

"Lebanon faces the abyss as political elites dither", Arab News article, 28 Jul 2020

Dr. Nasser Saidi's interview comments appeared as part of the Arab News article titled "Lebanon faces the abyss as political elites dither" dated 28th July 2020.

The comments are posted below; access the complete news article (including sound bites from Dr. Saidi) [here](#).

"The view of the Hirak (Lebanon's protest movement) is that we probably need a total breakdown before we can change things," said Nasser Saidi, Lebanon's former economy and trade minister and founder of Nasser Saidi & Associates. "I love this quote from Giuseppe Tomasi Di Lampedusa: 'We have to change everything if nothing is to change.'

"It's only when it becomes practically unliveable that you are going to get change. But if you look at the experience of other countries in similar situations, two things are comparatively different. The first is that, politicians always shift the discourse to a pro-communitarian versus pro-sectarian, pro-Syrian versus anti-Syrian, pro-Iranian versus anti-Iranian, pro-8th of March versus pro-14th of March, pro-Hariri versus anti-Hariri thing," he said.

"Once the country's ruling elites frame the current crisis in sectarian and confessional terms, all the other initiatives concerning reform will go out the window.

"The second thing is to change the narrative. As protests amplify, the ruling elite will say that this is now a matter of national security."

All of this may be already happening. On June 25,

President Michel Aoun delivered a speech on Lebanon's stability, in which he referred darkly to an "atmosphere of civil war" and portrayed the anti-government protests as an attempt to stir up sectarian discord.

"Ever since we have come to life in this country or in most of the Arab world, we have been told that security and stability is paramount to our survival," said Saidi. "Any challenge to the existing order is framed as a challenge to security and stability. But once you use that argument, then you can start using the repressive forces of the state, and this is precisely what is happening today in Lebanon.

"The army and security services are quelling rising protests. Internal security services are now checking on the exchange rate prices at foreign exchange dealers."

The breaking point, said Saidi, will come in early September. "Give it a maximum of 90 days and we will see an explosion in the streets. Hospitals will start closing, schools and universities will not be able to open. People cannot afford to send people to school. You will most likely no longer have electricity and once you no longer have electricity, everything else will break down, including communications."

Saidi believes Lebanon's ruling elites will try to divert attention from the increasing misery in the country.

"The misery index, which is the sum of the unemployment rate and the inflation rate, in Lebanon now is over 100 percent," he said.

Pointing to central bank losses of \$50 billion and reports of unorthodox accounting practices by the bank's governor, Saidi said: "They are refusing to admit that they made mistakes, that there are embedded losses in the system, that there was a Ponzi scheme by the central bank – the banks benefited from this, and the shareholders of the banks and big depositors benefited from it.

“What’s most significant is that they got their money out with the connivance of the central bank. Individuals who have their deposits or income in Lebanese pounds have seen their wealth and income go down by around 70 percent. The only other cases I have seen like this are following hyperinflation after the two world wars in Europe and the end of the Soviet Union. There is now a destruction of the middle class in Lebanon, as happened in the 1980s.”

Lebanon’s only hope lies with reform, Saidi said. “There will be no help from outside, from other Arab states or Europe, or the IMF and the international community, until reforms are made internally.”

Roundtable on Potential IMF Involvement in Lebanon, Lebanese Center for Policy Studies & Jadaliyya, 16 Apr 2020

Reflective of Lebanon’s shortage of foreign capital, the Lebanese government recently announced it will stop payment on all future maturing eurobonds. In parallel, government and financial circles have increasingly discussed the potential need for a package by the International Monetary Fund (IMF) to supply the majority of the needed capital. In this roundtable, co-produced by the Lebanese Center for Policy Studies (LCPS) and *Jadaliyya*, Dr. Nasser Saidi & two other analysts share their views of the amount of capital needed,

the potential implications of IMF involvement, and what might need to be different this time around vis-à-vis international borrowing. Dr. Nasser Saidi's comments are pasted below.

The complete article can be accessed here:

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

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

According to government estimates (revealed at a recent presentation to investors) public debt was 178% of GDP at end-2019. The cost of servicing the debt would be just over \$10 billion, which is equivalent to approximately 22% of GDP and more than 65% of government revenue. This was an unsustainable position even before the country fell prey to the COVID-19 outbreak. Separately, the central bank (BdL) owes \$120 billion to the local banks. BdL foreign exchange holdings have come under high pressure, dropping to about \$29 billion in January 2020, of which 22 billion are liquid (18 billion of which is BdL-held mandatory banking sector reserves). It is evident that the banking system needs a comprehensive restructuring.

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

adjustment, central bank restructuring, and balance of payments support, along with the establishment of necessary social safety nets.

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

Furthermore, the ongoing COVID-19 outbreak is adding more fuel to the fire: We can expect a GDP contraction of 20%, following a 7% dip last year. The government has promised financial aid of 400,000 Lebanese liras (approximately \$140, at the parallel market rate of 2,900 liras/dollar) to the most vulnerable families (roughly estimated at 185,000 families combining those registered with the National Poverty Targeting Program, those drivers forced off the job by the lockdown, and frontline healthcare workers). But that will not be sufficient. The sharp drop in economic activity has led to growing layoffs and unemployment, business closures and bankruptcies, and overall falling incomes—all pushing more people into poverty. Social and economic conditions are rapidly deteriorating: Almost half of the population now lives below the poverty line; non-performing loans are likely to increase and many banks could become insolvent; the value of the Lebanese lira is now some 40-50% less on parallel markets fueling inflation; and Human Rights Watch [finds evidence](#) of discretionary measures against refugees. The recipe for political and social unrest is boiling.

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

Nasser Saidi: The political and economic implications of an IMF program are all positive, as this would include the

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

It is bitter medicine, but the alternative would be lost decades, growing misery and poverty, and the destruction of Lebanon's economic base. The IMF itself would only be providing part of the funding (some \$4-\$5 billion) with the balance coming from other international financial institutions (IFIs), the European Bank for Reconstruction and Development, and the European Investment Bank, and CEDRE participants, including the EU, the Gulf Cooperation Council (GCC) countries, Japan, and China. It is important to note that non-IMF funding will only be available if there is an agreed IMF program. None of the countries and IFIs, including the GCC and EU will provide aid and funding without it. The same is true for private sector investment and finance (e.g., for public-private partnerships), restoration of Lebanon's access to capital market, or for a sustainable restructuring of Lebanon's debt. There are no substitutes to an IMF bail-out program and conditionality. Lebanon desperately needs external funding. It cannot rely on purely domestic funding for the restructuring of its public debt and its banking sector (including BdL), investing in infrastructure, reforming public finances and rekindling and supporting the private sector, as well as provide balance of payments support.

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

recovery?

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

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

Last, but not least, the state must recover assets that politicians, policymakers, and their associates illicitly and criminally appropriated. Recovering stolen assets can be a wealth-regenerating strategy if implemented properly with complete transparency. Lebanon should immediately participate in [The Stolen Asset Recovery Initiative \(StAR\)](#), a partnership between the World Bank Group and the United Nations Office on Drugs and Crime (UNODC). StAR works with “developing countries and financial centers to prevent the laundering of the proceeds of corruption and to facilitate more systematic and timely return of stolen assets.”