A JOINT STATEMENT ON THE IMF'S ARTICLE IV REPORT

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THE POLICY INITIATIVE

On June 29, 2023, the International Monetary Fund (IMF) published its first Article IV report on Lebanon since the onset of the financial crisis in 2019. The report provides an in-depth assessment of Lebanon's macroeconomic situation, stressing, once again, the urgent need for reform. The Fund clearly highlights the cost of the status quo, which it estimates has deepened the financial sector losses by $10 billion since March 2020, and delineates a reform path to stabilize the country's economy. The principles that define Article IV and its approach to addressing the current crisis are consistent with the equitable stabilization framework, which was adopted by the Lebanese government in its first recovery plan in April 2020 as well as its Staff-Level Agreement in April 2022.

Building on the Article IV findings, which we are in an overall agreement with, we stress the following points to guide the IMF's future engagement with Lebanon and inform Lebanese stakeholders:

1

The political economy analysis of the IMF wrongly assumes that the lack of reforms is the result of political bickering between Lebanese political parties. In fact, the report states that the absence of reforms is due to a fragmented parliament, the absence of a functional government, and the presidential vacuum.

However, Lebanon's political elites and their respective parties have held a united position against stabilization reforms since the onset of the crisis. In fact, the ruling parties sabotaged the reform program that was proposed by Diab's government in April 2020 when they used the parliament's fact-finding committee that represented all major political parties.

The political class's resistance to reform is not new but is well documented given their dismal track record over 20 years in implementing the reforms they proposed in Paris 1 (2001), Paris 2 (2002), Paris 3 (2007), the CEDRE conference (2018), and more recently the 3RF (2020).

Although the political class has sabotaged the reforms to protect its privileges vis-à-vis Lebanese society, it has nevertheless projected the image to the international community that it seeks reforms. It has tasked Deputy PM Saadeh Al Shami to lead the IMF negotiation but has stripped him of any authority or capability to realize any policy change and hence has effectively set the negotiation team up to fail.

2

The IMF's "status-quo" projection does not describe a catastrophic future but a current lived reality that is morphing into new dire "dis-equilibrium." The Fund assumes a deterioration of economic indicators within an economy maintains its pre-2019 nature and structure.

The reality is that the current Lebanese economy is fundamentally different from its pre-crisis model. The current crisis model is one that is deleveraged from the financial sector, yielding extreme market distortions, both in the private sector as well as in the labor market. Highly indebted firms have realized profits through the repayment of loans at advantageous exchange rates, driving out competition (the Fund estimates these “subsidized” loans at $15 billion).

In line with these distortions, the labor market has gotten increasingly irregular and informal, wiping out traditional sectoral lines, as formal public and private sector workers are forced to seek opportunities in the informal sectors to secure a livable income, thereby creating and growing a shadow economy.

The de facto dollarization has led to an artificial sense of stability that is exclusive to the country’s high dollar earners while it exacerbates the loss of trust in the local currency, which would hamper future monetary reform.

3

The IMF’s policy discussions fall short on addressing critical equality and social welfare issues. While the fund’s self-described fiscal consolidation plan would in fact be a fiscal expansion given the current levels of public spending, the revenue and expenditure policies should seek to secure more ambitious social and equality goals.

First, while the approach to tax reform is one that addresses future redistributionary concerns, it does not tackle the legacy of inequality that exists due to the pre-crisis economic model, or the inequality that has resulted from unethical arbitrage opportunities enabled by elite-serving policies and insider trading during the crisis. Ignoring these inequality concerns which have led to extreme levels of wealth and income concentration would hamper inclusive growth prospects.

Moreover, the Fund's approach to social spending is limited to targeted social assistance programs that suffer from major exclusions rather than emphasizing the need for social insurance programs and an expansion of categorical assistance which would have broader social impact.

4

Revitalizing state institutions and, by extension, activating their accountability function is a critical yet understated step in the stabilization process. The IMF's estimation of a US$10 billion increase in the size of the losses is only further evidence of the destructive and nefarious complicity of the ruling class, BDL's Central Bureau, the Parliamentary Finance and Budget Committee, and the Association of Banks, to socialize the losses in the financial sector.
As such, accountability should be the linchpin of the stabilization

process, playing a core role in the restructuring of the banking sector, activated by real banking secrecy reform, as well as judicial independence.

The banking secrecy law passed in 2022 despite intense local political resistance falls woefully short of enabling accountability, and it is imperative to address its fundamental gaps, specifically regarding the issue of de-anonymizing accounts.

We urge the IMF to maintain vigilance to prevent the dilution of reforms and ensure the proper adoption and implementation of legislation.

The IMF should also solidify the principles of equality and accountability as fundamental pillars in addressing the losses in the financial sector. Additionally, the Fund should continue to broaden its consultations with civil society actors and other stakeholders, given the political resistance to reform within formal political institutions.

Furthermore, donors should work to strengthen state institutions as primary allies against elite capture, rather than circumventing them in their interventions and programming in Lebanon. Restoring state functions and enabling accountability in both foreign and domestic judiciaries would play a pivotal role in driving desired change.

Local reformist elements, including civil society actors, political organizations, syndicates, and citizens, should build and support local voices and work towards a shared domestic agenda that sets the right narratives and priorities for the country's future.