

Comments on Lebanon's Eurobonds rally in The National, 9 Jan 2025

Dr. Nasser Saidi's comments on the rally in Lebanon's Eurobonds appeared in an article in The National titled ["Lebanon's Eurobonds rise amid election of Joseph Aoun as president"](#) published on 9th January 2025.

The comments are posted below.

"The strong rally in Lebanon's government Eurobonds stems from the optimism that the election of Joseph Aoun as the next President, would lead to the implementation of much-needed deep institutional and structural reforms, and a national anti-corruption drive," Nasser Saidi, a former economy minister and deputy governor of Lebanon's central bank, told The National.

The rally, however, is expected to "be short-lived", and will depend on the choice of an effective prime minister and government formation at an early date, he added.

"The need for Lebanon is to have a strong-willed PM and cohesive, competent, and effective government willing to undertake structural reforms without bowing to political pressure. Concurrently, there needs to be a permanent ceasefire in the South to help stabilise the country," Mr Saidi said.

"The right governance set-up and transparency is vital for Lebanon's next step towards reform implementation," Mr Saidi said. "Reforms will need to range from restructuring the banking and financial sector, restructuring external debt, in addition to reforms including fiscal consolidation and reform, downsizing of the public sector, effective management and governance of the state-owned enterprises, in addition to creating a credible, transparent monetary and exchange rate

system [including the move to a flexible exchange rate regime].”

Lebanon will also have to negotiate a new agreement with the IMF as the political, economic, banking, and financial landscape has changed dramatically since the previous IMF staff level agreement in 2020, he added.

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 fiscal standing in the Executive magazine, Jun 2018

Dr. Saidi's comments on Lebanon's fiscal standing are highlighted in the article below, titled "The noose around Lebanon", published in the Executive magazine in June 2018. Click [here](#) to access the original article.

The noose around Lebanon

Lebanon's economy at risk from external pressures

Over 300 days have passed since Saad Hariri, Lebanon's prime minister, stood on the White House lawn next to Donald Trump as the US President promised an answer to the "menace" of Hezbollah within 24 hours. That answer did not materialize in the form of a comprehensive foreign policy or as diplomatic niceties, at least where the public is concerned, but now in mid-2018 we indeed have the answer—namely that actions speak louder than words. With that principle in mind, Trump's politics vis-à-vis Hezbollah and the region has been made clear.

American focus appears to follow that of Israel. In other words, their focus is on Iran. This leaves Syria, as of right now, as a tertiary concern to the Americans. Meanwhile the month of May saw escalations from the Israeli side over what it perceives as Iranian encroachment, escalations that risk further inflaming the Syrian war. These included Israeli

airstrikes on Iranian military facilities in Syria, the American withdrawal from the Iran Deal (formally known as the Joint Comprehensive Plan of Action), moving the American embassy in Israel to Jerusalem, and American sanctions that targeted Iranian central bank officials, leaders of Hezbollah, and Hezbollah's alleged illicit global financial network. All of these could increase the risk of a new war in the region. But what could happen to Lebanon and its economy, including the financial sector?

Wider consequences

On May 8 Donald Trump abandoned the Iran Deal, fulfilling a promise made on the campaign trail. The US president offered no strategy or alternatives, with a list of demands only later fleshed out by US Secretary of State Mike Pompeo. The Iranians have a list of their own that they have sent to the European parties to the deal who wish to keep the agreement in place. These include European protection of Iranian oil sales and a continuation of purchases. The Americans have threatened sanctions on European companies if they do business with Iran, and so far Total, an international oil company, announced it would freeze its \$1 billion investment in an Iranian gas field if the Americans reapply sanctions on Iran later this year. Other global companies have also said they would wind down business in Iran. In the 1990s the United States threatened sanctions against European companies for trading with Cuba, but the European Union was able to neutralize the threat by suggesting retaliatory sanctions. Right now it is anyone's guess how this chapter of the saga might play out, and at this point it is unclear how wider American actions will affect the regional economy. We also do not yet know what sanctions targeting senior officials connected to Hezbollah will do to Lebanon, its banking sector, or the local economy.

Economic woes

What we do know is that the risk of a regional war that could

engulf Lebanon has already had implications for the country's economy.

Moody's, a credit agency, reported in mid-May that global financing conditions will tighten gradually but also said that Lebanon, as one of several sovereigns, could be vulnerable to an interest rate shock. In the event of such an episode, the Moody's report concludes that "the most exposed emerging market and frontier market sovereigns would see fiscal strength weaken. Absent a policy response that effectively mitigated the erosion of fiscal strength, these shifts would strain ratings, even for sovereigns we already assess with the lowest fiscal strength." Their announcement does not directly address war risk, but Lebanon's vulnerability to an interest rate shock could be due, as they put it, to "high debt burdens, eroded revenue bases after the commodity price shocks, and an untested capacity to refinance sizable maturities in an environment of tighter financing conditions." The indirect effect of oil prices, which now hover around \$80, will heavily impact the Lebanese economy, putting pressure on exchange rates and the international interest rate environment. There is also speculation that Brent Crude trading could reach \$100 per barrel next year, in part due to US sanctions on Iranian oil.

Lebanon has one of the world's highest debt-to-GDP ratio, estimated above 150 percent in 2017 by the International Monetary Fund (IMF), and the government recently swapped Eurobonds with Banque du Liban (BDL), Lebanon's central bank, worth \$5.5 billion in Lebanese treasury bonds, according to a Ministry of Finance statement. The swap is meant to finance the government through the end of the year and to reduce debt-servicing costs.

Challenges ahead

The Eurobond fell to 94.67 points as of May 14 according to the BLOM Bond Index, a measurement of the performance of the

Lebanese government in the Eurobond market, a decline of 8.5 percent from its peak of 103.42 points on January 17. Dollar-denominated bonds have also tumbled, according to the May 14 Weekly Economic Commentary published by Nasser Saidi, a former Lebanon economy minister: "Lebanon's dollar-denominated bonds fell to multi-month lows after Trump pulled out of the Iran deal: the \$1 billion bond maturing in 2022 tumbled to 90.66 cents (the steepest loss) – its lowest level since Nov 2017." In a message to Executive, Saidi explained the drop as investor uncertainty by stating that "investors consider Lebanon at risk of war as a result of potential Iran confrontation."

Lebanon's fiscal standing is, in polite terms, very challenging. Saidi, responding to an Executive email, summarized the choppy strait that Lebanon must navigate, while also considering the external pressure points: "Given the high and growing risk premium, the spread on sovereign debt and interest rates are likely to remain high and rise further in Lebanon. This will be further exacerbated by the rise in US interest rates as part of monetary policy normalization and higher inflation. Given the peg of the LBP to the USD, there will be upward pressure on Lebanese interest rates. The impact of rising rates is substantial. It is estimated that a 1 percentage point (100 basis points) increase in interest rates would raise the cost of debt service by 7 percent of government revenues, from an already unsustainable 49 percent. However, BDL indicated in March this year that there would be no further rate hikes in spite of the [US Federal Reserve's] anticipated hikes later this year, indicating monetary accommodation of budget deficits by the central bank. Trying to lower spreads will hamper the nation's ability to attract inflows, thereby raising risk premiums further."

Internal dynamics, coupled with some external factors, hold the possibility to trip up Lebanon's economy, rather than indirect pressure of sanctions which at this point really do

not look like an economic instrument but more like a political one that makes noise and headlines but does not change the economic equation fundamentally. Yes, there are sanctions on Lebanese individuals and companies and that does pile on political pressure on the country, but the standard answer from Lebanon's central bank is that it complies with international standards and foreign and local legislation, while the banking community is in compliance with global anti-money laundering and counterterrorism financing requirements.

Riad Salameh, governor of BDL, does not seem so fazed by the myriad challenges piling on the country. He has, after all, guided Lebanon through similar rocky periods over his 25 year tenure. "The challenges are true challenges and we will be facing them, whether the increase in interest rate because of the world increase in rates, or whether the higher oil prices. [It is also true that] the geopolitical risks will be influencing the economy," Salameh said in a recent interview with Executive.

Past experience has demonstrated the vulnerability of Lebanon's economy to external shocks and maybe it is so far positive that there has been only limited military action in the immediate period following America's JCPOA withdrawal, embassy move, and targeted sanctions. How Lebanon plays into these geopolitical issues we still do not know, but the sound of the Trump administration's war drums grow ever larger and the latitude afforded to Israel to do as they may in the region widens.