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**Statement by Mr. Sylla, Mr. N'Sonde, and Mr. Nguema-Affane on Lebanon  
(Preliminary)  
Executive Board Meeting  
June 1, 2023**

We thank staff for the set of informative reports and Mr. Mohieldin, Mr. Alhosani, Ms. Choueiri, and Ms. Merhi for their helpful Buff statement. We welcome the resumption of Article IV consultations with Lebanon after a four-year hiatus.

Since 2019, Lebanon has been facing the worst economic and financial crisis in its history owing to policy mismanagement and severe external shocks such as the COVID-19 pandemic, the explosion of the Beirut port, and the war in Ukraine. We note that the political instability and the presence of a large number of refugees fleeing regional conflicts are adding to the complexity of the socioeconomic situation. However, we appreciate the authorities' understanding that policy inaction is not an option and that a change in policy course is needed to restore macro-financial stability, address the large social and humanitarian needs in the country, and revive the economy. Therefore, it is crucial to improve governance, transparency, and accountability to rebuild trust in public institutions and ensure the success of any reform program. We broadly agree with the thrust of the staff's appraisal and policy recommendations and would like to highlight the following points.

**Urgent and well-sequenced reforms are necessary across all sectors to bring the Lebanese economy back on its feet, eventually with Fund support under an Extended Fund Facility (EFF) arrangement.** We welcome the conclusion of a staff-level agreement reached 12 months ago on a reform agenda to help address macroeconomic imbalances and bring the economy back on track. However, we note that little progress has been made in the implementation of prior actions, and recent reforms in this regard have fallen short of staff expectations. This is little surprising considering the current power vacuum due to the absence of a President and a divided Parliament. We strongly encourage the Fund to engage with all domestic stakeholders, notably Parliamentarians and CSOs, on the importance of achieving a consensus on a wide-ranging reform agenda. That said, we should not rule out

the prospect that the future administration may seek amendments to the SLA once a President is elected. We, therefore, urge realism and pragmatism from the authorities and staff in setting program conditionality.

**In the meantime, the Fund should remain actively engaged with Lebanon and stand ready to provide other forms of assistance as required.** We underscore the importance of continued policy advice and capacity development assistance to help tackle institutional and macroeconomic policy challenges facing the country. These include policies in the areas of public finances, transparency and governance, monetary policy and its independence, and reforms to foster financial sector stability and buttress private sector-led growth. We also see merit in Fund’s emergency support, notably under the Food Shock Window (FSW) considering the dire food insecurity impacting a large segment of the population and the additional pressures posed by Lebanon welcoming and supporting large masses of refugees. We regret that such support could not be provided to this country and continue to stress the need for more innovative ways for the FSW to support eligible members—especially fragile states—in situation of exceptional shocks and unprecedented uncertainty.

**Rebuilding confidence in the financial system should be a top priority for the authorities.** This entails stabilizing the system by restructuring financial institutions and implementing institutional reforms to strengthen governance at *Banque du Liban* and financial sector supervision. We note the proposed banking sector restructuring strategy, which aims to recognize the significant losses at the central bank and in banks, as well as lift bank secrecy to conduct an extensive assessment of each bank’ situation. However, we understand that the authorities are hesitant to a significant write-off of deposits due to political sensitivity. Therefore, we encourage both parties to further explore ways to minimize losses to depositors. *Staff’s comments on the proposed modifications to the banking sector restructuring strategy will be appreciated.*

**Fiscal consolidation and debt restructuring are both required to restore fiscal sustainability and credibility, and debt sustainability, while protecting the most vulnerable.** Domestic revenue mobilization efforts need to be intensified bearing in mind the current state of the economy and the large size of informality. We find appropriate the proposed public service wage increases, which are necessary to counteract the large erosion of real wages due to inflation and ensure the proper functioning of public services. However, we would caution against linking wages to inflation. We also support the envisaged expansion of the social protection programs, notably the Emergency Social Safety Net (ESSN) program launched in 2022. Fiscal reforms should focus on strengthening public financial management to improve governance, efficiency of spending, and transparency. In the same vein, restructuring and consolidating public enterprises, particularly the national electricity company, is essential to improve their operations and financial viability, reduce fiscal risks and enable private sector participation. Debt restructuring will also be

indispensable to put public finances and debt on a sustainable footing, and we welcome the authorities' plan to engage in good faith negotiations with private creditors.

**Strong external support will be needed to revive the Lebanese economy and sustain the authorities' actions.** International efforts are critical to help break the political deadlock and reach a consensus on an ambitious policy and reform agenda. In particular, urgent support from the international community is crucially needed to address Lebanon's humanitarian crisis, which is putting a strain on the country's limited resources. We agree with the authorities' request for an evaluation of the economic impact of hosting the large number of refugees. Additionally, the prominent Lebanese diaspora has contributed significantly to the economic activity through remittances, and we strongly encourage the authorities to explore ways to increase their involvement in the country's economic recovery. *Could staff elaborate on the prospective for additional external support to Lebanon that a Fund arrangement could catalyze?*

With these remarks, we wish the Lebanese authorities and population success in their endeavors.