

Govt has plan to avoid economic crisis

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BEIRUT: “We know that we’re in a difficult situation,” says Adel Afiouni, one of the new class of younger, fresher faces in Cabinet. He is speaking about Lebanon’s financial woes, which were compounded last week by a double blow: a downgrade of its sovereign credit position by the global ratings agency Fitch and heightened fears over the exchange rate. However, Afiouni says, “We have a plan, and we think we can avoid a crisis.”

The minister of state for investment and technology should know. He comes from the world of finance. Until 2018, Afiouni was head of emerging markets in Europe, the Middle East and Africa at Credit Suisse, the Swiss investment bank.

Afiouni describes last week’s downgrade as “another warning signal” that urgent action is needed “to regain the confidence of the market and to show that we are on track to avoid a financial crisis and create economic growth.”

Both arenas - financial and economic - are in terrible shape. On the finance side, the state currently cannot pay its bills, racking up some \$3.9 billion in arrears, according to a recent report in Al-Akhbar. It owes another \$1.15 billion to the Central Bank. In addition to sluggish tax revenues and waning telecoms profits, it has been unable to raise enough money to cover the gap through debt issuances. Other questions surround the wisdom and ability of the local financial sector to fund the state.

What needs to be done? Afiouni cleaves mostly to the received wisdom: First, to keep to the cuts in the 2019 state budget; second, reform and cut more in the 2020 budget, due before Cabinet next week; third, fix the dire state of the country’s electricity infrastructure.

“Obviously, the 2019 budget made a substantial effort” to reduce the deficit, the minister says.

“The first step of our plan is to execute the 2019 budget and show that we can deliver on the numbers that are in [it].”

But “the 2019 budget is not enough,” he says. The second step must be to “agree on a 2020 budget that goes even further in budget deficit reduction ... and that also implements some very important structural reforms.”

Those reforms, he believes, should include restructuring of the public sector, in order to improve efficiency, pension reform, a debt management plan and the potential privatization of nonstrategic assets. “Nothing should be off the table,” he says, adding that the budget should also include a financial plan for 2020-22.

Afiouni’s final step is to press forward on fixing Lebanon’s chronic electricity deficit.

The country’s grid only supplies 12-21 hours of electricity per day, but it eats a \$1.5 billion hole in the state’s budget annually.

“We have a plan,” Afiouni says, referring to the ambitious vision adopted by Cabinet in April to build six new power plants over the next six years, while simultaneously fixing the other problems in the sector. “If we manage to implement the electricity plan, then we are also on track to substantially reduce the [fiscal] deficit.”

Taken together, these steps aim to shore up confidence from two constituencies whose funds keep the state from financial ruin. “We have two key stakeholders from a financial perspective that we should care about: investors in Lebanese Eurobonds ... [and] depositors, because we all know our financial model relies a lot on inflow [of money] from depositors,” Afiouni says.

Right now, “they don’t trust that we can deliver, so we have to show them that we can.” If the country’s leaders can start showing results, Afiouni believes that “the pressure will immediately [subside] and we’ll see interest rates start to drop ... [and] depositors’ inflows growing again. Then we get on a virtual circle.”

However, even if Lebanon’s immediate financial problems are resolved, the country faces a grinding, yearslong economic crisis. Although reliable numbers are hard to come by, experts suggest that the unemployment rate is somewhere around 25 percent - an alarming figure that should keep politicians sleepless at night. Even worse, youth unemployment is thought to be more than 35 percent, presenting many of the best and brightest with little choice but to leave the country.

This is where Afiouni’s new office comes into play. As part of his ministerial duties, he is working to bolster economic activity in the tech sector.

“We have four productive sectors: industry, tourism, agriculture and technology,” he says. “We, [at my office], are the champions for the technology sector.” Afiouni adds, “I want to increase the contribution to GDP from the technology sector and I want to increase the number of jobs we can create.”

This is no fool’s errand, the minister says. “We don’t need many natural resources. What we need is human resources ... and we actually do have plenty of that.

“We are exporting talent - we may as well use it [here] to create wealth and jobs and value in the country.”

To make that happen, Afiouni is working on four tracks: improving the ease of doing business, attracting capital, encouraging service exports and turning Lebanon into a regional tech hub.

In the first instance, Afiouni has already scored a win by having the law amended to ease eligibility requirements for tech companies to receive incentives and support from the Investment Development Authority of Lebanon.

“Before, [the requirement] used to be an amount of capital to invest. Now it will be a number of people to hire ... so one can qualify for IDAL much easier,” he says. The law also now allows existing companies to qualify if they have new growth projects.

“All of this has been approved; we’re just drafting the application decrees,” Afiouni says. “Hopefully in the next month they’ll be in effect.”

Other projects - such as his support for a tech hub at the Tripoli Special Economic Zone - may take much longer. The TSEZ is a decade old but not yet operational.

But slow progress is still progress. Over the past two years, for example, internet speeds have roughly doubled, laying one of the foundations for the tech sector. If the ease of doing business is improved and electricity infrastructure is fixed, two more will fall into place.

The speed of that progress - or the lack of it - will depend greatly on the ability of Afiouni and his colleagues in Cabinet and MPs to agree. That doesn’t inspire confidence: Cabinet hasn’t been able to meet for almost a fifth of its time in office, following the shooting in Aley, which left two dead and two more injured.

“There are certain times when it’s definitely frustrating, but I know that we live in a complex country where sometimes politics can be complicated,” Afiouni says.

“I’m trying to keep my head down ... and focus on doing the job,” he adds. Indeed, Afiouni was among the minority of politicians seen paying close attention during Parliament’s budget hearings in July.

“I try to stay positive,” he says, pointing out that Lebanon’s problems are fixable, and that not everyone is leaving the country. In fact, a few, like himself, are actually coming back.

So, what was he thinking, leaving a high-powered job and a comfortable life in London?

“That’s a fair question,” he concedes. “I’ve always been very involved in Lebanon ... What drove me, to be honest, [was that] I just figured at some stage in one’s life, it’s good to give back.”