

Lebanon cannot wait for Godot, policymakers should retire

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Lebanon is not the first country to face an economic crisis and will not be the last. It is however among the first countries in modern history where its policymakers have failed to apply the very basic textbook requirements to deal with the crisis despite all our human economic capital and opportunities presented on a silver platter. Our policymakers' incompetence has blocked implementation of basic reforms and actions required to stabilize the economy, trigger a recovery and save Lebanon's economy and citizens. After 14 months of Lebanon's economic collapse, we are still at ground zero of dealing with our multi-dimensional crises. By the end of October 2019, the multitude of crises was finally clear to most citizens. The banking sector decided to close its doors as offshore dollar liquidity dried up, dollar-rationing became official, banking sector inflows stopped, continued Lebanese pound depreciation (since the summer) while the government's dollar financing stopped months before and Eurobond prices continued to collapse reaching distressed, default levels.

To recap, over the past 14 months our policymakers missed, overlooked, and/or blocked the following key actions and opportunities:

- Capital control circular or law (October 2019). Not having capital controls in place stressed the banks' liquidity and the Central Bank had to repay billions of dollars of international obligations, and caused favoritism in transfers
- Government economic recovery plan (May 2020). The plan was approved by the government and nearly approved by the IMF at staff level but was shelved as divergence between the IMF and BDL on the quantum and accounting of its losses and the Parliamentary Finance Committee proposed another "plan"
- The IMF and required reforms (June 2020). Serious negotiations with the IMF stopped in July 2020 given the divergence on losses and their accounting treatment between the government & BDL and the Cabinet resignation in August 2020.
- Forensic audit (November 2020). Various excuses were used to avoid the audit despite the legal establishment's views on its durability.

All the above wasted valuable time and prevented the stabilization of the economy which would have required addressing the three dimensional crises: government financials, banking sector losses and Central Bank losses.

This resulted in the following key developments:

1. Freefall of the LL FX rate and hyperinflation.
2. De facto deposit haircuts in excess of 50-67 percent.
3. "Lirafication" of deposits as dollar deposits are being repaid in local currency.
4. GDP collapse with total loss of confidence.
5. Poverty rates exceeding 55 percent (according to the World Bank) and probably heading higher in 2021.
6. Deterioration of government services including health care and infrastructure.
7. Citizens' loss of hope and mass immigration.

Any stabilization and recovery effort will have to start and end with reforms, coupled with an IMF program that bridges the forex needs until the economy re-adjusts via the required economic, fiscal and monetary reform as agreed upon in a Lebanon recovery economic plan.

Thus the IMF program should be viewed as a bridge to reform while the solution is with the Lebanese policymakers. It is therefore essential that a recovery plan is finalized as soon as possible and not shelved, postponed nor ignored as has been the case since May 2020 when it was torpedoed by the parliamentary committee, the banks, the Central Bank, a weak government support for the plan and a weak level of sponsorship by the Finance Ministry.

Unfortunately the government did not lobby and discuss the plan enough with the various local policymakers especially the Central Bank.

The Lebanese have been misguided about the IMF process, having been told that "if there is no government in place, an economic recovery plan will not be updated and thus no IMF negotiations."

This is not accurate as BDL Gov. Riad Salameh holds Lebanon's chair at the IMF making him, in theory, the primary point of contact for the IMF. Banque du Liban, as an institution with 2,000+ employees with many experienced professionals, can easily update the required economic plan in coordination and agreement with the Finance Ministry staff. These are two functioning entities that should be working on the most pressing issue for Lebanon; a Lebanese economic recovery plan that leads to an IMF program and reforms. The obvious solution is to form a professional committee from senior, experienced BDL Finance Ministry staff as soon as possible that transcends political parties with the responsibility and mandate to perform the following tasks:

1. Prepare and update the economic recovery plan.
 2. Draft all required laws of the proposed plan.
 3. Restart IMF negotiations with the objective of receiving a preliminary IMF staff-level approval on the economic recovery plan while an IMF board-level submission will be expected to await the Lebanese government's final approval once a government is formed
 4. To coordinate closely with the Parliamentary Finance Committee for the required laws to execute the reform plan (the April 2019 plan required more than 20 new laws).
 5. Lobbying with various policymakers and interest groups for the proposed plan to gain the required parliamentary support.
- Having a professional committee in place optimizes time value. As and when a government is formed, the updated plan can be finalized swiftly. In case a government is not formed, the caretaker government can be given the required legal authority (by Parliament) to enact the plan with execution supervised by the committee.

The proposed solution of forming a committee will face many challenges such as: interference of political parties in member appointments to dilute reforms to protect their public franchise, long execution timeline of the development of the committee's legal framework and the definition of the committee's mandate will not be straight forward

If successful, this committee can be transformed into a legal entity at a later stage that is responsible for the oversight and execution of the reform plan, irrespective of the government in power, until all reforms are executed over a 3 to 5-year period.

Such a committee is crucial for Lebanon's economic recovery and probably should be the most important body for Lebanon's economic survival over the next years.

With the economic collapse, coronavirus pandemic and the Beirut explosion, the Lebanese en masse have suffered beyond imagination and should not wait anymore for a Godot that will never arrive. Our policymakers have failed us again. It is time for them to retire and allow an experienced team to take us out of zombie land.

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