LEBANON

Lebanon’s economic freedom score is 51.1, making its economy the 154th freest in the 2019 Index. Its overall score has decreased by 2.1 points, with declines in scores for judicial effectiveness, trade freedom, and investment freedom far outweighing a modest improvement in labor freedom. Lebanon is ranked 12th among 14 countries in the Middle East and North Africa region, and its overall score is below the regional and world averages.

Political deadlock in 2018 interrupted policy implementation, delaying all but the most pressing financial legislation. Notwithstanding the stark divisions of different confessional groups’ vested interests, Lebanon has a free-market tradition and a strong history of private commercial activity. In addition, legislation on improving the tax and regulatory environment for hydrocarbons development to attract foreign investment and on public–private partnerships to address serious infrastructure shortcomings has been approved. Nevertheless, the economy performs weakly because of ongoing fiscal and current-account deficits.

BACKGROUND: Prosperity built on Lebanon’s position as a regional center for finance and trade has been punctuated by political turmoil. Since 1975, the country has been destabilized by civil war, Syrian occupation, and clashes between Israel and Hezbollah, the powerful Iran-backed Shia Islamist movement. Syria’s army withdrew in 2005 after its government was implicated in the assassination of Lebanese Prime Minister Rafiq al-Hariri. Sectarian tensions have hindered political cooperation. In a 2016 compromise to break political deadlock, Saad al-Hariri of the Sunni-dominated Future Movement became prime minister. Elections in May 2018 left Hezbollah’s coalition with a majority of parliamentary seats and brought substantial losses for Hariri’s party, but contentious negotiations to form a new government dragged on for months.

ECONOMIC FREEDOM SCORE

RELATIVE STRENGTHS:
Tax Burden and Trade Freedom

HISTORICAL INDEX SCORE CHANGE (SINCE 1996):
-121

CONCERNS:
Fiscal Health and Government Integrity

FREEDOM TREND

QUICK FACTS

POPULATION: 4.5 million
GDP (PPP): $87.7 billion
1.2% growth in 2017
5-year compound annual growth 1.5%
$19,439 per capita

UNEMPLOYMENT: 6.6%
INFLATION (CPI): 4.5%
FDI INFLOW: $2.6 billion
PUBLIC DEBT: 152.8% of GDP

2017 data unless otherwise noted. Data compiled as of September 2018
Laws to protect real private property are respected, but enforcement of intellectual property rights is weak. The nominally independent judiciary is susceptible to political pressure. The courts are ineffective and struggle to enforce judgments. Corruption is reportedly pervasive in government contracts (primarily in procurement and public works) and in taxation, elections, judicial rulings, and real estate registration. Anticorruption measures are poorly enforced.

The top personal income tax rate is 20 percent, and the top corporate tax rate is 15 percent. The overall tax burden equals 13.8 percent of total domestic income. Over the past three years, government spending has amounted to 28.5 percent of the country’s output (GDP), and budget deficits have averaged 8.0 percent of GDP. Public debt is equivalent to 152.8 percent of GDP.

The overall freedom to establish and run a business remains constrained by the poor regulatory environment. The cost of starting a business and completing licensing requirements is high. The labor market, undermined by political instability, continues to be stagnant. High public debt, deficits, and tightening financial conditions have led the IMF to encourage the government to reform electricity subsidies.

The combined value of exports and imports is equal to 70.0 percent of GDP. The average applied tariff rate is 3.0 percent. The poor regulatory systems discourage dynamic trade and investment flows. Lebanon’s financial sector used to be a regional hub, but ongoing political insecurity has subjected it to massive uncertainty and strain. About 50 percent of adult Lebanese have access to an account with a formal banking institution.