

Unpopular, painful reforms unavoidable

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BEIRUT: The Lebanese government has no choice but to expeditiously implement radical and unpopular reforms to avoid total financial and economic collapse in the near future, economists and bankers warned Wednesday. “The measures in the 2019 budget were below expectations and disappointing and did not create the positive shock that the market expected. Now the government needs to take bold, decisive and credible measures that would convince the market that they are serious about reforms,” Nassib Ghobril, the head of the economic research department at Byblos Bank, told The Daily Star.

All or most of the main political blocs in the government seem to be aware of the magnitude of the financial and economic problems Lebanon is now facing. They also realize that piecemeal solutions and small measures are not enough to cut the swelling fiscal deficit in the coming few months.

International rating agencies, the International Monetary Fund and other leading financial institutions have expressed deep concern that Lebanon risks facing financial collapse due to the indecisiveness of officials and ministers in implementing reforms.

Moody’s Investors Service Tuesday maintained Lebanon’s Caa1 issuer rating but warned that a downgrade was possible in three months if Cabinet failed to take quick action to reduce the budget deficit. “The decision to place the rating under review for downgrade reflects the recent significant tightening in external financing conditions and the reversal in the bank deposit inflows that are essential in enabling Lebanon to meet the government’s financing needs,” the agency said. The painful reforms, according to many experts, need to address the overblown size of the public sector and well as unreasonable waste in most government departments.

But officials also fear that any tax increase or any attempt to freeze the salary scale for government employees would trigger wide protests among trade unions and civil society.

“This is the time to take unpopular measures, and starting with the public sector. You can’t ask the private sector to sacrifice and suffer from the austerity measures if the public sector does not follow the same course,” Ghobril said. There are no specific figures on the total number of civil servants, Army and security forces personnel and government retirees, although some experts estimate the figure to be well above 350,000.

Ghobril noted that salaries and end-of-service benefits eat up a big chunk of annual government revenues. According to figures from the Finance Ministry, the compensation of public-sector personnel totaled \$3.28 billion in the first half of 2019, constituting an increase of 2.9 percent from \$3.19 billion in the first half of 2018.

Salaries, wages and related benefits accounted for 57.4 percent of the total in the covered period, followed by retirement benefits (26.3 percent), end-of-service indemnities (12 percent) and transfers to public institutions to cover salaries (4.4 percent).

The rise in the compensation of public-sector personnel is due to a 58 percent increase in end-of-service indemnities, as well as to a growth of 18.8 percent in retirement benefits, which were partly offset by a decline of 8.9 percent in salaries, wages and related benefits and of 2.3 percent in transfers to public institutions to cover salaries.

The Finance Ministry attributed the increase in end-of-service indemnities partly to the implementation of the new salary scale, which encouraged public employees to retire early.

Salaries, wages and related benefits paid to public-sector employees amounted to \$1.88 billion in the first half of 2019, relative to \$2.07 billion in the same period of 2018.

Ghobril has even suggested that ministers and lawmakers cut their salaries by 50 percent to show that the government is serious about cutting waste in public departments and trimming the size of the state institutions. Some have even proposed to freeze the salary scale for at least three years as this wage increase is costing the Treasury over \$1.2 billion a year.

Economist Ghazi Wazni proposed reforms to stabilize salaries, wages and benefits over the period 2020-2022.

“Freezing the increase of salaries and wages for three years while retaining the rights of employees and their grades later would achieve annual savings of approximately LL125 billion (\$83 million). It should also be noted that each year between 5,000 and 7,000 people retire, gradually reducing the size of the public sector and its annual cost by more than LL100 billion,” Wazni said.

He added that the government should reconsider the employment of 5,000 people who were engaged last year without any legal procedure.

Ghazi stressed that the Cabinet needed to make a commitment to freeze pension increases for government retirees for three years, adding that such a measure would save LL302 billion in 2020.

“The government should increase the rate of pension deductions from 6 percent to 8.5 percent, similar to private-sector employees,” Wazni said.

He also proposed gradually reducing electricity subsidies to zero in 2022. "Electricity reform is considered a priority. It is no longer acceptable to continue political wrangling to delay the implementation of the rescue plan," Wazni said.

"The government should raise the tariff at the beginning of 2020 in conjunction with the construction of temporary plants on land with a capacity of 300-400 megawatts within six months," Wazni said.

Joe Sarrouh, a leading financial expert, questioned why the government had not yet cracked down on smuggling at Customs points and tax evasion or improved the collection of cellular network revenues.

Sarrouh said the government could not contemplate privatizing the telecoms sector if the authorities were not able to change value added services for its benefit.

The government currently collects 30 percent of revenues from value added services, while the remaining 70 percent goes to touch and Alfa, companies that operate the cellular networks on behalf of the government.

"If the government maximizes the revenues of the cellular networks then the potential price for the telecoms sector should be \$22 billion," Sarrouh said.

He added that the government should also enforce taxes on seaside properties as well as put an end to the "black boxes" that exist in some government agencies.

"Black boxes" is a common term used in Lebanon to imply that part of the government revenues in some state agencies is tucked away for distribution among corrupt officials and employees.

Sarrouh stressed that the international community was not taking the government or even the Central Bank very seriously.

"How do you expect the world to show us some respect when some of our politicians and officials exchange heated debate among themselves. This constant and endless bickering is delaying the implementation of reforms," he added.

Sarrouh said every political leader wanted to show their supporters that their reform plan was better than the rest.

"The country may not collapse financially but it will nevertheless become weaker and weaker every day as a result of the procrastination in implementing reforms," he said.