



الكتلة الوطنية
NATIONAL BLOC

Comments on MoET's Economic Plan *September 2020*



Highlights

Main strengths:

- ✓ Main objectives of the plan (as per the executive summary):

As Lebanon has no option but to move from a rentier economy fueled by unsustainably high interest rates to a productive economy to the maximum extent possible and as it has and will have no means in any foreseeable future to seriously boost its economy by itself, without financial assistance and without economic reforms, our overall economic approach is based on leveraging:

- Its network of friendly countries and various economic and financial partners;
- A new era attracting the Lebanese to invest in a productive economy as the rentier economic business model of Lebanon fueled by high interest rates and higher return than any productive economy is past history;
- The reformed legal and fiscal environment and a modernized infrastructure environment to rebuild the investors' confidence in Lebanon and in their ability to earn an adequate return on investment;
- Investments that will be made through CEDRE and other similar programs and infrastructure investments;
- The Lebanese diaspora's commitment to Lebanon through contributions in productive investments, donations and sponsorships, knowledge, relationships, lobbying and market access as well as providing remote job opportunities in the international knowledge economy;
- Partnerships with and knowhow transfer from friendly countries, multilateral agencies and partners which will be of paramount importance to foster the growth of the economy;
- The McKinsey study as:
 - o An investor reference providing insights on the best investment opportunities and sectors; and
 - o Along with the CEDRE reform program, a reference for the necessary reforms and infrastructure investments to be executed;

- ✓ The Economic Plan focuses primarily on reforms related to competition, businesses, investments, and international trade reforms to stimulate exports and refurbish the economy in a comparative advantage perspective. The latter is ambitious yet difficult to implement immediately.
- ✓ The diagnostic of the Lebanese situation provided by the Plan is interesting and rich in numbers.
- ✓ The authors of the plan have annexed a summary table of the products that Lebanon exported the most in 2019, their value and their destinations.
- ✓ The authors of the plan included an indicative reform implementation schedule (with periods ranging from less than three months to 36 months).

Main weaknesses:

- ✓ The Economic Plan proposed by the Ministry of Economy and Trade (MoET) on the 15th of September 2020 can be perceived as a lower-quality justification of the Financial Recovery Plan proposed by the Lebanese government in April 2020.
- ✓ The Economic Plan lacks in quantified/numbered policy objectives.



- ✓ The Economic Plan is incomplete/contradictory when it comes to social reforms. Particularly, the suggested Social Safety Net program – namely *The Broad Coverage Compensation Programme*, is contradictory.
- ✓ Furthermore, the plan seems to neglect the emergency measures cited in the executive summary as well as the disastrous effects of Covid-19 and the PoB explosion on the Lebanese socio-economic and humanitarian situation.

The plan’s suggested reforms are cited in Annex 1, and the plan’s 10 pillars are shown in Annex 2.

The Plan’s mission

The “mission” stated in the economic plan seems to neglect social reforms by solely focusing on revitalizing the economy:

OUR MISSION: To continuously define, promote and implement reforms, policies, laws, measures and investments leading to a sustainable: (i) Creation of a business-friendly environment, (ii) Creation of economic value and productive jobs, and (iii) Reduction in the Budget and Balance of Payments deficits.

The Plan’s “emergency measures”

The immediate reforms proposed by MoET - the “emergency measures”, are aimed at maintaining the supply chain and flow of goods, initiating short-term and long-term storage strategies (for grains), and establishing emergency plans to deal with future force majeure. Although MoET emphasized the importance of these reforms in the executive summary, they were neglected in the report and are missing in the action plan presented in section 3.2.

Another emergency measure mentioned in the executive summary is the reconstruction the “productive economy” stakeholders (companies, SME’s, commerces, etc.) that were severely affected by the blast. This “emergency reform” lacks socially since it does not involve the reconstruction of the residences, houses and even heritage that were tremendously impacted by the blast.

Comparative advantage

The economic plan focuses on the “comparative advantage¹” approach to boost exports. The Plan mentions that *The Government Economic Plan for 2020 gives a particular focus on three productive sectors with high potential for export: the industrial sector, agriculture, and tourism [and that] the three of them are sources of national comparative advantages and value creation.* The competitive advantage is missing here since all 3 broad sectors are cited. It is better to rely on more specific sectors such as the agro-food and chemical products, as found in the cited LCPS study².

A Plan that is “aligned” with April’s financial recovery plan

The Plan proposes a flexible exchange rate regime (without mentioning the managed float nor the crawling peg nor the gradual devaluation steps³ as in the April plan). This policy is flawed (if not accompanied by other measures to protect borrowers) since it disadvantages LBP-earners repaying loans in USD (as of March 2020, 66% of loans are in USD).

The Broad Coverage Compensation Programme

Reforms 14, 15, 16, 17 of the Plan suggest that the GoL replaces the existing product-based subsidy program by a “Broad Coverage Compensation Programme to Lebanese citizens residing in Lebanon”. This Programme is contradictory.

First, it states that *every Lebanese citizen resident in Lebanon will receive a direct monetary subsidy based on his age.* Targeting based on age is not relevant. The Plan aims at funding this Programme with GoL’s funds as part of the IMF program and other foreign assistance. Even with the latter, assisting 4 million would further affect GoL’s fiscal space. In addition, GoL’s revenues are declining. For instance, according to Blominvest, Lebanon’s fiscal deficit rose by 26.90% YOY to \$1.75B by April 2020.

¹ *Comparative advantage* (David Ricardo, 1817) is an economic term that refers to an economy's ability to produce goods and services at a lower opportunity cost than that of trade partners.

² Sami Atallah, Nancy Ezzeddine, and Jana Mourad. LCPS Policy Brief September 2019. Capitalizing on Lebanon’s Comparative Advantage. LCPS: Beirut.

³ The LBP to be first devalued in 2020 to 3,500 LBP to the dollar then a gradual annum devaluation of 5% for the next 4 years.



Then, the targeting is modified. It no longer includes *every Lebanese citizen*, since *households from the top socio-economic groups will be discouraged from applying for the program as certain exclusions based on affluence will be conducted*. The Programme changed: not every Lebanese citizen is included anymore.

Then, the Plan states that *the amount received can be used by the household freely to buy any type of good he wishes which will lead to higher macro-economic efficiency and should reduce imports and promote local consumption*. This is contradictory. If the household is free to buy any type of good, what makes the MoET so sure that he will not buy imported products instead of local ones?

The plan also suggests an education transfer to all the beneficiaries' children. The targeting is also missing here.

A Plan that lacks numbers & estimates

- Estimates of the unemployment rate (>10%) and youth unemployment rate (*close to 25%*) provided by the economic plan underestimate the severity of the situation. According to surveys conducted by InfoPro Research between November 2019 and June 2020, the unemployment rate has reached 30%.
- The Economic Plan stresses on the importance to *ensure the necessary financial resources needed for [the] economic transformation*. However, it does not provide an estimate of the bailout cost.
- The Plan does not include changes in the positive primary budget balance target cited in the April plan. It is still a 2.4% target in 2024 even though the situation deteriorated further in August 2020. The Plan states that *Lebanon will have to make a significant overhaul of its entire tax policy and tax administration system to basically double the ratio of tax revenues over GDP*. The latter is a long-term strategy which cannot possibly lead to a primary balance of 2.4% in less than 4 years, especially with the new expected loans.

The Plan proposes unnecessary expenditures (while insisting on cutting expenditures)

The Plan clearly urges the cut of expenditures. However, it implicitly suggests new loans as well as the purchase of services from worldwide institutions. These services could be done by Lebanese, which would refurbish the economy.

In fact, the Plan states that the GoL will engage with the international development banks and agencies for the establishment of microfinance programs to support SMEs, for the

rural agriculture, eco-tourism, and small industries. This measure involves additional loans.

Furthermore, the Plan mentions a collaboration agreement with a worldwide leading distance learning institution to develop education programs aiming at creating jobs and sharpening skills in high value-added sectors. The education program could be developed by Lebanese experts⁴ (the human capital MoET praised at the beginning of this Plan) instead of foreign institutions requiring huge payments.

Unclear reforms and unfound documents

Many reforms are unclear and lack pragmatism.

The Plan suggests *customs modernization* in accordance with the High Council of Privatization's "2019 strategy". The latter cannot be found on the Internet. Does it include inspection and control?

The expectation of a certain increase in remittances

The Plan states that remittances would increase in tandem with the currency devaluation. However, there is no proof of this hypothesis' relevance:

- 1- It could be true that a depreciation of the domestic currency can increase the remittances because it lowers the cost to remit. However, as we are observing today, remittances dropped by 17% as of April 2020 according to InfoPro Research despite the currency depreciation.
- 2- Even though more foreign workers abroad send money to their families, the amount sent by each would be less since the purchasing power provided by the remittance to the recipient is higher than before.
- 3- The remitter would not be encouraged to send high amounts of foreign currency to place it in a Lebanese bank since the confidence in the banking sector would take a considerable timeframe to be restored. If he is sending the remittance to his family, he would only send enough to finance the family's consumption.

⁴ IQUAD learning solutions, a digital learning solution provider with industry and market experience that goes back to 1998. Headquartered in Lebanon with operations in the Middle East.



In conclusion, the Economic Plan suggested by the MoET focuses on business, competition, investments, and international trade reforms rather than more pressing ones such as social reforms. The Plan can be perceived as a justification to the government financial recovery plan proposed by the government in April 2020, with less numbers and precision. Nevertheless, the plan is ambitious and provides a detailed diagnostic of the economic situation.



Annexes

Annex 1

Reforms proposed in the plan:

- ✓ *Reform 1: Independence of the judiciary.*
- ✓ *Reform 2: Anti-corruption strategy execution.*
- ✓ *Reform 3: New Investment policy. boost industries with high export potential.*
- ✓ *Reform 4: Enacting Competition. The competition law will set an antitrust enforcement framework that will match international best practices. It aims chiefly at protecting the consumer and promoting a culture of competition that will drive prices down, enhance quality of goods and services, and boost innovation and creativity.*
- ✓ *Reform 5: Leveraging Private Investment through PPP.*
- ✓ *Reform 6: Establishing Specialized Economic Zones.*
- ✓ *Reform 7: Modernize and digitize public procurement.*
- ✓ *Reform 8: Putting the electricity reform plan into action.*
- ✓ *Reform 9: A new vision for the telecom sector.*
- ✓ *Reform 10: Enhancing the transport sector.*
- ✓ *Reform 11: Complete Customs modernization.*
- ✓ *Reform 12: Adopt the new Labor Law.*
- ✓ *Reform 13: Vocational Training Program.*
- ✓ *Reforms 14, 15, 16, 17: Social inclusion Programmes. [...] the GoL will replace the existing product-based subsidy program by a Broad Coverage Compensation Programme to Lebanese citizens residing in Lebanon.*

Annex 2

The Plan's 10 Pillars:

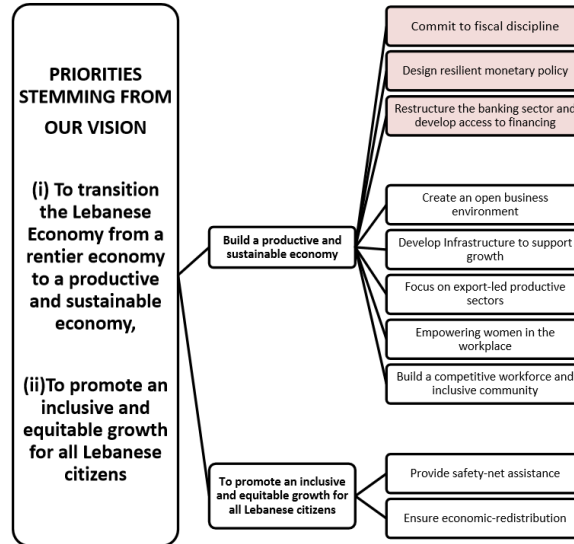


Figure 3: Strategic Framework and Pillars of Economic Recovery