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LETTER DATED 10 SEPTEMBER 1990 FROM THE PERMANENT REPRESENTATIVE OF
LEBANON TO THE UNITED NATIONS ADDRESSED TO THE SECRETARY-GENERAL

Upon instructions from my Government and further to our note Ref. 211/90 dated 31 August 1990 (S/21686), I have the honour to enclose herewith the text of the memorandum concerning the economic and financial impact on Lebanon resulting from the Gulf crisis.

I would be grateful if this memorandum would be given urgent consideration by the Security Council in view of alleviating the great economic hardship that Lebanon is facing.

(Signed) Dr. Khalil MAKKAWI
Ambassador
Permanent Representative

Annex

Memorandum concerning the economic and financial impact on Lebanon resulting from the Gulf crisis

The present crisis in the Gulf area and the application by Lebanon of the United Nations Security Council resolutions imposing an economic embargo on Iraq and Kuwait are having a prejudicial impact on the economy of Lebanon and aggravating the very precarious conditions derived from 15 years of disturbances in this country.

STATUS QUO ANTE

Before the onset of the crisis, the Lebanese economy relied heavily for survival on the incomes derived from its exports, a major proportion of which went to the Gulf area, Iraq and Jordan. The interruption of exports to these destinations is now depriving Lebanon of a major source of income.

About 25-30 per cent of Lebanon's working population had emigrated in the past three decades to the Gulf area, Iraq and Jordan. The remittances transferred by this emigrant community supported the hundreds of thousands of families who remained back home. For a country that imports 70 per cent of its needs, these remittances went a long way towards offsetting the deficit in the balance of trade which has been a constant feature of the Lebanese economy.

From the fiscal standpoint, the Lebanese government covers its expenditures almost entirely through deficit financing as it is unable to collect revenues.

Generally speaking, the physical and institutional infrastructure is in a state of grave deterioration, thus, the Gulf crisis does not only reduce a source of income or close a market. In war-torn Lebanon, its negative effects have a sadly all-encompassing impact.

THE POSITION TODAY

Material Losses and Problem of Returnees

The Lebanese communities in Kuwait and Iraq are estimated at 40,000 and 20,000 respectively. The overwhelming majority of

these communities is engaged in business, crafts, contracting and the professions.

The yearly remittances of the Lebanese community in Kuwait were estimated in 1989 at \$US 150 million. Data on remittances from the Lebanese community in Iraq are not available.

The financial assets (bank deposits) of the Lebanese community in Kuwait are conservatively estimated at \$US 500 million, while its physical and business assets run into hundreds of millions of US dollars.

One of the severe sequels of the Gulf crisis is that those communities which, at one time, were a great asset to the national economy, are now returning "en catastrophe" to Lebanon where they are bound to augment the mass of the unproductive segment of society. This problem is occurring at a time when thousands of Lebanese families are fleeing Liberia due to the civil war which recently broke out in that country.

Trade-related Losses

Lebanese exports to the Gulf area, Iraq and Jordan had represented approximately 40-50 per cent of all Lebanese exports over the past few years. The disruption of these exports is having a sharp effect on employment and incomes, exacerbating in the process an already fairly critical state of things. This situation has been especially difficult in respect of those trades which over the years, had become entirely geared to meeting the market requirements of the Gulf area, Iraq and Jordan. The resulting losses to Lebanon are estimated at \$US 250 million per annum.

The oil imports alone will cost the Lebanese economy an extra \$US 300 million per annum over the normal level of disbursements in this domain.

The services sector in Lebanon has been traditionally oriented to servicing the Gulf countries, Iraq and Jordan. The quasi paralysis in this sector, which followed the invasion of Kuwait, is now costing Lebanon approximately \$US 250 million per year. Losses in other sectors are estimated at \$US 50 million per year.

In the realm of trade credits, reliable banking authorities put the losses incurred by the Lebanese at \$US 150 million as a minimum.

Monetary impacts

A particular significant sequel of the Gulf crisis on Lebanon is reflected by the steep devaluation of the national currency which lost within four weeks after the invasion of Kuwait about 46 per cent of its value (see chart). This came as a result of anticipated and actual losses of remittances and exports as well as of a sudden rush on the conversion of Lebanese pound assets into hard currencies, which occurred simultaneously with a sizeable flight of capital basically caused by a further deepening of lack of confidence in the country's prospects.

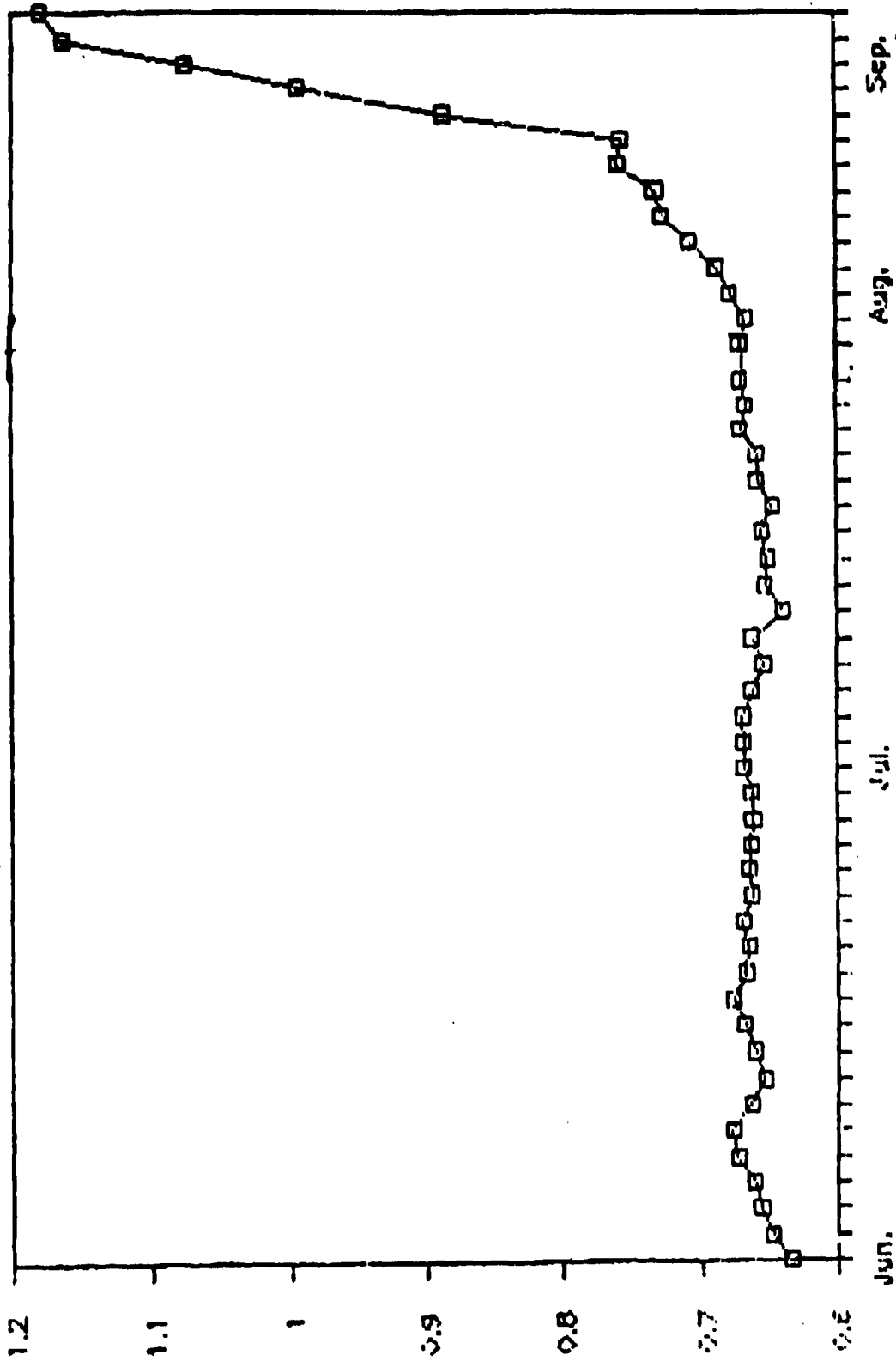
This dramatic drop in the value of the Lebanese pound was immediately translated into a staggering flight of prices of commodities and services, which is understandable in a country that imports almost three quarters of its needs. Coming on top of the hyper inflationary trends hitherto underway, this development has wrought havoc with the system of wages, prices, incomes, etc. and has pushed the country to the limit of despair and desolation. It is now feared that, unless contained very soon, this cascade of misfortunes could lead Lebanon in a not too distant future to a state of awesome social, economic and possibly political upheavals.

SOURCES

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THE LEBANESE FOREIGN EXCHANGE MARKET

LL/\$ (JUL. ---> SEPT. 6, 1990)



(Thousands)
LL/\$ RATE

□ CLOSING PRICES