

## Govt preparing package of reform measures to deal with crisis

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**BEIRUT:** The government is preparing a package of reform measures to deal with the crippling economic and financial crisis that will affect the banking sector and the lives of citizens, Prime Minister Hassan Diab said Tuesday, in a clear indication of expected tax steps.

He also said the government had begun informal negotiations with foreign creditors on debt restructuring, days after Lebanon announced that it would default on a \$1.2 billion Eurobond payment that matured this week.

Diab made the announcement during a special Cabinet session devoted to devising an economic rescue plan to avert a total collapse of the country's ailing economy.

President Michel Aoun, who chaired the Cabinet session at Baabda Palace, said the steps that the government must take "in tandem with the negotiations with the bond holders, are to draw up a plan to restructure the debts, a plan to restructure the banks and the Banque du Liban, and a plan for financial and administrative reforms, in addition to a socio-economic plan," Information Minister Manal Abdel Samad told reporters after the meeting.

Diab announced Saturday that because Lebanon's foreign currency reserves have reached "a critical and dangerous level," the government was forced to suspend all Eurobond payments that were due Monday so that it can continue to provide basic commodities to the Lebanese people.

That leaves the crisis-hit and cash-strapped country on course for a sovereign default as it grapples with the worst economic and financial crisis since the end of the 1975-90 Civil War.

"The rescheduling of foreign debts has begun. We must now consider our internal debts if we want to cut the interest on our budget," Diab said during the Cabinet session.

"It is very important to prepare a program for structural reforms. We will seek to develop the judicial system reforms, fight corruption and implement structural reforms in the energy, water, garbage management, teaching and health sectors," he said. "We will also concentrate on reforms to stimulate growth."

Without elaborating, Diab, according to Abdel Samad, said: "These measures will not pass without repercussions on our banking system. When we discover the size of this impact, we will begin reforms in the banking sector ... This package [of measures] will affect the lives of citizens and pave the way for a better future. It will be easy to implement this package if we count on foreign support. This package will be studied and presented within the next few weeks."

"The government's plan to revitalize the economy by enacting crucial reforms is primarily aimed at persuading the international community and Arab countries to extend financial aid to Lebanon," an official source told The Daily Star.

Diab referred to the scarcity of U.S. dollars that led the Lebanese pound to lose more than 40 percent of its value on the black market and prompted banks to impose crippling capital controls on cash withdrawals and transfers.

"These two factors have led to a drop in imports, and consequently, to an economic recession and a rise in financial deficit," Diab.

To break this "vicious circle," Diab called for boosting the financial situation, restructuring the public debt, pegging the Lebanese pound's exchange rate to the U.S. dollar and how to deal with the exchange rate, proposing a reform program for growth and restructuring the banking system.

"We are currently studying these measures from two angles: The first, in the event Lebanon acquires external [financial] support, and the second, in the event there is no external support," he said.

Exchange shops across Lebanon refused for the fourth consecutive day Tuesday to sell dollars, according to a Central Bank circular that ordered money changers to cap their foreign currency buy rates at 30 percent more than the official state-set rate of LL1,505. This equates to a buy rate of around LL1,960 to the dollar. Before BDL's circular, the pound was trading at around LL2,645 to the dollar.

The international community and Arab countries have linked extending financial aid to Lebanon to Beirut enacting a string of long-awaited essential economic reforms, including fighting corruption and putting an end to the waste of public funds, largely blamed for the budget deficit and deteriorating economic conditions.

Declaring the 2020 budget deficit would be worse than that of 2019, which stood at 11.4 percent including the debt servicing, Diab said: "We will seek in the next stage to achieve a reasonable preliminary surplus. This requires keeping [civil servants'] salaries under control, reforming the electricity sector, and increasing tax revenues through better collection."

While the Cabinet discussions were dominated by ongoing preventive measures to curb the spread of the coronavirus, Abdel Samad said ministers discussed the "broad lines of the reform plan and the reforms that need to be adopted, particularly cutting spending, increasing the state revenues, recovering the looted money and [revenues] of seafront state properties, reconsidering customs duties and activating collection of these duties."

In reply to a question, Abdel Samad said negotiations with foreign creditors on debt restructuring were going on in an informal manner because "there is an additional period to begin formal negotiations and reach a final decision."

Asked about the possibility of imposing new taxes on the Lebanese, the information minister said: "We cannot talk about new taxes because we will be talking partially about the reform plan as this plan will be comprehensive."

In its policy statement, Diab's 20-member government, formed on Jan. 21, warned that it must rapidly take "painful steps" as part of a comprehensive rescue plan to avoid a "total collapse" of the economy. The Cabinet is set to hold another session at 11 a.m. Thursday at Baabda Palace to address items listed on its agenda, the state-run National News Agency reported.

On the eve of Tuesday's Cabinet session, Finance Minister Ghazi Wazni said the government was determined to carry out essential reforms.

Asked whether the government planned to impose new taxes as part of its moves to generate badly-needed revenues and reduce the budget deficit, Wazni told LBCI channel Monday night: "Efforts will be geared toward reducing public spending and halting the bleeding in the [state-run] electricity company [Electricite du Liban] which is suffering from a deficit of \$1.5 billion annually."

Declaring that the government planned to increase the electricity tariffs on houses and companies with high power consumption, Wazni said: "The electricity reform program aims to reach a zero deficit in two to three years."

Among ideas proposed for the government to raise funds, Wazni said, was to increase the value added tax on luxury items and hike taxes on some commodities. He denied reports that the government planned to increase the price of 20 liters of gasoline by LL5,000.

"The government will focus on improving tax collection, preventing tax evasion and fighting corruption," Wazni said.

The finance minister also denied reports about planned haircuts on bank deposits as part of the government's debt restructuring. "Definitely, there will be no [haircuts]," he said.

Wazni said the government had taken a "bold step" in demanding a restructuring of the public debt. "The other bold step is to restructure the banking sector," he said. He spoke about the need to merge small banks as part of restructuring the banking sector.

Wazni disclosed that the Central Bank's foreign currency reserves initially stood at \$29 billion before BDL gave \$7 billion from this amount to Lebanese banks to meet the needs of their clients.