

"Lebanon Must Enact Drastic Reforms to Survive", Comments in VOA News, 25 Jan 2021

Dr. Nasser Saidi's comments from a Malcolm H. Kerr Carnegie Middle East Center event appeared in VOA News in an article titled "[Lebanon Must Enact Drastic Reforms to Survive, Economists Say](#)" published on 25th Jan 2021.

Dr. Saidi's quotes are posted below.

Lebanon has the third-highest debt-to-gross-domestic-product ratio in the world and is in need of extensive economic restructuring, Nasser Saidi, former minister of economy and trade in Lebanon, recently told the Malcolm H. Kerr Carnegie Middle East Center.

"If you look at other countries that have been in crisis – Greece, Argentina, Iceland – this goes well beyond that," he said. "We are seeing real GDP declining in 2020 by about 20 percent. It had already declined by 7 percent in 2019. So, this is a massive depression, even greater than that in the 1930s, in the Great Depression."

Saidi says billions of dollars of Lebanon's stolen assets need to be recovered. Sanctions, such as those under the Magnitsky Act, can help, particularly if the U.S. and European Union coordinate their efforts to get Lebanon back on track. Saidi says Lebanon's corrupt politicians and business elite "need to be held accountable for what they've done" to bring the country into such a dire situation.

"They've effectively destroyed Lebanon," he said. "They're now holding Lebanon hostage. The politicians in Lebanon will feel the bite, and particularly as you start getting perhaps the beginning of a dialogue with Iran and telling Iran: 'You've got to hold Hezbollah back and let's get the reform agenda moving in Lebanon.'"

Comments on Lebanon's foreign currency reserves in FT, 8 Mar 2020

Dr. Nasser Saidi's comments on Lebanon's foreign currency reserves appeared in the article titled "Lebanon set to default for first time as foreign currency reserves dive" published in the FT on 8th March 2020.

The full article can be accessed at:
<https://www.ft.com/content/bda10536-6145-11ea-a6cd-df28cc3c6a68>

Comments are posted below:

Nasser Saidi, a former central bank vice-governor, estimated that usable reserves had fallen to "about \$3bn to \$4bn". He said this was because the gross reserves included \$18bn to \$19bn set against deposits for commercial banks that the BdL could not spend because of reserve requirements. In addition, the BdL has lent local institutions about \$6bn to \$7bn to help them cover their commitments to correspondent banks, Mr Saidi said.

"It is now urgent that the government opens up negotiations with the IMF," Mr Saidi said, "because you're going to need help with balance of payments, even to fund your imports".

Lebanon at a Turning Point, Article in Al Arabiya, 23 Jan 2020

The article titled "Lebanon at a Turning Point" appeared in Al Arabiya on 23rd January, 2020 and is posted below. Click [here](#) to access the original article.

Lebanon at a Turning Point

Endemic and persistent corruption, mismanagement, gross mal-governance, and failure to address Lebanon's economic, social, and environmental challenges have driven protestors to throng the streets amidst bank closures, payment restrictions, and foreign exchange controls. Protesters had called for a cabinet of professionals, "technocrats," politically independent, experienced persons, divorced from sectarian politics. The new government formed under duress is a mix of professionals and politically affiliated members. Significantly, it is comprised of 20 non-parliamentarians promising better accountability and has six female members (including the Middle East's first female defense minister). However, the stark reality, as Prime Minister Hassan Diab clearly identified, is that the country is at a "financial, economic, and social dead end." Indeed, Lebanon has become a failed state. Will the new government have the political courage to undertake deep and unpopular reforms? Will it be willing to commit political suicide?

The new government has a gargantuan task ahead: It must immediately address the interlinked economic, banking and financial, and currency crises, not to mention a deadly environmental crisis. The accumulated difficulties have ballooned over the past three months due to a series of policy mistakes and inaction including the panic-inducing closure of

the banks, informal capital controls, restrictions on domestic and external payments, a rapid depreciation of over 40 percent of the Lebanese pound in the parallel market and effective inconvertibility of deposits. In turn, the pound's depreciation and the liquidity crunch have led to a sharp acceleration of inflation (some 30 percent), a sharp drop in economic activity (e.g. car registrations dropped by 79 percent year-on-year in November), leading to growing layoffs and unemployment, business closures/bankruptcies, and falling incomes, resulting in a collapse of investment, a sharp curtailment of household consumption, and more than a 50 percent fall in government revenue. The forecast is that real gross domestic product could decline by 10 percent, a great depression, not a recession.

Time is running out for Lebanon. Sovereign debt has risen to 160 percent of GDP, with a projected debt service of \$10 billion, equivalent to 22 percent of GDP and over 60 percent of government revenue. The fiscal deficit jumped to about 15 percent of GDP last year (from a budgeted 7.5 percent) and is likely to rise again this year. The debt dynamics and fiscal deficit are on an unsustainable path, with central bank monetary financing of the deficit heralding rapidly increasing inflation and accompanying depreciation of the Lebanese pound. Lebanon's external accounts are also in crisis, with the current account deficit (some 26 percent of GDP), aggravated by falling remittances and a surge in capital outflows, despite the illegal and unofficial capital controls.

What should the policy imperatives be of the new government? Fundamentally, the Diab government needs to develop and implement a series of economic and structural reforms that aim to restore trust in the government and its institutions, notably through an anti-corruption strategy and stolen assets recovery program, and addressing the fiscal, banking, financial, monetary, and currency crises to avoid a lost decade of economic depression, poverty, deep social unrest,

and political chaos. The immediate priorities include the following reforms.

Establish an emergency cabinet committee for immediately implementing economic and financial policy reform measures.

An economic recovery and liquidity reform program is required and must be prepared and agreed upon with the International Monetary Fund and the World Bank. Lebanon needs a multilaterally funded package of some \$20-25 billion for economic and social stabilization, budgetary and balance of payments support, and a redesigned CEDRE program. In 2018, more than \$11 billion was pledged in soft loans at the CEDRE conference in Paris, funding from which being unlocked is dependent on reforms made in the country. Prime Minister Diab's announcement of potential visits to Saudi Arabia and other Gulf nations would be a propitious opportunity to discuss participation in the reform program.

A credible fiscal reform should top the list of policy priorities.

Starting with the 2020 budget, the aim should be to achieve a 5-6 percent primary budget surplus over the next two years through expenditure and revenue measures. These would include the removal of subsidies on electricity and fuel, which are major drains on the budget, revisiting public sector salaries and pensions, in addition to public procurement laws and procedures, and improved tax compliance. But medium- and long-term fiscal sustainability requires imposing permanent constraints on fiscal policy through two fiscal rules: a budget balance rule (e.g. budget deficits not to exceed 2 percent of GDP) and a debt rule (e.g. debt-to-GDP should not exceed 80 percent of GDP).

Public debt restructuring is key.

Given the Eurobond maturing in March 2020, another initial pain point is initiating negotiations on restructuring and re-

profiling Lebanon's public debt, including the debt of Lebanon's central bank. So far, the absence of an empowered government has constrained any negotiations on restructuring its debt. Lebanon's crisis-hit bonds have been flashing warning signs of a sovereign debt distress if not default ahead. Yields on the government's \$1.2 billion of notes maturing in March were close to 200 percent on January 22 (versus at 13 percent just before the start of protests), while the price of other Lebanese Eurobonds plummeted to historic lows. The new government should immediately initiate debt restructuring negotiations within the comprehensive economic stabilization and liquidity program. A successful restructuring could reduce the net present value of debt by some 50 percent, substantially lowering the debt burden and its servicing.

The banking sector must be restructured.

Given that 70 percent of Lebanese banks' assets are invested in sovereign debt and central bank paper, a restructuring of public debt will necessitate an extensive reform of the banking system, including a bail-in of the banks through a \$20-25 billion recapitalization by existing and new shareholders, a capitalization of reserves, a sale of assets, – such as real estate, investments, and foreign subsidiaries – and a consolidation of banks to downsize the sector.

Lebanon needs to change its monetary policy and move to a managed flexible exchange rate regime.

The high interest rates required to maintain the overvalued official dollar peg generated structural current account deficits, created a domestic liquidity squeeze, crowded out the private sector, and increased the cost of public borrowing. Reform starts with admitting the failure of the pegged regime, recognizing the de facto depreciated parallel market rate, and instituting formal capital controls through legislation during the economic transition period.

A social safety net must be implemented to protect the vulnerable.

Importantly, given the need for painful reform measures and rising extreme poverty levels, a targeted and well-funded social safety net, to the tune of some \$800 million, needs to be put in place to protect the poor and vulnerable.

This is a historical turning point. Either Lebanon will choose a path that leads to the economy's stabilization and a gradual recovery over a three- to five-year transition period, or it will avoid necessary reforms, confirming the country as a failed nation and dooming it to a decade of desolation.

Podcast on Lebanon with The National, 23 Jan 2020

In this episode of Beyond the Headlines, The National's Willy Lowry reported from the tear gas-filled streets of Beirut. He spoke to young people angry at what they've called Mr Diab's "one-colour" government.

Also on the show is Dr. Nasser Saidi (*from 10:00 onwards*), a former Lebanese economy minister and former vice governor of the central bank of Lebanon. He lays out plainly the scale of the crisis and his recommendations of what the new government should do.

<https://audioboom.com/posts/7486040-tear-gas-fireworks-and-politics-in-lebanon-s-revolution>

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.

Comments on Lebanon's ongoing economic crisis in FT, 28 Nov 2019

Dr. Nasser Saidi's comments on Lebanon's potential debt crisis appeared in the article titled "Lebanon urged to restructure

debt as crisis deepens" published in the FT on 28th Nov 2019. The full article can be accessed at: <https://www.ft.com/content/e0c02d14-104e-11ea-a225-db2f231cfeae>

Comments are posted below:

Nasser Saidi, a former central bank vice governor, said he expected the central bank would be able to provide the foreign currency needed to cover Thursday's repayment, pointing out that not all the funds would automatically flow overseas. He estimated that over two-thirds of the \$1.5bn owed would remain in the country as the debt is already held by local lenders and the central bank. "The balance to foreign investors can be covered from existing [foreign exchange] reserves," he said.

Comments on Lebanon's worsening default risk in FT, 16 Nov 2019

Dr. Nasser Saidi's comments on Lebanon's escalating economic-financial-fiscal crisis appeared in the article titled "Lebanon's creditors adopt crash position as default risk worsens" published in the FT on 16th Nov 2019.

The full article can be accessed at: <https://www.ft.com/content/11d008d6-07b5-11ea-a984-fbbacad9e7dd>

Comments are posted below:

Nasser Saidi, a former BdL vice-governor and former economy and trade minister, said different approaches were needed to ease the debt servicing burden of Lebanon's foreign currency and local currency debts.

Mr Saidi said that maturities on local debt could be extended

and interest rates lowered, if BdL, local banks and pension funds were to agree with the measures. He added that multilateral development banks and foreign donors could offer guarantees on Lebanon's foreign currency debt, lessening the pain for investors taking forced losses.

But he said that politicians need to act fast and appoint a government with technical skills to see through this difficult process. "The longer you take to . . . undertake a painful adjustment, the worse the problem becomes," Mr Saidi said.

Comments on Lebanon's escalating economic crisis in New York Times, 15 Nov 2019

Dr. Nasser Saidi's comments on Lebanon's escalating economic-financial-fiscal crisis appeared in the article titled "Economic Crisis Looms as Protests Rage in Lebanon" published in the New York Times on 15th Nov 2019.

The full article can be accessed at: <https://www.nytimes.com/2019/11/15/world/middleeast/lebanon-protests-economy.html>

Comments are posted below:

"The problem is that the current policies are unsustainable," said Nasser Saidi, a former Lebanese economy minister. Putting the country on the right track would require simultaneously dealing with a large budget deficit and bringing down public debt – a gargantuan task.

"You really don't have much choice," he said. "You are at the edge of the precipice and you are looking down, so unless you do that, where is this going to end?"

Radio interview with Dubai Eye's Business Breakfast on Lebanon's economy, 7 Oct 2019

Dr. Nasser Saidi spoke with Dubai Eye's Business Breakfast team ahead of the Lebanon Prime Minister Saad Hariri's visit to the UAE. The UAE meetings resulted in the travel ban to Lebanon being lifted.

Listen to the full radio interview at <https://omny.fm/shows/businessbreakfast/lebanon-economy-nasser-saidi-associates-07-10-2019>