

“What does Lebanon’s new government mean for its future?”, Chatham House webinar, 6 Mar 2025

Dr. Nasser Saidi participated in the panel discussion titled “What does Lebanon’s new government mean for its future?” hosted by Chatham House on March 6th, 2025.

The webinar examines the new government’s likely approach to political and economic reform, Lebanon’s evolving position in regional and international affairs, and the impact of U.S. policy on the country’s future.

Watch the discussion [here](#) (no login necessary).

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.

Comments on Lebanon's low exchange rate in Gulf News, 22 Mar 2021

Dr. Nasser Saidi's comments appeared in the Gulf News article titled "[How things went from bad to unbearable in Lebanon](#)", published 22nd March 2021.

Comments are posted below:

Citing security concerns, banks shut down and the minute they re-opened, were unable to accommodate depositors frantically trying to withdraw their savings. There were no more dollars in the country, and the state could not come up with logical answers as to where the money had vanished.

The lion's share had been consumed by the Central Bank of Lebanon, which insisted on an overvalued pegged exchange rate, says Nasser Saidi, an economist, former economy minister, and ex-deputy governor of the Central Bank.

Speaking to Gulf News, he explained: "To protect an overvalued Lebanese pound, the Central Bank started borrowing at high interest rates to pay maturing debt and debt service." The result, he added was "confidence evaporated, reserves [were] exhausted, with the Central Bank unable to honour its foreign currency obligations and Lebanon defaulting on its March 2019 Eurobond."

But that was not the only reason, he added. Another was the steady economic collapse in neighbouring Syria, to where Lebanese dollars were smuggled daily since mid-2019, also at highly inflated prices. Last April, Prime Minister Hassan Diab gave an additional reason for the downward trajectory, saying that \$5.7 billion in deposits had been smuggled out of the country during the first two months of the year, further adding to the liquidity crunch.

Comments on Lebanon's subsidies & historic low exchange rate in Reuters, 17 Mar 2021

Dr. Nasser Saidi's comments appeared in the Reuters article titled "[Brawls in shops as Lebanon's financial meltdown hits supply of food](#)", published 17th March 2021.

Comments are posted below:

The looming removal of subsidies has triggered fears of shortages, said Nasser Saidi, an economist and former cabinet minister.

"As soon as you announce that subsidies might be lifted or reduced...automatically consumers hoard goods," he said.

Comments on Lebanon's ongoing economic turmoil in Arab News, Mar 13 2021

Dr. Nasser Saidi's comments appeared in an Arab News article titled "[Prolonged crisis of governance leaves Lebanon adrift and isolated](#)" on 13th March 2021.

The comments are posted below.

...the latest lockdown has all the trappings of the final straw. "None of this is surprising," Nasser Saidi, Lebanon's former economy and trade minister, told Arab News.

"Income is down. GDP is down by at least 25 percent. We're having inflation in excess of 130 percent; general poverty is over 50 percent of the population; food poverty is over 25 percent of the population; unemployment is rapidly increasing; and thousands of businesses are being shut down.

"All of this is coming to the fore and at the same time we have a lockdown. It was a very stupid decision the way it was done, to lock Lebanon down, because it prohibits people from even being able to go and get their groceries, their food and necessities. And then it meant also shutting down factories and manufacturing.

"If you get sick, you can't even get to a hospital or afford a hospital. Hospitals are full now due to COVID-19. You have had a series of very bad decision-making and policies, and Lebanon is paying the price for it. This is going to continue. It is not going to go away. In my opinion, we are seeing just the tip of the iceberg."

Weekly Insights 19 Nov 2020: Knowledge-based human capital to drive UAE's diversification efforts

Download a PDF copy of this week's insight piece [here](#).

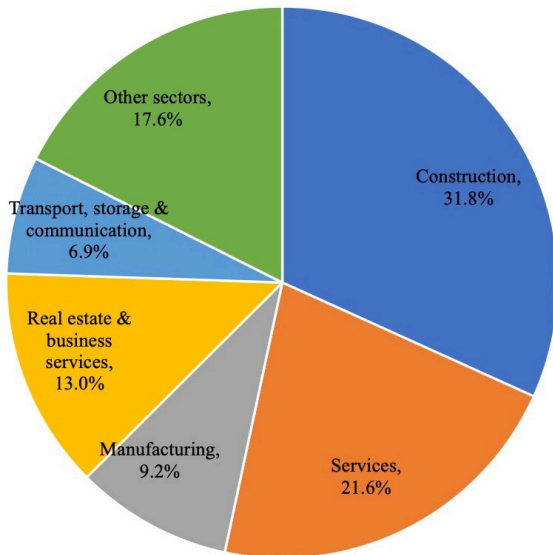
Knowledge-based human capital to drive the next phase of UAE's

diversification efforts

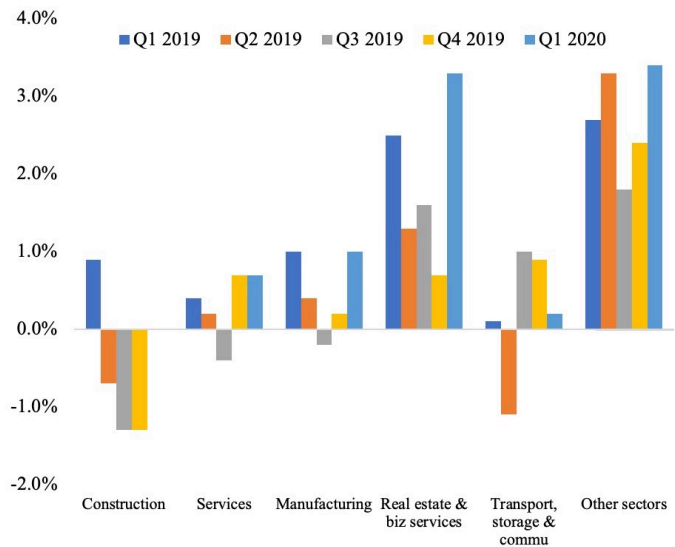
The UAE this week announced an expansion of its current 10-year golden visa to include medical doctors, scientists and data experts as well as PhD holders, in a bid to attract professionals to the UAE. The liberalisation comes on the heels of visas for retirees and options for remote working in Dubai: these provide added incentives for expatriates to remain, invest and contribute further to the country's development. Currently the UAE residential status for expatriates is linked to an employer, and in the event of job loss, the person has 30 days to either find a new job or secure a new visa. With the backdrop of Covid19 and related job losses – UAE's PMI Employment sub-index fell to its lowest in over 11 years and the latest November reading falling for the 10th consecutive month – many long-term residents were forced to return to their home countries, taking their savings back with them generating capital outflows from the economy.

While UAE does not release monthly data on employment, the central bank's quarterly report offers a glimpse into the recent trend. Construction and services were the largest sectors offering employment within the UAE's private sector. This is an incomplete picture, as the database on private sector employment excludes the Free Zone activities. For example, the DIFC is home to 2584 firms and over 25k employees while the DMCC last reported 17.5k member companies in the free zone. In terms of pace of growth (in quarter-on-quarter terms), construction has been registering a decline since Q2 last year, though other sectors posted upticks in Q1 (prior to Covid19-related lockdowns). No data is yet available for that period, but Embassy estimates suggest 400k+ (net) and 60k persons having returned to India and Pakistan respectively during the past months.

Employment in UAE's private sector, by activity, Q1 2020



Growth in UAE private sector employment, % qoq

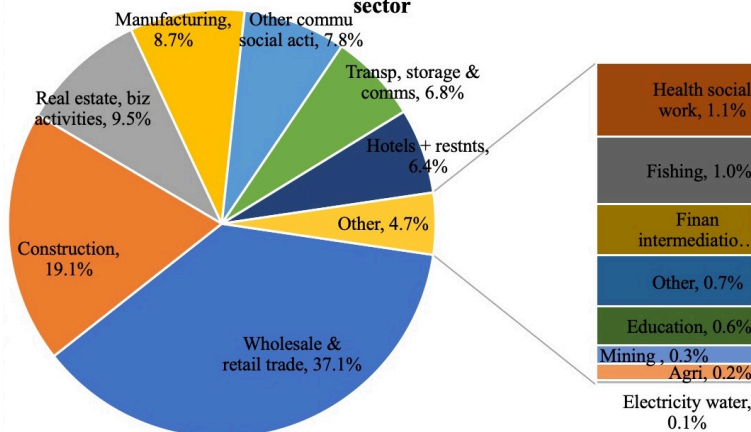


Source: UAE Central Bank Quarterly Report Q1 2020, Nasser Saidi & Associates

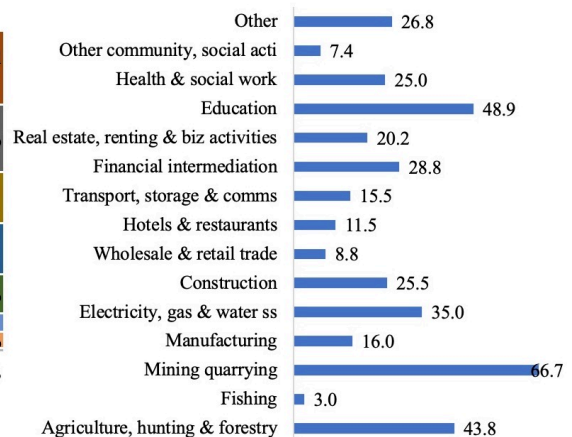
ange signals the UAE's greater economic diversification

The UAE Ministry of Human Resources and Emiratisation also offers additional details of number of establishments in the country (unfortunately, also excluding free zones). Close to 50% of the firms (as of Jan 2020) were operating in the sectors most affected by Covid19: an update of this data is likely to show a significant difference in the composition. Interestingly, if we consider the number of employees per firm, mining & quarrying (the oil sector) tops the list – in contrast to the capital-intensive nature of the sector.

Number of firms by economic activity in the UAE private sector

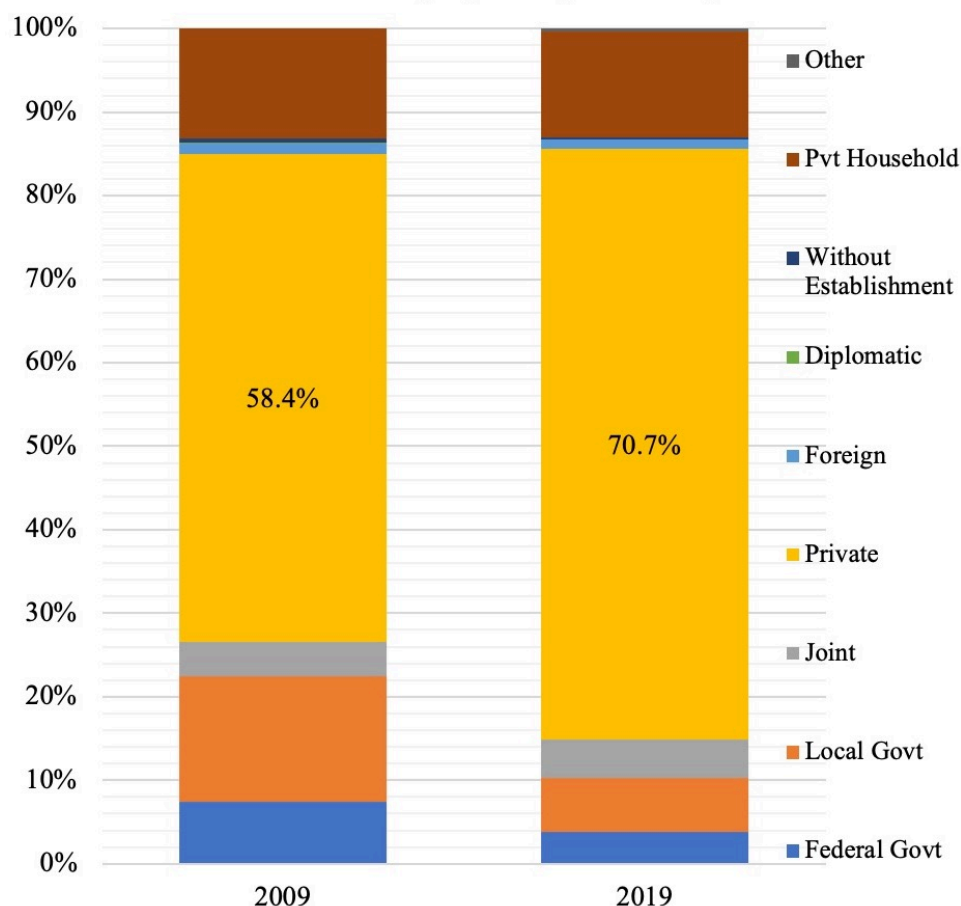


Employees per firm, by economic activity, in UAE's private sector



Source: UAE Ministry of Human Resources & Emiratisation, Nasser Saidi & Associates

Distribution of Employed Population by Sector



Source: Labour Force Surveys, FCSA, Nasser Saidi & Associates

As is oft-cited, there is a preference to work in the public sector: 78.2% of UAE citizens surveyed in the Labour Force Survey 2019^[1] declared as working with either the federal or local government (versus just 12% in the private sector).

However,

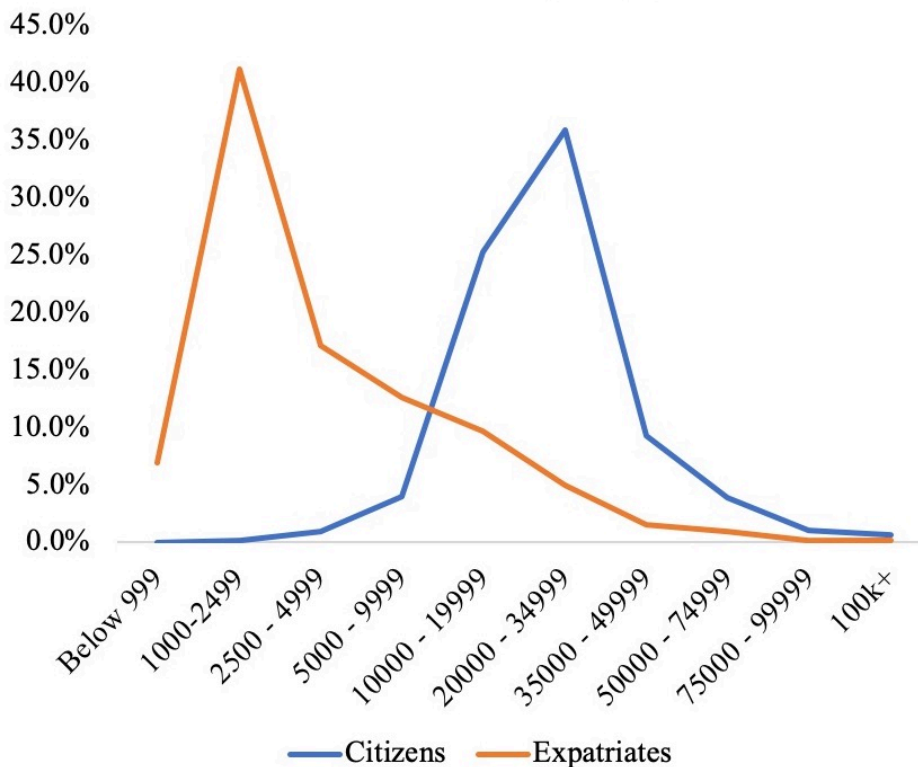
comparing this data with the 2009 survey, the share of the private sector has increased from 58% to 70%- a positive move, and underscoring the UAE's diversification efforts. By economic activity, a few sectors have seen an increase in their share: manufacturing (9.2% in 2019 vs 7.7% in 2009), construction (17.5% vs 12.3%), hotels and restaurants (5.4% vs 4%). Real estate sector has seen a significant drop during the decade, not unsurprising given the boom prior to 2010; but a slight dip in financial and insurance activities is surprising (2.5% in 2019 vs 3.2% in 2009).

Women are transforming the labour force: more educated but facing a glass ceiling

Another interesting insight from the Labour Force Survey offers a morale booster for women – women are relatively more educated than their male counterparts (about 50% of employed local women have a bachelor's degree, and about 60% have a bachelor's and above; the comparable numbers for expat

women are at 33% and 42.8% respectively); a high proportion of women work as professionals and managers (28.5% among female expats, 45% of female citizens). It is time that this translates into having more women on boards and at top management levels in the private sector[2].

Wage distribution in the UAE: a yawning gap between the local and expat population



Source: Labour Force Survey 2019, FCSA, Nasser Saidi & Associates

The Survey also confirms the disparity in wages between local and expat population: more than one-third of Emirati respondents disclosed receiving monthly wages between AED 20-35k (versus just 5% of expats in the same income bracket). This brings to the forefront two issues:

(a) Private-public sector wage gap that deters citizens from joining the private sector. Though wages by sector breakdown is not available (publicly), it is safe to assume relatively higher salaries in the government sector where close to three-fourths of citizens work. Public sector remains oversaturated, and with higher wages and relatively better benefits, highly educated young people prefer to remain unemployed till they get a public sector job – doing little to help the private

sector.

(b) The need to attract high-skilled professionals to support private sector activity. This needs to be carefully addressed: while attracting foreign talent to take up such jobs in the near- to medium-term is necessary, it is critical to reform the education sector and invest in building a knowledge economy. There is a persistent skill mismatch and low educational quality in the country compared to market requirements. Though spending per capita is high and student-teacher ratios are comparable to OECD levels, the outcomes are not strong: the PISA 2018 scores, for example, reveal that UAE students are placed 50th in math, 49th in science, and 46th in reading. Radical modernisation of education curricula is essential for creating a 21st century able workforce. It is also time to invest in curricula that support job-readiness, 'Digital Education-for-Digital Employment', early exposure to the workplace (e.g. summer internships and labour policies that facilitate such changes), vocational and on-the-job training. Increasingly the focus should be to invest in and promote STEM (Science, Technology, Engineering and Mathematics) – especially given the official policy focus on innovation and a shift to the digital e-economy and -services in the UAE and the region.

What next? The recent structural reform moves (related to labour) will help remove distortions in the labour market, attract high-skilled professionals and help UAE to diversify into higher value-added and more complex economic activities, while also supporting domestic investment (including in the real estate sector). This will happen alongside a reduction in outflow of remittances, which in turn will boost the balance of payments: last year, UAE expatriates sent \$44.9bn in outward remittances in 2019, comparable to the value of oil exports at \$49.64bn[\[31\]](#). It is important in this regard to accelerate capital market development: long-term residents will be keen to invest in medium- and long-term financial instruments, participate in a mortgage market and given an opportunity, also invest in startups and growth companies.

[\[1\]](#) This is published by the UAE's Federal Competitiveness and Statistics Authority.

[\[2\]](#) A KPMG report on Female Leaders Outlook identified that 94% of CEOs that participated from the UAE were male. The 2019 UAE report includes input from 50 UAE-based women leaders, up from 29 in 2018.

[\[3\]](#) Data from OPEC's Annual Statistics Bulletin.

Podcast on what Biden's win means for the Middle East with The National, 12 Nov 2020

Beyond the Headlines: How will Joe Biden change US policy in the Middle East?

For nearly four years, US President Donald Trump has torn up America's foreign policy handbook – for better and for worse. The implications, both at home and abroad, have been staggering. Most recently, the Trump administration was lauded for facilitating the Abraham Accords, the normalisation of relations with Israel by the UAE and Bahrain. In exchange, Israel's government agreed to halt its plan to annexe Palestinian territories. But Mr Trump's days in the White House are now numbered. By the end of January 2021, a new administration will take the reins of American foreign policy. This week on Beyond the Headlines, we hear from Sanam Vakil, deputy director of Chatham House's Middle East and North Africa Programme, and Nasser Saidi, Lebanon's former minister of economy and former vice governor of the Lebanese central

bank, about what will change for the Middle East and what will remain the same when Joe Biden takes his seat in the Oval Office.

Listen to the podcast on:
<https://audioboom.com/posts/7728822-the-changes-in-the-middle-east-after-joe-biden-takes-office>

OR on The National's page:
<https://www.thenationalnews.com/podcasts/beyond-the-headlines/beyond-the-headlines-how-will-joe-biden-change-us-policy-in-the-middle-east-1.1110861>

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

Comments on a year after protests in Lebanon in Reuters, 16 Oct 2020

Dr. Nasser Saidi's comments appeared in the Reuters article titled "[A year on, Lebanon's protests have faded and life has got worse](#)", published 16th October 2020.

Comments are posted below:

"I think young people are trying to survive, that's why they're not going to the streets. I think they've been frightened because they've been threatened," said Nasser Saidi, a leading economist and former minister.

"We've never had anything this bad."

Comments on Lebanon's subsidies in Reuters, 9 Oct 2020

Dr. Nasser Saidi's comments appeared in the Reuters article titled "['We're scared': Lebanon on edge as time and money run out](#)", published 9th October 2020.

Comments are posted below:

"Everything that happened since last October could have been avoidable," Nasser Saidi, a former vice central bank governor, told Reuters.

He said targeted aid to the poorest Lebanese would be more effective than subsidies across the board, which had benefited smugglers taking goods into Syria.

"It's all kicking the can down the road. What should have been done is a full economic and financial plan," Saidi said.

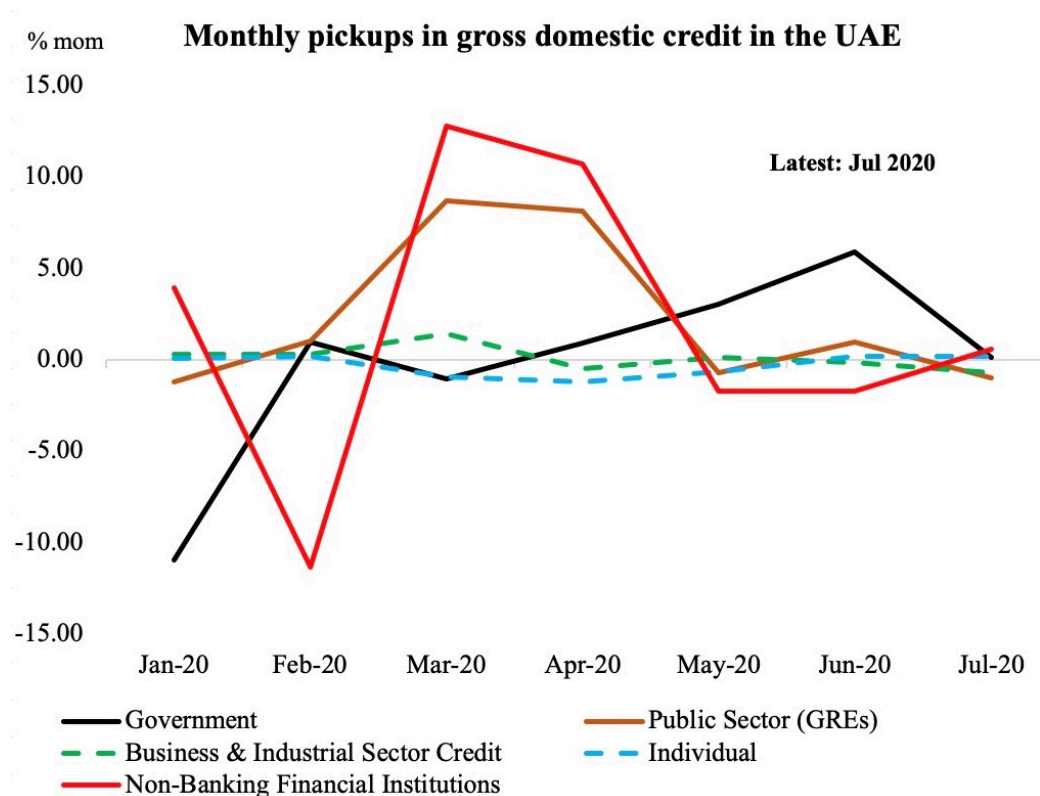
Weekly Insights 29 Sep 2020: Supporting the recovery of UAE's private sector (focus on SME finance)

[This is an edited version of the post issued originally on 29th Sep; Table 1 & related text have been updated]

Supporting the recovery of UAE's private sector: focus on SME finance

To support the UAE economy in the backdrop of Covid19, the central bank (since Mar 2020) has rolled out a number of measures including liquidity injection via loosening of banks' capital requirements, loan repayment deferrals and the Targeted Economic Support Scheme (TESS) among others. According to the UAE central bank, as of end-Jul, banks and financial institutions had availed AED 44.72bn worth of interest-free loans (89.44% of total) as part of the TESS facility. It needs to be highlighted that banks used close to 95% of these funds towards postponing loan payments for the affected sectors. It was also disclosed separately that 300k individuals, 10k SMEs and more than 1500 private sector firms had used the economic stimulus.

The latest data from the UAE central bank shed some light on



Source: UAE Central Bank, Nasser Saidi & Associates

the broader credit movements: the accompanying chart shows the monthly changes in gross domestic credit. The dotted lines are credit to businesses and individuals (the private

sector) which show no substantial increases – in fact, it increased by an average 0.9% year-to-date (ytd) for businesses and dropped by 2.1% ytd for individuals. The uptick in lending

to the public sector (government related entities) and government have been discussed previously [here](#) and [here](#), but the non-bank financial institutions (which include private equity & venture capital firms, other investment firms, alternative asset managers, insurance firms and others) has also witnessed a 11.8% rise in credit ytd. There is not much visibility of the activities of NBFIs in the UAE (in terms of publicly available data), and it is not clear if the SME customer segment, important for recovery, was catered to (via consumer finance, SME financing & credit card products, to name a few).

However, at the risk of sounding like a broken record, the question is whether the package has achieved its goal of supporting the economy or whether it resulted in a crowding out of the private sector (businesses and individuals) in favour of the government, public sector & also the financial institutions? The UAE central bank's latest quarterly report does mention that MSMEs (Micro, Small and Medium Enterprises) benefitted from the economic package – highlighting the 10.4% yoy increase in lending in Q2 this year. But, at the end of the day, share of SME lending in total domestic lending was at 5.7% in Q2 (Q2 2019: 5.6%), lower than 5.9% share as of end-Q1.

Table: Bank lending to MSMEs in the UAE

<i>in AED bn, unless specified</i>	Dec-19	Mar-20	Jun-20	% qoq (latest)	% ytd
Microenterprises	11.4	10.9	10.5	-3.7%	-7.9%
Small enterprises	28.2	29.4	29.6	0.7%	5.0%
Medium enterprises	49.9	53.1	52.3	-1.5%	4.8%
Total lending to MSMEs	89.5	93.4	92.4	-1.1%	3.2%
Total lending to private sector	1134.6	1148.9	1139.4	-0.8%	0.4%
Total domestic lending	1592.6	1595	1626.9	2.0%	2.2%
Share of MSMEs as % of private sector lending	7.9%	8.1%	8.1%		
Share of MSMEs as % of domestic lending	5.6%	5.9%	5.7%		

Source: UAE Central Bank, Nasser Saidi & Associates

Additional data is beneficial: the tables below provide more details of bank lending to the MSMEs, segregated by micro, small and medium enterprises [\[1\]](#). Within the MSME segment, as

of end-Q2, the largest share of loans was disbursed to medium-sized firms (56.6%) and close to 1/3-rd to the small enterprises.

The number of MSMEs in the UAE have increased by 3.9% qoq to 124,935 as of end-Jun – not surprising given the central bank's mandate of reduced duration for opening new SME accounts (all banks need to open accounts for SME customers within a maximum timeframe of two days, provided documentation and AML/CTF obligations are met). The number of accounts in the micro- and small segments increased by 4.6% and 5% qoq in Q2. Nevertheless, if we consider the amount disbursed per firm, medium enterprises pocketed AED 1.76mn in Q2: this is 3.7 times the amount disbursed per small firm and more than 5.3 times the amount disbursed to microenterprises.

**Table: Number of MSMEs accounts at banks
operating in the UAE**

	Mar-20	Jun-20
Microenterprises	30625	32021
Small enterprises	60150	63147
Medium enterprises	29137	29767
Total MSMEs	120272	124935

Source: UAE Central Bank, Nasser Saidi & Associates

The results are quite eye-opening, but not surprising (unfortunately): the GREs have benefitted in terms of the pace of overall domestic lending during the Covid19 period (remember that many of these firms are part of the sectors most affected by the pandemic!) and while lending to the SMEs has been dismal, within the SMEs, the medium-sized firms have benefitted the most. Considering how significant SMEs are to the UAE[\[21\]](#), it is imperative that financial institutions support them to bring the economy back on track. Some of the policies rolled out by the central bank had a 6-month deadline, and since no announcements have been made (yet) regarding extensions, anecdotal evidence points to banks winding down loan repayment deferrals and similar policies (for businesses/ individuals).

With the economy not yet back on the pre-Covid19 track, and the central bank's own call of a 4.5% decline in non-oil GDP this year, targeted policy stimulus measures need to continue. With rising indebtedness of both individuals (due to job losses or pay cuts) and businesses (directly and indirectly affected by Covid19), there are likely to be spillovers into the financial sector via rising non-performing loans.

Furthermore, as companies wind down operations in the near- to medium-term, nascent insolvency and bankruptcy frameworks in the UAE are likely to be tested. According to the World Bank Doing Business 2020 report's resolving insolvency sub-category, the UAE's recovery rate was 27.7 cents on the dollar (vs OECD high income nation's average of 70.2 and MENA average of 27.3), at a cost of 20% of the estate (vs 9.3 in OECD and 14% in MENA), taking 3.2 years to resolve (vs OECD's 1.7 and MENA's 2.7) [\[31\]](#). However, the strength of the insolvency framework – given recent but untested legislation – stood at an impressive 11 (out of a total score of 16; compares to the OECD average of 11.9 and higher than MENA's 6.3).

Support of the private sector is critical for economic recovery

To provide adequate ongoing backing to the private sector (including the SMEs) is essential. What policy measures need to be in place? (a non-exhaustive list)

- Banking sector continues to support the private sector via reduced bank charges and fees, reduction in minimum balance requirements, zero-interest instalment plans etc.; of course, banks' compliance/regulatory departments need to ensure that firms they lend to follow practices of good financial reporting and governance.
- Limited funding to SMEs from the banking sector is likely to continue, given the current status of opaque information/ reporting/ data. Lack of collateral and issues of transparency are oft-cited constraints to SME

lending in the region. The recently announced *credit guarantees* for loans to SMEs is likely to provide support and if successful, could be continued at a nominal rate. Open lines of communication with the credit bureaus can help manage credit risks and ease SME's access to credit. Two ways to resolve the issue of collateral: 1. Expand the nature of acceptable collateral to both movables and immovables; 2. Establish transparent, blockchain-based collateral registries/platforms. Furthermore, an SME rating agency (like in India) could provide additional information to lenders. Resolving this constraint alone could kickstart a new wave of entrepreneurship in the country.

- Backing from the government can come via a simple move like reducing the cost of doing business (various free zones have reduced fees and related charges for a short period) or ensuring no payment delays or boosting specific sectors (Abu Dhabi's recent announcement to develop AgriTech) or through a wider mandate by instructing the various sovereign wealth funds to invest in local companies, through a dedicated fund, based on best practices.
- Leapfrog on the massive changes Covid19 has brought about in the adoption of technology: varied e-commerce offerings, such as helping SMEs establish interactive websites, to creating innovative payment systems to neo-banking options. Alongside embracing the technology and greater digitalisation, it is necessary to also invest in and create the right ecosystem (bringing together the necessary skillset, retraining existing employees, reducing set-up and ongoing/ recurring business costs etc.).

[\[1\]](#) *The UAE central bank expanded the definition of SMEs so that a larger segment will be in a position to qualify for SME lending.*

[\[2\]](#) According to Ministry of Economy, the SME sector represents more than 94% of total firms operating in the UAE, accounting for more than 86% of the private sector's workforce. In Dubai alone, SMEs make up nearly 95% of all companies, employing 42% of the workforce and contributing ~40% to Dubai's GDP.

[\[3\]](#)

<https://www.doingbusiness.org/content/dam/doingBusiness/country/u/united-arab-emirates/ARE.pdf>

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Comments on Dubai's Indebtedness in Bloomberg, 17 Sep 2020

Dr. Nasser Saidi's comments appeared in the Bloomberg article titled "[Dubai May Be as Indebted as South Africa If S&P Proves Right](#)", published 17th September 2020.

Comments are posted below:

By drawing the line around what Dubai considers its direct liabilities, the government is sending a message that it won't be held responsible for other debt, said Nasser Saidi, who worked as chief economist of the Dubai International Financial Centre during the city's debt crisis. By contrast, rating companies have to adopt the view of an external investor, which means taking all liabilities into account.

“Creditors will always try to claim the sovereign guarantee,” he said. “Claiming under a sovereign guarantee is less costly and potentially less protracted than trying to claim against companies.”

When it comes to borrowings from commercial banks, Saidi said some of the money may be offset by government deposits, since there is usually a working relationship between authorities and lenders. Dubai’s biggest bank, Emirates NBD PJSC, reported its aggregated sovereign loan exposure at almost 162 billion dirhams as of June 30.

The lesson of Dubai’s brush with default in 2009 is that creditors failed to show the government’s guarantee, but the risk of spillover and damage to the creditworthiness of the UAE as a whole prompted Abu Dhabi to intervene, Saidi said. Dubai has since set up a public debt office to monitor the borrowings of the GREs, especially their foreign-currency liabilities.

Interview with Dubai TV (Arabic) on Lebanon, its dim prospects & Saudi Arabia, 21 Jun 2020

Dr. Nasser Saidi appeared in an interview with Zeina Soufan on Dubai TV, broadcast on 21st June 2020, discussing two segments – one, on Saudi Arabia (from 7:00 onwards) and the other on Lebanon and its dim prospects (from 17:00 onwards).

Both sections are part of the video below:

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.