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## The End Game to Lebanon's Woes: IMF Reform And Political Willingness

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**Abstract:** The Lebanese economic crisis which began in 2019 has been described by the World Bank as one of the [top three](#) most severe crises globally since 1850. We discuss the events leading to Lebanon's ongoing economic crisis and the reasons behind the government's failure to reach an agreement with the International Monetary Fund to halt the downward spiral of the economy and promote recovery. The crisis' link to the political makeup of ruling coalitions makes it such that any solution to it lies in cutting the knots that bind political and economic interests in Lebanon.

### The Crisis At A Glance

Lebanon has been in the throes of an unprecedented financial crisis since October 2019, when the country was shaken by widespread demonstrations protesting a tax on WhatsApp messages. The unsustainability of Lebanon's fixed exchange rate, large external and fiscal deficits, and mounting losses in the banking sector later led to an abrupt reduction of capital inflows – deemed a [“Sudden Stop”](#) by economists, and usually accompanied by economic recessions. Consequently, Lebanon defaulted on its government debt in March 2020, the first sovereign default in its history. Lebanon's economy has only continued to be hurt by the COVID-19 pandemic, the August 2020 port explosion in Beirut, and the global energy crisis started by the Russian invasion of Ukraine. These [events have translated](#) into a 98 percent devaluation of the Lebanese currency, triple-digit inflation, and the sinking of more than two-thirds of the Lebanese population into poverty.

Since May 2020, Lebanon has been engaged intermittently in negotiations with the International Monetary Fund (IMF) for a rescue package that would help stop the deterioration of its macroeconomic outlook and lay the groundwork for much-needed structural reforms. An initial [Staff Level Agreement](#) (SLA) was signed between Lebanon and the IMF in April 2022 for a four-year extended fund facility that envisioned restructuring the financial sector, undertaking fiscal reforms, and strengthening governance. The plan envisages releasing \$3 billion of IMF funds to help ease the worst crisis in Lebanon's history. However, progress in implementing the actions mandated by the 2022 agreement has been extremely slow. For example, the IMF has said that the [banking secrecy law](#) that the Lebanese government passed in July 2022 does not go far enough in meeting the requirements for effective financial reform. Furthermore, an IMF mission that visited the country in March 2023 explicitly stated that “there has been limited progress in implementing the comprehensive package of economic reforms.” The [IMF warned](#) about the long-term effects of the inability or unwillingness to undertake the much-needed reforms, stating that such inaction could lead to a “never-ending crisis.”

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## **The Problem: Political Resistance**

In such a challenging political environment, pursuing an IMF agreement to address the most urgent problems facing Lebanon would seem to be a priority for any government. Instead, the Lebanese authorities have sabotaged any progress towards an IMF program. Some politicians have explicitly [stated](#) that the country can manage its problems on its own and does not need the IMF or any other foreign entity. This has been further complicated by the [fragmented nature](#) of the Lebanese parliament where seventeen political parties hold seats and twelve of these parties have five seats or less. It has also [been argued](#) that the various political parties never had the intention of embarking on an IMF program.

The major political parties do not support the IMF deal for two main reasons. First, political [elites have created cartels](#) or exerted some other form of market power in every major sector of the Lebanese economy. The IMF reforms mandate a competition law and public procurement law which would loosen the grip of the politicians on various economic sectors. Second, the reforms calling for the lifting of banking secrecy and for more transparency and accountability are likely to expose the corruption of the Lebanese political class. Thus, endlessly delaying reforms may be the [optimal response](#) for the ruling class in hopes that the “[waiting game](#)” will buy them enough time to access forthcoming resources, such as natural gas revenues. In fact, the government has been criticized as perfecting “the art of [illusory reform](#),” where changes are enacted but never implemented. For instance, two very important bills, the Competition Law and Public Procurement Law, were enacted in 2021 but still face major barriers in their implementation due to the lack of political will amongst elites.

In practice, the different political parties have been able to “play the waiting game” by distributing different roles to each other in such a way as to block any reforms and when caught out in this behavior, by laying the blame on each other, “a strategy they have [honed](#) over decades: blame other politicians and factions.” Instead of making any attempts at stabilizing the situation, policymakers have worsened the financial collapse. They have spent more than \$20 billion in [subsidizing](#) imports in a misguided policy intervention. A large portion of foreign reserves have been spent on subsidizing the exchange rate for imported goods. The rest was spent on subsidizing the electricity sector and paying public employees’ salaries with the [Sayrafa](#) rate. The latter allows public employees to withdraw their Lebanese Pounds denominated salaries in US Dollars at a below-market rate, soaking up reserves. Had the government used a small portion of these reserves for social assistance instead, eighty percent of the Lebanese households could have received economic benefits for five years.

## **The Consequences**

The costs of a delayed IMF package to Lebanon have increased exponentially due to this stalling. While such delays may appear as a potentially attractive strategy for the political elites, the costs to the population have only exacerbated. Most importantly, net financial losses in the financial and public sectors have increased from \$44 billion to more than [\\$72 billion](#). As the government delayed reforms, the Lebanese lira depreciated by 98 percent, which has led to an increasingly dollarized economy.

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Human development has also greatly suffered. Studies have shown that 70 percent of the population [cannot meet](#) its basic needs and that [multidimensional poverty rates](#) have doubled compared to pre-crisis levels. According to a recent survey, [78% of Lebanese](#) households report an inability to keep their household warm. Medicines for the treatment of serious illnesses have become harder to procure, with some cancer treatments totally unavailable. In a particularly notable protest against the current situation, “cancer patients carried and smashed a wooden coffin symbolizing their death caused by the [lack of medicine](#) and inability to receive treatment.” Deaths from drowning at sea have also [increased](#) over the past three years, as people attempt to flee the country by boat.

In addition to [dwindling domestic trust](#) in the government, the international community [has become](#) increasingly pessimistic about the local political class in finding a path out of Lebanon's woes.

## **Moving Forward**

Other governments that have experienced financial and economic crises have typically signed IMF agreements and begun rapidly implementing their provisions. For example, Sri Lanka has recently [entered](#) into a forty-eight month arrangement with the IMF for \$3 billion in support of Sri Lanka's economic policies and reforms. Unlike Lebanon, Sri Lanka's aid was quickly packaged after it became increasingly evident that structural reforms were needed. Other countries, including Cyprus, Serbia, and Iceland, have also [leveraged](#) IMF packages to revive their economies.

It is then a legitimate question to ask where Lebanon is headed. The Lebanese people and the international community have been hoping for quick actions to solve the most urgent problems in Lebanon, starting by implementing the prior actions listed in the SLA agreement, and moving quickly to a full program under the IMF. To do so, the government needs to pass bank resolution legislation, create a bank restructuring strategy, conduct a bank-by-bank evaluation, audit the Central Bank, implement a fiscal and debt restructuring strategy, unify the exchange rates, approve the annual budget, and reform the banking secrecy law.

However, the political system of resistance within Lebanon has made this almost impossible. More than a year has passed since signing the SLA, but only the last two actions were carried out and that too in an unsatisfactory manner.

Hence, for Lebanon achieving true reform is not a matter of ticking the boxes. Lebanon needs a reform-minded president, prime minister, and cabinet if it hopes to win international aid. Good governance and development will need to go hand in hand.

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