Lebanon under the tutelage of the International Monetary Fund?
Cases from other Arab countries
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On 17 October 2019, demonstrations took place in several Lebanese cities as the result of an acute economic and fiscal crisis in the country due to the failure of the financial and economic policies pursued for decades. On the monetary level, the Lebanese state adopted the policy of fixing the lira since 1997, provided that one dollar equals about 1,500 Lebanese pounds. This policy constituted a burden to compensate for the price difference between the dollar and the lira while the country was not economically productive. The central bank, *Banque du Liban* (BDL) spent the hard currency available to maintain the exchange rate and resorted to borrowing from private banks, and thus the domestic debt increased. Public debt currently amounts to roughly 86 billion USD (excluding the financial dues of public institutions including the National Social Security Fund), equivalent to 150% of GDP. The current crisis was manifested in a significant decline in the usable cash reserve in the last two years, reaching 19 billion USD in the current year, compared to 25.5 billion USD in 2018. Experts attribute this decline to the decrease in individuals' deposits (the diaspora) as the result of lack of confidence in the local economy, along with declined investments from the Gulf. Recently, Fitch Ratings downgraded Lebanon to CC, one degree before default. This led some political officials to talk about the limitations of internal solutions, and the urgent need for external financing by the International Support Group for Lebanon, the Cedar Conference, or others. In this context, the Lebanese Prime Minister discussed on 12 December with the Worldbank and the International Monetary Fund (IMF) the possibility to technically assist Lebanon in formulating a rescue plan to save the economy from a deeper crisis. This has been also echoed by some Lebanese economists who are even calling to resort to IMF funding.
To better understand the IMF programs and their repercussions, this article will review the results of the IMF interventions in some Arab countries in the eighties of the last century, and will shed the light on the reform programs implemented in Egypt and Tunisia after the Arab Spring, including the public policies recommendations and their social and developmental impact. This analysis is based on papers prepared by the Arab NGO Network for Development (ANND) through its constant monitoring since 2011 of the IMF programs in the Arab region.

I- The history of the IMF in the Arab countries
After the Arab countries witnessed economic growth and improvement in social indicators during the sixties and seventies of the previous century, the eighties witnessed an economic decline due mainly to the drop in oil prices and a decline in investments. This crisis led to the adoption of structural economic reform programs that were supervised by the IMF and the WorldBank. The reforms were predicated on the "Washington Consensus" principles, which represented the standard package for developing countries wracked by crisis, including: stabilization measures and reduction of government spending, imposition of new tax policies, unfair trade liberalization, and privatization of state-owned companies. Through this intervention, the IMF has become an essential partner in policy-making in the Arab region. The IMF reforms and measures were of a purely economic nature based on the theory of the Trickle Down effect, which provides that economic growth and the promotion of business and investments will lead to economic growth in the short term and will benefit society by creating job opportunities at the long run. Numerous studies have shown that economic structuring programs have stimulated economic growth in some Arab countries, but have widened the inequalities and exacerbated poverty among fragile social groups.

Consequently, the IMF conducted a critical review of its economic approach, which was reflected in 2011 after the Arab uprisings. As such, the Fund's intervention began to address social inclusion and social protection networks in order to protect social groups from the negative repercussions that accompany the Fund's policies. Was this change in the IMF narrative reflected in a real change? What were the results of the programs implemented by the IMF after the Arab Spring?

II. Egypt and Tunisia's Experiences

In November 2016, the IMF lent Egypt around 12 Billion USD to ensure macroeconomic stability and support inclusive growth. The objectives of the loan included correcting the trade imbalance, re-encouraging competition, stimulating growth and creating job opportunities. The loan was accompanied by a project of reforms implemented by the Egyptian government as part of the Extended Fund Facility, which included a wide range of reforms on a public policy level, such as:

- Liberalizing the Egyptian pound exchange rate and subjecting it to market determinants, which led to a significant devaluation of the currency. The devaluation had a positive impact on investors, but it led to an unprecedented rate of inflation (30%), and an increase in the prices of imported materials, whereby costumers had to bear the burden of the currency devaluation in a country that relies heavily on imports of food and agricultural products.
- Raising the value-added tax from 10% to 13%, excluding on the primary foods. This raising this tax contributed to reducing the purchasing power of the middle and poor classes.
- Lifting subsidies on basic commodities to reduce government spending. This led to an increase in the price of oil from 30% to 47% in November 2016, which greatly affected the prices of food and transportation as well as the price of medicines.
- Fixing the wage bill as one of the basic recommendations of the IMF to ensure financial stability, and this was done in Egypt through the approval of Law 18 of 2015 that allows the Egyptian state to terminate contracts or reduce wages to 50% after evaluating the performance of employees. This law turned the Egyptian state into an administrative body looking on reducing costs without taking into consideration the social impact on employees.

It should be noted that the spending cuts mainly aim to secure the payment of debt maturities. However, while the IMF also indicates that the sums saved must be allocated to social protection programs that target the poor and the elderly, the part related to social protection remains the weakest and the least obligatory under the IMF's programs.

As for Tunisia, the Tunisian government's negotiations with the IMF led to signing the Stand-By Agreement during the month of June 2013. The IMF discourse in the Tunisian case gave great importance to the social aspect and to addressing unemployment as priorities for intervention. However, upon signing the agreement, these claims turned into economic structural reforms similar to the typical packages of the IMF recommendations, and specifically included:

- Reducing public spending on wages and subsidies.
- Reforming the tax system by increasing indirect taxes and reducing taxes on investors.
- Privatizing the state-owned companies.
- Supporting investment through investor protection laws and the liberalization of the labor market.

Once again, these policies led to an increase in the rate of inflation by 6% in Tunisia in 2013, with a rise in prices reaching 10%, as well as an increase in the cost of oil and electricity, and a rise in taxes on cars by 25%, accompanied by a high public debt and increased unemployment rates. At the end of the agreement in 2015, the desired economic growth was not achieved, and thus Tunisia accessed a new loan from the Fund in 2016, worth 2.9 billion USD, through the Extended Fund Facility program. The Tunisians, and particularly the Tunisian General Labor Union, were afraid of the social effects of implementing this program, especially in terms of increasing inflation, raising indirect taxes and limiting salaries. Consequently, the unions and business owners successfully pressured the government to withdraw from the implementation of the program, and thus the Fund retreated from paying the second part of the value of the loan allocated To Tunisia.

III - Lebanon and the IMF

As for Lebanon, the country never received a loan from the IMF, even during periods of wars and occupation. However, the fund had an impact on economic policy-making in Lebanon through the article IV report, which is an annual report issued by the fund and provides economic and financial policy recommendations to the country. The fund supported the exchange rate peg, but warned for some time of the high cost of fixing the exchange rate of the lira. The Fund also considered that the financial engineering adopted by the BDL are not sustainable policies, and on the contrary that they increase economic and financial risks. Moreover, the IMF had a role in encouraging the shift in tax policies from direct taxes to value-added taxes in order to ensure financial stability. The IMF also highlighted the inflation in public sector employment, and focused on the importance of privatizing the electricity sector, suggested selling some public sector assets, and encouraged partnerships between the public and private sectors and restructuring and rescheduling the debt that may affect depositors.

Hence, resorting to the IMF to secure technical assistance may not provide new solutions. Most of the recommendations submitted by the fund were presented to Lebanon in the past and taken into account by previous governments, but in the event that the fund's financial assistance is requested, the financing that can be granted to Lebanon is estimated at 4 billion USD, given Lebanon's share in the fund. This loan may at best contribute to solving the monetary crisis temporarily, but in reality, it will be a follow-up to the borrowing policy adopted since 30 years, and more severely, it will increase the share of external debt, which is associated with economic conditionality, the consequences of which may be disastrous on broad social strata in Lebanon. Such an option is unacceptable in light of the unstable political situation and the loss of Lebanese confidence in their governments. A decision at this level, with potential serious social repercussions requires:

- A government that has the confidence of citizens and the ability to negotiate with external partners and to prevail the public interest over the interest of the ruling elite.
- A long-term economic and social policy that addresses the root causes of the economic meltdown to avoid falling into the trap of external borrowing and its conditionality on the long run.
- Enhancing the means of national dialogue, and the participation of social groups in understanding the results of the IMF programs, so that there is active participation in taking these decisions, whereas imposing those measures on the people will persist political instability.
- Instant and immediate solutions that take into account the fair distribution of burdens through the application of progressive measures.
- Fighting corruption in all its forms, halting waste, tax and customs evasion by enhancing transparency and the independence of the judiciary and regulatory agencies.

References:

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