Mikati: Fund from oil revenue to decrease debt

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Salameh, Mikati, Torbey and Nahhas speak at ABL.

BEIRUT: Prime Minister Najib Mikati said Monday the government is establishing a fund from revenues generated through oil and gas exploration, with the aim of decreasing the public debt-to-GDP ratio to a manageable 60 percent.

“We are working on establishing a fund from revenues generated through oil and gas exploration that will allow us to whittle down the public debt to 60 percent of GDP,” Mikati said during a meeting with representatives of the banking sector at the Association of Banks in Lebanon headquarters.

Lebanon is yet to tap into its undiscovered oil and gas wealth off the coast as the Energy Ministry prepares the tender for companies to start drilling in the coming few months.

There are no official estimates of the true value of the country’s oil and gas reserves but one leading energy expert told The Daily Star last month that the gas reserves in the seventh basin are three times bigger than the entire reserves of Libya.

Experts say that Lebanon can easily benefit from the gas wealth even if these reserves are still buried deep in the sea. “It [gas reserves] is like money in the coffers of the treasury,” Roudy Baroudi, an energy expert told the paper.

Lebanon’s debt-to-GDP ratio currently stands at an estimated 137 percent, with a public debt of $53 billion as of October 2011.

There is a general consensus among energy experts that Lebanon can start drilling for gas without the need to demarcate the maritime economic zone which is shared between Lebanon, Cyprus and Israel.

However, the government is yet to name the regulatory authority which will manage the fund amid fear that politicians will try to appoint people close to them.

Baroudi has proposed the fund be under the direct supervision of the Central Bank, arguing that this is the best way to keep politicians away from the important body.

Successive governments have been struggling to reduce the public debt, which at one point reached 185 percent of GDP before falling to 135 percent of GDP last year.

Finance Minister Mohammad Safadi has predicted that the public debt will surge to $60 billion by the end of 2012. In his 2012 draft budget, Safadi proposed an increase in taxes in a bid to keep the public debt low.

The budget deficit in the first eight months of 2011 fell by LL858 billion compared to the same period last year, reaching LL1.471 trillion or 21.42 percent of total spending.

Mikati’s Cabinet agreed last month to begin work on exploring oil and gas in Lebanon’s undisputed territorial waters. The approval of the legislation would open the door for the Cabinet to draw tenders to start oil exploration off the Lebanese coast.

For his part, the president of ABL Joseph Torbey highlighted the important role played by Lebanese banks in shoring up the economy.

He stressed that banks financed most of the needs of the successive governments and that this has allowed Lebanon to remain free of external intervention by international banks and financial institutions.

“Our financing contributions have exceeded $30 billion, 44 percent of which is in foreign denominated currency and the remaining 56 percent in Lebanese pounds or 77 percent of the country’s GDP,” Torbey explained.

Torbey heaped praise on Central Bank Governor Riad Salameh who was instrumental in safeguarding the monetary policy and protecting the Lebanese pound.

He also shed light on the banking sector’s efforts to help the Lebanese economy stand on its feet, noting that the banks have provided more than $5 billion worth of housing loans for 70,000 housing units all over the country.

Torbey called on the government to tighten its belt and implement reforms to keep the budget deficit low.