

August 25, 1994

The Acting Chairman's Summing Up at the Conclusion  
of the 1994 Article IV Consultation with Lebanon  
Executive Board Meeting 94/73 - August 22, 1994

Executive Directors were in broad agreement with the views and recommendations in the staff appraisal. Since late 1992, the Lebanese authorities have made impressive progress in reactivating the economy and restoring financial stability. This outcome was due largely to improved political stability, increased confidence, and an effective adjustment effort. Directors commended the authorities on these achievements and encouraged them to persist on this track. They emphasized that it was of paramount importance to gear economic policies to sustaining and consolidating the gains achieved in 1993.

Directors recognized the difficult task that the authorities faced in 1994 in meeting the reconstruction and rehabilitation needs of physical and social infrastructure while strengthening the economic and financial stance. Directors were concerned with the projected sizable increases in fiscal deficits during 1994-96 and the consequent rapid buildup of public debt. An overly expansionary fiscal stance could weaken confidence and put at risk the authorities' stabilization goals. Accordingly, Directors urged the authorities to consider without delay a significantly more rapid fiscal adjustment by accelerating the timing of adjustment measures, and careful monitoring of the public investment program to ensure compatibility with the absorptive capacity of the economy and the availability of external financing on appropriate terms. Directors also emphasized the importance of allocating sufficient resources to ensure adequate provision of social services.

Directors noted the key role that the private sector was expected to play and encouraged the authorities to further increase its scope in the context of reconstruction efforts. In this regard, it was emphasized that strengthening of the fiscal position was essential to enable resources to be channelled to the private sector while maintaining stable monetary conditions.

Directors welcomed the authorities' efforts to strengthen monetary policy instruments and to develop financial markets. In particular, they cited the recent improvements in the treasury bill auction system, the realignment of bank supervision and control practices to international standards, and the intention of the authorities to develop secondary securities markets. These reforms should help in mobilizing private sector resources, ensure their efficient allocation, and enhance the role of market forces in determining interest rates.

In a different context, the suggestion was made that the authorities consider the introduction of a currency board in order to strengthen the climate of monetary stability. In the ensuing exchange of views, the merits of that suggestion were not explored in substance, but it was generally agreed that a sizable strengthening of the fiscal position was the main precondition for the maintenance of monetary stability in Lebanon.

Directors noted that over the medium term, the projected large external current account deficits would imply very large capital inflows relative to the size of the economy. While noting that Lebanon's external debt-service burden was relatively low, Directors stressed the importance of linking foreign financing to sound remunerative projects, and monitoring closely the evolution of external debt obligations.

Directors commended the authorities on the achievement of exchange rate stability in the past two years, and supported the importance that the authorities attached to exchange rate stability in achieving the inflation objectives and reinforcing confidence. Directors advised that the economy's external competitiveness was also an important factor for sustainable growth, and they pointed out that under conditions of large capital inflows, sterilization of such flows would put upward pressure on domestic interest rates and exacerbate the cost of domestic debt servicing. Therefore, Directors emphasized the critical importance of a rapid and meaningful reduction in the fiscal deficit to ensure both financial stability and viability of the balance of payments.

Directors urged the authorities to accelerate their efforts to improve Lebanon's database, and to implement as soon as possible the recommendations of Fund technical assistance missions in the statistical area. In turn, this would enable close monitoring of economic and financial developments and facilitate more informed policy decisions.

It is expected that the next Article IV consultation with Lebanon will be held on the standard 12-month cycle.