IMF Statement for CEDRE Conference

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May 18, 2018

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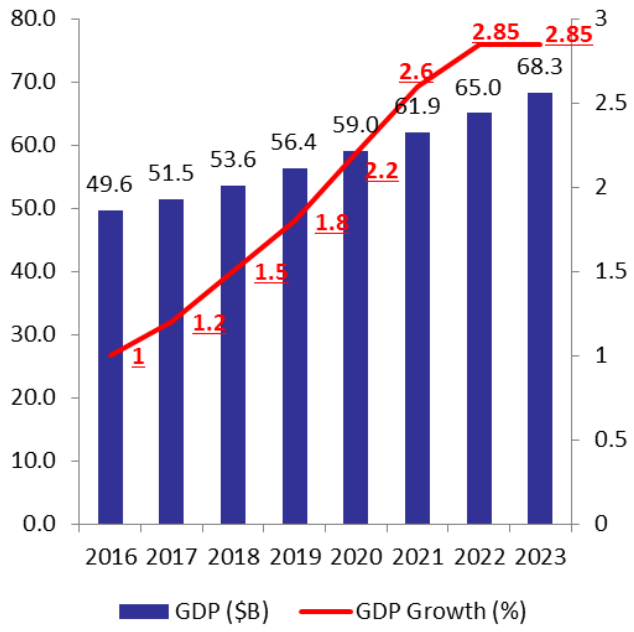
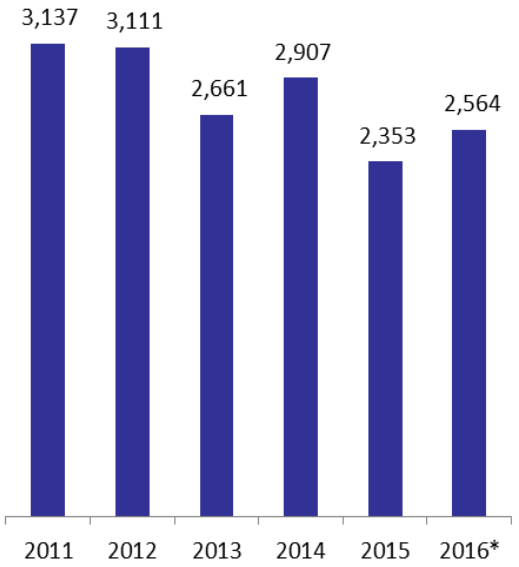
Despite favourable recent developments, Lebanon continues to face vulnerabilities and mounting challenges. The conflict in Syria and the resulting mass influx of refugees into Lebanon have affected the Lebanese economy, its infrastructure and social services. In fact, Lebanon is facing slow economic growth accompanied by a large current account deficit as well as high public and external debt. In details, real GDP is estimated to grow at an incremental 1-1.5% in 2017 and 2018. Moreover, the spillovers in the region have deterred foreign investments in the country. This was translated in the drop in FDIs in the past few years, specifically after the start of the Syrian war in 2012. As for the current account deficit, it remains large mainly due to the increasing trade deficit which reached $16.21B in 2017.

Nominal GDP and Real GDP Growth



FDI inflows ($M)



Source: IMF, UNCTAD

Given that the infrastructure of Lebanon was over utilized during the previous ten years, especially with the influx of more than 1.5M Syrian refugees, it became a necessity to revamp this infrastructure. Since renewing the infrastructure will cost more than $10B over the next 6-7 years, the CEDRE conference, conducted on April 6 2018, came at a time of great need. During the conference, the Lebanese government shared its Capital Investment Plan (CIP), which entails all proposed large-scale ongoing and new projects that aim to develop and enhance the efficiency of eight of Lebanon's essential sectors: Transport, Water and irrigation, Wastewater, Electricity (energy), Telecom, Solid waste, and Tourism, & Industry. As a result, Lebanon secured $10.2B in soft loans and $800M in grants. The country is projected to spend $1.5B to $1.6B per year starting H2 2019. Worth mentioning, the funding received in CEDRE will increase the level of total debt; however, debt service will remain unchanged as the grants would cover the minor interests on the loans.

During the conference, the IMF issued a statement that highlighted medium-term projections on Lebanon's debt to GDP ratio and economic growth as the Capital Investment Plan (CIP) is implemented. In order to shed the light on the importance of structural and fiscal reforms, the IMF conducted several scenarios. Results revealed that the CIP program will enhance Lebanon's economic conditions, only if it is accompanied by economic reforms.

Baseline Scenario:

In the baseline scenario, economic performance and financial inflows are expected to remain weak. The baseline scenario assumes no macroeconomic policy changes. The IMF defines its baseline scenario with GDP growth of 1% in 2016 and government debt to GDP of 151% which will increase to 2.9% and 178%, respectively, in 2023. Under this scenario, debt is unsustainable and inflation is projected to drop to 2.5%, while the current account deficit will remain large.

Baseline Scenario with fiscal and structural reforms:

In this scenario, the IMF assumes Lebanon implements a reform agenda focusing on three major areas. In details, on the fiscal front, over the medium and long term, a primary surplus of 5% of GDP is needed for the debt to become sustainable. As such Lebanon would increase its VAT, reinstate taxes on mineral products, and decrease the electricity subsidies. On the monetary front, BDL would rely on conventional interest rate policies in order to secure higher foreign exchange inflows and would encourage banks to engage in forward-looking capital planning in line with their risk profiles. Moreover, in terms of structural reforms, the government would invest in the electricity sector, one of the main burdens on the Lebanese economy, and would increase the electricity tariffs to eliminate the subsidies.

Under this scenario, real GDP growth is expected to reach 3.4%, and total government debt to GDP is expected to drop to 146%. Moreover, this scenario is expected to increase foreign investments, as depicted by the increasing gross reserves as opposed to a plunge in the baseline scenario.

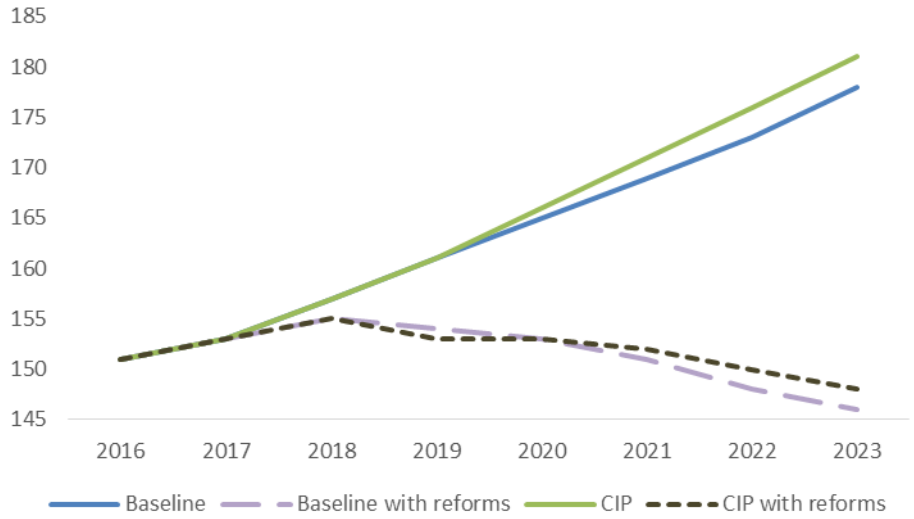
CIP Implementation without policy reforms

As per the IMF, if the CIP was implemented under unchanged policies, in 2023, the Lebanese economy can only generate a limited output from the additional capital made available by the CIP due to existing inefficiencies in investment spending. Hence, by 2023, the Debt/GDP ratio will rise to 176% instead of 173% under the baseline scenario, and Real GDP growth would reach an annual 3.1% as opposed to 2.9% under the baseline scenario.

CIP Implementation with fiscal and structural Reforms:

If the previously mentioned reforms were implemented in addition to the CIP, Lebanon would witness a significant economic growth in the next 5 years, and the country would reap the full benefits of the program. However, the weight of the soft loans would still weigh down on the economy and would keep the Debt/GDP among the highest in the world. The Debt/GDP would reach 148% if the CIP and reforms are implemented as opposed to 146% if only reforms are undertaken. Moreover, real GDP growth would reach an annual 4% if the CIP and reforms are implemented as opposed to 3.4% if only reforms are undertaken

Public Debt (as a % of GDP) under the different scenarios



Source: IMF

The Lebanese government's vision of increasing the level of public and private investment, ensuring economic and financial stability through fiscal adjustment, undertaking essential sectoral reforms and cross-sectoral reforms, and developing a strategy for the reinforcement and diversification of Lebanon's productive sectors could materialize after the implementation of the CIP as well as the new structural and fiscal reforms. In fact, Lebanon is expected to witness an economic expansion of almost 5% by 2023.

Moreover, the numbers reveal that Lebanon's debt burden will remain bearable and the country would ensure an economic growth with only fiscal and structural reforms undertaken. Therefore, it is important to highlight that if reforms are not implemented in a timely manner, the CIP spending pass through to the economy will be limited. With its burden on the total public debt being significant, the combined positive and negative impacts of the CIP will shift to the negative side as the debt to GDP ratio remains unsustainable.

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