



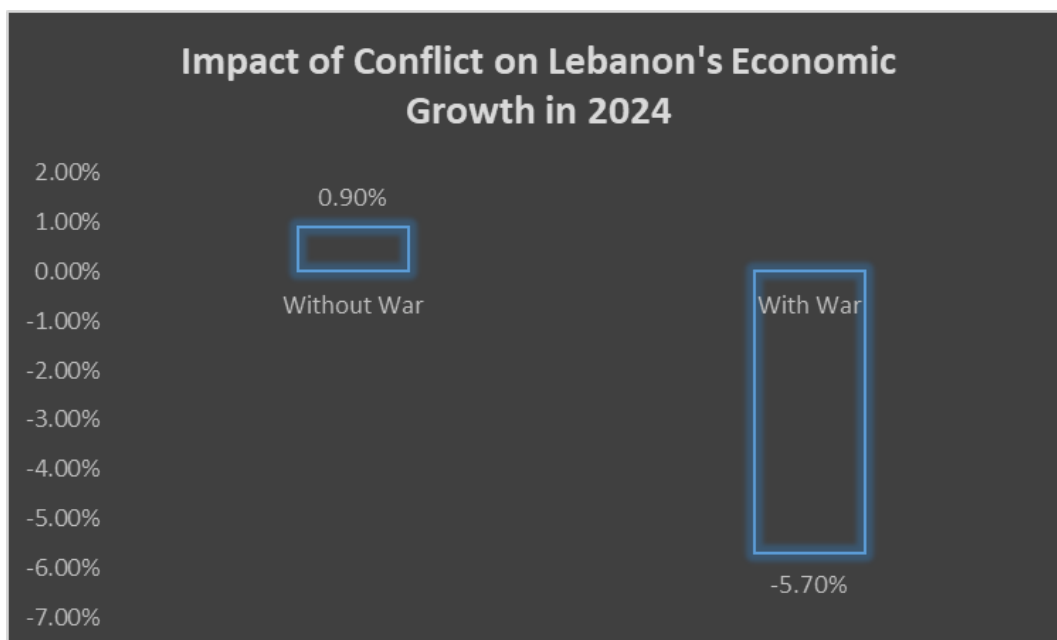
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The conflict between Israel and Hezbollah has had a devastating impact on Lebanon, causing significant damage and human suffering. The recent Lebanese presidential and prime minister elections offered hope that the ceasefire might extend beyond its two-month period ending this month. However, the Lebanese economy has already suffered. The World Bank's (WB) Lebanon Economic Monitor (LEM) report, titled "[Mounting Burdens on a Crisis-Ridden Country](#)," estimates that the war caused Lebanon's real GDP to shrink by 5.7% in 2024, resulting in a loss of \$4.2 billion in tourism and consumption, compared to a projected 0.9% growth without the conflict.



Consumption, the largest component of the economy, accounting for 134% of Lebanon's real GDP in 2023, took a serious hit, losing around \$3 billion in 2024 due to mass displacement and destruction, affecting economic activity. In the first nine months of 2024, the conflict mainly affected South Lebanon and El Nabatieh, with estimated losses of around \$693 million from reduced night-time lights (NTLs). In the last quarter of 2024, the conflict expanded and more people were displaced, affecting South Lebanon, El Nabatieh, Bekaa, Baalbek El-Hermel, and the southern suburbs of Beirut, further rising total consumption losses. For more details on the NLT approach to measuring economic activity, see our previous article titled ["Night Time Lights" : New Approach for Estimating Economic Losses from Latest War.](#)

**Losses in Consumption due to the War (in US\$ Million)**

	<b>South Lebanon</b>	<b>El Nabatieh</b>	<b>Baalbek</b>	<b>Bekaa</b>	<b>Mount Lebanon (Baabda; Dahieh)</b>	<b>Total across Governorates</b>
<b>2024Q1</b>	132.7	107.1	-	-	-	
<b>2024Q2</b>	89.4	31.2	-	-	-	
<b>2024Q3</b>	154.4	178.4	-	-	-	
<b>2024Q4</b>	689.6	477.8	206.3	809.7	60.4	
<b>Total 2024</b>	<b>1,066.1</b>	<b>794.5</b>	<b>206.3</b>	<b>809.7</b>	<b>60.4</b>	<b>2,937</b>

Tourism, the primary driver of Lebanon's economy, suffered losses of \$1.26 billion in 2024. Real-time high-frequency data on flight activity and alternative data on cancelled, landed, diverted, scheduled, and completed flights to Lebanon showed that travel to Lebanon was severely affected after September 23, 2024. As the conflict escalated, international carriers canceled flights to Beirut, and only Lebanon's national carrier continued to operate until the truce with Israel. WB calculated the losses by estimating the number of tourists who would have visited if there had been no conflict. They used this estimate to predict the income lost from travel services. They also considered the lost spending by Lebanese expatriates. They compared the average spending per tourist to the expected number of expatriates versus the actual number who visited in late 2023 and early 2024. Most of these losses occurred in the last quarter of 2024.

**Tourism Losses in 2024 (Million US\$)**

Period	Losses in Tourism Receipts (including expat spending)
Q1-2024	186.6
Q2-2024	66.3
Q3-2024	102.9
Q4-2024	907.9
Total	1,263.7

WB added that Lebanon's real GDP declined by 0.8% in 2023, compared to a projected 0.2% growth without the conflict, leading to a cumulative contraction of 7.6% in 2023 and 2024, and a cumulative real GDP decrease of 38% between 2019 and 2024, compared to an expected 34% real GDP contraction in 2023. In addition, empirical evidence showed that GDP per capita and consumption are usually 28% and 25% lower ten years after conflicts. In addition, investment, exports, and imports usually decline up until several years after the conflict.

The conflicts' effects on Lebanon go beyond GDP and touch many parts of the economy, including the fiscal position. Spending is expected to rise as ministries now demand more budget to support people affected by war and recovery efforts. At the same time, revenues are expected to decrease due to a drop in economic activity, particularly affecting Value Added Tax, the main revenue source. Therefore, reevaluating the 2025 budget is advised. The fiscal balance—calculated as the country's revenues minus its spending—will suffer due to both shrinking revenues and rising expenditures.

**Fiscal Balance ↓ = Total Revenues ↓ – Total Expenditures ↑**

The current account deficit is also expected to worsen. Imports of essential goods remain high, while exports decline due to reasons like higher insurance costs and delivery delays, negatively impacting the trade balance. A drop in tourism receipts also reduces net exports of services.

**Current Account = Trade Balance + Net Income + Net Transfers**

Thus, the current account deficit is expected to grow, and it will likely remain reliant on a heavily dollarized cash economy, which hinders recovery prospects. It's important to note that Lebanon's official imports often serve both Lebanon and Syria, but income from re-exporting goods to Syria may not be recorded, adding to the distortion. If the situation in Syria improves further and sanctions are lifted, Lebanon might be able to export to Syria legally, but this will take time.

Although the exchange rate has stabilized since August 2023, it is still fragile and unsustainable. This is because it relies on fiscal restraint, spending restrictions, increased revenue collection, and unspent surpluses instead of being supported by a strong monetary framework and real fundamentals. According to WB, "This strategy has temporarily curbed currency in circulation but at the cost of delaying critical investments needed for recovery and development. Rising post-conflict funding demands threaten to deplete remaining foreign reserves or increase currency in circulation, which would undermine exchange rate stability and intensify inflationary pressures, highlighting the unsustainability of the current approach to exchange rate stabilization," notwithstanding its short term benefits. Adding to this issue, the ongoing current account deficit is funded by a cash economy, increasing the risk of money laundering and causing official statistics to misrepresent the actual economic situation.

The conflict will probably severely damage Lebanon's capital stock, especially fixed capital formation, which will further pull down Lebanon's GDP. WB's report did not take into account the destruction of capital stock in their analysis (except for housing). Increased uncertainty and conflict will likely reduce investment. In addition, without public and private investment and financing for rebuilding affected areas, the capital stock will keep declining, and its impact on potential output will last for years. The analysis assumes that remittance inflows will stay steady, serving as a safety net for households affected by the war.

Furthermore, the conflict has reduced Lebanon's human capital, although it's still too soon to completely evaluate the extent of the damage. Mass displacement has strained social services, with over ten thousand casualties and thousands of children out of school. In addition, health facilities are also damaged. Moreover, skilled workers are leaving the country, with 326,000 individuals, half of whom are Lebanese citizens, having left by October 7th.

Despite the challenges highlighted in the report, there is still reason for optimism. The report was published before the election of a new Lebanese president and prime minister. Now, we have the opportunity to see the formation of a more competent cabinet, more regional and international financial support, the implementation of UN Resolution 1701, and a permanent end to the conflict with Israel. Additionally, much-needed reforms and a potential deal with the IMF could pave the way for Lebanon to emerge from default and rebuild its economy. This new leadership and strategic initiatives offer a glimmer of hope for a brighter future that will include opening doors for better relations with foreign countries.

WB: Lebanon's Real GDP Estimated to Have Shrank  
by 5.7% in 2024

Year					Pre- Escalation	Post- Escalation
	2019	2020 Est.	2021	2022	2023	2024 Proj.
(annual percentage change, unless otherwise specified)						
<b>Real Sector</b>						
Real GDP	-6.9	-21.4	-7	-0.6	-0.8	-1
Real GDP per Capita*	-3.9	-20.1	-7.3	-1.1	-1.3	-1.5
(Share of Real GDP)						
Agriculture	4.7	6	6	6	6	6
Industry	10.7	12.8	12.8	12.8	12.9	12.9
Services	73.9	76.9	78.6	78.6	78.4	78.4
Net Indirect Taxes	10.6	4.3	2.6	2.6	2.6	2.6
(annual percentage change, unless otherwise specified)						
Inflation (Consumer Price Index)	2.9	84.3	154.8	171.2	221.3	45.7
<b>Public Finance</b>						
(percent of GDP unless otherwise specified)						
Revenue	20.8	13.1	7.5	6.1	13.7	15
o/w Tax revenue	15.6	9	5.6	4.9	10	12
Expenditure	31.4	16.4	6.5	9	13.2	14.8
Current expenditure	26.1	14.3	5.8	7.8	11.5	10.6
o/w Interest payment	10.1	2.5	0.9	0.4	0.9	0.3
Capital expenditure	1.3	0.4	0.1	0.2	0.2	0.9
Overall fiscal balance	-10.6	-3.3	1	-2.9	0.5	0.2
Primary balance	-0.5	-0.8	1.9	-2.5	1.4	0.6
<b>External Sector</b>						
(percent of GDP unless otherwise specified)						
Current Account Balance	-21.5	-8.8	-14.7	-34.6	-28.1	-20
Trade balance	-25.1	-20.3	-31	-55	-53.2	-42.8
o/w Export (GNFS)	35.7	28.2	44.9	60.1	52.7	44
Exports of goods	9.4	12.9	19.9	21.5	20.6	16.7
Exports of services	26.3	15.3	24.7	38.6	32.1	27.2
o/w Import (GNFS)	60.8	48.5	75.9	115.1	105.9	86.8
Imports of goods	35.3	33.4	55.4	86.4	83.9	59
Imports of services	25.5	15.1	20.5	31.3	21.9	27.8
Factor services and transfers	3	11	18.5	22.3	25.1	22.8
o/w Net remittance inflows	6.1	11.9	17.8	21.9	21.2	19.1
<b>Total Public Debt</b>						
Total debt stock (US\$ million) <sup>b</sup>	88,900	56,813	39,903	37,718	36,090	35,966
Debt-to-GDP ratio (percent)	172.3	179.2	172.5	179.7	179.7	141.9
<b>Memorandum Items</b>						
Nominal GDP (LBP billion)	80,196	116,954	271,916	573,282	1,723,308	2,267,706
Exchange rate, average (LBP/US\$)	1,554	3,688	11,755	27,309	85,828	89,500
Nominal GDP (US\$ million) <sup>b</sup>	51,606	31,712	23,132	20,992	20,079	25,337

*a Per-capita calculations are based on population estimates produced by UN population division.*

*These estimates have been significantly revised down for Lebanon, to 5.5 million, from 6.7 million, in 2022.*

*This change has a prominent effect on Real GDP per capita growth and Nominal GDP per capita.*

*b The WB-AER is used to calculate the total debt stock and nominal GDP in US\$ million for 2019–2024.*

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