PRESS RELEASE

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IMF Staff Concludes Visit to Lebanon

FOR IMMEDIATE RELEASE

End-of-Mission press releases include statements of IMF staff teams that convey preliminary findings after a visit to a country. The views expressed in this statement are those of the IMF staff and do not necessarily represent the views of the IMF's Executive Board. This mission will not result in a Board discussion.

- The lack of action on necessary economic reforms continues to exert a heavy toll on Lebanon's economy and population.
- Negative spillovers from the conflict in Gaza, and fighting at Lebanon's southern border, and the strain of the refugee crisis have exacerbated an already dire economic and social situation, while the economic outlook is highly uncertain.
- While there has been some progress in lowering inflation and stabilizing the exchange rate, supported by the BdL's decision to end monetary financing and foreign exchange subsidies, as well as the elimination of the fiscal deficit, these reforms are insufficient for recovery.
- Most notably, the absence of a credible and financially viable strategy for the banking system continues to hamper economic growth and deposit recovery, while giving rise to an increasingly cash-based and informal economy and larger risks of illicit activities.
- Economic reforms are essential for a strong and sustainable recovery and for attracting new investment and international financial support.

Beirut, Lebanon – May 23, 2024: An International Monetary Fund (IMF) team, led by Mr. Ernesto Ramirez Rigo, visited Beirut, Lebanon, from May 20 to 23, to discuss recent economic developments and progress on key reforms. At the end of the mission, Mr. Ramirez Rigo made the following statement:

"**The unaddressed economic crisis continues to weigh heavily on Lebanon's population.** Unemployment and poverty have reached exceptionally high levels and the delivery of critical public services has been severely disrupted. At the same time, Lebanon continues to struggle with hosting the largest number of refugees per capita in the world, amidst limited resources.

"**The negative spillovers from the conflict in Gaza and increased fighting at Lebanon's southern border are further exacerbating an already weak economic situation.** It has internally displaced a significant number of people and caused damage to infrastructure, agriculture, and trade in southern Lebanon. Together with a decline in tourism, the high risks associated with the conflict create significant uncertainty to the economic outlook.

"**Some progress has been made on monetary and fiscal reforms since the last Article IV consultation**. Policy measures taken by Ministry of Finance (MoF) and Banque du Liban (BdL) – including the phasing out of monetary financing of the budget, the termination of the Sayrafa (electronic foreign exchange) platform, tight fiscal policy, and steps towards the unification of exchange rates – have helped contain exchange rate depreciation, stabilized the money supply, and started to reduce inflationary pressure. In addition, measures by the MoF to improve revenue mobilization from VAT and customs, by adjustment of the customs dollar to the market exchange rate, brought the estimated 2023 fiscal deficit close to zero. The joint efforts of BdL and MoF have also enabled some accumulation of foreign reserves.

"**However, these policy measures fall short of what is needed to enable a recovery from the crisis.** Bank deposits remain frozen, and the banking sector is unable to provide credit to the economy, as the government and parliament have been unable to find a solution to the banking crisis. Addressing the banks' losses while protecting depositors to the maximum extent possible and limiting recourse to scarce public resources in a credible and financially viable manner is indispensable to lay the foundation for economic recovery. Without progress, the cash and informal economy will continue to grow, raising significant regulatory and supervisory concerns.

"**The timely approval of the 2024 budget was an important first step, but stronger efforts are needed to strengthen public finances.** The tax administration remains underfunded, hampering tax collection and putting the formal sector taxpayers at a disadvantage. Lack of resources prevents the provision of essential public services, social programs, and capital spending. It also exacerbates inequities and negatively affects perceptions of tax fairness. Looking ahead, and given the likely lack of any financing, the 2025 budget should continue to aim for a zero deficit through more ambitious fiscal reforms, particularly to further enhance revenue mobilization through strengthening compliance and reprioritizing current spending to meet essential social and infrastructure needs.

"Progress on other critical reforms, including governance, transparency and accountability, remains limited. The BdL is in the process to start taking steps to enhance internal control and governance. At the same time, further measures to raise transparency across the public sector are much needed, including audited financial statements of state-owned enterprises (SOEs), as well as SOE reforms more broadly. Furthermore, weaknesses in the quality, availability, and timeliness of economic data pose challenges for informed policymaking.

"**The Fund remains committed to supporting Lebanon,** and we expect the Article IV discussions to take place in September 2024 to assess progress on critical economic and financial reforms."

"The mission team would like to thank the Lebanese authorities and all other counterparts for the constructive discussions and their hospitality**."**