Contents

		Page
Prefa	ace	vii
ı	Introduction	ı
II	Some Economic Consequences of the Civil War	3
	Consequences of the War for Output	3
	How Fast Can Lebanon Recover?	6
	Does It Matter for Growth What Type of Capital Was Lost?	9
Ш	Impact of the War on Budgetary Performance, Structural Weaknesses of the Budget, and Reform Measures	П
	Overview of Fiscal Performance During and After the War	11
	Structural Weaknesses of the Budget	15
	Measures to Address the Structural Weaknesses	17
IV	Currency Substitution and Dollarization	19
	Origins and Extent of Dollarization	19
	Capital Flight and Repatriation	20
	Advantages and Disadvantages of Dollarization	22
	Policies to Achieve, and Consequences of, De-Dollarization	23
V	Estimating Money Demand in Lebanon	25
	Dollarization and the Definition of Money	25
	Behavior of Velocity	25
	Specifications of Money Demand	26 27
	Unit Root Tests for Stationarity	28
	Money Demand: Cointegration Results and Policy Implications Conclusions	30
	Conclusions	
۷I	Exchange Rate Developments and Their Relationship to Inflation	32
	Evolution of the Exchange Rate	32
	Long-Term Relationship Between Exchange Rate Movements	
	and Inflation	36
	Short-Term Dynamics of Inflation and the Exchange Rate and the Two-Way Relationship Between Them	40
Text	: Tables	
Sect	ion	
11	1. Measures of GDP	4
	2. Population and GDP	5

III	4. 5. 6.	Convergence of Actual to Steady-State Real Per Capita Incomes Summary of Public Sector Operations (In billions of Lebanese pounds) Summary of Public Sector Operations (In percent of GDP) Summary of Public Sector Operations (In percent of total) Fiscal Indicators for Selected Middle Eastern Countries	9 12 13 14 16
IV	8.	Currency Substitution	20
	9.	Average Inflation Tax	23
V	10.	Phillips-Perron Tests for Stationarity, 1964–93	28
۷I		Exchange Rate Indices and Inflation	33
		Legal Minimum Wages Regressions of the Differential Retrieval Laboratory and M.S.	36
	15.	Regressions of the Differential Between Lebanese and U.S. Inflation Rates on Changes in the LL/US\$ Exchange Rate	20
	14.	Dickey-Fuller Unit Root Tests, 1951–93	38 38
	15.	Johansen Cointegration Test, 1975–93	39
	16.	Dickey-Fuller Unit Root Tests, 1989–92	39
	17.	Johansen Cointegration Test, 1989–92	40
Cha	rts		
Sect	ion		
Н	1.	GDP and Population Indices	6
	2.	Per Capita Real GDP, 1964–2010	7
III		GDP and Fiscal Performance	11
IV	4.	Currency Substitution and Dollarization	21
	5. 6	Dollarization and Exchange Rate Movements	21
	7	Real and Nominal Cross-Border Deposits Cross-Border Deposits (As present of S.	21
	٠.	Cross-Border Deposits (As percent of foreign exchange reserves minus gold)	22
	8.	Cross-Border Deposits (As percent of M2, including foreign	22
		currency deposits)	22
V	9.	Velocity of Monetary Aggregates	26
	10.	Monetary Aggregates	26
	11.	Composition of Total Liquidity	27
VI	12.	Volatility of the Lebanese Pound/U.S. Dollar Exchange Rate	34
	13.	Real and Nominal Effective Exchange Rates, 1964–93	35
	14.	Real and Nominal Effective Exchange Rates, 1989–93	35
	15.	Lebanon and Selected Other Countries: Nominal Effective Exchange Rates	26
	16.	Lebano I and Selected Other Countries: Real Effective Exchange Rates	36 37
	17.	Price Level and Exchange Rates, 1951–80	37
	18.	Price Level and Exchange Rates, 1975–93	37
	19.	Price Level and Exchange Rates, 1989–94	38
	endic		
1	Exc	change and Trade System	42
II		tistical Tables	44
	A1. A2.	and Thank and Thomas and Thank and Thomas an	44
	A2. A3.	The total maleutors of Sectoral Economic Activity	46
	A3.	- stipatifier i rice mulees	46
	A5.	or contra dovernment operations	47
	A6.	Bank of Lebanon Balance Sheet	48
	A7.	Commercial Banks' Balance Sheet	49 50
	A8.	Monetary Survey	50 51

A9. Factors Affecting Lebanese Pound Component of Domestic Liqui	dity 51
A10. Distribution of Residents' Monetary Assets	52
All. Commercial Banks' Claims on Private Sector Classified by	-
Economic Activity	52
A12. Discounts and Yields on Three-Month Treasury Bills	53
A13. Commercial Bank Interest Rates on Lebanese	
Pound Transactions, 1989–94	54
A14. Summary of the Balance of Payments	55
A15. Composition of Industrial Exports	56
A16. Destination of Exports	56
A17. Source of Imports	57
A18. Exchange Rate of the Lebanese Pound	58
A19. Nominal and Real Effective Exchange Rates of the Lebanese Pour	
ibliography	60

The following symbols have been used throughout this paper:

- ... to indicate that data are not available;
- to indicate that the figure is zero or less than half the final digit shown, or that the item does not exist;
- between years or months (e.g., 1991-92 or January-June) to indicate the years or months covered, including the beginning and ending years or months;
- between years (e.g., 1991/92) to indicate a crop or fiscal (financial) year.

"Billion" means a thousand million.

Minor discrepancies between constituent figures and totals are due to rounding.

The term "country," as used in this paper, does not in all cases refer to a territorial entity that is a state as understood by international law and practice; the term also covers some territorial entities that are not states, but for which statistical data are maintained and provided internationally on a separate and independent basis.