Statement at the Conclusion of the IMF's 2010 Article IV Consultation Mission to Lebanon

Press Release No. 10/231
June 8, 2010

An International Monetary Fund (IMF) mission visited Beirut from May 27 to June 8, to conduct the annual discussions for the Article IV consultation. The mission met with the Minister of Finance, Ms. Raya Haffar El Hassan, the Governor of the Banque du Liban (BdL), Mr. Riad Salameh, a number of other members of cabinet and officials of the administration, the President of the Finance Commission of Parliament, and representatives of the private sector and the academia.

At the conclusion of the discussions, the mission chief for Lebanon, Mr. Andreas Bauer, made the following remarks:

“Lebanon is reaping the benefits of improved domestic stability and prudent policies. The economy has continued to perform remarkably well, notwithstanding the challenging global environment. Strong momentum has carried over into 2010, and real GDP growth could exceed 8 percent this year if current trends continue.

“The authorities have accumulated a comfortable financial cushion and taken initial steps to address fiscal vulnerabilities. High growth and rising primary surpluses have led to a drop by 30 percentage points in the government’s debt-to-GDP ratio from its peak of 180 percent in 2006.

“While progress is palpable on many fronts, vulnerabilities remain high. At 148 percent of GDP at end-2009, the government’s debt is still among the highest in the world. Progress in strengthening economic institutions and addressing structural weaknesses, including important infrastructure gaps, most notably in the electricity sector, has also been limited.

“Today the authorities are facing two important challenges. First, managing cautiously the buoyant economy to avoid potential overheating risks. Second, seizing on the positive economic momentum to implement a range of pending reforms.

“The current environment of low global interest rates and abundant liquidity is not likely to persist indefinitely. Complacency should be avoided and a consensus built to quickly address Lebanon’s structural weaknesses and vulnerabilities. This could set the stage for extending the current growth spell and achieving a stable and long-lasting economic expansion.

“Plans to increase public investment, together with the implementation of sectoral reforms, are welcome. In the short term, however, there is little need for a fiscal impulse this year given the buoyant economy. Therefore, budget execution should aim at a higher-than-budgeted primary surplus in 2010.

"The medium-term framework for fiscal policy should provide room for more public investment and social spending, and substantially higher primary surpluses to decisively reduce the public debt-to-GDP ratio. For that, fiscal space could be created through a combination of measures to increase the quality of public spending and mobilizing additional revenues.

"Reducing the deficit of Electricity du Liban is particularly urgent and will require adjusting tariffs, reducing technical and non-technical losses, and improving governance. A package of tax measures could include elements such as introducing the global income tax, taxing capital gains, broadening the VAT base by reducing exemptions/refunds, and considering gradual moderate increases in VAT and corporate income tax rates, which are relatively low by international standards.

"The recent focus of monetary policy has rightly been on moderating the pace of deposit inflows by lowering policy rates, given that foreign exchange reserves have now reached a comfortable level. To ensure a smooth adjustment of the deposit inflow, a cautious approach to further policy interest rate reductions seems warranted.

"Lebanon's banking system has weathered recent regional and global crises well. Bank supervision should continue to focus on preventing excessive risk-taking in the context of a buoyant economy. The ongoing regional expansion of Lebanese banks also justifies a heightened focus on effective cross-border supervision.

"The recent rise in real estate prices requires vigilance. If credit growth accelerates further, the authorities should consider capping and gradually phasing out incentive schemes that provide exemptions to reserve requirements.

"Public-private partnerships (PPPs) provide a potentially useful way to address infrastructure bottlenecks, but a sound institutional framework, with strong involvement of the fiscal authorities, must be put in place to avoid possible fiscal risks.

"Finally, to support effective policymaking, continued efforts are needed to improve the statistical system, including its coverage, quality, and timeliness."

IMF EXTERNAL RELATIONS DEPARTMENT

Public Affairs	Media Relations
Phone: 202-623-7300	Phone: 202-623-7100
Fax: 202-623-6278	Fax: 202-623-6772