

## Azhari: Bright light at end of economic tunnel

BLOM Bank General Manager Saad Azhari saw a silver lining despite some negative indicators. He underlined the importance of approving the 2019 budget and embark on reforms.

Q: What is your take on the current economic situation?

A: There is no doubt that the economic situation is difficult. All major economic indicators with the exception of tourism are down: loans, balance of payments, building permits, real estate transactions, new car registrations and cleared checks, to name just a few. In addition, some major international institutions are starting to reduce economic growth this year to less than 1 percent. Needless to say, this state of economic affairs calls for determined actions and responsible policies.

Q: Why? What brought this about?

A: This has to go back to the onset of the Syrian war in 2011 and the negative ramifications that it had on the region, especially Lebanon. It was also magnified by the political deadlocks that delayed the election of the president and the formation of the new government after the parliamentary elections. All these developments led to lower investment, exports and capital flows, in addition to the heavy burden from the influx of the refugees. What made matters worse was the increase in budget deficits arising mainly from the higher wages and salaries that public employees got at end 2017 prior to the parliamentary elections in May 2018 - without any accompanying fiscal reforms - and that led to higher interest rates and to the downgrade of sovereign credit rating.

Q: Do you see a silver lining out of these dire economic conditions?

A: Actually I do, and I would like to see more airing out of the positives by media outlets and a stop to zeroing in on the negatives only.

For example, we have now strong awareness by politicians for the need for economic reforms and for restoring fiscal sustainability. We have a good government with a lot of capable ministers. We have also an excellent electricity plan that in a few years will eliminate transfers to EDL that constitute a third of the current budget deficit. And, finally, we have a viable budget for 2019 that could reduce the deficit back to 7.6 percent of GDP. Mind you, it is a corrective budget, not a reform budget, but it is a good first step.

Q: What other steps are needed?

A: I think, first of all, we need the budget approved by Parliament as soon as possible and with very little changes as possible. But in the very-near years to come, we need to turn the budget into a reform budget and we want our politicians to be more responsible and not be drawn to popular but costly measures. The reform budget should tackle the pension system that is one of the costliest in the world and constitutes a time bomb to government finances. It should also resort to smart win-win taxes, like higher taxes on cigarettes that are revenue rich and help reduce health cost, and higher taxes on gasoline that is also revenue-rich, and contribute to less pollution and that should be coupled with an effective public transportation plan. It should not, in other words, resort to taxes that are attractive in terms of revenue, yet with negative economic implications, like the ever higher taxes on interest rates on deposits that can bring in more revenue but lead to higher interest rates and lower loans and investments. And there should be serious steps to curtail tax evasion that runs up to more than \$3 billion annually. It should, in addition, address the competitiveness of the economy and the huge trade deficits, by targeting special tariffs on goods and on sectors that the country can develop competitive advantages in, as in the sectors identified by the McKenzie study and other credible studies. Also, I think the option of privatization should be on the table, especially for enterprises that can be better served by private providers or by a PPP format.

Q: How do you see the prospects for the economy?

A: I am hopeful, and I see very promising prospects for the economy; and I am in agreement here with the new reports coming from renowned international organizations like the Institute of International Finance, Goldman Sachs, and Forbes. More important, there are some solid grounds for my thinking this way. As I said earlier, though a lot of economic indicators are down, tourism is up and we expect to see quite a recovery in this sector this summer. Also, the implementation of the budget in July 2019 will send a good signal to the markets and rating agencies which should translate to a better outlook for the economy and a reduction in the risk premium and interest rates, hopefully by the autumn of 2019. Add to that the onset of the "cedre" funding by late this year and the beginning of oil and gas explorations in early 2020, and we could see quite a turnaround in economic growth and in capital inflows. But, as necessary conditions, we need to maintain fiscal prudence, so as to reduce the deficit ratio to 3 percent of GDP and the debt ratio to 130 percent of GDP by 2023 and, needless to say, durable political stability.

Q: Any final thoughts?

A: There are two actually. First, we need to focus as well in our reporting on the positive developments, no matter how minuscule, so as to improve sentiment and raise confidence in the economy. Second, we need to be realistic, however, and admit that the situation is critical, and critical situations require responsible and courageous measures. This means responsible politicians who have the long-term interests of the country in mind, not short-term and populist gains.