

What might be required of Lebanon under an IMF bailout?

Reuters

Lebanon's new government must decide whether to seek help from the International Monetary Fund to help ease its financial crisis. Any program is likely to require Lebanon to agree to measures ranging from increasing taxes to fighting corruption. Based mainly on previous IMF recommendations, here are some steps Lebanon might have to take as part of any deal:

1. Draw up a medium-term plan to fill Lebanon's yawning fiscal deficit and bring public debt down to sustainable levels. The IMF previously advised Lebanon to target achieving a primary surplus of around 4-5% of GDP to help cut its debt-to-GDP ratio, currently one of the highest in the world.
2. Rapidly raise revenues by hiking value-added tax and removing exemptions on items such as foreign-registered yachts, diesel used for electricity generation and road vehicles. Raising fuel excises is also recommended, as well as measures to improve revenue collection, such as reducing tax evasion.
3. Eliminating electricity subsidies is an area flagged by the International Monetary Fund as the most significant potential expenditure saving. That would involve raising tariffs to close the state electricity company's financial deficit as soon as possible to generate fiscal savings, possibly targeting the largest consumers first.
4. Scale up targeted transfers to the poor and vulnerable. To cushion the impact of the fiscal adjustment needed, the authorities should provide an additional 0.5 percentage points of GDP in social safety net spending, the IMF said in October.
5. Identify areas of saving by conducting a review of public spending. This could include reform of the public-sector wage bill and pensions which soak up a disproportionate chunk of revenue.
6. Carry out structural reforms, including lowering the cost of doing business by pushing through legislation spanning bankruptcy to public private partnerships. Push through reforms designed to boost the competitiveness of Lebanon's small export sector to help maintain the currency peg. Increase electricity to 24/7 would remove one of the biggest impediments to doing business.
7. Strengthen the financial system by phasing out the support the central bank provides the government and bolstering the central bank's balance sheet. That would also include requiring banks to raise their own capital buffers and bolster deposit insurance.
8. Crack down on corruption by enacting anti-graft laws covering areas such as illicit enrichment and the declaration of assets owned by officials. Set up an anti-corruption commission and investigate and prosecute corruption cases.
9. With the Lebanese pound having shed around a third of its value against the U.S. dollar on the black market, speculation has risen that the IMF might require Lebanon to break its currency's peg to the dollar. Currency flotation has been a condition of some other countries, such as Egypt, accepting IMF funds in order to help make their economies more competitive. The government of former Prime Minister Saad al-Hariri in July denied the IMF had urged Lebanon to unpeg the pound.