



### DEMONSTRATIONS IN LEBANON: BETWEEN POVERTY AND THE PANDEMIC

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*(Views expressed in the brief are those of the author, and do not represent those of ISSI)*



Since October 2019, Lebanese citizens have been demonstrating against the government denouncing them for dishonesty and misconduct. The country has been immersed in an economic crisis even before the coronavirus pandemic. In early March 2020, the Lebanese government announced that it would be defaulting on its debts.<sup>1</sup>

The country is facing multipronged, interconnected challenges in the form of monetary, economic and fiscal challenges. These have resulted in increasing unemployment as well as affected import of crucial items such as medical supplies. The arrival of COVID-19 is further devastating the economy to a point where on March 21, the army had to be deployed to enforce lockdown since shop owners kept their outlets open in a desperate attempt to keep their businesses running.

The corona contagion has befallen a country whose population is already suffering from economic adversity. National debt approximates 170 per cent of the Gross Domestic Product (GDP).<sup>2</sup> There is a liquidity shortage in the banking sector and the currency is on the verge of collapse. The unemployment rate is more than 30 per cent- more than 60 per cent of the Lebanese youth fall in

<sup>1</sup> "Lebanon Set to Default for First Time as Foreign Currency Reserves Dive", *Financial Times*, March 8, 2020. <https://www.ft.com/content/bda10536-6145-11ea-a6cd-df28cc3c6a68>

<sup>2</sup> "Lebanon: From the penthouse to the outhouse", *Deutsche Welle*, March 11, 2020. <https://www.dw.com/en/lebanon-china-debt-default-economy-imf/a-52706863>

this category.<sup>3</sup> Expectations of aid from the international community look bleak since the whole world is submerged in the present health pandemic.

## Current Situation

### *Protests*

Time hallowed objections aggravated by the pandemic pushed people out onto the streets in protest on April 21 as Parliament gathered for its first legislative session in months. Since April 25, many banks and central bank offices have been set ablaze. In response, the Lebanese Armed Forces (LAF) have used what Human Rights Watch (HRW) have called 'unjustifiable, excessive force'.

After the civil war ended in 1990, Lebanon has established a service-oriented economy based on finance, real estate and tourism. In 2018, the government incurred sizable fiscal and current account deficits - 11 and 26 per cent of GDP respectively.<sup>4</sup> These were financed with foreign capital, predominantly from the diaspora community. Drivers such as conflicts in the region, excessive dependence on imports, decline in tourism, investment scams,<sup>5</sup> and larger US dollar withdrawals culminated with mistrust in the banking sector brought everything to a crisis point in 2019. Moreover, on account of the slowing economic growth and fall in diaspora remittances, the amount of US dollars in circulation have become limited.

The central bank (Banque du Liban or BDL) even operated a 'Ponzi scheme' to protect its currency by borrowing US dollars from commercial banks at high interest rates.<sup>6</sup> This plan however, failed as bank deposits started to falter. As a result of the dollar shortage, the Lebanese pound has plummeted to half of its official rate. The official exchange rate of 1500 pounds to a dollar holds no value. On the black market, a dollar is being exchanged for around 4200 pounds.<sup>7</sup>

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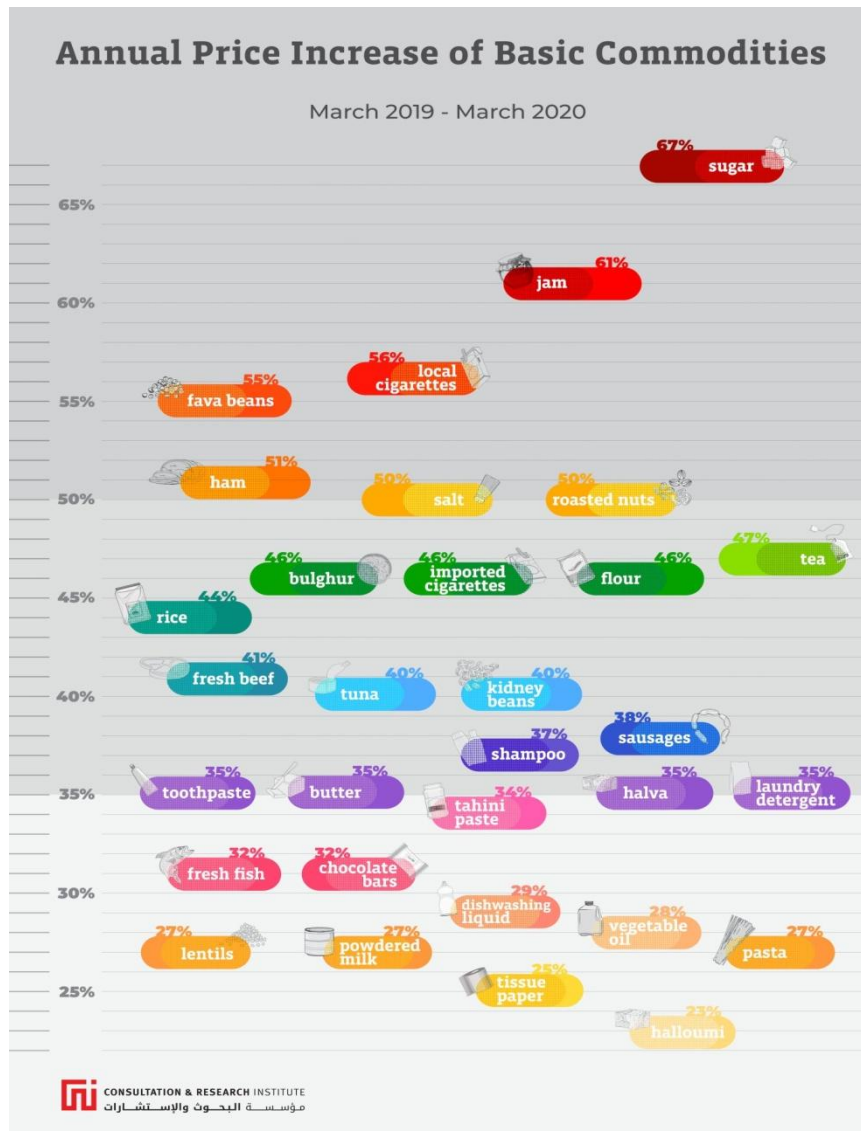
<sup>3</sup> "Lebanon faces coronavirus, poverty, hunger", *Deutsche Welle*, April 28, 2020.  
<https://www.dw.com/en/lebanon-faces-coronavirus-poverty-hunger/a-53270955>

<sup>4</sup> "From crisis to crisis", *The Economist*, May 9, 2020.  
<https://www.economist.com/middle-east-and-africa/2020/05/09/why-protesters-firebomb-banks-in-lebanon>

<sup>5</sup> "Lebanon's Toxic Loans Gamble", *Synaps.network*, June 12, 2017.  
<https://www.synaps.network/post/lebanon-real-estate-prices-speculation>

<sup>6</sup> "Time Is Running Out", *Carnegie Middle East Center*, December 8, 2019.  
<https://carnegie-mec.org/diwan/80524>

<sup>7</sup> "Head of Money Changers Arrested over 'Dollar Manipulation'", *Naharnet*, May 9, 2020.  
<http://www.naharnet.com/stories/en/271666-head-of-money-changers-arrested-over-dollar-manipulation>



Source: Consultation and Research Institute<sup>8</sup>

#### Lack of Social Protection

From the time of the establishment of the modern Lebanese state in the 1940s, social welfare and security has remained fractured.<sup>9</sup> There is a dearth of credible information, but it is estimated that over 40 per cent of the labor force work in the informal sector and do not receive any form of social protection. Similarly, there are very few official programs which assist the poor. The National Poverty Targeting Program (NPTP) is widely criticized<sup>10</sup> as being inadequate and inefficient in

<sup>8</sup> "Consultation and Research Institute", *Twitter*, April 24, 2020.  
<https://twitter.com/crilebanon/status/1253552631911415815>

<sup>9</sup> "Poverty Targeting is not the Solution for Much Needed Social Policy", *The Lebanese Center for Policy Studies*, March 2020.  
<http://lcps-lebanon.org/featuredArticle.php?id=280>

<sup>10</sup> *Ibid.*

meeting the needs of the deprived. The Ministry of Social Affairs (MoSA) has been subcontracting social services to civil society organizations.<sup>11</sup> The latter mostly tend to have sectarian underpinnings and are funded by like-minded sectarian denominations. However, the present economic crisis has reduced this funding capacity. Government aid has been critically insufficient. On April 1, even though the government announced 400,000 Lebanese pounds in cash assistance for the poor, distributions were suspended because of logistical errors.<sup>12</sup>

### *Proposed Recovery Plan*

On April 30, the government agreed on a five-year plan. Even though it has not been made public, it is said to resemble a leaked draft which has been making the rounds on social media since early April. The document commences by indicating statistics that showcase how difficult a situation the economy faces. It includes figures such inflation (53 per cent), destitute population (48 per cent) and external balance of payments funding modalities needed (\$28 billion by 2024).<sup>13</sup>

The plan calls for restricting domestic demand by slashing government spending as well as curbing private consumption and investment in order to reduce imports. It also envisages devaluing the official exchange rate and restructuring the banking sectors at the detriment of shareholders and large depositors as well as seeking aid from international agencies. This includes securing around \$10 billion financial support from the International Monetary Fund (IMF). The draft also pledges to start moving ahead with reforms such as anti-corruption measures and refurbishing Lebanon's energy sector to tackle the problem of electricity shortages and budget shortfalls.<sup>14</sup>

On May 1, the Lebanese government authorized a request to the IMF for assistance. Detailed talks with the IMF team will begin from May 13. It is also reported that a team from the IMF will arrive in the country in the third week of May with the purpose of engaging in discussions with Lebanese officials on how to help the country exit the economic crisis.<sup>15</sup>

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<sup>11</sup> "An Assessment of Lebanese Civil Society | CIVICUS Civil Society Index Report for Lebanon", *International Management and Training Institute (IMTI)*, 2006.

[http://www.civicus.org/media/CSI\\_Lebanon\\_Country\\_Report.pdf](http://www.civicus.org/media/CSI_Lebanon_Country_Report.pdf)

<sup>12</sup> "Poverty or virus? Lebanon's uprising continues despite the pandemic", *OpenDemocracy*, May 5, 2020. <https://www.opendemocracy.net/en/north-africa-west-asia/poverty-or-virus-lebanons-uprising-continues-despite-the-pandemic/>

<sup>13</sup> "Government-Plan English Version.pdf", *Google Drive (Google)*, April 30, 2020. [https://drive.google.com/file/d/1\\_JUUAGsKZGq6MCKQEVWwP7wfdKiHFuAr/view](https://drive.google.com/file/d/1_JUUAGsKZGq6MCKQEVWwP7wfdKiHFuAr/view)

<sup>14</sup> "Government-Plan English Version.pdf", *Google Drive (Google)*, April 30, 2020. [https://drive.google.com/file/d/1\\_JUUAGsKZGq6MCKQEVWwP7wfdKiHFuAr/view](https://drive.google.com/file/d/1_JUUAGsKZGq6MCKQEVWwP7wfdKiHFuAr/view)

<sup>15</sup> "Lebanon braces for tough conditions in IMF talks," *The Daily Star*, May 10, 2020. <http://www.dailystar.com.lb/News/Lebanon-News/2020/May-10/505667-lebanon-braces-for-tough-conditions-in-imf-talks.ashx>

### *Political Finger Pointing*

In the background of the government's proposed plan, altercations erupted between various parties. On April 24, Prime Minister Hassan Diab Hezbollah accused the governor of the Central Bank, Riad Salameh, stating that it was the latter's financial engineering schemes that have led the country into a financial crisis. In turn, the governor maintained that the budgetary policies of the government were solely to blame.<sup>16</sup> Secretary-General Hassan Nasrallah claimed that the plan was, "the first step on the path to economic recovery."<sup>17</sup> On the other hand, the Future bloc, directed by Saad Hariri, as well as the Lebanese Association of Banks (ABL) have rejected the proposal and said that they will present their own financial rescue plan. ABL argued that the government had unethically projected blame of the crisis onto the banks.<sup>18</sup> The counter-proposal would aim to ensure that some of the banks' capital is reserved instead of writing off capital adequacy of the banks altogether.

### **Conclusion**

In Lebanon, the absence of a united leadership poses a major impediment for any chance of the country's recovery from this economic free fall. Comprehensive economic and robust fiscal policy corrections are needed in order to jumpstart the economy. It is also important that the government eliminate the trust deficit between the officials and the citizens. The only way this can be done is by presenting an honest transparent picture of the circumstances at hand. Moreover, it is also important that other countries in the region should be mindful of the situation in Lebanon to avert a similar condition, especially oil-dependent countries like Iraq where the present low oil prices can very well lead to a similar situation as in Lebanon.

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<sup>16</sup> Lebanon gripped by prime minister's feud with bank governor," *Financial Times*, May 3 2020. <https://www.ft.com/content/54bf9ad5-c453-4e5c-9417-69ac61af6f89>

<sup>17</sup> David A. Daoud, "Hezbollah Secretary-General Hassan Nasrallah Will Be Giving Another Speech on Monday," *Twitter*, May 1, 2020. <https://twitter.com/DavidADaoud/status/1256294349962444802>

<sup>18</sup> "Exclusive: Lebanese banks draft national rescue plan that keeps some of their capital," *Reuters*, May 6, 2020. <https://www.reuters.com/article/us-lebanon-crisis-banks-exclusive/exclusive-lebanese-banks-draft-national-rescue-plan-that-keeps-some-of-their-capital-idUSKBN22H2TT>