

Government of Lebanon's Economic Plan Executive Summary

The recent financial and economic meltdown is a result of 30 years of social, economic, financial and fiscal mismanagement, amplified by the COVID-19 pandemic, and further exacerbated by the Beirut Port explosion. Given that the country does not have the fiscal space to boost the economy through massive injection of funds, it remains with one option: seeking international aid. However, aid will not come without economic reforms. Hence, the necessity and urgency of embarking on structural reforms, which will be key for the recovery of the economy its stabilization, has become inevitable.

It is clear that Lebanon's sole option today is to seek an IMF program which will pave the way for additional financing from CEDRE, EIB, EBRD, friendly countries, local and international investors etc. This can only be done by building political consensus around a clear and ambitious financial and economic plan that provides the right environment to rebuild the confidence of the international community, as well as the local investors and the Lebanese diaspora.

Rebuilding confidence in the government and the public institutions is key here. Citizen's trust as well as the international community's trust in the government have unfortunately been destroyed during the past few years. We realize this will take time as reflected by an old Dutch saying that "trust arrives on foot but leaves on horseback." The most important confidence-building step is a clear financial and economic plan that has the support of all important stakeholders. In parallel, it is essential to show progress in the low hanging fruit reforms.

The current document provides a roadmap for a reforms-driven export-led growth strategy for Lebanon, followed by a clear actionable framework and timeline for delivery. Ultimately, the goal is to 'jump start' the economy on a path of sustainable, inclusive, and equitable economic growth. Such growth should be grounded in a small open economy model and driven by low tariffs, a flexible exchange rate regime, and a dynamic export sector built on competitive and comparative advantages. This plan is intended to complement the government's Financial Recovery Plan and is partially built on proposals and recommendations provided by previous economic plans.

Among the most significant and deeply rooted structural impediments to be addressed are: a rentier economy focused on low value-added products, a constrained business enabling environment, significantly damaged financial and real sectors, insufficient infrastructure investments, and last but not least rampant corruption and weak governance.

One of the main challenges facing the Lebanese economy is to contain the increasing balance of payments' deficit that had reached alarming levels. Even without the government's intervention, the shortage of foreign currency along with the consumers' decrease in purchasing power has led to a 50% reduction in imports. Moreover, the de facto currency devaluation will in its turn lead to an increase in exports and a boost of the tourism industry.

However, the government cannot rely on a shortage of foreign currency and the devaluation of the domestic currency to close the gap in its BoP. The government should aim to perform reforms and design policies to restore confidence and attract investment (with a focus on efficiency-seeking and strategic asset-seeking FDIs) in an effort to increase the inflow of hard currencies.

One of the main set of reforms should target the Business Environment which would help in attracting investment as well as help existing businesses perform better. In fact, reducing the cost of doing business, minimising unnecessary regulatory barriers, creating a level playing field, fostering competition, and improving governance will improve the efficiency and competitiveness of the Lebanese private sector and accelerate the recovery of the economy. It will also increase the attractiveness of the Lebanese economy for foreign investments as the economic and financial situation stabilises and prospects improve.

Lebanon ranks as one of the least competitive economies in the world as well as among Arab countries. According to the Ease of Doing Business 2020 rankings, Lebanon ranks 143rd out of 190 economies and 15th among the 20 MENA countries. Reforming the business environment focuses on updating, streamlining or simplifying inconsistent, out-dated and complex regulations that constrain businesses and facilitate corruption. The suggested actions are cross-cutting, benefiting all sectors of the economy. It evaluates business environment along the three phases of the business lifecycle, entry, operations, and exit, and the enabling policy landscape. However, to ensure an optimal business environment, crosscutting reforms need to be coupled with strategic reforms within specific priority sectors.

A major hurdle to businesses and especially startups and SMEs is access to finance which is expected to be seriously impaired for a significant period of time due to the damage made to the banking sector. Several measures for ensuring post-crisis financing are laid out among which is granting special incentives for international banks to open branches in Lebanon. This could potentially be done by having these bank open up in a Special Economic Zone that has its own regulatory authority and judicial system as proposed in this plan. Other proposals specifically aimed at supporting startups and SMEs involve their tax treatment.

An often-overlooked aspect which negatively impacts the business environment relates to market concentration and anti-competitive practices. Abolishing exclusive agencies and other forms of market restrictions that act as an entry barrier, and providing the right antitrust enforcement framework for open market competition via the proposed Competition Law is one of the main pillars for enhancing the business environment.

Key enabling policy and legislative requirements needed to support private investments and Public Private Partnerships are missing, outdated or underutilized. The plan emphasizes the need to revise the investment law and write regulations that explain the critical details necessary to implement the Public Private Partnership law, as well as other related policy frameworks.

Weak institutions, rampant corruption, and inefficiencies are often cited as major constraints. The imminent need to reduce waste, fraud, and abuse, and to increase productivity goes beyond enhancing the business environment and highlights the need to reform the governance structure. Such reforms aimed at fighting corruption, increasing transparency, and overall better governance are emphasized in the paper. These include but are not limited to: Independence of the Judiciary, digitizing and modernizing customs processes, and public procurement law.

As noted above due to the currency devaluation exports are expected to become cheaper and more competitive to foreign buyers. However, this should be coupled with a targeted and well-designed national export policy that incentivizes the investment in export industries focused on high-value products. For the first time in Lebanon, MoET has released a full list of goods and services in which Lebanon has a Revealed Comparative Advantage. This can be used as a basis to determine which industries should be

supported. More importantly, fast-tracking Lebanon's efforts for accession to the World Trade Organization should be placed at the top of the policy agenda as this will bring many benefits to the country.

Decades of low public spending on capital has resulted in very weak infrastructure hampering productivity and intensifying inefficiencies. Higher infrastructure spending coupled with the establishment of technically competent regulatory and supervisory agencies for natural monopolies (such as electricity, telecom, water and others) will be essential to spur economic growth.

Export of services has always been a major contributor to exports. It is expected that in the next few years export of knowledge services will boom. However, the government should work on providing the right environment and policies for knowledge-based activity to thrive. For example, strengthening digital financial services, enhancing the intellectual property framework, providing affordable and high speed internet, will go a long way towards building a knowledge and innovation-based economy which can potentially become the main engine for growth.

To make sure growth is as inclusive as possible and equitable, several measures are emphasized such as the need for a new labor law, a comprehensive social safety net, improved vocational training programs, and multiple propositions aimed at the economic empowerment of women.

In sum, Lebanon aspires to shift its economy to a productive, competitive, and sustainable economy. This transformation implies a focus on the comparative advantage approach and knowledge-based industrial activities, aided by government policies and driven by a vibrant and pioneering private sector. The aim is to achieve a sustainable, diverse, and inclusive economic growth in a fair and equitable manner, such that all Lebanese can enjoy good living standards and reach their full potential. Such growth should come mainly from the productive sectors with a highlight on knowledge economy as, in a few years, knowledge-based activity and innovation should be the main engine for growth.

Hence, Lebanon's Vision and Mission statements can be defined as follows.

OUR VISION: A friendly, culturally diverse, and economically productive, competitive, innovative and sustainable country that embraces an inclusive and equitable growth for all Lebanese citizens.

OUR MISSION: To continuously define, promote and implement reforms, policies, laws, measures and investments leading to a sustainable: (i) Creation of a business-friendly environment, (ii) Creation of economic value and productive jobs, and (iii) Reduction in the Budget and Balance of Payments deficits.