wastewater management—as well as poor public financial management, large macroeconomic imbalances, and deteriorating social indicators.

II. HISTORICAL BACKGROUND OF TROUBLE RIDDEN NATION

Lebanon was going through rough patches owing to political logjam and economic debacle. In recent decades, geopolitical considerations have put major hardship on Lebanon's economy, which had previously revelled position as a regional and commercial hub. The Lebanese economy was attributed to the low level of government engagement in private sector, as well as a tax-free environment for both income and profit. Although imports considerably outstripped exports, factors like tourism and remittances from foreign workers assisted to close the trade gap. In general, income was rising, and Lebanese products were gaining traction on the worldwide market. The economy

suffered long-term impacts as a result of an elongated civil war (1975–90). The Lebanese economy was unusually robust during the first ten years of the civil war; nevertheless, following the mid-1980s, the value of the Lebanese pound plunged as the country's infrastructure continued to be dwindled away. Lebanon embarked on an ambitious programme of social and economic rehabilitation following the civil war, which included major infrastructure renovation. It was founded in the 1990s by Prime Minister Rafic al-Hariri with the goal of resurrecting Beirut as a regional financial and economic hub. Beirut's reconstruction programme made significant progress in the late twentieth and early twenty-first centuries, but at the cost of an escalating internal and external governmental debt load. Much of the rebuilding programme was financed through internal borrowing, resulting in budget deficits and a burgeoning public debt. However, tax rates were decreased to attract and stimulate investment. This resulted in extreme fiscal austerity, with little investment in Lebanon's social infrastructure and an increased emphasis on regressive indirect taxation to cover budget deficits. As a result, while a small percentage of Lebanese became extremely wealthy after the war, almost one-third of the people of Lebanon lived in poverty at the turn of the century. Despite its shaky economic recovery, Lebanon's economy remained buoyant in the face of the worldwide financial crisis of 2008. Domestic security improved investment and growth, but the economy's miniscule export base safeguarded it from the global downturn. From 2007 to 2010, the gross domestic product (GDP) grew at an annual rate of 8%. However, Lebanon's fortunes changed in 2011 as a result of the Syrian revolt and following civil war. With Lebanon's economy reliant on Syria's and the country grappling with a significant influx of refugees, GDP growth fell to less than 2% from 2011 to 2017. Shadow of a financial crisis elongated as the debt-to-GDP ratio surpassed 150 percent in 2018. Political squabbling, graft, dishonesty, austerity measures, and the government's incapacity to deal with crises led to a significant drop in consumer and investor confidence, which concluded in enormous demonstrations across the country in October 2019. The following table presents data about abysmal economic performance of Lebanon.

Table I: Macroeconomic data of Lebanon (annual percent change unless indicated otherwise)

	2018	2019	2020	2021 e
Real GDP growth, at constant market prices	-1.9	-6.7	-21.4	-10.5
Private Consumption	-1.3	-5.7	-10.0	-5.0
Government Consumption	6.7	-6.2	-58.1	-43.5
Gross Fixed Capital Investment	-0.2	-16.9	-71.9	-26.9
Exports, Goods and Services	-4.7	-1.2	-57.1	3.7
Imports, Goods and Services	1.2	-9.2	-50.4	1.4
Real GDP growth, at constant factor prices	-1.7	-5.3	-17.0	-8.5
Agriculture	-4.0	6.0	53.5	-10.5
Industry	-4.2	-17.4	-21.8	-10.5
Services	-1.1	-4.0	-21.0	-7.9
Inflation (Consumer Price Index)	6.1	2.9	84.3	130.0
Current Account Balance (% of GDP)	-24.3	-21.2	-6.9	-10.1
Net Foreign Direct Investment (% of GDP)	3.7	3.4	9.6	7.2
Fiscal Balance (% of GDP)	-11.0	-10.5	-3.3	-3.0
Debt (% of GDP)	154.9	171.0	179.1	197.5
Primary Balance (% of GDP)	-1.2	-0.5	-0.8	-2.3

Source: World Bank, Poverty & Equity and Macroeconomics Global Practices, CAIT and OECD data, October 2021

In the above table all data related to macroeconomic situation presenting depressing facts of Lebanon. Private consumption and government consumption receded in successive years since 2018. Gross fixed capital investment reduced by 71.9 percent with respect to previous year due to COVID driven contraction in every field of economic activity. Export and import of goods and services witnessed massive double-digit downfall on account of trade restriction across world to contain virus spread. Industrial activity and service sector performance took a hit due to economic mismanagement, social tension, refugee overload, corruption in government practices, crumbling infrastructure and policy logjam. Scarcity of goods and services caused massive upswing in inflation in 2020 and that depreciated Lebanese pound to a record low. Current account deficit and fiscal imbalance jeopardised economic potentiality severely in crisis ridden time. Debt burden mounted high and went about 179% higher in 2020 compared to previous year. Poverty became widespread as economic condition worsened and disgruntled citizens took out demonstration to voice their discontent against government incompetency.

GRAVITY OF PRESENT ECONOMIC CRISIS AND SOCIAL CHALLENGES

Lebanon's economy slipped into a full-blown crisis in October 2019, provoking large rallies demanding major reforms, after years of neglect, corruption, financial mismanagement, and the conflict in neighbour country Syria. COVID-19 mayhem, mounting public debt, a sovereign default, sinking currency, and a startling lack of political will to meet the demands of international donors to unleash billions of dollars to rescue economy only added to the suffering in the year 2020. Lebanon's GDP declined from around US\$55 billion in 2018 to an estimated US\$20.5 billion in 2021, with a 37.1 percent drop in real GDP per capita. Conflicts or wars were generally accompanied with such a violent contraction. The crisis is still being driven by monetary and financial turbulence. Over the previous six months (March-August 2021), the exchange rate worsened more quickly, with the US\$ banknote rate degrading by 68 percent to LPB 19,800/US\$, compared to an 18 percent depreciation over the previous six months. In the meantime, the first six months of 2021 had an average inflation rate of 131.9 percent. Inflation deteriorated currency value and made necessary import expensive. Hike in unemployment rate and soaring inflation affected standard of living severely for Lebanese people. Approximately 78 percent of the Lebanese population has fallen into poverty in the last two years. According to the World Bank, it is one of the direst depressions in contemporary history. Lebanon defaulted on its massive pile of public debt early in the crisis, including \$31 billion in Eurobonds that are still owed to creditors. The value of the currency has plummeted by more than 90%, destroying purchasing power in a country that relies heavily on imports. The banking system has come to a halt. Depositors were shut out of foreign currency savings or

compelled to withdraw cash in the sinking local currency, resulting in an 80 percent de facto drop in deposit value in September 2021. According to the World Food Programme, food costs spiralled high and increased by 557 percent since October 2019, and the economy has shrunk by 30% since 2017. Normal living has been disrupted by fuel shortages, which have impacted key services such as hospitals and bakeries. Medicines that were essential had become acutely scarce. The state's weakened position fostered lawlessness in some sections of Lebanon. In a persistent brain drain, many of Lebanon's most qualified have departed the country.

Lebanon has undergone worst ever humanitarian disaster owing to financial meltdown. The import ban by Saudi Arabia acted as a terrible blow for ramshackle economy. Saudi debarred import from Lebanon as former criticised about Saudi led military operation on crisis ridden Yemen. After an increase in drug smuggling that Saudi official said Lebanon had failed to control, Saudi Arabia stopped imports of Lebanese agricultural products and food in April 2021. Riyadh had been outspoken in its criticism of Iran's rising influence in Lebanon through the powerful armed Hezbollah movement, which is supported by Tehran. If the political impasse persists and the ban is extended, the Lebanese trade deficit is projected to skyrocket, and the country's economy will remain weak and in deficit. Due to the trade embargo, export-oriented enterprises have incurred a significant loss. The Lebanese currency has paid a high price for the country's continuous political difficulties and economic slump, as a consequence of recent events. There is no simple solution to Lebanon's complex dilemma. For some positive growth, the country is looking forward to the upcoming general election in Lebanon, which is slated for March 2022.

III. RECOMMENDATION

As Lebanon's economy is in dire straight and hardship of people becoming rigorous, the leaders should go into introspection and contemplate on remedial measure to bring economy back on track. Hardliners in political field should attempt to minimise intrusion of extremist group for greater cause of economy. Religious bigotry and isolationism would not help economy to attain economic sustainability. Country should avoid showing camaraderie with extremist group. It would try to maintain some fiscal discipline to reduce debt burden. Government of Lebanon should take onus of reconstruction, endeavour to diversify economy, strengthen industrialisation and promote growth in service sector. There should be more liberty to private enterprise. Conducive environment for private venture and liberal business policy framework would encourage entrepreneurship. It would usher in more capital investment and creation of gainful employment opportunity for local educated youth. As govt. would whittle down bureaucratic control and red-tapism more competitiveness would occur in market. There is need for more surveillance in govt. work to clean up system and establish transparency and accountability. Long term reform-based approach is need of the hour for Lebanon economy. As

economy will get over pandemic crisis, more attention should be given for development-oriented work and social welfare. Conservative outlook, vainglorious religious sentiment, apathy in correcting systemic anomaly, lack of bold policy measure and deficiency in constructive leadership would deter future prospect of beleaguered nation.

IV. CONCLUSION

Lebanon shares many of the Arab world's cultural qualities, but it also possesses characteristics that set it apart from many of its Arab neighbours. Its steep, mountainous landscape has served as a haven for various religious and ethnic groups, as well as political dissenters, throughout history. Lebanon is one of the Mediterranean's most densely inhabited countries, with a high literacy rate. Despite its limited natural resources, Lebanon has traditionally served as a bustling commercial and cultural hub for the Middle East. Lebanon's pre-eminence in trade and services was aided by Beirut's harbour and airport, as well as the country's free economic and foreign-exchange systems, favourable interest rates, and banking secrecy law (modelled after Switzerland's). Despite political upheaval, Lebanon's finance sector, particularly banking and insurance, grew significantly over the first ten years of the civil war, and the country's monetary reserves continued to expand. The strength of the Lebanese pound and the country's balance-of-payments position reflected huge capital inflows, primarily from Lebanese living abroad (whose numbers increased dramatically during and after the civil war), and commercial banks who were capable to hold strong liquidity levels. However, by 1983, inflows from Lebanese living abroad had started to decline, and the value of the Lebanese pound had plummeted. Post-civil war Lebanon confronted two main issues: obtaining sufficient financing to fund its rebuilding programme and restoring the value of the Lebanese pound through an economic stabilisation programme. Lebanon was compelled to resort on European capital bond issues as well as domestic borrowing through the issuance of treasury bills, resulting in an increase in both domestic and international debt burden. Lebanon was saddled with the world's third highest debt-to-GDP ratio in 2018. Years of Ponzi scheme supervision by the central bank, which borrowed billions from an oversized banking industry to keep a currency peg afloat, resulted in an economic collapse in 2019. Due to a lack of deposit inflow, banks were decapitalized. In 2020, the country defaulted on a foreign loan. Prime Minister Hassan Diab's effort to fix banking industry anomalies was thwarted by opposition from banks and their political supporters. Negotiations with creditors, as well as talks with the IMF over a rescue plan, went in vain. Western countries refused to help until severe reforms were implemented, including an examination of the national bank, whose governor, Riad Salamé, was facing money laundering charges in France and Switzerland. The foreign exchange reserve has plummeted. The Lebanese pound depreciated by 90 percent in 2021 and

inflation recorded in consumer price index went above 100 percent. Inflation of food and non-alcoholic beverages exceeded 200 in 2001. Lebanon crisis was exacerbated with influx of refugees from strife torn neighbour Syria. The burden of excess people brought misfortune for economy. The hardship of Lebanese accentuated worsening of economic condition. Scarcity of bare necessities, mounting inflation, depreciation of local currency hit populace adversely and poverty level escalated. Half of the citizens settled below the poverty line in 2021. Lebanese started spending their days in despair and entire country bore exhausted look as country suffered huge fuel and power crisis during economic turmoil. Strained relationship with Saudi Arabia and other neighbouring led to export ban because of its connection with Iran and involvement in drug trading. So, till the end of 2021, there was no clear solution for Lebanon's crisis. World Bank has referred this as "deliberate depression" since people who caused this trouble continue to hold power but lack intention to offer remedial measure. It would take courage of leadership, political goodwill and right policy prescription to bring economy back on track and reduce suffering of people.

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