

## Budget alone won't attract foreign funds

**Osama Habib**

BEIRUT: Parliament's endorsement of Lebanon's 2020 budget Monday will not be enough to win the confidence of the international community or encourage donor countries to provide badly needed soft loans to the battered economy. This was the impression of some economists interviewed by The Daily Star. They argued that the new Cabinet led by Prime Minister Hassan Diab needs to take extra measures to cut the budget deficit, projected at 6 percent for 2020.

The bill was passed after 49 MPs voted in its favor, 13 voted against it and 13 abstained.

The president of the Budget and Finance Parliamentary Committee Ibrahim Kanaan said that the lawmakers have cut government spending by LL1 trillion (\$666 million) but did not give further details about other items in the bill.

One MP told The Daily Star that the committee revised the original draft bill that projected the deficit at 0.6 percent, stressing that this target was unattainable in view of the delicate situation in the country.

Diab realized that he needed to deliver a positive shock to both the local and international markets and to appease the anti-government protesters who have been demonstrating in the streets since Oct. 17.

Lebanon will also seek to secure a soft loan of between \$4 billion and \$5 billion to finance the imports of basic items for 2020. But in order to win the support of the skeptical international community, Diab and his Cabinet must go beyond the measures in the 2020 budget.

The Cabinet, which has yet to win Parliament's vote of confidence, has to decide whether it will finance the \$1.2 billion Eurobond that matures on March 9 or take the bold step to reschedule it.

Bank Audi said in its weekly report that the foreign exchange market saw reduced conversions in favor of foreign currencies over this week, as the formation of a new government provided some relief to the market, while non-banking institutions started last week paying inward transfers in their foreign currencies. This occurred at a time when the deposit dollarization rate reached 74.7 percent in November 2019, as per latest figures, which is its highest level since May 2008. However, most exchange dealers continued to sell the dollar above an agreed LL2,000 ceiling.

The Central Bank's LP Treasury bills portfolio reached \$38 billion mid-January 2020, after growing by \$7.2 billion in 2019, as the central bank continued to play the role of intermediary between the commercial banks and the sovereign.

Nassib Ghobril, the head of the Economic Research at Byblos Bank, did not believe that this bill will be sufficient to gain the support of the international community.

"The international community was very clear in their message to the Lebanese authorities that you need to help yourself so we can help you. Show us seriousness about reforms and we will help you," Ghobril explained.

He added that this budget has left many questions unanswered.

"We don't know the growth rate. We don't know the inflation rate. This budget is hypothetical at this stage. The new government needs to add supplementary laws to this budget," Ghobril said.

Several international investment banks and financial institutions emphasized that the newly formed Cabinet has an uphill task to turn the economy around and drastically cut the mounting budget deficit.

The Institute of International Finance indicated that the recent formation of a Cabinet, which is mostly composed of experts, has raised the chances of implementing the needed economic and financial reforms that could address the deterioration in economic activity and unlock the \$11 billion in assistance to Lebanon that the international community pledged at the CEDRE conference in April 2018. However, it said that the current government could fail to take the necessary actions to restore macroeconomic stability, given the track record of previous governments.

Under its optimistic scenario, the IIF assumes the government will implement deep fiscal and structural reforms and that it will receive adequate external financing.

It said that authorities need to implement a multi-year fiscal adjustment plan to significantly narrow the fiscal deficit and put the public debt level on a sustainable path.

It noted that fiscal measures include closing all illegal border crossing points, fighting tax evasion, combating smuggling, enforcing fines on illegally built seaside properties, reforming the electricity sector and downsizing the public sector. Barclays Capital said the government needs to quickly gain credibility by addressing the structural deficiencies in the economy.

It considered that the government's key near-term priority is the 2020 budget, and it noted that the Cabinet would likely adopt a new supplementary budget law in the coming months.

It added that ratifying the 2020 budget law and reforming the electricity sector could help build the credibility of the government and help unlock international funding.

For its part, Global investment bank JPMorgan Chase considered that "the new Lebanese government is leaner and is less prone to political gridlock than its predecessors."

However, the investment bank noted that the government's ability to secure domestic and external support could be challenging.

It highlighted that the Lebanese authorities have yet to provide an economic plan to address the current crisis. It expected the Lebanese economy to be in recession in 2020, but it said that a credible plan and political stability would help restore confidence and could limit the economy's contraction. JPMorgan Chase added that the high share of ministers with relevant experience in the current Cabinet could allow the introduction of reform measures that political parties in the past have been reluctant to implement themselves directly.