Meet Annalisa Fedelino, IMF Mission Chief for Lebanon

By Annalisa Fedelino

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In our first blog of this series, Annalisa Fedelino, Assistant Director in the Middle East and Central Asia Department, talks about her role as Mission Chief for Lebanon and her experience working on the country's key macroeconomic issues and at the IMF.

Lebanon continues to be adversely affected by a series of significant shocks in the region. The most important in the last few years has been the refugee crisis emanating from Syria—a country Lebanon shares most of its borders with. Syrian refugees, currently at the staggering level of over one million, account for almost one third of Lebanon's resident population. This presence is extremely significant, especially when you compare it to the flows recently experienced in European countries, which have captured so many headlines.

This sizeable refugee presence has taken a toll not only on Lebanon's economy but also on its social fabric and political landscape. Growth has sharply declined from an average of 8 percent during 2008-2010 to about 1 percent in 2015. In addition, the traditional sectors of the economy—real estate, construction and tourism— have been hit significantly, particularly in 2015. Political impasse has also set in, with the country remaining without a president for almost two years now.

As long as the crisis in Syria remains unresolved, the prospects for a sustained recovery in Lebanon are limited; and consumer and investor confidence will remain subdued. Looking beyond the region, rising US interest rates—which are particularly relevant in Lebanon given its peg to the US dollar—will also have an adverse impact on the cost of funding and debt service. On the positive side, lower oil prices have provided a much welcome boost to Lebanese incomes, though have been insufficient to counteract regional and domestic headwinds.

To describe my job in a few words—as Mission Chief, I lead a team both at our headquarters in Washington DC and in Lebanon. During our visits to Lebanon, we take stock of recent economic developments, assess the macroeconomic outlook, and provide policy advice. To do all this, we meet with a broad range of stakeholders in order to understand better the reality on the ground, exchange views, and seek to develop effective policy recommendations. In addition to the Ministry of Finance and the Banque du Liban, our traditional counterparts, we meet with representatives from the government, the private sector and the international community; and we also meet with key officials in the banking sector, given its vital role in the Lebanese economy.

It is important for our team to meet with as many stakeholders as possible, as country issues are multifaceted and complex, requiring a careful and customized approach. Just to give you a sense of our work plan, we just completed a trip to Lebanon in early February 2016 and are now gearing up for what we call Article IV consultations, with a visit planned for May 2016. We will then write a staff report to be presented to our Board of Executive Directors over the summer, which will possibly be published later on. All of our previous reports can be found here.

So, what are the key policy priorities in Lebanon and how can the IMF help?

Lebanon's macroeconomic stability critically hinges on continued security and confidence. The authorities deserve credit for maintaining security amidst a challenging regional environment. Anchoring confidence will also be critical to continue to attract sizeable capital flows (deposits, remittances and direct investment) into the economy and cover Lebanon's large financing needs. In this connection, three policy areas stand out. The first is to help promote an environment that creates more jobs and boosts growth. Every year, a large proportion of Lebanon's highly skilled labor force migrates out of the country because of insufficient job opportunities. We seek to provide examples of countries that have implemented reforms so that Lebanon can better leverage its strong human capital.

The second is the need to implement fiscal adjustment, to lower economic vulnerabilities and put debt on a sustainable path—public debt is close to 140 percent of GDP and, absent adjustment, projected to increase further. A large public debt also carries significant costs—currently interest payments absorb two thirds of the overall tax revenue, or over 9 percent of GDP; these resources could actually be channeled to productive uses. Of course, fiscal adjustment is never popular or easy, especially in an environment where growth is low and spending needs, most notably for public services and infrastructure, are very high. So we try to be constructive by suggesting measures to help mitigate the possible negative effect of fiscal adjustment on growth. For example, the current environment of very low oil prices provides a unique opportunity for Lebanon to strengthen revenues—which have declined by almost 3 percent of GDP since 2011. Fuel taxes, which were lowered or eliminated when oil prices were very high in 2011-2012, should now be increased to reflect the current global price conditions. Generating and collecting more revenues would not only help reduce the budget deficit but also create fiscal space to boost spending programs that have been neglected. Public investment is a case in point—presently it stands at low levels of only 1 ½ percent of GDP.

And this brings us to the third policy area. Partly as a result of very low public investment, Lebanon has an urgent need to upgrade its deficient infrastructure, now under additional strain owing to the large refugee presence. Increasing infrastructure investment could also be done by engaging more the private sector—Lebanon certainly has plenty of financial and human capital for the task at hand. Private sector participation will require regulatory reforms to enhance Lebanon's legal framework, for example to promote Public Private Partnerships in a transparent and sound way (a framework law has been sitting in parliament for a few years now). These are just a few examples of the initiatives that could be implemented; given the currently low growth environment, just a few tangible policy changes could make a significant difference.

What personal lessons are useful in my current job?

I have been at the Fund for about 21 years, which has given me the unique opportunity to work on variety of countries and issues. One thing I have learned is that it is important as Fund staff to try to put ourselves in the position of the authorities, to better understand their constraints, when we conduct our analysis and develop policy recommendations. At the same time, we bring international perspectives to the issues at hand, and we seek to use examples of things that have worked—and have not worked—in other countries in similar circumstances. We try to do so in a constructive and respectful way, though at times our messages are difficult. It is important to try to keep an open dialogue with our counterparts and continue to work toward common ground and shared understanding.

What is special about my current assignment?

In my early days at the Fund, I worked as the junior economist on the Lebanon desk. Now, about 15 years later, I have come back to a country that has changed so much from my first visit there. Still, now as much as back then, I continue to be impressed by how much the Lebanese are proud of and believe in their country; and by the extent to which Lebanon continues to be resilient despite the many shocks that have buffeted it over the years. As Mission Chief, I hope to continue to work constructively with the authorities to help Lebanon, a small country yet with so much talent, fully reap its great potential.

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