

The Daily Star

February 14, 2018

Lebanon's economic situation still fragile: IMF

The International Monetary Fund warned that Lebanon's economic situation remains fragile due to slow GDP growth and rising public debt. "The overall economic situation remains fragile with prolonged low growth, public debt rapidly rising beyond 150 percent of GDP, and a persistent current account deficit of more than 20 percent of GDP. To preserve confidence in the system there is an urgent need to establish a policy framework that supports macroeconomic stability," IMF said in its staff report on Lebanon. The report is a prelude to the expected IMF's Executive Article IV. An IMF team has visited Lebanon recently and held talks with the finance minister, the Central Bank governor and leading bankers and economists to assess the financial and economic situation and recommend proposals to improve the situation. The team said the government needs to tackle many pending dossiers in order to shore up the economy and improve GDP. "The fiscal policy needs to be immediately anchored in a consolidation plan that stabilizes debt as a share of GDP and then places it on a clear downward path. Any scaling up of public investment will need to be grounded in such an adjustment plan and must be preceded by strengthening the public investment management framework," the report said. It added that the financial stability risks should be contained, including giving incentives to banks to gradually strengthen their buffers and by taking further actions designed to strengthen credit quality. "Lebanon should also promote sustainable growth and improve equity and competitiveness, the electricity sector needs to be reformed and the anti-corruption regulatory framework should be enhanced and made effective," the IMF said, pinning high hopes on the prospects of raising new funds for Lebanon to improve the country's infrastructure. "The authorities are planning to initiate a large capital investment program. Lebanon continues to host around 1 million registered Syrian refugees (about a quarter of the population). The aims of the CIP are to raise Lebanon's growth and also alleviate the burden on both host communities and refugees. The authorities have indicated that they plan to raise up to \$16 billion (32 percent of GDP) over the next decade by tapping into the World Bank's Concessional Financing Facility, public-private partnerships, and other facilities that provide grants or long-term concessional lending," the report said. It added that a conference in Paris to support investment in Lebanon is planned for April. The report said that the Central Bank may resort to increasing interest rates or use part of its assets to meet the Lebanon's funding needs. "Without a significant reduction in the economy's funding needs or an increase in deposit inflows (and given the global interest rate outlook), the Banque du Liban will need to increase interest rates or use its sizable gross reserves to meet the funding needs of the economy," IMF said. It expressed hope that the 2018 budget and preparations for the Paris conference could provide key platforms to initiate much-needed economic reforms. The IMF also argued that Lebanon needs to take quick and decisive action to reduce the annual deficit at Electricite du Liban. "Electricity reform and eradicating corruption are long-standing priorities. The electricity sector has not only been widely identified as Lebanon's most pressing bottleneck, but it also remains a significant drain on the budget. A more reliable service by EDL would reduce the need for expensive private generators, even after tariff increases, and contribute to more efficiency in the economy at large," IMF said. It added that the government acknowledges that corruption is widespread and is associated with large costs.

“Addressing corruption and improving governance should be an essential component of Lebanon’s reform agenda.” It praised the role played by BDL, which was able to preserve stability. “BDL helped preserve stability but also created market distortions. BDL maintains the fixed exchange rate, helps finance the government by offering long-term instruments to banks, keeps interest rates steady at moderate levels by underwriting both the T-Bill and Eurobond primary markets, provides economic stimulus by a range of quasi-fiscal subsidy schemes, addresses weak banks and subsidizes deposit rates to lengthen their maturity,” IMF said. “While the range of these operations has allowed BDL to play a critical role in maintaining the current economic model and effectively manage crisis episodes, these policies are also associated with costs. “They have resulted in the creation of new reserve money, weakened BDL’s balance sheet and created a different set of financial stability risks by exposing banks to significant sovereign exposure and maturity mismatches,” the report said. The IMF made some recommendations to crack down on corruption. “The anti-corruption regulatory framework should be made effective. The regulatory framework to fight corruption needs to be significantly enhanced and made operational. This should include passage of legislation to protect whistleblowers; [and] making the illicit wealth law more effective by making the asset declaration system for senior public officials (and their family members and associates) public,” the IMF recommended.