

Voices on the Ground: Lebanon's Economic Crisis

Security implications for Lebanon's ongoing liquidity emergency.

RETHINKING SECURITY IN THE 2020s SERIES – POLICY BRIEF

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1. INTRODUCTION

Lebanon has been in a severe economic crisis since October 2019. This state of the Lebanese economy was a result of the public sector debt; the over lending of banks rendering them essentially bankrupt; a lack of economic growth and political corruption.¹ Further, inflation rates in the country already riddled with corruption has severed the trust of the international community who have hesitated to provide aid, and the Lebanese lira, once pegged to the US dollar, is now nearly worthless. The security implications of this ongoing economic crisis could pivot the country into greater unrest, or even full out civil war. Competing forces in the country must work together, along with help from the international community in order to bring Lebanon out of its economic catastrophe. The Brussels International Center had the opportunity to discuss the impact of the economic crisis with locals in Beirut through a series of interviews. The end to this disaster is not in sight and will require the assistance of the international community and local actors to ensure economic bailouts and new policies moving forward, to stabilize the economy.

¹ <https://www.mei.edu/publications/lebanons-economic-crisis-tragedy-making>

2. A TICKING CLOCK: HEADING FOR CATAclySM

After 18 months of economic turmoil and bouts of civil unrest, there is still no solution to the chaos that has engulfed Lebanon, toppling the economy. There is growing fear that the country will run out of resources, including food, fuel and clean water.² More than 50 percent of the country is living below the poverty line and can no longer afford basic goods³, which even still can be hard to come by as the economic crisis has forced shops and businesses to close or stop selling their goods due to the inflation rate. Inflation has caused many to turn to the black market in order to obtain dollars, which for weeks in 2020 were not available in Lebanon, as banks were withholding the dollars from citizens.⁴ Some haven't had access to money in the bank since 2019.⁵ The fear that exists among the population given the volatility of the currency from one day to the next has resulted in panic buying, a lack of supply and people are watching their savings disappear before their eyes, according to a Beirut local whose family has lost nearly all of their savings and can no longer access funds in the bank.⁶ "It is an impossible situation, those who are still employed work for little pay. We are still better off than those who are unemployed, but not by much" they noted.⁷ Nearly 40 percent of the country is currently unemployed, and a greater majority of the population is living below the poverty line.⁸

2.1 Unearthing the Growing Inequalities

Amongst the fear and chaos of the economic crisis, there are winners and losers amongst the civilian population as well as the political elite. Those who were well enough connected to the bankers ensured that their money was safe, instead of being liquidated or (as rumours go) smuggled offshore to other bank accounts.⁹ The

² Noted from an interview conducted on 28 April. 2021. Interviewer chose to remain anonymous.

³ <https://en.royanews.tv/news/27793/2021-05-10>

⁴ <https://www.voanews.com/middle-east/lebanons-plea-skeptical-expats-come-visit-bring-cash>

⁵ <https://www.middleeastmonitor.com/20210227-lebanese-cannot-access-money-in-banks-since-late-2019/>

⁶ Noted from an interview conducted on 28 April 2021.

⁷ Noted from an interview conducted on 28 April 2021

⁸ <https://apnews.com/article/middle-east-lebanon-coronavirus-pandemic-financial-markets-beirut-a415a44f56c1f4ef11ef75208bd82d53>;

<https://english.alaraby.co.uk/english/news/2021/3/17/lebanons-economic-collapse-in-numbers>

⁹ <https://www.middleeastmonitor.com/20210227-lebanese-cannot-access-money-in-banks-since-late-2019/>

political and social elites continue to enjoy freedoms that the majority, living in poverty, do not. However, this all comes at a cost. The devaluation of the dollar coupled with the inflation rates have rendered the currency completely useless, opening up black markets for currency exchange throughout the country.¹⁰ Since the hard onset of economic collapse, the Lebanese diaspora struggle to want to send money back into the country, as the black market economy dissuades those who transfer money in through banks or money transfer systems.¹¹ “Many Lebanese families rely on their families, part of the larger diaspora living abroad, to send remittances back. With the ongoing economic crisis and the crash of the lira in Lebanon, people have become hesitant” an interviewee noted.¹² The country has asked the diaspora to send their remittances, which has faced pushback, as well as encouraging people to visit the country to stimulate the economy.¹³ Foreign dollars are not entering the country because of the economic crisis, which fuels the vicious cycle of a lack of dollars, lack of investment and further unsettling the domestic economy. The large international population in Lebanon has been severely impacted by the international crisis and as a group, the foreign workers in Lebanon send roughly \$2 billion to their home countries on an annual basis, taking more money away from the Lebanese economy.¹⁴

Without dollars readily available in society, citizens grapple with the decision of leaving Lebanon to find work that will give a living wage. “As young people, many of us have degrees, but we can’t find work here in Lebanon. It’s gotten to the point where I have thought about moving abroad to find work in my field” an interviewer, with a double Master’s degree stated.¹⁵ Both the educated and the uneducated struggle to find work, but the number of skilled laborers that are unemployed could result in a “brain drain” as the upper class, educated members of society struggle to find work and are looking internationally for opportunities.¹⁶

¹⁰ <https://www.atlanticcouncil.org/blogs/menasource/weapons-or-food-lebanons-armed-forces-risk-going-hungry/>

¹¹ Noted from an interview conducted on 22 April 2021.

¹² Noted from an interview conducted on 22 April 2021.

¹³ <https://www.csmonitor.com/World/2020/0701/Come-with-dollars-Lebanon-PM-asks-its-expats-to-visit-home>

¹⁴ <https://www.aljazeera.com/news/2021/4/11/lebanons-economic-crisis-and-its-domestic-workers>

¹⁵ Noted from an interview conducted on 22 April 2021.

¹⁶ Noted from an interview conducted on 22 April 2021. Confirmed here:

<https://www.voanews.com/middle-east/lebanon-faces-brain-drain-wake-beirut-disaster>

The economic crisis has been exacerbated further by the COVID-19 pandemic, which has hit Lebanon particularly hard and has completely depleted the tourism industry, a significant source of income for the country.¹⁷ As citizens contemplate how to put food on the table, how to find jobs, or where their next moves will be, they are also struggling with a security crisis, due to the lack of public investment and available salaries towards the armed forces. There is now growing insecurity on top of the turbulent economic situation.

3. IMPENDING SECURITY IMPLICATIONS

Throughout the last 20 months of economic turmoil, Lebanese people have taken to the streets to express their anger against the government, its corruption and the economic crisis that has plunged the country into the disaster. There are now serious security concerns that are spreading throughout the country, as the military is running out of funds which could result in the disengagement of the Lebanese Armed Forces (LAF), who are no longer able to carry out their role in ensuring security.¹⁸ Furthermore, there are fears over the role of Hezbollah in this economic crisis. The group controls large areas of the country politically and is attempting to build a parallel economy for their Shiite supporters.¹⁹ Security, in times of economic crises must be maintained, as the population struggles to support itself; losing security exacerbates the emergency.

3.1 Lebanese Armed Forces: Running out of a Job

The government of Lebanon can no longer guarantee consistency in the security state. The LAF have lost value in their salaries from the economic crisis, which has devalued the monthly wages from roughly \$800 per month in 2019 (prior to the economic downturn) to \$120 today.²⁰ Military personnel cannot pay their bills under these conditions, which mirrors the sentiments of millions of people around the country who now find fractional value in their salaries and wages. As people around the country struggle to pay their bills with their low salaries, crime and civil unrest

¹⁷https://www.researchgate.net/publication/343988080_Lebanon's_Economic_Crisis_and_Covid-19_Impact_on_Domestic_Tourism_Market

¹⁸ <https://www.atlanticcouncil.org/blogs/menasource/weapons-or-food-lebanons-armed-forces-risk-going-hungry/>

¹⁹ <https://www.terrorism-info.org.il/en/hezbollahs-response-to-the-economic-crisis-in-lebanon/>

²⁰ <https://www.theglobeandmail.com/world/article-lebanons-economic-crisis-piles-strain-on-army-security-forces/>

continue to rise.²¹ The longer the country persists in this state of crisis, the longer the security forces do not have access to sufficient financial compensation, and the longer they go without access to necessary resources like food and fuel, the greater the security threat becomes.²² As security forces, in and beyond the LAF struggle to make ends meet and put food on the table, the international community must ensure the continued support of these forces through aid in food and financial compensation. Since the government of Lebanon is not guaranteeing a living wage for the LAF, countries like France and the United States have offered their ongoing assistance.²³

3.2 Hezbollah: Pushing the Country to Collapse

The sectarian divisions that exist in Lebanon between Shiites, who are the main supporters of Hezbollah, and the Christian, Sunni and other religious minorities has created divisions, allowing for a sort of new class of citizens to emerge. Hezbollah is providing support to those groups who support their political cause by offering access to grocery stores at a lower cost, in hopes of gaining political leverage and support against the internationally recognized government.²⁴ In order to shop at many of these stores, people must have a Hezbollah issued card, a sort of cash-card system. Systems like these are undermining the fragile economy and forcing people to choose between their livelihood through illicit activity, as the state continually fails to support the Lebanese people and their safety.

Hezbollah's mission to support the population, while likely politically motivated, reveals the true chaos of the situation in Lebanon, as neither the political/militant group or the government of Lebanon have complete control over the people, and continue to fight for influence, while undermining the safety and wellbeing of the Lebanese citizens. Additionally, the political elites are disengaged from the population, in all political parties, they carry out activities that are directly harmful to the Lebanese people, putting their livelihoods and safety at risk. The government

²¹ <https://www.reuters.com/article/lebanon-crisis-security-crime-int-idUSKBN2B11D3>

²² <https://www.ft.com/content/69e1e040-d8d7-494e-9a90-6f02f68f0bf7>

²³ [https://www.state.gov/u-s-security-cooperation-with-lebanon/;](https://www.state.gov/u-s-security-cooperation-with-lebanon/)

<https://www.reuters.com/article/lebanon-crisis-security-crime-int-idUSKBN2B11D3>

²⁴ <https://www.france24.com/en/middle-east/20210416-in-crisis-hit-lebanon-hezbollah-opens-supermarkets-for-eligible-shoppers>

needs reform, which is likely the only way out of the economic crisis.²⁵ Foreign actors and governments are increasingly hesitant to assist Lebanon in their ongoing crisis given the growing influence that Hezbollah has, and further, the lack of reform that has taken place. With the current system, and the role of political and business elites in the country, reform at a government level will be difficult, despite ongoing protests. Key allies such as the European Union, France and the United States will continue to advocate for the role of the LAF in securing the territory of Lebanon and ensuring the sovereignty of the nation, meaning a decreased influence from militant political parties like Hezbollah.²⁶

The economic model that is currently in place favours the political elite, but as the economy continues to plummet, even the wealthy will suffer; ultimately, the economic system might have to crash even more before the elite groups recognize that reform is necessary. This is where the international community could be of the greatest help, by providing loans and financial assistance, alongside the necessary support to the political system.

4. FINDING A WAY OUT: INTERNATIONAL AND NATIONAL RESPONSIBILITIES

In March 2020, Lebanon missed its payment of \$1.2 billion Eurobond.²⁷ The limited foreign exchange reserves that the country held onto were mostly within the form of liquid assets, and were set aside for international trade, importing goods and, when necessary, injecting dollars into the domestic economy.²⁸ It is not currently known how much of these reserves are still left (if any), due to the lack of transparency from the Banque du Liban (National Bank of Lebanon). Without these reserves, imports on vital goods such as medicine, oil and food will continue to drop, as is being seen currently.²⁹

²⁵ <https://carnegie-mec.org/2021/01/14/lebanon-s-political-economy-from-predatory-to-self-devouring-pub-83631>

²⁶ <https://www.defensenews.com/opinion/commentary/2020/04/01/lebanon-must-act-against-hezbollah-to-retain-americas-military-aid/>

²⁷ <https://www.bbc.com/news/world-middle-east-51785690>

²⁸ <https://som.yale.edu/blog/part-i-of-crisis-in-lebanon-economic-free-fall-imf-negotiations-and-beirut-explosion>; <https://today.lorientlejour.com/article/1253769/lebanese-lira-drops-to-record-low-as-political-stalemate-persists.html>

²⁹ <https://abcnews.go.com/International/wireStory/hungry-lebanese-protest-worsening-economic-crisis-76491383>; <https://twitter.com/lunasafwan/status/1391657828021047296?s=12>

The political turmoil in the country has created a situation where no decisions can be made, including the terms to a vital International Monetary Fund (IMF) bailout plan.³⁰ As of May 2021, no agreement has been reached with the IMF to help lift Lebanon out of their economic crisis. The IMF and the key stakeholders in Lebanon are in a deadlock in negotiations. The IMF will not proceed without consensus from the political actors in Lebanon as well as a coherent fiscal framework and a detailed plan to revitalizing the banking sector, and Lebanon is hoping for the IMF to take initiative before they must put together these plans.³¹ Movement has not been made on this in months. Meanwhile, the country spirals further into economic chaos, the currency continues to fall, and unemployment and poverty continue to rise.³²

5. CONCLUSION

The economic crisis that has plagued Lebanon since 2019 will persist, as long as there is no political will amongst the elites and decision makers in Lebanon. The solution to the economic crisis does not rest on the support of the international community, but rather domestically, with the creation of a stable government and the implementation of a long-term economic reform. The safety and wellbeing of the Lebanese people should not be a political or sectarian matter. The security sector is fragile and is only threatened further by the poor economic conditions in the country, fuelling a cycle of insufficient security, public anger, unrest and an inability to provide basic goods and services to the population. The shortages of goods in the country could result in a major humanitarian crisis, which cannot be resolved through international assistance, but rather economic reform and the development of a new, stable government.

³⁰ <https://www.ft.com/content/69e1e040-d8d7-494e-9a90-6f02f68f0bf7>

³¹ <https://www.reuters.com/article/lebanon-crisis-peg-int-idUSKBN29D2TT>

³² <https://www.mei.edu/publications/lebanons-economic-crisis-tragedy-making>

RECOMMENDATIONS

- To the Lebanese Government:
 - Guarantee that security officials can carry out their work with proper salaries and access to basic commodities.
 - Undertake steps towards government reform. This will affirm continued support from international allies and further a growing trust in the Lebanese government.
- To Foreign Governments that offer Security Assistance to Lebanon:
 - Continue to provide financial and materiel support to Lebanon through official channels. These contributions can directly support the LAF in their role of providing security to Lebanese citizens.
 - Support Lebanon in their transition to establish a stable government without leveraging financial or security assistance against the safety of civilians, and the unsafe environment that currently exists. The safety of civilians must be prioritized.
- To the International Community, specifically financial institutions such as the IMF:
 - Ensure diligence in the creation of an economic package that provides support to the people of Lebanon, without bolster the power of the political elites. This should include the initiation of an economic bailout to alleviate the immediate economic concerns of the current crisis.
 - Implement a financial accountability framework in Lebanon which holds the government to its obligations under international financial deals and packages.

About the BIC

The BIC is an independent, non-profit, think-and-do tank based in the capital of Europe that is committed to developing solutions to address the cyclical drivers of insecurity, economic fragility, and conflict the Middle East and North Africa. Our goal is to bring added value to the highest levels of political discourse by bringing systemic issues to the forefront of the conversation.

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