

"Eight steps to pull the Lebanese economy back from the brink", Op-ed in The National, 28 Oct 2020

The article titled "[Eight steps to pull the Lebanese economy back from the brink](#)" appeared in The National on 28th Oct 2020 and is reposted below.

Eight steps to pull the Lebanese economy back from the brink

Without the immediate implementation of these comprehensive reforms, Lebanon is heading for a lost decade

Lebanon is engulfed in a long list of overlapping and connected problems –fiscal, debt, banking, currency and balance of payments crises – that together have created an economic depression and a humanitarian crisis. People are going hungry: food poverty has affected some 25 per cent of Lebanon's own population. But the fiscal and monetary instability has caused [more than just a shortage of bread](#).

Confidence in the banking system has collapsed. The Lebanese pound has depreciated by 80 per cent over the past year.

Inflation is at 120 per cent and hyperinflation – a runaway increase in prices – is on the horizon.

Unemployment has risen to 50 per cent, leading to mass emigration and depleting Lebanon of its main asset: its human capital.

The [explosion at the Port of Beirut](#), combined with the Covid-19 lockdown, created an apocalyptic landscape.

It aggravated the country's economic crises. The cost of

rebuilding alone exceeds \$10 billion – more than 35 per cent of the this year's GDP – which Lebanon is incapable of financing.

Prospects for an economic recovery in Lebanon are dismal. The new government must recognise the economy's large fiscal and monetary gaps and implement a comprehensive, credible and consistent reform programme.

The immediate priorities are economic stabilisation and rebuilding trust in the banking and financial system.

Lebanon desperately needs a recovery programme – akin to the Marshall Plan that helped rebuild Europe after the Second World War – of about \$30-35bn, in addition to the funds to rebuild Beirut's port and city centre.

To achieve this, the new government will have to implement rapidly an agreement with the International Monetary Fund, based on a national consensus. The confidence-building policy reform measures over the next six months must include:

A credible capital controls act to protect deposits, restore confidence and encourage the return of remittances and capital back into the country. Credit, liquidity and access to foreign exchange are critical for private sector activity, which is the main engine of growth and employment.

The restructuring of public, domestic and foreign debt to reach a sustainable ratio of debt to GDP. Given the exposure of the banking system to the debt of the government and central bank (known by its French acronym, BDL), public debt restructuring would involve a restructuring of the banking sector, too.

A bank recapitalisation process that includes a process of merging smaller banks into larger banks. Bank recapitalisation requires a bail-in of the banks and their shareholders (through a cash injection and the sale of foreign subsidiaries and assets) of some \$25bn, to minimise a haircut on deposits. This will require passage of a modern insolvency law.

Monetary policy reform is needed to unify the country's multiple exchange rates, move to inflation targeting – that is, price stability – and shift to greater exchange rate

flexibility. Multiple rates create market distortions and incentivise more corruption. The BDL will have to stop all quasi-fiscal operations and government lending. Credible reform requires a strong and politically independent banking regulator and monetary policymaker.

Reform the Electricite du Liban (EDL), the country's largest utility, and appoint a new board to improve governance and efficiency.

Reform the inefficient subsidies regime that covers electricity, fuel, wheat and medication. These generalised subsidies do not fulfil their purpose – only 20 per cent goes to the poor.

All that the subsidies do is benefit rich traders and middlemen and they are the basis of large-scale smuggling into sanctions-ridden Syria. Subsidies reform should be part of a social safety net to provide support for the elderly and vulnerable.

Pass a modern government procurement act. This would help prevent corruption, nepotism and cronyism.

Restructure and downsize the public sector. Start by removing the 20 per cent of public sector “ghost workers” – people on payrolls who don't actually work for the government – and establish a National Wealth Fund, a professional holding company that would independently manage public assets. These include basic public utilities like water, electricity, public ports and airports, Lebanon's carrier Middle East Airlines, the telecom company Ogero, the Casino du Liban, the state-run tobacco monopoly and others, in addition to public commercial lands.

These assets are non-performing, over-staffed by political cronies and suffer from nepotism. In most cases, they are a drain on the treasury.

A comprehensive IMF programme that includes structural reforms is necessary. It is the way to restore trust in the economy and win back the trust of the private sector, the Lebanese diaspora, foreign investors and aid providers. This would then attract funding from international financial institutions and

[Cedre Conference](#) participants, including the EU and the GCC. Such measures, if properly executed, would translate into financing for reconstruction and access to liquidity. They would also stabilise and revive private sector economic activity. Without the immediate implementation of these comprehensive reforms, Lebanon is heading for a lost decade. *Nasser Saidi is a former Lebanese economy minister and first vice-governor of the Central Bank of Lebanon*

"Overcoming Lebanon's economic crisis", viewpoint in The Banker, Oct 2020

This article, titled "Overcoming Lebanon's economic crisis", appeared as a viewpoint in the Oct 2020 edition of The Banker. The article, posted below, can be [directly accessed on The Banker's website](#).

Overcoming Lebanon's economic crisis

Lebanon's financial and economic crises can only be solved with meaningful reform, without which it faces a lost decade of mass migration, social and political unrest and violence.

Violence and crises have shattered Lebanon's pre-1975 Civil War standing as the banking and financial centre of the Middle East. Lebanon is engulfed in overlapping fiscal, debt, banking, currency and balance of payments crises, resulting in an economic depression and humanitarian crisis with poverty and food poverty affecting some 50% and 25% respectively of the population. The Lebanese Pound has depreciated by some 80% over the past year, with inflation running at 120% and heading

to hyperinflation. A Covid-19 lockdown and the Port of Beirut horrendous explosion on August 4th created an apocalyptic landscape, aggravating the economic and unprecedented humanitarian crises. The cost of rebuilding is estimated to exceed \$10 billion, more than 25% of current GDP, which Lebanon is incapable of financing.

The economic and financial meltdown is a culmination of unsustainable fiscal and monetary policies, combined with an overvalued fixed exchange rate. Persistently large budget deficits (averaging 8.6% of GDP over the past 10 years), structural budget rigidities, an eroding revenue base, wasteful subsidies, government procurement riddled with endemic corruption, all exacerbated fiscal imbalances.

Meanwhile, a monetary policy geared to protecting an increasingly overvalued exchange rate, led to growing trade and current account imbalances and increasingly higher interest rates to attract deposits and capital inflows to shore up dwindling international reserves. Deficits financed current spending, with limited real investment or buildup of real assets, while high real interest rates stifled investment and growth.

The unsustainable twin (current account and fiscal) deficits led to a rapid build-up of public debt. Public debt in 2020 is running at \$111 bn, including \$20 bn of debt at Banque du Liban (BdL), the country's central bank. This figure represents more than 184% of GDP— the second highest ratio in the world behind Japan, according to the IMF. Most of this debt is held by domestic banks and BdL, with 13% held by foreigners.

Financing government spend

The BdL's financing of government budget deficits, debt monetisation, large quasi-fiscal operations (such as subsidising real estate investment) and bank bailouts, created an organic link between the balance sheets of the government, the BdL and banks. In effect, depositors' monies were used by the banks and the BdL to finance budget deficits, contravening Basel III rules and prudent risk management.

BdL policies led to a crowding-out of both the private and public sectors, and to disintermediation: the government could no longer tap markets, so BdL acted as financial intermediary i.e. paying high rates to the banking system, while allowing the government to borrow at lower rates. The higher rates increased the cost of servicing the public debt, with debt service representing some 50% of government revenue in 2019 and over one third of spending. Credit worthiness rapidly deteriorated, leading to a 'sudden stop' in 2019, with expatriate remittances and capital inflows moving into reverse.

The crisis Lebanon is now experiencing is the dramatic collapse of what economists describe as a Ponzi-like scheme engineered by the BdL, starting in 2016 with a massive bailout of the banks equivalent to about 12.6% of GDP. In a bid to protect an overvalued LBP and finance the workings of government, the BdL started borrowing at ever higher interest rates, through so-called "financial engineering" schemes, which evolved into a vicious cycle of additional borrowing to pay maturing debt and debt service, until confidence evaporated and reserves were exhausted.

With the BdL unable to honour its foreign currency obligations, Lebanon defaulted on its March 2020 Eurobond and is seeking to restructure its domestic and foreign debt. The resulting losses of the BDL exceed \$50 bn, equivalent to 2019 GDP, a historically unprecedented loss by any central bank.

With the core of the banking system, the BDL, unable to repay banks' deposits, the banks froze payments to depositors. The banking and financial system imploded. The bubble burst in the last quarter of 2019, with a rapid depreciation of the LBP during 2020. The BDL's costly attempt to defy the "impossible trinity" by simultaneously pursuing an independent monetary policy, with fixed exchange rates and free capital mobility resulted in growing imbalances, a collapse of the exchange rate and an unprecedented financial meltdown.

Economic disaster

A series of policy errors triggered the banking and financial

crisis, starting with the closure of banks in October 2019, ostensibly because of anti-government protests decrying government endemic corruption, incompetence and lack of reforms. A predictable run on banks ensued, followed by informal capital controls, foreign exchange licensing, freezing of deposits, inconvertibility of the LBP and payment restrictions to protect the dwindling reserves of the BDL. These errors precipitated the financial crisis, generating a sharp liquidity and credit squeeze, the sudden stop of remittances and the emergence of a system of multiple exchange rates.

The squeeze severely curtailed domestic and international trade and resulted in a loss of confidence in the monetary system and the Lebanese pound. With the outbreak of Covid19 and lockdown measures came a severe drop in tax receipts, resulting in the printing of currency to cover the fiscal deficit, generating a vicious cycle of exchange rate depreciation and inflation. The black market exchange rate touched a high of LBP 9800 in early July, before steadying to around LBP 7400 in early September (versus the official peg at 1507). In turn these policy measures led to a severe economic depression, with GDP forecast to decline by 25% in 2020, with unemployment rising to 50%.

In response to the crisis, the government of Hassan Diab prepared a financial recovery plan that comprised fiscal, banking, and structural reforms as a basis for negotiations with the IMF. In effect, the Diab government and Riad Salameh, governor of the BDL deliberately implemented an inflation tax and an illegal 'lirafication' – a forced conversion, a spoliation, of foreign currency deposits into LBP to achieve internal real deflation. The objective is to impose a 'domestic solution' and preclude an IMF programme and associated reforms.

The apocalyptic Port of Beirut explosion on August 4, compounded by official inertia in responding to the calamity, has led to the resignation of the Diab government and appointment of a new PM, Mustafa Adib. Economic activity,

consumption and investment are plummeting, unemployment rates are surging, while inflation is accelerating. Confidence in the banking system and in macroeconomic and monetary stability has collapsed.

Rebuilding the economy

Prospects for an economic recovery are dismal unless there is official recognition of the large fiscal and monetary gaps, and a comprehensive, credible and sustainable reform programme is immediately implemented by a new Adib government. Such a programme needs to include immediate confidence building measures with an appropriate sequencing of reforms. The government must immediately passing a credible capital controls act to help restore confidence and encourage a return flow of remittances and capital inflows. Immediate measures need to be taken to cut the budget deficit, including by removing fuel subsidies and all electricity subsidies (which account for one-third of budget deficits). The removal of these subsidies is necessary to stop smuggling into neighbouring Syria, which has been a major drain on international reserves.

Monetary policy reform is needed to unify the country's multiple exchange rates, moving to inflation targeting and a flexible exchange rate regime. Multiple rates create market distortions and incentivise more corruption. In addition, the BdL will have to repair and strengthen its balance sheet, stop all quasi-fiscal operations and government lending. Credible reform requires a strong and politically independent regulator and policy-maker.

There is a need to restructure the public domestic and foreign debt (including BdL debt) to reach a sustainable debt to GDP in the range of 80 to 90% over the medium term; this implies a write down of some 60 to 70% of the debt. Given the exposure of the banking system to government and BDL debt, a debt restructuring implies a restructuring of the banking sector whose equity has been wiped out.

A bank recapitalization and restructuring process should top the list of reforms, including a combination of resolving some

banks and merging smaller banks into larger banks. Bank recapitalisation requires a bail-in of the banks and their shareholders (through a cash injection, sale of foreign subsidiaries and assets) of some \$25 bn to minimise a haircut on deposits. As part of such far-reaching reforms, Lebanon needs a well-targeted social safety net to provide support for the elderly and vulnerable segments of the population

Crucially, the new government needs to rapidly implement an agreement with the IMF. Lebanon desperately needs the equivalent of a Marshall Plan, a “Reconstruction, Stabilisation and Liquidity Fund’ of about \$30 to 35bn, along with policy reform conditionality.

A comprehensive IMF macroeconomic-fiscal-financial reform programme that includes structural reforms, debt, and banking sector restructuring would help restore faith in the economy in the eyes of the Lebanese diaspora, foreign investors/aid providers and help attract multilateral funding from international financial institutions and Cedre conference participants, including the EU and the Gulf Cooperation Council. This would translate into financing for reconstruction, access to liquidity, stabilise and revive private sector economic activity.

Without such deep and immediate policy reforms, Lebanon is heading for a lost decade, with mass migration, social and political unrest and violence. If the new government fails to act, Lebanon may turn into “Libazuela”!

Interview with BBC on the Beirut blast & way forward,

10 Aug 2020

Dr. Nasser Saidi appeared on BBC World Business report on 10th Aug 2020 to discuss the Beirut port explosion and how Lebanon can get of this crisis.

Dr. Saidi mentions during the interview that pledges from the Paris donor conference is presumably for humanitarian aid & will be largely insufficient for any infrastructure rebuilding efforts. A concerted macroeconomic stabilisation plan is needed, alongside an agreement with the IMF.

Talks with the IMF have been sabotaged so far: there is a resistance to reform by the political class & the banking sector. There has been no political courage in the Diab government and the time is right to bring in independent 'technocrats' to stand up to the political class & form a new government.

Need a clear message from the international community that the political class will be personally subject to sanctions should they not support a new govt willing to undertake reforms

Listen to the interview (from 4:30 to 8:45) at <https://www.bbc.co.uk/sounds/play/w172x57q96njsxt>

Roundtable on Potential IMF Involvement in Lebanon, Lebanese Center for Policy

Studies & Jadaliyya, 16 Apr 2020

Reflective of Lebanon's shortage of foreign capital, the Lebanese government recently announced it will stop payment on all future maturing eurobonds. In parallel, government and financial circles have increasingly discussed the potential need for a package by the International Monetary Fund (IMF) to supply the majority of the needed capital. In this roundtable, co-produced by the Lebanese Center for Policy Studies (LCPS) and *Jadaliyya*, Dr. Nasser Saidi & two other analysts share their views of the amount of capital needed, the potential implications of IMF involvement, and what might need to be different this time around vis-à-vis international borrowing. Dr. Nasser Saidi's comments are pasted below.

The complete article can be accessed here:

LCPS and *Jadaliyya* (LCPS&J): How much foreign capital does Lebanon need and for what purpose?

Nasser Saidi: The amount of foreign financing needs to be viewed within a comprehensive, multi-year adjustment and reform program that tackles macroeconomic, fiscal, banking, financial, monetary, and currency sectors of the economy. There are four components to such a program: Macroeconomic and structural reform; banking sector restructuring; public debt restructuring (including central bank debt); and social welfare.

According to government estimates (revealed at a recent presentation to investors) public debt was 178% of GDP at end-2019. The cost of servicing the debt would be just over \$10 billion, which is equivalent to approximately 22% of GDP and more than 65% of government revenue. This was an unsustainable position even before the country fell prey to the COVID-19 outbreak. Separately, the central bank (BdL) owes \$120 billion to the local banks. BdL foreign exchange holdings

have come under high pressure, dropping to about \$29 billion in January 2020, of which 22 billion are liquid (18 billion of which is BdL-held mandatory banking sector reserves). It is evident that the banking system needs a comprehensive restructuring.

Given public debt and fiscal unsustainability, the prices of sovereign debt have plummeted by an average of about 50% since the end of 2019. With about 70% of total bank assets invested in sovereign and BdL debt, the write down of debt means that banks' equity has been wiped out. Bank recapitalization and restructuring will require some \$25-\$30 billion, of which I estimate some 10 billion would be foreign financing. In addition, a foreign aid package of \$25-\$30 billion will be needed for macroeconomic and fiscal reform, structural adjustment, central bank restructuring, and balance of payments support, along with the establishment of necessary social safety nets.

This will necessitate an IMF program and multilateral financing. For it, there should be a completely redesigned CEDRE II program. I call it a "Lebanon Stabilization and Liquidity" fund. It is important to note that the overall cost of adjustment and required financing is rising due to unwarranted delay in approaching the IMF for assistance and designing the financing.

Furthermore, the ongoing COVID-19 outbreak is adding more fuel to the fire: We can expect a GDP contraction of 20%, following a 7% dip last year. The government has promised financial aid of 400,000 Lebanese liras (approximately \$140, at the parallel market rate of 2,900 liras/dollar) to the most vulnerable families (roughly estimated at 185,000 families combining those registered with the National Poverty Targeting Program, those drivers forced off the job by the lockdown, and frontline healthcare workers). But that will not be sufficient. The sharp drop in economic activity has led to growing layoffs and unemployment, business closures and bankruptcies, and overall falling incomes—all pushing more people into poverty. Social and economic conditions are

rapidly deteriorating: Almost half of the population now lives below the poverty line; non-performing loans are likely to increase and many banks could become insolvent; the value of the Lebanese lira is now some 40-50% less on parallel markets fueling inflation; and Human Rights Watch [finds evidence](#) of discretionary measures against refugees. The recipe for political and social unrest is boiling.

LCPS&J: What are some of the political and economic implications of securing such capital from the IMF? Could you identify other possible streams of foreign capital that could substitute for an IMF bailout program?

Nasser Saidi: The political and economic implications of an IMF program are all positive, as this would include the development and implementation of a social safety net to shield the more vulnerable segments of the population. IMF program conditionality will force an irresponsible and corrupt political class and its subservient policymakers—who are responsible for Lebanon's catastrophic demise—to undertake needed reforms (e.g., electricity, fiscal, monetary, and exchange sectors) that should have been undertaken years ago. The policy conditionality would be based on the national program the government should prepare beforehand. An IMF program will add credibility to the reforms included in the proposed Lebanon Stabilization and Liquidity fund.

It is bitter medicine, but the alternative would be lost decades, growing misery and poverty, and the destruction of Lebanon's economic base. The IMF itself would only be providing part of the funding (some \$4-\$5 billion) with the balance coming from other international financial institutions (IFIs), the European Bank for Reconstruction and Development, and the European Investment Bank, and CEDRE participants, including the EU, the Gulf Cooperation Council (GCC) countries, Japan, and China. It is important to note that non-IMF funding will only be available if there is an agreed IMF program. None of the countries and IFIs, including the GCC and EU will provide aid and funding without it. The same is true

for private sector investment and finance (e.g., for public-private partnerships), restoration of Lebanon's access to capital market, or for a sustainable restructuring of Lebanon's debt. There are no substitutes to an IMF bail-out program and conditionality. Lebanon desperately needs external funding. It cannot rely on purely domestic funding for the restructuring of its public debt and its banking sector (including BdL), investing in infrastructure, reforming public finances and rekindling and supporting the private sector, as well as provide balance of payments support.

LCPS&J: Given the Lebanese government's poor track record in effectively managing foreign aid, what measures should it take to ensure that such funds are put to meaningful financial recovery?

Nasser Saidi: The government must introduce an anti-corruption and stolen asset recovery program. Transparency International ranks Lebanon 43rd-most corrupt out of total of 180 countries. Protestors have, justifiably, focused on rampant high-level corruption, bribery, and rife nepotism.

The current government must prioritize combating corruption at all levels. This should include: (1) Appointing and empowering a special anti-corruption prosecutor and unit; (2) implementing an anti-corruption program with respect to taxation and revenue collection; (3) reforming government procurement law and procedures; (d) establishing strong and independent regulators in sectors such as banking, financial, telecoms, oil and gas, electricity, among others. And the posts should be filled making sure that the process is completely transparent and that appointees are shielded from political and sectarian influence.

Last, but not least, the state must recover assets that politicians, policymakers, and their associates illicitly and criminally appropriated. Recovering stolen assets can be a wealth-regenerating strategy if implemented properly with complete transparency. Lebanon should immediately participate in [The Stolen Asset Recovery Initiative \(StAR\)](#), a partnership

between the World Bank Group and the United Nations Office on Drugs and Crime (UNODC). StAR works with “developing countries and financial centers to prevent the laundering of the proceeds of corruption and to facilitate more systematic and timely return of stolen assets.”

A six-point plan to rebuild Lebanon's economy, Article in The National, 5 Jan 2020

The article titled “A six-point plan to rebuild Lebanon's economy” appeared in The National's online edition on 5th January, 2020 and is posted below. Click [here](#) to access the original article.

A six-point plan to rebuild Lebanon's economy

Debt needs to be re-profiled, banks require a bail-in and peg to the US dollar should be abandoned

As I write this column, Lebanon is in turmoil, trying to form a government, while the economy is going through its worst crisis since its 1975-1990 Civil War. Several weeks of unjustified, panic-inducing bank closures, compounded by the imposition of de facto, illegal, capital controls, payment restrictions and foreign exchange limitations led to a liquidity crunch, a payments and credit crisis, undermining confidence in the banking sector.

In turn, these measures are generating a sharp contraction in

economic activity and domestic and international trade. There is an emergence of a parallel market where the Lebanese pound has depreciated by about 30 per cent; a jump in price inflation; business closures and bankruptcies; growing unemployment and rampant poverty. The rapid deterioration of economic conditions has worsened public finances, with the minister of finance saying on Twitter that revenues are down 40 per cent, suggesting a likely budget deficit of 15 per cent for 2019 – double the government's target of 7.6 per cent of GDP.

Lebanon is suffering from decades of corruption, unsustainable economic policies and incompetent public management. Persistent budget and current account deficits, with unsustainable Ponzi-like financing by the central bank, resulted in a sovereign debt-to-GDP ratio exceeding 155 per cent.

Not surprisingly, the price of Lebanese eurobonds have recently plummeted to historic lows, with rating agencies downgrading Lebanon's sovereign and bank debt to junk territory, while credit default swap rates – the cost of insuring against default – have shot up to 2,500, second only to Argentina.

Without rapid, corrective, policy measures, the outlook is of economic depression, growing unemployment and a sharp fall in consumption, investment and trade.

With the Banque du Liban printing money to finance the budget, the Lebanese pound will continuously depreciate on the parallel market, resulting in rapidly accelerating inflation and a decline in real wages, along with a sharply growing budget deficit due to falling revenues. As a result, financial pressures on the banking system will increase, with a scenario of increasing ad hoc controls on economic activity, imports and payments, and resulting market distortions.

Lebanon's politicians have irresponsibly aggravated the economic and financial crisis by delaying the formation of a new government. What needs to be done to address the interlinked currency, banking, fiscal, financial and economic

crises, and rebuild confidence in the banking and financial sector?

1. Form a credible, independent new government

Rapidly empower a government of competent, experienced and politically-independent members that are able to confront and hold accountable an entrenched kleptocracy and its associated policymakers. The policy imperative is to develop and implement a comprehensive, multi-year macroeconomic reform plan, including deep structural measures.

A credible and effective government will have to implement unpopular economic reforms and approach the international community for a financial package in order to avoid an extended, deep and painful recession which will be accompanied by social and political unrest.

2. Tackle subsidies and other inefficiencies

The new government should undertake a swift, comprehensive and front-loaded fiscal reform. These should sustainably reduce the fiscal deficit by cutting wasteful expenditure and subsidies, increase electricity and petrol prices to international levels, combat tax evasion and overhaul the public pension system. They should also reform and resize the public sector and implement structural reforms, starting with the massively inefficient energy sector.

Other state-owned assets and government-related enterprises, such as the Middle East Airlines, casino, airport, ports and telecoms can either be sold or managed as independent, efficient, profitable private sector enterprises.

3. Restructure public debts

Public debt (including central bank debt) will have to be restructured. Domestic Lebanese pound debt is entirely held by the Banque du Liban and local banks. A re-profiling would repackage debt maturing over 2020–2023 into new debt at 1 per cent, maturing in five-to-10 years.

Similarly, foreign currency debt should be restructured into longer maturities of 10 to 15 years, with a guarantee from a new Paris V Fund (see below), which would drastically lower interest rates.

The suggested debt re-profiling would reduce it to sustainable levels, radically cut the enormous debt service costs now exceeding 10 percent of GDP and would create fiscal space during the adjustment period.

4. Reform the country's banks

About 70 per cent of bank assets are invested in sovereign and central bank debt. The debt restructure implies a major loss for the banks. To compensate for these losses, a bail-in by the banks and their shareholders is required, a large recapitalisation and equity injection, of the order of some \$20 billion (Dh73.45bn), including a sale of assets and investments.

The banks have been major beneficiaries of a bail out and so-called “financial engineering” operations by the BDL generating high profits, have substantial reserves and assets, as well as deep pocketed-shareholders to enable a recapitalisation and restructuring. A consolidation of the banking system will be required to restore its soundness and financial stability and the ability to support economic recovery.

5. Scrap the dollar peg

Lebanon's overvalued exchange rate acts as a tax on exports, subsidises imports and worsens the large current account deficit. To support the overvalued peg, Banque du Liban has borrowed massively from the domestic banks creating a domestic liquidity squeeze, and kept interest rates high to attract capital inflows and remittances. These policies have crowded out the private sector, depressed economic growth and increased the cost of public borrowing, aggravating the budget deficit and increasing debt levels. Lebanon needs to change its monetary policy and move to a managed flexible exchange rate regime. This starts with admitting the failure of the pegged regime and recognising the de facto devalued parallel market rate.

6. Enter into an IMF programme

To underpin the deep reforms, Lebanon will require an Economic Stabilisation and Liquidity Fund, of some \$20bn to \$25bn, as part of a Paris V reform framework. To be credible, the policy framework should be an IMF programme, with requisite policy conditions, in order to attract multilateral funding from international financial institutions and CEDRE participants, including the EU and the GCC countries. Importantly, the programme should include a targeted Social Safety Net (via cash transfers, unemployment insurance and other methods) to provide support during the reform process and aim at lowering inequality and reducing poverty in the medium term.

The ongoing October 17 protests and revolt are a historical opportunity for Lebanon to undertake deep political and economic reforms to avoid a lost decade of economic depression, social misery, growing poverty and massive migration. The livelihood of several generations is at stake. It is time to build a Third Republic.