

Challenges await Lebanon in 2019

[Hussein Dakroub](#)

BEIRUT: As 2018 winds down with a mix of progress and frustration, 2019 promises to be a harsher year for Lebanon, political analysts say. Fresh challenges await the government, when it is finally formed - to maintain the country's stability and salvage the ailing economy.

Among the major challenges facing Lebanon after the New Year is the implementation of the structural and fiscal reforms demanded by the CEDRE conference to stimulate the sluggish economy, analysts say.

Lebanon also needs to stabilize its rocky relations with Syria and comply with Beirut's declared policy of dissociation from regional conflicts - particularly from Syria's 7-year-old war.

Also sure to present challenges for President Michel Aoun and Prime Minister-designate Saad Hariri in their third year in office is the divisive issue of Hezbollah's arsenal and the party's deep involvement in the Syrian war - a clear breach of the dissociation policy - as well as the long-standing project to come up with a national defense strategy to protect Lebanon against a possible Israeli attack.

And the ongoing presence of more than a million Syrian refugees, representing about a quarter of Lebanon's population, is putting a huge strain on the country's flagging economy and frail infrastructure.

Despite several international donor conferences in recent years to help countries cope with hosting displaced Syrians, the Lebanese government has frequently complained that the international community's promised financial aid has fallen short of easing the pressure.

Judging by the generally poor performance of previous Cabinets, the majority of them paralyzed by sharp differences, experts say the new government ought to maintain unity to confront political, security and economic challenges.

Similarly, Lebanon is coming under mounting domestic and foreign pressure to fight an uphill battle against rampant corruption in the public sector, largely blamed for an endemic budget deficit.

The anti-graft campaign comes against the backdrop of repeated pledges made by the country's top leaders, including Aoun, Hariri and Speaker Nabih Berri, to stamp out corruption as the most effective means of curbing the waste of public funds and improving state finances.

"There are two major challenges for Lebanon to overcome.

"The first and most important lies in the ability of its political establishment to preserve its minimal cohesion while confronting a turbulent and polarized region. The second challenge is the government's ability to slow down the growing public debt," political analyst Imad Salamey told The Daily Star.

"In 2019, the country will have no option other than to preserve its relative but fragile political consensus and introduce limited but hardly comprehensive economic reforms," Salamey said.

"Grave consequences are awaiting the country if it fails to meet both challenges," he warned.

Financial outlook:

NegativePolitical analyst Kassem Kassir told The Daily Star that the most important challenge facing Lebanon in the new year is the worsening economic and financial crisis.

"How will the new government deal with this crisis, amid dwindling state revenues and financial pressures, coupled with negative ratings of Lebanon's economy by Moody's and other international agencies?" Kassir asked.

Earlier this month, Moody's Investors Service changed Lebanon's outlook from stable to negative on the government's issuer ratings, but maintained its ratings at B3.

"The negative outlook reflects an increase in risks to the government's liquidity position and the country's financial stability, in large part as a consequence of domestic and geopolitical risks that have become more intractable," the Moody's report said.

Reacting to the report, caretaker Finance Minister Ali Hasan Khalil said the new government should proceed with reforms to restore confidence, diminish risks and reduce the budget deficit.

"We should undertake [reforms] now, or else we will miss this opportunity in a few months if the negative outlook remains," Khalil said.

In another statement on Dec. 18, Khalil warned that Lebanon faces "many risks" if the next government fails to carry out "serious financial reforms aimed at boosting revenues, reducing expenditures and reforming institutions that are straining the state revenues."

One challenge that could be a boon for the economy if surmounted is developing Lebanon's nascent oil and gas sector. Despite an ongoing dispute with Israel over the maritime border, Lebanon has awarded licenses to a consortium of three international oil companies to explore its potential offshore oil and gas reserves, setting the stage for the country to join the club of energy-producing nations.

Caretaker Energy Minister Cesar Abi Khalil said in June that the three companies were committed to begin exploration in two of the country's 10 offshore blocks in 2019.

Now, the new government needs to "finalize decrees and laws to extract oil and gas from Lebanon's territorial waters and establish the sovereign fund," Kassir said.

Keeping a lid on

security threats Lebanon must also face the “security challenges” posed by terrorist groups and by Israel’s threats against the country, made under the pretext of responding to tunnels allegedly dug by Hezbollah along the border, Kassir said. “Despite Lebanon’s success in cracking down on terror cells, there are still terrorist groups that might attempt to undermine security in the country,” he said.

A divisive issue that will come up for discussion, as promised by Aoun, is the creation of a national defense strategy to protect Lebanon against any Israeli aggression, Kassir said.

Such a strategy has long been demanded by Hezbollah’s political opponents, with the aim of eventually integrating the party’s arms into the Lebanese Army Command.

Hezbollah has staunchly rejected any strategy that seeks to make it surrender its weapons.

And the group’s demand to normalize ties with Syria remains “a major bone of contention” in the country, Kassir said.

“The new government must find a functioning mechanism to deal with the issue of ties with Syria,” he added.

It’s no secret that in August, when Hariri was preoccupied with forming a new government, Hezbollah and its allies pushed for normalizing political relations with the Syrian regime. Hariri at the time responded by declaring that “no government would be formed” if some parties insisted on linking the Cabinet formation to Syria ties.

Hariri and other parties, namely the Lebanese Forces and the Progressive Socialist Party, vehemently oppose any contacts with the regime before a political settlement is reached to end the war in Syria.

Political commentator Charles Jabbour, meanwhile, said that the new government must maintain political stability as a prerequisite to enabling the Lebanese Army and security agencies to confront any attempt to destabilize the country.

Praising the high level of coordination between the various security agencies that has helped foil attempts at destabilization, he said: “In fact, Lebanon has managed, at the security level, to be an oasis in this volatile region that has been jolted by security turbulence. ... Therefore, the main challenge is to maintain this stable security Lebanon is enjoying.”

Overcoming political challenges Jabbour, who is also head of the LF’s communication and media department, said that maintaining political stability, the implementation of the CEDRE decisions and compliance with the dissociation policy will all top the agenda of challenges that Lebanon needs to overcome in 2019.

“The most important thing is to preserve the regular functioning of [state] institutions so that the new government will not be plagued by obstruction from within, because the political challenges facing the government are many,” Jabbour told The Daily Star.

Jabbour noted that Lebanon will begin the year by hosting the 2019 Arab Economic and Social Development summit in Beirut Jan. 19-20, “amid pressures exerted by some parties” for Syrian President Bashar Assad to attend.

“This is a contentious issue. The political challenge is the Lebanese government’s ability to avert divisive issues in order to preserve political stability and also the institutional order,” Jabbour added.

When the Cabinet formation takes more than seven months, Jabbour said, “this means that the political situation is not good and reflects political divisions.”

“The most important thing is to abide by the dissociation policy and not to involve Lebanon in divisive issues that lead to undermining stability” in the country, he said.

Ahead with CEDRE On an economic level, Jabbour said the main challenge for the next government is to be able to implement the CEDRE decisions.

“Everyone is aware of the economic situation in Lebanon and everyone is warning of an economic deterioration and collapse.

“We are in the heart of an economic crisis,” Jabbour said.

“Therefore, the challenge for the Lebanese government is not only to come up with a solution that deals with formalities, but to seek structural solutions for the Lebanese economy through the privatization of some sectors or the participation of some of the public sector with the private sector in taking structural steps to revitalize the economy.”

Held in Paris on April 6, the CEDRE conference garnered economic support aimed at rebuilding Lebanon’s infrastructure and shoring up its economy, burdened by more than \$83 billion in public debt - equivalent to 150 percent of gross domestic product and the third-highest worldwide after Japan and Greece.

However, the \$11.9 billion in grants and soft loans pledged by countries and organizations to finance investment and infrastructure projects were contingent on Lebanon carrying out much-needed structural economic reforms.

Economists and experts have warned that Lebanon is at risk of losing a large chunk of the pledged grants and loans if a new government is not formed quickly to carry out the reforms.

The International Monetary Fund said in June that these reforms were urgently needed to put the debt on a sustainable footing.

And senior World Bank officials who recently visited Beirut repeatedly warned that Lebanon may be deprived of the pledged soft loans if the government fails to use the allocated funds within a specific deadline.

The World Bank itself committed \$2.2 billion toward projects in Lebanon, including for transportation and job creation. But around \$800 million is unused while awaiting government approval.

The World Bank estimates Lebanon’s national debt will stand at 155 percent of GDP by the end of 2018, and that a rise in current spending will increase the fiscal deficit to 8.3 percent of GDP in 2018, from 6.6 percent in 2017.

In an attempt to reduce the budget deficit, estimated at \$5 billion annually, and soaring public debt, Lebanon has promised to fight corruption, put an end to the waste of public funds and slash the deficit in state-run Electricite du Liban, which is costing the government around \$2 billion in annual subsidies.

Hariri has pledged to bring down energy subsidies by about \$600 million in 2019.

He has said there would be no need for the next government to raise taxes next year if it reduces the heavy subsidies on electricity.

“If we save the \$2 billion on energy, we will have already made \$2 billion. Our problem is energy - we need to bring down the energy bill from \$2 billion to zero,” Hariri said during the recent Global Business Summit in Beirut.

The government has been subsidizing the cost of electricity for consumers since 1983.

The International Monetary Fund has repeatedly called on the Lebanese authorities to end waste in the electricity sector and has recommended removing the subsidies.

Both Aoun and Hariri have reaffirmed Lebanon’s commitment to carrying out the reforms demanded by CEDRE.

Hariri has stressed that commitment to the agreed anti-corruption reforms would be part of the Cabinet’s policy statement.

“As a government, my focus is on the CEDRE reforms and the economy in general,” Hariri said in a statement on Dec. 21.

“For me, without these reforms, it is like throwing money into the same basket where we have been throwing it in the past.

“I think everybody in the government understands that the only way to move forward is to pass these reforms [and] execute CEDRE, with a committee that will follow up on it,” he added.

Speaking to visitors at Baabda Palace last week, Aoun also talked about economic reforms, saying an economic development plan would be launched immediately after a new government has been formed.

Scourge of corruptionAoun has vowed to combat corruption in several speeches since his election in October 2016. He said last week that the process of fighting corruption has made progress in a number of fields.

“But this is not sufficient and it [the process] will go on with momentum despite the barriers raised in its way.

“No one will be able to stop it because a strong and capable state does not protect corrupt people and those who corrupt others.” Yet, with the country afflicted by corrupt politicians whose sole objective for being in power is to serve their own interests, some are skeptical that promises of reform will be fulfilled.

“The promises made to carry out the required reforms are good. But what matters is implementation,” economic expert Ghazi Wazni said.

“The economy needs any measure that constitutes a glimmer of hope, especially since the 2019 indicators are not encouraging with regard to economic growth.”

Wazni lamented that the scourge of corruption has only continued to grow without officials taking any “serious measures” to curb it.

He added that the country’s infrastructure - namely roads, Beirut’s airport, the sewage system, and water and garbage collection - has further deteriorated during the first two years of Aoun’s six-year presidential term.

PSP leader Walid Joumblatt said Aoun’s presidency has failed to carry out the promised reforms.

“We haven’t seen reforms so far under [Aoun’s] mandate.

“Electricity is an example. Instead of building electricity production plants, we rented power barges,” Joumblatt said in an interview with MTV on Dec. 13.

“We elected Gen. Aoun as president, but we have failed in reforms and in electricity.

“We are partners with [Aoun’s] term. If it fails, it will be a failure to all of us. ... The country is at a standstill. Let’s begin with something. Let’s begin with [reforming] the electricity sector.”

Not-so-tiny victoriesDespite the numerous fiascoes of 2018, Hariri’s outgoing government succeeded the previous year in adopting a new electoral law - Lebanon’s first to be based on proportional representation - which paved the way for holding parliamentary elections in May, the first in nine years.

The government also passed two state budgets in 2017 and 2018, in a move that aimed to control public expenditure and halt past years’ extra-budgetary spending, estimated in the billions of dollars.

Before 2017, Lebanon had not ratified a state budget since 2005.

And following years of street protests by teachers and civil servants, the government in 2017 approved a new salary scale for the public sector. This has, however, put further strain on the cash-strapped country. The government also endorsed a wide range of key administrative, military, diplomatic and judicial appointments.

Seething public

discontentBut public frustrations have festered over the government’s failure to resolve the chronic problem of garbage collection and provide basic public services, such as running water, electricity and fast internet.

The government has also failed to resolve the socio-economic crisis and cope with rising unemployment, especially among graduates. Long-seething discontent about the deteriorating social, economic and financial conditions and the lack of public services burst out into the open last week in street protests in Downtown Beirut and other areas, staged by thousands condemning the political class for failing to resolve the country’s problems and form a new government. Some of them sporting the yellow vests worn by anti-government protesters in France, the demonstrators demanded jobs, improved health care and an end to corruption. “The people want to bring down the regime,” they chanted as they gathered outside the Grand Serail, where security forces deployed heavily to prevent trouble.

Protest organizers, mainly from civil activist groups, said they were planning more street demonstrations to pile up pressure on politicians and authorities to fix the economy and halt the deterioration of living conditions. “Sunday’s protests are an alarm bell for the political class to act before it’s too late,” one protester said.

Adding insult to Lebanon's injury, 2018 will end on an alarming note as all mediation attempts, including an initiative by the president, have failed to break the Cabinet formation deadlock, which has now entered its eighth month with no solution in sight.

Speaking to reporters before attending a Christmas Mass in Bkirki led by Maronite Patriarch Beshara Rai, Aoun summed up the Cabinet dilemma by calling for prayers to resolve the difficulties still facing its formation.

"We're in the middle of a government formation crisis.

"It seems that some [parties] are creating new traditions in the Cabinet formation, and it needs some time to be fixed," he said after a 30-minute private meeting with Rai ahead of the Mass.

The Cabinet formation has been stymied since late October by the problem of representing six Hezbollah-backed Sunni MPs not affiliated with the Future Movement.