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IMF: Lebanon needs structural reform

An International Monetary Fund report reiterated the need for fiscal and structural reforms in Lebanon in a bid to boost revenue and reduce expenditure. The report was issued by IMF's executive board on the overall performance of the Lebanese economy."Directors encouraged the authorities to push forward the necessary structural reforms to remove growth bottlenecks and help external rebalancing ... [that] should include, in particular, the implementation of fundamental reforms in the electricity sector, including a gradual elimination of costly subsidies and an expansion of production capacity, while minimizing the impact on the vulnerable population.""Directors also encouraged the authorities to redouble their efforts to improve governance and reduce corruption, and called for further improvements to the statistical system," the report said.The IMF has repeatedly drawn attention to the country's financial and economic problems, underlining the need to crack down on corruption and restructuring the electricity sector. It added Lebanon's economic growth remains low, estimated at about 1 percent to 1.5 percent in 2017 and 2018."The traditional drivers of growth in Lebanon are subdued with real estate and construction weak, and a strong rebound is unlikely soon. Going forward, under current policies growth is projected to gradually increase towards 3 percent over the medium term."Inflation spiked to 5 percent in 2017 as the cost of oil imports rose and U.S. dollar weakened," the report said.It commended, however, the role played by the central bank in reducing the fiscal deficit in 2017."The headline fiscal balance posted an improvement in 2017 to a deficit of 7.3 percent of GDP, partly due to one-off revenues from taxing higher bank profits arising from Banque du Liban's financial operations undertaken in 2016. Parliament approved the 2017 budget in October 2017 and the 2018 budget in March 2018 ... the first approved budgets in 12 years," the report said.It added the IMF predicts the 2018 fiscal deficit will increase relative to 2017 and will contribute to a further increase to the already high public debt, which was over 150 percent of GDP at the end of last year. It also noted customer deposits inflows to Lebanon slowed down in 2017."Deposit inflows, which finance Lebanon's twin deficits, slowed down in 2017 mostly due to some limited outflows during the November 2017 political crisis."The BdL has increased interest rates through its monetary and financial operations, especially on local currency products, to support inflows and arrest dollarization," the IMF said.It stressed a political settlement in Syria would surely help the Lebanese economy grow in the future: "The upside potential for growth is significant. Early resolution of the conflict in Syria would benefit Lebanon. The outcome of the recent CEDRE investment conference, where international organizations and donors supported the government’s Capital Investment Program, represents an opportunity for growth-enhancing reforms and investment.“But large vulnerabilities and downside risks remain, stemming from regional political developments as well as domestic events that might affect deposit flows,” the report said.The executive board agreed with the suggestion that the Lebanese economy continues to suffer from slow GDP growth.They noted that the economic situation in Lebanon continues to be difficult with high public debt, twin deficits, and tightening financial conditions. Spillovers from the conflict in Syria, including large numbers of refugees, have affected growth and strained public infrastructure and services.“The directors commended the authorities for their generous efforts in hosting refugees and agreed that Lebanon needs continued international support to address this challenge,” the report said.The executive directors encouraged the Lebanese government to use the current political momentum and financial pledges secured at the recent investment conference to undertake ambitious policies and reforms to tackle internal and external imbalances, improve investor confidence, and raise growth prospects.