“Economic diversification is the GCC’s top priority”, Op-ed in Arabian Gulf Business Insight (AGBI), 3 Apr 2024

The opinion piece titled “Economic diversification is the GCC’s top priority” appeared in the Arabian Gulf Business Insight (AGBI) on 3rd April 2024.

The article is posted below.

Economic diversification is the GCC’s top priority

Saudi Arabia has taken great steps to diversify its economy – Kuwait must follow suit

It is a paradoxical truth that nations highly dependent on natural resources tend to be poor economic performers.

Such countries are exposed to ongoing adverse shocks, including price jolts, volatile demand and supply, and natural disasters. These factors can stir up macroeconomic instability and higher economic risks – otherwise known as the “natural resource curse”.

The demand and supply shocks that occurred during the Covid-19 pandemic, as well as those caused by ongoing wars and the planned energy transition, increased the urgency for fossil fuel exporters to diversify their economies and mitigate risks.

Such strategies also avert the crisis of being left with lower-valued or stranded assets.

Robust and extensive economic diversification is a must-have policy for the commodity-producing nations of the GCC. It is essential for the region's macroeconomic stability and job creation.

The Global Economic Diversification Index (EDI) measures diversification across three dimensions including output, trade and government revenue for 112 nations, over the period 2000 to 2022. Its underlying 25+ indicators are all quantitative (i.e., no survey or perception indicators) and publicly available, resulting in a quantitative benchmark that can be replicated.

The latest issue of the EDI, released at the World Governments Summit in February, finds that **the top-ranked nations – the US, China and Germany – are well-diversified and tend to be resilient, even amid unexpected shocks like the Covid-19 pandemic.**

The high commodity or natural resource-dependent nations, where the diversification process has been slow and stagnant, languish at the other end of the spectrum. Four nations – three from Sub-Saharan Africa and Kuwait from the Mena region – remain in the bottom 20 ranks of the EDI over the period 2000-2022.

However, the emergence of other countries from the bottom quartiles to become more diversified, such as Saudi Arabia, underscores the rewards of reforming.

Though commodity-dependent nations have made gains in output and trade diversification sub-indices over time, reforming, introducing broad-based taxation or instituting new tax regimes for fiscal sustainability is more problematic, and is holding back oil exporters from making gains in government revenue diversification.

For example, tax revenue as a percentage of GDP in Norway, which is highly ranked in the revenue sub-index, stands at around 30-plus percent versus single digit readings in Bahrain and Kuwait.

The effort necessary for lower ranked nations to catch up in the post-Covid era will be tougher, given not only the long-term scarring effects and output loss induced by the pandemic but also due to limited fiscal space and high debt burdens.

However, a pandemic silver lining effect can be seen in the accelerated adoption of digital technologies, resulting in societal gains such as higher labour force participation rates and productivity gains – especially in nations with existing basic IT infrastructure.

The EDI 2024 edition includes three digital-specific indicators in the trade sub-index, capturing growth of the digital economy.

One main finding is that if digital adoption is delayed existing divides can widen, leading to deteriorating outcomes and prospects in the absence of an acceleration of reforms.

Another is that digital economy investments tend to improve trade diversification, notably through the ability to export services.

It is noteworthy that the UAE and Saudi Arabia were the 8th and 24th largest exporters in world trade of commercial services (excluding intra-EU trade) in 2022, according to the World Trade Organisation.

The GCC region has achieved significant progress in economic diversification over the past two decades. The UAE and Bahrain

have higher EDI scores compared to their peers, while Saudi Arabia and Oman have both substantially improved their scores relative to 2000.

The implementation of reforms at a much more aggressive pace after the pandemic has helped to improve GCC rankings across the board. Such initiatives include incentives to invest in new tech sectors, broadening tax bases, trade liberalisation through free trade agreements and improvements to regulatory and business environments, while facilitating rights of establishment and labour mobility. Gulf governments have also been diversifying their “national asset” portfolios, by investing in economic institutions. These reforms improve diversification across all three pillars (output, trade, government revenue) and will strengthen long-term economic resilience.

As countries adapt to and mitigate climate change risks, energy transition and green investments such as renewable energy can play a key role in transforming economies and output structures.

Fossil fuels are likely to remain in the global energy mix for decades, but a potential sustained decline in demand necessitates the roll-out of diversification policies at the earliest.

With many oil-exporting nations in the Middle East already diversifying energy sources, potential exports of clean energy – such as hydrogen – from these nations can widen their export base (both of products and trade partners).

Regional integration would support diversification efforts, as would increasing intra-regional trade in the Mena region.

Gulf-wide trade agreements would lower costs, thereby generating demand for specific goods and services outside traditional commodity exports.

The prospect of regional integration creates a massive opportunity to link domestic, regional and global value chains, supporting diversification efforts.

To paraphrase the late great author Lewis Carroll, in a resource-rich country "you have to run twice as fast to get anywhere".

Dr Nasser Saidi is the president of Nasser Saidi & Associates. He was formerly chief economist and head of external relations at the DIFC Authority, Lebanon's economy minister and a vice governor of the Central Bank of Lebanon

With additional contributions from Aathira Prasad, director, macroeconomics at Nasser Saidi & Associates

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Comments on Lebanon's potential oil and gas finds in The National, Aug 25 2023

Dr. Nasser Saidi's comments appeared in an article in The National titled "Lebanon 'years away' from realising benefits of potential oil and gas finds" published on 25th August 2023.

The comments are posted below.

There's a "presource risk" when it comes to Lebanon's case, where policymakers ramp up spending in anticipation of potential future revenue, Nasser Saidi, president of Nasser Saidi and Associates and Lebanon's former economy minister, told The National.

Even if they find oil and gas trapped beneath the seabed, the *quantity discovered may not be worth a major investment, Mr Saidi said.*

For Lebanon's economy to benefit from any future oil and gas production, a national oil fund that is independent of the country's Finance Ministry needs to be set up, Mr Saidi said.

"There should be a strict law on the use of any revenues because this is resource wealth that is not renewable … you have to keep it for future generations," he said.

In Lebanon's case, revenue from oil and gas exports will come after "seven to eight years" as it builds the necessary infrastructure and pipelines, Mr Saidi said.

"We don't know what the price of oil and gas is going to be by then. The world is in the energy transition and everybody is moving towards renewable energy and that might mean potentially downward pressure on oil and gas prices," he said.

"To restore the Lebanon central bank's credibility, independence is key", Op-ed in The National, 15 Aug 2023

The article titled "To restore the Lebanon central bank's credibility, independence is key" appeared in the print edition of The National on 15th August 2023 and is posted below.

To restore the Lebanon central bank's credibility, independence is key

Nasser Saidi

Lebanon is now dealing with the greatest financial crisis in history, the heavy legacy of Riad Salameh, the former governor of Banque du Liban. The new governor, Wassim Mansouri, has pledged that the central bank "must completely stop financing the government outside of a legal framework", calling for a state financing law to be passed by Parliament.

This is unnecessary and a dangerous precedent that previous governors like Edmond Naim rejected. The Money and Credit Code, or MCC – Lebanon's banking law – provides a wide measure of independence to the BDL with specific and strict conditions on financing government. The MCC legal strictures were violated, including the operating principle that the central bank does not grant credits to government and the public sector (MCC Article 90). How was this done?

The BDL financed unsustainable budget deficits (averaging 8.4 per cent of gross domestic product between 2014 and 2019) and monetised public debt, attempting to reduce the growing burden of interest payments. Wasteful government spending includes subsidising electricity generation by Electricite du Liban, which touched $1.8 billion in 2018, or 3.1 per cent of GDP. This was the biggest drain on public finances, while the company provided about three hours of electricity a day. Public debt mushroomed from 139 per cent of GDP in 2014 to 172 per cent in 2019. This accelerated to 282.3 per cent in 2022, while current account deficits widened from 26.2 per cent to 28.5 per cent of GDP between 2014 and 2019.

The BDL expanded its public sector financing through providing preferential funding at subsidised rates for housing and real estate, education, tourism, innovation and SMEs. This amounted to quasi-fiscal spending: BDL financed activities that should have been government budget financed under parliamentary scrutiny. The BDL expanded quasi-fiscal spending without public disclosure or transparency as to amounts and beneficiaries. This resulted in an absence of accountability, growing clientelism and the financing of activities at the behest of politicians and their cronies, widening the web of corruption.

Marketed under the heading of "financial engineering", the BDL bailed out the banking system in 2015 to the tune of $5.3 billion (about 12.5 per cent of GDP) without approval from the BDL's governing council, government or Parliament. The BDL financing was a costly and vain attempt to offset the effects of its failing exchange rate policy and overvalued parity. But the BDL financing was convenient for successive governments since they did not have to foot the bill and raise taxes.

More generally, the increasingly higher interest rates that the BDL was paying to attract deposits from commercial banks and capital inflows to increase its foreign currency reserves and defend a highly overvalued fixed parity of the Lebanese pound led to a sharp contraction of credit to the private sector. The overvalued real exchange rate acted as a tax on exports and sucked in imports, leading to a growing current account deficit. Lebanon's productive sectors were crowded out by the BDL's fixed exchange rate policy, unable to get access to finance from the banking sector.

The stage for economic and financial collapse was set by the BDL's financing of the twin current account and budget deficits. The BDL-Ponzi scheme burst, triggered by bank closures in October 2019, loss of confidence and a run on the banks. Eventually, the government defaulted on the March 2020 Eurobond. The government of Hassan Diab, the prime minister at the time, prepared a financial recovery plan that comprised fiscal, banking and structural reforms. This was sabotaged by the BDL and vested political and banking interests resisting reform and the required recapitalisation and restructuring of the banking sector.

Similarly, an IMF Staff Level Agreement from April 2022 remains stalled with no sign of willingness from Lebanon’s caretaker government and politicians to implement the required reforms agreed with the Fund. With government no longer able to tap domestic or foreign debt markets, increasing recourse was made to BDL financing by drawing down foreign currency assets (in effect, customer deposits that the banks had deposited at the BDL) and printing money. This led to a collapse of the exchange rate (98.5 per cent depreciation) and triple-digit inflation rates approaching hyperinflation (296 per cent in 2023), real GDP declining by 40 per cent and an increasingly informal (non-tax paying) cash-based economy, with a growing dollarisation of transactions. The net result of the BDL’s financing activities was accumulated losses exceeding $76 billion that were offset on the BDL’s balance sheet by creating fictitious “other assets”, as mentioned in the Alvarez & Marsal Forensic Audit report.

Mr Mansouri and the newly empowered governors of the BDL have the daunting task of resolving some of the institution’s legacy issues. They have proposed rebuilding trust via proposals including budget approval and enacting financial reforms (a capital control law by the end of August, as well as a financial capital restructuring law). The BDL needs to move to a floating exchange rate regime, shift away from distortion-creating and corruption-spreading multiple rates under the existing Sayrafa platform, to a single platform (for example Bloomberg or Reuters) and adopt a monetary policy targeting inflation.

To stop financing government, the MCC provides the power to the central bank, if it decides to do so, to lend to government under the conditionality it imposes. Such a conditional loan should be in Lebanese pounds to avoid further depletion of foreign currency “reserves” (now under $6.3 billion). This will force government to tap the local foreign exchange market if it needs to fund FX spending, thereby bearing the exchange rate depreciation effects of its FX borrowing. This would impose market discipline on the government, which has been absent under existing policy.

As part of the conditionality, the BDL should request that the government undertake a shock-therapy set of policies. Restoring confidence in the economy will stem from deep and comprehensive economic reforms. These should include restructuring the public debt and the banking system (including the BDL and its losses), governance reforms and the removal of subsidies by immediately phasing out transfers to non-performing, corruption-ridden national councils, state-owned enterprises and government-related entities.

There should also be a fiscal strategy to sustainably improve the state’s finances, by reducing the size of government and revenue mobilisation (for example, by broadening the tax base and improving the efficiency of tax administration) and rationalising spending by implementing public procurement reform. While credible financial restructuring tops the list of reforms needed, this must be supported by the institution of checks and balances, public accountability as well as transparency and disclosure.

Lebanon is paying the price of years of unsustainable, fixed exchange rate, fiscal and debt policies. Outrightly refusing to fund the government will instead force its hand to go to the IMF, with its funding (as well as any international aid and financing) dependent on implementing, not empty promises, but reforms. Otherwise, the BDL will lose any remaining credibility and, once again, revert to being a government financier, thereby risking a prolonged hyperinflationary period. Restoring credibility to the BDL requires its standing firm on its independence from government and Parliament, as well as forcing politicians to be held accountable for their inaction and irresponsible policies. Absent comprehensive reforms, Lebanon will continue its descent into its infernal abyss.

Comments on the delays in Lebanon’s reforms in The National, Aug 4 2023

Dr. Nasser Saidi’s comments appeared in an article in The National titled “Reform delays threaten to plunge Lebanon’s crisis-struck economy into darker depths” published on 4th August 2023.

The comments are posted below.

Topping the long list of necessary measures required to overhaul the economy is restoring confidence in the banking system and the Banque du Liban by instituting checks and balances, public accountability, transparency and disclosure, said Nasser Saidi, formerly Lebanon’s economy minister and vice-governor of the central bank.

“It is incredible that there has been zero accountability of the BdL for the biggest financial crisis in history that has destroyed the Lebanese economy,” he said.
“With a new acting governor at the central bank, the hope is for a faster rollout of policy reform, with support from the caretaker government,” Mr Saidi said.

“Credible financial restructure tops the list of reforms needed … in addition to a move towards flexible exchange rates and stopping all quasi-fiscal policies such as the financing of the state budgets.”

“These necessary reforms are politically feasible but remain

an uphill task in the current political backdrop," Mr Saidi said.

"Any further delays will only lead to further exchange rate depreciation, a plunge in consumer and business sentiment and increase cash dollarisation alongside high levels of inflation," he added.

Interview with Sky News Arabia on Lebanon, 16 May 2022

Dr. Nasser Saidi was interviewed on Lebanon's elections, and potential recovery subject to implementation of reforms

The Sky News Arabia TV interview can be viewed via this Twitter link

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Interview with CNBC Arabia on Lebanon's recent banking, exchange rate developments & negotiations with IMF, 17 Jan

2022

Dr. Nasser Saidi was interviewed on the recent banking and exchange rate developments in Lebanon as well as the negotiations with IMF. The CNBC Arabia TV interview, aired on 17th of January 2022, was titled "في لبنان الأزمات تلد أزمات.. تبدأ بجفاف الدولار ولا تنتهي عند الظلام! " can be viewed directly here.

لبنان.. وكأن هذا البلد على موعد مع الأزمات والرهان .. ومن كل شكل ولون!

فما أن يحتوي أزمة إلا وتظهرٍ أخرى اكثر تعقيدا وظنون، حتى أصبح التفريق بينها صعباً وعسيراً مع تضاؤل الآمال في العثورعلى تأمين.

تتقاطع السياسة والاقتصاد وتتعثر الدروب والمعطيات، دولار غائب عن الحضور وكهرباء متقطعة ولا نور.

ديون متراكمة تنتظر الدور ومصارف لا تكفي المودعين والحضور، وليرة تتوارى وتراجع منظور.

وسلع في الأرفف إلا لمن استطاع، عصية على الوصول، وبلد غارق في أزماته ينتظر الفرج وتقديم حلول!

"Accelerating decarbonisation and digitisation can build

upon UAE’s game-changing reforms", Op-ed in The National, 27 Dec 2020

The op-ed by Dr. Nasser Saidi, titled “*Accelerating decarbonisation and digitisation can build upon UAE’s game-changing reforms*“, appeared in The National on 27th Dec 2020 and is reposted below.

Accelerating decarbonisation and digitisation can build upon UAE’s game-changing reforms

The Emirates’ monetary, fiscal and health stimulus packages cushioned the economy from the impact of the Covid-19 pandemic

Adjusting to Covid-19 has defined this year – from partial or full lockdowns to remote working and stalling global trade, investment and tourism, with cleaner air the rare bright spot.

Hopes of a V-shaped recovery diminished with the emergence of new Covid strain and subsequent lockdowns. Yet, despite the “Great Lockdown” resulting in a deep recession, markets are exuberant amid expectations that the production and distribution of several vaccines will create a path to normality in 2021.

Unlike the global financial crisis from 2008 to 2009, which began as a housing bubble and a demand shock, the current health crisis began as a supply shock that disrupted global supply chains and caused a spillover to the demand side, where it hit trade, tourism and consumption.

Given the widespread impact of the pandemic and despite concerted monetary and fiscal stimulus equal to 12 per cent of global gross domestic product, not only will the road to recovery be longer but the cumulative output loss will be much larger than during the 2008 financial crisis, with long-term scarring of labour markets and economies expected.

The UAE’s combined monetary, fiscal and health stimulus package – equal to 18 per cent of its GDP – cushioned the economy after a demand-induced oil price shock and the effects of a global lockdown.

After several weeks of movement restrictions and stringent health measures, the UAE’s public health system proved effective and resilient, allowing the economy to reopen earlier than regional peers.

While maintaining social distancing and applying Covid-19 protocols to keep the community safe, the UAE reopened offices, businesses, allowed tourists to enter and successfully held events and conferences – both online and on site. This bodes well for the delayed Expo 2020 Dubai and the resumption of tourism.

With the reverberations of Covid-19, the UAE’s policy reforms were spot on – from the game-changing 100 per cent foreign ownership of businesses to the remote working initiative to the retirement and 10-year residency visas for skilled professionals – amid the country’s intentions to become a knowledge-based, innovative economy.

Liberalisation and market access reforms are set to attract foreign investment, boost capital flows to the property market, enhance workforce skills and support innovation and productivity growth.

With energy market volatility and lingering coronavirus-induced uncertainty, what activities can drive an economic recovery next year and support medium-term growth prospects?

For GCC oil producers, de-risking fossil fuel assets by following a strategy of part-privatisions and public-private partnerships in energy reserves, upstream and downstream operations and related infrastructure such as pipelines is important. This has started with Adnoc and Aramco.

With the oil price required to balance budgets higher than current prices, deficit financing instruments should be

developed by governments. We can expect new government bonds to be issued next year that will encourage more corporate bond issuances and private debt placements.
The UAE is accelerating its decarbonisation efforts, focusing on energy efficiency, transitioning to renewable energy and building on its leadership in renewable energy projects and investment in climate risk mitigation and adaptation.
Greater investment in agriculture technology for food security, which includes sustainable vertical farming and desert agriculture, should take place in tandem with the sustainability and energy efficiency drive.
Decarbonisation and the diversification of the energy mix will support the growth of the UAE’s capital markets through the issuance of green bonds and sukuk, as well as the financing of PPP and privatisation deals for renewable energy and clean technology.
Indeed, the UAE can become a regional, if not a global, centre for renewable energy finance.
Covid-19 has led to a strong impetus to digitise as working and learning from home became more popular. The UAE should build on its strong e-commerce and e-services base by massively investing in 5G to support the Internet of Things and building smart cities and infrastructure.
This is critical for the retail sector to move online from brick-and-mortar shops. Liberalising the telecoms sector and lowering the costs of broadband services will help the country become a fully digitised economy and a regional hub for digital services.
The UAE has world-class core infrastructure in transport and logistics, power and telecoms. These assets can serve infrastructure-poor countries in the region, East and Central Africa, India, Pakistan and Central Asia. Electricity from solar power can be exported through cross-country, integrated grids.
Finally, the UAE’s normalisation of relations with Israel heralds a new regional economic geography: new trade and investment opportunities, as well as the reduction of

geopolitical tensions.

Dr Nasser H Saidi is a former Lebanese economy minister and founder of the economic advisory and business consultancy Nasser Saidi & Associates

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"A COVID-19-induced macroeconomic overview of the GCC", Keynote presentation at Bonds, Loans & Sukuk Middle East, 8 Dec 2020

Dr. Nasser Saidi, a keynote speaker at the latest Bonds, Loans and Sukuk Middle East event, held virtually on 8-9 Dec 2020, presented a 30-min talk titled “A COVID-19-induced macroeconomic overview of the GCC”.
The presentation covered the macroeconomic impact of Covid19 pandemic on the global economy and the Middle East/ GCC region (economic growth, capital flows, trade, investment, labour movements, job losses). Also covered were the policy responses (monetary, fiscal, social and health policies) in addition to thoughts on the Biden Presidency and its regional consequences. The concluding remarks focused on GCC’s way forward post Covid19, looking at three pillars: geopolitics, the economy and new sectors of focus.
Download the presentation here.

Radio interview with Dubai Eye's Business Breakfast on the Beirut port explosion & the way forward, 6 Aug 2020

Dr. Nasser Saidi spoke with Dubai Eye’s Business Breakfast team, sharing his reaction to the blast in Beirut on Aug 4th and the economic challenge facing Lebanon.
Listen to the full radio interview:

Interview with CNBC on Lebanon's exchange rate movements & IMF negotiations, 10 Jul 2020

Dr. Nasser Saidi was interviewed on CNBC’s “Capital Connections” by Hadley Gamble on the country’s exchange rate movements, negotiations with the IMF and the reforms required to rescue the economy.
Some comments highlighted below:

The Lebanese pound, which has been pegged to the U.S. Dollar since 1997, has lost 80% of its value on the black market since October.

“There is no longer any policy anchor for the pound,” Nasser Saidi, the country’s former economy minister and vice governor of the central bank, told CNBC’s Hadley Gamble on Friday.
“There is no appetite for reform, no political courage to address Lebanon’s problems,” he added. Saidi compared Lebanon’s political and economic woes to crisis-stricken Venezuela, coining his home country “Libazuela.”
Watch the CNBC interview below:

Interview with CNBC on Lebanon's negotiations with the IMF, 3 Jun 2020

Dr. Nasser Saidi was interviewed on CNBC’s “Capital Connection” by Hadley Gamble on the country’s negotiations with the IMF and the reforms required to rescue the economy. Some comments highlighted below:

A former minister of economy and trade said it was not realistic to expect the [IMF loan negotiation] process to be completed so soon, noting that a number of laws need to be passed. “And parliament, in the middle of this crisis, is going into recess until October,” said Nasser Saidi, president of Nasser Saidi & Associates. “What you need is Lebanon to be in crisis mode. Both government and parliament need to be in crisis mode.”
Saidi told CNBC on Wednesday that he doesn’t think approval will be granted very quickly. “It will be a hard path to convince the IMF and the international community that Lebanon’s politicians and government are able to implement reform.”
Watch the CNBC interview here: https://twitter.com/i/status/1268086096392527874

Interview with Sky News Arabia Lebanon's electricity sector & reforms, 29 May 2020

Dr. Nasser Saidi was interviewed on Lebanon's electricity sector & reforms.

For many years, the electricity crisis in Lebanon has been at the forefront as one of the most difficult crises that burdened Lebanese citizens and drained billions of dollars from the country's economy, in light of the almost complete absence of reforms and solutions. Dr. Nasser Saidi shares his thoughts below.

The Sky News Arabia TV interview can be viewed directly at this original link.

Interview with CNBC Arabia on restructuring of Lebanon's banks, 4 May 2020

Dr. Nasser Saidi was interviewed on the restructuring of Lebanese banks under the government's reform plan. The CNBC Arabia TV interview can be viewed via this tweet or directly at https://www.pscp.tv/w/1vAxRBrjOzPxl?t=34