International Monetary Fund agrees minimal loan for Lebanon amid potential social and political meltdown

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Lebanon's government, headed by Najib Mikati, the country's richest businessman, has accepted a $3 billion package as part of a 46-month financing loan from the International Monetary Fund (IMF).

A drop in the bucket in relation to the country's gross debt of 183 percent of GDP, the fourth highest in the world after Japan, Sudan and Greece, the IMF loan will exacerbate Lebanon's political, economic and social crisis amid a regional geostrategic conflict for control of the country.

While the US and France welcomed the agreement, investment bank Goldman Sachs described it as more of a carrot "than a promise of near-term financial assistance."

In return, Mikati's government has agreed to implement "several critical reforms". This includes restructuring the financial sector and the country's external public debt, fiscal reforms that will eliminate the few remaining social welfare programmes, reforming state-owned enterprises, particularly the electricity sector, and tackling corruption—all while aiming to pass a budget before the parliamentary elections set for May 15.

It will vastly exacerbate the desperate plight gripping Lebanon's six million population, of whom at least 80 percent, including one million Syrian refugees, already live in terrible poverty.

The loan, still to be approved by the IMF's management and executive board, comes amid a crippling economic crisis the World Bank has described as one of the world's worst since the 1850s, with Lebanon's GDP plummeting from US$52 billion in 2019 to around $22 billion in 2021, a collapse usually associated with armed conflicts or wars. The economic catastrophe was worsened by the blast at the port of Beirut in August 2020 that killed more than 200 people, ruined much of the city's northern neighbourhoods and reduced the amount of food the country can store to just one month's supply.

This 58 percent contraction, the highest in the world, is, as international financial institutions acknowledge, the result of the political and financial elite's plundering of the economy over decades. The plight of this tiny country is a foretaste of what is to come as the global economic crisis, regional conflicts including the proxy war for regime change in neighbouring Syria, the COVID-19 pandemic and the US/NATO provoked war on Russia in Ukraine take their toll.

Lebanon's currency fell by 200 percent against the US dollar in 2021, resulting in surging inflation, estimated at 145 percent last year, that places it in third place after Venezuela and Sudan. It is having a devastating impact. With food prices soaring, poorer households, more than 75 percent of the total, are struggling to make ends meet. Access to the most basic goods, including food, water, healthcare, with hospitals only accepting payment in US dollars, and education is in jeopardy. Widespread electricity outages are the rule due to fuel shortages, rampant corruption and mismanagement of the power supply.

The price of OPEC petroleum blends rose by 30 percent after Russia's invasion of Ukraine. The cost of diesel, already selling at 331,000 Lebanese lira a gallon, half the Lebanese minimum wage, rose by 31 percent. The state-owned electricity company now has even fewer resources to buy fuel, while those who rely on small diesel generators to meet their electricity needs are seeing their costs rise.

Lebanon, which used to buy 60 percent of its wheat from Ukraine, now has barely enough reserves for six to eight weeks. Last month, the Economy Ministry announced punishing bread price increases for smaller bread bundles (reduced in weight from 1,750 grams to

1,125 grams): an astronomic 550 percent rise to 13,000 lira a bundle, up from 2,000 lira.

According to the UN's World Food Programme, which has previously warned that the war in Ukraine could drive millions in the Middle East into food poverty and lead to global food insecurity, the cost of the basic food basket in Lebanon, the minimum a family needs per month, soared by 351 percent in the past year. It raises the spectre of malnutrition and hunger.

Government revenues are estimated to have halved in 2021 to just 6.6 percent of GDP, the third lowest after Somalia and Yemen, while its expenditure fell even more sharply, reinforcing the economic collapse and leading, as the IMF acknowledged, to a massive "increase in poverty, unemployment, and emigration."

Last week, Lebanon's Deputy Prime Minister Saadeh Al-Shami told *Al-Jadeed* news channel that the country and its central bank were bankrupt and that the losses would be distributed among the State, the Banque du Liban, banks and depositors. Last month, the judicial authorities charged Riad Salameh, long-time head of the country's central bank, with corruption, embezzlement, illicit enrichment, money laundering and smuggling large amounts of money out of the country after he failed to attend a court hearing for a fifth time. Salameh's brother Raja was charged with "facilitating money laundering" following his arrest for financial misconduct. The heads of five banks were banned from travelling abroad. Their actions follow an investigation into Salameh's wealth after Switzerland and at least four other European countries brought lawsuits against him.

While Mikati has said that his dysfunctional cabinet would approve the necessary bank restructuring measures and parliament would legislate the changes required by the IMF before the sectarian-based May 15 elections, this seems wishful thinking given that these measures have been under discussion for the last two years without any agreement among the political and financial elite. At the very least, he will leave a poisoned chalice for his successor.

All the major Sunni politicians, including former Prime Ministers Saad Hariri and Fouad Siniora, and Mikati himself, have said they will not take part in the elections, leaving most of the 27 Sunni-reserved seats up for grabs and prompting fears that supporters of Hariri's Sunni Future Movement will boycott the elections. Under the post-civil power-sharing agreement, the prime minister must always be Sunni, the president a Maronite Christian and the parliament speaker a Shia Muslim. Whatever the result, the process of agreeing a new prime minister and a government typically takes months.

The IMF loan comes as the Sunni Gulf petro-monarchs of Saudi Arabia, the United Arab Emirates, Kuwait and Bahrain agreed to return their ambassadors to Beirut, after withdrawing them five months ago following earlier comments by incoming Information Minister George Kordahi criticising the Saudi-led military campaign against the Houthi rebellion in Yemen. Kordahi was forced to resign under pressure from Mikati and the Gulf States that used the 350,000 Lebanese expats working in the Gulf and their vital remittances to the beleaguered country as leverage.

The Gulf States have offered to provide financial support to Lebanon. They fear the country's economic collapse and possibly that of Syria with which it is closely linked would strengthen Iran and its allies, including Lebanon's Hezbollah party which heads the largest bloc in 128-seat parliament. But their support depends on political developments in the country and the outcome of May's parliamentary elections. This has prompted fears that the elections will be postponed or torpedoed.

As the war in Ukraine continues and sanctions against Russia are tightened, raising the price of oil and gas, the Gulf states view this as an opportunity to strengthen their position in the region, offering aid to Lebanon, Egypt, Turkey, Jordan and other countries.

In a related development, Lebanon and Israel, which has been developing ever closer relations with the Gulf states, are also reportedly considering a resource swap that would divide the offshore energy reserves in the disputed maritime areas more equitably between the two countries, instead of demarcating the contested areas along geographical lines. The exploration of oil and gas has long been delayed as there is no agreed maritime border between the two countries, which remain technically in a state of war, with neither able to extract gas from the reserves in the disputed zones. French energy giant Total has refused to drill in contested waters. If the estimates of offshore hydrocarbon reserves are correct, this could bring billions of dollars in revenue to both countries. Lebanon's main customer for the gas would be Europe.