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**Statement by Mr. Guerra and Mr. Chicas Cienfuegos on Lebanon
(Preliminary)
Executive Board Meeting
June 1, 2023**

We thank Mr. Ramirez Rigo and his team for their comprehensive report. We also thank Mr. Mohieldin, Mr. Alhosani, Ms. Choueiri, and Ms. Merhi for their informative Buff statement.

Lebanon is experiencing an unprecedented social and economic crisis that is affecting the most vulnerable population, including the important refugee population. Staff's analysis once again highlights the need to implement decisive efforts to stabilize the economy since the continuation of the status quo will have an adverse economic impact on both current and future generations. In this regard, we concur with staff on the proposed five pillars for a comprehensive reform agenda.

Efforts should continue to implement the key objectives of the 2022 staff-level agreement. We have to acknowledge the difficult and complex political situation that hinders progress towards implementing reforms in the Staff Level Agreement. At the current juncture, the authorities should find common ground to support a comprehensive reform agenda that can garner support from the international community. In this regard, we welcome that the authorities reiterate their commitment to the reform agenda under the SLA, with advances in around half of the prior actions, and are increasing their efforts in the technical work in order to be ready to engage in a program once a government with full powers is in place.

A credible medium-term fiscal strategy is urgently needed to restore debt sustainability. We agree with staff's assessment that a credible 2023 budget with a unified market exchange rate for customs and tax purposes is a necessary starting point. Going forward, a revenue mobilization strategy is key to supporting higher expenditures to recover the provision of

public goods and services. Special attention is required for the expansion of the social safety net given the elevated level of poverty.

The IMF should make a comprehensive assessment of the economic costs associated with hosting the large number of refugees in Lebanon. Although there is support from the international community, it is clear that there is a need for additional support from donors given the ongoing crisis that has reduced the fiscal space and limited the availability of resources for the most basic public services.

Restoring the credibility of monetary policy is paramount to supporting the stabilization process. The existence of multiple exchange rate practices is deepening instability, reducing the effectiveness of monetary policy, benefiting a small sector of the population, and eroding international reserves. In this regard, we concur with staff's assessment that the unification of the exchange rate is a critical first step to start restoring credibility and improving the external position. In this regard, we welcome that the central bank authorities are already working on developing a FX trading platform with support from the IMF TA. Additionally, monetary tightening and budget financing restrictions by the BdL will be paramount. Going forward, a definition of a new monetary regime will be needed in order to rebuild confidence and define a credible nominal anchor. All these efforts should be accompanied by governance reforms in the BdL to support its credibility.

An effective and carefully implemented restructuring process of the financial system is fundamental to supporting the economic recovery. The current functioning of the financial system is creating substantial losses for banks and the BdL. In this vein, given the financial restrictions of the government and in order to foster the financial sustainability of the system, we support the roadmap proposed by staff, stressing that protecting small depositors and performing bank-by-bank assessments are key to supporting the restructuring process. We note that the authorities, as reported in the Buff, respect the hierarchy of claims and debt sustainability, but stress that there can be policy actions that can provide an upside to depositors, and thus, garner the necessary political support. In this regard, **we concur with the authorities on the need to give careful consideration and assess different modifications to the banking sector restructuring strategy with the objective of improving deposit recovery rates.** In this assessment, it will be important to include the fiscal costs given the already unsustainable debt situation, and we stress the importance of passing a reform to rectify the shortcoming in the banking secrecy law in order to be able to advance the bank restructuring process.

With these remarks, we wish the authorities success in their endeavors in these challenging times.