

On the 21st of November, Lebanon's President Michel Aoun called on the country's politicians to not waste time and form a government, something which should have already been done by October.

Lebanon underwent its first general elections after 9 years of political stalemate on the 6th of May 2018. The country's Prime Minister, Saad al-Hariri had given himself 6 months to form a government but his diminished position since the elections has negatively impacted his ability to bring politics forward in his country. In spite of the emergence of trans-confessional independent parties like "Kollouna Watani", the electoral law of 2017 and a low turnout of 49% enshrined the power of established parties and guaranteed the rise of Hezbollah which now holds more than 70 of the 128 Parliament seats.

Things could have been different for Lebanon's political stalemate. In recent years, the country managed to start political processes that were for long halted as it got a president, a state budget and general elections. Yet, a politically stronger but financially strained Hezbollah has meant that the path to political normalisation is harder to attain. Hezbollah does not want to be restricted to marginal ministries anymore as it asks for three service-related cabinets like Social Affairs and Public Works in addition to the Finance Ministry to be allotted to its ally, the Amal Party. More particularly, Hezbollah is said to eye the Health Ministry, which holds the fourth government budget and is likely to restore the party's political capital, which has recently decreased due to lower service provision on the part of Hezbollah, mainly caused by US sanctions.

Hezbollah has been accused by Hariri of blocking the formation of the government, as the party seems to want to play its cards to the fullest before forming a government. Indeed, Hezbollah wants to make sure that its Sunni and Druze allies also get a seat in the cabinet, something that Hariri rejects because some of the proposed legislators are not part of a parliamentary bloc. Talal Arslan of the Lebanese Democratic Party, allied with Hezbollah, has for instance been in competition with another Druze leader, Walid Jumblatt, to get one of the three seats in the cabinet reserved to Druzes. Another complicating issue is that the Lebanese Army, a party staunchly opposed to Hezbollah, has doubled its number of seats to 15 in Parliament and is entitled to 4 ministries out of the current 29, which augurs a lot of tension inside the cabinet.

Finally, Hezbollah remains a thorny issue for Hariri considering international factors. The party has recently been further sanctioned by the US, whose Secretary of State has promised to review assistance to Lebanon if Hezbollah continues to share power with Hariri. Indeed, forming a

government representative of people's votes and reassuring Gulf states and American concerns toward Hezbollah is a near impossible mission for Hariri. The US offer around \$200 million in annual economic and military aid, and the April CEDRE conference in Paris saw the pledge of \$11 billion for infrastructure loans by countries and institutions like Saudi Arabia, France, Kuwait's Fund for Arab Economic Development, the Islamic Development Bank and above all the World Bank. These funds are yet to be unblocked and the delay in the government's formation could not come at a worst time for the economy.

According to the IMF, Lebanon's 2018 growth is at a sluggish 1% and is set to only rise to 1.4% next year. Lower Gulf Arab tourism, consumption spending, remittances and a property slump have clogged the economy of this country, which is highly dependent on imports, foreign direct investment and debt. The current account deficit is above 20% GDP, fiscal deficit is around 10% and debt is the third largest in the world considering the debt-GDP ratio of 150%. This ratio could reach 180% by 2023 if nothing is done according to the IMF, which denounces the country's ineffective public sector.

Rising from 17% GDP in 1975 to 35% today, the public sector is overstaffed and plagued by corruption. Nearly 40% of the government's budget is spent to cover the wages and bills of this sector, while the rest is spent to mainly service the debt and subsidise energy. This leaves it with very little to repair a deteriorating infrastructure and steer the country toward growth. Finally, investors also fear the risks of a banking crisis and devaluation in a country where the Lebanese Pound is pegged since 1997 and exceptionally high interest rates look unsustainable in the long-term.

It is therefore high time that a government be called in Lebanon, one able to start structural reforms, improve governance, reduce corruption and address the financial sector vulnerabilities. The IMF has advised the country to increase VAT, eliminate electricity subsidies, restrain public wages and address rising credit risks. It is however difficult to see how any government would agree to apply such unpopular policies, in a country where constituency support is everything for political parties, and where political dynasties are said to control 18 of the 20 biggest banks. Yet, the draft budget and Hariri's pledges to international investors foresee a betterment of the country's debt profile. The draft budget would entail a lower fiscal deficit at 8.4% GDP, a number that Hariri hopes to bring to 5% by 2023.

Hope is therefore not to be lost. The previous government of Tammam Salam took 11 months before

being formed.

Sources:

Reuters, 21 November 2018, "Lebanon can't waste more time on government formation - president"

Economist, 30 August 2018, "Lebanon's economy has long been sluggish. Now a crisis looms"

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