

# COVID19: Impact on Lebanese Economy

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**Abstract:** *COVID-19 has taken the world by storm. It has managed to shut down the entire world: social distancing and lock downs are now common in all countries; all airspaces have been shut off for commercial travel as well as lock down of all businesses and trade. The economy of Lebanon has been suffering since the beginning of 2019 and now has been pushed to extents previously unseen. This report will analyze the COVID-19 rise in Lebanon as well as the prevalent economic crises, response to COVID-19, expected economic impacts to the largest sectors of Lebanon and the choices which the government faces.*

**Keywords:** COVID-19, Coronavirus, Pandemic, Lebanon, Economic Crisis

## 1. COVID-19

The 2019–2020 Corona Virus pandemic is currently an ongoing global pandemic of the virus called the COVID-19. This disease causes a severe type of acute respiratory failure and is spread by the Corona Virus 2 (medically called the SARS-CoV-2). This outbreak has been initially identified in the city of Wuhan in China. The disease was identified in the December of 2019 and after viewing its growth rates, the Corona Virus was termed as a public related health crisis of international magnitude on the 30<sup>th</sup> of January of 2020. It was further upgraded to and recognized as to pandemic levels by the WHO (World Health Organization) nearly a month later on the 11<sup>th</sup> of March 2020 (World Health Organization, 2020). The Corona Virus has been one of the fastest spreading diseases mankind has seen in recent years. As of today which is the 16<sup>th</sup> of April 2020, there have been confirmed to be more than 2.11 million patients in all of the 210 countries as well as territories. The death toll is currently at 140,000 deaths. While there have been a lot of recoveries; as of today, 537,000 people have been fully recovered, there are still possibilities of relapses or even re-infections (World O Meter, 2020). These death rates as a percentage of diagnosed cases tend to vary significantly amongst countries. Corona Virus has taken the world by

storm mostly due to the fact that the virus's primary spreading method between different people is by close contacts: the virus itself is transmitted via smallest of droplets which are produced by an infected person during coughing, sneezing, or simply by even talking (World Health Organization, 2020).

## 2. COVID-19 and Lebanon

It was on the 21<sup>st</sup> of February 2020, that Lebanon went on to confirm their first ever case of Corona Virus (COVID-19). The patient was a forty five year old woman who had recently traveled back from the city of Qom in Iran who went on to be tested positive for the COVID-19 and was then transferred to Beirut and put into quarantine. Further on the 26<sup>th</sup> of February, another woman, who had also returned from Qom in Iran and came into contact with the first patient, as they both travelled back on the same flight also tested positive. Further on the 27<sup>th</sup> of February, a seventy seven year old Iranian national, who had previously arrived on the 24<sup>th</sup> of February also tested positive. On the 28<sup>th</sup> of February, another Syrian woman was tested as positive; and by 29<sup>th</sup> of February, positive total cases had reached a total of 7: all of these 7 patients were placed into quarantine in the city of Beirut (Human Rights Watch, 2020).

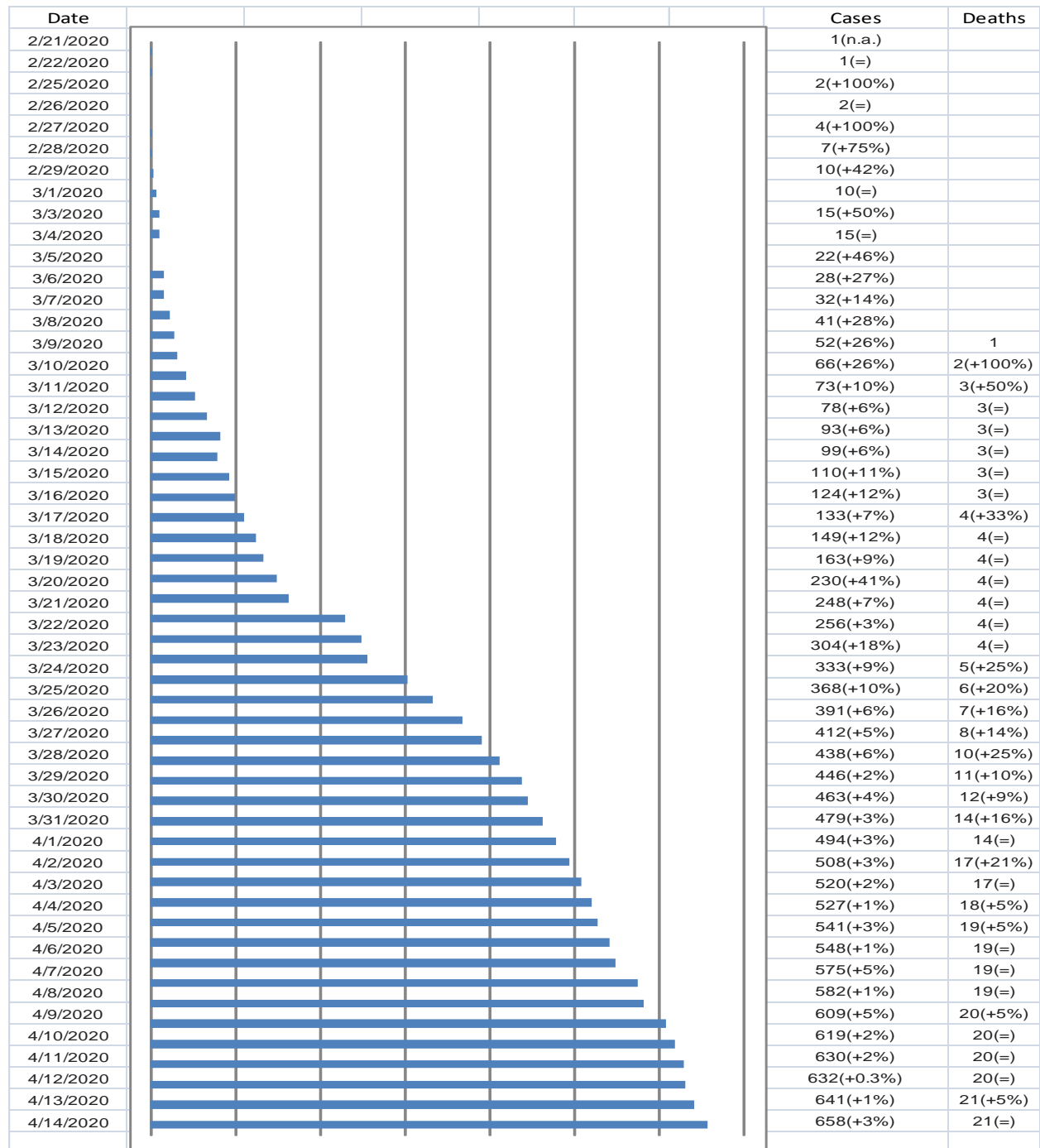


Figure 1: Confirmed COVID-19 cases in Lebanon (Lebanon Info Center, 2020)

**Lebanon Economic Crises**

Lebanon has been trapped in full scale emergency crises. Lebanon confronts a crippling debt crisis: the sovereign borrowings taken are now amounting to nearly 160% of the total gross domestic product. Lebanon also faces fiscal crisis; the budget deficits being faced by the country is likely to reach up to a staggering 15% of GDP. On top of these two crises, Lebanon also faces the currency crisis. The country has almost completely depleted its dollar reserve and in an economy which is 70% dollarized. The currency of Lebanon: Lebanese Pound is pegged to dollar rates, but has gone on to lose more than 60% of the total value in the exchange markets. As a result of this divergence, there has been a fuelling of inflation; since Lebanese government imports nearly of its consumables there is a widening in the current chronic account deficits, further worsening as the

few remittances are beginning to dry up. This leads to the main cause of the crisis: the banking sector (Mroue & Karam, 2020).

The banking sector has been called the top dog of the economy of Lebanon. The sector has managed to attract funds from a wide variety of sources which has dwarfed the population of Lebanon. These funds have been collected from all over the Middle East; making its deposits base of the banks of Lebanon to be usually 2.5 to 3 times the total size of the Lebanese economy. The central bank called the Banque du Liban has been often praised due to the prudential conservatism it has displayed. The Banque du Liban went on to become the conveyor belt which financed the state of Lebanon as well as its sponging rulers via the use of local banks by offering double digits in interest rates.

However, even with such high earning opportunities, the local banks are all bankrupt (Knecht & Francis, 2020).

### 3. Response to COVID-19

The cabinet of Lebanon went on to approve financial aid for all of the lower income families as well as for those who had lost jobs due to COVID-19. However, as the Corona Virus pandemic has been deepening, so has the country's most awful economic crisis which it has faced in decades. In the September of 2019 only about 33% of the entire Lebanese population had been living below the poverty line. In April of 2020 almost 50% of Lebanese population has fallen down below the poverty line (Diwan & Haidar, 2020).

The financial crisis being faced by Lebanon has resulted in added difficulties for the medical sector. There is a high scarcity of all the suggested medical supplies which have been deemed necessary to properly deal with the Corona Virus outbreak. Hospital staff as well as nurses has all raised concerns regarding the failures of the Lebanese government along with the hospitals to not only adequately staff hospitals but to also protect the staff from the risk of getting infected. The financial crisis has resulted in a dollar shortage: this shortage has restricted the capability of medical supplies importers to order and import these vital medical supplies. The supplies in high demand and low supply currently include N-95 masks, disposable gloves, Hazmat suits and other protective gears, along with the ventilators and their spare parts. The Lebanese government still has to reimburse public as well as the private hospitals for the bills raised against them, including the payments due from the National Social Security's Funds as well as the military health funds (Devi, 2020).

### 4. Economic Impacts of the COVID-19

Lebanon has been suffering in the recent years from lack in economic growths coupled with high unemployment rates as well as a drop in the currency revenue inflows. The financial crisis came to a head after nationwide protests took place over corruption and mismanagement by the political classes. These protests in turn led to the closure of all bank as well as crippling the capital control on cash withdrawals along with cash transfers; this raised fears about the depositors' whose savings are in United States dollars. The Lebanese Pound has by now lost 60% of the value of the Lebanese Pound on the US dollar in the black market. Earlier in March of 2020 right as the Corona Virus crisis was deepening, the Lebanese government announced that it could no longer pay back the foreign loans it had taken: this marked the Lebanese people first ever default on a loan payment. The sector which has been the hardest hit by Corona Virus crisis is the food and beverages sector; which was the mainstay of the Lebanese economy. From the September to the December of 2019, almost 800 food and beverages institutions went to close down which lead to 25,000 people (17% of the workers in the food and beverage sector) went on to lose their jobs. In the following January, additional 200 institutions went on to be closed (Baldwin & Mauro, 2020).

Following the global patterns, the Lebanese government also ordered a mass lock down in the mid of March. The

government ordered the closing of the only international airport in Lebanon as well as closure of all the ports and land crossings for 14 days, subject to extension reviews. Dissimilar to other countries in the lock down, where all banks have remained open, Lebanese banking association decided to defy direct government orders. The banking industry closed off for two weeks: this was an apparent effort in order to preserve their liquidity reserves. Further with everything shut down, the government will not be able to go ahead and collect taxes, which will further increase the budgetary deficit (Vohra, 2020).

### 5. The Service Industry

While several countries are currently under forced lock down modes; there is no information regarding how long this lock down is going to be for. Most people believe that it will be for indefinite times. People have been requested to work from home, others have simply been asked to not work. The world is facing global travel bans, cancellations of all major sporting events, and law based prohibitions on larger gatherings. In countries where public transport is common, people have been asked to not use public transport as well as avoid all public spaces, which include restaurants, museums and even shopping centers. Grocery stores have also launched stringent rules by only allowing a certain number of people inside as well as limiting necessities being bought by people. Based on these factors, all sectors of the Lebanese economy will be affected. With the lock down in full force, there have been reports of discretionary spending by previous consumers has shrunk massively. However, based on the past experiences of such incidents, the consequences of the COVID-19 pandemic will not go on to be equal in its distribution throughout the Lebanese economy (Abdullah, 2020).

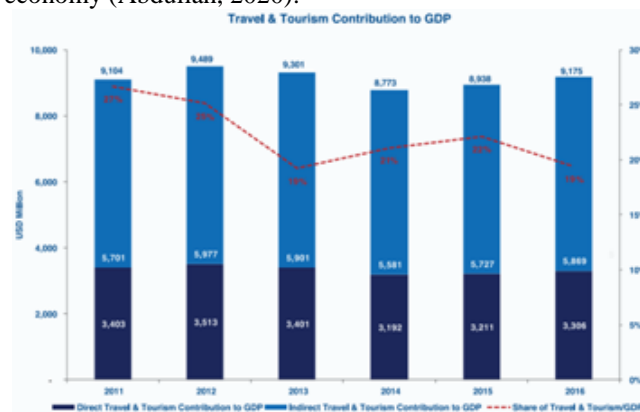


Figure 2: Contribution of travel to GDP of Lebanon (Soueid, Hariri, Nehme, & Fattah, 2017)

These problems can be seen to be particularly worse in the hospitality sectors. Not only are the members of the global travel industry: hotels, airlines etc facing reductions or shutdown of activity; so are the smaller neighborhood stores. Beirut is one of the famous tourist destinations however, all tourist destinations are now deserted; flights are not taking off, all trades shows are also being cancelled. Beirut's famous night life has come to a complete stand still due to the lock down. With no tourists to spend and no locals to enjoy, all of the businesses are suffering and considering the economic crisis, many owners are tied and need to lay off

their workforce who is further adding to the rising economic crisis and lack of funds in the Lebanese nation. Lebanon boasted a robust tourism sector which largely contributed to the country's domestic economy as the major source of not only income but also employment. With the currency being low and renowned hospitalities, Lebanon was the ideal place for a quick Middle Eastern authentic vacation for many travelers. This is why in 2016; travel and tourism contributed a staggering 19% to the GDP of Lebanon. This led to the generation of 338,600 new tourism related jobs which in turn invigorated the Lebanese economy. According to a report by the World Travel and Tourism Council, contribution to the GDP of Lebanon in 2016 amounted to US \$ 9.2 billion (Soueid, Hariri, Nehme, & Fattah, 2017).

## 6. Global Trade Disrupted

Supply chain networks all across the world have shut down. Based on Lebanon's economy which is all imports based, this is another way in which Corona Virus stands to negatively impact Lebanon's economy. As is evidenced by different markets, the proper functioning of all worldwide supply chains have been massively disrupted by this crisis. This ban on trade and travel is going on to generate various spillover effects amongst all of the different levels in the supplier networks. While the larger companies may be able to survive for a couple of months, small cottage firms are already under cash issues and have to resort to firing their staff. This problem is not limited to Lebanon only, it is expected that global trading in the year 2020 will go on to fall in each region even after the Corona Virus pandemic has passed due to lack of resources for imports. This fall will massively impact all of the countries which rely on their strong exports to generate funds, but also the countries which are importers such as Lebanon and even the United Arab Emirates. The WTO: World Trade Organization has estimated that the global trading will fall by 32% during the year 2020 due to the Corona Virus pandemic (Robalino, 2020).

## 7. The Choices Faced

It is now almost certain that not only is the world's economy but also that of poorer countries such as Lebanon entering a phase of recession. This will be a recession of historic proportions; with the severity of things depending purely on how the relevant governments manage this Corona Virus pandemic. With such dire consequences, many are faced with the choice which lies at the core of the pandemic: whether the governments will choose to "flatten the disease curve" of this pandemic or whether they will choose to flatten out the curve being caused by the recession. It is impossible that both of these can be achieved co-jointly and, hence it is better for governments to understand what is coming and manage themselves for the future accordingly. Simply due to the fact that Lebanon belongs to the list of developing countries; they are much less prepared – especially with the economic downturn being faced by the country in the year 2019 – to properly deal with the penalties associated with economic downturns. While they currently are engaging in it; it is not for long that the people of Lebanon can afford to engage in "social distancing"; especially for extended periods of time. Doctors have known

for quite a long time now that when there is an absence of any cure or vaccine for any contagious diseases the only sure fire way to alleviate or restrain its spreading is via the application of social distancing, which has a heavy cost attached to it. It is costly due to the fact that in order to be able to being about affects on the growth dynamics of any epidemic, the measures need to be very stringent and kept implemented for a relatively longer period of time. As a result of this, there is a prolonged demand as well as supply shock: due to closure of supply chains and manufacturing; which can sometimes be trickier to reverse than any normal recession: the pandemic causes a severe disturbance of the entire economic network (Robalino, 2020).

Even so the numbers of countries and regions which are adopting one or another form of social distancing has been growing by the day. This includes Lebanon who is now faced with the likelihood that this pandemic recession can become a pandemic depression. The benefit or cost ratios of the social distancing measures are sure to be highly unfavorable for the citizens of Lebanon due unplanned urbanizations, the informal and hourly labor markets, as well as the more limited government capabilities. In Lebanon, informality within the labors market tends to aggravate the pessimistic economic impacts of government mandated social distancing. And, the supply as well as demand side programs which the government of Lebanon needs to protect in order to maintain jobs as well as incomes are difficult to implement in the face of an economic crisis. Lebanese government also needs to mitigate the impacts of the economic downturns which are mostly lacking or are not able to be expanded at a pace fast enough or an area far enough due to poor institutional capacities as well as limited fiscal spaces (Soueid, Hariri, Nehme, & Fattah, 2017).

## 8. Conclusion

With such massive impacts occurring across the globe due to the pandemic of Corona Virus, the world is now at a standstill. There is no free trade or free travel happening; people are in homes, nature is taking back control of the planet and medical professionals are working day and night to cater to the Corona Virus patients. With so much contraction of activities occurring, people have been laid off, governments are under extra pressures and states such as Lebanon were, are and will continue to suffer in the wake of this pandemic. There needs to be a global effort which will allow countries to look out for the world's collective interest rather than their own personal interest in order to make sure that mankind is able to come out of this major setback alive and thriving.

The storm is still silent; all that is left to see now is that whether the Corona pandemic will be able to revive or restructure the global economy?

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