The Increasing Role and Importance of Remittances in Lebanon

Financial inflows from the diaspora have always played a significant economic and social role in the lives of the Lebanese people. However, their importance has grown even more in recent years. This report delves into the determinants of these inflows as well as their socio-economic impact amidst the current financial crisis. The report distinguishes between two main types of inflows that have been identified, worker remittances (mostly familial aid from migrants abroad) and non-resident deposits (NRDs), which are investment-based. By closely examining the sources of inflows and their potential use by recipient families and sectors, the report provides valuable insights that enhance the economic interaction of the diaspora with the domestic economy.

The report is structured into five main sections to provide a comprehensive understanding of remittances. It begins by (1) defining and measuring diasporic financial inflows, (2) which informs an accurate assessment of their impact and contribution to the national economy. From there, it (3) identifies their key macro and micro determinants, and (4) explores the changes in their socio-economic impact pre and post the financial sector collapse. the report (5) concludes with clear recommendations to streamline remittance flows and optimize their social and economic impact on households.

Between 2010 and 2021, expatriates' inflows – which includes remittances and NRD - in Lebanon ranged between $6 and $11 billion. The change in inflows can be attributed two major factors: One is the consistent emigration, which indicates a failure of successive governments to address brain drain and implement policies that promote inclusive growth and job creation; two, fluctuations in oil prices given that many emigrants reside in oil-producing countries, particularly within the Gulf Cooperation Council (GCC).

One of the report's key findings is the enduring significance of remittances to Lebanon's economy. Despite the economic and financial collapse, remittances continue to serve as a vital source of support, amounting to approximately $6 to $7 billion per year. Lebanon stands out in the MENA region with the highest remittances-to-GDP ratio, reaching 37.8% in 2022. Additionally, Lebanon ranks as the third-highest recipient of remittances in terms of value, preceded only by Morocco and Egypt.

While the size of remittances remains steady, the cost of transferring them to Lebanon has increased significantly. With an average remittance cost of 11%, which is higher than the global average of 6% and that of neighbouring MENA countries, this presents a challenge. As a result, there has been a shift from formal to informal channels, such as in-person cash handouts, for receiving remittances. These informal inflows are captured by the formal BDL figures and constitute around 70% of the inflows during the crisis, based on estimations of airport flows of Lebanese expatriates.

The report also sheds light on the impact of remittances before and after the 2019 financial crisis. Previously, remittances were primarily used to provide familial support, enabling households to invest in human capital and access basic services through cash and food assistance. However, due to the currency depreciation and soaring inflation, remittances have now become a crucial social safety net for a relatively modest share if Lebanese families, ensuring access to basic goods and services and mitigating the erosion of purchasing power and income.

Beyond their economic impact, the report highlights the potential role of the Lebanese diaspora in reversing development losses and shaping the country's future. While Lebanese expatriates are already contributing to local development initiatives, their funds could be channelled more efficiently to address community needs and maximize the impact of remittance inflows with the establishment of an appropriate governing framework.

To optimize the benefits of remittances, the report recommends a number of improvements: 1) understanding better the magnitude and frequency of financial flows through better definitions and accurate data; 2) restoring confidence in the Lebanese economy by improving the business environment; 3) developing transparent mechanisms for channeling diaspora funds into local investments (diaspora bonds could be an option); 4) facilitating and promoting alternative and affordable solution for these transfers such as digital solutions; and lastly 5) working on reducing the cost of transfers being currently one of the highest in the world (11% for Lebanon against a global average of 6%).