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## LEBANON: ECONOMY

OVERVIEW

1. The Lebanese economy has demonstrated remarkable resiliency to seven years of civil war. Although economic activity has declined in periods of heavy fighting, total output in 1981 was essentially the same as in 1977. Moreover, foreign exchange reserves remained fairly constant over the same period.

2. The more negative aspects of recent economic trends include an annual inflation rate of about 25 percent in the last few years (which has forced the government to run substantial budget deficits) and a growing foreign trade imbalance. Nevertheless, should a modicum of stability return to the Lebanese political scene, the economy could quickly rebound. It retains a large reservoir of educated and skilled workers and a highly liquid banking system that could provide funds for investment to get economic activity back on an upswing.

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## LEBANON: ECONOMIC FACT SHEET

	1977	1978	1979	1980	1981
Real GDP <sup>a</sup> (percent change)	68	-3	2	2	-1
Consumer Prices <sup>a</sup> (percent change)	19	10	24	24	25
Foreign Exchange Reserves (million US \$)	1569	1835	1532	1588	1516

a) Estimated.

Economic activity in recent years has been inversely related to the level of fighting. The Israeli invasion has resulted in the virtual halt of production in Beirut and disruptions in southern Lebanon. Northern Lebanon was not greatly affected. 25X1

The Lebanese Government, which ran budget surpluses prior to the civil war, has incurred increasingly larger deficits since. Budget expenditures have surged in recent years due to public sector wage increases to offset inflation, subsidies, and transfers to municipalities. Tax collection, has been severely hampered by the lack of government control in many areas of the country. The government lost an estimated \$400 million a year in customs revenues--traditionally the most important revenue source--because of smuggling through both official and illegal ports. 25X1

Lebanon's trade deficit has increased considerably since the end of the civil war, reaching an estimated \$3.6 billion last year. Worker remittances--an estimated \$2 billion a year--and capital inflows have financed the trade deficit. Contributions to various political parties and armed militias totalled about \$150 million a year, and another \$700 million annually is repatriated by Lebanese firms operating in other countries. 25X1

Lebanese economic planners maintain that at least \$12 billion in grants and concessional loans from abroad will be needed for reconstruction. These funds would be used to repair damage resulting from the invasion and from factional fighting since 1975. 25X1

Lebanese political and business leaders hope the United States will launch a "mini-Marshall Plan." Political instability and the Israeli presence will limit, at least in the short run, the amount of funds multinational lending agencies and the wealthy Arab states will be willing to commit to Lebanon. There is little economic incentive for the Arabs to pump money into Lebanon because the services once provided there are now being supplied elsewhere in the Arab world. Under certain conditions, the World Bank is willing to take the lead on reconstruction efforts, presumably with large financial support from Arab donors. These conditions include establishment of a strong central government that can exercise control throughout the country. Lebanese reconstruction will be discussed at the annual IMF/World Bank meeting in Toronto this weekend. 25X1

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