



Economic Crises and The Reform Programs: Will the IMF Assistance Rescue Lebanon?



Nermeen Ishker^a
Jamile Youssef^b

Article history:

Submitted: 18 January 2022

Revised: 27 February 2022

Accepted: 09 March 2022

Keywords:

economic downturn;

expectation;

financial crises;

IMF;

Lebanon;

reform programs;

Abstract

Lebanon has been passing through considerable difficulties as a result of compounded economic and financial degradation. Therefore, a comprehensive adjustment program is necessary. The aim of this research is to describe different reform plans applied by countries that have undergone economic and financial crises. More particularly, it discusses nations that implemented the International Monetary Fund reform programs; the purpose, plan, requirements and policies of the program are also identified. Furthermore, this paper highlights the reasons behind the success or failure of a nation in implementing a development program to anticipate whether an agreement with the IMF will be the solution for the Lebanese case. In this paper, we comprehended nations' experiences with IMF were not successful in all cases. The IMF has been a broadly "unchanged IMF", in that its conditionality was destructive and resulted in social upheaval and the impoverishment of the middle classes in most nations. As a result, when negotiating or formulating a recovery program plan with the IMF, Lebanon must emphasize the necessity for an "alternative" or heterodox program that avoids austerity and negative economic and social consequences. A serious discussion will be unlocked by the IMF with Lebanon.

International research journal of management, IT and social sciences © 2022.

This is an open access article under the CC BY-NC-ND license

(<https://creativecommons.org/licenses/by-nc-nd/4.0/>).

Corresponding author:

Nermeen Ishker,

Economics Department, Beirut Arab University, Lebanon.

Email address: nermeeneshker@gmail.com

^a Economics Department, Beirut Arab University, Lebanon

^b Economics Department, Beirut Arab University, Lebanon

1 Introduction

Most countries, especially developing economies have passed through severe and prolonged economic and financial crises in the recent years, with various degrees of severity. These downturns created new policy challenges and highlighted the importance of structural reforms. As a result, countries under the crisis have had to execute comprehensive economic adjustment programs, involving an extensive range of structural improvements and assistance from international organizations and nations. Most of these countries received International Monetary Fund (IMF) financial support and implemented its reform program. The IMF's role in assisting its members has been of significant importance since the early 1980s. Nevertheless, some countries had declined to adopt the IMF reform program and depended on an internal national recovery plan to address their financial and economic difficulties (Fujihara et al., 2017; Machado & Mata, 2015).

Lebanon a Middle Eastern country, located between Syria to the east and north, West Bank to the South and the Mediterranean Sea to the west. The nation has been passing through serious difficulties as a result of compounded economic and financial degradation. The consequences are already catastrophic; half the population falls below the poverty line and unemployment is rapidly increasing. Currency depreciation and its associated inflationary impacts are highly regressive, disproportionately adversely affecting the poor and middle class. Lebanon requires a comprehensive reform program as well as a fresh injection of U.S. dollar (USD) and regaining internal and international trust to retain the economy and local banks recapitalization. In this regard, the Lebanese government initiated a negotiation with the IMF to arrange a support program. This supplicates the question: Can Lebanon reach an agreement with the IMF and avoid heaping more damage on the country and its citizen?

This paper is a descriptive research study. It aims to analyze the reform experiences of countries that chose to borrow from IMF and others that used their own recovery plan. It identifies the purpose of borrowing, the IMF plans and requirements, policies applied by the governments and the reason for the success or failure of the reform program. Furthermore, this paper sheds the light on the current situation in Lebanon and whether an agreement with the IMF be the solution for the crisis. This paper is arranged into five sections. The first one is the introduction. The second section analyzes the economic situation of Lebanon. The third section is reform programs experience of five countries discussed under three cases: Success Case with IMF Reform Program, Failure Case with IMF Reform Program and Success Case with National Economic Recovery Program. The fourth section represents the Lebanese and IMF status, where the negotiation stage with the IMF, requirements for borrowing and future expectation are discussed. Finally, the concluding section summarizes the paper (Coull & Nobre, 2008; Levy, 2008).

Economic situation of Lebanon

Lebanon is in a serious difficulty stage as a result of a series of interconnected crises. Beginning with the revolutionary uprising in October 2019, followed by defaulting on Eurobond payments in March 2020 and the outbreak of COVID-19 two weeks later. On August 4, 2020, a large amount of stored ammonium nitrate in Beirut port; in the capital city, caused a massive explosion that led to damage third of Beirut. All of these adverse shocks have driven Lebanon toward a deeper social, political and economic collapse. The post-civil-war economical model adopted in the country was considered by many to be one of the largest Ponzi schemes. In which real estate and banking sectors were growing in favor of other economic sectors (Abdo et al., 2020; Albitar, 2021).

Table 1
Economic indicators in Lebanon (2015-2021)

	2015	2016	2017	2018	2019	2020	2021
Real GDP Growth	0.6%	1.6%	0.8%	-1.7%	-7.3%	-25%	--
Exchange Rate (LBP = one USD)	1507.5	1507.5	1507.5	1507.5	End of 2019 2127.5	End of 2020 8,410.7	End of 2021 27,570
Inflation Rate	-3.4%	3.1%	5%	3.98%	6.96%	140.72%	224.39%
Net total Debt (in billions USD)	59.28	63.36	67.16	72.54	77.79	84.19	86.72
Balance of Payment (in millions USD)	-711.81	-872.83	-1,011.16	-1,113.91	-984.154	-246.61	--

Foreign asset in BDL (in millions USD)	33,093	32,959	34,577	9,009	7,368	6,642	5,077
--	--------	--------	--------	-------	-------	-------	-------

Source: International Monetary Fund, lirate.org, Central Administration of Statistics and Banque du Liban

Lebanon incurs a massive deficit in its balance of payments ([Banque Du Liban, 2022](#)). In 2019, the Lebanese economy endorsed a significant outflow of its capital and a shortage of deposits which worsened its balance of payment. The banking deposits were primarily from expatriates. Furthermore, the trade deficit kept increasing as well, which depleted the foreign currency reserves in the country and stretched the currency peg policy to its limit ([World Bank Group, 2021](#)). During February 2022, the local currency (the Lebanese pound, LBP) has lost more than 90% of its value against the USD in the parallel market. This resulted in a massive decrease in the purchasing power of most residents in the country. A recent study by Economic and Social Commission of Western Asia, Economic and Social Commission of Western Asia states that poverty in Lebanon had reached 82%.

The inflation rate in Lebanon increased by 681% from the beginning of 2020 till the end of 2021 ([Central Administration of Statistics, 2022](#)). Furthermore, the economy had witnessed a downturn growth of real Gross Domestic Product (GDP) by -25% ([International Monetary Fund, 2022](#)). In 2021, the majority of the Lebanese debt was in LBP and equivalent to 81 billion USD, whereas liability in foreign currency was 39 billion USD ([Banque Du Liban, 2022](#)). Lebanon suffers from inadequate infrastructure as well. For instance, shortage in electricity and high telecommunication cost which does not act as a tool of attraction to investors. Corruption and lack of effective decision making are considered the reasons behind energy insecurity, power outages and high communication cost in Lebanon. Lebanon is one of the few countries that primarily depends on gas, fuel oil and diesel to produce electricity. From the year 2016 till 2020 a total of 6.4 billion USD was transferred from the government budget to Electricity of Lebanon to finance fuel purchase ([Ministry of Finance, 2020](#)). This caused a higher burden on the governmental budget ([Thakor, 2012](#); [Bussiere & Fratzscher, 2006](#)).

Furthermore, the political state in Lebanon and its neighboring country does not assist the Lebanese situation. During modern history, Lebanon witnessed various events like the assassination of Prime minister Rafik Al Hariri in 2005, and the July 2006 war between Israel and Hezbollah. Hezbollah represents a political active party in the Lebanese parliament. In addition, frequent tension on the Lebanese- Syrian border since 2011. The diplomatic instability in Syria had imposed an enormous burden on the Lebanese economy, social and political aspects. Where Hezbollah is Al-Assad regime supporter in the Syrian war. The Syrian conflict increased the tension inside the country and in its international affairs ([Young et al., 2014](#)). Additionally, the massive number of refugees in a nation that already features macroeconomic problems, corruption and mismanagement imposed intense pressure on the country. Fiscal mismanagement and corruption are repeatedly found in the political system in Lebanon ([Abdelnour, 2001](#)). Moreover, the U.S. Department of the Treasury's Office of Foreign Assets Control (OFAC) sanctioned Lebanese politicians ([U.S. Department of the Treasury, 2020](#)). This has imposed a threat to the economy, weakened governmental institution and negatively influenced citizens relationship with the government ([Barro & Lee, 2005](#); [Dagher & Yacoubian, 2012](#)).

Cases of economic reform plans

Success cases with IMF reform program

The Jordan case

Jordan is a lower-middle income and market-based economy with limited natural resources to benefit from. It primarily focuses on skilled human resources and financial aid. Human capital is exported to Gulf nations ([Harrigan et al., 2006](#); [Jaradat, 2010](#)). During the 1980s, the Jordanian economy started to weaken, after it maintained an impressive growth throughout the 1972-1982 period. In 1983, the oil price collapsed, and the regional economy started to slow down. During this period, remittance inflow to the country declined. As a response to the crisis, the government implemented an expansionary policy. This increased borrowing, consumed reserves, inflated prices and widened the budget deficit ([Ebrahimi, 1996](#); [Harrigan et al., 2006](#)). Jordan's economy reached its trough in 1989 and living standards fell. This was the year the IMF interfered to loan and coordinate an economic adjustment plan with the government. Prior to IMF interference, Jordan's government was required to freeze public wages and increase petroleum product prices ([Harrigan et al., 2006](#)).

The IMF and Jordan macroeconomic stabilization program supported several aims. First, reduce the fiscal deficits while maintaining a competitive exchange rate. The fiscal deficit adjustment consisted of tax reform, reduce capital

and military expenditure, and cut in subsidies (Ebrahimi, 1996). IMF mainly focused on expenditure reduction and raising in governmental revenue (Harrigan et al., 2006). Second, liberalize trade and the financial sector. To liberalize trade, the following was implemented: floating exchange rate, rationalizing tariff, and lifting price control except that on essential goods such as food (Ebrahimi, 1996). Third, a debt restructures through debt swaps and buybacks. This results a drop in the level of debt stock. Debt restructures provided only a short time relief. Forth and most importantly, the program focused on sheltering the poor. Although public expenditure declined, essential social services such as health and education remained at their level. Furthermore, in 1990, coordination between the government and non-government organizations was established to aid the poor (Ebrahimi, 1996). Jordan effectively implemented the agreed-on adjustments; the latter was in July 2004 (Jaradat, 2010).

The results section reports what was found in the study, and the Discussions section explains the meaning and significance of the results and provides suggestions for future directions of research. In this section, it is explained the results of research and at the same time is given the comprehensive discussion. Results can be presented in figures, graphs, tables, and others that make the reader understand easily. The discussion can be made in several sub-chapters.

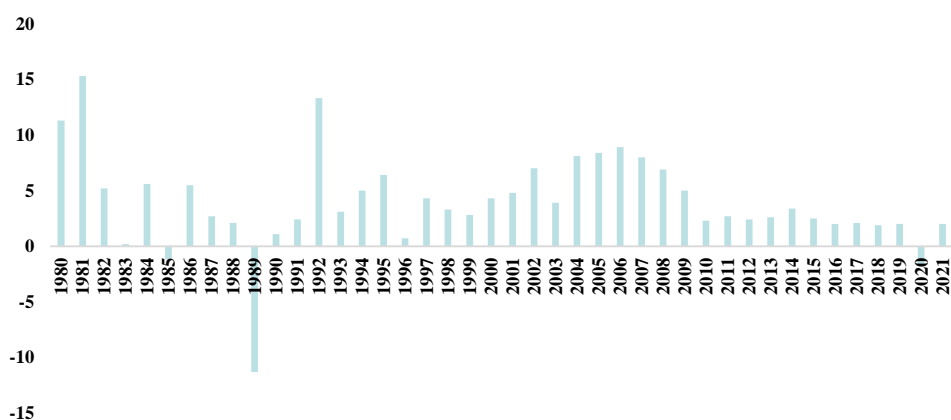


Figure 1. Gross domestic product growth in Jordan (1980-2021), in percentage.
Source: International Monetary Fund

Jordan successfully recovered from its economic depreciation in the early 1990s. The IMF financial assistant and adjustment plan played a virtual role in the recovery. The applied policies resulted in an increase in domestic interest rate which attracted short term capital inflow, foreign exchange reserve, and a net foreign asset to double (Ebrahimi, 1996). Government commitment and focus on aiding the most vulnerable community in the country portrayed a significant role in this success (Peabody, 1996; Otsuka, 2007).

The Brazil case

The economic history of Brazil can be summarized as a series of booms and busts. During the 1980s and early 1990s, the Brazilian economy struggled from deprived development and high inflation rate, exacerbated by wasteful and inefficient public oversight. To tackle Brazil's excessive inflation, the 'Real Plan' was launched in July 1994. The plan focused on removing price indexation, establishing an alternative currency (the real), and following an exchange rate stabilization policy. To maintain a credible peg against the USD, Brazil needed to implement firm fiscal and monetary policies that aim to restrict currency appreciation in real terms (Ter-Minassian, 2012). Under the Real Plan, economic growth slowed down, however, a recession was avoided, and inflation fell sharply. Despite the fact that Brazil had succeeded in decreasing inflation to historical low record, the reform program did not move as quickly as expected and was hampered further by inadequate economic development (Chadhiq & Yusroni, 2021; Barra Nova, 2021).

Three interconnected economic problems arose: exchange rate valuation, fiscal deficit, and current account deficiency. From 1995 to 1998, with the decline in inflation, a consensus arose declaring the real currency to be overvalued by 15% to 30%. This led to a rapid investor withdrawal and a currency crisis. In addition, while restricted monetary policy was implemented to preserve the Real Plan, inadequate fiscal management placed a second significant economic obstacle. Another critical economic issue was the current account deficit, which was higher than generally considered desirable. Investors were skeptical of Brazil's inflated currency, weak fiscal position and policy stalemate.

Capital flight for outside the country prompted Brazil to seek assistance from the IMF even before full-scale crisis erupted (International Monetary Fund, 1999; CRS Report, 2000).

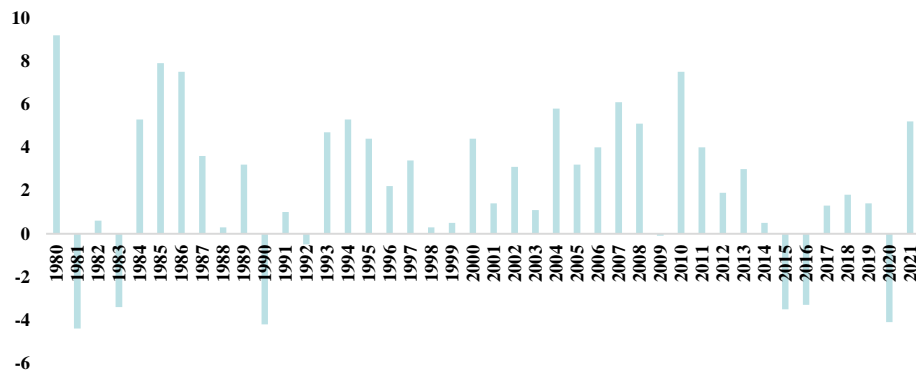


Figure 2. Gross domestic product growth in Brazil (1980-2021), in percentage.
Source: International Monetary Fund.

In December 1998, the IMF agreed on a stand-by arrangement. The arrangement included financial commitments from the World Bank, Inter-American Development Bank, IMF and 20 independent nations, including the United States. The aggregate amount of monetary aid provided was 41.5 billion USD. The financial commitments drawing was conditioned on the country through adopting a number of policies. For instance, decreasing its fiscal deficit, adhering to a strict monetary plan, enacting numerous structural reforms and preserving its fixed currency rate. The subsequent capital flight pushed Brazil to float its currency within a month. Moving from a pegged to a floating currency rate meant that the country was no longer in compliance with the initial IMF requirements, necessitating a renegotiation of terms. With reforms underway, the IMF agreed to new terms with Brazil in its second review in March 1999. As a requirement for releasing the remaining IMF resources, the Fund conducted three more reviews of the Brazilian economy on July 1999, November 1999 and May 2000 (International Monetary Fund, 1999; International Monetary Fund, 2003).

The Brazil economy responded faster than many analysts projected, the country did not require the full amount from IMF (International Monetary Fund, 2003). Economic indicators suggest that the nation has outperformed all forecasts in terms of its recovery from the January 1999 devaluation when the country's financial crisis ended. Although Brazil was predicted to enter a deep recession, the annual inflation remained within the IMF's target range, employment and GDP increased. Moreover, foreign capital returned to the country and the current account deficit was solely funded. Furthermore, the position of Brazil's reserve stabilized, even as it has repaid the IMF. IMF assistance and the economic policy adapted comprised crucial elements in reducing the severity of the financial crisis in Brazil. Such as structural improvements that included fiscal responsibility law, redefining private, public pension systems and larger tax reform. Hence, local, state, and federal budgets were positively influenced and regulatory monitoring (and consolidation) of the financial industry increased. Many consider the Brazilian IMF program to be a success as it provided liquidity and credit enhancement.

Failure cases with IMF reform program *The Pakistan case*

Pakistan is a developing country that thrived to achieve economic expansion with a 5-percent growth rate for four consecutive decades till the year 1989. The nation's economy mainly focuses on manufacturing and agriculture. It is identified to be self-sufficient in most food production (Easterly, 2001; Husain, 2005). In the course of 1988, till 2002 Pakistan's economy fell after it witnessed a state of booming during the 80s. Scholars call the crisis period as "lost decade of development." The country faced political instability along with corruption, financial confusion, low government revenue and ineffective use of resources. Similar to other developing countries, it suffered from a deficit balance of payment and high dependency on external borrowing (Hakro & Ahmed, 2006; Isran et al., 2013; Isran & Isran, 2014). When Pakistan announced its bankruptcy in 2000, it turned to the IMF for support. To secure loans from

the IMF, Pakistan government was conditioned to increase interest rate, cut subsidy and fluctuate its currency. Downsizing expenditure and privatization of public institutes was a requirement as well. In 1988, Pakistan accepted the IMF adjustment program to be implemented within a 3-years period (Isran et al., 2013).

The program focused on macroeconomic policies and shifted from a fiscal deficit to a surplus. The program included reform of the tax system. The government significantly increased the taxation rate within 3 years only, however, it did not widen the tax base. On the other side, the government decreased national expenditure (Isran et al., 2013; Isran & Isran, 2014). Furthermore, excise duties on hotels, travel, advertisement and telecommunication were imposed. In addition to tariffs imposition on urban services like sewerage and water (Isran et al., 2013). Nevertheless, export remained low while the budget balance notably improved (Hakro & Ahmed, 2006).

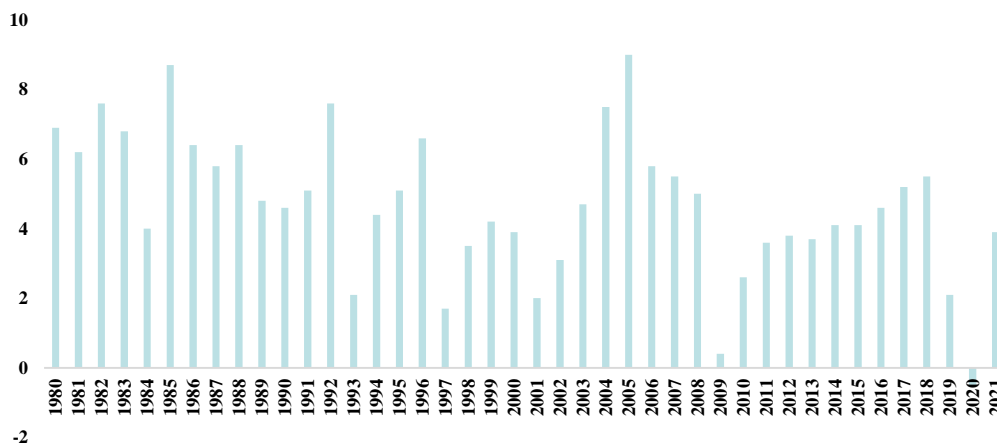


Figure 3. Gross domestic product growth in Pakistan (1980-2021), in percentage.

Source: International Monetary Fund.

The drawback of Pakistan reform program is that it did not take into consideration social difficulties and the nation's currency devaluation. Additionally, public expenditure in the area of development had declined. Prices especially that of petroleum products inflated electricity and gas. Therefore, the inequality gap widened, unemployment rose and poverty sharply increased (Hakro & Ahmed, 2006; Isran et al., 2013). Domestic institutes chose to shut down immediately after the announcement of trade liberalization. The local cost of production became excessive; hence, institutes were not capable of competing with imported goods (Hakro & Ahmed, 2006; Awan & Hussain, 2021). Although Pakistan signed several adjustment agreements with the IMF, claim the failure of the program was anticipated to the absence of government commitment and willingness (Isran et al., 2013; Awan & Hussain, 2021). Others focus on adverse external factors and the slowdown in reform implementation (Hakro and Ahmed, 2006; Awan and Hussain, 2021). The IMF program was identified to lack safety net for workers and vulnerable communities. Expenditure on health and education declined, and privatization caused thousands to lose their jobs (Isran & Isran, 2014). Harko & Ahmed (2006), criticize the timing of adjustment implementation; the government did not adopt a serious sequence timeline for the program completion. Pakistan was observed to pursue stabilization in favor of growth. Though the IMF objective and implemented program was similar to that of other nations that implemented the IMF recovery plan, Pakistan case was considered a failure.

The Greece case

Greece, a developed economy and a founding member of the IMF, has been a member of the European Union's (EU's) predecessor and the European Community (EC), since 1981. The country adopted the Euro in 2001 and united with the group of countries that adopted this new physical currency at the beginning of 2002. During the period 1998–2007, the country appeared to be one of the most prosperous in the EU. However, the seeds of the Greece sovereign debt crisis were sown in the prior years of the decade due to three factors: (i) The Greek economy's exhausted state, which was concealed by the authorities (corruption, shadow economy, severe inflation, and a large amount of national debt). (ii) The consequences of Greece's adoption of the Euro. When it joined the European Monetary Union (EMU) and adopted the Euro as a currency, the long-term interest rate spreads on Greece government bonds converged strongly

with the EMU average and that of Germany - which represents the most economically dominant EMU member - implying that Greece had access to more loans at lower rates. (iii) The 2008 global financial crisis (Gibson et al., 2012; Alogoskoufis, 2012).

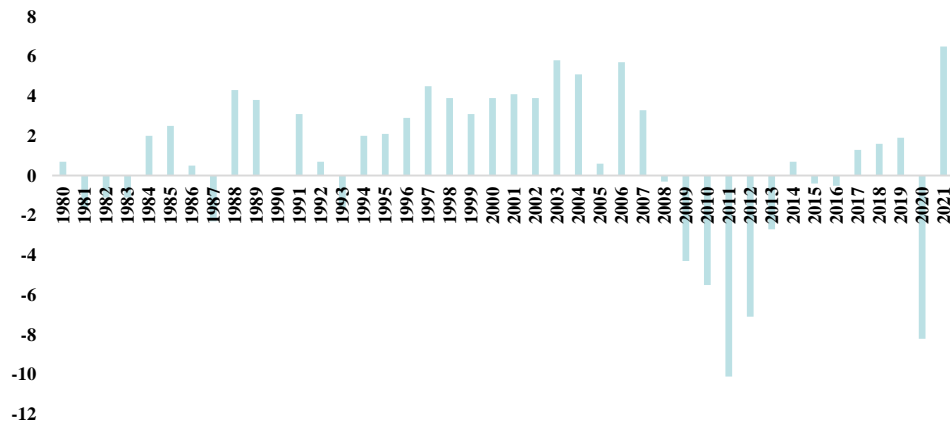


Figure 4. Gross domestic product growth in Greece (1980-2021), in percentage.
Source: International Monetary Fund.

Because of the crisis, the Greek government was forced to seek financial assistants from its EU partners as well as the IMF. Between 2010 and 2015, Greece implemented three Economic Adjustment Programs which were approved by the Eurogroup. Greece's first Economic Adjustment Program was in May 2010. The Program aimed to restore market confidence and financial stability while maintaining the necessitated urgent improvements in public finances. As a result, the urgent priority was to limit government's need for finance through cutting public spending and improving the government's effectiveness in generating revenue (European Commission, 2010). Despite the fact that the previous program was not completed, the second Economic Adjustment Program was approved in March 2012. The finance of the second program was contingent on an additional effort in fiscal adjustment. The goal was to achieve a primary surplus of 4.5 % of GDP in 2014, as well as public debt of 120 % of GDP by 2020 (European Commission, 2012). In August 2015, Greece's third Economic Adjustment Program seeks a return to sustainable economic growth as a continuation of the first two adjustment programs (European Commission, 2015).

The reforms agreed upon the Eurogroup in the memorandum of understanding (MoU) are classified into four categories: (i) Restore fiscal sustainability through anti-fraud measures and tax reforms. (ii) Secure financial stability by the resolution of non-performing loans and the recapitalization of banks. (iii) Increase economic growth, investment, competitiveness, and employment through labor and product market reforms (addressing undeclared work and review of collective bargaining agreement framework, mass layoffs and collective action) and privatization. (iv) Modernize the public sector by increasing its effectiveness in essential basic social services and goods, enhancing the efficiency of the justice system, and stepping up anti-corruption efforts (strengthening the functional and structural independence of key institutions, like the statistical services and tax). The policies resulting from the economic adjustment programs had a negative impact on Greece's GDP per capita. It had an effect on the population with low-level income bearing the brunt of the consequences. The negative impact occurred between 2010 and 2012 when the first Economic Adjustment Program was implemented and the second began. Over the course of 2013 and 2014, the Greece economy improved slightly in comparison to the estimated counterfactual. However, it suffered a new loss in comparison to the counterfactual in 2015, coinciding with the third Economic Adjustment Program (Revuelta López, 2021).

The economic adjustment programs were unable to aid Greece in overcoming its financial crisis. The failure of EAPs in Greece was caused by both domestic and external factors. Domestic like the functioning of the public sector, characteristics of Greece entrepreneurship and the shadow economy. The external factors such as a lack of alternative economic policy instruments and the IMF program's assumptions and oversights (Mavridakis et al., 2018). In studying the situation of Greece, Liargovas & Psychalis (2019) concluded that certain economic adjustment program policies and objectives were certainly conflicting, rendering a more difficult implementation.

*Success case with with national economic recovery program
The Malaysia case*

The Asian financial crisis 1997-1999 hit most Southeast Asia countries at that time. The crisis was a surprise for all, especially after the economic development in 1996. The stock market and the import revenue declined (Bustelo et al., 1999; Johnson et al., 2000). Different from its neighboring countries, Malaysia chose not to apply for IMF assistance. (Dornbusch, 2001; Lim & Goh, 2012). Malaysia's economic condition was different from other Asian countries that were also passing through a financial disaster. Malaysia did not contain excessive level of external debt; its fiscal balance was surplus, and it consisted of a more active corporate and banking sector. However, the economic crisis consequences were similar to other Southeast Asia countries. These consequences were capital outflow, loss of market confidence and stock market collapse. In addition, decline in reserve and currency depreciation (Staff, 2000).

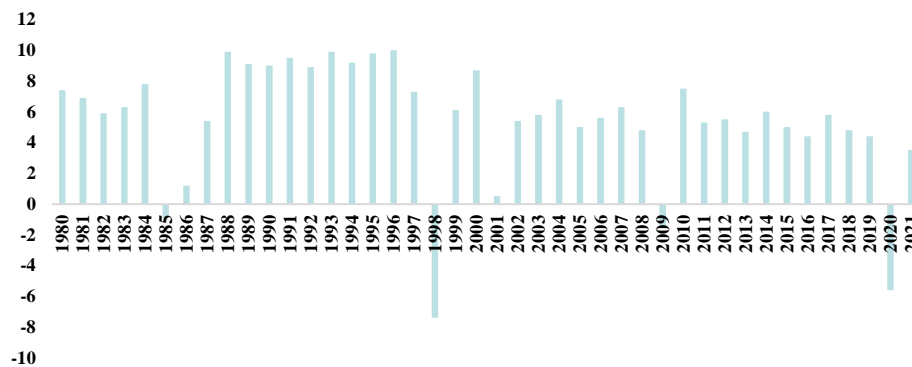


Figure 5. Gross domestic product growth in Malaysia (1980-2021), in percentage.
Source: International Monetary Fund.

Although Malaysia did not agree with the IMF, it chose to follow the IMF macroeconomic reform plan similar to that implemented in other Asian nations (Dornbusch, 2001; Lim & Goh, 2012). In order to restrict capital outflow, the government increased its interest rate, decreased public expenditure and followed a floating exchange rate. These steps transformed a financial crisis into a gross economic depression. In 1998, the Malaysian government decided to stop following the IMF recovery strategy and launched 'National Economic Recovery' plan. The program aimed to stabilize the nation's currency and the financial market. Restructure corporate debt and work to regain market confidence. These were the top core objectives of the national plan (Meesook et al., 2001; Lim & Goh, 2012). Policies were implemented in a sequential manner. First, the interest rate was reduced. Second, the exchange rate was fixed; Malaysia is considered an open economy focusing on external trade hence, a non-floating exchange rate was specified as a crucial element for its economy. Third, expansionary fiscal policy was adopted. Such policy turned the government budget into a deficit, nevertheless, it developed the economy. Finally, the government considered the decision to restructure and recapitalize troubled financial institutions instead of shutting them down (Lim & Goh, 2012).

The financial, macroeconomic and monetary policies promoted the economy to growth. By the year 1999, the governmental current account turned into a surplus. The country's foreign reserve rose and both corporate and national balance sheets moved from a deficit to excess (Lim & Goh, 2012). The vast difference between Malaysia's embraced policies and that of other South Asian countries is the strict capital control. Malaysia's capital control involved repatriation of offshore ringgit funds and their lockup with a one-year holding period along with a restriction on outflows (Dornbusch, 2001). When the crisis started, Malaysia adopted the IMF plan without its official assistance. The result was a failure; the economic status of the country was further collapsing. The Malaysian government considered a bold decision and implemented a plan completely different from that of the IMF. And it worked. The government was thoroughly committed to its plan and the primary goal was reforming its economy to regain confidence and trust.

Lebanese and IMF status

Lebanon joined the IMF on April 14, 1947. A country joins the IMF based on its relative position in the global economy, and it pays a one-time "membership" fee (or quota). These quotas from members provide the IMF with the needed capital to lend struggling nations. The IMF's Board of Governors reviews the quotas on a regular basis and ultimately determine a country's voting power and its access to the IMF funds. The quotas are measured in Special Drawing Rights (SDRs). SDR represents a unit of account used by the IMF and other international organizations; its value is based on a basket of five currencies: The U.S. dollar, Euro, the Chinese renminbi, the Japanese yen and the British Pound Sterling. On January 31, 2022, one SDR is worth 1.395 USD. Lebanon's IMF quota is equivalent to 633.5 million SDR ([International Monetary Fund, 1947](#); [International Monetary Fund, 2022](#)).

Lebanon and IMF negotiation

In May 2020, Lebanon officially requested financial help from the IMF, it was a first step from the Lebanese government in view of its fiscal state. Lebanon seeks to get 10 billion USD of IMF assistance, which is viewed as a last-resort rescue package. However, the expected amount of help from the IMF is overly optimistic; considering Lebanon's small quota at the IMF and the uncertainties towards the Lebanese government ability to implement the reform program. It is unlikely that the IMF will commit more than three to five billion USD, which is equivalent to four to five times the quota of Lebanon in IMF ([Abdo et al., 2020](#); [Bisat et al., 2020](#); [Albitar, 2021](#)). Before one day of requesting aid from the Fund, the Lebanese government published an economic recovery plan. The purpose of the plan was to serve as negotiation foundation with the IMF. But after more than seventeen rounds of discussions, the negotiations with the IMF broke down. The main reason for this breakdown was the lack of agreement a unified number for the losses of the financial sector. The government assessed the losses at the time to be more than 70 billion USD. However, Banque du Liban, commercial banks, and certain members of the Parliament did not agree on the vast losses and how it should be shared out ([Oguri, 2020](#)).

In August 2021, as a response to COVID-19, the IMF Board of Governors agreed on a general allocation amounted to 650 billion USD to be distributed to all 190-members in accordance with their quota share. At this critical moment, Lebanon received around 860 million USD of SDRs to rebuild the depleted reserves and assist with the numerous pressing needs of the Lebanese people. To support necessary macroeconomic adjustment and reforms, the SDR allocation should assist in replenishing reserves of the central bank and must be used in a responsible and transparent manner ([International Monetary Fund, 2022](#)). In October 2021, the ministry of finance issued a statement announcing it had "resumed interactions" with the International Monetary Fund and public debt restructuring strategy. The Government prepared the team in charge of negotiating with the Fund under the leadership of the deputy Prime Minister Saade Chami and including Finance Minister; Dr. Youssef El Khalil, Economy and Trade Minister; Amin Salam and Banque du Liban Governor; Riad Salameh ([Ministry of Finance, 2021](#)). However, during an interview with Reuters the Minister of Economy stated he didn't expect the government to arrange a comprehensive IMF agreement before March 2022 parliamentary elections and that no money is likely to be disbursed sooner ([El Dahrán & Bassam, 2021](#)).

IMF requirement

Countries with questionable governmental commitment and complex political environment like Lebanon, face significant risk of IMF programs going off track and disbursements being withheld. Therefore, negotiation between IMF and Lebanon is protracted and complicated, and it involves many rounds and risk-taking months before being finalized. Even if an agreement in principle is achieved, the IMF will not transfer funds until serious actions are implemented. This constitutes the program to which Lebanon must comply before the first payment is made. Furthermore, the IMF possesses a list of measures to be adopted over time after prior actions have been executed. In October 2019, the IMF published its annual "Article IV Consultation Staff Report" (Article IV report). It outlines recommended reforms for Lebanon. The following are the major components of this recipe: increase VAT and fuel excise rates, enhance tax collection, reduce public sector spending, privatization and execute electrical sector reforms ([International Monetary Fund, 2019](#)). Additionally, the IMF also seeks structural reforms, which can be classified into four categories. First, different electoral law legislation that encourages new secular parties and independent candidates to run for elections. Second, legislative reform that investigates the need to eliminate sectarianism or separate religion and politics. The third is truth and reconciliation, which aims to hold corrupt leaders accountable. Commercial banks

transferred the majority of their foreign currency to the Lebanese Central Bank, to repay government commitments and loans which incurred as a result of mismanagement and corruption. Truth and reconciliation were used in countries transitioning from dictatorships to democracies. Furthermore, a board of investment is required, with international and financial professionals overseeing government bidding process to ensure that contract awarding, and payment of public funds is assigned fairly. Finally, dealing with Hezbollah. The international community recognizes this political party as the cause of the current state of chaos and it presently convenes a majority in the Lebanese parliament (Albitar, 2021).

Expectation of IMF reform program in Lebanon

Based on IMF general policy of lending programs reform and procedure provided in previous Article IV reports, the IMF and Lebanon elements will revolve around the following set of measures: (i) A significant devaluation of the local currency (LBP) which aims to restore economic competitiveness, narrow the deficit in current account and aiding in reserves rebuilding. (ii) Aggressive fiscal measures that result in a primary surplus within two to three years. (iii) Significant debt reduction which achieves sustainability and limits the country's possibility of facing future challenges servicing its debit. (iv) Banking sector recapitalization, as well as a restructuring of Lebanon's central bank (Banque du Liban) (Bisat et al., 2020). None of these policies will be easy to implement, and the economic adjustment will be unpleasant and time-consuming.

To protect the country's foreign currency reserves from being depleted, the central bank has to cease its currency support policy. This devaluation will assist in decreasing the current account deficit and significantly reducing the country's external financing needs. This decrease is caused by two factors: imports would fall during the deep recession, and exports would regain competitiveness after the sharp depreciation. From the fiscal side, the IMF requests significant reforms, such as restructuring and improvement in the electricity sector, broadening the tax base, reducing subsidies, improve tax and customs administration. Other improvements include pension reform, lowering the size of the public service, and anti-corruption measures. Regarding the debt, the IMF requires the country's obligation to be significantly reduced. Internal rules of the IMF forbid it from financing nations with high levels of debt since the situation threatens the ability of the country to repay its obligations. As a result, to make space for the IMF liability, additional debt reduction is required. Moreover, most of the difficult adjustments required lie in the banking sector. The primary objective is to restore the banks liquidity, allowing them to gradually unfreeze deposits. This process might be complex and time-consuming as it will necessitate a major restructuring and reduction of the banking sector, as well as recapitalization of surviving banks. The goal is to reestablish the banking sector's access to foreign financing and reposition it to encourage economic recovery rather than being a conduit for government financing.

2 Conclusion

In this paper, we comprehended nations' experiences with IMF were not successful in all cases. The IMF has been a broadly "unchanged IMF", in that its conditionality was destructive and resulted in social upheaval and the impoverishment of the middle classes in most nations. As a result, when negotiating or formulating a recovery program plan with the IMF, Lebanon must emphasize the necessity for an "alternative" or heterodox program that avoids austerity and negative economic and social consequences. A serious discussion will be unlocked by the IMF with Lebanon. However, in exchange, Lebanese negotiators must be thoroughly prepared to bring genuine policy proposals, arriving empty handed will allow the IMF to impose its own agenda on a nation that is unable to sustain austerity and regressive taxation.

There are pros and cons to the IMF program in Lebanon. The IMF will demand mandatory measures like severe debt reduction, increase the tax base and will support privatization, which will produce a negative impact. In addition, it will be challenging to persuade the IMF that a "heterodox" or alternative approach works better for Lebanon. Furthermore, it necessitates strong and disciplined bargaining by Lebanese negotiators well-versed in financial and macroeconomics matters. On the other hand, an agreement with the IMF restores credibility to the Lebanese government. The organization's stamp of approval allows Lebanon to obtain alternative sources of money and negotiate with its bondholders. Most significantly, the IMF program offers coverage for enacting difficult and long-overdue policies that would allow to receive national support. Furthermore, the IMF's experience in enhancing tax administration, as well as addressing financial crises is particularly beneficial. Therefore, although the IMF program

is crucial for the Lebanese economy, the government should be committed and cooperative in shepherding severe measures to have a success story.

Conflict of interest statement

The authors declared that they have no competing interests.

Statement of authorship

The authors have a responsibility for the conception and design of the study. The authors have approved the final article.

Acknowledgments

We are grateful to two anonymous reviewers for their valuable comments on the earlier version of this paper.

References

- Abdelnour, Z. (2001). The three faces of corruption in Lebanon. *Middle East Intelligence Bulletin*, 3(2).
- Abdo, N., Abed, D., Ayoub, B., & Aouad, N. (2020). The IMF and Lebanon: The long road ahead—An assessment of how Lebanon's economy may be stabilized while battling a triple crisis and recovering from a deadly blast.
- Albitar, R. (2021). Lebanon and the International Monetary Fund bailout.
- Alogoskoufis, G. (2012). Greece's sovereign debt crisis: Retrospect and prospect. GreeSE Paper No. 54 Hellenic Observatory Papers on Greece and Southeast Europe, London School of Economics. *London School of Economics*. Available at www2.lse.ac.uk/europeanInstitute/research/.../GreeSE-No54.pdf (accessed 9 April 2012).
- Awan, A. G., & Hussain, R. (2021). Role of IMF Programs in stabilization of Pakistan's economy. *Global Journal of Management, Social Sciences and Humanities*, 7(2).
- Banque Du Liban (2022). Statistics and Research. Public debt- Foreign currency debt.
- Barra Novoa, R. (2021). The new economy in times of crisis. *International Journal of Business, Economics & Management*, 4(1), 149-156. <https://doi.org/10.31295/ijbem.v4n1.1350>
- Barro, R. J., & Lee, J. W. (2005). IMF programs: Who is chosen and what are the effects?. *Journal of monetary Economics*, 52(7), 1245-1269. <https://doi.org/10.1016/j.jmoneco.2005.04.003>
- Bisat, A., Cassard, M., & Diwan, I. (2020). A Grave Crisis, With No Silver Bullet. *Carnegie Middle East Center, May*.
- Bussiere, M., & Fratzscher, M. (2006). Towards a new early warning system of financial crises. *Journal of International Money and Finance*, 25(6), 953-973. <https://doi.org/10.1016/j.jimonfin.2006.07.007>
- Bustelo, P., García, C., & Olivie, I. (1999). Global and domestic factors of financial crisis in emerging economies: Lessons from the East Asian episodes (1997-1999).
- Central Administration of Statistics. (2022). Economic Statistics. Consumer Price Index CPI.
- Chadhiq, U., & Yusroni, N. (2021). Building a company's positional advantage based on CRM capabilities and marketing intelligence towards marketing performance. *International Journal of Business, Economics & Management*, 4(3), 469-476. <https://doi.org/10.31295/ijbem.v4n3.1765>
- Coull, J. T., & Nobre, A. C. (2008). Dissociating explicit timing from temporal expectation with fMRI. *Current opinion in neurobiology*, 18(2), 137-144. <https://doi.org/10.1016/j.conb.2008.07.011>
- CRS Report. (2000). Brazil's Economic Reform and the Global Financial Crisis, Received through the CRS.
- Dagher, L., & Yacoubian, T. (2012). The causal relationship between energy consumption and economic growth in Lebanon. *Energy policy*, 50, 795-801. <https://doi.org/10.1016/j.enpol.2012.08.034>
- Dornbusch, R. (2001). Malaysia: Was it different?.
- Easterly, W. (2001). The political economy of growth without development: A case study of Pakistan. *Paper for the Analytical Narratives of Growth Project, Kennedy School of Government, Harvard University*, 1-53.
- Ebrahimi, F. (1996). Structural adjustment in Jordan. *Operations Evaluation Department, OED Precip, World Bank, Washington, DC*.
- El Dahrán, M., & Bassam, L. (2021). Lebanon eyes IMF progress despite new turmoil - economy minister. Reuters.
- European Commission, Directorate General for Economic and Financial Affairs (2012). The Second Economic Adjustment Programme for Greece; Occasional Papers, 94.
- European Commission, Directorate-General for Economic and Financial Affairs (2010). The economic adjustment programme for Greece (Occasional Papers 61).
- European Commission, Directorate-General for Economic and Financial Affairs (2015). Memorandum of understanding between the European commission (acting on behalf of the European stability mechanism) and the Hellenic Republic and the bank of Greece.
- Fujihara, N., Lark, M. E., Fujihara, Y., & Chung, K. C. (2017). The effect of economic downturn on the volume of surgical procedures: a systematic review. *International Journal of Surgery*, 44, 56-63. <https://doi.org/10.1016/j.ijsu.2017.06.036>
- Gibson, H. D., Hall, S. G., & Tavlas, G. S. (2012). The Greek financial crisis: Growing imbalances and sovereign spreads. *Journal of International Money and Finance*, 31(3), 498-516.
- Hakro, N. A., & Ahmed, W. W. (2006). IMF Stabilization Programs, Policy Conduct and Macroeconomic Outcomes: A Case Study of Pakistan. *Lahore Journal of Economics*, 11(1).
- Harrigan, J., El-Said, H., & Wang, C. (2006). The IMF and the World Bank in Jordan: A case of over optimism and elusive growth. *The review of international organizations*, 1(3), 263-292.
- Husain, I. (2005, February). Economy of Pakistan: an overview. In *Key Note Address at the Expo 2005 Conference held at Karachi on February* (Vol. 3, p. 2005).

- International Monetary Fund. (1947). International Monetary Fund Annual Report 1947. Washington, D.C: International Monetary Fund.
- International Monetary Fund. (1999). World Economic Outlook: International Financial Contagion. International Monetary Fund.
- International Monetary Fund. (2003). The IMF and Recent Capital Account Crises: Indonesia, Korea and Brazil. Report by the Independent Evaluation Office.
- International Monetary Fund. (2019). Lebanon: 2019 Article IV Consultation-Press Release; Staff Report; Informational Annex; and Statement by the Executive Director for Lebanon.
- International Monetary Fund. (2022). IMF Datamapper. Real GDP growth.
- International Monetary Fund. (2022). Lebanon and the IMF.
- Isran, M. A., & Isran, S. (2014). Economics of Austerity and Its Social Cost: A Critical Assessment of IMF Policies in Pakistan from 1988-2002. *Journal of Independent Studies & Research: Management & Social Sciences & Economics*, 12(1).
- Isran, M. A., Isran, S., & Phulpoto, N. N. (2013). Failure of IMF Programmes: Causes and Consequences. *Journal of Business Strategies*, 7(1), 77.
- Jaradat, H. (2010, October). Jordan's economy crisis, Challenges & measures. In *3rd Annual Meeting of Middle East and North African senior budget officials (MENA-SBO)* (Vol. 31, pp. 1-17).
- Johnson, S., Boone, P., Breach, A., & Friedman, E. (2000). Corporate governance in the Asian financial crisis. *Journal of financial Economics*, 58(1-2), 141-186.
- Levy, R. (2008). Expectation-based syntactic comprehension. *Cognition*, 106(3), 1126-1177. <https://doi.org/10.1016/j.cognition.2007.05.006>
- Liargovas, P., & Psychalis, M. (2019). Do economic adjustment programmes set conflicting objectives? The case of Greece. *Theoretical Economics Letters*, 9(8), 3065-3087.
- Lim, M. H., & Goh, S. K. (2012). How Malaysia weathered the financial crisis: Policies and possible lessons. *How to Prevent the Next Crisis: Lessons from Country Experiences of The Global Financial Crisis*. North-South Institute/L'Institut Nord-Sud, 26(9), 73-93.
- LiraRate. (2022). Dollar to Lebanese Lira Today.
- Machado, J. T., & Mata, M. E. (2015). Pseudo phase plane and fractional calculus modeling of western global economic downturn. *Communications in Nonlinear Science and Numerical Simulation*, 22(1-3), 396-406. <https://doi.org/10.1016/j.cnsns.2014.08.032>
- Mavridakis, T., Dovas, D., & Bravou, S. (2018). Failure factors of the economic adjustment programme for Greece. In *Economy, Finance and Business in Southeastern and Central Europe* (pp. 143-157). Springer, Cham.
- Meesook, K., Lee, H., Liu, O., Khatri, Y., Tamirisa, N., Moore, M., & Krysl, M. H. (2001). Malaysia: From crisis to recovery. *IMF Occasional Papers*, (207), 1-99.
- Ministry of Finance. (2020). Economic Data and Statistics.
- Ministry of Finance. (2021). Statement by the Ministry of Finance of Lebanon regarding the country's re-engagement with the International Monetary Fund and public debt restructuring strategy – for immediate release.
- Oguri, J. (2020), Part I of Crisis in Lebanon: Economic “Free Fall,” IMF Negotiations, and Beirut Explosion,
- Otsuka, K. (2007). Efficiency and equity effects of land markets. *Handbook of agricultural economics*, 3, 2671-2703. [https://doi.org/10.1016/S1574-0072\(06\)03051-9](https://doi.org/10.1016/S1574-0072(06)03051-9)
- Peabody, J. W. (1996). Economic reform and health sector policy: lessons from structural adjustment programs. *Social science & medicine*, 43(5), 823-835. [https://doi.org/10.1016/0277-9536\(96\)00127-X](https://doi.org/10.1016/0277-9536(96)00127-X)
- Revuelta López, J. (2021). The Effects of the Economic Adjustment Programmes for Greece: A Quasi-Experimental Approach.
- Staff, I. M. F. (2000). Recovery from the Asian Crisis and the Role of the IMF. *International Monetary Fund*.
- Ter-Minassian, T. (2012). Structural Reforms in Brazil.
- Thakor, A. V. (2012). Incentives to innovate and financial crises. *Journal of Financial Economics*, 103(1), 130-148. <https://doi.org/10.1016/j.jfineco.2011.03.026>
- U.S. Department of the Treasury. (2020). Treasury Targets Corruption In Lebanon.
- World Bank Group. (2021). Lebanon Economic Monitor. Lebanon Sinking (To the Top 3).
- Young, W., Stebbins, D., Frederick, B. A., & Al-Shahery, O. (2014). *Spillover from the conflict in Syria: an assessment of the factors that aid and impede the spread of violence*. Rand Corporation.