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From Bad to Worse: The Aftermath of Israel's War on Lebanon

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The Economic Studies Unit

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Introduction

Events have moved fast since late September, almost a year into Hezbollah's so-called "support front" operations in solidarity with Gaza, when Israel launched full-scale hostilities against Lebanon. The war has compounded the effects of one of the worst economic and financial crises in modern times, which had already been pummeling Lebanon since the final quarter of 2019.

There is often a blurred line between the destruction caused by the latest war and the impact of the economic and monetary crises, but it is clear that the widespread devastation that has hit Lebanon – resulting in displacement, deaths and injuries, and the loss of agricultural land and property – will make it impossible, in the short to medium term, to return even to the grim status quo before the war.

The flare-up of hostilities into a full-scale conflict coincided with the end of the summer holidays, the start of the new school year, and the beginning of the harvest season, with farmers preparing the ground for the next. This placed a heavy burden on the Lebanese, depleting their savings and slashing their already weakened purchasing power.

One might compare the current situation to the impact of the 2006 war between Israel and Hezbollah. However, the damage caused by that conflict was geographically limited, and the fighting lasted just 33 days. The destruction this time around is on a much greater scale, and comes on the back of far harsher economic conditions leading up to the war, along with a more turbulent domestic political climate and the worst security and geopolitical situation in decades.

The situation today casts serious doubts over Lebanon's ability to recover yet again, repair the damage, and reset its economy to enable it to return to growth. These and other questions may not find clear answers even among stakeholders themselves, who are fully aware that past experiences – and their inability to come up with realistic solutions to previous, less deadly crises – offer little hope for the Lebanese economy and its prospects moving forward.

1. Total Losses

By the end of November 2024, the destruction had extended to at least 37 villages in Lebanon, destroying some 40,000 housing units in the south alone,¹ equivalent to a quarter of the region's total housing units.² These losses are likely to be better assessed now that the ceasefire is underway, yet also likely to increase if Israel continues to bomb the border areas and various parts of the Bekaa Valley and Baalbek. Moreover, many buildings that have been partially destroyed or damaged by

1 "The enemy wipes out most streets in 37 towns; more than 40,000 housing units completely destroyed," National News Agency, 5/11/2024, accessed 29/11/2024, <https://acr.ps/1L9zQaU>.

2 "Israel has Damaged or Destroyed nearly a Quarter of Buildings in Lebanon's South," The Washington Post, accessed on 23/11/2024, at: <https://acr.ps/1L9zQdW>; Maya Gebeily & Milan Pavicic, "Israeli Campaign Leaves Lebanese Border Towns in Ruins, Satellite Images Show," Reuters, 29/10/2024, accessed on 23/11/2024, at: <https://acr.ps/1L9zQbh>.

bombardment nearby are no longer fit for habitation due to safety and logistical concerns. In addition, infrastructure, educational institutions, hospitals, health institutions, and public institutions have been severely damaged by Israel's aggression.³

According to World Bank estimates, by mid-November, the war had cost Lebanon some \$8.5 billion, including \$3.4 billion in physical damage and \$5.1 billion in economic losses. Gross Domestic Product for 2024 has contracted by an estimated 6.6 per cent, meaning the Lebanese economy will have shrunk by as much as a third over the past five years. As a result, joblessness has soared: some 166,000 Lebanese have lost their jobs, which translates to a total loss of \$168 million in income.⁴ This means that remittances from abroad are more important than ever for the Lebanese, especially as many rely on what they receive from abroad to make up for their losses due to the fighting, or to cover additional costs due to the conflict. Since 2002, Lebanon has been one of the most remittance-dependent countries in the world; by 2023, it received approximately \$5 billion a year from overseas, accounting for 31 per cent of GDP.⁵

On top of this comes the destruction of agricultural areas – primarily olive groves – which account for about 80 per cent of the GDP of Lebanon's South Governorate and provide a living for about 110,000 Lebanese households, according to the United Nations Development Programme (UNDP).⁶ A preliminary assessment by the Lebanese Ministry of Agriculture suggested that some 70 per cent of the agricultural sector had been damaged as of mid-November.⁷ Some 10,800 hectares of agricultural land has been damaged by fire,⁸ along with direct shelling and damage to agricultural infrastructure (especially irrigation systems), devastating land with an estimated market value of \$1.2 billion. This land forms the main and in many cases the only source of income for a large number of farming households, which have now been stripped of their livelihoods.

2. Inflation and Cost of Living

Challenges relating to the movement of goods have had a major impact on markets in Lebanon, which rely heavily on imports. The bombing of Lebanese Syrian land border crossings suspended overland and import and export traffic, while air traffic has largely shut down – with the exception

3 For example, Israel's targeting of the city hall of Nabatiyeh on October 16.

4 World Bank, "Lebanon Interim Damage and Loss Assessment (DaLA)," November 2023, accessed on 22/11/2024, at: <https://acr.ps/1L9zPts>.

5 World Bank, "Personal Remittances, Received (% of GDP-Lebanon)," accessed 22/11/2024, at: <https://acr.ps/1L9zQgi>.

6 UNDP, "Gaza War: Preliminary Findings on the Socio-Economic and Environmental Impact on Lebanon," 18/12/2023, accessed 29/11/2024, at: <https://acr.ps/1L9zQdo>. Lebanon relies on three main sources of foreign funding: remittances, foreign direct investment (FDI) and development aid. Since the financial crisis, foreign investment has fallen, and aid has been mainly allocated to the displaced and a few other projects, meaning that remittances have become the country's main source of foreign income.

7 "Al-Hajj Hassan: 70% of the agricultural sector was directly or indirectly affected," National News Agency, 21/11/2024, accessed 29/11/2024, at: <https://acr.ps/1L9zPVM>.

8 Jaafar, Hadi, "The 2024 Israeli War on Lebanon: A Devastating Blow to Agriculture and the Environment," American University of Beirut, 3/11/2024, accessed 29/11/2024, at: <https://acr.ps/1L9zPrL>.

of the national carrier Middle East Airlines. The director of the Port of Beirut announced in October that operations at the port were underway as normal.⁹

The UNDP has estimated that Lebanon's trade volume fell by 20 per cent following the disruption of land crossings, while transportation and communication activities decreased by 10 per cent due to the decline in airport traffic. The total output of the services sector (namely, tourism) decreased by about four per cent.¹⁰ Meanwhile, the decline in agricultural harvests and the high demand for goods and services, especially in areas hosting an influx of displaced people, have all contributed to rising prices on top of the already runaway inflation afflicting Lebanon since 2019.¹¹

That said, falling supply and declining purchasing power may help explain somewhat reduced inflation throughout the war; the Central Statistics Administration reported a 0.18 per cent decrease in the Consumer Price Index (CPI) in September 2024 compared to August,¹² while prices grew by just over two per cent in September-October 2024, compared to 15.7 per cent between in October 2023 and October 2024.¹³

In contrast, the exchange rate of the Lebanese pound (on the informal market) has remained largely stable, at 89,000 to the US dollar, for more than a year,¹⁴ which raises its own questions over what actually determines the exchange rate.

3. The Displacement Crisis

Preliminary estimates indicate that as much as a quarter of the entire Lebanese population has been displaced by the latest violence,¹⁵ which means that about 1.2 million people were forced to leave their homes and flee to "safer" areas,¹⁶ including nearly 188,000 who sought refuges at the 1,173 facilities nationwide that were converted into displacement centres.¹⁷

9 "Beirut Port is Operating Normally for Imports and Exports: Itani to NNA," National News Agency, 9/10/2024, accessed 29/11/2024, at: <https://acr.ps/1L9zQbj>.

10 UNDP, "Economic and Social Consequences of the Escalating Hostilities in Lebanon, Rapid Appraisal," 23/10/2024, accessed 29/11/2024, at: <https://acr.ps/1L9zPSK>; The World Bank, "Lebanon Economic Monitor: in the Grip of a New Crisis," Autumn 2023, accessed 29/11/2024, at: <https://acr.ps/1L9zPoJ>.

11 In 2023, annualised inflation hit 221 per cent.

12 Republic of Lebanon, Presidency of the Council of Ministers. Central Bureau of Statistics. Record Consumer Prices in Lebanon and Governorates for September 2024. Accessed 29/11/2024. <https://acr.ps/1L9zPph>.

13 Republic of Lebanon, Presidency of the Council of Ministers. Central Bureau of Statistics. Record Consumer Prices in Lebanon and Governorates for October 2024. Accessed November 29, 2024. <https://acr.ps/1L9zQbi>.

14 "Lebanon Market Rates Today," Lira Rate, accessed on 25/11/2024, at: <https://lirarate.org>.

15 World Bank Group, Population, Total - Lebanon, accessed on 25/11/2024, at: <https://acr.ps/1L9zQb4>.

16 "Emergency Committee Report says 1.2 Million Displaced, 234,023 Syrians Repatriated," National News Agency, 2/10/2024, accessed 29/11/2024. <https://acr.ps/1L9zPjV>.

17 "48th Emergency Committee Report: 300 raids in 48 hours, 70% of agricultural sector affected by the aggression," National News Agency, 18/11/2024, accessed 29/11/2024, at: <https://acr.ps/1L9zQdv>. See also: The International Organization for Migration, "Displacement Tracking Matrix, Mobility Snapshot, Round 64," 20/11/2024, accessed 29/11/2024, at: <https://dtm.iom.int/reports/mobility-snapshot-round-64-21-11-2024>.

Those displaced from targeted areas such as the south, Beirut, or the Bekaa, whether under direct bombardment or in response to orders by the Israeli army to evacuate, headed towards areas that were considered safer, either nearby or further up the country such as Jounieh, Tripoli, or even Akkar in the north.

One major issue associated with this wave of displacement is the limited resources of host areas and the fact that housing families for long periods of time is beyond the capacities of many facilities, especially those intended for tourism during specific seasons, or for family or other non-commercial use. In addition, the host areas are already densely populated, meaning they have a relatively small surplus of housing units, which contributed to high rents.

Rents vary from one area to another and depend on the size of each housing unit and its level of furnishing; some tenants have been asked to pay rent for several months in advance or sign rental contracts of a year, a burden that many cannot afford. This comes on top of the costs of the start of the school year, for which some displaced people have had to pay out twice. Some families have resorted to staying with friends or relatives in safer areas, or have left Lebanon entirely. Photos have shown IDPs sleeping in their cars or in public squares in spite of the autumn cold and rain.

The influx of people to already cramped areas has also increased the wear and tear on already worn-out infrastructure, raising the costs of operations and leading to potentially life-threatening accidents.¹⁸

The war has also sparked both cross-border displacement of Lebanese and reverse displacement of Syrian refugees. The Lebanese government says over 225,000 Lebanese citizens were displaced and 385,000 Syrians returned to Syria,¹⁹ which has been ravaged by its own civil war since 2011, while 33,138 Lebanese citizens sought refuge in Iraq.²⁰ However, bombardment of the border crossings between Lebanon and Syria has halted this overland movement.

4. Another Blow to the Health Sector

The war killed at least 3,645 people and wounded more than 15,000.²¹ The high cost of hospitalization and pressures on the health sector, especially in cases where many people have been injured in one area or at the same time – such as the 5,000 wounded in a single moment when Israel detonated hundreds of Hezbollah pagers – has led to serious injuries, including permanent disabilities and

18 For example, an incident in which electricity generators and stored mazout fuel was set alight in the Hamra area of central Beirut, on November 9, 2024.

19 “48th Emergency Committee Report: 300 raids in 48 hours, 70% of agricultural sector affected by the aggression,” National News Agency, 18/11/2024, accessed 29/11/2024, at: <https://acr.ps/1L9zQdv>. See also: “Lebanon: Medical Aid Arrives in Beirut Amid Intensifying Israeli Strikes,” UN News, 4/10/2024, accessed 29/11/2024, at: <https://acr.ps/1L9zPpm>.

20 UNHCR, “Update on Displacement from Lebanon to Iraq,” 10/11/2024, accessed 29/11/2024, at: <https://acr.ps/1L9zPRA>.

21 Lebanese Ministry of Public Health, “3,645 dead and 15,355 wounded since the start of the aggression, yesterday’s toll was 62 dead and 111 wounded,” 22/11/2024, accessed 29/11/2024, at: <https://acr.ps/1L9zPq4>.

disfigurements. Pressure on the health sector is growing, as many hospitals and health facilities in conflict areas have been bombed out of service, while areas hosting displaced people have seen a corresponding increase in demand, placing a heavy burden on the sector, which was already suffering from a shortage of medical and health personnel.

This is on top of Lebanon's pre-existing financial crisis since 2019, which has resulted in a shortage of medicines and supplies, as well as Israeli bombing of hospitals, fire stations and ambulances.²²

5. The Complex Process of Reviving Tourism

Israel's assault on Lebanon began at the end of the country's summer tourist season. In September 2024, Lebanon recorded 15.3 per cent fewer visitors compared to the same month of 2023, notably due to the reduction in the number of daily flights. Several countries urged their citizens to leave Lebanon, and had already issued travel advisories as early as July 2024. Some airlines suspended all their flights after the evacuation of foreign citizens, and at the time of writing, MEA remained the only airline operating flights in and out of Beirut International Airport. Those flights that were in operation only serviced a limited number of countries, leading to a massive increase in ticket prices.

Lebanon's tourism sector is therefore set to remain hostage to a bleak security and political situation for the foreseeable future.

6. New Pressures Deepen the Challenges Facing the State

Since 2019, Lebanese public institutions have been operating at the bare minimum, and on a part-time basis, undermining the functioning of the public sector and hindering the government's ability to provide services that had already been in decline for years, if they were available at all. The burdens of the war (its impact on service delivery, damage to infrastructure, etc.) will increase pressure on the government budget, especially given Lebanon's inability to meet its financial obligations. The government already relies on foreign aid, which is insufficient to meet its needs.

It is impossible to assess the impact of the war on agricultural lands and forests while the fate of this fragile ceasefire remains unknown. Reconstruction will involve huge costs and effort, including for cleaning up the debris resulting from the fighting. The question of what to do with that debris also raises further environmental and health issues in a country where environmental policies are non-existent.

The toxic effects of the bombs dropped on Lebanon will not simply dissipate in the short term; rather, they will have an impact on citizens' health and medical costs. Lebanon already has one of the highest rates of cancer in the Middle East. The environmental cost of the war is difficult

22 Human Rights Watch, "Lebanon: Israeli Attacks on Medics Apparent War Crimes / Israel's Allies Should Suspend Arms Sales," 30/11/2024, accessed 29/11/2024, at: <https://www.hrw.org/news/2024/10/30/lebanon-israeli-attacks-medics-apparent-war-crimes>.

to estimate immediately, but what is certain is that the contamination will reach Lebanon's groundwater, air, and soil.

Given the limited capacity of individuals in light of the crisis, unless Lebanon can formulate quick and sustainable solutions (which is unlikely), and foreign countries show an interest in rebuilding the country (which is also unlikely), the "temporary" wave of displacement will become a permanent crisis and a serious issue, compounding Lebanon's economic deterioration, while those with the means to emigrate will do so.

Among those who choose to stay or return, even those who have taken refuge with relatives in Lebanon, or their children abroad, will eventually need homes in which to restart their lives. This necessitates structural surveys on buildings that may have been damaged or their foundations shaken, which could endanger their inhabitants unless they are repaired. In extreme cases, residents may have to evacuate buildings that risk collapsing on their occupants. Israel has made no secret of its use of new types of bombs, especially heavy ones,²³ and some locations were hit more than once, causing tremors reminiscent of earthquakes in nearby areas of Lebanon and Israel.²⁴

As concerns the agricultural sector, reinvestment and rehabilitating the land will require a lot of time and money, especially as it takes many years to establish the crops that farmers need in order to pay off their debts and cultivate their land. Considering the time and financial resources needed, as well as the huge losses they have already incurred, many farmers will likely abandon both the sector and their land. Given the current economic situation in Lebanon, a considerable number of these will likely opt to seek a better life overseas.

To make matters worse, Israel has used internationally banned weapons such as white phosphorus, incendiary bombs,²⁵ and cluster bombs. The chemicals used in these arms mean that the land is unrecoverable and that forests will not grow back for the foreseeable future.

Finally, it should be noted that education in Lebanon, at all levels, has been deeply harmed by waves of lesson suspension since October 2019, months of remote education during the coronavirus pandemic, and the loss of specialized, experienced staff due to job changes or emigration.

Some schools have been turned into shelters, and teaching has been suspended in conflict-stricken areas. All of these factors have jeopardised the quality of education, the expected future incomes of Lebanese citizens, and the demand for Lebanese human capital in the diaspora, all of which will drive down remittances.

23 Israeli statements, particularly after the bombing of the Dahiya district of Beirut, see: Allegra Goodwin, Eve Brennan & Gianluca Mezzofiore, "US-Made 2,000-Pound Bombs Likely Used in Strike that Killed Hezbollah Chief Nasrallah, CNN Analysis Shows," CNN, 30/9/2024, accessed on 24/11/2024, at: <https://acr.ps/1L9zPp6>

24 "Israeli Strikes Trigger 'Earthquake Fears' in Lebanese Border Region," Arab News, 26/10/2024, accessed on 24/11/2024, at: <https://acr.ps/1L9zPOK>.

25 Human Rights Watch, "Lebanon: Israel's White Phosphorous Use Risks Civilian Harm / Airburst Munitions Used Unlawfully in Populated Areas," 5/6/2024, accessed 29/11/2024, at: <https://acr.ps/1L9zPO0>.

Conclusion

The Lebanese government has proven incapable of finding solutions to the post-2019 economic collapse, which has been compounded by successive economic, banking, and financial crises and a collapse in living standards. In this context, Israel's war on Lebanon risks being the final straw for many Lebanese: the domestic economic and financial situation cannot compensate for their losses, nor is the regional and global political atmosphere as sympathetic to Lebanon as it was after previous wars, such as in 2006.

For many individual Lebanese citizens, the destruction and death has had a significant impact on incomes. Many families will struggle to return to their homes and businesses, and will be pushed into a spiral of poverty, with all the economic and social consequences that this entails.

It is well-known that Beirut airport remains a vital conduit for Lebanese travellers, imports, and exports, meaning that any more disruption to its operations will further strangle the entire country and raise the risk of food insecurity. In addition, the quality of goods in Lebanese markets has declined, especially since the 2019 crisis. Over time, this may increase the cost of health care. The majority of Lebanese citizens will have no choice but to eke out whatever living they can, or to emigrate, despite a global economic crisis and the falling employability of Lebanon's human capital due to the poor quality of education in recent years and the resulting decline in Lebanon's main source of income, foreign remittances.

At the macro level, economic recovery is an increasingly distant dream. The current situation and the track record of successive governments in managing the national economy, suggest that the Lebanese economy is so disintegrated that it will be hard for it to rebound. Given that five years into the economic crisis there has been no successful attempt at recovery, this crisis is likely to take on new dimensions, on top of its current distorted economic foundations, even if reconstruction funding can be secured. This means that sustainable economic growth will remain a distant prospect, leaving Lebanon vulnerable to political blackmail.

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