



## **Lebanon's gas reserves: A blessing or a curse?**

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Emerging Markets Research

PLEASE SEE ANALYST CERTIFICATION(S) AND IMPORTANT DISCLOSURES STARTING AFTER PAGE XX

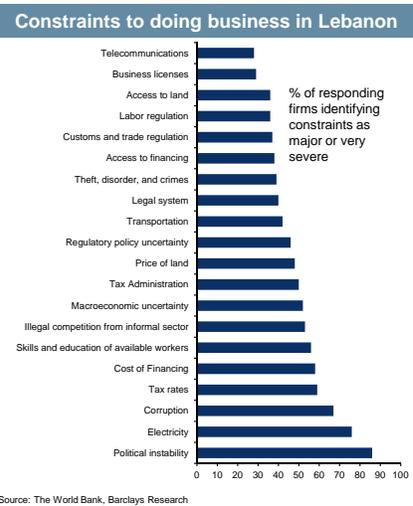
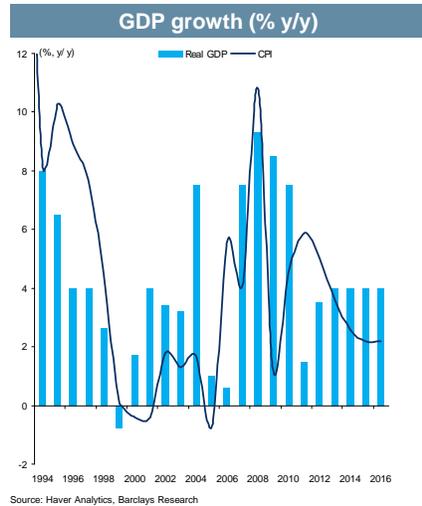
## **Outline**

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- 1. Setting the stage:** A challenging macroeconomic outlook and prospects
- 2. Potential impact:** A blessing or a curse?
- 3. Moving forward:** Maximizing the benefits and minimizing risks

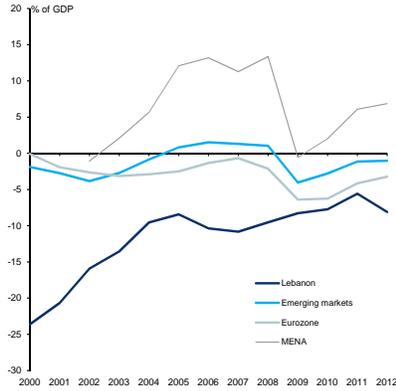
## A- Lebanon's macroeconomic outlook and prospects are challenging

## Growth is weak and growth potential is eroding



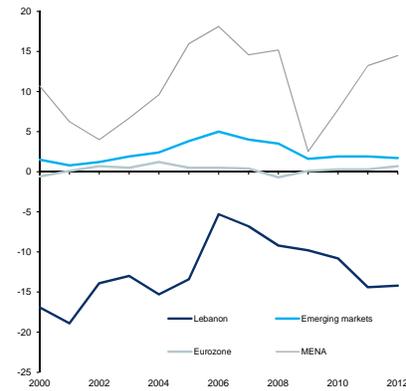
## Large twin deficits

Fiscal balance (% of GDP)



Source: Haver Analytics, Barclays Research

Current account balance (% of GDP)

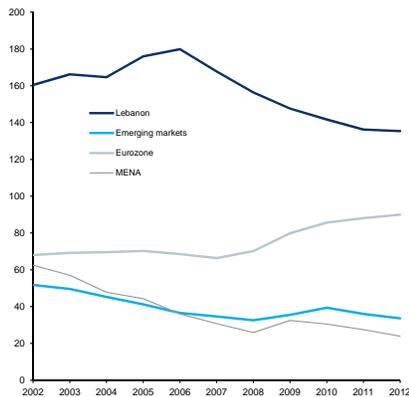


Source: Haver Analytics, Barclays Research



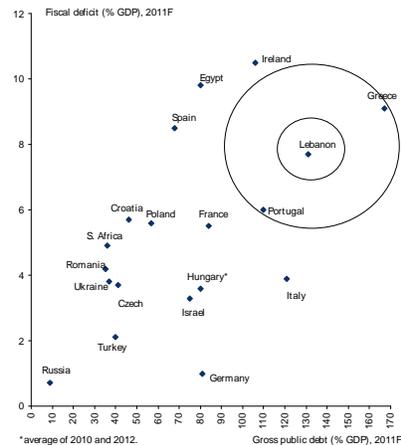
## Colossal public debt burden

Total public debt (% GDP)



Source: Haver Analytics, Barclays Research

Debt and deficits (% of GDP)



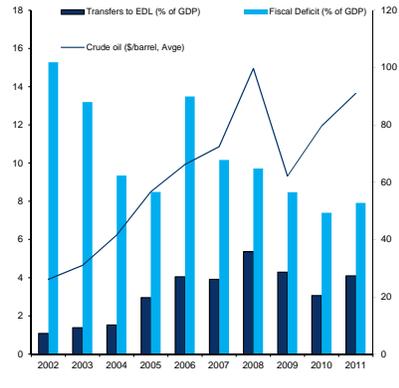
Source: Haver Analytics, Barclays Research



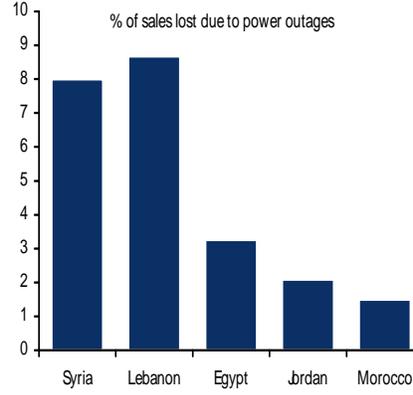
## Energy sector is a drag on public finances and consumers

EDL transfers & budget deficits (% GDP)

Sales loss due to power outages



Source: Haver Analytics, Barclays Research



Source: The World Bank, Barclays Research

## B- Impact of hydrocarbon discoveries:

A blessing or a curse?

**Difficult to assess: too many unknowns**

1. Economically recoverable reserves size (How much?)
2. Resource ownership and legal dispute (for whom?)
3. Timing of bid launch and timetable (when and how long?)
4. Institutional framework and mandates (who decides?)
5. Fiscal regime (government take, rate of return, profit to investment ratio)
6. Government petroleum policy objectives? (Gas supply-limited or gas market limited?)

**In principle, many potential macroeconomic benefits**

**1. Growth through investment and efficiency gains: mixed ST, +ve LT**

- ▶ Investment in oil and gas with spillovers onto associated sectors (not initially)
- ▶ Net export growth post production phase
- ▶ Improved investment climate
- ▶ Improved productivity

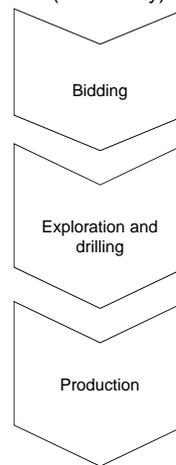
**2. Job creation: +ve**

**3. Fiscal impact: +ve ST and LT**

- ▶ Reduction of energy subsidy bill
- ▶ Fiscal space allocated to social and infrastructure spending
- ▶ Debt reduction

**4. Impact on external position: -ve ST; +ve LT**

- ▶ Reduction of hydrocarbon import bill
- ▶ Potential new sources of exports revenues
- ▶ FDI flows



## ...but also many macro risks: the “resource curse”

### 1. Vulnerability to boom-bust cycles (MENA, Africa (1980-1999))

- ♦ Pro-cyclical spending (*boom*)
- ♦ Painful adjustments to price shocks (*bust*)

### 2. Poor revenue management

### 3. Inefficient spending and conflicts over rent distribution

### 4. Dutch Disease: Inflation, real exchange rate appreciation and the competitiveness of the non-oil sector

### 5. Reform paralysis: failure to plan for post-oil/gas economy

→ **Paradox of plenty:** poor record of human development and income distribution

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## 3- How to maximize the opportunity and reduce the risks?

## Get the basics right: institutions and policies

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### 1. Strong institutions and regulatory framework that promotes good governance

- Knowledgeable and competent management
- Competitive and transparent bidding process

### 2. Clear petroleum policy and strategy:

- Encourage new investment in gas exploration and development by the private sector (upstream)
- Promote domestic gas uses
- Adopt and appropriate gas pricing policy

### 3. Fiscal regime: transparent, predictable and fiscally responsible

- Incentives that encourage gas field development investments
- System that maximizes returns to state while encouraging private investment

## Keep the basics right: Macro fiscal policies

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### 1. Define clear macroeconomic and growth objectives:

- ▶ Macro-fiscal stabilization (smoothing, limit Dutch disease)
- ▶ Protect against vulnerability (build buffers)
- ▶ Long-term fiscal sustainability (saving)

### 2. View hydrocarbon wealth as an asset (NPV of revenues)

### 3. De-link spending from oil/gas price and volume volatility

### 4. Convert resource use into sustainable economic development through linkages (manufacturing, power generation....);

## Focus on building strong fiscal institutions

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1. **Stabilization and saving funds:** can help but are not a replacement of sound fiscal and economic policies
  
2. **Develop a Medium Term Economic and Fiscal Framework**
  - ▶ Define objectives for socio-economic development and resource allocation
  - ▶ Oil forecasting rules(transparent, conservative but credible)
  - ▶ Stress testing and contingency planning
  
3. **Adopt fiscal rules**
  
4. **Develop fiscal responsibility laws**

## Conclusion

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- There are potential benefits of having natural resource wealth but the challenge is to exploit this potential and use as catalyst to achieve growth and socio-economic development objectives
  
- The often referred to “natural resource curse” can be avoided with the right knowledge, institutions, and policies.
  
- Forward planning and preparation for developing appropriate policies and rules, and building institutions is necessary
  
- Hydrocarbon wealth is no substitute for continuous reforms