

How did Lebanese GDP fare in 2021 – two years after the onset of the crisis?



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Table 1: National Accounts

	2020	2021
GDP at market prices (Trillion LBP)	96.9	245.6
GDP at constant prices¹ (Trillion LBP)	60.5	61.7
Real GDP growth %	-24.6	2
GDP Deflator growth %	60.1	148.4
GDP in Billion USD	25	19.8
GNI in Billion USD	23.5	17.2
GNDI in Billion USD	30.7	24.3
Exchange rate LBP per USD	3,879	12,414

¹ 2019 prices for all tables

Table 2: Expenditure Accounts

Trillion LBP	2020	2021	% change
GDP at constant prices	60.5	61.7	2
Consumption at constant prices	69.7	64.7	-7
Investment at constant prices	3.37	7.7	128
Net Exports at constant prices	-12.5	-13.1	-4.8
Exports at constant prices	10.1	11.3	12
Imports at constant prices	22.6	24.4	8

Table 3: Sectoral Accounts

Trillion LBP	2020	2021	% change
GDP at constant prices	60.5	61.7	2
Sectoral Output at constant prices:			
Agriculture	2.8	3.1	9
Mining and Manufacturing	5.4	5.2	-2
Construction	0.9	1.2	22
Trade and Transport	6.4	6	-5
Hotel and Restaurants	0.6	0.8	23
Communications	0.9	1,1	10
Financial services	4.9	2.4	-51
Real estate	13.3	13.6	2
Business services	3.6	4.6	25
Education and Health	8.9	10.6	19
Public sector administration	11.3	10.8	-5

Source for all 3 tables: CAS

Though behind – most likely due to strikes and closures -- the *Central Administration of Statistics (CAS)* published lately its national accounts for Lebanon for year 2021. And what CAS had sacrificed in timing, it had nevertheless gained in accuracy and comprehensiveness. The tables above give the data findings for the main national accounts and for GDP in terms of its expenditure and sectoral approaches. Below are essential conclusions that we can derive from the tables:

National Accounts:

- 1) Real GDP (GDP at constant prices that neutralizes the effect of inflation) **grew by 2% in 2021**. This is fairly interesting, as it corrects figures by major international financial institutions (World Bank) that **put GDP growth in 2021 at -7%**. This gives credence to the notion that perhaps GDP estimates for the crisis years in Lebanon have been quite underestimated
- 2) The GDP deflators grew by 148.4%, compared to the CPI which grew by 239.4%, because the latter includes the prices of imports whereas the former doesn' t

- 3) Gross national income (GNI) was at \$17.2 billion, less by \$2.6 billion than GDP which stood at \$19.8 because of the negative net investment income; but Gross national disposable income (GNDI, yeas weird name!) was \$24.3 billion, higher than GNI by **\$7.1 billion, mainly due to private and public transfers (remittances and public grants)**. That was also true in 2020 when they stood at \$7.2 billion. So what would the country do without them?

Expenditure Approach:

- 1) What strikes you about the expenditure components of GDP is the increase in **investment -- that is private investment -- that grew by 128%**, overshadowing the decline in consumption at -7% and net exports at -4.8%. Most likely, it can be explained either by the need to expand domestic productive capacity so as to partially replace substitutable imports or by the desire to hoard capital goods and raw materials given the subsidies that BDL extended to these goods and other importables.
- 2) Also notable is the 12% increase in exports of goods and services, though one would have expected exports to rise by much more, given that exchange rates fell drastically from an average of 3,879 to 12,414 LBP per USD – perhaps, understandably, an indication that the economy is not as competitive as we would like it to be.

Sectorial Approach:

- 1) The talk about changing the structure of the Lebanese economy usually boils down to the notion that we should produce more goods (including agriculture) and fewer services, more industry and less tertiary sector, and more tradable and fewer non-tradable. And the major catalyst to effect this transformation is weak exchange

rates¹. But the irony is that no one in this debate seems to realize that you can actually nurture and grow both together and one sector needn't grow at the expense of the other, if the right policy mix (including reasonable exchange rates) is undertaken. Even ICT, the leading sector in the new economy, involves both hardware and software, or the production of both technology goods and services. That said, what was the impact of two years of crisis on the Lebanese sectorial real output? The picture actually is mixed: as to goods, agriculture grew by 9%, construction grew by 22%, but manufacturing fell slightly by -2%; whereas for services, hospitality grew by 23%, business by 25%, and education and health by 19%. In other words, we see -- as it should be -- more or less a balancing in sectorial output

- 2) Of course, and for obvious reasons, the steepest sectorial **real output decline happened in financial services at -51%**. This has no doubt fed into the increasing rise of the cash economy. More erroneously, it has also fed into the notion that banks are dispensable. It seems that people's negative (but wrong) perceptions of banks' reputations has blinded them to banks' indispensable role in the economy; for all international evidence clearly shows that banks and financial intermediation are vital for growth, balanced growth included, as not relying on banks for funding is – though not a perfect analogy – like asking someone to contribute his own blood for blood transfusion, instead of accessing the available blood of others, to regain his vitality. Hopefully, these wrong perceptions will change and mature as sound reforms and financial restructuring restore confidence back to banks.

¹ Actually, it is weaker real exchange rate, which is nominal exchange rate adjusted to differences in the inflation rate between the home country and its trading partners.

Miscellaneous

- 1) The *National Accounts* were fairly comprehensive, if not sophisticated, as CAS had provided quarterly data on real GDP and GDP deflator growth. For 2021, quarterly real GDP grew, year on year, **at -19% in Q1, 16% in Q2, 13% in Q3, and 3% in Q4.** Whereas the GDP deflator rose annually by 139% in Q1, 112% in Q2, 127% in Q3, and 182% in Q4.
- 2) More interesting, CAS also estimated that the cost of **import subsidy in 2021 reached to 33 trillion LBP or close to \$2.7 billion (at 12,414 LBP per USD).** And given that BDL' s reserves fell by \$6.2 billion in 2021, then 44% of these reserves were spent on 'mindless' subsidies – what a tremendous waste!

In conclusion, it is widely believed empirically that foreign exchange crises don' t lead to banking crises, but banking crises do lead to foreign exchange crises. In Lebanon, however, unsustainable monetary policy conspired with unsustainable fiscal policy to produce both crises. After two years of these crises (in addition to a foreign debt crisis), the real economy rebounded in 2021 but banks – not surprisingly, given the systemic nature of the banking crisis – couldn' t. Notwithstanding the latter, this modest rebound in the real economy was mostly balanced, and was partly due to the economy' s agility, partly to the role of subsidies, and partly to help from remittances. But these are never enough. Besides sustainable political and economic stability, the rebound and growth in the economy will not be complete, steady, and strong unless a healthy banking sector is brought back, through a robust but fair financial restructuring process.

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