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May 30, 2023

**Statement by Mr. Subramanian and Mr. Hansda on Lebanon  
(Preliminary)  
Executive Board Meeting  
June 1, 2023**

1. We thank staff for the comprehensive analysis of Lebanon's recent economic and policy developments as also Mr. Mohieldin, Mr. Alhosani, Ms. Choueiri, and Ms. Merhi for their useful buff.
2. After a sharp contraction since 2018, the economy of Lebanon indicated some signs of stabilization in 2022 but continues to be severely depressed. While the official statistics on GDP are not available for 2021 and 2022, Bdl (ie, central bank of Lebanon) places the GDP growth at 2% for 2022. Staff have, however, placed the estimates at -10% and 0% for 2021 and 2022, respectively. *Staff are, therefore, requested to elaborate on how their estimates differ from those by the central bank and the reasons thereof.*
3. Staff have presented two sets of values for the key economic indicators under the two alternative scenarios: status quo, and reform, 2021-27. While 2021 values are one and the same under both the scenarios, the 2022 values differ for fiscal variables and public debt-GDP ratio. All other five variables take the same values under both the scenarios. *Staff may please elaborate on why the values for fiscal variables and*

*public debt-GDP indicators differ for 2022 under the two scenarios. Staff may further clarify* on how growth and inflation outturns are the same for 2023 under both the scenarios even when other six variables are different.

4. The predicament the Bdl is currently faced with in terms of exchange rate guarantees and the impending losses indicates that central bank balance sheet needs to be immunized against such operations in future, if any, and such guarantees could preferably be taken over by the sovereign directly. Alternatively, exchange rate risks need to be borne by the depositors themselves. In this context, we agree with the staff that state assets may not be used to bail out banks and large depositors in a manner that departs from good practices.

5. As regards governance reforms of Bdl, staff have suggested to eliminate the government representation on the Central Council and ensure a membership of a majority of independent non-executive Directors. In our view, in a crisis-ridden economy, no government representation on the board of the central bank may not be a realistic pursuit. Therefore, even if there's government representation, government nominees may not be empowered with voting power. *Staff are welcome to comment.*

6. Staff have advocated temporary withdrawal restrictions for FX accounts to limit pressures at the FX market (para 23). In para 49, however, it's mentioned that staff does not recommend temporary approval of exchange restriction maintained by Lebanon. *Staff may please elaborate and reconcile* the two statements.

7. Despite the urgency of the situation and the staff level agreement in April 2022, authorities were unable to implement policies and reforms to resolve the ongoing crisis and restore macroeconomic stability. Their implementation remains unlikely until the election of a new president and an approval of a cabinet with full

powers take place. With these remarks, we wish the authorities and the people of Lebanon every success in their endeavors.