

Reforms key to averting negative economic growth

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BEIRUT: The failure of the political class to implement reforms and the one month long anti-government protests have pushed the country's economy to the brink of collapse as some economists predicted that GDP growth would drop below zero percent at the end of 2019 if no major breakthrough occurs by then. The International Monetary Fund projected in October that Lebanon's GDP growth in 2019 would drop to 0.2 percent from the previously forecast of 1.3 percent. But other economists warned that government paralysis, which was compounded by 35 days of continuous protests, could bring GDP growth to less than zero percent.

If expectations of a -1 or -2 percent GDP growth became a reality, this would be one of the worst performances of the economy since 1990.

Lebanon's GDP is estimated to be more than \$55 billion but the effect of the political paralysis could reduce this GDP as the cost of the daily protests is around \$100 million.

But economists stressed that despite the gloomy picture, Lebanon has not yet reached economic recession, adding that economic recession is when the country records negative growth in two consecutive quarters and this is not the case in the country.

To make matters worse, the strict capital control by most commercial banks have also disheartened many citizens and depositors.

Over \$3 billion in deposits were withdrawn from banks since the beginning of October and most of which was hoarded in homes, according to many bankers.

Marwan Barakat, the head of the economic research at Audi Bank, said Lebanon's 2019 real GDP growth has been revised down by the IMF from a previous forecast of 1.3 percent to 0.2 percent, while BDL is forecasting zero growth for the year, suggesting the economy is close to the brink of a recession.

"What is weighing on growth is the weakness in private investment, with cancellation or delay in private investment decisions amid politico-economic uncertainties. What is somehow alleviating partly the pressures on growth is mainly private domestic consumption, which is continuing to be acceptable despite the turmoil, and to a certain extent exports that grew by 24 percent this year driven by the opening of land routes in Syria amid a quasi-normalization of the security situation there," Barakat explained.

But economist and researcher Kamal Hamdan was less optimistic about the economic future of Lebanon in view of the political crisis and the accumulated financial problems which successive government failed to address in a proper and effective way.

"I estimate that GDP [growth] is minus 1 to 2 percent. If we take into account the first 10 months that passed, our economy is in negative territory and this will reflect on the fiscal deficit, government revenues and expenditures. What is even worse is that this situation will further exacerbate the problem of poverty which could reach 50 percent of the population if no action is taken," Hamdan told The Daily Star.

He added that the World Bank had made a simulation that points to 25 percent increase in the prices of commodities in 2019 and predicted that poverty could jump from 27 percent to more than 50 percent this year.

Hamdan said he did not see an exit from the current economic crisis especially if the political class insisted on maintaining its grip on the government.

"I am not too hopeful about the future if the current situation remains the same. I believe that a new Cabinet composed only of independent ministers may be able to bail out the economy. Anything less than that is just a waste of time," he added.

Nassib Ghobril, the head of the economic research at Byblos Bank, said the economy was shrinking even before the outbreak of the protests.

"We were projecting GDP [growth] since the beginning of the year at -1 percent in 2019. The stagnation or contraction appeared before the protests," Ghobril said.

He argued that it was wrong to blame the protesters for the economic problems in Lebanon.

"The protests had a short term economic impact on Lebanon but if we manage to have better transparency in the public sector and discipline in public finances, which we have been advocating for the past 15 years, then the situation will surely improve," Ghobril said.

He said that based on a recent study, Lebanon could suffer more than \$11 billion in losses due to lost business opportunities.

But Louis Hobeika, professor of economics and finance at Notre Dame University, said it was too early to project the GDP growth despite the delicate situation in the country.

"Up till now the growth is zero percent. The change in the GDP growth depends on the month of December because this month many Lebanese expatriates come to Lebanon to spend Christmas. But if the situation on the ground remains the same then we will definitely have a negative growth at the end of this year," Hobeika said.

He added that the Lebanese were growing accustomed to the financial crisis in the country, noting that the rush on the banks eased considerably Wednesday.

“We are now in a no growth position but we did not yet reach a recession,” Hobeika said.

He repeated that the politicians needed to send a positive signal to the market through reforms.