

Comments on “Can Lebanon’s new central bank governor break the cycle of economic crisis?” in Arab News, 31 Mar 2025

Dr. Nasser Saidi’s comments appeared in an Arab News article titled “[Can Lebanon’s new central bank governor break the cycle of economic crisis?](#)” published on 31st March 2025.

The comments are posted below.

Echoing the prime minister’s apprehensions is Nasser Saidi, a former Lebanese economy minister and central bank vice governor, who raised concerns about the selection process for the new central bank chief, warning that powerful interest groups may have too much influence.

He told the Financial Times that the decision carried serious consequences for Lebanon’s economic future, saying that one of Souaid’s biggest challenges will be convincing the world to trust the nation’s banking system enough to risk investing in its recovery.

“The stakes are too high: You cannot have the same people responsible for the biggest crisis Lebanon has ever been through also trying to restructure the banking sector,” said Saidi, who served as first vice governor of the Banque du Liban for two consecutive terms.

“How are we going to convince the rest of the world that it can trust Lebanon’s banking system, and provide the country

with the funding it needs to rebuild (after the war)?”

Lebanese economist Saidi said that the IMF “quite correctly and wisely” demanded comprehensive economic reforms.

In a March 14 interview with BBC’s “World Business Report,” he said that the government must address fiscal and debt sustainability, restructure public debt, and overhaul the banking and financial sector.

But hurdles remain. Saidi added that while Lebanon “has a government today that I think is willing to undertake reforms, that does not mean that parliament will go along.”

Lebanon also needs political and judicial reform, including an “independent judiciary,” he added.

Nevertheless, Saidi told the BBC that Lebanon, for the first time, has “a team that inspires confidence” and has formed a cabinet that secured parliament’s backing. Despite this positive step, Lebanon must still address structural failures in its public institutions, rooted in decades of opacity, fragmented authority and weak accountability.

Saidi highlighted the broader challenges Lebanon faces, cautioning that without financing for reconstruction, achieving socioeconomic and political stability will remain elusive.

“If you don’t have financing for reconstruction, you’re not going to have socioeconomic stability, let alone political stability,” he said.

“There has to be a willingness by all parties to go along with the reforms,” he added, highlighting that this is where external support is crucial, particularly from Saudi Arabia,

the UAE, France, Europe and the US. Saidi said that support must go beyond helping bring the new government to power – it must include assistance, especially in terms of security.

“Time to address Lebanon’s crippling banking crisis”, guest article for Arab Banker, Autumn 2024

The guest article titled “[Time to address Lebanon’s crippling banking crisis](#)” was published in the Arab Banker’s Autumn 2024 edition.

Lebanon has been mired in economic crisis for almost five years. A combination of acute negligence and mismanagement on the part of the government, the central bank and key institutions culminated in a series of economic and political crises that have left the banking sector on its knees and more than three-quarters of the population living in poverty.

In the guest article for *Arab Banker*, Dr. Nasser Saidi, founder and president of Nasser Saidi & Associates, and Alia Moubayed, emerging markets economist, analyse how the crisis unfolded and chart a proposed roadmap to recovery.

Interview with Al Arabiya (Arabic) on UAE's banking sector performance, 17 Sep 2024

In this TV interview with Al Arabiya aired on 17th Sep 2024, Dr. Nasser Saidi discusses the performance of UAE banks due to underlying strong macroeconomic conditions: 3.5% real growth and 7.8% current account surplus creating liquidity, rise in foreign assets, and strong core financial soundness indicators.

Watch the TV interview via this [link](#)

فيتش: قطاع البنوك في الإمارات سيواصل الأداء القوي بالنصف الثاني

البنوك تستفيد من ظروف التشغيل القوية وتحسن أسعار النفط والسيطرة على معدلات التضخم

قال ناصر السعيدى رئيس شركة ناصر السعيدى وشركاه، إن الإمارات

تسجل نموا يصل إلى 3.5% في العام الحالي، إلا أنه يجب النظر إلى فائض الميزان الجاري إذ يصل إلى 7.8% في 2024.

أن ارتفاع "Business" وأضاف السعيد في مقابلة مع "العربية الفائض يعكس دخول أموال ضخمة للبلد، وهذا ما تم ملاحظته في ميزانية المصرف المركزي وارتفاع حجم الأصول الخارجية التي وصلت لأعلى مستوى قياسي.

وأشار إلى زيادة السيولة في السوق، في نفس الوقت شجع ارتفاع الفائدة على نمو الودائع بما فيها ودائع غير المقيمين.

وذكر السعيد، أن الوضع الميكرو اقتصادي مهم حتى نتفهم أسباب ربحية المصارف الإماراتية خلال الفترة الحالية.

Weekly Insights 14 Sep 2020: A Balance Act as UAE remains open amid Covid19 surge

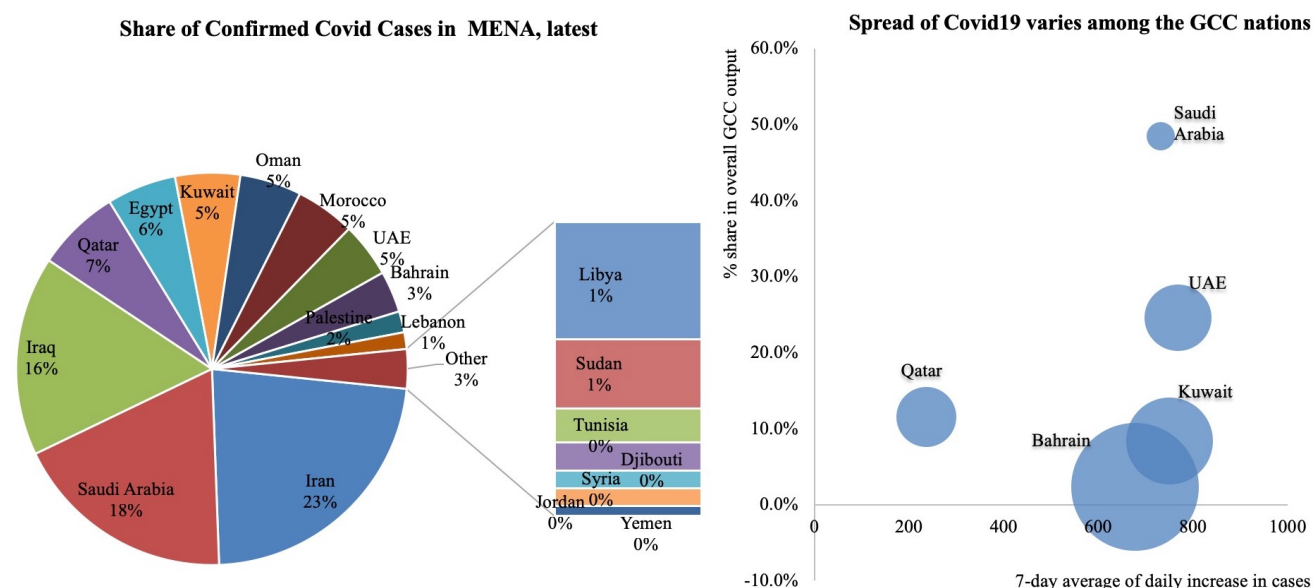
Charts of the Week: This is a crucial period for GCC, including the UAE. How can one decide on the balance between reopening the economy, supporting economic activity, while also containing the spread of Covid19? What policy measures should top the list to support businesses and consumers?

1. Spread of Covid19 in the GCC/ UAE

Confirmed Covid19 cases in the Middle East has crossed 1.75mn, with the GCC nations accounting for 43.7% of total cases. Many of these nations have seen a recent spike in cases, after stay-at-home orders and travel restrictions were lifted in addition to reopening previously constrained activities (e.g.

mosques, gyms, salons). Among the GCC nations, the spread of the outbreak is still varied. The chart on the right maps the share in total daily increase in confirmed cases per million persons (x-axis) against the share of the country in overall output (y-axis), with the size of the bubble denoting the 7-day average of the daily increase in cases.

Among the GCC nations, Oman seems to be relatively better off – when it comes to both the 7-day average of daily increase in Covid19 cases as well as the daily confirmed cases per million people; not surprising considering that it is the most “stringent” among the group – the Oxford Covid-19 government response stringency index^[1] places Oman at 86.11 vs the least stringent being UAE at 36.11 (Sep 2020). The UAE, which accounts for one-fourth of GCC’s GDP, has the highest 7-day average of daily increase in Covid19 cases (size of bubble). While officials have stressed the need for greater adherence to social distancing measures, no lockdown has been imposed as yet. Within UAE, Dubai is already welcoming tourists subject to Covid19 negative tests.



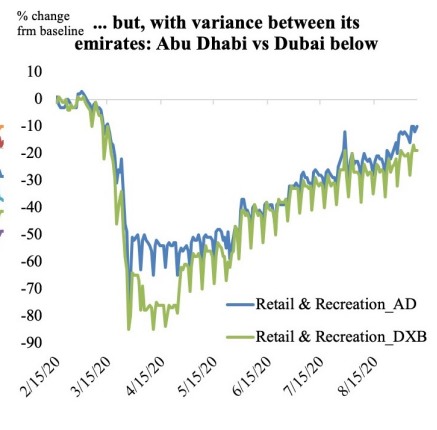
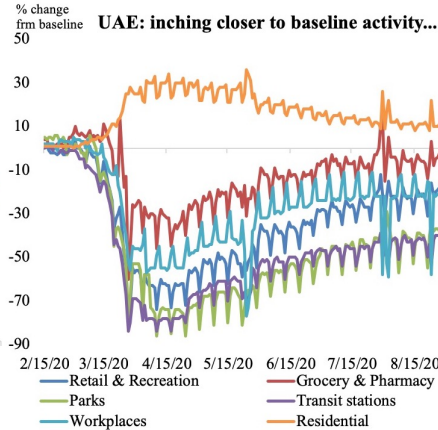
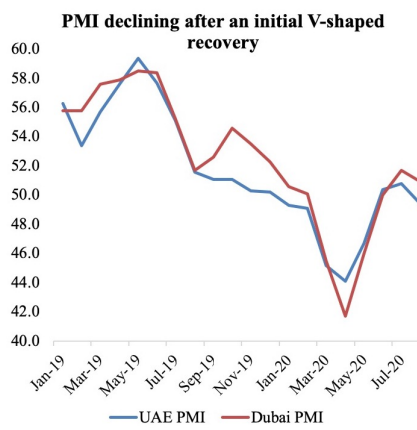
Source: Worldometers, Our World in Data, Nasser Saidi & Associates. The size of the bubbles on the RHS chart denotes the 7-day average of daily increase in cases.

This implies a sharper downturn in GDP this year due to the

outbreak, while the effects of lower oil prices and the OPEC+ led cut in oil production will worsen the growth outlook. Given the large proportion of expat population in the country, a dip in growth will also spillover into the labour-importing nations: ranging from job losses (& the return of these residents to home countries), as well as lower remittances. In anticipation of lower growth this year, the government and central bank have rolled out private sector stimulus packages to support the economy, while reducing expenditures (UAE posted a record budget surplus of AED 9.75bn in Q2 this year). The Federal ministries have reduced spending (including compensation of employees), with overall cuts in capital and infrastructure spending will be detrimental to economic growth.

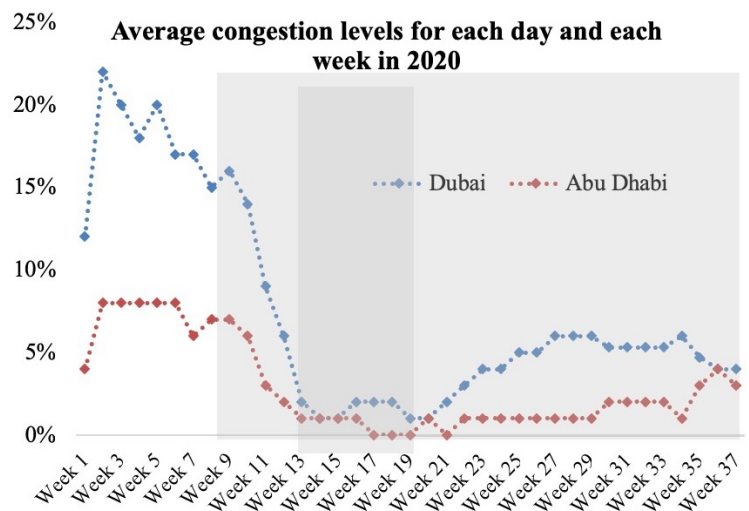
To compensate from lower oil prices and lower non-oil fiscal revenues, borrowing from international capital markets has gathered steam: so far this year, Abu Dhabi issued a USD 5bn multi-tranche bond (that included a 50-year tranche – the longest term for a bond issued by a GCC sovereign issuer) after having raised USD 10bn previously this year, while Dubai government sold a USD 2bn dual-tranche in early-Sep (the prospectus also disclosed that the emirate had raised over USD 3.6bn in debt this year through several instruments, used to support Emirates Airlines and expenses related to the Expo). An important point to highlight is that though Dubai government debt is placed at USD 34bn, the exposure of government-related enterprises (GREs) were not disclosed – an amount estimated at more than USD 120bn by the IMF. A related point was mentioned in the [previous weekly insights](#): bank credit to the public sector and government are rising, threatening to crowd out lending to the private sector (which recorded a 0.1% yoy dip in Jun).

2. Economic Activity in the UAE: PMI, Mobility Indicators & Traffic Congestion



Source: IHS Markit, Refinitiv Eikon, Google Mobility reports (data till 8th Sep), Nasser Saidi & Associates.

th UAE and Dubai (most dependent on non-oil sectors) declined the most in Apr – to 44.1 and 41.7 respectively. Following that dip, the PMI readings have been rising in both UAE and Dubai, though it came to a halt in Aug. Employment continues to be the biggest drag on the index (the sub-index was at the lowest in 11 years in the UAE while in a 6th consecutive month of contraction in Dubai) while a rise in sales and related spending was attributed to steeper price discounting (respondent firms generally pointed towards subdued customer demand, not surprising given the wider economic uncertainties).



Source: TomTom Traffic Congestion Index, Nasser Saidi & Associates. Grey areas indicate Covid19 restrictions, with the darkest shaded area the severe restriction dates.

Retail and recreation readings are just under 15% lower than the baseline case in the UAE. There is however a slight difference between Dubai and Abu Dhabi with the latter having recovered faster – probably more confidence as result of

specific lockdown restrictions (i.e. need to provide a negative test result to enter the emirate). Workplace is still 25% lower compared to the baseline – possibly the result of working from home policies in many firms. Congestion statistics already show a slow pickup – but below pre-Covid19 levels – more so in Dubai than Abu Dhabi.

3. Policy recommendations for the UAE

As businesses adjust, governments can provide stimulus support to facilitate transition to the new normal. **The focus in this section is businesses and consumers.** The main immediate concern for firms is operating costs and cash flow: lowering rents/ license fees or offering installment plans for payment of license fees/ rents would help ease financial burdens. Additionally, the government could offer grants to support firms' digitalization/ roll out of innovative processes. Strains on businesses could have a spillover effect on the banking sector via non-performing loans or increased flight risk of business owners unable to meet repayments. Towards this end, an extension of loan repayments deferment should be considered by the central bank (this has already been done by other GCC nations). Banks should also be nudged to lend to the SMEs and not just already "established" firms with a better financial standing: this could take the form of working capital loans or trade loans, with a SME guarantee scheme (specifying criteria for eligible lenders and the assessment process).

As firms' lower headcount to adjust, it would be beneficial to remove barriers to labour mobility (e.g. allowing part-time work visas/ freelancing options versus being tied to a specific company): this would allow employees (and families) to remain in the country to search for alternative jobs (and continue school, visit malls and use hospitals among others thereby contributing to overall consumer spending). Ensuring that sudden job losses will not require a move back to their native country, will increase confidence to invest in the

economy (be it real estate or starting new business ventures). A longer-term policy would be to establish social security nets and/or unemployment insurance to reduce financial burdens alongside jobs support schemes.

[1]

Check

<https://ourworldindata.org/grapher/covid-stringency-index?year=latest&time=2020-01-22..latest>

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Weekly Insights 7 Sep 2020: Businesses, Credit & Economic Activity in UAE & KSA

Charts of the Week: As manufacturing PMIs touch new highs in Aug, services PMI stalls. Regional activity is at odds with global peers. Are consumers/ businesses feeling the pinch of Saudi Arabia's VAT hike? Why is the credit disbursement pattern different in the UAE?

1. Manufacturing PMIs: Global vs. Regional

Manufacturing PMI numbers for August signal a tentative recovery compared to the massive dip in the Covid19 lockdown period. Global manufacturing PMI reached its highest in 21 months (51.8 from Jul's 50.6), as output and new orders rose at the fastest rates since Apr and Jun respectively, while export demand stabilised. The headline manufacturing indices in the US and Europe improved as restrictions were lifted and

more production came online. However, a key point to note is that in many cases export demand has not recovered as much as domestic demand (post lockdown). Meanwhile, services sector activity has almost stalled: the initial rebound is tapering off given ongoing social restriction policies. The bottom line is that though PMIs have shown some improvement, the impact might be hampered by rising unemployment, subdued international demand alongside overall economic and public health uncertainty.

Heatmap of Manufacturing/ Non-oil sector PMIs

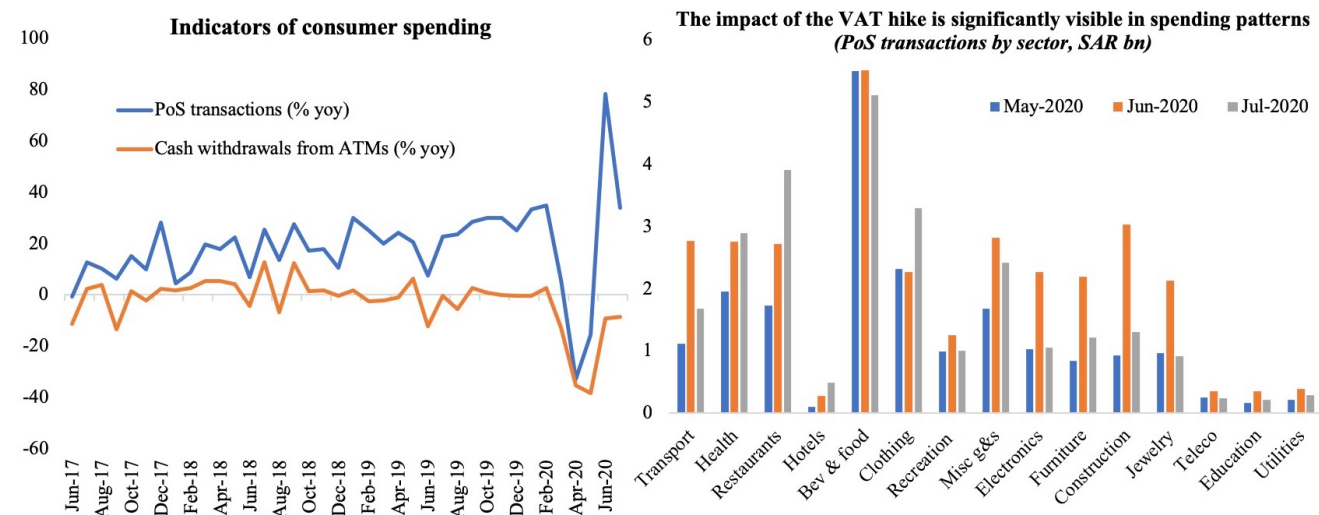
	US	Germany	EU	UK	Japan	China	India	UAE	Saudi Arabia	Egypt	Lebanon
Jan-19	54.9	49.7	50.6	52.8	50.3	48.3	53.9	56.3	56.2	48.5	46.5
Feb-19	53.0	47.6	49.5	52.1	48.9	49.9	54.3	53.4	56.6	48.2	46.9
Mar-19	52.4	44.1	48.3	55.1	49.2	50.8	52.6	55.7	56.8	49.9	46.3
Apr-19	52.6	44.4	48.4	53.1	50.2	50.2	51.8	57.6	56.8	50.8	46.7
May-19	50.5	44.3	47.9	49.4	49.8	50.2	52.7	59.4	57.3	48.2	46.3
Jun-19	50.6	45.0	47.6	48.0	49.3	49.4	52.1	57.7	57.4	49.2	46.3
Jul-19	50.4	43.2	46.6	48.0	49.4	49.9	52.5	55.1	56.6	50.3	47.7
Aug-19	50.3	43.5	47.1	47.4	49.3	50.4	51.4	51.6	57.0	49.4	47.8
Sep-19	51.1	41.7	46.0	48.3	48.9	51.4	51.4	51.1	57.3	49.5	46.4
Oct-19	51.3	42.1	46.2	49.6	48.4	51.7	50.6	51.1	57.8	49.2	48.3
Nov-19	52.6	44.1	47.0	48.9	48.9	51.8	51.2	50.3	58.3	47.9	37.0
Dec-19	52.4	43.7	46.4	47.5	48.4	51.5	52.7	50.2	56.9	48.2	45.1
Jan-20	51.9	45.3	48.1	50.0	48.8	51.1	55.3	49.3	54.9	46.0	44.9
Feb-20	50.7	48.0	49.1	51.7	47.8	40.3	54.5	49.1	52.5	47.1	45.4
Mar-20	48.5	45.4	44.3	47.8	44.8	50.1	51.8	45.2	42.4	44.2	35.0
Apr-20	36.1	34.5	33.4	32.6	41.9	49.4	27.4	44.1	44.4	29.7	30.9
May-20	39.8	36.6	39.5	40.7	38.4	50.7	30.8	46.7	48.1	40.0	37.2
Jun-20	49.8	45.2	47.4	50.1	40.1	51.2	47.2	50.4	47.7	44.6	43.2
Jul-20	50.9	51.0	51.7	53.3	45.2	52.8	46.0	50.8	50.0	49.6	44.9
Aug-20	53.1	52.2	51.6	55.2	47.2	53.1	52.0	49.4	48.8	49.4	NA

Source: Refinitiv Datastream, Nasser Saidi & Associates

From the list above, only Japan and countries from the Middle East are sub-50 indicating a contraction. Egypt posted the 13th straight month of contraction in Aug, while both Saudi Arabia and UAE moved below 50. The relevant question for the region is why? A sharp decline in jobs is the main drag on headline indices, as firms try to lower operational costs amid a scenario of weak demand and subdued growth prospects. In the UAE, not only did the employment sub-index fall to its lowest in 11 years (with one in 5 panelists reducing number of employees) but firms also had to deal with price discounting to remain competitive. In Saudi Arabia, the hike in VAT (from

Jul) drove up input costs, adding more pressure on firms. Overall, a prolonged weaker recovery could lead to firm closures, that would lead to job losses, bankruptcies as well as an impact on the banking sector via an increase in NPLs.

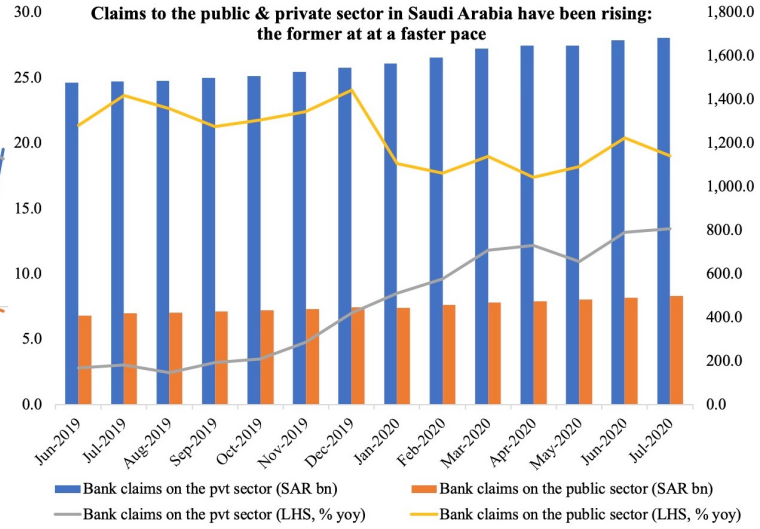
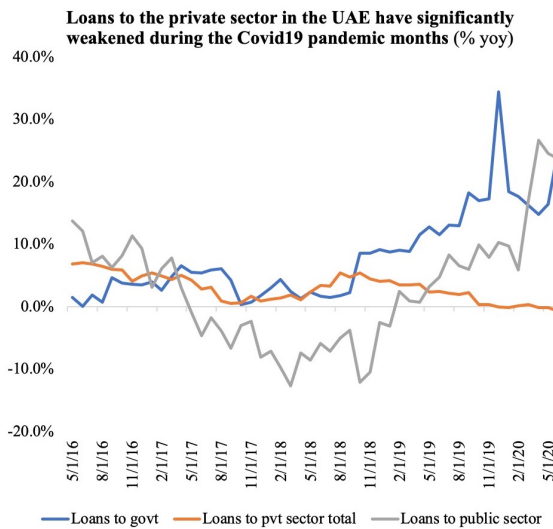
2. Saudi Arabia impacted by the VAT hike: how has consumer spending fared?



Source: SAMA, Nasser Saidi & Associates.

Saudi Arabia's VAT hike has negatively affected consumers as well as businesses. Consumers, who ratcheted up spending in June (similar to patterns in Dec 2017, prior to the introduction of VAT in Jan 2018), have reverted to "normal" spending habits come July. Comparing the patterns by sector, the difference in Jul is striking in purchases of big-ticket items – electronics, furniture, jewelry as well as construction and building materials. Interestingly, sectors like hotels, restaurants and clothing showed an uptick in spending in spite of the VAT hike – a probable explanation is end of lockdown and the Eid-al-Adha holidays which fell towards end of the month; new clothes are a must and restrictions on international travel resulted in people opting for more regional travel and staycations, thereby boosting payments at hotels and restaurants.

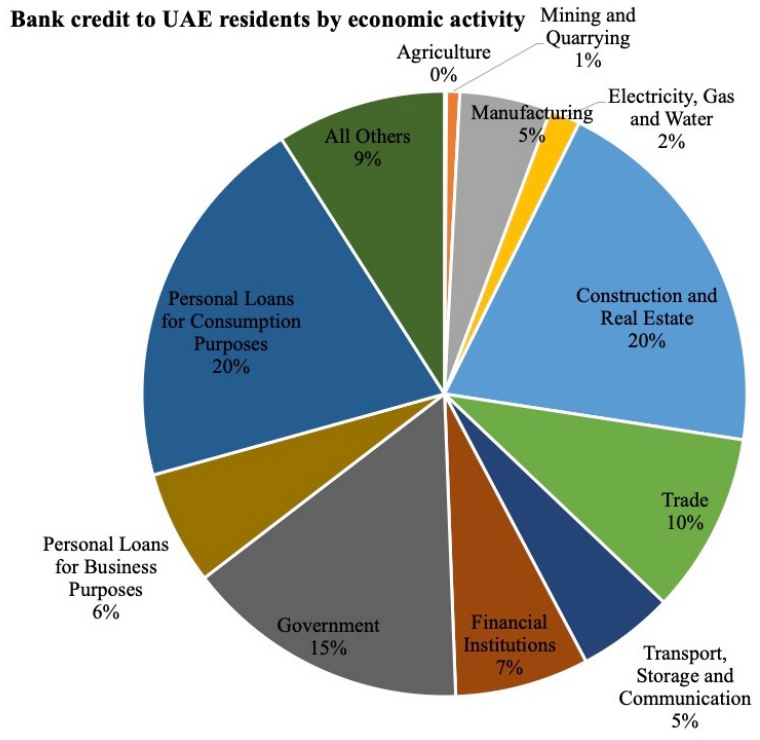
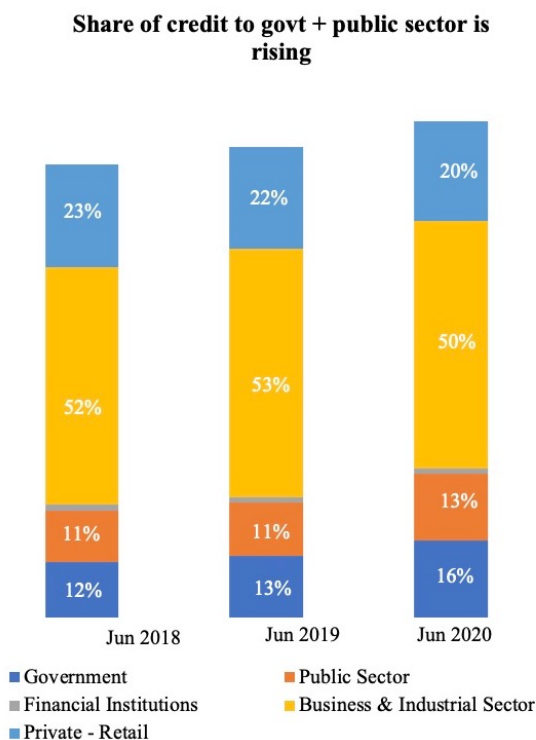
3. Is private sector activity supported by credit disbursement? A tale of two nations



Source: UAE Central Bank, SAMA, Refinitiv Eikon, Nasser Saidi & Associates.

di and UAE central banks have undertaken multiple measures to support their economies through this Covid19 phase: this includes increased liquidity, deferral of loan payments (which was recently extended further till Dec 2020 by SAMA) as well as support for the private sector (specifically those businesses most affected by the pandemic, and SMEs) from banks. However, while credit to the private sector has picked up in Saudi Arabia, the opposite was the case in the UAE. Why?

4. The big picture of credit activity in the UAE



Source: UAE central bank (latest available data, Jun 2020), Nasser Saidi & Associates

on, lending to the private sector in the UAE has been on the decline since Aug 2018 and worsened during the pandemic phase (Fig 3). In both year-on-year and month-on-month terms, growth in credit to the public sector and government constantly outpaced the private sector, leading to a growing share of the public sector and government. UAE banks lent most to the business sector (50% of total, as of Jun 2020 vs. 53% in Jun 2019), while the public sector & government together account for close to 30% of all loans (vs. 24% a year ago). Lending remains quite high for construction/ real estate (20%), government (15%) and personal loans (20%); this compares to 21.8%, 12.9% and 21.2% respectively a year ago.

The UAE central bank has been proactive in releasing liquidity to the financial sector during Covid: in addition to the Targeted Economic Support Scheme (Tess) rolled out in Mar, in early-Aug it temporarily relaxed the net stable funding ratio (NSFR) and the advances-to-stable resources ratio (ASRR) by 10 percentage points to enhance banks' capacity to support customers. As of July 18, banks had withdrawn AED 43.6bn, equivalent to 87.2%, of the AED 50bn Tess programme made available to them. The central bank also disclosed that, as of Jul 2020, 260k individuals and 9527 SMEs had availed the interest-free loans under Tess; credit to SMEs accounted for 9.3% of total amount disbursed to the private sector and individuals had received support worth AED 3.2bn from banks. This is but a drop in the ocean compared to the overall amount made available to the banks (i.e. AED 50bn Tess, part of the wider AED 100bn stimulus unveiled in Mar, and a further easing of buffers raising stimulus size to AED 256bn).

In this context, the questions to be answered are two-fold: 1. Are customers not seeking loans during these troubled times? Or 2. Are banks unwilling to lend during these troubled times? The answer is not crystal-clear, but more likely a combination of both (as evidenced below).

According to the latest "Credit Sentiment Survey" by the UAE

central bank, about 53% of respondents stated that the demand for both business and personal loans in Q2 had declined either substantially or moderately. In the backdrop of Covid19, and heightened economic uncertainty, it is likely that consumers do not want to take on loans they cannot service or repay in case of job loss or firm closures; the same applies for businesses in sectors that are tourism-specific or aviation/travel-related firms or others affected by the pandemic (insolvencies/ bankruptcies). On the other hand, for banks, knowingly lending to such firms/ customers could result in an increase in NPLs that would affect their profit margins and bottom line: going by the H1 earnings of the 4 largest listed banks in the UAE, combined net profits are down by 36% yoy while provisions have increased (ENBD by 243% yoy). So, banks have tightened credit standards instead, hence lowering pace of lending to the private sector. Both demand side and supply side of credit are impacting credit.

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Comments on Lebanon's financial sector post-Beirut blast, S&P Global Market Intelligence, 12 Aug 2020

Dr. Nasser Saidi's comments appeared in the article titled ["After blast, Lebanon's 'uninvestable' banks face sector rebuild, depositor pain"](#), published by S&P Global Market

Intelligence on 12th August 2020.

Comments are posted below:

“Lebanon doesn’t have the fiscal space to fund the reconstruction of the public sector infrastructure destroyed in the explosion, and has no ability to borrow either because no one will lend to the country,” former vice-governor of the Lebanese central bank Nasser Saidi told S&P Global Market Intelligence. He said the **banks will need to restructure, sell assets and consolidate.**

“The bankers and the central bank are trying to resist that and push the burden of adjustment on to the government and depositors,” said Saidi, who has also held the positions of Lebanon’s minister of economy and trade, and of industry, and is president of consultancy Nasser Saidi & Associates.

“The banking system will have to be restructured,” said Saidi. *“Banks will have to downsize, sell the assets they hold abroad and repatriate the proceeds, sell their real estate holdings, and rebuild their balance sheets if they want to stay in business ... there will be M&A.”*

Saidi estimates that about 60% of Lebanon’s debts are due to interest rate increases designed to protect the pound, and criticized the central bank for failing to officially devalue the currency.

Saidi said Lebanon could solve the crisis by enacting capital controls, unifying the pound-to-dollar exchange rate, restructuring state-related debts and removing general subsidies. Up to \$30 billion is needed to restructure the public sector, and a further \$25 billion to restructure and recapitalize the banking sector, he said.

"Lebanon's Economy: Meltdown & Redemption Through the IMF", Ana Khat Ahmar webinar, 1 Jun 2020

Dr. Nasser Saidi presented at the Ana Khat Ahmar webinar held on 1st Jun 2020, during which he gave the presentation titled "[Lebanon's Economy: Meltdown & Redemption Through the IMF?](#)".

"Lebanon's Economy: Meltdown & Redemption Through the IMF", YPO Lebanon webinar, 22 May 2020

Dr. Nasser Saidi was part of a YPO Lebanon webinar held on 22nd May 2020, during which he gave the presentation titled "[Lebanon's Economy: Meltdown & Redemption Through the IMF](#)".

"Lebanon's Economy: Staring into the Abyss", Presentation to the Harvard Business Club in Lebanon, 24 Apr 2020

Dr. Nasser Saidi's presentation titled "[Lebanon's Economy: Staring into the Abyss](#)", was aired as a webinar to the Harvard University Alumni Association of Lebanon (HUAAL) and the Harvard Business Club in Lebanon on 24th April 2020. Click below to access the webinar, including Q&A.

"Saving the Lebanese Financial Sector: Issues and Recommendations", by A Citizens' Initiative for Lebanon, 15 Mar 2020

The article titled "Saving the Lebanese Financial Sector: Issues and Recommendations", written by [A Citizens' Initiative for Lebanon](#) was published on 15th March, 2020 in [An Nahar](#) and is also posted below.

Saving the Lebanese Financial Sector: Issues and

Recommendations

In order to restore confidence in the banking sector, the government and the Banque du Liban (BDL) need a comprehensive stabilisation plan for the economy as a whole including substantial fiscal consolidation measures, external liquidity injection from multi-national donors, debt restructuring and a banking sector recapitalisation plan. Specifically, the Lebanese banking sector which will be heavily impaired will have to be restructured in order to re-establish unencumbered access to deposits and restart the essential flow of credit. A task force consisting of central bank officials, banking experts and international institutions should be granted extraordinary powers by the BDL and the government to come up with a detailed plan which assesses the scale and process for bank recapitalisation and any required bail-in; identifies which banks need to be supported, liquidated, resolved, restructured or merged; establish a framework for loss absorption by bank shareholders; consider the merits of establishing one or several 'bad banks'; revise banking laws; and eventually attract foreign investors to the banking sector. In the meantime, we would recommend the imposition of formal and legislated capital controls in order to ensure that depositors are treated fairly and also ensure that essential imports are prioritised.

How deep is Lebanon's financial crisis?

The financial crisis stems from a combination of a chronic balance of payments deficits, a liquidity crisis and an unsustainable government debt load which have impaired banks' balance sheets, leaving many banks functionally insolvent.

Even before the government announced a moratorium on its Eurobond debt on March 7th, public debt restructuring was inevitable, as borrowing further in order to service the foreign currency debt was no longer possible and, dipping into the remaining foreign currency reserves to pay foreign creditors was deemed to be ill-advised given the priority to cover the import bill for essential goods such as food, fuel

and medicine. Moreover, with more than 50 percent of fiscal revenue dedicated to debt service in 2019, debt had clearly reached an unsustainable level.

At the end of December 2019, banks had total assets of USD 216.8 billion (see Table 1). Of these, USD 28.6 billion were placed in government debt, and USD 117.7 billion were deposits (of various types) at BDL, which is itself a major lender of the government (see Figure 1 for the inter-relations between the balance sheets of the banks, the central bank, and the government). Banks also hold more than USD 43.9 billion in private loans. Already, the banking association is assuming that approximately 10 percent of private sector loans, such as mortgages and car loans, have been impaired due to the economic crisis. Other countries facing similar financial and economic crises have experienced much higher non-performing loan rates. For instance, the rate rose to above 35 percent in Argentina in 1995 and neared 50 percent in Cyprus in 2011.

Well before the decision to default however, Lebanon's banks have **had limited liquidity in foreign currency** and have been rationing it since last November, as the central bank was not releasing sufficient liquidity back into the banking system. Even banks that have current accounts with the Banque du Liban do not have unfettered access to their foreign currency deposits. The BDL has had to balance a trade-off between defending the Lebanese pound peg, releasing liquidity or continuing to finance government fiscal deficits and has chosen to prioritise maintaining the peg and covering the country's import bill.

Table 1: Consolidated commercial bank balance sheet (USD million)

	December 2016	October 2019	Dec 2019
Assets			
Reserves	89,755	153,301	118,191
o/w cash	460	597	467
o/w BDL deposits	89,295	152,705	117,723
o/w CDs in LBP	22,972	31,867	
o/w CDs in USD	21,900	22,699	
o/w required reserves in LBP	2,677	2,544	
o/w required reserves in USD	16,043	18,621	
o/w remaining deposits in LBP	15,288	43,292	
o/w remaining deposits in FCU	10,414	33,682	
Claims on the private sector	51,040	47,836	43,912
In LBP	15,660	14,459	13,745
In USD	35,380	33,377	30,167
Claims on the public sector (T-bills)	34,722	31,652	28,665
In LBP	19,195	16,592	14,642
In USD	15,384	14,859	13,815
Foreign assets	23,100	21,326	17,969
Fixed assets	5,212	5,262	5,257
Resident securities portfolio	0	1,588	1,600
Unclassified assets	482	1,231	1,227
Total Assets / Liabilities	204,311	262,196	216,822
Liabilities			
Deposits of residents	128,534	133,677	126,590
In LBP	51,014	42,412	
In USD	77,520	91,265	
Deposits of non-residents	33,961	36,625	32,451
In LBP	4,529	3,752	3,140
In USD	29,432	32,873	29,311
Public sector liabilities	3,951	4,722	4,895
Liabilities to non-resident banks	6,280	9,661	8,829
Bonds	271	448	272
Capital base	18,240	20,630	20,723
Unclassified liabilities	13,073	56,433	23,062

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Banque du Liban. (2019). Consolidated Balance Sheet of Commercial Banks. Retrieved from <https://www.bdl.gov.lb>.

Note: In December 2019, commercial banks have netted the results of the swap operations with BDL, thus explaining the large swing in Reserves (asset side) and Unclassified liabilities.

Reducing public debt to a sustainable level will require deep cuts in government and central bank debts. This in turn will

have a significant impact on bank balance sheets and regulatory capital. **For most banks, a full mark-to-market would leave them insolvent.** To avoid falling short of required capital standards, BDL has temporarily suspended banks' requirements to adhere to international financial reporting standards. But suspending IFRS cannot continue for a long period, as it effectively disconnects the Lebanese banking system from the rest of the world.

What will be the impact of the sovereign default on the banking sector?

Today, Lebanese banks are not able to play the traditional role of capital intermediation by channelling deposits towards credit facilitation. In most financial crises, public authorities are able to intervene to recapitalise the banks and central banks are able to intervene to provide liquidity. Unfortunately, in Lebanon, the state has no fiscal ammunition and the central bank is itself facing dwindling foreign exchange reserves. **This leaves the banks in a highly precarious situation.**

In a sovereign restructuring scenario where we assume a return to a sustainable debt level of 60% debt to GDP ratio and a path to a primary budget surplus, depending on the required size of banking sector in a future economic vision for the country, **we estimate the need for a bank recapitalisation plan to amount to \$20 to \$25 billion** to be funded by multi-lateral agencies and donor countries, existing and new shareholders, and a possible deposit bail-in. Under all circumstances, we strongly advocate the protection of smaller deposits. In addition, special care has to be taken during any bail-in process to (i) provide full transparency on new ownership; (ii) avoid concentrated ownership; and (iii) shield the new ownership from political intervention either directly or indirectly. It is also worth noting that additional amounts of capital will be required to jumpstart the economy and provide short term liquidity.

Leaving the banking sector to restructure and recapitalise itself without a government plan would take too long and

Lebanon would turn even more into a cash economy, with little access to credit, little saving, low investment, and low or negative economic growth for years to come. Economic decay would ultimately lead to enormous losses for depositors, and serious hardship to the average Lebanese citizen.

What should be the goal of financial sector reforms?

The primary goal of financial sector interventions must be to restore confidence in the banking sector and restart the flow of credit and unrestricted access to deposits. In addition to rebuilding capital buffers and addressing the disastrous state of government finances, we would advocate reforming the financial sector in order to avoid banks' over-exposure to the public sector in the future, incentivising them to lend instead to the real economy. This must include a prohibition of opaque and unorthodox financial engineering and improving banks' capacity to assess local and global markets.

Confidence in the financial sector will also require a strong and independent regulator. Lebanon has a unique opportunity in that regard as there are 13 vacancies in the regulatory space that need to be filled by end of March: four vice governors of the Banque du Liban, five members of the Commission of Supervision of the Bank (current members due to leave by end of March), three Executive Board members of the Capital Markets Authority, and the State Commissioner to BDL. These nominations should be completed following a transparent process shielded from political and sectarian influence ensuring candidates possess the requisite competencies.

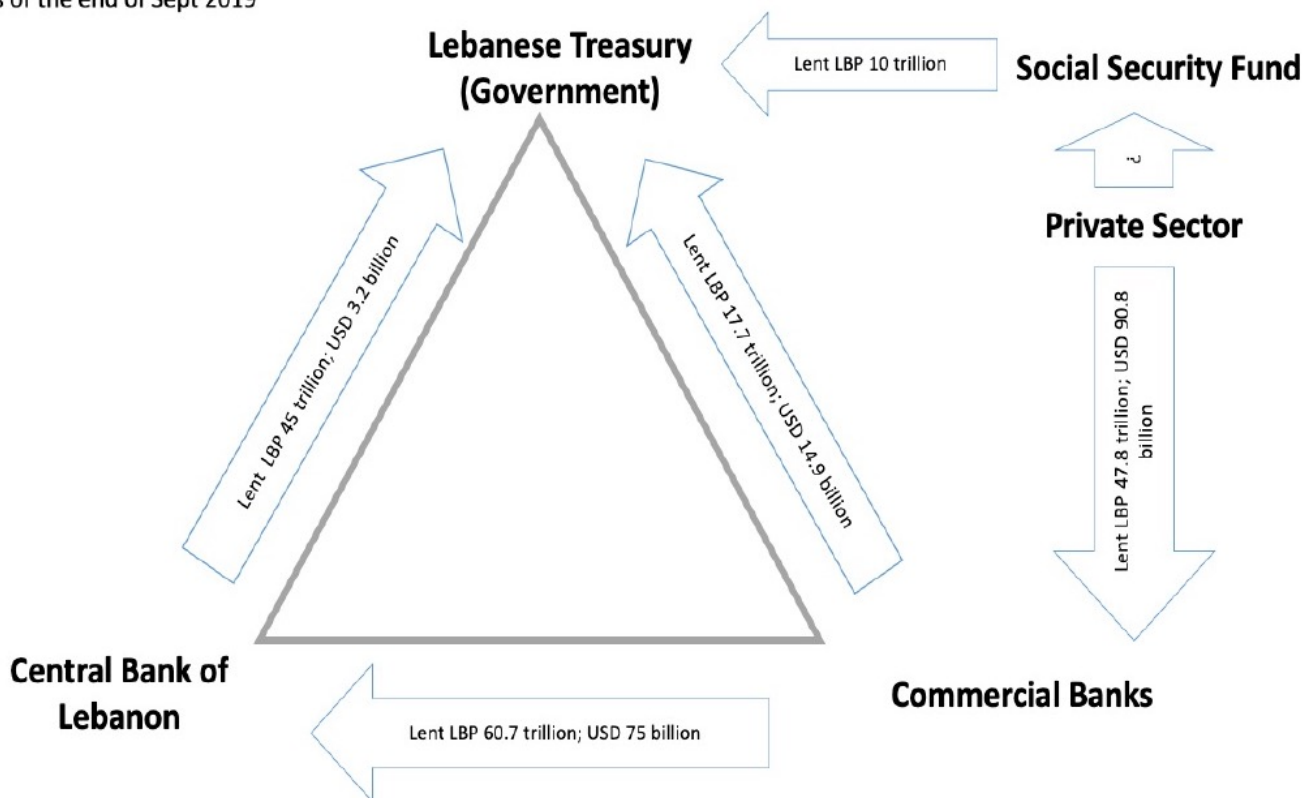
In addition to these nominations, a revamp of the governance of the regulatory institutions has to be undertaken following a thorough review. In order to enhance risk management and avoid a repeat of concentrated lending in the future, the monetary and credit law should be amended to prohibit excessive risk taking related to the government, which will have the double benefits of forcing a more disciplined sovereign borrowing program and encourage a more diversified use of bank balance sheets directed at more productive areas of the real economy. Providing a framework to curtail so-

called “financial engineering” transactions should also be addressed in order to discourage moral hazard and enhance the transparency and arms-length nature of any such operations in the future.

Finally, any future model will also require a migration towards a floating currency, and revised tax and financial sector laws and regulations, encouraging greater competition including from foreign banks. It is worth noting that while a devaluation of the LBP would have a positive direct effect on the balance sheet of banks, it would hurt their private sector borrowers, as most of these loans are dollar denominated, and thus, would lead to higher level of NPLs, hurting banks through second order effects.

Figure 1: Net obligations of Lebanese government, central bank, commercial banks and social security fund (as of September 2019 due to lack of some data as of December 2019).

As of the end of Sept 2019



How do we restructure the financial sector?

Saving the financial sector will require **empowering a task force** consisting of BDL officials, BCCL officials, independent financial sector experts, and Lebanon’s international

partners, including multilateral-agencies.

Bank equity should be written down to reflect the reality of asset impairment with existing shareholders being allowed to exercise their pre-emptive rights to recapitalize banks with their own resources or by finding new investors, thus reducing the burden on the public sector, multilateral agencies, donors or depositors. Certain banks could be wound down or resolved by the government. Banks that are liquidated or placed into resolution would transfer control to the government, though current bank administrators can remain in place so that regular business transactions can continue. Some banks may be too small to consider “saving” and should go into liquidation. The purpose of this process would be to restructure (or wind down) insolvent institutions without causing significant disruption to depositors, lenders and borrowers. The first step in the resolution process is for shareholders and creditors to bear the losses in that order. If the bank has negative equity after this stage, it can begin by selling key assets, such as real estate or foreign subsidiaries before resorting to a capital injection.

One potentially useful tool to support asset sales and re-establish normal banking activities quickly would be to create a ‘bad bank’ consisting of the bank’s non-performing loans or toxic assets. A ‘bad bank’ makes the financial health of a bank more transparent and allows for the critical parts of the institution to continue operating while these assets can be sold. Bad banks have been used in France, Germany, Spain, Sweden, the United Kingdom and the United States, among others, to address banking crises similar to the current Lebanese situation. ‘Bad banks’ can be established on a bank-by-bank basis, managed by the bank itself (under government stewardship) or by the government on a pooling basis. The challenge in Lebanon is neither the BDL nor the largest banks have sufficient capital buffers to fund the equity of such a bad bank.

If the bank equity remains in the red once key assets have been sold (or transferred to a ‘bad bank’), absent sufficient

recapitalisation funds, a bail-in may be considered. A bail-in refers to shrinking of the bank's liabilities, consisting mainly of deposits, by converting a portion into bank equity.

Nationalization is impractical in the Lebanese context. While transferring control of operations away from bank management teams that have lost credibility will be necessary, nationalization is impractical in the Lebanese context since the government is effectively insolvent. Also, state-owned banks may be used to further serve political interests and can be easily misdirected and mismanaged by becoming platforms for politically motivated lending, hiring and pricing.

Does Lebanon need fewer banks?

We believe that a market like Lebanon requires fewer banking institutions and a round of consolidation is imperative to make the system more robust and competitive as well as more diversified business models in order to serve a broader spectrum of economic activity. Mergers will require first full clarity on banks' financials. As such, this crisis could be seized upon to achieve this outcome. Academic research in this area confirms that while bank consolidation can lead to higher fees and potentially higher loan rates, it also provides greater financial stability and less risk taking. Larger banks can also attract investors more easily, especially high-quality long-term shareholders.

In most countries experiencing a financial crisis, those banks that are overexposed to troubled assets have been absorbed into large healthy banks. However, in Lebanon, as most large banks are heavily exposed to central bank and government debt and non-performing loans they are unable to play the consolidator role. **We therefore believe that a consolidation can be best achieved by a combination of unwinding smaller banks, resolving some banks and merging larger banks** which would facilitate new equity fundraising, and cost cutting with fewer branches required in an increasingly digital world. Larger banks will also be able to afford to invest in newer IT systems and risk management systems over time and be viewed as better credits by foreign correspondents.

Conclusion. The solutions exist, the time to act is now!

Signatories (in their personal capacity)

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Institutional Endorsements

LIFE

Kulluna Irada