

Lebanon's Economic Reform and Prospects for the Future

We report on a public lecture given by the Prime Minister of Lebanon, Fuad Siniora, at the London School of Economics on 9 May.

Fuad Siniora, the Prime Minister of Lebanon, was in London on an official visit recently to discuss closer co-operation with the UK as his country pursues its new economic reform programme. Mr Siniora was in the country to meet British government figures, including Prime Minister Tony Blair, but he also took his message to the public with a lecture at the LSE attended by leading academics, media and business figures. The visiting Lebanese Prime Minister stressed the good relations that his country and Britain had long enjoyed, expressing the hope that this could be a firm foundation for future co-operation.

The guest was introduced by Howard Davies, Director of the LSE, who chaired the event. Apart from politics, Mr Siniora has had a distinguished banking and academic career. He has been a lecturer in business at various leading educational establishments in Beirut and elsewhere, but is best known as a former finance minister of Lebanon, a post he held in five governments headed by the late Rafiq Hariri between 1992 and 2004. He now heads the new government in Beirut which came to power in July 2005.

Mr Siniora began by reflecting on the dramatic events of the past year which he said had been a "traumatic" one for Lebanon, but stressed that the country was facing the future with a degree of optimism, although uncertainties remain. He said that Lebanon was today at a "crossroads" with a new government less than a year old; the country could either move forward with structural reforms, including privatization, or slip back into economic chaos.

It was important, he stressed, to recall the background of the 15 year civil war whose impact had displaced a third of the population and had devastated the economy. Comparisons of the economic performance with other countries over the period are startling: in 1975, Lebanon's GDP was equivalent to that of Portugal and Ireland, now GDP was one fifth of Portugal and one tenth of Ireland, the Prime Minister said.

In recent years great strides had been made in reconstruction and economic stabilization of the country, but this progress was cut short by political tensions at the end of 2004, into early 2005, Mr Siniora said. Despite the crisis following the assassination of his friend, former prime minister, Rafik Hariri, Lebanon had demonstrated remarkable economic resilience in resisting the pressures and braving the storm. The government, with domestic and foreign support, successfully contained pressures on the Lebanese pound as well as averting outflows of capital, he stated. Growth indicators for 2006 suggest that growth could be above 4%, which would represent a significant advance on 2005 when it reached only 1%.

Lebanon's economy thus has great potential, the Prime Minister said, pointing to such important factors as its considerable resources which include its exceptionally well educated workforce, a developed banking sector, a very attractive climate and

geographical location. In addition, mention should be made of the wealthy overseas Lebanese communities who were keen to support the home economy. These were all factors from which the country will be able to benefit.

Mr Siniora continued by outlining aspects of the country's comprehensive medium-term reform programme, indicating some of the areas where trade and investment would be expanding in coming months. The reforms had the aim of laying the groundwork for a 5-6% annual growth rate. Reforms will be radical, including privatization, but the government would seek to protect the most vulnerable social groups from the more adverse effects, he said.

Success depended on putting the country's debt on a stable basis and the creation of an environment friendly to the private sector, the Prime Minister stated.

Pillars of Reform

He outlined the various pillars to the reforms drawn up by his government. These include:

- A strong fiscal policy
- Privatisation
- Social reforms
- Policies designed to achieve growth
- International support.

In order to restore international confidence in the country's economy, a strong and sustained fiscal adjustment was required. This was being achieved with the support for international agencies like the IMF and World Bank. The government was also determined to cut waste and red tape to remove unnecessary procedural obstacles to private sector business development. Such measures, Mr Siniora conceded, would take some time to show positive results.

As part of the financial package, he admitted that some tax raising would need to be considered in some areas as the tax base is broadened; the wages bill also had to be contained. But a greater emphasis will be placed on improvements in tax collection as part of the public expenditure reforms. He indicated that the new government may seek to restore the excise tax on gas to its 2004 level. Overall, he stressed that fiscal accountability and greater transparency would be to the fore.

Mr Siniora gave a firm commitment that the Lebanese Central Bank would maintain its independence and the government would refrain from borrowing or what he termed "fiscal dominance".

He said that the Lebanese government was at one with the IMF in the view that a stable exchange rate was a critical factor in the reforms.

Privatisation

Details of the forthcoming privatization programme were announced during the Prime Minister's lecture. He stressed, however, that the private sector had always been strong in the country and that Lebanon had therefore relatively few publicly owned assets. As far as privatization policy was concerned, it was not an objective in itself, but would be used as a mechanism to stimulate growth and improve competitiveness.

One important sell off in prospect was in the telecoms sector where the publicly owned companies were profitable and where the objective was to achieve a higher subscriber base and show a positive impact on job creation. Steps towards privatization were also being made with the power sector. Another candidate was the flagship national carrier, he said.

Social Provision

Mr Siniora gave some details of the government's plans for spending on health and education, expressing pride in the country's public provision in these areas. Lebanon spends a large part of its budget on both education and medical care; an example, of the high standards was that the patient waiting time for heart surgery was only one week.

As reforms took effect, however, social safety nets for the more vulnerable would need to be strengthened, he said, indicating that a strategy was being prepared by the end of the year.

An important area of reform which will interest foreign investors is the proposed enhancement of the public procurement policies. In this regard, the Prime Minister indicated that powerful new watchdog bodies were to be set up to monitor procedure and ensure greater transparency. In addition, the government's role would be improved by the employment of a private firm of auditors to examine the administration of public funds and identify any cases of misuse in the decision-making process.

He hoped that eventually Lebanon would soon be in a position to join the WTO and welcomed closer relations with the European Union and UK.

Currently, the national reform programme was waiting final approval, but once this is achieved, Mr Siniora said that Lebanon would be appealing for international support to ensure its successful implementation.

The visiting Lebanese Prime Minister also touched on some current political concerns, which although vitally important are not appropriate subjects for discussion here.

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