“Syria at the crossroads: From sanctions and collapse to redevelopment and reintegration”, Oped in The National, 18 July 2025

The article titled “[Syria at the crossroads: From sanctions and collapse to redevelopment and reintegration]” appeared in the print edition of The National on 18th July 2025 and is posted below.

Syria at the crossroads: From sanctions and collapse to redevelopment and reintegration

Nasser Saidi

The pre-2011 Syrian economy, while facing structural challenges, was that of a lower-middle-income country with a functioning industrial base, a significant agricultural sector and nascent potential in tourism and services.

That reality was devastated by 14 years of war, violence and sanctions, emerging into a drug-based Captagon economy. Its gross domestic product contracted by more than 50 per cent from its pre-war peak (by 83 per cent if one uses night-time light estimates) between 2010 and 2024.

Half the pre-war population has been forcibly displaced, representing lost generations of economic output and potential. About two-thirds of the current population lives in poverty (earning less than $3.65 per capita a day), and more than half the population faces food insecurity.

The directly visible indicator of the devastation was the collapse of the local currency (from 47 Syrian pounds per US dollar in 2010 to 14,800 by the end of 2024), as growing budget deficits were financed by the monetary printing press and people shifted into foreign currencies to hedge against near-hyperinflation.

How Syria's economy collapsed during the civil war

	2011	2023
GDP	$67.5 billion	$9 billion
Annual inflation	5.8%*	140% (1)**
Syrian pound vs dollar	45-54 (2)	2,512 to 13,046 (2)
Unemployment	8.6%	13.5%
Youth unemployment	21.3%	33.5%
Oil production (barrels per day)	383,000 (3)	90,840 (3)***

***November 2011, ****December 2023, *****Total oil production of which 90% was controlled by U.S-backed Syrian Democratic Forces
Source: World Bank (**1** - Syrian Centre for Policy Research, **2** - exchangerates.org, **3** - U.S. Energy Information Administration)

The National

A Flourish map

The removal of US sanctions and of Syria's "designation as a state sponsor of terrorism" is strategically important. The decision was followed by the EU passing legislation to lift all sanctions, thereby enabling Syria's reintegration into the international economic and financial community.

The Gulf and other Arab countries are steadily bringing Syria back into the fold, restoring long-disrupted economic and financial relations. Saudi Arabia and Qatar have settled Syria's arrears to the World Bank, pledged to fund public sector restructuring and rebuild energy infrastructure, signed agreements for major infrastructure and power projects, and the resumption of airline services. Iraq has reopened a main border crossing, and DP World has signed an $800 million deal to develop Tartus Port.

Sanctions removal allowed for Syria's renewed participation in the SWIFT payment system, reactivating formal channels for international trade, remittances and financial flows, delivering a powerful antidote to the scenario of hyperinflation and a dominant illicit sector.

The removal unlocks a multistage recovery process, sequentially addressing the critical deficits in liquidity, capital and strategic infrastructure investment that currently paralyse the country.

Transparent reforms urgent

However, the success of this pathway will be contingent on the implementation of credible and transparent, domestic, structural and institutional reforms.

Syria needs a comprehensive IMF programme and support from the Arab Monetary Fund and Gulf central banks (possibly through central bank swaps and trade financing lines).

The institutions of the central bank, banking supervision and AML/CFT need to be rebuilt. A new monetary and payment system has to be established.

The banking and financial sector has to be restructured, and banks recapitalised, while allowing for private banks (including foreign) to re-emerge. The Syrian pound should stay floating until macroeconomic stability has been restored, including through fiscal reform and access to international finance for trade.

Importantly, the government and central bank need to rebuild the statistical system for evidence-based policymaking; one cannot govern, reform, regulate and manage what one does not know.

Removal of sanctions will allow transfers and remittances through formal channels from the large Syrian expatriate community, a lifeline for returning families, as well as financing reconstruction of housing and businesses.

Restoring the banking system means less reliance on the use of cash – helping to revive the formal economy as compared to the dominant informal economy, and also combating money laundering and terrorist finance associated with the production and trade of drugs. Remittances and capital inflows would allow the Central Bank of Syria to rebuild its foreign currency reserves, stabilise the forex market and restore monetary stability to control inflation.

The removal of sanctions will also lower the prohibitive risk premium associated with Syria and open the country for the much-needed foreign direct investment to stabilise the economy, and for broader reconstruction funding.

The Damascus Securities Exchange, now operational again, could evolve from a symbolic entity into another channel of financing, allowing the government and Syrian businesses to tap into local and international capital for the first time since 2009.

Tapping energy potential

The country's substantial, largely unexploited, onshore and offshore oil and gas reserves could become an important source of reconstruction finance and job creation. Strategically and importantly, the removal of sanctions would allow oil and gas pipelines to be reopened, and new ones built; pre-civil war, Syria produced up to 400,000 barrels a day of crude versus between 80,000-100,000 bpd this year.

Reactivating existing wells and oil export infrastructure could become a major source of revenue and foreign exchange, dramatically improving Syria's fiscal position and its ability to reconstruct the devastated country, and bring in international funding.

New pipelines linking oil and gas from the Gulf (notably Qatar, Kuwait and Saudi) and Iraq to the Mediterranean would provide a strategic alternative to maritime routes through the Straits of Hormuz and Red Sea.

Azerbaijan and Syria signed a preliminary agreement on July 12, pledging co-operation in the energy sector – to enable export of gas from Azerbaijan to Syria, through Turkey – and help in rebuilding Syria's energy infrastructure.

Over the medium and longer term, a new, transformative energy infrastructure and map linking the hydrocarbon-rich regions of the Gulf and Iraq to the Mediterranean coast can be developed: a major building block in stabilising and helping to redevelop Syria.

The lifting of sanctions is a critical initial step supporting Syria in emerging from a vicious cycle of destruction, economic collapse and illicit activity into a virtuous circle of reconstruction, redevelopment, regional and international reintegration.

The realisation of this road map requires a commitment from Syria to undertake essential reforms in governing, the rule of law and institutional transparency. Only then can the country hope to attract and retain the human and financial capital needed to rebuild its economy, regain investor trust, and reclaim its historic role at a vital geostrategic crossroads.

Nasser Saidi is the president of Nasser Saidi and Associates. He was formerly Lebanon's economy minister and a vice-governor of the Central Bank of Lebanon.

“Lebanon at a crossroads: Reform or decay ahead?”, Oped in The National, 9 Apr 2025

The article titled “Lebanon at a crossroads: Reform or decay ahead?” appeared in the print edition of The National on 9th April 2025 and is posted below.

“Lebanon at a crossroads: Reform or decay ahead?”, Oped in The National

Nasser Saidi

Lebanon is in its sixth year of a protracted financial and liquidity crisis, facing security challenges on its borders with Israel and Syria, but appears to be on the cusp of recovery.

The country is battling several economic challenges – a plunge in gross domestic product per capita by about 40 per cent, a zombie banking sector, a highly dollarised, increasingly informal, cash-based economy, high multidimensional poverty and unemployment levels, increased inequality, plunge in its currency’s value by 97 per cent, high inflationary pressures (an average of 127 per cent over the past five years) and a collapse of public finances.

The new pro-reform president and prime minister along with a cabinet that has parliament’s backing inspires confidence and appears committed to long-delayed economic reforms. Stability and recovery will require political and judicial reforms, along with institutional and structural reforms to ensure the rule of law and accountability, allowing the country to emerge from the heavy legacy of failed policies. Whether the incumbent parliament will enable the deep reforms given municipal and parliamentary elections in 2025 and 2026 respectively, adds uncertainty.

A new governor of the central bank has been appointed. Reforms are required to re-establish trust in the banking and financial sector and convince the world to risk investing in its recovery and reconstruction.

The first step should be to restructure the Banque du Liban (BDL) and its governance, appoint a new team of vice governors, restrict the powers of the governor to prevent past abuses, ensure public reporting, monitoring and accountability.

This is a unique opportunity to have a new reform-minded, effective BDL for the next six years. Given the severe monetary and real shocks Lebanon faces and the legacy of failed policies, the policy agenda should include:

- Reset monetary policy to target inflation, with a unified, floating exchange rate, shifting away from the "financial engineering" that supported a disastrous fixed rate policy.
- Institutional reform requires that the Banking Control Commission (BCC), Capital Market Authority and Special investigations Committee (SIC) be legally independent from the BDL, given their distinct mandates and responsibilities, along with the appointment of new boards.
- The BDL should not provide any fiscal or quasi-fiscal (such as subsidies) financing. Public debt management should be the responsibility of an independent public debt management office to ensure transparency, disclosure of all public

liabilities and debt sustainability.

- The new governors must undertake a comprehensive forensic audit of the BDL, in an effort to underscore accountability for the banking collapse.
- An independent Bank Resolution Authority (BRA) should be established – similar to what many countries set up following the 2008 global financial crisis – with a mandate to recapitalise and restructure the banking system. Bank restructuring should not reside with the BDL and BCC whose irresponsible governance led to the collapse of the banking system. The BRA should arrange for a forensic audit of the banks, while also imposing a recapitalisation – some $10 billion to $15 billion is required – a mergers and acquisitions (M&A) programme and a partial bail-in of large depositors, as part of the restructuring process. Banks have more than $86 billion in frozen deposits, largely inaccessible since 2019. Depositors with less than $200,000 represent 94 per cent of accounts and 30 per cent of the value of frozen deposits, while 70 per cent of deposits, valued at $65.5 billion, are concentrated in 87,000 accounts.
- BDL assets, which include Middle East Airlines, Casino and Intra, should be audited and divested into a new, independent National Wealth Fund (NWF) – managed like Temsek in Singapore. The BDL could receive participation shares in the NWF. The NWF would restructure and manage public commercial assets for the national benefit and also manage any future oil and gas revenue.
- Lebanon’s Parliament should vote to abolish its banking secrecy law or or adopt a Swiss-style system. This along with an effective SIC to enforce international anti-money laundering and

counter-terrorism financing standards and an effective anti-corruption drive are critical to remove Lebanon from the Financial Action Task Force (FATF) grey list. This should be complemented by a Stolen Asset Recovery (STAR) programme to help address anti-corruption, money laundering and recover stolen assets.

- Lebanon requires huge amounts – some $15 billion to $20 billion – for reconstruction and it does not have the resources. It should set up an independent reconstruction fund, with full transparency, disclosure, auditing and reporting, to ensure Lebanon is accountable for the funding of reconstruction. Donors and aid givers should be allowed to undertake reconstruction projects within an agreed plan.
- Lebanon should rapidly negotiate and implement a new agreement with the International Monetary Fund based on comprehensive economic and financial reforms under five pillars – restructuring the financial sector; fiscal reforms; reforms of state-owned enterprises; strengthening governance; a credible, transparent monetary and exchange rate system. The IMF agreement and international support, mainly from the GCC, are imperative but will be conditional on undertaking a comprehensive set of deep governance, economic, monetary, fiscal and structural reforms.

This is a moment of opportunity to undertake multipronged reforms to revive confidence and economic activity, attract back human capital, improve long-term growth prospects, and strengthen and restore linkages with the GCC. Lebanon faces reform or continued decay.

Nasser Saidi is a former economy minister and deputy governor of Lebanon’s central bank

Comments on “Can Lebanon’s new central bank governor break the cycle of economic crisis?” in Arab News, 31 Mar 2025

Dr. Nasser Saidi’s comments appeared in an Arab News article titled “Can Lebanon’s new central bank governor break the cycle of economic crisis?” published on 31st March 2025.

The comments are posted below.

Echoing the prime minister’s apprehensions is Nasser Saidi, a former Lebanese economy minister and central bank vice governor, who raised concerns about the selection process for the new central bank chief, warning that powerful interest groups may have too much influence.

He told the Financial Times that the decision carried serious consequences for Lebanon’s economic future, saying that one of Souaid’s biggest challenges will be convincing the world to trust the nation’s banking system enough to risk investing in its recovery.

“The stakes are too high: You cannot have the same people responsible for the biggest crisis Lebanon has ever been through also trying to restructure the banking sector,” said Saidi, who served as first vice governor of the Banque du Liban for two consecutive terms.

"How are we going to convince the rest of the world that it can trust Lebanon's banking system, and provide the country with the funding it needs to rebuild (after the war)?"

Lebanese economist Saidi said that the IMF "quite correctly and wisely" demanded comprehensive economic reforms.

In a March 14 interview with BBC's "World Business Report," he said that the government must address fiscal and debt sustainability, restructure public debt, and overhaul the banking and financial sector.

But hurdles remain. Saidi added that while Lebanon "has a government today that I think is willing to undertake reforms, that does not mean that parliament will go along."

Lebanon also needs political and judicial reform, including an "independent judiciary," he added.

Nevertheless, Saidi told the BBC that Lebanon, for the first time, has "a team that inspires confidence" and has formed a cabinet that secured parliament's backing. Despite this positive step, Lebanon must still address structural failures in its public institutions, rooted in decades of opacity, fragmented authority and weak accountability.

Saidi highlighted the broader challenges Lebanon faces, cautioning that without financing for reconstruction, achieving socioeconomic and political stability will remain elusive.

"If you don't have financing for reconstruction, you're not going to have socioeconomic stability, let alone political stability," he said.

"There has to be a willingness by all parties to go along with

the reforms," he added, highlighting that this is where external support is crucial, particularly from Saudi Arabia, the UAE, France, Europe and the US. Saidi said that support must go beyond helping bring the new government to power – it must include assistance, especially in terms of security.

Interview with BBC's World Business Report on IMF's recent visit to Lebanon and need for comprehensive reforms, 14 Mar 2025

In an interview with BBC's World Business Report, Dr. Nasser Saidi offered his insights and assessment on the IMF's recent visit to Lebanon and need for comprehensive reforms.

Listen to the interview (Dr. Saidi joins from 4:30 to 10:30 in the link below)

https://www.bbc.co.uk/sounds/play/w3ct5zty

“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).

Interview with CNBC on Fitch Ratings’ decision to withdraw Lebanon ratings, 26 Jul 2024

Dr. Nasser Saidi, president at Nasser Saidi & Associates, speaks to CNBC’s Dan Murphy about what led to Fitch Ratings’ decision to stop rating Lebanon.

Interview with Al Arabiya (Arabic) on Egypt’s interest rate hike, currency floatation & IMF deal, 7 Mar 2024

In this interview with Al Arabiya aired on 7th March 2024, Dr. Nasser Saidi discusses the 600bps hike in interest rates, removal of currency controls and the IMF deal.

Watch the TV interview below:

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> — [illegible] *Business* — [illegible] (@AlArabiyaBN_EG) March 7, 2024

Interview with BBC on the departure of Lebanon’s discredited central bank

governor, 31 Jul 2023

Dr. Nasser Saidi appeared on BBC World Business report on 31st Aug 2023 to discuss the departure of the discredited central bank governor, Riad Salameh, and the next steps for the Banque du Liban and the nation.

Lebanon’s economic and political paralysis entered a new phase at end-July with the departure of the discredited central bank governor, Riad Salameh. For most of his thirty-year tenure he was celebrated as a financial genius, but he is now widely blamed for Lebanon’s almost complete economic collapse since 2019.

Listen to the interview (from 5:50 to 12:11) at https://www.bbc.co.uk/sounds/play/w3ct4zdj

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Interview with CNBC on the potential reform path for Lebanon’s Banque du Liban, 31 Jul 2023

Dr. Nasser Saidi, Lebanon’s Former Minister for Economy, speaks to CNBC’s Dan Murphy about the state of Lebanon’s central bank & potential path for the Banque du Liban after Riad Salameh’s 30-year term at the helm comes to an end (on 31st July 2023).
Dr. Saidi says: “Losses to the tune of $76bn at the BDL. There has been zero accountability of the BDL for the biggest financial crisis in history that has destroyed Lebanon‘s economy. This needs to change!”

Interview with BBC World Business report on IMF's discussions in Lebanon, 21 Sep 2022

As part of the BBC World Business report aired on 21st Sep 2022, Dr. Nasser Saidi was interviewed about IMF officials' crisis bailout talks in Lebanon and how Lebanese people continue to be affected by the ongoing economic/ social/ political turmoil in Lebanon.

Listen to the interview (Dr. Saidi joins from 16:42 onwards) via the weblink https://www.bbc.co.uk/sounds/play/w172yk9pyjy6yc4

Comments in The Banker article "Lebanese Financial Crisis Drags On", Jul 2022

Dr. Nasser Saidi comments on the ongoing economic and financial crisis in Lebanon appeared in the July 2022 edition of The Banker, in an article, titled "Lebanese Financial Crisis Drags On".

The comments are posted below and the article can be directly accessed on The Banker's website (subscription only).

"The roots of [the crisis] can be traced to years of large fiscal deficits (current wasteful spending without any build-up of infrastructure or real public assets), leading to a growing debt burden, [and] an increasingly overvalued Lebanese pound generating persistent current account deficits," Nasser Saidi, Lebanon's former minister of economy and trade and a former BdL vice-governor, told The Banker.

"Malgovernance, endemic corruption, incompetence, failed policies and dysfunctional politics have tipped Lebanon from being a fragile state into a failed state."

While political paralysis prevented the passage of capital control laws at the beginning of the crisis, banks applied sporadic controls from early to late 2019, tightening them further as time went on. Yet the patchwork system of the initial restrictions "allowed politicians and cronies, bank shareholders and bankers, the 'privileged and connected' to transfer over $10bn at the expense of continued depletion of international reserves and destruction of confidence in the banking system," Mr Saidi told The Banker.

Panelist at the IMF's MENA Conference"Divergent Recoveries in Turbulent Times

in the Middle East & North Africa”, 24 May 2022

Dr. Nasser Saidi participated as a panelist at the IMF’s event related to the Regional Economic Outlook report for the Middle East and North Africa region held on 24th May, 2022. The panel discussion was titled “**Divergent Recoveries in Turbulent Times in the Middle East & North Africa**” and discussed in addition the impact of US elections on the Middle East.

Dr. Nasser Saidi touched upon the potential risks of a global recession / stagflation, its impact on MENA nations, drivers of inflation, rising food prices and on Lebanon’s recovery prospects (post elections).

Watch the video of the webinar below:

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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Comments on Lebanon's conditional deal with the IMF in Al Monitor, 7 Apr 2022

Dr. Nasser Saidi's comments on Lebanon's conditional deal appeared in the article titled "IMF, Lebanon strike conditional deal on $3 bn aid" in Al Monitor's 7th April 2022 edition. The comments are posted below.

A former vice governor of Lebanon's central bank, Nasser Saidi, said he had doubts that such reforms would ever materialise. "This is good news if the set of Monetary-Fiscal-Governance-Structural reforms including banking sector restructuring are implemented. Highly unlikely!" he wrote on Twitter.

Comments on exodus of its most educated citizens from Lebanon, FT, 7 Mar 2022

Dr. Nasser Saidi commented on the exodus of its most educated citizens from Lebanon in the FT article titled "Lebanon faces exodus of its most educated citizens" published on 7th Mar 2022.
The full article can be accessed at: https://www.ft.com/content/44633cbe-77e7-4c3f-a8b2-cce88b0af331

The comments are posted below:

Nasser Saidi, a Lebanese economist and former minister, also warned of the dangers of the depletion of Lebanon's "stock of human capital".

"When you have skilled people working alongside unskilled people, they help them improve because they teach them," he said. "If the skilled people and the educated people are not there, then we just have misery."

Interview with Asharq Business (Bloomberg) on economic growth prospects in MENA/ GCC region, 25 Jan 2022

Dr. Nasser Saidi joined Asharq Business (Bloomberg) on 25th January 2022, following the release of the Jan 2022 update of the IMF's World Economic Outlook, to touch upon the growth prospects in the GCC and wider Middle East and North Africa region.

Watch the interview (in Arabic) at this link.

د. ناصر السعيدي: توقعات الأسواق مبنية على التشدد في السياسة النقدية للفيدرالي الأميركي

الدكتور ناصر السعيدي | رئيس شركة ناصر السعيدي وشركاه: توقعات الأسواق مبنية على التشدد في السياسة النقدية ورفع أسعار الفائدة من قبل الفيدرالي الأميركي. *شهدنا العام الماضي نسب نمو مرتفعة.

*سياسة “صفر إصابات بكورونا” في الصين أثرت على الاقتصاد المحلي والدولي. سالمون فيدلر | محلل اقتصادي في Berenberg Gossler: هناك حالة من التباطؤ في النمو الاقتصادي العالمي.

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 إلاً وتظهر 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!

Comments on Lebanon & use of SDR’s in L’Orient Today, 27 Aug 2021

*Dr. Nasser Saidi’s comments were published as part of the article titled “**What are SDRs and how might Lebanon use them?**” in the L’Orient Today, published on 27th Aug 2021; these are copied below.*

“To use SDRs, you have to find someone else willing to give you cash … The question is whether there is a member willing to buy Lebanon’s SDRs,” said Nasser Saidi, a former economy and industry minister and former vice-governor of Lebanon’s central bank for two successive mandates.

“To be realistic, I doubt any major industrial countries would be willing,” Saidi said.

Saidi and others warned that even if Lebanon managed to find another member country to enter a voluntary trading arrangement, the foreign currency obtained via the SDRs might be squandered.

Saidi questioned whether Lebanon would use the SDRs effectively at all.

“The very important question to ask is, how should this money be used? We should use this as part of an overall reform package for Lebanon. We should not waste it,” Saidi stressed.

“We should say we now have increased our reserve assets, this now improves our general position, so let’s initiate negotiations with the IMF and negotiate a full package. Not another piecemeal measure.”

“There have been suggestions to use [the SDR proceeds] for electricity or to buy fuel. These would be mistakes. The idea that you would want to use reserves for buying fuel is a very big policy mistake,” Saidi said. “The trouble is right now that politicians are only focused on elections next year so they’re trying to get any type of funding from anywhere for electoral purposes,” he added, also questioning the effectiveness of the current caretaker government.

Saidi warned that “Because there are no conditions and it’s a voluntary trading arrangement, it’s very possible Lebanon could waste the opportunity.”

Interview with Al Arabiya (Arabic) on Oman’s economy, 8 Jul 2021

In this interview with Al Arabiya, Dr. Nasser Saidi discusses the macroeconomic outlook for Oman, in the backdrop of the latest IMF Article IV consultation and news that Oman had requested for technical assistance from the IMF .

Watch the interview and read the article (in Arabic) that was published on 8th July 2021, and is posted below.

هل يتطور اتفاق الدعم الفني من صندوق النقد لعمان إلى برنامج تمويلي؟

قال رئيس شركة ناصر السعيدي وشركاه، ناصر السعيدي، إن سلطنة عُمان تسير على طريق إصلاحي جيد وطلب المساعدة الفنية من صندوق النقد الدولي سيساعد في وضع برنامج متوسط الأجل لمالية الدولة وإدارة الديون.

وأضاف السعيدي في مقابلة مع "العربية" أن نسب الديون مرتفعة وتصل لنحو 85% من الناتج المحلي الإجمالي وهذا عبء على المالية العامة.

وذكر أن الخطوات الإصلاحية الأخيرة شملت إقرار ضريبة القيمة المضافة بنسبة 5%، إضافة لإدخال بعض التعديلات والإصلاحات الهيكلية على الشركات الحكومية.

وأشار إلى أن جهاز الاستثمار العماني الآن يراقب كل الشركات التابعة للدولة، وتوجد شركة مسؤولة عن تطوير الطاقة في عمان.

وحول إذا كان من الممكن أن يؤدي الاتفاق الفني إلى تقدم السلطنة للحصول على تمويل من الصندوق، قال السعيدي: "هذا ممكن ولكن المهم أن يتم تنفيذ عدة خطوات إصلاحية".

ولفت إلى أن السوق المالي في عمان رحب بالاتفاق مع صندوق النقد الدولي، وشهدنا ارتفاع قيمة السندات العمانية.

توقع السعيدي، ألا يحدث تغيير في ربط العملة بالدولار الأميركي، ولكن يمكن أن يكون هناك اقترح بربط العملة بسلة عملات مثل الكويت خاصة أن الاقتصادي الأهم لعمان هو اليابان وليس الولايات المتحدة الأميركية.

وتابع: "أي برنامج لصندوق النقد الدولي قد يشهد مساعدات مالية

خلال فترة وضع التوازن المالي الذي سيستغرق من 4 إلى 5 سنوات وهذا "سيكون محدوداً بالوقت وليست بالضرورة أن تكون مبالغ ضخمة".

وتحدث السعيدي، أن عجز الميزانية خلال العام الماضي سجل 19% كنسبة للناتج المحلي الإجمالي بسبب كوفيد-19، إلا أن التوقعات تشير إلى تحسن أداء المالية العامة للسلطنة خلال عامي 2021 و2022 بفضل ارتفاع الإيرادات النفطية وغير النفطية مع عودة تدريجية للسياحة وانتعاش أسعار النفط.

Bloomberg Daybreak Middle East Interview, 8 Nov 2020

Dr. Nasser Saidi joined Manus Cranny and Yousef Gamal El-din on the 8th of November, 2020 as part of the Bloomberg Daybreak: Middle East edition, to discuss policy priorities for the Biden administration domestically. Also discussed were potential changes in markets (currency, oil) and signs of foreign policy shift.
Watch the interview below – Dr. Nasser Saidi joins from 54:00 till 1:06:20. The original link to the full episode: https://www.bloomberg.com/news/videos/2020-11-08/-bloomberg-daybreak-middle-east-full-show-11-08-2020-video

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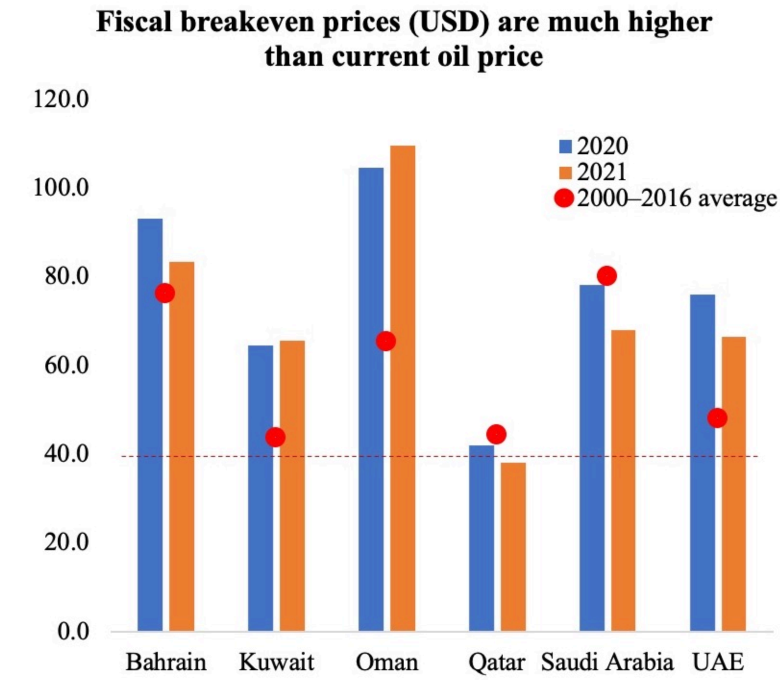
Weekly Insights 4 Nov 2020:

Rising budget deficits & debt levels in the Middle East/ GCC Require Sustained Fiscal Adjustment

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

As the world awaits results of the US election, oil prices have settled around the forty-dollar mark. Oil exporters in the region have had to deal with the Covid19 outbreak along with a global recession that have drastically reduced the demand for oil, as well as lower oil prices. Given the resurgence in Covid19 cases and renewed lockdown measures and the global energy transition away from fossil fuels, it is unlikely that oil prices will revert to the levels seen a few years ago, given weaker demand – the IMF's latest World Economic Outlook puts oil prices, based on futures markets at USD 41.69 in 2020 and USD 46.70 in 2021 (versus an average price of USD 61.39 last year). Fiscal breakeven oil prices in the GCC range between USD 42 for Qatar to USD 104.5 for Oman this year, exerting additional pressure on most oil producers as they ramp up spending to support the economy (UAE's emirates **Dubai** and **Sharjah** announced USD136Mn and USD139Mn respectively in

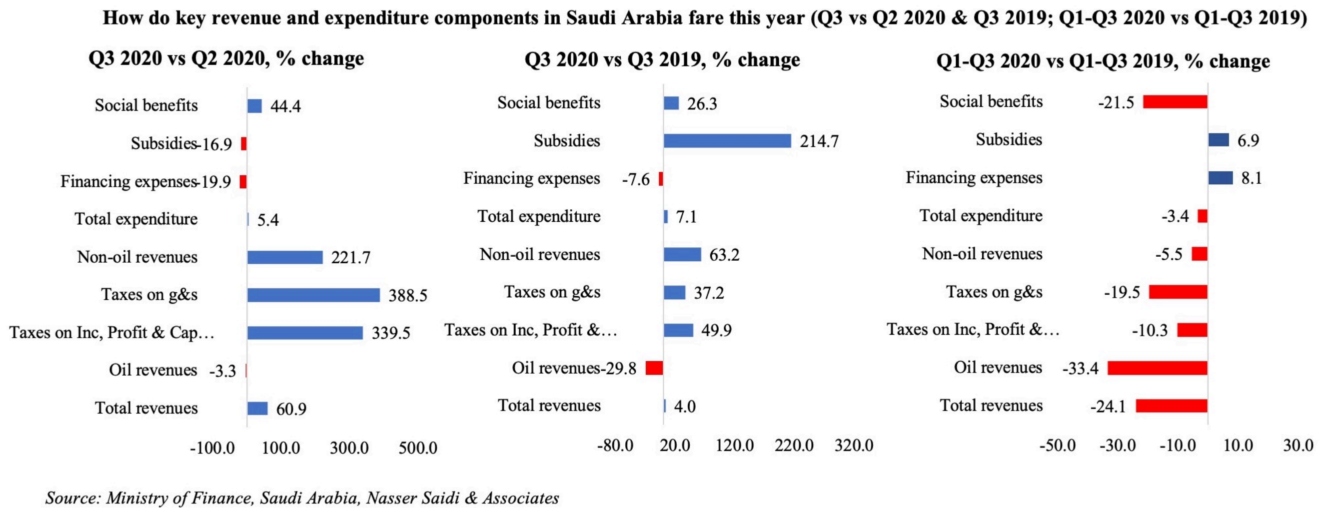


Source: IMF Regional Economic Outlook, Refinitiv, Nasser Saidi & Associates
Note: Kuwait's fiscal breakeven oil price is before the compulsory 10% revenue transfer to the Future Generations Fund including investment

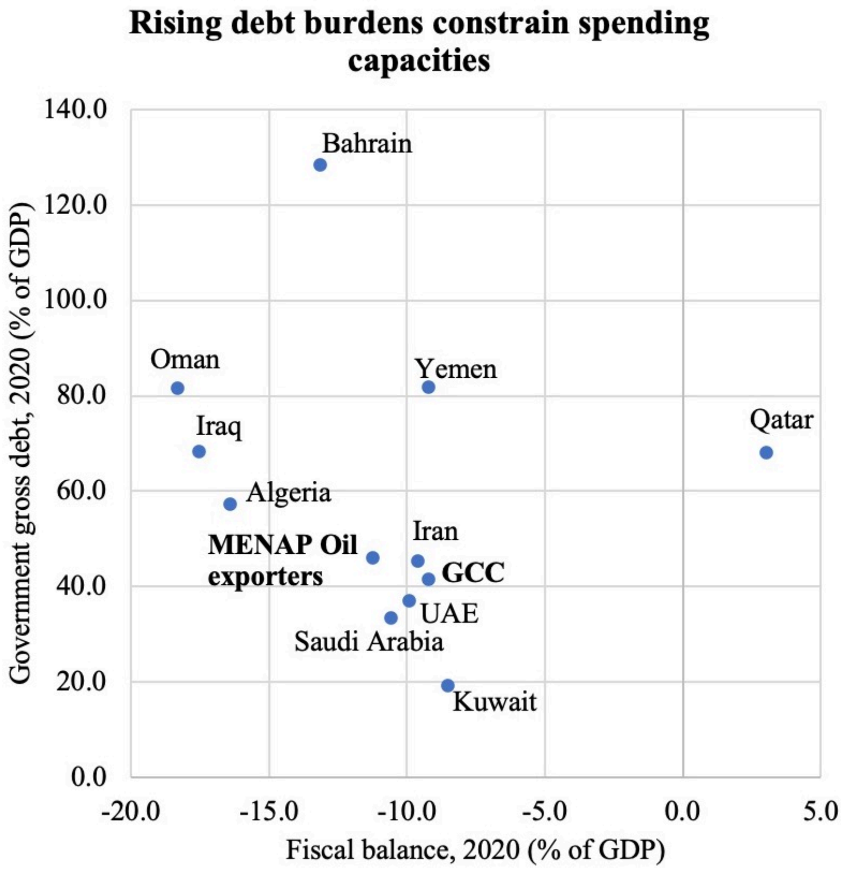
additional stimulus in the last few days).

Oil exporters in the region are still highly dependent on oil revenues, with lower oil revenues implying limited fiscal room and higher fiscal deficits, which are averaging 10% in 2020 for the GCC countries. As real oil prices trend downward, fiscal sustainability becomes increasingly vulnerable.

The latest numbers from **Saudi Arabia** underscore the need to diversify away from dependence on oil revenues. Saudi Arabia managed to halve its fiscal deficit in Q3 compared to Q2, as overall revenues edged up by 4% yoy, thanks in part to the 63% surge in non-oil revenues (VAT rate was hiked to 15% From Jul onwards); however, spending increased by 7% yoy, driven by a massive surge in subsidies to SAR 8.2bn (From SAR 2.2bn a year ago) brought on by the need to support the economy during the Covid19 outbreak.



Among other GCC nations, **Oman**, in a bid to raise non-oil revenues, announced plans to introduce 5% VAT from next year, in addition to potentially introducing an **income tax** (currently being studied). Furthermore, costs of expatriates’ employment visa and work permit renewals will be increased by 5%, with a plan to redirect additional funds towards financing its recently initiated Job Security System. **Kuwait** meanwhile is facing the highest budget deficit in its history[1]. In Aug this year, the national assembly approved a law that makes transfers to the Future Generations Fund dependent on budget surplus, thus providing a much needed[2] but momentary respite. However, the Parliament is still holding the public debt law – which would allow the government to borrow KWD 20bn over 30 years – hostage. **Bahrain**'s deficit widened by 98% yoy in H1 this year (as oil revenues fell by 35% and overall revenues by 29%), leading it to issue a USD 1bn bond, while receiving a payment from its GCC neighbours (part of a support package approved in 2018).



Source: IMF Regional Economic Outlook, Refinitiv, Nasser Saidi & Associates

Rising fiscal deficits following the previous decline in oil prices and lower growth have resulted in an accumulation of debt across all the MENA countries. The rising debt burdens and their servicing, leave limited space for increasing spending at a time when it is needed to support the economies. The IMF revealed that the median size of revenue and expenditure packages in the region's **oil importing** countries this year was double that of oil exporters (2% of GDP versus 1% of GDP). For the GCC, adjustment has resulted from a combination of spending cuts, borrowing from commercial banks, tapping international/ regional markets (bond issuances[3], commercial loans) as well as drawing down from international reserves at the central banks and in Oman's case direct external financial support from Qatar (with talks ongoing with the UAE, reports FT). As for support from sovereign wealth funds, given lack of transparent data, it will be difficult to gauge the actual value of their support/ contribution, but their optimal role would be to: (a) tap into investments abroad (starting with sale of money market instruments like T-bills); (b) re-assess long-term investment strategies to play a larger role domestically in supporting local industries, innovation and developing digital assets.

Faced with a complex situation, it is little wonder that measures to increase non-oil revenue are being introduced – Oman's plan to introduce VAT in 2021, rise in visa fees and a potential income tax on high income earners and Saudi Arabia's VAT hike. To achieve and maintain fiscal sustainability in the long-run, oil exporters will need to move away from pro-cyclical policies, rationalise overly generous and unsustainable entitlement programs, alongside revenue-enhancing measures. The policy agenda is full in the coming years!

Expenditure reduction policies	**Revenue enhancing measures**	**Other measures**
Phase out subsidies Reduce current spending Reduce public sector wage bills	Raise non-oil fiscal revenues by raising taxes / introduce new taxes Improve efficiency in collecting taxes Consolidate/ rationalize fees/ charges on government services	Allow deficit financing / create local currency debt & mortgage markets Public investment towards infrastructure to ensure a steady pipeline Establish social safety nets / pensions scheme

[1] *Kuwait posted a fiscal deficit of KWD 5.64bn in 2019-2020 (ending Mar 2020): this was higher by 69% yoy and inclusive of a KWD 1.72bn (10% of total annual revenues) transfer to the Future Generations Fund.*

[2] *The finance minister stated in Aug 2020 that the country has just KWD 2bn (USD 6.6bn) worth of liquidity in its Treasury and it was not enough to cover state salaries beyond Oct.*

[3] *Abu Dhabi issued a USD 5bn multi-tranche bond; Dubai sold*

USD 2bn in bonds; Saudi Arabia sold USD 7bn in 3-part bonds; Qatar sold USD 10bn in USD-denominated bonds.

Weekly Insights 28 Oct 2020: US Presidential elections & impact on the Middle East/ GCC

Download a PDF copy of this week's insight piece here.

FiveThirtyEight, in its extensive analysis and simulations, favours Biden to win the election, barring a major polling error. A contested election is probably on the cards. But, with less than a week left for the US Presidential elections, what would a potential change of guard at the White House mean for the Middle East? Interestingly, a recent YouGov-Arab News survey shows that respondents have little confidence in either candidate: only 12% preferred Trump versus 40% for Biden.

First and foremost is a potential return to multilateralism and international cooperation from the current (unilateralism) policies of withdrawal from the Paris climate accord, the Trans-Pacific Partnership or the World Health Organization or the Iran nuclear deal. International, multilateral cooperation – such as the Global Access (COVAX) Facility – will be critical when effective Covid19 vaccines are available to be rolled out and need to be distributed globally. A discriminatory or preferential national treatment would be detrimental to the global economy and recovery. More broadly, a US reversion to multilateralism would be welcomed internationally: less confrontation on trade/ tariffs and investment policies with China, the EU, Canada-Mexico and others would lead to a win-win globally and would lead to a cheaper dollar by encouraging non-US trade and investment.

Lower oil prices and a strong dollar along with US tariffs on aluminium and steel, have been strong headwinds and costly for the GCC. Currently, GCC members are pegged to the dollar (Kuwait pegs a basket dominated by US$), oil is priced in dollars, financial assets are largely dollar denominated, trade is dollar denominated and dollar financing is popular, while bond issuances have been on the surge (taking advantage of globally low borrowing costs) as nations adjust to rising fiscal deficits. Given the Covid Great Lockdown, the energy transition away from fossil fuels, it is unlikely that oil prices will revert to prices seen a few years ago given weaker demand – the IMF's latest World Economic Outlook puts oil price, based on futures markets at USD 41.69 in 2020 and USD 46.70 in 2021 (versus an average price of USD 61.39 last year). But a cheaper dollar would support an economic recovery in the region driven by tourism and services exports, as countries reopen in phases.

More important, will be the impact on the oil market. A re-elected Trump administration would continue its policies supporting US shale oil, encourage drilling and roll back of climate-related regulations and support US oil & gas exports, weakening OPEC+ and oil prices. By contrast, a Biden Administration would be climate and environment policy friendly, revert back to the Paris Agreement, support renewable energy, including through "Green" and "Blue" New Deals. In a scenario where fossil fuel demand is already weak, an additional push towards renewables would tend to reduce US supply but also reduce demand, the oil price impact would depend on the balance between demand and supply effects.

Oil exporters in the region are still highly dependent on oil, with lower oil revenues implying limited fiscal room and higher fiscal deficits which are averaging 10% in 2020 for the GCC countries. As real oil prices trend downward, fiscal sustainability becomes increasingly vulnerable. The elephant in the room remains the risk of being left with stranded assets. According to the IEA, stranded assets refer to "those investments which have already been made but which, at some time prior to the end of their economic life, are no longer able to earn an economic return". The strategy imperative is the need to emphasise diversification policies, along with a policy to de-risk fuel assets. National oil companies and related state-owned enterprises, that are majority owners/ operators of oil and gas assets, would need to pursue a low-carbon energy transition plan in addition to the privatisation of fossil fuel assets. Examples are the Aramco part-privatisation, and ADNOC's part-pipeline privatisation. This should be complemented by a major drive to accelerate investment in and adoption of green/ clean energy policies by both government entities and the private sector.

The bottom line is that the outcome of the US elections will directly impact a host of global issues from dealing with Covid and climate change, de-escalating confrontation and preventing a Cold War with China, restoring confidence in multilateral agreements and institutions like the WHO, the WTO, the UN and geopolitics, with repercussions on regional power struggles involving Israel, Iran, Turkey and the Gulf states. Important as these issues are, the other bottom line is the need for a renewed focus of the GCC and the regions oil producers on economic diversification strategies and de-risking fossil fuel assets within a well-designed energy transition strategy.

For additional views about this and the wider regional economic outlook, listen to the IMF panel discussion from yesterday.

Panelist at the IMF's MENA Conference "Coping With Covid19", 27 Oct 2020

Dr. Nasser Saidi participated as a panelist at the IMF's event related to the Regional Economic Outlook report for the Middle East and North Africa region held on 27th October, 2020.

The panel discussion was titled "Coping with Covid19: Challenges & Policy Priorities for the MENA region and the Global Economy" and discussed in addition the impact of US elections on the Middle East.

The IMF report can be accessed at https://www.imf.org/en/Publications/REO/MECA/Issues/2020/10/14/regional-economic-outlook-menap-cca

Watch the video of the webinar below:

"Eight steps to pull the Lebanese economy back from the brink", Op-ed in The National, 28 Oct 2020

The article titled "Eight steps to pull the Lebanese economy back from the brink" appeared in The National on 28th Oct 2020 and is reposted below.

Eight steps to pull the Lebanese economy back from the brink

Without the immediate implementation of these comprehensive reforms, Lebanon is heading for a lost decade

Lebanon is engulfed in a long list of overlapping and connected problems –fiscal, debt, banking, currency and balance of payments crises – that together have created an economic depression and a humanitarian crisis. People are going hungry: food poverty has affected some 25 per cent of Lebanon's own population. But the fiscal and monetary instability has caused more than just a shortage of bread.

Confidence in the banking system has collapsed. The Lebanese pound has depreciated by 80 per cent over the past year.

Inflation is at 120 per cent and hyperinflation – a runaway increase in prices – is on the horizon.

Unemployment has risen to 50 per cent, leading to mass emigration and depleting Lebanon of its main asset: its human capital.

The explosion at the Port of Beirut, combined with the Covid-19 lockdown, created an apocalyptic landscape.

It aggravated the country's economic crises. The cost of rebuilding alone exceeds $10 billion – more than 35 per cent of the this year's GDP – which Lebanon is incapable of financing.

Prospects for an economic recovery in Lebanon are dismal. The new government must recognise the economy's large fiscal and monetary gaps and implement a comprehensive, credible and consistent reform programme.

The immediate priorities are economic stabilisation and rebuilding trust in the banking and financial system.

Lebanon desperately needs a recovery programme – akin to the Marshall Plan that helped rebuild Europe after the Second World War – of about $30-35bn, in addition to the funds to rebuild Beirut's port and city centre.

To achieve this, the new government will have to implement rapidly an agreement with the International Monetary Fund, based on a national consensus. The confidence-building policy reform measures over the next six months must include:

A credible capital controls act to protect deposits, restore confidence and encourage the return of remittances and capital back into the country. Credit, liquidity and access to foreign exchange are critical for private sector activity, which is the main engine of growth and employment.

The restructuring of public, domestic and foreign debt to reach a sustainable ratio of debt to GDP. Given the exposure of the banking system to the debt of the government and central bank (known by its French acronym, BDL), public debt restructuring would involve a restructuring of the banking sector, too.

A bank recapitalisation process that includes a process of merging smaller banks into larger banks. Bank recapitalisation requires a bail-in of the banks and their shareholders (through a cash injection and the sale of foreign subsidiaries and assets) of some $25bn, to minimise a haircut on deposits. This will require passage of a modern insolvency law.

Monetary policy reform is needed to unify the country's multiple exchange rates, move to inflation targeting – that is, price stability – and shift to greater exchange rate flexibility. Multiple rates create market distortions and incentivise more corruption. The BDL will have to stop all quasi-fiscal operations and government lending. Credible reform requires a strong and politically independent banking regulator and monetary policymaker.

Reform the Electricite du Liban (EDL), the country's largest utility, and appoint a new board to improve governance and efficiency.

Reform the inefficient subsidies regime that covers electricity, fuel, wheat and medication. These generalised subsidies do not fulfil their purpose – only 20 per cent goes to the poor.

All that the subsidies do is benefit rich traders and middlemen and they are the basis of large-scale smuggling into sanctions-ridden Syria. Subsidies reform should be part of a social safety net to provide support for the elderly and vulnerable.

Pass a modern government procurement act. This would help prevent corruption, nepotism and cronyism.

Restructure and downsize the public sector. Start by removing the 20 per cent of public sector "ghost workers" – people on payrolls who don't actually work for the government – and establish a National Wealth Fund, a professional holding company that would independently manage public assets. These include basic public utilities like water, electricity, public ports and airports, Lebanon's carrier Middle East Airlines, the telecom company Ogero, the Casino du Liban, the state-run tobacco monopoly and others, in addition to public commercial lands.

These assets are non-performing, over-staffed by political cronies and suffer from nepotism. In most cases, they are a drain on the treasury.

A comprehensive IMF programme that includes structural reforms is necessary. It is the way to restore trust in the economy and win back the trust of the private sector, the Lebanese diaspora, foreign investors and aid providers. This would then attract funding from international financial institutions and Cedre Conference participants, including the EU and the GCC.

Such measures, if properly executed, would translate into financing for reconstruction and access to liquidity. They would also stabilise and revive private sector economic activity. Without the immediate implementation of these comprehensive reforms, Lebanon is heading for a lost decade.

Nasser Saidi is a former Lebanese economy minister and first vice-governor of the Central Bank of Lebanon

Bloomberg Daybreak Middle East Interview, 25 Oct 2020

Dr. Nasser Saidi joined Manus Cranny on the 25th of October, 2020 as part of the Bloomberg Daybreak: Middle East edition,to discuss the US presidential elections and impact on markets, in addition to economic recovery prospects amid the Covid19 pandemic's resurgence and discussing the much-needed steps to recovery under the newly appointed PM in Lebanon.
Watch the interview below – Dr. Nasser Saidi joins via phone (from 1:01:00 till 35:42). The original link to the full episode:
https://www.bloomberg.com/news/videos/2020-10-25/-bloomberg-daybreak-middle-east-full-show-10-25-2020-video

"Overcoming Lebanon's economic crisis", viewpoint in The Banker, Oct 2020

This article, titled "Overcoming Lebanon's economic crisis", appeared as a viewpoint in the Oct 2020 edition of The Banker. The article, posted below, can be directly accessed on The Banker's website.

Overcoming Lebanon's economic crisis

Lebanon's financial and economic crises can only be solved *with meaningful reform, without which it faces a lost decade of mass migration, social and political unrest and violence.*

Violence and crises have shattered Lebanon's pre-1975 Civil War standing as the banking and financial centre of the Middle East. Lebanon is engulfed in overlapping fiscal, debt, banking, currency and balance of payments crises, resulting in an economic depression and humanitarian crisis with poverty and food poverty affecting some 50% and 25% respectively of the population. The Lebanese Pound has depreciated by some 80% over the past year, with inflation running at 120% and heading to hyperinflation. A Covid-19 lockdown and the Port of Beirut horrendous explosion on August 4th created an apocalyptic landscape, aggravating the economic and unprecedented humanitarian crises. The cost of rebuilding is estimated to exceed $10 billion, more than 25% of current GDP, which Lebanon is incapable of financing.

The economic and financial meltdown is a culmination of unsustainable fiscal and monetary policies, combined with an overvalued fixed exchange rate. Persistently large budget deficits (averaging 8.6% of GDP over the past 10 years), structural budget rigidities, an eroding revenue base, wasteful subsidies, government procurement riddled with endemic corruption, all exacerbated fiscal imbalances.

Meanwhile, a monetary policy geared to protecting an increasingly overvalued exchange rate, led to growing trade and current account imbalances and increasingly higher interest rates to attract deposits and capital inflows to shore up dwindling international reserves. Deficits financed current spending, with limited real investment or buildup of real assets, while high real interest rates stifled investment and growth.

The unsustainable twin (current account and fiscal) deficits led to a rapid build-up of public debt. Public debt in 2020 is running at $111 bn, including $20 bn of debt at Banque du Liban (BdL), the country's central bank. This figure represents more than 184% of GDP– the second highest ratio in the world behind Japan, according to the the IMF, Most of this debt is held by domestic banks and BdL, with 13% held by foreigners.

Financing government spend

The BdL's financing of government budget deficits, debt monetisation, large quasi-fiscal operations (such as subsidising real estate investment) and bank bailouts, created an organic link between the balance sheets of the government, the BdL and banks. In effect, depositors' monies were used by the banks and the BdL to finance budget deficits, contravening Basel III rules and prudent risk management.

BdL policies led to a crowding-out of both the private and public sectors, and to disintermediation: the government could no longer tap markets, so BdL acted as financial intermediary i.e. paying high rates to the banking system, while allowing the government to borrow at lower rates. The higher rates increased the cost of servicing the public debt, with debt service representing some 50% of government revenue in 2019 and over one third of spending. Credit worthiness rapidly deteriorated, leading to a 'sudden stop' in 2019, with expatriate remittances and capital inflows moving into reverse.

The crisis Lebanon is now experiencing is the dramatic collapse of what economists describe as a Ponzi-like scheme engineered by the BdL, starting in 2016 with a massive bailout of the banks equivalent to about 12.6% of GDP. Ina bid to protect an overvalued LBP and finance the workings of government, the BdL started borrowing at ever higher interest rates, through so-called "financial engineering" schemes, which evolved into a vicious cycle of additional borrowing to pay maturing debt and debt service, until confidence evaporated and reserves were exhausted.

With the BdL unable to honour its foreign currency obligations, Lebanon defaulted on its March 2020 Eurobond and is seeking to restructure its domestic and foreign debt. The resulting losses of the BDL exceed $50 bn, equivalent to 2019 GDP, a historically unprecedented loss by any central bank.

With the core of the banking system, the BDL, unable to repay banks’ deposits, the banks froze payments to depositors. The banking and financial system imploded. The bubble burst in the last quarter of 2019, with a rapid depreciation of the LBP during 2020. The BDL’s costly attempt to defy the “impossible trinity” by simultaneously pursuing an independent monetary policy, with fixed exchange rates and free capital mobility resulted in growing imbalances, a collapse of the exchange rate and an unprecedented financial meltdown.

Economic disaster

A series of policy errors triggered the banking and financial crisis, starting with the closure of banks in October 2019, ostensibly because of anti-government protests decrying government endemic corruption, incompetence and lack of reforms. A predictable run on banks ensued, followed by informal capital controls, foreign exchange licensing, freezing of deposits, inconvertibility of the LBP and payment restrictions to protect the dwindling reserves of the BDL. These errors precipitated the financial crisis, generating a sharp liquidity and credit squeeze, the sudden stop of remittances and the emergence of a system of multiple exchange rates.

The squeeze severely curtailed domestic and international trade and resulted in a loss of confidence in the monetary system and the Lebanese pound. With the outbreak of Covid19 and lockdown measures came a severe drop in tax receipts, resulting in the printing of currency to cover the fiscal deficit, generating a vicious cycle of exchange rate depreciation and inflation. The black market exchange rate touched a high of LBP 9800 in early July, before steadying to around LBP 7400 in early September (versus the official peg at 1507). In turn these policy measures led to a severe economic depression, with GDP forecast to decline by 25% in 2020, with unemployment rising to 50%.

In response to the crisis, the government of Hassan Diab prepared a financial recovery plan that comprised fiscal, banking, and structural reforms as a basis for negotiations with the IMF. In effect, the Diab government and Riad Salameh, governor of the BDL deliberately implemented an inflation tax and an illegal ‘lirafication’ – a forced conversion, a spoliation, of foreign currency deposits into LBP to achieve internal real deflation. The objective is to impose a ‘domestic solution’ and preclude an IMF programme and associated reforms.

The apocalyptic Port of Beirut explosion on August 4, compounded by official inertia in responding to the calamity, has led to the resignation of the Diab government and appointment of a new PM, Mustafa Adib. Economic activity, consumption and investment are plummeting, unemployment rates are surging, while inflation is accelerating. Confidence in the banking system and in macroeconomic and monetary stability has collapsed.

Rebuilding the economy

Prospects for an economic recovery are dismal unless there is official recognition of the large fiscal and monetary gaps, and a comprehensive, credible and sustainable reform programme is immediately implemented by a new Adib government. Such a programme needs to include immediate confidence building measures with an appropriate sequencing of reforms. The government must immediately passing a credible capital controls act to help restore confidence and encourage a return flow of remittances and capital inflows. Immediate measures need to be taken to cut the budget deficit, including by removing fuel subsidies and all electricity subsidies (which account for one-third of budget deficits). The removal of these subsidies is necessary to stop smuggling into neighbouring Syria, which has been a major drain on international reserves.

Monetary policy reform is needed to unify the country’s multiple exchange rates, moving to inflation targeting and a flexible exchange rate regime. Multiple rates create market distortions and incentivise more corruption. In addition, the BdL will have to repair and strengthen its balance sheet, stop all quasi-fiscal operations and government lending. Credible reform requires a strong and politically independent regulator and policy-maker.

There is a need to restructure the public domestic and foreign debt (including BdL debt) to reach a sustainable debt to GDP in the range of 80 to 90% over the medium term; this implies a write down of some 60 to 70% of the debt. Given the exposure of the banking system to government and BDL debt, a debt restructuring implies a restructuring of the banking sector whose equity has been wiped out.

A bank recapitalization and restructuring process should top the list of reforms, including a combination of resolving some banks and merging smaller banks into larger banks. Bank recapitalisation requires a bail-in of the banks and their shareholders (through a cash injection, sale of foreign subsidiaries and assets) of some $25 bn to minimise a haircut on deposits. As part of such far-reaching reforms, Lebanon needs a well-targeted social safety net to provide support for the elderly and vulnerable segments of the population

Crucially, the new government needs to rapidly implement an agreement with the IMF. Lebanon desperately needs the equivalent of a Marshall Plan, a “Reconstruction, Stabilisation and Liquidity Fund’ of about $30 to 35bn, along with policy reform conditionality.

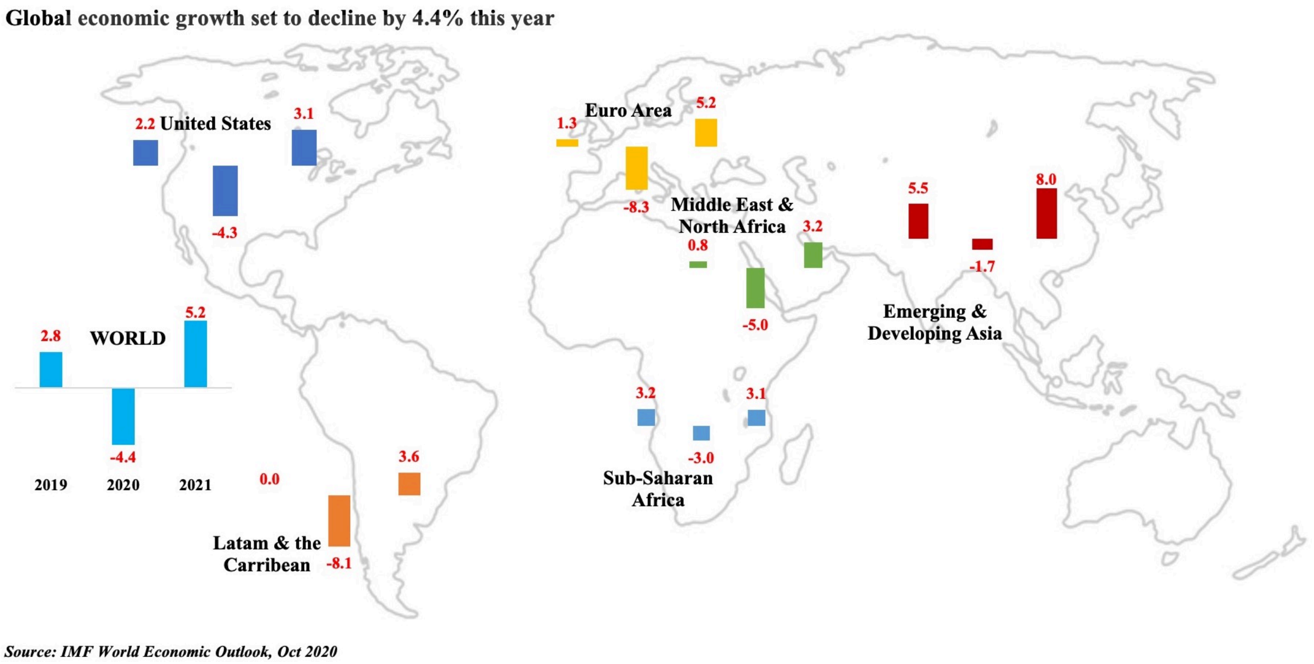
A comprehensive IMF macroeconomic-fiscal-financial reform programme that includes structural reforms, debt, and banking sector restructuring would help restore faith in the economy in the eyes of the Lebanese diaspora, foreign investors/aid providers and help attract multilateral funding from international financial institutions and Cedre conference participants, including the EU and the Gulf Cooperation Council. This would translate into financing for reconstruction, access to liquidity, stabilise and revive private sector economic activity.

Without such deep and immediate policy reforms, Lebanon is heading for a lost decade, with mass migration, social and political unrest and violence. If the new government fails to act, Lebanon may turn into “Libazuela”!

Weekly Insights 20 Oct 2020: Expect a Protracted Economic Recovery in Middle East/ GCC

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

Fig 1. Global Economic Growth to decline by 4.4% this year, before rebounding to 5.2% in 2021

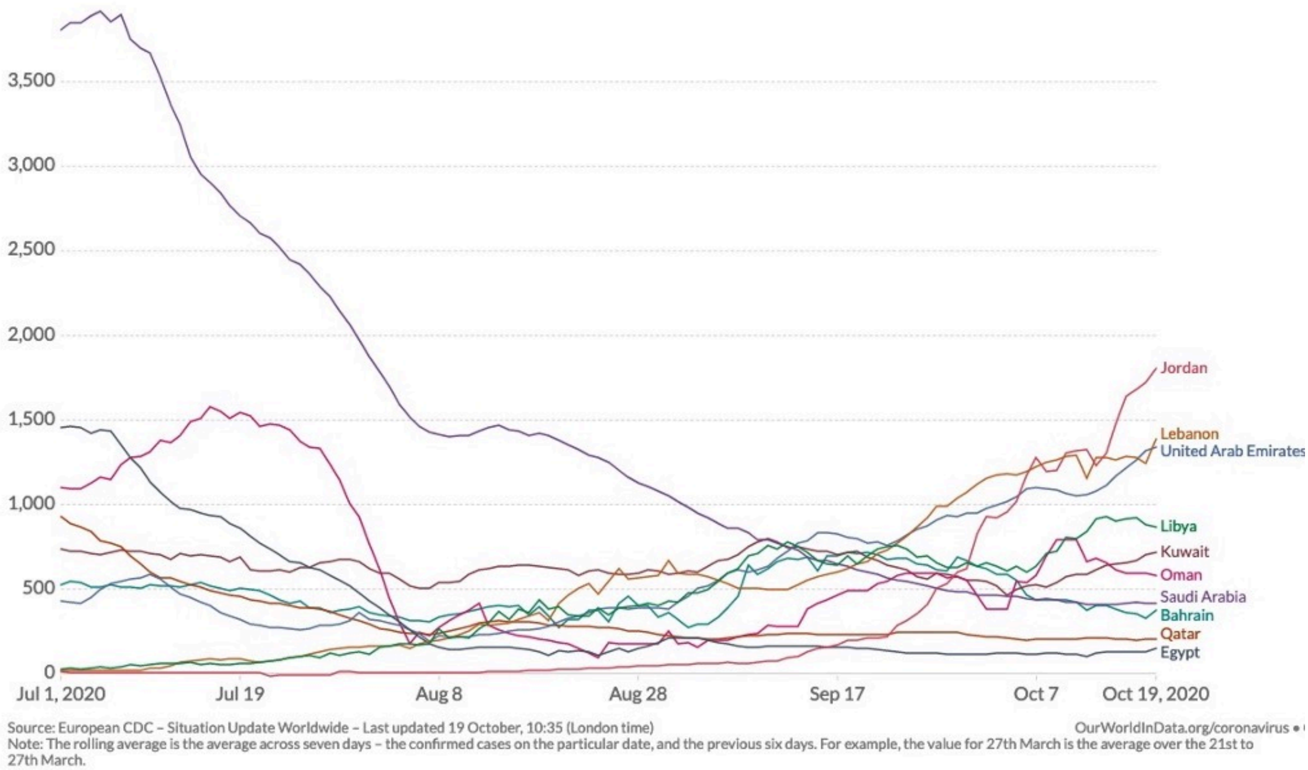


The IMF's **World Economic Outlook**, released in October, forecast upwardly revised growth estimates for most country groups this year though stating that the recovery is "long, uneven and uncertain". The IMF forecasts still seem relatively optimistic with all regional aggregates indicating a wobbly V-shaped recovery. Emerging markets and China are expected to recover much faster than their advanced counterparts while also noting that the plunge in growth was more severe for the advanced nations. A recovery in trade, PMI numbers and consumer spending are cited as supporting global recovery, though the sudden surge in Covid19 confirmed cases across Europe is likely to dampen the rebound, presaging a second wave and extended recovery.

Germany, Italy, Portugal and UK recently reported their highest number of infections since the start of the pandemic and many nations are reimposing restrictions – Belgium's nationwide curfew, Switzerland making masks compulsory in indoor public areas, a 9pm curfew at many major cities in France – though a full-fledged lockdown is likely to be avoided. While Q3 may show an uptick in growth, Q4 is likely to slide back into negative territory (though not as sharp as Q2's plunge). Mobility indicators how a decline in footfall across many European cities *(https://on.ft.com/2TmvOkZ)*; PMI data reveals a divergence between manufacturing and services, with the latter reporting a drop in Sep. As we enter the cold winter months, the partial recovery seen in Q3 may be just temporary.

In the **Middle East and North Africa** (reeling from the effects of the global recession, Covid19 impact and oil exporters facing lower oil prices and demand), growth is expected to recover a tad later and slower compared to the rest, rising to only 3.2% from a 5.0% dip this year *(Source: IMF Regional Economic Outlook: Middle East & Central Asia, Oct 2020)*. Egypt is the only country in the region forecast to grow this year (+3.5% yoy in spite of the massive decline in tourism). **GCC growth is forecast to shrink by 6.0% this year** – with oil and non-oil GDP contracting by 6.2% and 5.7% respectively.

Fig 2. Daily confirmed COVID-19 cases in select MENA nations, rolling 7-day average



Source: Our World in Data, accessed 20th Oct 2020.

A recent uptick in Covid19 cases might add to economic uncertainty in the region – Jordan has reimposed some restrictions since the beginning of the month, but none of the nations have gone back to the stringency levels seen during Mar-Apr 2020. The **immediate concerns remain on the fiscal side**, with most nations rolling out stimulus packages to ease the impact from Covid19. For the **GCC, fiscal deficits are projected at 9.2% of GDP this year** (2019: -2%) while the fiscal breakeven oil price ranges from USD 42 for Qatar to USD 75.9 for the UAE and as high as USD 104.5 for Oman. Dependence on oil is still pronounced in spite of diversification efforts and the rising fiscal deficits are being met with a combination of debt issuances, tapping domestic markets, reduction of reserves and via sovereign wealth funds.

Though countries in the Middle East emerged from Covid-19 containment in Q2, the economic costs/ impact are likely to be protracted through the year and next given the many spillover risks: debt obligations and financing needs, job losses/ unemployment, potential NPLs affecting banking sectors, business closures leading to insolvency/ bankruptcy, and for the oil importers decline in remittances as well as rising poverty and inequality. [IMF estimates] foresee that five years from now countries could be 12% below GDP level expected by pre-crisis trends.

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Weekly Insights 13 Oct 2020: PMIs, Mobility & Economic Recovery

Download a PDF copy of this week's economic commentary here.

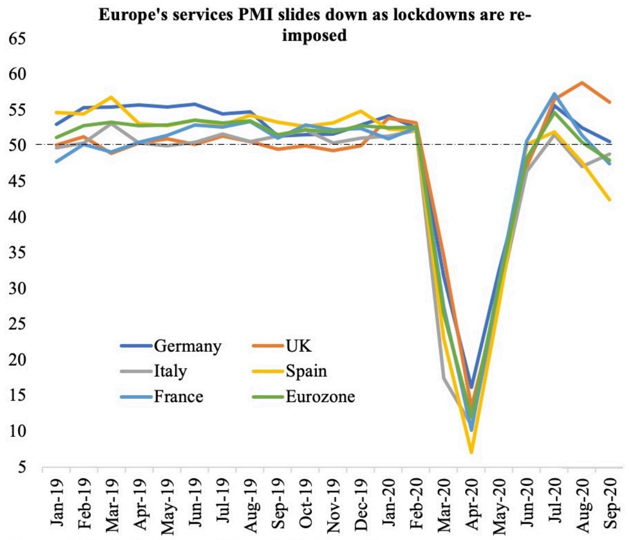
1.Global PMIs, shipping & trade

PMIs across the globe were released last week. The headline JPMorgan global composite PMI fell for the first time in five months, dipping to 52.1 in Sep (Aug: 52.4). Most manufacturing surveys still indicated an expansion (a reading above 50) though the pace of recovery has slowed as a result of capacity constraints and supply chain delays. Sector-wise, the most significant beneficiary has been the automotive sector, where production capacity increased and new orders posted the most gain since Dec 2019. On the other extreme, tourism and recreation sector continues to be the worst hit – reflecting the glaring divergence between the manufacturing and services sector PMIs (Figure below). September's PMI readings in the services sector have declined from Aug's 7-month highs, as many countries witnessed a resurgence in Covid19 cases (and in some, new record daily cases!), leading to restricted lockdowns which added on to the restrictions due to social distancing policies. Employment posted a net increase for the first time since Jan: though jobs growth was faster in the services sector in Aug-Sep, remember that the sector had also seen the steepest job cuts earlier this year.

Heatmap of Manufacturing PMIs

	US	Germany	EU	UK	Japan	China	India
Jan-19	54.9	49.7	50.6	52.8	50.3	48.3	53.9
Feb-19	53.0	47.6	49.5	52.1	48.9	49.9	54.3
Mar-19	52.4	44.1	48.3	55.1	49.2	50.8	52.6
Apr-19	52.6	44.4	48.4	53.1	50.2	50.2	51.8
May-19	50.5	44.3	47.9	49.4	49.8	50.2	52.7
Jun-19	50.6	45.0	47.6	48.0	49.3	49.4	52.1
Jul-19	50.4	43.2	46.6	48.0	49.4	49.9	52.5
Aug-19	50.3	43.5	47.1	47.4	49.3	50.4	51.4
Sep-19	51.1	41.7	46.0	48.3	48.9	51.4	51.4
Oct-19	51.3	42.1	46.2	49.6	48.4	51.7	50.6
Nov-19	52.6	44.1	47.0	48.9	48.9	51.8	51.2
Dec-19	52.4	43.7	46.4	47.5	48.4	51.5	52.7
Jan-20	51.9	45.3	48.1	50.0	48.8	51.1	55.3
Feb-20	50.7	48.0	49.1	51.7	47.8	40.3	54.5
Mar-20	48.5	45.4	44.3	47.8	44.8	50.1	51.8
Apr-20	36.1	34.5	33.4	32.6	41.9	49.4	27.4
May-20	39.8	36.6	39.5	40.7	38.4	50.7	30.8
Jun-20	49.8	45.2	47.4	50.1	40.1	51.2	47.2
Jul-20	50.9	51.0	51.7	53.3	45.2	52.8	46.0
Aug-20	53.1	52.2	51.6	55.2	47.2	53.1	52.0
Sep-20	53.2	56.4	53.5	54.1	47.7	53.0	56.8

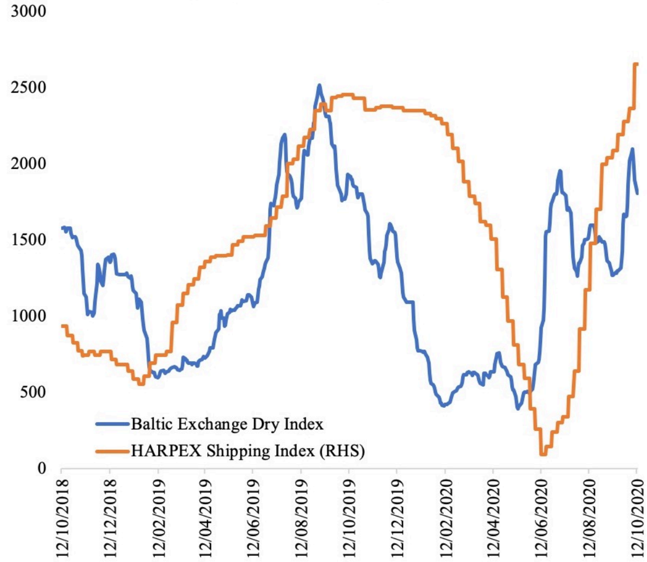
Source: Refinitiv Datastream, Nasser Saidi & Associates



Source: Refinitiv Datastream, Nasser Saidi & Associates

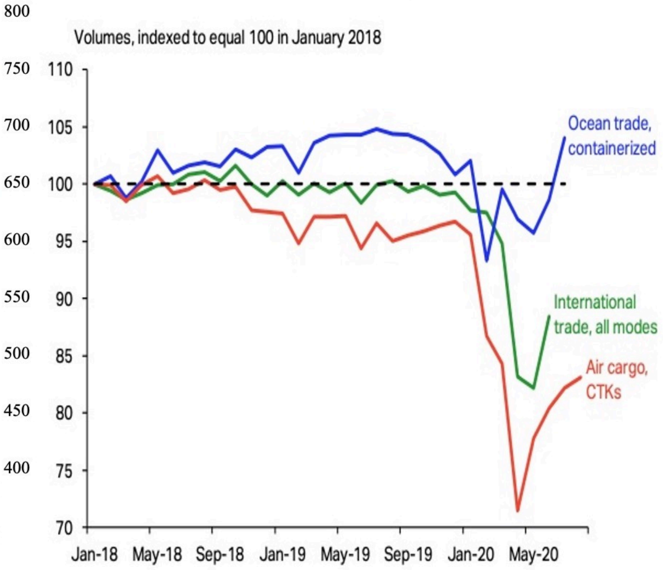
Recent manufacturing PMI readings have shown an increase in new export orders, supported by a pickup in demand. Global shipping indicators have improved during the summer, with both the Baltic Exchange Dry Index (tracks rates for ships carrying dry bulk commodities) and the Harpex shipping index (index created using container shipping rates across different classes of ship) picking up pace. Both indices rose to its highest in more than a year last week, after having touched 3-year highs in mid-2019 and declining sharply during the Feb-Jun period. However, the air freight sector has not recovered in tandem with shipping (Figure below), a result of cheaper ocean trade – a pattern visible during downturns – as well as insufficient air cargo capacity (according to IATA).

Global Shipping Indicators improve over the summer



Source: Refinitiv Datastream, Nasser Saidi & Associates

Air cargo traffic recovers slowly in comparison



Source: IATA Air Freight Analysis report, Aug 2020

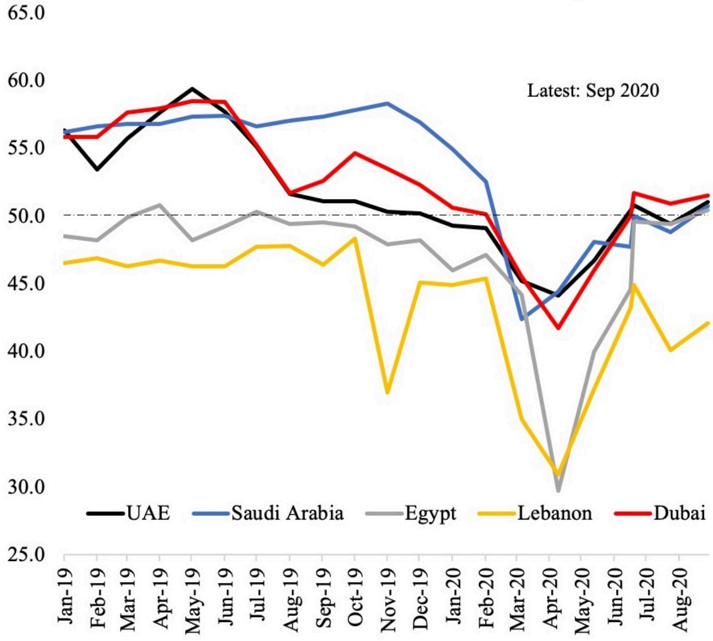
2. Regional PMIs

Heatmap of non-oil private sector PMIs

	UAE	Saudi Arabia	Egypt	Lebanon	Dubai
Jan-19	56.3	56.2	48.5	46.5	55.8
Feb-19	53.4	56.6	48.2	46.9	55.8
Mar-19	55.7	56.8	49.9	46.3	57.6
Apr-19	57.6	56.8	50.8	46.7	57.9
May-19	59.4	57.3	48.2	46.3	58.5
Jun-19	57.7	57.4	49.2	46.3	58.4
Jul-19	55.1	56.6	50.3	47.7	55.2
Aug-19	51.6	57.0	49.4	47.8	51.7
Sep-19	51.1	57.3	49.5	46.4	52.6
Oct-19	51.1	57.8	49.2	48.3	54.6
Nov-19	50.3	58.3	47.9	37.0	53.5
Dec-19	50.2	56.9	48.2	45.1	52.3
Jan-20	49.3	54.9	46.0	44.9	50.6
Feb-20	49.1	52.5	47.1	45.4	50.1
Mar-20	45.2	42.4	44.2	35.0	45.5
Apr-20	44.1	44.4	29.7	30.9	41.7
May-20	46.7	48.1	40.0	37.2	46
Jun-20	50.4	47.7	44.6	43.2	50
Jul-20	50.8	50.0	49.6	44.9	51.7
Aug-20	49.4	48.8	49.4	40.1	50.9
Sep-20	51.0	50.7	50.4	42.1	51.5

Source: Refinitiv Datastream, Nasser Saidi & Associates

PMIs indicate a slow restart in the Middle East region



Source: Refinitiv Datastream, Nasser Saidi & Associates

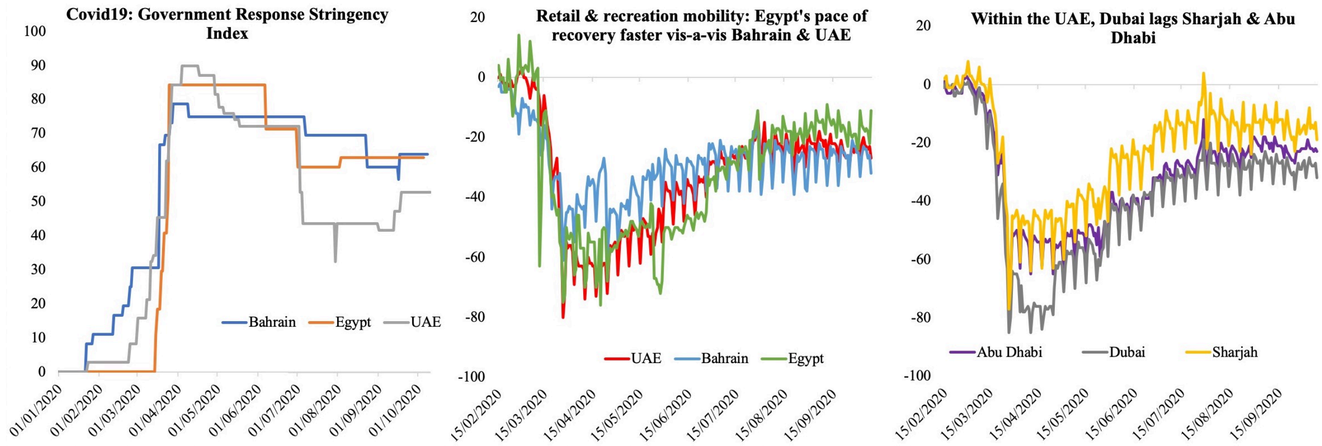
Regional non-oil private sector PMI's indicate a slow restart: Sep's modest improvement followed Aug when four of the countries moved into the contractionary territory (i.e. below the 50-mark). Significantly, demand growth has been picking up and the significant price discounting on offer has led to an increase in sales.

Job cuts are still occurring, as businesses adjust to reduce operating costs. The ILO estimates that Arab states witnessed a 2.3% drop in working hour losses in Q1 this year, followed by 16.9% and 12.4% respectively in Q2 and Q3. Job postings are slowly ticking up, though anecdotal evidence suggests that potential employees are willing to accept a significant pay cut to undertake similar work. This will lead to a wider disparity in public-private sector wages, not to mention the impact it would have on wider gender disparities (during Covid19, women are already more likely than men to witness a larger drop in mobility to lose jobs in the informal economy or see a reduction in working time).

Furthermore, with lack of access to finance/ liquidity, not all businesses will recover or survive in the next few months, should uncertainty remain. This could result in a structural change bought about due to Covid19 (e.g. the increase in number of online shopping platforms which are relatively less labour-intensive versus actual physical stores). Being faced with limited financial capabilities (due to job losses or salary cuts and depletion of savings), expatriates could also decide to return to their home countries (negatively affecting consumer spending in the region).

3. Stringency Index vs. Retail and Recreation sector activity

The Middle East has seen a resurgence in Covid19 cases in the recent weeks, and many nations are in the process of reimposing partial lockdowns or shorter nationwide lockdowns: the first panel in the figure below shows that the Government Response Stringency Index[1] has increased for the UAE in the past month (in line with the increase in cases). This is the best way forward, if we are to take into consideration the IMF’s recent World Economic Outlook analysis which found that early adoption of stringent and short-lived lockdowns curbed infections and could be preferable to mild and prolonged measures. The enforcement of lockdowns and social distancing policies was an important factor contributing to a recession: however, such short-term costs of lockdowns may lead to medium-term gains if the virus is contained.



Source: COVID-19 Government Response Stringency Index (Stringency Index), Our Wolrd In Data, Google COVID-19 Community Mobility Reports, Nasser Saidi & Associates

Google Mobility indicator for retail and recreation show that none of the three nations – Bahrain, Egypt, or UAE – have yet returned fully to the pre-Covid19 baseline. Among the three, Egypt, which had declined the most initially, recovered faster in comparison. More interestingly, within the UAE, recovery in retail sector mobility in Sharjah (-14% from baseline in Oct) and Abu Dhabi (-21% from baseline) has outpaced Dubai (-23%). This could potentially be due to higher confidence in these emirates – given mass testing in Sharjah, border controls in Abu Dhabi and a relatively longer lockdown period – compared to Dubai.

What next? Note that a second (or even third) wave of Covid19 is unfolding, as we enter the cold winter months: given the likelihood of resurgence of Covid19, partial recovery – as indicated by PMIs – may be temporary. If further virus containment measures are introduced, though it will dampen economic activity in the short-term, medium-term gains might be achieved. Initial restrictions will likely affect the customer-facing service sectors more than others, but risks to other sectors will increase if further restrictions are imposed. Overall, an air of uncertainty is unlikely to boost confidence among firms, negatively affecting investment decisions and economic activity. Governments need to signal willingness to continue stimulus measures if required and take decisions to introduce "circuit-breakers" if necessary.

[1] The Stringency Index is a composite measure based on nine

response indicators that include school closures, workplace closures, and travel bans; the index ranges from 0 to 100 with 100 being the strictest. This index does not track the effectiveness of the response. More: *https://www.bsg.ox.ac.uk/research/research-projects/coronavirus-government-response-tracker*

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"Staring into the Abyss: Where does Lebanon go from here?", Brookings Doha Centre webinar, 17 Aug 2020

Dr. Nasser Saidi joined the Brookings Doha Center webinar (held on 17th Aug 2020) for a discussion on the dire political and economic situation in Lebanon.

The session addressed the following questions: Is the country on its way to becoming a failed state, or will the repercussions of the Beirut blast lead to serious reform? Does the French political initiative steered by President Emmanuel Macron have the potential to resolve the crisis? What are the prospects for economic recovery amid stalled negotiations between the Lebanese government and International Monetary Fund? And what role can the international community play in order to assist Lebanon?

Watch the webinar below:

Interview with BBC on the Beirut blast & way forward, 10 Aug 2020

Dr. Nasser Saidi appeared on BBC World Business report on 10th Aug 2020 to discuss the Beirut port explosion and how Lebanon can get of this crisis.
Dr. Saidi mentions during the interview that pledges from the Paris donor conference is presumably for humanitarian aid & will be largely insufficient for any infrastructure rebuilding efforts. A concerted macroeconomic stabilisation plan is needed, alongside an agreement with the IMF.
Talks with the IMF have been sabotaged so far: there is a resistance to reform by the political class & the banking sector. There has been no political courage in the Diab government and the time is right to bring in independent 'technocrats' to stand up to the political class & form a new government.
Need a clear message from the international community that the political class will be personally subject to sanctions should they not support a new govt willing to undertake reforms

Listen to the interview (from 4:30 to 8:45) at https://www.bbc.co.uk/sounds/play/w172x57q96njsxt

Comments on Lebanon, FT, 8 Aug 2020

Dr. Nasser Saidi commented on the economic and financial meltdown in Lebanon in the FT article titled "Currency collapse fuels mass protests in Lebanon" published on 8th Aug 2020.
The full article can be accessed at: https://www.ft.com/content/0e8aff25-629c-4737-a1dc-8ed4ee32447e

The comment is posted below:
"A corrupt political class, subservient policymakers and cronies have generated an unprecedented misery, an economic, banking, and financial meltdown," says Nasser Saidi, a former economy minister and vice-governor of the central bank after the war. "Their endemic corruption, criminal negligence and incompetence have now delivered the Horses of the Apocalypse disaster on Lebanon and the Lebanese."

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:

How to save Lebanon from looming hyperinflation, Article in The National, 31 Jul 2020

The article titled "How to save Lebanon from looming hyperinflation" was published in The National on 31st Jul 2020. The original article can be accessed here & is also posted below.

How to save Lebanon from looming hyperinflation

To bring the country's economic chaos to an end, it is important to examine how it all began

In June 2020, Lebanon's inflation rate was 20 per cent, month-on-month. In other words, prices in the country were, on average, 20 per cent more than they were a month before. Compared to a year earlier, in June 2019, they had nearly doubled.

Lebanon is well on its way to hyperinflation – when prices of goods and services change daily, and rise by more than 50 per cent in a month.

Hyperinflation is most commonly associated with countries like Venezuela and Zimbabwe, which this year have seen annual inflation rates of 15,000 per cent and 319 per cent, respectively. Lebanon is set to join their league; food inflation surged by 108.9 per cent during the first half of

2020.
When hyperinflation takes hold, consumers start to behave in very unusual ways. Goods are stockpiled, leading to increased shortages. As the money in someone's pocket loses its worth, people start to barter for goods.
What characterises countries with high inflation and hyperinflation? They have a sharp acceleration in growth of the money supply in order to finance unsustainable overspending; high levels of government debt; political instability; restrictions on payments and other transactions and a rapid breakdown in socio-economic conditions and the rule of law. Usually, these traits are associated with endemic corruption.
Lebanon fulfils all of the conditions. Absent immediate economic and financial reforms, the country is heading to hyperinflation and a further collapse of its currency.
How and why did this happen?
Lebanon is in the throes of an accelerating meltdown. Unsustainable economic policies and an overvalued exchange rate pegged to the US dollar have led to persistent deficits. Consequently, public debt in 2020 is more than 184 per cent of GDP – the third highest ratio in the world.
The trigger to the banking and financial crisis was a series of policy errors starting with an unwarranted closure of banks in October 2019, supposedly in connection with political protests against government ineffectiveness and corruption. Never before – whether in the darkest hours of Lebanon's civil war (1975-1990), during Israeli invasions or other political turmoil – have banks been closed or payments suspended.
The bank closures led to an immediate loss of trust in the entire banking system. They were accompanied by informal controls on foreign currency transactions, foreign exchange licensing, the freezing of deposits and other payment restrictions to protect the dwindling reserves of Lebanon's central bank. All of this generated a sharp liquidity and credit squeeze and the emergence of a system of multiple exchange rates, resulting in a further loss of confidence in

the monetary system and the Lebanese pound.
Multiple exchange rates are particularly nefarious. They create distortions in markets, encourage rent seeking (when someone gains wealth without producing real value) and create new opportunities for cronyism and corruption. Compounded by the Covid-19 lockdown, the result has been a sharp 20 per cent contraction in economic activity, consumption and investment and surging bankruptcies. Lebanon is experiencing rapidly rising unemployment (over 35 per cent) and poverty rates exceeding 50 per cent of the population.
With government revenues declining, growing budget deficits are increasingly financed by the Lebanese central bank (BDL), leading to the accelerating inflation. The next phase will be a cost-of-living adjustment for the public sector, more monetary financing and inflation: an impoverishing vicious circle!
We are witnessing the bursting of a Ponzi scheme engineered by the BDL, starting in 2016 with a massive bailout of the banks, equivalent to about 12.6 per cent of GDP. To protect an overvalued pound and finance the government, the BDL started borrowing at ever-higher interest rates, through so-called “financial engineering” schemes. These evolved into a cycle of additional borrowing to pay maturing debt and debt service, until confidence evaporated and reserves were exhausted.
By 2020, the BDL was unable to honour its foreign currency obligations and Lebanon defaulted on its March 2020 Eurobond, seeking to restructure its domestic and foreign debt. The resulting losses of the BDL exceeded $50 billion, equivalent to the entire country’s GDP that year. It was a historically unprecedented loss by any central bank in the world.
With the core of the banking system, the BDL, unable to repay banks’ deposits, the banks froze payments to depositors. The banking and financial system imploded.
As part of Lebanon’s negotiations with the IMF to resolve the situation, the government of Prime Minister Hassan Diab prepared a financial recovery plan that comprises fiscal, banking and structural reforms. However, despite the deep and

multiple crises, there has been no attempt at fiscal or monetary reform.

In effect, Mr Diab's government and Riad Salameh, the head of the central bank, are deliberately implementing a policy of imposing an inflation tax and an illegal "Lirafication": a forced conversion of foreign currency deposits into Lebanese pounds in order to achieve internal real deflation.

The objective is to impose a 'domestic solution' and preclude an IMF programme and associated reforms. The inflation tax and Lirafication reduce real incomes and financial wealth. The sharp reduction in real income and the sharp depreciation of the pound are leading to a massive contraction of imports, reducing the current account deficit to protect the remaining international reserves. Lebanon is being sacrificed to a failed exchange rate and incompetent monetary and government policies.

What policy measures can be implemented to rescue Lebanon? Taming inflation and exchange rate collapse requires a credible, sustainable macroeconomic policy anchor to reduce the prevailing extreme policy uncertainty.

Here are four measures that would help:

First, a "Capital Control Act" should be passed immediately, replacing the informal controls in place since October 2019 with more transparent and effective controls to stem the continuing outflow of capital and help stabilise the exchange rate. This would restore a modicum of confidence in the monetary systems and the rule of law, as well as the flow of capital and remittances.

Second is fiscal reform. It is time to bite the bullet and eliminate wasteful public spending. Start by reform of the power sector and raising the prices of subsidised commodities and services, like fuel and electricity. This would also stop smuggling of fuel and other goods into sanctions-laden Syria, which is draining Lebanon's reserves. Subsidies should be cut in conjunction with the establishment of a social safety net and targeted aid.

These immediate reforms should be followed by broader measures including improving revenue collection, reforming public procurement (a major source of corruption), [creating a “National Wealth Fund”] to incorporate and reform state commercial assets, reducing the bloated size of the public sector, reforming public pension schemes and introducing a credible fiscal rule.

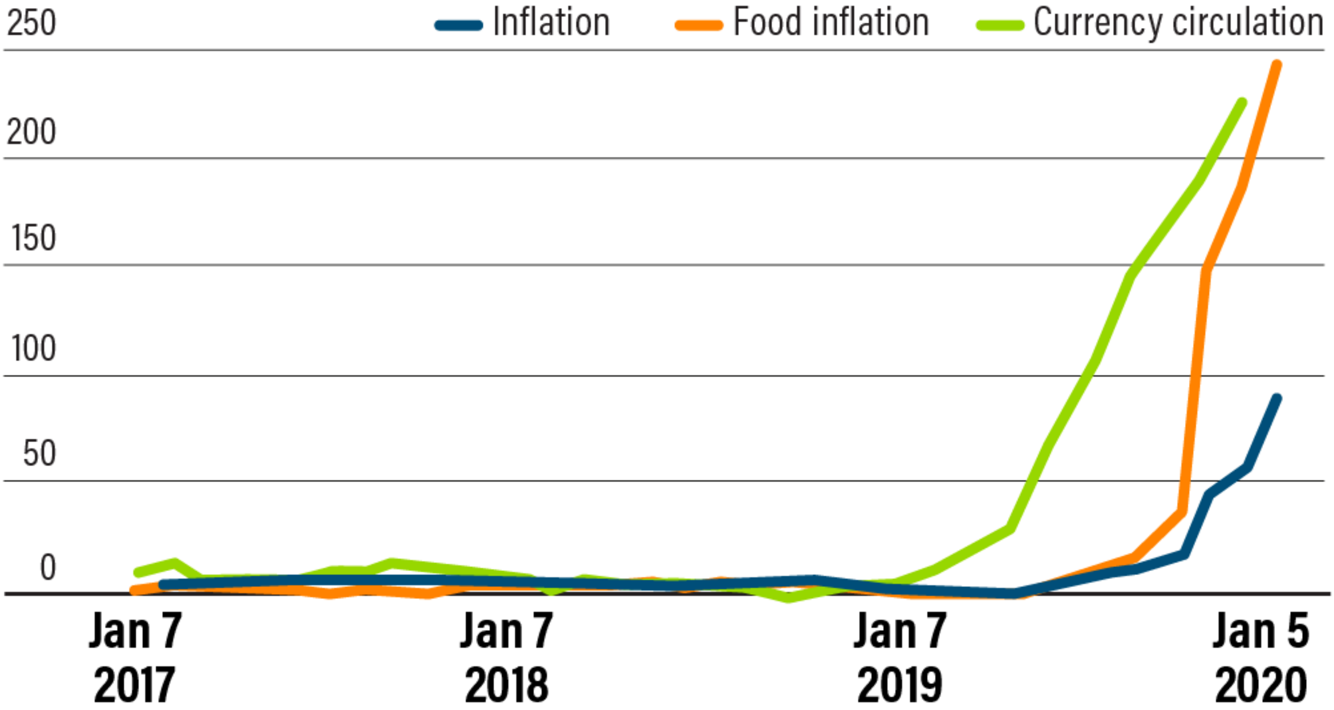
Third, unify exchange rates and move a to flexible exchange rate regime. The failed exchange rate regime has contributed to large current account deficits, hurt export-oriented sectors, and forced the central bank to maintain high interest rates leading to a crowding-out of the private sector. Monetary policy stability also requires that the BDL should be restructured and stop financing government deficits and wasteful and expensive quasi-fiscal operations, such as subsidising real estate investment.

Fourth, accelerate negotiations with the IMF and agree to a programme that sets wide-ranging conditions on policy reform. Absent an IMF programme, the international community, the GCC, EU and other countries that have assisted Lebanon previously will not come to its rescue.

Lebanon is at the edge of the abyss. Absent deep and immediate policy reforms, it is heading for a lost decade, with mass migration, social and political unrest and violence. If nothing is done, it will become “Libazuela”.

Nasser Saidi is a former Lebanese economy minister and first vice-governor of the Central Bank of Lebanon

LEBANESE CENTRAL BANK'S MONEY SURGE IS FUELLING INFLATION (%)



Source: Central Administration of Statistics, BDL, Nasser Saidi & Associates

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:

To halt Lebanon's meltdown it

is imperative to reform now, Article in The National, 4 Jul 2020

The article titled "To halt Lebanon's meltdown it is imperative to reform now" was published in The National on 4th Jul 2020. The original article can be accessed here & is also posted below.

To halt Lebanon's meltdown it is imperative to reform now

The country's currency has lost about 80% of its value against the US dollar and poverty and unemployment are on the rise

Lebanon is in the throes of an accelerating economic and financial meltdown. Unsustainable monetary and fiscal policies and an overvalued pegged exchange rate led to persistent fiscal and current account deficits.

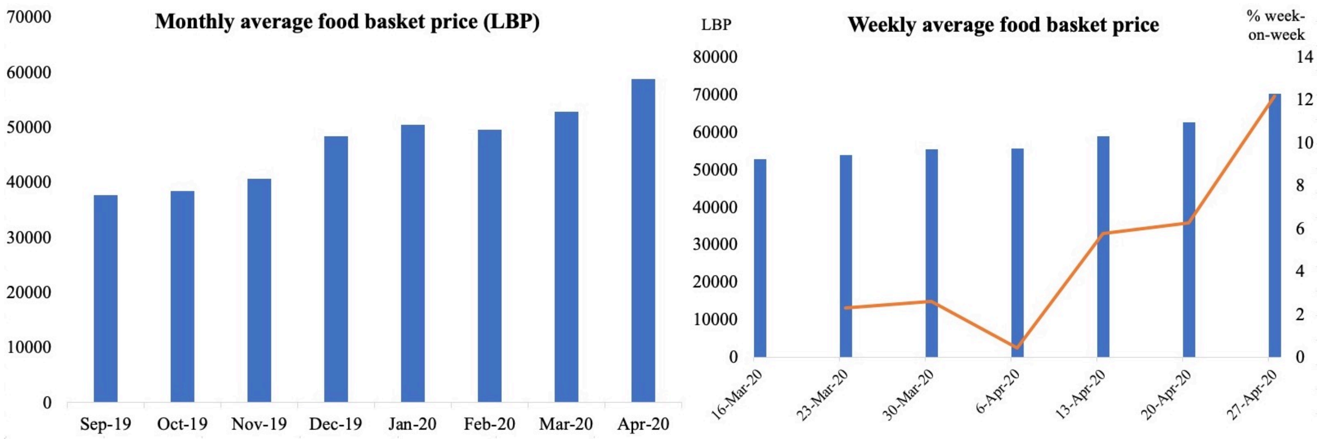
Public debt which reached more than 155 per cent of gross domestic product in 2019, is projected rise to 161.8 per cent in 2020 and 167 per cent in 2021, according to International Monetary Fund estimates. That is the third highest ratio in the world after Japan and Greece.

Informal capital controls, foreign exchange licensing, freezing of deposits and payment restrictions to protect the dwindling reserves of Lebanon's central bank, precipitated the financial crisis, generated a sharp liquidity and credit squeeze and the emergence of a system of multiple exchange rates.

The squeeze is severely curtailing domestic and international trade and resulted in a loss of confidence in the monetary system and the Lebanese pound. Multiple exchange rates created distortions in markets and new opportunities for corruption.

The result is a sharp, double-digit contraction in economic activity, consumption and investment, surging bankruptcies, and rapidly rising unemployment rates estimated at above 30 per cent.

A dangerous inflationary spiral has gripped the country with the currency’s value against the dollar nosediving as much as 80 per cent. Inflation is on the rise and reached an annual 56 per cent in May, according to Lebanon’s Central Administration of Statistics. A Bloomberg survey of economists conducted in June, projects inflation will average 22 per cent in 2020 compared with a forecast of 7.7 per cent from a previous survey.



Source: WFP Retail POS Data Warehouse, Lebanon, May 2020.

The minimum wage has shrunk from the equivalent of $450 per month while food prices have surged. Since the end of a 15-year civil war in 1990, extreme poverty has hovered at between 7.5 to 10 per cent, while about 28 per cent of the population is poor, according to the World Bank. In November, the World Bank warned if the economic situation in the country worsened, those living below the poverty line could rise to 50 per cent.

Given the collapse of the long-maintained peg, there is no anchor for expectations of the future value of the Lebanese pound.

The Central Bank of Lebanon does not have the reserves to support the pound. There is great uncertainty concerning the macroeconomic outlook, fiscal and monetary policies, exchange controls and structural reforms.

The government approved a rescue plan, the basis for negotiations with the IMF, but failed to set a credible roadmap for structural reforms and none of the promised reforms have been undertaken. There is a loss of confidence in the banking system and in macroeconomic and monetary stability. As a result, people want foreign currency to protect themselves, as a hedge against inflation and further depreciation of the pound.

Transfer restrictions have led to a sudden stop of capital inflows and remittances from Lebanese expatriates, who fear their transfers will be frozen. Remittances accounted for 12.9 per cent of GDP in 2019.

With capital and payment controls and lack of intervention by the central bank, the foreign exchange market became a cash market with little liquidity, therefore highly volatile and subject to large fluctuations, rumours and panic.

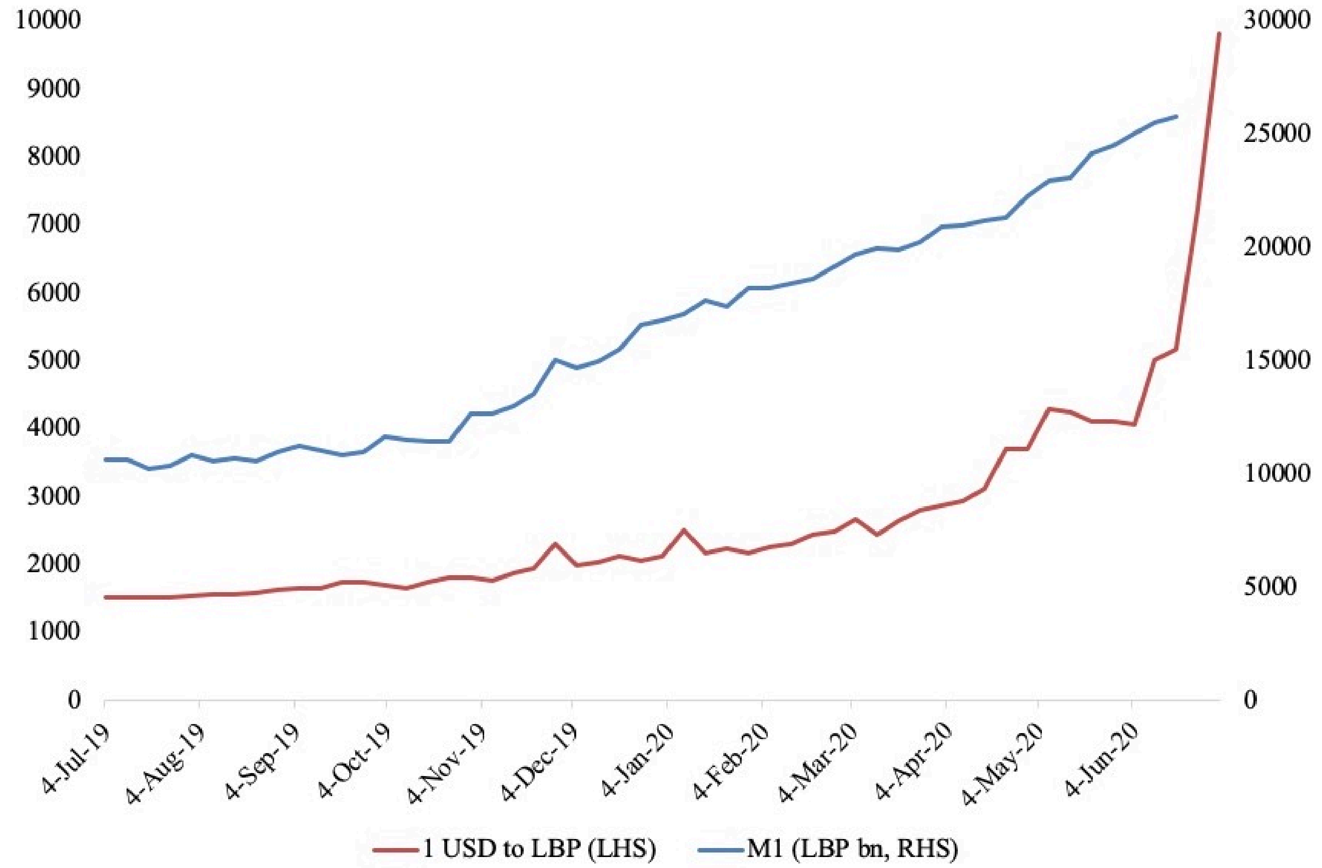
Two short-term factors have compounded the currency crisis. The Covid-19 lockdown meant a loss of remittances that would have come in as cash. Media reports cite an accelerated smuggling of imported, subsidised commodities like fuel and wheat into neighbouring Syria these past months due to the increasing bite of international sanctions and a failing wheat harvest.

Panic prevails because of new US sanctions targeting Syria under the Caesar Syria Civilian Protection Act (the Caesar Act) that came into effect last month. Syrians are trying to hedge against inflation and the depreciating Syrian pound by tapping Lebanon’s forex market. In effect it is one market.

More fundamentally, Lebanon’s rising inflation rates are feeding expectations of ever higher inflation rates, which along with the sharp decline in real income because of the deep recession, means a fall in the demand for money and lower demand for the Lebanese pound. As people try to shift out of the Lebanese pound, inflation rises, and the currency depreciates against the US dollar.

The vicious cycle is being fed by the monetary financing of budget deficits. Lebanon’s fiscal deficit increased 26.90 per cent in the first four months of the year to $1.75B from the year-earlier period. With the government unable to borrow from the markets, the central bank is financing the growing budget deficit and, increasingly, a growing proportion of government spending. The printing press is running, with a growing supply of Lebanese pounds on the market chasing a dwindling supply of US dollars. Hyperinflation looms.

LBP in the black market crossed 9k while M1 surges to over LBP 25trn



Source: M1 Banque du Liban ; black market rate https://lirarate.com/ (updated 3rd Jul 2020)

The deepening crisis requires urgent, decisive, credible, policy action. A capital control act should be passed immediately. That will help rebuild confidence in the monetary system and restore the flow of capital and remittances.

The prices of subsidised commodities and services (fuel, electricity) should be raised to combat smuggling and stem the budget deficit. Smart and targeted subsidies are more effective. The impact of removing general subsidies is less painful than financing budget deficits that accelerate overall inflation and exchange depreciation. Exchange rates need to be unified within a central bank and bank organised market.

Most important, is rapidly agreeing and implementing a financial rescue package with the IMF. That should be based on

a comprehensive macroeconomic-fiscal-financial reform programme that includes structural reforms, debt, and banking sector restructuring, which would provide access to liquidity, stabilise and revive private sector economic activity.
Nasser Saidi previously served as Lebanon's minister of economy and industry and a vice governor of the Central Bank of Lebanon. He is president of the economic advisory and business consultancy Nasser Saidi & Associates.

Comments on Lebanon's IMF negotiations, 1-3 Jul 2020

Dr. Nasser Saidi's **comments on Lebanon's IMF negotiations** appeared in multiple articles, as posted below.

In the **New York Times article** titled "Rescue Talks With the IMF 'Hit the Rocks' as Lebanese Suffer" which was published on Jul 1st
Several current and former Lebanese officials, diplomats, international officials, economists and analysts agreed that talks with the IMF to rescue Lebanon from an economic crisis are going nowhere. Meanwhile, time is running out.
"This (IMF talks) is hitting the rocks" says Nasser Saidi, a former economy minister and central banker.

…
"It is incredible that a bunch of parliamentarians in a failed state are trying to question the expertise of the IMF," Saidi, the ex-minister, said. "There is no way the IMF is going to accept it."

In the **VOA News article** titled "As IMF Talks Drag, Lebanon's Economy Spirals" which was published on Jul 2nd

Critical bailout talks between Lebanon and the International Monetary Fund may be 'hitting the rocks,' according to a former economy minister and central banker, Nasser Saidi.

In **The National's article** titled "Lebanon-IMF talks hit 'rock bottom' as France fears violence" which was published on Jul 2nd
"This [IMF talks] is hitting the rocks," says Nasser Saidi, a former economy minister and central banker.

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:

Interview with BBC on Lebanon's outlook, 12 Jun 2020

Dr. Nasser Saidi appeared on BBC World Business report on 12th Jun 2020 to discuss why the outlook seems so bleak for Lebanon, and whether it is likely to receive a bailout from the International Monetary Fund.
Listen to the interview (from 2:48 to 6:46) at https://www.bbc.co.uk/programmes/w172xlt0yngxy54

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.

Comments on Lebanon's IMF

Assistance Request, various, May 2020

Dr. Nasser Saidi's comments on Lebanon's request for IMF Assistance appeared as part of various newspaper articles. A collection of comments and original links are provided below.

1. The Reuters article titled "Lebanon's IMF rescue plan fails to set reform roadmap" was published on 18th May 2020. This was later reprinted as a Brinkwire article was published on 30th May 2020.

The political elite will shy away from real reform as with four previous aid and soft-loan packages since Lebanon's civil war – and that they are underestimating how hard the IMF will push for deep changes before agreeing to help.

"They are trying to present a plan that the IMF will buy into, and that the international community and creditors will buy into, without really addressing the deeper problems in the country: reforms", said Nasser Saidi, a former economy minister and vice-governor of the central bank.

2. The Daily Star article titled "IMF assistance a 'bitter pill' to swallow" was published on 26th May 2020.

Enhancing tax compliance will be another challenge. Former Lebanese Economy Minister Nasser Saidi, believes removing banking secrecy is the sort of robust reforms needed. "Many professional do not pay tax or underreport their taxes. Lawyers, doctors, MPs. If you try to find out their wealth or income you come up against banking secrecy."

Another issue is smuggling. Customs and tariffs are likely to go up, Saidi predicts, "but if there is still smuggling you destroy your ability to collect them."

IMF-support would – to begin with – allow for a desperately needed debt restructuring to restore confidence. This would mean the nominal sum of debt would be reduced, the maturities extended and interest payable cut.

"If the IMF is on board, the holders of debt will be willing

to accept the restructuring. That is why the IMF matters," Saidi explains. Yet IMF-backing for such a restructuring would come with three to five years of austerity, according to Saidi.
"We need to be cognizant of the fact that real income is going to go down. People are going to be poorer. That is not going to improve, indeed it may get worse. It is a bitter pill."

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

Comments on Lebanon's rescue plan and IMF request in

Reuters, 1 May 2020

Dr. Nasser Saidi's comments on Lebanon's economic rescue plan and request for IMF assistance were part of the Reuters article titled "[Lebanon banks reject rescue plan as government asks IMF for help]()", which was published on 1st May 2020.
Comments are posted below.
"This means the onset of serious negotiations with the IMF so this is very important and good news because it removes a lot of uncertainty. Having said that, the issue in Lebanon has always been one of execution," former economy minister Nasser Saidi said of the 53-page plan.

Panelist at the launch of IMF's MENA Regional Economic Outlook, 27 Apr 2020

Dr. Nasser Saidi participated as a panelist at the IMF's launch of the Regional Economic Outlook report for the Middle East and North Africa region on 27th April, 2020.
The panel discussion covered the macro outlook for the region given the inter-twined effects of Covid19, fall in oil prices and financial shocks.
The IMF report can be accessed at https://www.imf.org/en/Publications/REO/MECA/Issues/2020/04/15/regional-economic-outlook-middle-east-central-asia-report
Watch the video of the webinar below (link to the IMF: https://www.imf.org/external/mmedia/view.aspx?vid=6152433693001)

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

Dr. Nasser Saidi’s comments on Lebanon’s foreign currency reserves appeared in the article titled “Lebanon set to default for first time as foreign currency reserves dive” published in the FT on 8th March 2020.
The full article can be accessed at: https://www.ft.com/content/bda10536-6145-11ea-a6cd-df28cc3c6a68

Comments are posted below:
Nasser Saidi, a former central bank vice-governor, estimated that usable reserves had fallen to “about $3bn to $4bn”. He said this was because the gross reserves included $18bn to $19bn set against deposits for commercial banks that the BdL could not spend because of reserve requirements. In addition, the BdL has lent local institutions about $6bn to $7bn to help them cover their commitments to correspondent banks, Mr Saidi said.
“It is now urgent that the government opens up negotiations with the IMF,” Mr Saidi said, “because you’re going to need help with balance of payments, even to fund your imports”.

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

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

Lebanon at a Turning Point

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

The new government has a gargantuan task ahead: It must immediately address the interlinked economic, banking and financial, and currency crises, not to mention a deadly environmental crisis. The accumulated difficulties have ballooned over the past three months due to a series of policy mistakes and inaction including the panic-inducing closure of the banks, informal capital controls, restrictions on domestic and external payments, a rapid depreciation of over 40 percent of the Lebanese pound in the parallel market and effective inconvertibility of deposits. In turn, the pound’s depreciation and the liquidity crunch have led to a sharp acceleration of inflation (some 30 percent), a sharp drop in economic activity (e.g. car registrations dropped by 79 percent year-on-year in November), leading to growing layoffs and unemployment, business closures/bankruptcies, and falling incomes, resulting in a collapse of investment, a sharp curtailment of household consumption, and more than a 50 percent fall in government revenue. The forecast is that real gross domestic product could decline by 10 percent, a great depression, not a recession.

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

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

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

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

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

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

Public debt restructuring is key.

Given the Eurobond maturing in March 2020, another initial pain point is initiating negotiations on restructuring and re-profiling Lebanon's public debt, including the debt of Lebanon's central bank. So far, the absence of an empowered government haa 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.

Is there an opportunity for Lebanon to get out of the crisis? Dr. Nasser Saidi's interview with Al Arabiya, 7 Jan 2020

The TV interview (in Arabic) can be viewed at: *https://ara.tv/cx8n3*

هل من فرصة للبنان للخروج من

الأزمة؟

ناصر السعيدي: لا بد من إصلاح القطاع المصرفي وإعادة رسملته

قال وزير الاقتصاد اللبناني الأسبق، الدكتور ناصر السعيدي، إن الوصفة الأمثل لخروج لبنان من الأزمة المالية والاقتصادية تبدأ من تشكيل حكومة جديدة تكون مستقلة لتحصل على مصداقية، بالإضافة إلى معالجة مشكلة المديونية العامة، من خلال سلسلة إجراءات تشمل رفع أسعار الوقود وخصخصة بعض الأصول الحكومية، مثل شركة طيران الشرق الأوسط والمطار والاتصالات.
وأكد السعيدي في لقاء له مع "العربية" "أن لبنان يواجة عدة أزمات منها السياسية ومالية ومصرفية ونقدية وأزمة حول المستقبل والحلول، وهو ما يتطلب أن تتشكل لدينا حكومة ذات مصداقية داخلية وخارجية وهو ما يحتم وجود أشخاص مستقلين بدون تحزبات أو منتمين لتيارات محددة وما معناة أن لايكون بها أي محاصصة كما يتم حاليا. الاختصاص مهم لأن الموضوع الأساسي اليوم هو الاقتصاد والمال ويجب أن يعطى له كل الأهمية والدعم خلال هذة الفترة دقيقة وصعبة، وعلية سيكون هناك رئيس وزارة وأعضاء بالوزراة بالعزيمة المطلوبة لرفض التدخل السياسي بهذه الإجراءات".
وأضاف "لبنان بحاجة لإعادة هيكلة الدين العام وإعادة جدولة للدين العام لسبب بسيط هو إذا اخذنا حجم الدين ككل الخارجي والداخلي والذي يمثل أكبر من 155 من الناتج المحلي والفوائد على الدين تمثل 10% من الناتج القومي وتمثل 50% من إيرادات الدولة وهو أمر غير مستدام. وما عنيته بإعادة الجدولة هو تخفيض الدين العام وتخفيض قيمة الدين الداخلي وإعادة جدولة على فترة طويلة مع خفض الفائدة وخفض الفوائد على الودائع. المطلوب أن تأخذ كل الاستحقاقات الداخلية والخارجية بالعملات الأجنبية والعملات الوطنية التي ستستحق خلال السنوات القادمة وإصدار لسندات جديدة تستحق على 5 و 10 سنواتٍ بفوائد أقل . وهو ممكن وستكون كلفة خدمة الدين منخفضة جذرياً ومجال أن يأخذ الأشخاص خطوات أخرى لتخفيض العجز الأولي. وعلية لابد من إصلاح القطاع المصرفي وإعادة رسملتة".
ويرى السعيدي أن إعادة هيكلة الدين العام قد تساهم في الخروج من الأزمة. كما يجب أن يتم إصلاح قطاع البنوك وإلغاء ربط العملة

الوطنية بالدولار بالإضافة للدخول في برنامج إصلاح اقتصادي مع صندوق النقد الدولي.

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.

"Lebanon's crisis needs $20 billion-$25 billion bailout": Reuters interview with Dr. Nasser Saidi, 3 Jan 2020

The interview with Dr. Nasser Saidi was published by Reuters on 3rd Jan, 2020 and was published in several regional newspapers as well as the NYT. The original interview can be accessed here and is pasted below.

Lebanon's crisis needs $20 billion-$25 billion bailout, former minister says

Lebanon needs a $20 billion-$25 billion bailout including International Monetary Fund support to emerge from its financial crisis, former economy minister Nasser Saidi told Reuters on Friday.

Lebanon's crisis has shattered confidence in its banking system and raised investors' concerns that a default could loom for one of the world's most indebted countries, with a $1.2 billion (917.01 million pounds) Eurobond due in March.

Lebanon's politicians have failed to come up with a rescue plan since Prime Minister Saad al-Hariri quit in October after protests over state corruption.

Depositors and investors say they have been kept in the dark about the country's dire financial situation.

President Michel Aoun said on Friday that he hoped a new government would be formed next week. But analysts say the cabinet to be led by Hassan Diab may struggle to win international support because he was nominated by the Iranian-backed Hezbollah group and its allies.

Saidi said time was running short, and that $11 billion in

previously pledged support from foreign donors was now roughly half of what was needed to mount a recovery. "The danger of the current situation is we're approaching economic collapse that can potentially reduce GDP (for 2020) by 10%," Saidi said in an interview.

Economists have said 2020 is likely to register Lebanon's first economic contraction in 20 years, with some saying GDP will contract by 2%.

Others have predicted a long depression unseen since independence from France in 1943 or during the 1975-90 civil war.

Lebanese companies have laid off workers and business has ground to a halt. A hard currency crunch has prompted banks to restrict access to dollars and the Lebanese pound trades a third weaker on the parallel market, driving up prices.

"Our policymakers are not wiling to recognise the depth of the problems we have … They need the courage to tell the Lebanese population that difficult times are coming," said Saidi.

Credit ratings agencies have downgraded Lebanon's sovereign rating and the ratings of its commercial banks on fears of default.

Saidi said a $20-$25 billion package could guarantee payment on some of the country's public debt, enabling it to restructure in a way that would extend maturities and reduce interest rates. Saidi said that would need support from the IMF, World Bank, and Western and Gulf states.

Hariri last month discussed the possibility of technical assistance from the IMF and World Bank, but there has been no public mention of a financial package.

Panelist at the launch of IMF's MENA Regional Economic Outlook, 28 Oct 2019

Dr. Nasser Saidi participated as a panelist at the IMF's launch of the Regional Economic Outlook report for the Middle East and North Africa region, which took place at the Dubai International Financial Centre on 28th October, 2019.

The panel discussion covered many aspects including the economic outlook for UAE, Saudi Arabia, Egypt and other nations while also addressing the issues of geopolitical risks, job creation and climate change among others.

The IMF report can be accessed at https://www.imf.org/en/Publications/REO/MECA/Issues/2019/10/19/reo-menap-cca-1019

Watch the video of the panel discussion below: