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## **Lebanese economy hammered by political crisis, debt**

Ahmad Harb opened his perfume shop on the main street of Beirut's commercial Hamra district 35 years ago, and his business has weathered security and political crises in this volatile country, including a civil war. He says this year has been the worst he's seen: Sales dropped by 90 percent and after the landlord raised the rent, he was finally forced to close the shop and move to a smaller, less expensive location nearby. "There is no business. Nothing works in this country, everything is very expensive," Harb said, standing woefully outside his shuttered shop. Nearly four months after Lebanon held its first general elections in nine years, politicians are still squabbling over the formation of a new government amid uncertainty over a long stagnating economy, struggling businesses and concerns over the currency. Years of regional turmoil – worsened by an influx of 1.5 million Syrian refugees since 2011 – are catching up with the tiny, corruption-plagued Arab country. Lebanon has the third highest debt rate in the world, currently standing at about \$81 billion, or 152 percent of the gross domestic product. In the absence of a new government, Lebanon has been unable to access billions of dollars pledged by foreign donors for foreign investment in infrastructure and other projects. Meanwhile, many businesses are closing, some companies are laying off employees and even Lebanese living in the oil-rich Gulf region have seen a drop in their business due to a drop in oil prices, translating into a decrease in remittances. Amid this tight situation, many Lebanese who have cash are now spending less, fearing for the future. Residents complain they have to pay double for everything including private generators to deal with chronic electricity cuts and water trucks to cope with the dry summer months. Adding to the downward spin, the government earlier this year stopped awarding housing loans with low interest rates because high demand has depleted money available. Hardly a day passes without politicians warning that the worst is yet to come, raising fears among residents that the Lebanese pound, pegged at 1,500 to a dollar for the past two decades, might lose some of its value. Harb wonders where he will get the money next month when his children return to school. "The country is heading toward bankruptcy," he said, referring to shops that have already closed down in Hamra Street, one of the top shopping districts in Beirut. On a walk through downtown Beirut in August, when restaurants would normally be packed with expatriates and tourists, the depression is easy to spot. Some restaurants have closed while others offer 30 percent discounts. Some shops are offering up to 70 percent

off. Maamoun Sharaf, owner of a money exchange shop, said the delays in forming the Cabinet have had bad effects, but the situation had been bad even before that. "This year the economy did not do well. Even our business dropped by 50 percent," he said. Political disagreements have led to a delay in the implementation of loans and grants pledged at the CEDRE economic conference in Paris held in April. International donors pledged \$11 billion for Lebanon but the donors sought to ensure the money is well spent in the corruption-plagued country. Despite the crisis, the state last year approved a salary scale for civil servants that will cost an extra \$800 million annually. The government imposed new taxes to fund the new salary structure, increasing the burden on a population that has already been suffering under high taxes with no return in the form of stable services such as water and electricity. Indeed, daily electric outages are a common occurrence. Central Bank Gov. Riad Salameh has released statements assuring people that the currency is stable. Some Lebanese banks have been raising interest rates on the local currency for clients who agree to change U.S. dollars to Lebanese pounds and put them in blocked accounts for a specific period of time. The move is backed by the Central Bank, which has been boosting its foreign currency reserves. "There is a government paralysis in Lebanon but right now the Lebanese pound is safe. The Central Bank is trying to have dollars to boost its reserves in case of any economic crisis," economist Kamel Wazne said. He acknowledges, however, that the economy "is not well" and warns that state institutions and financial policies cannot be activated in the absence of a government. Prime Minister-designate Saad Hariri, who has lobbied Western governments for assistance, is bogged down with the details of forming a government and divisions among politicians over whether Lebanon should resume normal contacts with Syrian President Bashar Assad's government. Hariri's pro-Syria opponents have been pressuring him, saying normal contact should be resumed to help boost exports from Lebanon through the Naseeb border crossing with Jordan, which was recaptured by Syrian troops from rebels in July. Hariri is a harsh critic of Assad and is against having normal relations with the Syrian president. "The international community stood by Lebanon and what is needed now is for Lebanon to stand by Lebanon and to form a Cabinet quickly, because this delay negatively affects the economy," said Wazne, who also referred to the debt that is expected to grow in 2018 by \$5 billion due to a huge budget deficit.