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Saving economy needs unpopular reforms

Is the Lebanese economy about to collapse, and will the national currency start depreciating in the face of impending storms? These questions always linger in the minds of many Lebanese citizens who seem to have lost any hope that the economy can recover.But one of the main reasons for this frustration is the long delay in the formation of the national unity Cabinet, which is supposed to put revitalizing the economy at the top of its agenda.Speaker of Parliament Nabih Berri went even further when he warned: “The economy may collapse in weeks if the government is not formed soon.”Berri’s message was in contrast to the assurances of most politicians, who insist that the national economy has not yet reached the danger zone, despite the gloomy picture.Economists and bankers attributed the negative atmosphere to the inability of the political establishment to speed up the formation of the Cabinet.And they argue that only a Cabinet with a clear and comprehensive plan can bail out the economy, and send positive signals to investors.“I don’t want to say that the economy will collapse in the near future, but nevertheless any further delay in the formation of the Cabinet could put the country in great danger.“All the politicians we have met are totally aware of the magnitude of the crisis and understand that Lebanon is at a crossroads.“The one and only means to put the economy on the right course is to implement radical economic reforms,” Mohammad Choucair, the president of the Beirut Chambers of Commerce, told The Daily Star.He said most businesses have liquidity problems, and they cannot continue to operate normally unless they see immediate signs that the state would be willing to draw funds from abroad to finance vital projects.One banker, who spoke on condition of anonymity, stressed that only painful and unpopular measures can save the economy from total catastrophe.“We cannot continue on this path for much longer.“The politicians have to implement harsh measures and one of these measures is to freeze the salary scale for public servants for five years. Most politicians appear to support this decision, but are waiting for the right moment to proceed with it.“This is one of the few unpopular measures the new Cabinet must take. There is no other way. I repeat there is no other way,” the banker said.In 2016, the previous government agreed to give civil servants and military personnel a salary increase a decision that has cost the Treasury $1.4 billion each year.The Cabinet at the time introduced new taxes to finance the salary scale, despite banks and the private sector warning that these taxes would harm the economy and deal a blow to businesses that have already incurred heavy losses.The banker reiterated there is no imminent risk on the pound because the Central Bank is determined to protect the national currency.He revealed that Central Bank Governor Riad Salameh has no intention to reactivate the subsidized housing loan program until he sees clear decisions to fix the finances of the public sector.Among the issues which bankers and economists are focusing on is the large number of public employees, and the chronic electricity problem that both have drained Treasury coffers for the past 18 years.“One of the solutions for the inflated number of staff in some public departments is to get a soft loan from the European Union to offer some of the redundant staff handsome early retirement packages,” the banker said.“This is one of the best ways to trim the size of the public sector,” he added.The other important problem the new Cabinet needs to tackle is the waste in Electricte du Liban, according to bankers and economists.“The government must reconsider the subsidy policy at EDL and remove these subsidies gradually.“The other measure is to improve bill collection, because 50 percent of the subscribers do not pay their bills to the company,” one banker said.Electricite du Liban’s deficit ranges between $1.5 billion and $2 billion annually, depending on the fluctuation of oil prices in the international market.The Finance Ministry has placed a LL2.1 trillion ($1.4 billion) ceiling on purchasing gasoil each year, and this has forced EDL to increase electricity rationing in most areas of the country.