

The Monthly meets former Minister of Finance Georges Corm

“Lebanon lacks economic and financial sovereignty - the solution is a productive economy”

The approval of the Lebanese public budget of 2009, in addition to the global financial and economic crisis and its influence on Lebanon, has caught the attention of the Lebanese population.

The Monthly met with Dr. Georges Corm, former Minister of Finance in Lebanon from 1998 to the year 2000, to discuss current economic and financial issues.



We all know that the parliament did not endorse the bills of the budgets of 2006- 2008, and the government is currently discussing the bill of the budget of 2009. How do you see the budget bill?

I think that the constraints affecting the elaboration on the Lebanese public budget did not change for many years. 2009 budget in its essence does not greatly differ from 2008 budget or other previous budgets. This is due to the heavy cost of servicing the public debt which accounts for around 80% of the revenues and 40-50% of the expenses. Therefore, the scope of rationalization of the expenditure is very narrow. Budget presentation is still traditional. Expenditures are divided among different ministries and departments and itemized by administrative or economic nature, thereby preventing us from having a clear idea of what is disbursed for different sectors and regions in Lebanon. In addition, one should mention that 50% of all expenditures are part of the Prime Minister Budget, most of it constituted by large undetailed transfers to the autonomous state institutions and various councils. In fact only 20% of the budget can be allocated to improving public administration performance and services.

There is an urgent need for modernization of the budget presentation through restructuring and reorganizing expenditure items to detail specific sectoral programs reflecting the economic policy of the Government and its objectives in the various fields (health, education, roads and transportation, environment, etc.). This is the only way for MPs and public opinion to be able to appraise properly the Government policies. We should thus reconsider the budget items and the method of presentation as already adopted by many other countries (budgeting by objectives).

What is in your opinion the best way to treat the issue of the public debt in Lebanon?

I recommend that the main concerned parties i.e. the Association of Banks in Lebanon, the Ministry of Finance and the Central Bank show boldness and courage in solving the public debt issue. This requires first a reduction in the cost of its annual servicing without exposing, however, to any loss Lebanese banks that are the largest owners of the public debt (approximately 55% to 60%). This cost should not exceed 35% of total budget expenditure.

To reach this goal it is possible to restructure and consolidate the public debt according to the following steps:

- 1- Do not touch the debt which belongs to regional and international financial institutions (it only represents 10% of the debt) as it is not reschedulable.
- 2- Do not touch Eurobonds in the portfolios of non-Lebanese institutions, such as Gulf and International Investment Funds.
- 3- Reschedule contractually that part of the debt that it is owned by Lebanese banks:
 - a. Half of this part could be transformed into a permanent floating rate debt with a reasonable interest rate (0.50% or 0.75% above interbank deposit market in Beirut for LL Tbills and 1.5 to 2% above the US\$ LIBOR rate) and
 - b. the other half could be consolidated with a long term maturity at moderately higher margin above Beirut interbank market rate (1.5% to 2% for Tbills in LL) and above LIBOR (2.5 to 3.5% for Eurobonds) according to the maturity .

Such a contractual and voluntary restructuring of the public debt will not damage banks' high profits as the banks have moved from past exclusive reliance on subscribing and trading Tbills & Eurobonds to more diversified sources of profits. On the international markets, interest rates have dropped tremendously (to the level of 1% to 2%) and this trend should make easier to arrive to the kind of restructuring mentioned above. Lebanon country pays presently 9% interests on the Euro bond and 8-10% on Tbills. This gives a lot room to proceed with a reduction in the level of interest charged to the Treasury on its public debt hold by Lebanese banks. A 3% decrease in interests paid by the Treasury to the Lebanese banks would be equivalent to a reduction of US\$ 660 million. This would substantially alleviate the debt service burden (by 20% to 25%).

The deputy Prime Minister Issam Fares had the intention to apply such a plan suggested by me when he stated that solving the debt issue should take place in Beirut and not in Paris or elsewhere outside Lebanon.

So you are not pessimistic regarding the public debt if the political will exists?

There are two kinds of obstacles. The first relates to the lack of political will and sense of urgency as we have been able to handle \$3.5 billion per year as public debt. In addition, there are no more worries or fears as to the stability of the Lebanese Pound exchange rate as was the case before when the public debt level was less than it is today.

The other obstacle is that any serious monetary and financial reform requires the reform of the economic structure in Lebanon by making full use of the huge productive capacities that are presently wasted while relying exclusively on increasing amounts of foreign funding. The anti-production environment must change and a production-friendly environment should replace it. Hardly anyone cares about the exploitation of the fertile soil, water, biodiversity and of our human resources.

You mentioned high interest rates. What is the reason behind this policy that generates huge costs to the country?

This policy provides high and continuous banking profits and enables the settlement of the huge deficit of our trade balance, almost \$10 billion. It also facilitates the refinancing of the public debt and its annual increase due to continuous budget deficits.

What about the privatization process?

Privatization cannot be adequately implemented in Lebanon as long as we live in a system of political and economic distribution of power and profits between the main leaders of the religious communities. When you come to privatizing highly profitable enterprises (like the telephone) you will always face a paralysis. I would like to draw your attention to the fact that the law on privatization was issued in 2000 and yet to date (i.e. after 9 years) it has not been implemented.

In addition I am not pro-privatization as a dogma of neo-liberalism. Maybe the management should be transferred to the private sector, as in the case of the mobile phone companies, but the ownership and profits should remain in the hand of the Treasury who badly needs these sources of income. We can also achieve a partial privatization by listing 10% - 20% of the shares of Ogero or Middle East Airlines or IntralInvestment C° on the Beirut Stock Exchange.

The country's main problem is the electricity sector. We should not privatize the production units, but rather the distribution and the collection. The sector should also be open to competition by allowing new private sector companies to produce and distribute electricity and especially allowing industrial units to produce their electricity needs and import freely their fuel oil.

Lebanon was not affected by the global economic and financial crisis. Is this correct and if so for how long?

Lebanon was not affected because we have such a small economy with no big productive capacity that could be heavily affected by the global recession. An indirect impact of the crisis may be due to the reduction of remittances transfers by

Lebanese working abroad. But in Lebanon we have 30 to 40 000 affluent families with a high level of savings and monthly disposable income. Even they were exposed to losses in that part of their savings invested in international stock markets, there are still going to remain wealthy and they will still invest and buy expensive apartments and real estate in Lebanon and in Beirut. The same could be said about wealthy Arabs from the Gulf countries that like to buy flats in Lebanon or to come to visit and spend vacations. Therefore, I expect that the real estate demand will continue, but may be not with the same strength and that the next tourist season will also be good if there is no negative security developments in Lebanon or the region.

The Lebanese banks benefited to some extent from the financial collapses abroad; many deposits flowed to Lebanon considering the applied high interest rates, exceeding by 3%-4% the average international level. Such deposits seek also the conservative policy of the Lebanese banks which did not get involved in the toxic financial products because their sources of profits are secured, whether in Lebanon or through their commercial branches abroad.

Lebanon has imminent elections; do you think that the electoral funds would improve the economy?

The electoral expenditure might benefit the economy but elections might also fear and anxiety which will delay many investment projects awaiting the outcome of the elections. Therefore, the elections could have a negative impact from the economic perspective.

What is your conclusion on the economic situation?

I believe that there is no real desire for real political and economic reforms. Economic thinking is highly conservative of the present unproductive economic system based on a few service activities with low value added. The country has also become addicted to dependency on a flow of permanent foreign funding be it emigrants' remittances or deposits attracted artificially by a high level of interests or the good will of Western & Arabian Gulf foreign donors. 