Comments on Lebanon's draft Banking Law in The National, 25 Dec 2025

Dr. Nasser Saidi's comments on Lebanon's draft Banking Law appeared in an article in The National titled "Lebanon's draft banking law 'fails to ensure' cash recovery for depositors" published on 25th December 2025.

The comments are posted below.

The other challenge is whether the banking system has sufficient liquidity to make repayments to depositors. "The short answer is 'no'," said Nasser Saidi, a former economy minister and deputy governor of Lebanon's central bank. He said it was impossible to know if banks had sufficient liquidity without a forensic audit of the lenders and the BDL.

Additionally, the draft law promises to create future liabilities without clearly specifying how these will be financed. "There is a great deal of vagueness and opaqueness in the draft law. There is uncertainty: who does what, who assesses the amount of losses, who administers etc, which opens the process to potential litigation and legal uncertainty," Mr Saidi said.

A major issue with the draft law is that it does not add new liquidity into the banking system, but rather focuses on the balance sheets of the commercial banks and the BDL. "This is a flawed static approach. You need both solvency and liquidity and long-term sustainability requiring a dynamic analysis," said Mr Saidi.

New capital and financial resources will need to be injected in the banks to provide credit and finance to stabilise and restore economic growth.

“This is not a zero-sum game,” he added. “The risk is that absent resolution of uncertainties, the restructuring process will end up being a failed, negative-sum game – a situation in which the total losses of all participants exceed the total gains, resulting in a net loss for everyone involved, that will not restore trust to revive a cash-based, informal economy.”

Interview with CNBC on geopolitical tensions in the Middle East (including Israel’s airstrikes on Syria), 17 Jul 2025

Dr. Nasser Saidi, president at Nasser Saidi & Associates, speaks to CNBC’s Dan Murphy about geopolitical tensions in the Middle East including Israel’s airstrikes on Syria, recent positive macroeconomic and financial developments in Syria, Banque du Liban banning banks & brokerages from dealing with Hezbollah-linked financial institution and also regarding Lebanon being on the FATF Grey list & steps the country needs to take to rectify this.
Direct link to the video: https://www.cnbc.com/video/2025/07/17/israels-strikes-on-syria-not-helpful-says-nasser-saidi.html

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Interview with BBC's World Business Report on World Bank's $250mn funding to Lebanon, 26 Jun 2025

In an interview with BBC's World Business Report, Dr. Nasser Saidi discussed Lebanon's immense reconstruction and redevelopment needs following the war between Israel and Hizbollah and the devastation of infrastructure, housing, agriculture, businesses and mass population displacement, adding to more than a decade of an absence of investments in infrastructure and public utilities and services.

Key points from the discussion below:

The World Bank recently approved a USD 250mn loan to launch a broader USD 1bn recovery and reconstruction initiative called the Lebanon Emergency Assistance Project – while a positive step, the amount is a drop in the ocean compared to what is required for reconstruction & redevelopment in Lebanon. The World Bank satellite-based estimates of reconstruction requirements of about $11bn have to be complemented by in-depth field estimates. Israel's use of bunker buster bombs can have an impact destructive radius of up to 200m in urban areas.

Well-aware of the problems needed to be sorted out domestically, from economic policy and structural reforms to combating endemic corruption & the need for accountability and transparency. Reconstructing and redevelopment investments need to go in tandem with the other reforms. But it is a bit like the chicken & egg problem. If we don't have reconstruction, then poverty will grow & displacement and migration will continue, eventually leading to greater socioeconomic and political instability.

I am an advocate of creating an international reconstruction fund (funding that comes mostly as grants rather than debt which cannot be sustained and serviced) to support LB with the strong backing and engagement of the GCC countries. A comprehensive package is required that includes a build up military, security assets and capability and political assistance to provide security and stability. This will be a massive support for the country that has seen a new boost in confidence with the new President Aoun, PM Salam & government – promising a strong willingness to reform, a break from the ineffective governments since the onset of crises in 2019.

Listen to the interview (Dr. Saidi joins from the 7:00 minute mark in the link below)

https://www.bbc.co.uk/sounds/play/w3ct75vh

Dr. Nasser Saidi’s interview “Can Beirut’s New Reform Agenda Save the Pound?” on “You’re In Business” with Yousef Gamal El-Din, 13 May 2025

Dr. Nasser Saidi’s interview with Yousef Gamal El-Din titled “Can Beirut’s New Reform Agenda Save the Pound?” was aired on the “You’re In Business” show. The episode is published on YouTube, Spotify and Apple Podcasts

The video is available below:

“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

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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.

Comments on Lebanon’s next central bank lead, FT, 26 Mar 2025

Dr. Nasser Saidi commented on the choice of Lebanon’s next central bank governor in the FT article titled “Lebanon closes in on next central bank head” published on 26th March 2025.

The full article can be accessed at: https://www.ft.com/content/4453da90-ff34-4939-be79-b1cb060e4218

The comments are posted below:

Nasser Saidi, a former minister and BdL vice-governor, warned that powerful interest groups were wielding too much influence over the selection process. “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," he said.

"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]?"

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).

“Lebanon’s journey to renewal starts now”, Op-ed in Arabian Gulf Business Insight (AGBI), 20 Jan 2025

The opinion piece titled “Lebanon’s journey to renewal starts now” was published in Arabian Gulf Business Insight (AGBI) on 20th January 2025.

A version of this article, titled “With a New Government in Charge, a New Era in Lebanon Beckons“, was published in Afkar (managed by the Middle East Council on Global Affairs).

Lebanon’s journey to renewal starts now

Hope and optimism follow the arrival of a new prime minister and president

The nomination of Nawaf Salam as Lebanon’s prime minister under President Joseph Aoun, following more than two years of political vacuum, marks a turning point for the country.

This moment has the potential to be as transformative as the 1989 Taif agreement, which ended the civil war and restored political stability.

A major factor behind the developments in Lebanon is the significant shift in regional dynamics. This has been driven by the war in Gaza, the collapse of the Assad regime in Syria, the severe degradation of Hezbollah’s capabilities and the apparent collapse of Iran’s “axis of resistance”.

Together, these events have created a powerful impetus for change.

For the leading powers in the GCC – Saudi Arabia and the UAE – this moment provides an opportunity to displace Iran from Lebanon, Iraq and Syria while reasserting their own influence. Both regional and international stakeholders share an interest in promoting stability.

Lebanon’s political landscape has been historically paralysed by internal fragmentation. Now, at last, the country’s political class, plagued by a lack of credibility, incompetence and failure to address Lebanon’s many crises or implement long-overdue reforms, is passing on the baton.

But Salam and Aoun inherit a heavy legacy.

Since the Arab Spring in 2011, Lebanon has battled stalled institutional reforms, unsustainable fiscal and monetary policies and overvalued exchange rates. These factors contributed to significant deficits in the government budget and current account, along with massive debt accumulation.

The country's central bank, the Banque du Liban, allegedly ran a Ponzi scheme for many years during the tenure of Riad Salameh, who was its governor for three decades. He has denied all wrongdoing and the notion that the bank was operating a Ponzi scheme.

The bank's activities contributed significantly to Lebanon's economic collapse, depleting international reserves, sparking a 99 percent depreciation of the exchange rate, hyperinflation, a collapse of the banking system and one of the deepest financial crises in the country's history.

Central bank losses exceeded 200 percent of GDP. Lebanon became a cash – and increasingly dollarised – economy. The polycrisis (economic, monetary and financial, institutional, security, political and governance), along with the Beirut Port explosion and the Israel-Hezbollah war, turned Lebanon from a fragile state into a failed one.

Despite the long road ahead for Aoun and Salam, we have reasons for optimism.

The president's inaugural speech encapsulated much promise for a new Lebanon. There were strong messages on political reform, rebuilding the state and its institutions, focusing on judicial and administrative reform, the rule of law, accountability and fighting endemic corruption.

Institutional and judicial reform will be complemented by a national anti-corruption drive and transparency initiatives while demanding accountability for multiple crises and destruction.

President Aoun’s political vision mirrors that of former President Fouad Chehab (1958-1964), who introduced reforms and built state institutions. With extensive military and security experience, President Aoun is adept at establishing domestic and external national security.

A packed agenda starts with forming a reform-centric, cohesive, competent and effective cabinet. The critical portfolios are justice, foreign affairs, defence and internal affairs, as well as finance.

With the Israel-Lebanon ceasefire agreement set to expire on January 26, the immediate need is to negotiate a permanent ceasefire to restore internal security and stability and enable the return of the displaced to the south, Bekaa and other areas.

Macroeconomic stabilisation and growth require fiscal consolidation and tax reform, modernising and digitising all government functions, administrative reform (over half of director-level posts are vacant), downsizing the bloated public sector, restructuring and effecting good governance of the state-owned enterprises (SOEs) responsible for public services.

An independent National Wealth Fund should be established to professionally manage all SOEs, commercial public assets and future oil and gas revenues.

Credible monetary reform requires a strong, professional and politically independent central bank. Monetary policy should be directed at controlling inflation and accompanied by a flexible exchange rate regime.

Additionally, a comprehensive overhaul of Banque du Liban’s governance structure is necessary to implement meaningful change and restore confidence.

To make the BDL accountable, a new governor (and deputy governors by June 2025) and radical changes to governance are required. The Banking Control Commission of Lebanon, the Special Investigation Commission and the Capital Markets Authority should also be independently governed institutions.

Furthermore, an independent Bank Resolution Authority must restructure the banking system based on recapitalisation (starting with existing shareholders), mergers and acquisitions, and bail-ins of large depositors to maximise deposit recovery.

The implementation of political reforms, a comprehensive restructuring agenda, and institutional and structural changes will pave the way for a revised International Monetary Fund programme and renewed engagement with the GCC.

These efforts can support Lebanon’s reintegration into the Arab world, facilitate funding for redevelopment and address substantial reconstruction needs, estimated at approximately $25 billion.

In essence, this is a historic opportunity for Lebanon, the GCC and the wider region.

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

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Interview with Al Arabiya (Arabic) on optimism in Lebanon's following election of new leaders, 15 Jan 2025

In this TV interview with Al Arabiya aired on 15th January 2025, Dr. Nasser Saidi highlights the historic opportunity for Lebanon following the selection of Joseph Aoun as President & Nawaf Salam as Prime Minister.

Watch the TV interview via this link

هل يعود المستثمرون إلى لبنان بعد تولي الرئيس عون؟

قال رئيس شركة ناصر السعيدي وشركاؤه، الدكتور ناصر السعيدي، إن لبنان أمام فرصة تاريخية بعد انتخاب الرئيس جوزيف عون وتسمية نواف سلام رئيسا للحكومة، وهو ما يمثل انطلاقة جديدة للبنان، مشيراً إلى أهمية اتفاق الطائف التي أوقف سنوات من الحروب في لبنان.

وأضاف السعيدي، أن الظروف الإقليمية تغيرت وتسمح لتغير وتحول كبير في لبنان، مع العمل على إعادة بناء المؤسسات والدولة وإعادة القانون، ما سيمثل انطلاقة كبيرة تعطي ثقة للمجتمع الدولي مع تدخل ودعم من دول الخليج لا سيما من السعودية وهو ما يعطي تفاؤلا لعودة المستثمرين إلى لبنان.

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

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

The comments are posted below.

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

The rally, however, is expected to "be short-lived", and will depend on the choice of an effective prime minister and government formation at an early date, he added.
"The need for Lebanon is to have a strong-willed PM and cohesive, competent, and effective government willing to undertake structural reforms without bowing to political pressure. Concurrently, there needs to be a permanent ceasefire in the South to help stabilise the country," Mr Saidi said.
"The right governance set-up and transparency is vital for Lebanon's next step towards reform implementation," Mr Saidi said. "Reforms will need to range from restructuring the

banking and financial sector, restructuring external debt, in addition to reforms including fiscal consolidation and reform, downsizing of the public sector, effective management and governance of the state-owned enterprises, in addition to creating a credible, transparent monetary and exchange rate system [including the move to a flexible exchange rate regime]."

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

"Economic Costs & Consequences of the War on Lebanon" Presentation to LIFE, 21 Nov 2024

Dr. Nasser Saidi shared his views on the topic "Economic Costs & Consequences of the War on Lebanon" at LIFE Lebanon's event held in Dubai on 21st November 2024.

The main discussion points spanned the below headings:

•Middle East is at multiple crossroads, living consequences of wars & violence
•Lebanon: in the clutches of a protracted polycrisis
•Economic consequences & costs of war on Lebanon
•Lessons & Proposals
•Key Takeaways
The presentation can be downloaded here.

Interview with CGTN Europe on the ceasefire in Lebanon, 27 Nov 2024

In this TV interview with CGTN Europe’s The World Today program, aired on 27th Nov 2024, Dr. Nasser Saidi spoke about the ceasefire in Lebanon. While there is a lot of euphoria at the announcement, more importantly, the 60 day ceasefire period is fraught with security and political risks and uncertainties. Focus has to turn to attracting aid commitments & start reconstruction. For that, need to urgently elect a new president & form a credible national emergency government able to garner regional and international support and confidence and undertake long-delayed structural reforms.

“Trump must focus on rebuilding a war-torn Middle East”, Op-ed in Arabian Gulf Business Insight (AGBI), 20 Nov 2024

The opinion piece titled “Trump must focus on rebuilding a war-torn Middle East” was published in Arabian Gulf Business Insight (AGBI) on 20th Nov 2024.

Trump must focus on rebuilding a war-torn Middle East

It is imperative that the US addresses reconstruction in the region

US President-elect Donald Trump has become the first Republican candidate in 20 years to win the popular vote.

His historic win hands him control of the Senate, Congress and the Republican party, along with a strongly conservative-leaning Supreme Court. How will this power be deployed?

If we take Trump's election rhetoric literally, his "Maganomics" agenda will be top priority. Domestic policy will centre around protectionism, deregulation, deportation of irregular immigrants, tax cuts, a roll back of climate-related commitments, and a move to oil and gas enabled "energy dominance".

Trump has said he will impose tariffs of 20 percent across the board and 60 percent on China, along with trade restrictions. Should these tariffs be realised, GCC oil and gas, aluminium and steel exports would suffer.

Maganomics policies are also likely to stoke inflation, suppressing the Fed's ability to lower interest rates aggressively in 2025. Higher rates will negatively constrain new borrowing and financing plans for both households and businesses.

In a context of absent social safety nets or tax credits, higher inflation will disproportionately impact low-income households, further raising inequality.

Investors should also be concerned about fiscal costs. US public debt already exceeds 120 percent of GDP, and the Penn Wharton Budget Model estimates that Trump's plans will raise US deficits by $5.8 trillion over the next decade – equivalent to wartime deficits in a full employment scenario. Beware, the US is overheating!

Trump has a unique opportunity to work towards ending the Israel-Gaza and Lebanon conflicts

The bottom line is that Trump's America First policies set the stage for global supply-chain disruptions and trade tensions with China, Mexico, Canada, and the EU.

These policies will also put pressure on Nato members to boost defence spending. Without a shift away from these stances, the global economy is vulnerable to further geo-economic fragmentation.

A Trump Ukraine plan?

Three major geo-economic-strategic issues face the Trump administration post-election: the Russia-Ukraine and Israel-Palestine-Lebanon wars, as well as growing tensions with China.

Trump's geostrategic "peace through strength" stance and unwillingness to engage the US in wars, implies striking a deal with Russia and a rapid end to the costly military confrontation through a neutral, non-Nato, Ukraine.

The next step is reconstruction. Post-war restoration will require massive funding, likely to be well in excess of $600 billion. How can this be financed?

In one scenario, a "Trump Ukraine plan" could be jointly EU-US financed, focused on rebuilding infrastructure and renewed integration of Ukraine's export-oriented manufacturing and agriculture sectors into Europe. Such a strategy, supported by foreign aid, would act as a driver of economic growth.

New institutions for stability

With increased influence, Trump has a unique opportunity to work towards ending the Israel-Gaza and Lebanon conflicts as part of a broader Middle East peace agreement. This approach could champion the potential economic benefits that peace and stability would bring to the MENA region and the global economy.

The starting point would be the reconstruction and re-development of Gaza. The UN estimated in early-2024 that it would take Gaza 15 years just to remove war rubble and 70 years to restore the country to 2022 GDP levels.

The UN estimates the region will also require the largest post-war reconstruction effort since 1945, with rebuilding cost estimates ranging up to $80 billion.

In Lebanon, escalating destruction and displacement are pushing the country toward a Gaza-like crisis, worsening severe economic, banking and financial instability.

The 2006 war dealt Lebanon a heavy blow, with reconstruction costs surpassing $10 billion. This time, however, costs could exceed $25 billion, with GDP potentially shrinking by 20 to 25 percent.

Funding for reconstruction and redevelopment in Gaza and Lebanon will need to come from multilateral aid and grants.

Once a sustainable peace settlement is achieved, GCC countries can play a major role in redevelopment, not only in terms of state reconstruction funding but in the mobilisation of its private sectors to help rebuild war-torn nations.

It’s essential to learn from past reconstruction failures, like those of Iraq and Afghanistan, and apply lessons from previous post-war efforts. Transparency, accountability, anti-corruption measures, and the understanding that nation-building is a long-term commitment are all critical for success.

If Trump is to bring stability to the region, it is imperative that he address the rebuilding of nations that have been ravaged by war. The road ahead will not be easy.

Post the Lebanese civil war, it took 20 years for real GDP to recover to pre-war levels. It took Kuwait seven long years to recover following the Gulf War.

We need new institutions to address nation building. A Trump administration, in partnership with the GCC and multilateral banks, would do well to set up a Middle East development bank.

Such an institution can focus on financing post-conflict reconstruction, regional infrastructure projects, and promote the development and integration of economic and financial sectors across the region.

Dr. Nasser Saidi's interview with Kulluna Irada on Lebanon's "Economy in times of war", Nov 2024

In a series of videos, Dr. Saidi speaks to Kulluna Irada about Lebanon's "Economy in times of war".
The 3-part series covers:
1. What is the economic impact of this #war compared to 2006?
Dr. Nasser Saidi estimates overall reconstruction costs at $25

billion, in a much less favourable domestic and international context than in 2006.

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— *Kulluna Irada (@KullunaIrada) November 7, 2024*

2. What are the immediate priorities for Lebanon?

Economist and former Minister Nasser Saidi calls for urgent action: securing humanitarian aid, ensuring it reaches the most vulnerable, and specifically children, maintaining Lebanon's global connections, and the need for a new political authority.

pic.twitter.com/t1OP3QIwDY

— *Kulluna Irada (@KullunaIrada) November 13, 2024*

Interview with Al Arabiya (Arabic) on the economic impact of the conflict in Lebanon, 15 Oct 2024

In this TV interview with Al Arabiya aired on 15th Oct 2024, Dr. Nasser Saidi discusses the ongoing conflict in Lebanon and the financing for the reconstruction of Lebanon & Gaza.

Watch the TV interview via this link

ناصر السعيدي” للعربية: 25“ مليار دولار خسائر لبنان من الحرب حتى الآن

قال رئيس شركة ناصر السعيدي وشركاه د.ناصر السعيدي، إنه إلى الآن لم يتم بحث مصادر تمويل إعادة إعمار لبنان و غزة.

وأضاف السعيدي في مقابلة مع “العربية Business”، أن الأضرار في لبنان حتى الآن قدرت بـ 25 مليار دولار وهو ما يمثل 100% من الناتج القومي.

“A roadmap for Lebanon: how to prevent it from becoming another Gaza”, an extended version of the Op-ed in

Arabian Gulf Business Insight (AGBI), 9 Oct 2024

The below opinion piece is an extended version of the opinion piece titled "Lebanon conflict will only exacerbate existing economic crisis" that was published in the Arabian Gulf Business Insight (AGBI) on 9th October 2024.

A roadmap for Lebanon: how to prevent it from becoming another Gaza

The country is battling core infrastructure damage, collapsed business activity and decimated tourism

A major humanitarian crisis is unfolding in Lebanon. Israel's ongoing vast, destructive violence unleashed on Lebanon has exacted a heavy human toll with over 2,300 killed [1], 10,000 wounded, destroyed core infrastructure including public utilities, water, sanitation, power and roads and degraded the public health system. Much of Beirut's Dahieh and South Lebanon stands in ruin. More than 1.2mn persons are forcibly displaced – roughly 20% of the population – in a country that is not equipped to handle a major humanitarian crisis; already bearing the burden of hosting the largest number of refugees per capita globally (including an estimated 200,000-250,000 Palestinian refugees). The humanitarian logistical and operational challenges are compounded by a near absence of financial resources. Massive scale of strikes (3,000 over two days) [2], the use of 2000-pound bombs, evacuation orders in the middle of the night, attacks on health facilities and hospitals – all indicate that Israel is following the same playbook of Gaza in the new killing fields of Lebanon.

In addition to the traditional weapons used like bombs and missiles, Israel has introduced a new type of warfare, adding a new layer of complexity and distrust. The detonation of handheld pagers and walkie-talkies in Lebanon ushers in a new class of warfare: the weaponisation of electronic communications. The deployment of AI-based tools creates a new class of warfare, including the use of Machine Learning to inform targeting decisions and an evacuation monitoring tool among others [3]. This opens a Pandora's box threatening trust in digital tools and the digital world from telecommunications to electric vehicles, personal computers and digital networks. Already, international flights are banning pagers and walkie talkies, which could theoretically be extended to any electronic device (be it phones or laptops).

The deaths and destruction heave an additional burden to Lebanon's existing misery and socio-economic-political-environmental polycrisis. October 2024 marks five years since the onset of Lebanon's financial crisis, the deepest in global financial history. The absence of a head of state for two years, and effective functioning and unified government has led to inaction. The banking sector's collapse wiped out lifetime savings for most Lebanese. and the epicentre of the problem; the failure to undertake structural reforms, restructure the banking system and the public sector, combined with the absence of a social safety net inflicted severe socio-economic costs with poverty levels exceeding 50% of the population [4]. The country was already reeling from a sharp and disorderly devaluation (98%) of the national currency, hyperinflationary conditions, a collapse in public finances, a massive brain drain, and a collapse of GDP from US$ 54.9bn in 2018 to US$ 17.9bn in 2023 and falling further in 2024.

The war will only exacerbate the existing crisis: we are witnessing increasing population displacement alongside lower consumption, a collapse of business activity and tourism in the country. War could result in an interruption of schooling adding to the long-term scarring effects and of remittances (increasingly in cash), a major source of income for the impoverished population (remittances represent some 30% of GDP). Should the war deepen and extend for longer, GDP could contract by up to 25%, with a sharp decline in foreign trade, wider budget deficits, along with massive emigration, while inflation would accelerate, and the already-battered pound would become unsustainable with an expansion of the US$ based cash economy.

In the 12 months of the war on Gaza, more than 80% of civilian infrastructure and more than 70% of civilian homes have been destroyed or severely damaged. Another Gaza scenario on Lebanese grounds, "Lebaza", with massive destruction of civilian infrastructure would result in an immense reconstruction effort and cost for a country that has neither the resources nor the ability to reconstruct. The war in 2006, which had a devastating impact on Lebanon, saw reconstruction costs exceed US$ 10bn. Promised international funding under Paris II, was only partial: the pre-condition rollout of structural reforms was not undertaken.

What should be the priorities for Lebanon?

Firstly, mobilisation of humanitarian aid. The UN and the caretaker government launched a Flash Appeal for US$425. Mn. The GCC has affirmed support (with the UAE leading with US$100 Mn) and multilateral humanitarian aid has started flowing.

The needs of the displaced must be addressed, compounded by approaching winter. Food, shelter, medical, protection and schooling must be prioritised to avoid long-term scarring effects from a loss in school years even if a ceasefire were to be announced immediately.

Secondly, international access needs to be maintained through ports, airport and international roads to Syria and hinterland. In the 2006 war, Israel bombed Beirut airport's runways, forcing a complete shutdown until the 33-day war ended. This should not be repeated – there have been reports of multiple explosions near the airport. Road access is critical to ensure trade and mobility (including movement of displaced persons to safer areas).

Thirdly, it is urgent to elect a new President and form a new, empowered national emergency government, capable of building unity and gaining domestic and international confidence to address Lebanon's devastation, reach a ceasefire and plan reconstruction, the cost of which given the growing scale of destruction is likely to exceed US$25billion.

[1] Source: Lebanon's Ministry of Public Health.

[2] The Israeli military carried out 3000 strikes in Lebanon on Sep 24-25, the deadliest since the 2006 war; to compare, US carried out less than 3000 strikes a year, excluding the first year of attack, in the 20-year US-Afghanistan war

[3] https://www.hrw.org/news/2024/09/10/gaza-israeli-militarys-digital-tools-risk-civilian-harm

[4] Lebanon poverty and equity assessment https://www.worldbank.org/en/country/lebanon/publication/lebanon-poverty-and-equity-assessment-2024

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“Time to address Lebanon’s crippling banking crisis”, guest article for Arab Banker, Autumn 2024

The guest article titled “**Time to address Lebanon’s crippling banking crisis**” was published in the Arab Banker’s Autumn 2024 edition.

Lebanon has been mired in economic crisis for almost five years. A combination of acute negligence and mismanagement on the part of the government, the central bank and key institutions culminated in a series of economic and political crises that have left the banking sector on its knees and more than three-quarters of the population living in poverty.

In the guest article for *Arab Banker*, Dr. Nasser Saidi, founder and president of Nasser Saidi & Associates, and Alia Moubayed, emerging markets economist, analyse how the crisis unfolded and chart a proposed roadmap to recovery.

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.

Comments on EU’s migration aid to Lebanon in Al Monitor, 10 May 2024

Dr. Nasser Saidi’s comments on EU’s migration aid to Lebanon appeared in the article titled “Fears mount EU’s $1.1B migration aid to Lebanon will feed political corruption“ in Al Monitor’s 10th May 2024 edition. The comments are posted below.

The 1 billion euros ($1.08 billion) in financial aid that the EU announced to Lebanon last week will fall short of expectations, according to the Middle Eastern nation’s former economic minister, Nasser Saidi. In an interview with Al-Monitor, Saidi said that the financial package will not achieve its objective of ensuring the country’s stability and stemming migration to Europe; rather, it will fuel government corruption.

No plan for funds

Saidi, who served as Lebanon’s minister of economy and trade and minister of industry between 1998 and 2000, highlighted, however, that the aid had not been subject to cabinet discussion or scrutiny.

“There is no plan as to how the 1 billion euros will be used, how the funds will be allocated, indication of spending priorities, etc.,” Saidi, who now runs Nasser Saidi & Associates, an economic advisory firm out of Dubai, told Al-Monitor. He added that there has been no audit of past aid

received since 2011 or of how the IMF SDR (special drawing rights, a type of IMF currency) allocation was utilized. As a result, there has been no accountability, he said.

“The absence of transparency and disclosure, of governance, the lack of accountability means that the EU funds will fuel continued corruption and enrich politicians without contributing to the purported objective of contributing to Lebanon’s socioeconomic stability,” Saidi said.

“It will do little to help the EU achieve its stated policy of controlling the influx of refugees and migrants into the EU, while supporting a failed state in Lebanon and its corrupt politicians,” Saidi added.

The EU has provided more than 3 billion euros in support to Lebanon since 2011, including 2.6 billion euros it said was to support Syrian refugees and host communities there.

“Despite the billions in aid, Lebanon has not developed any structured policy, and [it has] displayed incompetence and lack of effectiveness in dealing with Syrian refugees and displaced,” Saidi said. “This can be contrasted with the experience of Jordan and Turkey, which have effectively managed to deal with the influx of refugees and displaced.”

Lebanon is going through the fifth year of its third-deepest recession in its history. The UN estimates that 80% of the population lives in poverty.

“The polycrisis is not due to a natural disaster or war. It results from deliberate monetary, exchange rate and financial policies undertaken by the central bank that led to the collapse and meltdown of the banking and financial system,” said Saidi.

The former minister said that successive governments have done little to address the underlying causes or implement the necessary economic reforms to help the country recover from *its financial malaise. He accused the EU deal of undermining the international consensus that Beirut must make these reforms before receiving aid. Saidi said that Lebanon's political establishment will note that, given the war in Gaza and the violence in south Lebanon, they are offered international aid without having to undertake reforms, perpetuating the polycrisis.*

For example, he said the Lebanese government showed a lack of transparency around how it spent the unprecedented IMF SDR allocation (over $1.135 billion in 2021), which was intended to shore up its depleted international reserves but was "squandered on generalized subsidies and ended up financing smuggling activities."

Comments on the impact of UAE being removed from the FATF grey list in The National, 24 Feb 2024

Dr. Nasser Saidi's comments appeared in an article in The National titled "[UAE's removal from Financial Action Task Force's grey list to spur investor confidence]" published on 24th February 2024.

The comments are posted below.

The immediate benefit would be an improvement in investors' trust and confidence in the UAE, leading to an increase in more sustainable capital, foreign direct investment and *portfolio flows, according to Nasser Saidi, head of consultancy Nasser Saidi and Associates.*

This move will also support the expansion of both the domestic banking and financial sectors as well as the international financial free zones, as wealthy global investors and foreign businesses become more comfortable investing in the UAE, given its adoption of international laws and conventions, he explained.

Another major beneficiary will be the asset and wealth management activities of UAE-based family offices, he said.

"The UAE's removal from the FATF grey list is a testament to the country's political will and willingness to improve overall governance, transparency and disclosure of the banking and financial sector, address weaknesses alongside increasing its ability to deter illicit money flows [via the Executive Office for Anti-Money Laundering and Counter-Terrorism Financing], enhancing its ability to undertake financial investigations and extraditions of financial criminals among others," Mr Saidi added.
"However, it is important that the UAE continues on its journey in adopting and implementing international best practices and standards, continuously strengthening its financial regulatory regime, including AML/ CFT."

Comments on the impact of the war in Gaza on Lebanon in The National, 14 Feb 2024

Dr. Nasser Saidi's comments appeared in an article in The National titled "Lebanon's economy reels as cost of damages from Gaza war soar" published on 14th February 2024.

The comments are posted below.

Nasser Saidi, a former economy minister and deputy governor of Lebanon's central bank, told The National that the violence has caused extensive damage to buildings, infrastructure and private property, adding up to huge losses for Lebanon's already struggling economy. More than 65,000 people have been displaced in Lebanon because of the war. Trade, tourism, hospitality as well as agriculture and aviation are some of the sectors that have been hit hard.

"The direct attacks in the south of Lebanon heighten uncertainty, inflict damage and destruction to an already impoverished region of the country and inevitably augment the country's burdens," Mr Saidi, who is also head of consultancy Nasser Saidi and Associates, said.

"Already, Lebanon's four main economic pillars, trade and tourism, health, education, banking and finance have been decimated by the ongoing crisis and lack of reforms. Not to mention the long-term scarring effects from the mass migration of Lebanon's human capital which will accelerate if there is an escalation or war in Lebanon."

The agriculture sector has been particularly affected by the fighting. "South Lebanon and Nabatieh are major agricultural hubs accounting for 21.5 per cent of Lebanon's cultivated areas and damage to the sector will result in loss of the means of livelihood and income," Mr Saidi said.

"Any escalation [in the conflict] to the wider nation would be disastrous for a country already reeling from political, economic, and social woes – rebuilding would likely take decades rather than years," Mr Saidi said.

Comments made during this interview were also included in The National's Editorial on 16th February 2024.

"Disastrous", "decimated" and "impoverished" – these are just some of the words used by Nasser Saidi, a former economy minister and deputy governor of Lebanon's central bank, to describe his country's fragile state this week. In an interview with The National published on Wednesday, he outlined how Lebanon's economic problems – which the World Bank has called one of the worst global financial crises since the middle of the 19th century – were being exacerbated by the spreading violence of the Israel-Gaza war.
According to Mr Saidi, the escalation of the conflict will drive "mass migration" from Lebanon. Rebuilding would "likely take decades rather than years", he added.

Comments on Saudi Arabia's gold discovery in The National, Jan 7 2024

Dr. Nasser Saidi's comments appeared in an article in The National titled "Will Saudi Arabia's recent gold discovery provide a major boost to its economy?" published on 7th January 2024.

The comments are posted below.

"The gold discovery could prove significant as the gold content of the ore is high," Nasser Saidi, a former Lebanese economy minister and vice governor of the country's central bank, told The National.

"Saudi Arabia can attract private sector investments in underexplored regions such as the Western Arabian Shield both

in precious metals, as well as critical industrial minerals that are basic resources in global decarbonisation," Mr Saidi said. The Western Arabian Shield region also holds valuable rare earth elements, such as tantalum, for which it has a quarter of the world's reserves. It is widely used in smartphones.

Comments on Lebanon & potential spillover from the Israel–Gaza war in The National, Oct 18 2023

Dr. Nasser Saidi's comments appeared in an article in The National titled "Lebanon's economy could collapse completely if Israel–Gaza war spreads, warn analysts" published on 18th October 2023.

The comments are posted below.

"The economic situation and all the indicators will rapidly deteriorate as a result of the security crisis and the Hamas-Israel war which can spill over into Lebanon," Nasser Saidi, a former economy minister and vice-governor of Lebanon's central bank, told The National.

An escalation of the conflict into Lebanon, he said, would lead to "potential destruction of its remaining infrastructure, including ports and the airport which are the economic lifeline of the country given its high dependence on the Lebanese diaspora."

Lebanon "could experience complete collapse" if the fighting continued to spread, added Mr Saidi, president of Nasser Saidi and Associates.

"Already we have seen population displacement from the south of the country, while we are witnessing an accelerated exodus of skilled professionals."

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

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

The comments are posted below.

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

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

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

"There should be a strict law on the use of any revenues

because this is resource wealth that is not renewable … you have to keep it for future generations," he said.

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

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

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

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

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

Nasser Saidi

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

The comments are posted below.

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

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

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

"These necessary reforms are politically feasible but remain an uphill task in the current political backdrop," Mr Saidi said.

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

inflation," he added.

Interview with 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!”

Bloomberg Daybreak Middle East Interview, 26 Apr 2023

Aathira Prasad joined Yousef Gamal El-Din on 26th of April, 2023 as part of the Bloomberg Daybreak: Middle East show, discussing Lebanon’s inflation numbers, and contrasting it with much lower GCC figures. Also discussed during the show was the outlook for oil prices in the context of production cuts and recovery in oil demand.

Watch the interview below, which can also be accessed from the original link: https://www.bloomberg.com/news/videos/2023-04-26/-bloomberg-daybreak-middle-east-full-show-04-26-2023 *(listen from 29:30 to 35:30)*

Interview with BBC’s World Business Report on Lebanon’s banking sector, 15 Mar 2023

In an interview with BBC’s World Business Report, Dr. Nasser Saidi offered his insights and assessment on what’s happening in Lebanon as the Lebanese banks go on an indefinite strike.

Listen to the interview (Dr. Saidi joins from 12:41 onwards)

https://www.bbc.co.uk/sounds/play/w3ct3ggb

Comments on Lebanon’s currency crash in Bloomberg, 2 Mar 2023

Dr. Nasser Saidi’s comments on Lebanon’s currency crisis appeared in the Bloomberg article titled “**World’s Biggest Currency Crash Prompts Lebanon to Intervene Anew**“, published on 2nd Mar 2023.

Comments are posted below.

Given Lebanon’s limited international reserves, the pound stands little chance of returning to stability any time soon, *according to Nasser Saidi, formerly a minister of economy and a vice governor at the central bank.*

It’s “failed policy, we have seen it before,” he said. “Whatever remaining money is at the central bank is being used to subsidize public employees.”

Previous such efforts to inject dollars only briefly shored up the pound.

“This operation will fail and is becoming more expensive because the economic cost is increasing,” Saidi said. “We are taxing the cash economy that is running into a hyperinflationary spiral.”

Comments on Lebanon’s currency devaluation, FT, 1 Feb 2023

Dr. Nasser Saidi commented on Lebanon’s currency devaluation (to a new rate of L£15,000 from a fixed rate peg of L£1,507 to the dollar since 1997) at in the FT article titled “Lebanon devalues official exchange rate by 90%” published on 1st Feb 2023.

The full article can be accessed at: https://www.ft.com/content/f37617e1-098b-459f-9502-50ffb50c6c0c

The comments are posted below:

Nasser Saidi, a former economy minister and ex-deputy central bank governor, called it a continuation of the “failed *exchange rate pegging/fixing policy that has generated the biggest financial crisis in history".*

Saidi said that the new L£15,000 rate was "75 per cent below the effective market rate of L£60,000 as well as below the so-called Sayrafa rate of L£38,000", the latter referring to the central bank's exchange platform. "This just adds to the multiple exchange rates that lead to severe market distortions."

Comments on Lebanon's devaluation in Bloomberg, 1 Feb 2023

Dr. Nasser Saidi's comments on Lebanon's devaluation appeared in the Bloomberg article titled "Lebanon Devalues, Still Leaves Pound Far Away From Black Market", published on 1st Feb 2023.

Comments are posted below.

The *central bank "is continuing with a policy of using the printing press, printing pound to buy dollars in the market, including through the Sayrafa platform," said Nasser Saidi, a former minister of economy and a vice governor at the central bank. "The consequences are clear: accelerating inflation and depreciation of the pound in the market."*

Comments on Lebanon’s sharply falling tax revenues in L’Orient Today, 5 Jan 2023

Dr. Nasser Saidi’s comments on Lebanon’s sharply falling tax revenues were published in L’Orient Today, as part of an article titled “Rate of Lebanon’s state revenues among lowest globally“, published on 5th January 2023.

Comments are highlighted below:

The state’s tax base is the country’s shrinking economy. There is less income and profit available for taxation than previously in an economy that is less than half its pre-crisis GDP. The state is highly reliant on a VAT that brings in less money as consumption falls dramatically.

“A major reason for the decline in government revenue is that Lebanon’s tax system does not adjust to inflation,” former economy minister and central bank vice governor Nasser Saidi told L’Orient Today. By way of example, he cited customs.

Prior to Dec. 2022, customs duties – a major component of state revenue – were fixed at the LL1507.5 exchange rate, leading to a more than 95 percent reduction in the real value of state revenues since Oct. 2019 as the lira depreciated. In December, customs were converted to LL15,000 per dollar; roughly a third of the real lira value of the import at the current parallel market rate.

Saidi said that, as part of overall reforms, Lebanon needs to adjust its tax system to protect revenues from inflation. “For example, the so-called ‘customs dollar’ should be abolished *and tariff rates should apply to the foreign currency value of the goods and [be] paid in foreign currency," he said.*

"All taxes will have to be adjusted for inflation so that [the] government has revenue to cover core spending," Saidi added.

The 2022 budget, published on Nov. 15, 10 and a half months into the year, converted a number of taxes and fees to foreign currencies, such as consular fees, port fees and airport fees, as well as some capital gains and interest income taxes.

Other factors that have driven the sharp decrease in revenue include increased tax evasion amid a growing cash economy and less effective tax administration, as well as less revenue from taxes on bank interest as deposits decline.

Saidi called the state's ability to collect taxes "sharply impaired" and said anecdotal evidence suggests tax evasion has "substantially increased."

Comments on Inflation in Syria and the collapsing pound in Associated Press, 5 Jan 2023

Dr. Nasser Saidi's comments on inflation in Syria and the collapsing pound were part of an Associated press article titled "EXPLAINER: Why has Syria's economic crisis hit a new low?". The article was published on 5th January 2023.

Comments are highlighted below:

Apart from years of war, sanctions and widespread corruption, Syria's economy has gone through a series of shocks since 2019, beginning with the collapse of Lebanon's financial system that year.

"Given the open borders between Syria and Lebanon and both of them (being) increasingly cash based economies," their markets are inextricably linked, said Nasser Saidi, a former Lebanese economy minister The currency collapse and removal of subsidies in Lebanon has driven devaluation and higher prices in Syria, he said.

Interview with BBC World Business report on Lebanon's banking crisis, 7 Oct 2022

As part of the BBC World Business report aired on 7th Oct 2022, Dr. Nasser Saidi was interviewed on the continuing banking crisis in Lebanon where bank branches are to close indefinitely.

Listen to the interview via the weblink https://www.bbc.co.uk/programmes/w172yk3547rglyp

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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 on "Was Lebanon the world's biggest Ponzi scheme?" in Arab News, Aug 9 2022

Dr. Nasser Saidi's comments appeared in an Arab News article titled "Was Lebanon the world's biggest Ponzi scheme?" published on 9th August 2022.

The comments are posted below.

“Lebanon is the greatest Ponzi scheme in economic history,” Nasser Saidi, a Lebanese politician and economist who served as minister of economy and industry and vice governor for the Lebanese central bank, told Arab News.

Unlike financial crises elsewhere in the world through history, Saidi said the cause of Lebanon’s woes could not be pinned to any single calamity that was outside the government’s control.

“In Lebanon’s case it was not due to an actual disaster, not due to a sharp drop in export prices in commodities, it is effectively man-made.

“The World Bank talks about Ponzi finance, and they are right to point to the fact that you have two deficits over several decades. One was a fiscal deficit brought on by continued spending by the government more than revenues.

“The problem was that the government’s spending did not go for productive purposes. It did not go for investment in infrastructure or to build up human capital. It went for current spending. So, you didn’t build up any real assets. You had a buildup of debt, but you didn’t build up assets in proportion or to compare to the borrowing that you had.”

Since the end of the civil war, Lebanon should have been undergoing a period of reconstruction. However, spending on such infrastructure projects remained low, with the money seemingly siphoned off elsewhere.

“The infrastructure that was required — electricity, water, waste management, transport, and airport restructuring — was neglected,” said Saidi.

But it was not just material infrastructure of this kind that was neglected. Institutions that would have improved and solidified governance, accountability, and inclusiveness were also ignored, leaving the system vulnerable to abuse.

“Whenever you go through a civil war, you need to think about the causes of the war, and much of it was due to dysfunctional politics, political fragmentation, and the break-up of state institutions,” said Saidi.

“There was no rebuilding of state institutions and because of that, budget deficits continued, and a very corrupt political class began owning the state. They went into state-owned enterprises and government-related enterprises and considered that all state assets are their possessions and instead of possessions of the state.”

Lebanon’s “Ponzi scheme” was also driven by current account deficits and the overvalued exchange rate caused by the central bank policy of maintaining fixed rates against the dollar.

In economics, said Saidi, this is what you called the “impossible trinity,” meaning that a state could not simultaneously have fixed exchange rates, free capital movements, and independence of monetary policy.

“If you peg your exchange rate, you no longer have any freedom of monetary policy. Lebanon’s central bank tried to defy the impossible trinity and tried to maintain an independent monetary policy at a time in which the exchange rate was becoming more and more over-valued.”

The World Bank report calls for a comprehensive program of macro-economic, financial, and sector reforms that prioritize governance, accountability, and inclusiveness. It says the earlier these reforms are initiated, the less painful the recovery will be for the Lebanese people. But it will not happen overnight.

“Even if the reforms and laws were passed, it will take time to recover and to restore trust,” said Saidi. “Trust in the banking system, in the state, and in the central bank has been destroyed. Until that trust is rebuilt, Lebanon will not be

able to attract investment and it will not be able to attract aid from the rest of the world."

And although Lebanon held elections in May, propelling several anti-corruption independents to parliament, Saidi doubted their influence would be enough to drive change.

"Some 13 new deputies entered parliament, but they are unlikely to make the changes that are required," he said. "Politically, business continues as usual. There is a complete denial of reality."

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.

Comments on Lebanon's risk of spiralling into runaway inflation in Reuters, 30 Jun 2022

Dr. Nasser Saidi's comments appeared in the Reuters article titled "Analysis: Political and banking deadlock may plunge Lebanon deeper into crisis", published 30th June 2022.

Comments are posted below:

If that policy carries on and the government tries to appease the population by increasing benefits and salaries for the relatively large public sector, Lebanon could spiral into runaway inflation.

"With no new revenues, increasing salaries and benefits such

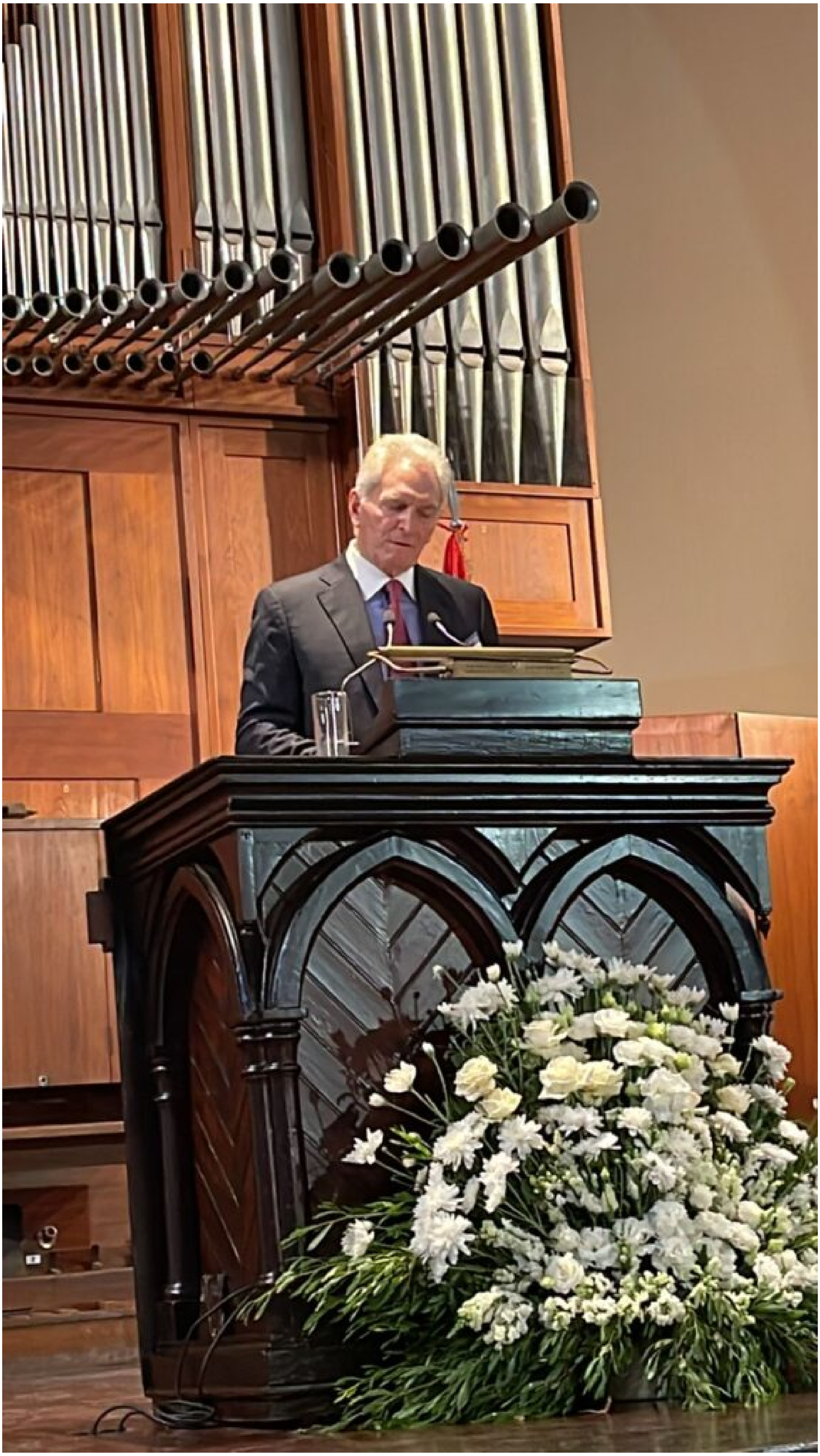
as transport allowance will take the country into hyperinflation," Nasser Saidi, an economist and former vice-governor at Lebanon's central bank, told Reuters.

"A Time to Reflect, a Time for Action", Keynote Speech at American University of Beirut 50th Reunion Memorial, 23 Jun 2022

Dr. Nasser Saidi was invited as a keynote speaker to the American University of Beirut's 50th Reunion Memorial, held in Beirut on 23rd June 2022.

Download the full speech titled "A Time to Reflect, a Time for Action": a snippet from the speech is posted below.

Volatile conditions, uncertainty and Lebanon's uncivil war made many of us nomads, but networked global citizens. What brings us together in this 50th reunion? What should we strive for? This is a milestone, a time to reflect but also a time for action.



“Lebanon: Failed State or Transformation?” Presentation to LIFE, 9 Jun 2022

Dr. Nasser Saidi shared his views on the topic “Lebanon: Failed State or Transformation?” at LIFE Lebanon‘s event held in Dubai on 9th June 2022.

The main discussion points spanned the below headings:

- *Lebanon’s Path to Economic Collapse*
- *Roots of Lebanon’s meltdown*
- *Reforms & Transformation*

The presentation can be downloaded here.

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:

Radio interview with Dubai Eye’s Business Breakfast on Lebanon’s elections, 17 May 2022

Lebanon has voted in the first parliamentary election since the country’s economic collapse, with many saying they hoped to deal a blow to ruling politicians they blame for the crisis even if the odds of major change appear slim. Dr. Nasser Saidi spoke with Dubai Eye’s Business Breakfast team on 17th May 2022.

Listen to the full radio interview at the link below (from 11:45 to 18:45):

https://omny.fm/shows/thebusinessbreakfastpodcast/the-uae-gears-up-for-a-new-era-of-growth-and-prosp

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

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.

Impacts from the ongoing Russia-Ukraine turmoil: AnNahar Interview (Arabic), 9 Mar 2022

فكـرة حـرة- ناصـر السـعيدي لــ"النهار": 2022 سـنة الخطـر الكبير… والأزمة ستمتد

بغياب الحسم العسكري في الحرب الأوكرانية الروسية، فان المشهد الاقتصادي المرتسم يحكي الكثير عن التغيير في الاستراتيجيات والأسواق بعد العقوبات المتعاظمة المفروضة على #روسيا واستخدام الطرف الأميركي ورقة النفط، وكذلك عن أزمات الغذاء والطاقة و#التضخم والركود.

الاقتصادي ناصر السعيدي أطلّ في برنامج #فكرة_حرة مقدماً قراءته للمشهد، لاسيما للتداعيات في المنطقة.

واعتبر السعيدي أن العالم يمكن أن ينزلق الى انخفاض بالناتج القومي، وهذا ما يؤثر على المنطقة بطبيعة الحال، لكن هناك بالطبع تفاوتاً في التأثير بين البلدان، هناك دول تستفيد من ارتفاعٍ أسعار النفط ودول مستوردة للنفط والقمح كلبنان ومصر، تتأثر سلباً جراء ارتفاع أسعار.

وفي شأن أزمة السيولة في أسواق المنطقة، رأى السعيدي أن الحرب المالية والمصرفية بدأت بحظر مصارف روسية من نظام "سويفت"، واذا توسع الحظر ليشمل كل المصارف الروسية سيكون التأثير ضخماً ، ويمكن أن ينخفض الناتج القومي الروسي بحدود العشرين في المئة، وبنتيجة

ذلك سيكون هناك اثر على السيولة عالمياً.

ويتحدث عن مشهد انخفاضٍ بالانتاج وارتفاع بالتضخم، ما يشكّل الخطر الأكبر في 2022 عالمياً بعد أن كنا نترقب التعافي من “كوفيد”، و”برأيي الأزمة ستمتد”.

ووسط مشهد الأزمة، ورداً على سؤال حول الملاذات الآمنة للمستثمرين، عدّد: الذهب، وبيئات استثمارية في دول مستفيدة من ارتفاع سعر النفط، والعملات المشفرة…
Watch the interview below

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.”

Comments on Lebanon’s “rescue plan” in Reuters, 2 Feb 2022

Dr. Nasser Saidi’s comments appeared in the Reuters article titled “Analysis: Lebanon’s savers to bear burden under new rescue plan“, published 2nd February 2022.

Comments are posted below:

Lebanon’s pound has lost more than 90% of its value since the crisis erupted in 2019. Of those deposits, $16 billion will lose 75% of their value and $35 billion will lose 40%.

“It is an effective nationalisation of deposits,” said Nasser Saidi, a former economy minister and central bank vice governor, blaming the central bank for racking up “massive balance sheet losses” to defend an over-valued currency.

“If accepted by parliament, it would be the kiss of death for a near-zombie banking system and will doom Lebanon, its economy and people to prolonged misery and lost decades,” he said of the latest plan.

Interview with CNBC Arabia on Lebanon’s recent banking,

exchange rate developments & negotiations with IMF, 17 Jan 2022

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

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

فما أن يحتوي أزمة إلا وتظهر أخرى اكثر تعقيدا وظنون، حتى أصبح التفريق بينها صعبا ً وعسيرا ً 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 the depreciation of the Lebanese pound on Zawya (Arabic), 11 Jan 2022

Dr. Nasser Saidi’s comments on the depreciation of the Lebanese pound appeared in an article on Zawya dated 11th January 2022, titled

تدهور الليرة اللبنانية: 4 أسباب والوضع واحد

The comments are posted below:

“4 أسباب أساسية تقف وراء التدهور الأخير في قيمة الليرة. وهي أولاً قيام المصرف المركزي بشراء كثيف للدولار الأمريكي في السوق السوداء وضخ الليرة اللبنانية في السوق،” وفقاً لتصريحات أدلى بها ناصر السعيدي وهو محلل مالي ووزير لبناني سابق لموقع زاوية عربي.

وتابع السعيدي: ” ثانياً قرار المصرف المركزي مضاعفة معدل تحويل (الودائع بالدولار) من 3,900 ليرة الى 8,000 ليرة يعني زيادة كبيرة في امدادات الليرة في سوق العملات الأجنبية وثالثاً غياب أي خبر إيجابي يتعلق بالإصلاحات والمفاوضات مع صندوق النقد الدولي يعني أن الناس تتوقع تدهور أكبر لليرة وارتفاع في معدل التضخم وهو ما يؤدي بالناس الى محاولة التخلص من أموالهم المقومة بالليرةما يؤدي الى تدهور أكبر لليرة وارتفاع في معدل التضخم. والسبب الرابع هو أن سوق العملات الأجنبية ضعيف جداً ويفتقر الى السيولة.”

Comments on Lebanon & the IMF

in France-24, 29 Dec 2021

Dr. Nasser Saidi's comments were part of an Associated press article. Titled "Slow progress as Lebanon awaits IMF economic deal", the article was published on 29th December 2021, in many newspapers including France 24.

Former vice governor of the central bank, Nasser Saidi, suggested the IMF would want to examine the audit, but Chami said no demands had yet been made.

"We don't know if a forensic audit, or any audit, will be part of a potential IMF program," Chami said.

A potential IMF agreement will ultimately bring in other donors, such as the World Bank and Gulf Arab states, who may demand it as a precondition for support. "We need to understand what is going on inside the central bank," Chami said. "There is a total lack of transparency."

For Saidi, a key question is the actual value of central bank reserves and the real value of financial sector losses.

"There seems to be no willingness to undertake a forensic audit," he said, but added that the "bottom line is the IMF will be looking –- before anything – for promises of good governance."

"Lebanon's Meltdown: Failed

State or Reforms & Transformation?", Presentation to the American University of Beirut OSB, 18 Nov 2021

On 18th Nov 2021, Dr. Nasser Saidi gave a presentation titled "Lebanon's Meltdown: Failed State or Reforms & Transformation?" during a webinar organised by the American University of Beirut's Suliman S. Olayan School of Business.

A quick summary of the talk: Lebanon is experiencing historically unprecedented multiple crises: political, economic, banking & financial, debt, currency, environmental and health crises. The talk will discuss the underlying drivers of the crises; a multi-faceted failure of governance; economic, monetary, fiscal and financial mismanagement, and corruption. Lebanon has become a failed state. Will it be possible to rescue Lebanon, undertake the necessary deep reforms and transformation?

Watch the presentation below:

Comments on Saudi and others sanctions on Lebanon in CNN

Arabia, 3 Nov 2021

Dr. Nasser Saidi’s comments appeared in a CNN Arabia article titled “أزمة قرداحي”.. هل تعقد جهود لبنان في تلقي دعم مالي من دول الخليج؟ وما حجم التبادل التجاري؟” on the recent sanctions on Lebanon by Saudi and other GCC nations. This article was published on 3rd November 2021 & can be accessed directly.

His comments are posted below:

وقال ناصر السعيدي، وهو اقتصادي بارز ووزير لبناني سابق، لـCNN بالعربية، إن “وقف الصادرات اللبنانية قد يؤدي إلى تراجع الدخل وإيرادات العملة الأجنبية وخسارة في الوظائف في أكثر القطاعات استخدامًا للعمالة ما سيعمق الأزمة الاقتصادية في لبنان. وباعتقادي من المحتمل أن تشمل الخطوات التالية قيودًا على التحويلات المالية أو حركة الناس بين الخليج ولبنان. ونظرًا إلى أن التحويلات من الخليج تشكل حوالى 60% من إجمالي التحويلات قد يكون ذلك بمثابة رصاصة الرحمة”.

وفي رده على سؤال حول احتمال تلقي لبنان مساعدات من الخليج، قال السعيدي إن “الأمور ستكون من دون شك أكثر صعوبة”، داعيًا حكومة رئيس الوزراء اللبناني نجيب ميقاتي إلى “حل مختلف القضايا العالقة والمثيرة للجدل كأولوية اقتصادية ناهيك عن كونها أولوية سياسية”.

Comments on Lebanon in Forbes

Middle East, 1 Nov 2021

Dr. Nasser Saidi's comments appeared in a Forbes Middle East article titled "Exclusive: How A Backdoor Deal Between Banque du Liban And Economy Ministry Further Sunk The Lira". This article was published on 1st November 2021 & can be accessed directly.

His comments are posted below:

Lebanon's money exchange market "is highly illiquid and therefore any small amount, even a few million dollars, can move the [dollar] price," said Nasser Saidi, an economist and a former economy minister and vice-governor of BDL.

On currency exchange markets, the law of supply and demand generally prevails. When demand for dollars increases but supply does not follow, the price of the greenback rises. Subsequently, the value of the lira being exchanged for those dollars falls. After receiving the payment in lira, the major food importer who spoke on condition of anonymity said his company hurried to buy dollars from the market. "And if everybody rushed at the same time, which is likely the case, then this would have moved the [lira] rate," Saidi added.

Lebanon operates with more than four exchange rates for its local currency. This process opens doors for arbitrage opportunities – products are bought in the cheaper markets and sold in the dearer market – which traders benefit from at the expense of depositors and the rest of the economy, explained Saidi. The food basket program had "benefited merchants at the expense of everyone else," he said.

Comments on Lebanon's economic & political crisis in The Telegraph, Oct 9 2021

Dr. Nasser Saidi's comments appeared in an article in The Telegraph titled "Lebanon on life support" on 9th October 2021.

The comment is posted below.

Former economy minister Nasser Saidi has said that "Lebanon is that rare combination of an experienced Kleptocracy and a Kakistocracy" – ruled by an elite that is both corrupt and incompetent – that pulled off the "greatest Ponzi scheme in history".

Dr. Nasser Saidi's interview with CNN on Lebanon's economic turmoil, 15 Sep 2021

Dr. Nasser Saidi's interview with CNN's on Lebanon's ongoing economic crisis (in Arabic) was published on the 15th of Sep 2021. The article is posted below:

ندائي :CNNناصر السعيدي لـ للسياسيين اللبنانيين أن يضعوا الاقتصاد أولاً

أكد المحلل الاقتصادي ناصر –(CNN) دبي، الإمارات العربية المتحدة السعيدي أنّ على الساسة اللبنانيين في الحكومة الجديدة التركيز على الإصلاحات الاقتصادية، وأن يضعوا خلافاتهم السياسية جانباً لمعالجة ما وصفه بـ "الانهيار الاقتصادي والمالي الأكبر في تاريخ لبنان".

بالعربية، قال السعيدي: "من الواضح أن ما حصل CNN وفي مقابلة مع في لبنان على مدى 18 شهراً هو على الأرجح الانهيار الاقتصادي والمالي الأكبر، بعيداً عن الحوادث الطبيعية والحروب، فما حصل في لبنان لم يشهده أي بلد آخر".

محتوى إعلاني

ويعاني لبنان أزمة اقتصادية حادة أدت إلى تدهور عملته الوطنية بنسبة 90%، وإلى ارتفاع معدل التضخم، ما استدعى طلب لبنان المساعدة الدولية. وبالفعل بدأت الحكومة السابقة المفاوضات مع صندوق النقد الدولي للتوصل إلى حزمة مساعدات مالية لم تبصر النور حتى الآن بسبب خلافات داخلية على خطة التعافي الاقتصادية.

وأضاف السعيدي أن المؤشرات الاقتصادية في لبنان سجلت تراجعات حادة، إذ انخفض الناتج المحلي الحقيقي بحوالى 45% منذ العام 2018، أما التضخم فيفوق 150%، في حين وصل التضخم في أسعار المواد الغذائية إلى قرابة 450% وفاق معدل البطالة 45%.

وفي 3 سبتمبر/ أيلول نشرت الأمم المتحدة تقريراً أشارت فيه إلى أن 77% من السكان في لبنان يعانون من الفقر المتعدد الأبعاد. ومع تفاقم الأزمة اضطر آلاف اللبنانيين إلى الهجرة بحثا عن حياة أفضل خارج البلاد.

وبعد أكثر من عام على استقالة الحكومة بعد انفجار مرفأ بيروت، تشكلت الحكومة اللبنانية برئاسة رجل الأعمال نجيب ميقاتي.

وأضاف السعيدي: "آمل أن تركز حكومة ميقاتي على الاقتصاد، وتترك

السياسة جانباً إن كان ذلك ممكناً، أعلم أن ذلك قد يكون حلماً، ولكن علينا أن نفكر في الشباب اللبناني، وأن نوقف هجرة الآلاف … (أوجه) نداءً وهو وضع الاقتصاد أولاً".

وتابع السعيدي بالقول: "الانهيار الاقتصادي حصل بالفعل، نحن لا نتحدث عن تجنب الانهيار، بل عن منع المزيد من التدهور، وفي رأيي ما يجب التحدث عنه هو علاج صادم وليس تثبيت الوضع".

وإلى جانب كل ذلك، طالت الأزمة المصارف اللبنانية التي وضعت قيوداً على سحب المودعين ودائعهم بالدولار والعملة الوطنية. كما انتقلت الأزمة إلى الخبز والأدوية والوقود إذ يسعى المصرف المركزي إلى رفع الدعم عنها بالكامل. وستطلق الحكومة برنامج البطاقة التموينية التي تحدد مبالغ نقدية للأشخاص الأكثر فقراً.

وقال السعيدي إن "هذا النوع من الدعم أن ينتهي. سيكون ذلك موجعاً للجميع لكنها الوسيلة الوحيدة لإيقاف التضخم المتسارع وهو ما ستفعله الحكومة عبر البطاقة التموينية". وأضاف "أتمنى ألا تصبح ما يسمونه بالبطاقة التموينية بطاقة تساعد على إعادة انتخاب السياسيين في (الانتخابات النيابية) في مايو/أيار 2022".

ويعاني اللبنانيون من أزمة كهرباء خانقة لا تزال مستمرة منذ أعوام. وتعليقاً على ذلك قال السعيدي إن الغاز المصري والكهرباء الأردنية سيساعدان لبنان كثيراً، ولكن الحل هو في توليد الكهرباء من الطاقة المتجددة التي يجب أن تندرج ضمن استراتيجية الطاقة وبإعادة تشغيل خط الأنابيب الذي يصل الى مدينتي صيدا وطرابلس.

وشكك السعيدي في أن يمنح البرلمان صلاحيات استثنائية لحكومة ميقاتي، لتحقيق الإصلاحات خصوصاً أن المهلة المتبقية قبل موعد إجراء الانتخابات التشريعية في أيار 2022 لن تكون كافية.

وعن الإصلاحات الهيكلية، أشار السعيدي إلى أنها منوطة بأي مساعدة يحصل عليها لبنان وتشمل إعادة هيكلة الدين العام ومحاربة الفساد وحوكمة أفضل في مؤسسات الدولة، ككهرباء لبنان مثلاً، إضافة إلى برنامج الحماية الاجتماعية. وقال: "نظامنا مهترئ ويحتاج إلى التغيير".

وتوقع السعيدي أن تقوم الحكومة الحالية بالحصول على المساعدات الإنسانية وتعديل بعض الرواتب، مشككاً بأن تقوم بإصلاحات كبيرة نظرا للتركيبة السياسية الحالية.

وعن القطاعات التي يتوقع أن تحقق نمواً وتساعد لبنان في تخطي محنته، أشار السعيدي إلى تقنية المعلومات والصناعة الثقافية التي من خلالها يستطيع اللبنانيون نشر ثقافتهم كالأطعمة والمجوهرات، والإعلام، فضلاً عن الزراعة ذات المستقبل الواعد مشيراً إلى حاجة لبنان لمراجعة الاتفاقيات التجارية لتسهيل عمليات التصدير، فلبنان هو ضمن 4 بلدان في العالم ليست عضواً في منظمة التجارة العالمية.

"Lebanon's path back from the brink of collapse", post in OECD's Development Matters blog, 15 Sep 2021

The below article was published as a post in the OECD's Development Matters blog on 15th Sep 2021. The original post can be accessed directly at: https://oecd-development-matters.org/2021/09/15/lebanons-path-back-from-the-brink-of-collapse/

Lebanon's path back from the brink of collapse

Since October 2019, Lebanon has been in the throes of a historically unprecedented economic and financial meltdown, simultaneously facing a humanitarian crisis, a debt crisis, a banking crisis, a currency crisis, and a balance of payments crisis. The numbers are staggering. Real GDP has declined for the fourth consecutive year by a cumulative 45% since 2018 making it the second most severe financial crisis in history. The Lira has lost 90% of its value, annual inflation is running at 150% and an 80% de facto haircut has been imposed on deposits.

These multiple crises impose terrible human costs. Unemployment exceeds 45% of the population, with 77% in poverty and 40% in extreme poverty. There are basic commodity shortages and long queues for fuel, bread and medicine. Government-provided electricity is rationed at about three hours per day; the majority of the population relies on expensive private generators. The monthly minimum wage is now the equivalent to $40 (below Bangladesh), a soldier’s salary is $76 while a judge earns $247. People seeking to escape have fuelled an unprecedented wave of emigration of professionals (doctors, consultants, engineers and teachers), other skilled workers and youth. Lebanon’s human capital is leaving. The four main pillars of the economy, trade and tourism, health, education, and banking and finance, are being destroyed.

At present, Lebanon, after a thirteen-month deadlock, has formed a new government under Prime Minister Najib Mikati. The priority today is to restore trust and confidence in government and the banking sector.

But first, why and how did Lebanon descend into economic collapse?

Unsustainable monetary and fiscal policies and a highly overvalued fixed exchange rate led to persistent fiscal and current account deficits over two decades. The twin deficits led to a rapid build-up of debt to finance current spending, with negligible build-up of infrastructure or public assets. The Banque du Liban (BDL) paid double-digit interest rates along with massive borrowing to defend the pegged rate. In turn, high interest rates compounded fiscal deficits and debt growth, eventually leading to a financial meltdown, a sovereign debt default, multiple exchange rates, the institution of ineffective informal capital controls, and freezing of deposits, along with restrictions on payments that prompted an evaporation of liquidity.

Combined, these crises have created a vicious cycle. Deep depression and inflation led to a sharp reduction in government revenues, and a rapid increase in the budget deficit financed by the BDL, with monetisation of deficits and debt by the central bank accelerating inflation and depreciation of the black-market rate. The inflation tax reduced real incomes and destroyed the financial wealth of several generations. Layoffs, bankruptcies, and insolvencies, as well as unemployment and poverty rates are spiking. The coronavirus pandemic and lockdowns only exacerbated the crises. The 4 August 2020 Beirut Port explosion – likely the third biggest non-nuclear explosion in history – led to loss of life, mass destruction of infrastructure, housing and businesses, and homelessness.

To address its multiple crises, Lebanon needs a financial package of about US$75bn over the near and medium term: some $20bn for restructuring of the banking sector, in addition to $10bn for restructuring the BDL, $15bn for infrastructure, $10bn for fiscal transition and social protection, $5bn for Balance of Payment support and $15bn for private sector financing. International support from the IMF, the World Bank, the Gulf Co-operation Council, the European Union, the United States, China and Japan are imperative, but will be conditional on Lebanon undertaking a comprehensive set of deep governance, economic, monetary, fiscal and structural reforms, built on four pillars:

- **Sustainable public finances**. Deep fiscal reforms are needed to ensure fiscal sustainability by immediately adjusting taxes and fees for inflation; addressing tax evasion; dealing with absentee ‘ghost workers’ (some 20% of public sector employees); and reducing the bloated size of the public sector (including the military and security forces). The new government procurement law needs to be implemented to combat corruption and bribery and the inefficient and generalised subsidies regime (only 20 percent goes to the poor), benefiting traders and large-scale smuggling into sanctions-ridden Syria and other countries, should be radically reformed. The second part of public finance reform is the restructuring of public (including BDL), domestic and foreign debt, to reach a sustainable ratio of debt to GDP. Given the massive exposure of the banking system to government and BDL debt, debt restructuring implies a restructuring of the banking sector.

- With 77% of its population now experiencing multi-dimensional poverty, Lebanon needs to start developing a modern **social protection** system in line with the UN’s SDG 10, including reform of its antiquated social insurance regime (health and retirement, and introduction of unemployment insurance) and social assistance, establishing a modern social safety net for the poor and vulnerable (smart, targeted, cash subsidies or direct transfers to households).
- **Structural reforms**. Lebanon’s state-owned-enterprises (SOEs) starting with Électricité du Liban, water authorities, Ogero telecoms, public ports and airports, Middle East Airlines, the Casino du Liban, the state-run tobacco monopoly and others, are inefficiently governed and managed. A **national wealth fund** – a professional holding company – that would independently manage SOEs and public commercial real estate, including potential future oil and gas revenues, should be established.
- **Monetary and banking sector reform**. Monetary policy reform should start by unifying the country’s multiple exchange rates, with a shift to exchange rate

flexibility and inflation targeting, replacing the failed peg. Multiple rates create market distortions, rent seeking and incentivise corruption. The BDL should stop all quasi-fiscal operations and financing of government deficits. Credible reform requires a strong and politically independent BDL and banking regulator. The banking system is illiquid and insolvent. It must be recapitalised through a bail-in of the banks and their shareholders (through a cash injection and the sale of assets and foreign subsidiaries), to reduce the haircut on deposits. A private sector financed bank resolution fund should be created to facilitate the recapitalisation process, including through M&A of smaller and insolvent banks.

The Mikati government may be willing, but will it be able to implement the required reforms? With the forthcoming elections, the Mikati government will at best be able to implement minimal reforms in order to garner international humanitarian aid, ensure energy supplies, obtain commitments for infrastructure, initiate negotiations with the IMF and participate in an international conference for Lebanon, to partially alleviate the humanitarian crisis and pass populist measures for electoral purposes. The international community needs to act on two fronts. On one hand, to prevent Lebanon from becoming a failed state by providing humanitarian aid, supporting investment in core infrastructure and enabling a revival of the private sector. On the other, by intervening to ensure fair and free parliamentary elections, enabling voting by the Lebanese diaspora and imposing personal sanctions on politicians opposing and repressing democratic change and revival.

Interview on Lebanon, hyperinflation & the way forward, TRENDS magazine, 5 Sep 2021

An interview with Dr. Nasser Saidi was published in the article titled “Hyperinflation imminent in Lebanon”, in TRENDS magazine dated 5th Sep 2021.

Excerpts from the conversation are posted below; the entire article can be accessed here.

*In an exclusive interview with **TRENDS**, Dr Nasser H. Saidi – former Minister of Economy and Trade and Minister of Industry of Lebanon between 1998 and 2000 and the first Vice-Governor of the Central Bank of Lebanon for two successive mandates, 1993-1998 and 1998-2003 – describes the present Lebanon’s economic crisis as “one of the most massive depressions in Lebanese history”.*

Dr Saidi, who is also Founder and President of Nasser Saidi & Associates and Former Chief Economist and Head of External Relations at the DIFC Authority, said that Lebanon got here because of multiple crises occurring at the same moment. However, the primary issue was non-sustainable indebtedness, both government and central bank debt, as well as an increasingly unsustainable balance of payments and an inflated value of the Lebanese pounds. These factors have contributed to the current crisis in Lebanon.

He claimed that the government’s borrowing was not used to fund the construction of real assets or infrastructure. The Central Bank, on the other hand, was borrowing to defend an overvalued Lebanese pound, so it had to pay high interest; this was referred to as financial engineering, but it was a *like “Ponzi scheme.”*

How far will Lebanon’s inflation fly?

The Lebanese economy, according to Saidi, is heavily dollarized, which means Lebanon imports a lot of commodities and the currency rate plays a big role in goods and services. As a result of the collapse of the financial exchange rate system, prices began to rise. Furthermore, the Lebanese Central Bank continued to fund the government’s deficit, which means infusing more money into the system, resulting in higher inflation rates.

“As a result, we are on the edge of hyperinflation unless the government implements significant deep reforms, such as fundamental, monetary, fiscal, and structural reforms,” he said.

Saidi felt that the Lebanese government and Central Bank should issue a new currency, a new lira, and cancel the old currency. “This is because we are on the verge of hyperinflation, with monthly price increases of 25 percent, because of cost adjustments that the government is willing to take,” he pointed out.

Recovery takes time

According to Saidi, predicting when Lebanon would emerge again is difficult since it depends on whether changes are implemented, whether a credible government is in place to implement these reforms, and whether Parliament passes the necessary legislation.

He believes that if the Lebanese government started a program right now, it would take Lebanon 5-7 years to re-emerge. However, poverty and unemployment will persist, and it will take a long time to return to Lebanon’s productive levels.

Saidi went on to say that Lebanon needed to confront the *humanitarian issue and begin the reform process. As a result, it might require around US$1.5bn, which we could raise through humanitarian aid meetings, the World Bank, Gulf countries, the EU, and other well-donors.*

Reasons for banking crisis

The banking sector is illiquid and insolvent, but, according to Saidi, the reason for its insolvency is that the banks lent money to the Central Bank, which then used those deposits to finance the government and defend the Lebanese lira. As a result, the central bank suffered massive losses of more than US$60bn.

By the end of 2019, the banking sector had invested over 75 percent of its assets in the Central Bank, government treasury bills, and Eurobonds. The Lebanese Eurobond is now being sold for 12 cents on the dollar, meaning it has lost 88 percent of its value.

This means that the banks' holdings, including their holdings of Central Bank, secured certificates of deposits, and bonds, have also been reduced, resulting in massive losses.

Saidi believes that Lebanon's banking sector, before the crisis, was too big for the size of the economy. Hence the government must reduce the size by at least 50 percent, if not more, which means a total restructuring of the banking sector.

He also added that the Lebanese banks now require an equity injection and must sell some of their assets abroad, which some banks have started so.

The banking system has failed, and there is no longer trust in the financial sector. The Central Bank had a significant role in the failure because of the fixed exchange policy and the government's continuous financing, he said.

Regaining the customers' trust

To regain the customer's trust, the banks should recapitalize, which requires a large injection of around US$20bn from the bank's shareholders.

According to Saidi, bank bailouts are necessary. Still, they must be followed by a plan to stabilize the economy, such as fiscal and structural changes companies with international aid and financing from the IMF, World Bank, EU, and of course, the GCC countries.

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.”

Comments on Lebanon’s “slippery slope to mayhem” in

Reuters, 23 Aug 2021

Dr. Nasser Saidi's comments appeared in the Reuters article titled "**Analysis: Leaderless Lebanon on slippery slope to mayhem**", published 23rd August 2021.

Comments are posted below, on the upcoming elections in spring:

"Will there be the courage to undertake these reforms? I doubt it. The policymakers seem to be interested in tiding things over and kicking the can down the road until elections next year," said Nasser Saidi, a former economy minister and central bank vice governor.

"You need immediate reforms. You need shock therapy to restore confidence," he said.

Interview with BBC, an assessment a year after the Beirut blast, 4 Aug 2021

In an interview with BBC's Fergus Nicoll, Dr. Nasser Saidi offered his insights and assessment a year after the Beirut blast on the current economic/ social/ political situation in Lebanon. This was aired as part of the BBC World Business report on 4th Aug 2021.

Listen to the interview (Dr. Saidi joins from 03:32 onwards)

https://nassersaidi.com/wp-content/uploads/2021/08/WorldBusinessReport-20210804-BeirutBlastOneYearOn-clip.mp3

Bloomberg Daybreak Middle East Interview, 25 July 2021

Dr. Nasser Saidi joined Yousef Gamal El-Din on the 25th of July, 2021 as part of the Bloomberg Daybreak: Middle East edition, discussing the impact the Delta variant is having on global markets and inflation concerns. Dr. Saidi also spoke about Lebanon and the potential way forward (in terms of sanctions, failed state etc) as part of the interview

Watch the interview segment below and can also be accessed at https://www.bloomberg.com/news/videos/2021-07-25/fed-to-grapple-with-delta-risks-video

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Comments on hyperinflation in Lebanon in L'Orient Today, 21 Jul 2021

Dr. Nasser Saidi's comments were published as part of the article titled "With Lebanon edging closer to hyperinflation, a family of five now pays five times the minimum wage for food each month" in L'Orient Today; these are copied below.

Nasser Saidi, a former economy and industry minister, warned that although the country has not yet crossed the hyperinflation threshold, salary stagnation, especially in the public sector, is likely to push it there. Workers in several sectors, including transportation, education and banking, have already held multiple strikes to protest worsening living conditions.

As the security forces and other public sector employees up their demands for a so-called cost-of-living adjustment, Saidi told L'Orient Today, "politicians and parliamentarians will want to placate pressure in the streets [and] vote for a [cost-of-living] adjustment, leading to an increase in government spending financed by printing money, which will then lead to hyperinflation. That is the looming, likely scenario."

Interview with CNN on Lebanon's economic turmoil, 19 Jul 2021

Dr. Nasser Saidi's interview with CNN's Eleni Giokos on the program First Move focused on the real decline in income in Lebanon and the ongoing economic crisis. It was aired on the 19th of July 2021.

> *"A 40% real decline in income. Forget the Great Depression. This is multiple times that."*
>
> *Former Lebanese Economy Minister @Nasser_Saidi discusses #Lebanon's economic freefall & political gridlock with @EleniGiokos. pic.twitter.com/bnFtFe8h7w*
>
> *— First Move CNN (@firstmove) July 19, 2021*

Interview with Al Arabiya Al Hadath (Arabic) on subsidies and reserves in Lebanon, 2 Apr 2021

Dr. Nasser Saidi spoke to Al Arabiya Al Hadath on 2nd April 2021 about Lebanon's subsidies and international reserves. Watch the interview (in Arabic) below **from 1:31:40 onwards**:

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

Dr. Nasser Saidi's comments appeared in the Gulf News article titled "[How things went from bad to unbearable in Lebanon]", published 22nd March 2021.
Comments are posted below:

Citing security concerns, banks shut down and the minute they re-opened, were unable to accommodate depositors frantically trying to withdraw their savings. There were no more dollars in the country, and the state could not come up with logical answers as to where the money had vanished.
The lion's share had been consumed by the Central Bank of Lebanon, which insisted on an overvalued pegged exchange rate, says Nasser Saidi, an economist, former economy minister, and ex-deputy governor of the Central Bank.

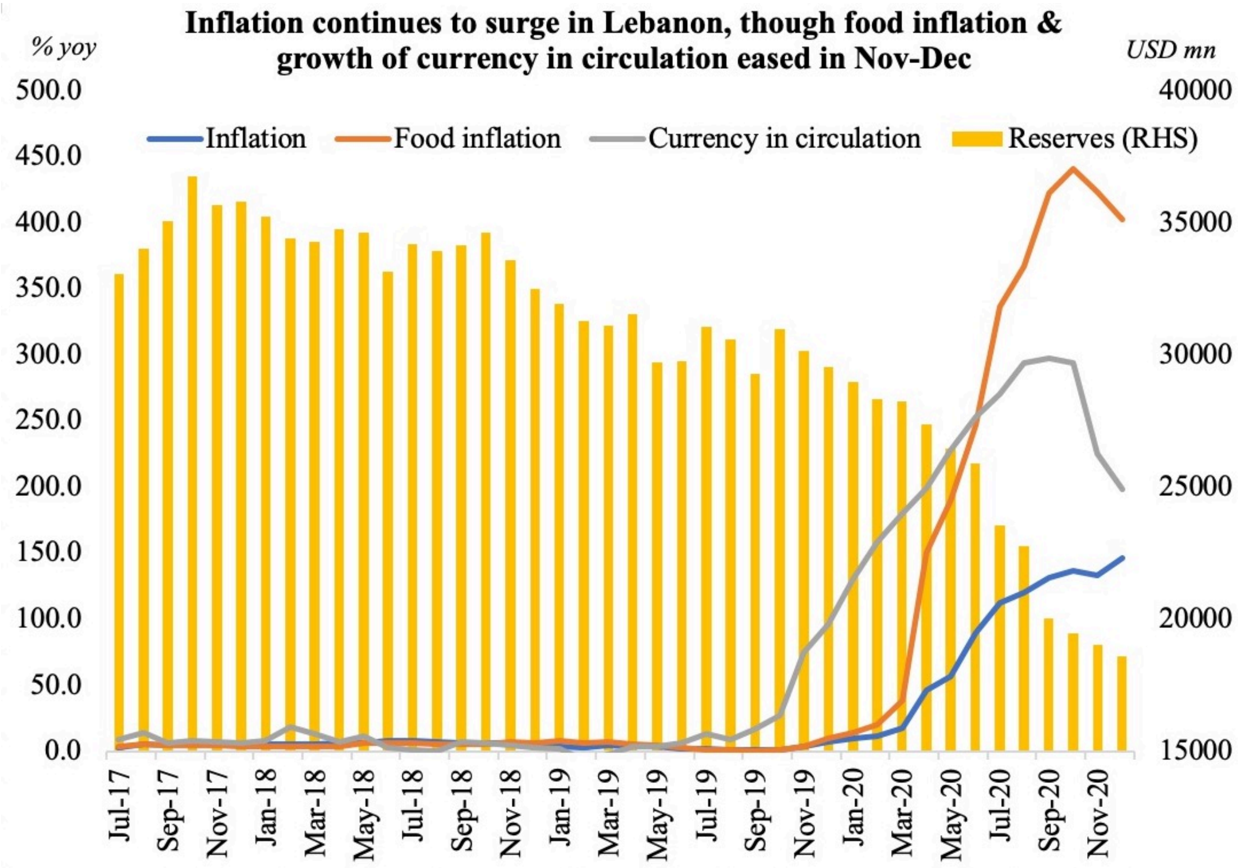
Speaking to Gulf News, he explained: "To protect an overvalued Lebanese pound, the Central Bank started borrowing at high interest rates to pay maturing debt and debt service." The result, he added was "confidence evaporated, reserves [were] exhausted, with the Central Bank unable to honour its foreign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

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

Weekly Insights 18 Mar 2021: Macroeconomic Updates on Lebanon, Saudi Arabia & the UAE

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

Chart 1. Lebanon: Cascading Collapses



Source: Central Administration of Statistics, BDL, Refinitiv. Chart by Nasser Saidi & Associates

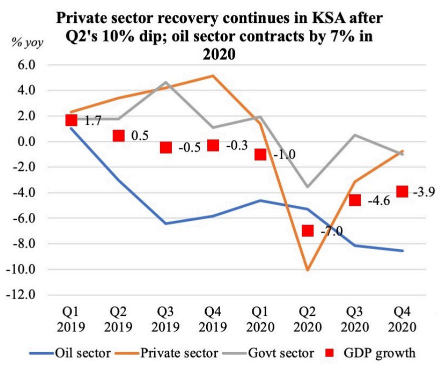
- According to the finance minister, the central bank has only USD 1-1.5bn to use to fund subsidies (i.e. just for 2-3 months more).
- The **Lebanese pound plummeted to record lows of 15000 per dollar on the black market on Tuesday** (from 10k on Mar 2nd)
- Overall **inflation was at 146% and food inflation at 402% in Dec 2020**. The pound's fall has further hiked food prices.
- This latest collapse, alongside statements of potential lifting of subsidies, has **triggered fears of shortages of food.**
- **Funding of (ill-designed) subsidies** can no longer be continued at the same pace.
- "Reserves", which are really "banks' dollar Legal Reserve Requirements at the Banque du Liban" *(this is a liability of the BDL – these are depositors' money deposited by the banks at the BDL)*, have halved from a year ago. News of **BDL's "revised" mandatory minimum**

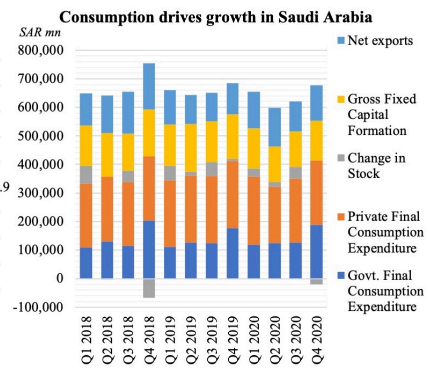
reserves to USD 15bn (down from USD 17bn) is only **a stopgap solution.**

- Given the ongoing political deadlock (the current caretaker government had resigned last Aug), it looks like a **very long and painful road to reforms and some semblance of “normalcy”**.

Chart 2. Saudi Arabia: Reforms to Boost Recovery?

- **Saudi Arabia’s GDP declined by 4.1% in 2020**, driven by substantial drops in both oil and non-oil sector acivity (at -6.7% and -2.3% respectively). Private sector was recovering at a faster pace in Q4 vs other sectors.
- By economic activity, the **mining and quarrying sector accounted for 44% of overall GDP in 2020** (growing by 0.8% yoy) though the finance insurance and business services (share of 6.1%) grew the fastest, up by 1.3%.
- By expenditure compoenents, consumption accounts for around 50% of overall GDP; last year, **government final consumption expenditure was the sole component showing positive growth** (+4.2%) while gross fixed capital formation plunged by 13.5%.
- PMI (which hit a 14-month high in Jan and eased in Feb) and rising credit growth alongside various announcements to increase private sector activity (regional HQs and approval of the Private Sector Participation law, to name a few) and attract FDI will bode well for the economy in the medium to long run.





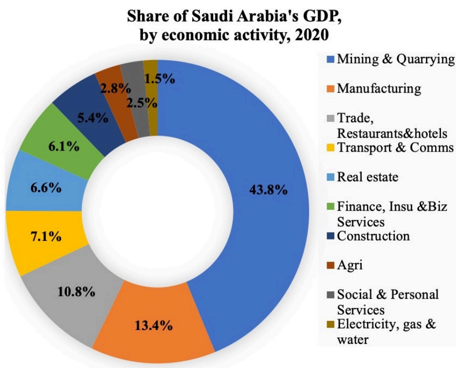
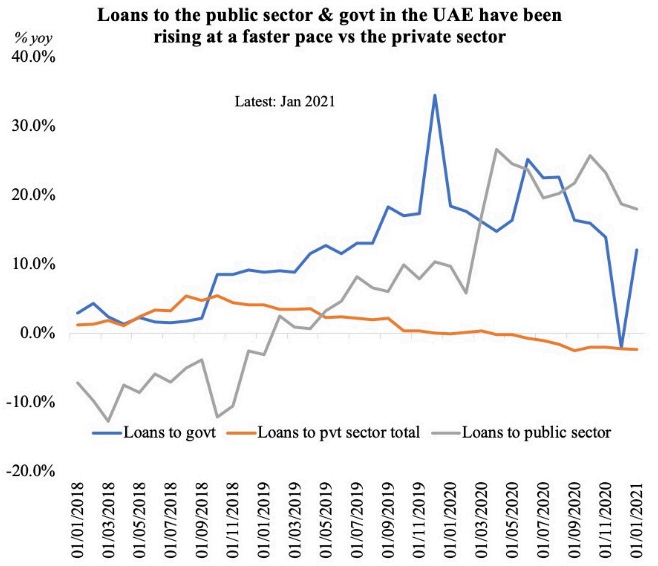


Chart 3

Source: General Authority for Statistics Saudi Arabia. Charts prepared by Nasser Saidi & Associates

. UAE: Successfully (?) Mitigating Covid19's Impact

- UAE Central Bank governor: **banking system's overall liquidity has returned to pre-Covid level**; 320k+ cutomers benefitted from the Targeted Economic Support Scheme (TESS) & ~175k customers are under deferral arrangements
- **Loans to the private sector dropped by 1.5% during Apr 2020- Jan 2021** while credit to government and GREs surged by 16% and 22% respectively. **Financial soundness indicators have improved**: ELAR remained above the 10% reegulatory minimum requirement while CAR, Tiel 1 capital ratio and CET 1 indicate well-capitalised banks.
- **In Jan 2021, monetary base contracted by 2.47% mom**, due to a 15.6% drop in Banks & OFC's Excess Reserves (which accounts for 19.8% of monetary base) while Certificates of Deposits purchased by banks (32.5% of monetary base) rose by 4.6%
- The **increases in the multipliers of M1, M2 and M3** indicate faster rise in the monetary aggregates M1, M2 and M3 vs contraction of the monetary base.

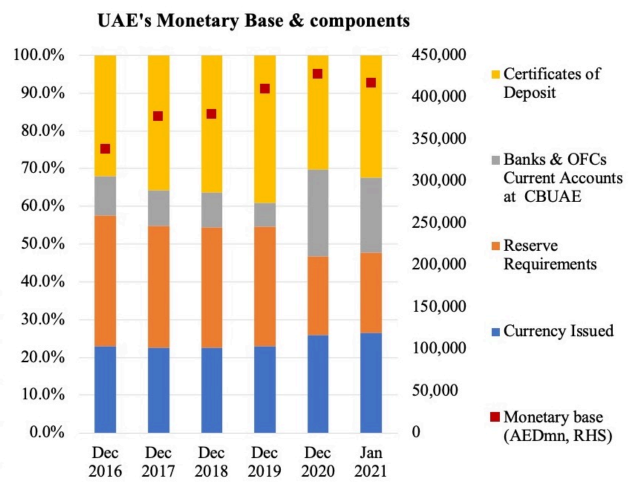


Money Multipliers in the UAE

	Dec 2016	Dec 2017	Dec 2018	Dec 2019	Dec 2020	Jan 2021
Money Multiplier of M1	1.40	1.30	1.28	1.26	1.40	1.47
Money Multiplier of M2	3.62	3.38	3.45	3.45	3.46	3.57
Money Multiplier of M3	4.17	3.94	4.22	4.19	4.14	4.24

UAE Financial Soundness Indicators (in %)

	Mar-20	Jun-20	Sep-20	Dec-20	Jan-21
Advances to Stable Resources Ratio	82.3%	81.9%	78.6%	77.6%	78.3%
Eligible Liquid Assets Ratio (ELAR)	17.3%	16.6%	16.9%	18.4%	17.9%
Capital Adequacy Ratio (CAR)	16.9%	17.6%	18.0%	18.2%	
Tier 1 Capital Ratio	15.8%	16.4%	16.9%	17.1%	
Common Equity Tier 1 (CET 1) Ratio	13.9%	14.7%	15.1%	14.9%	

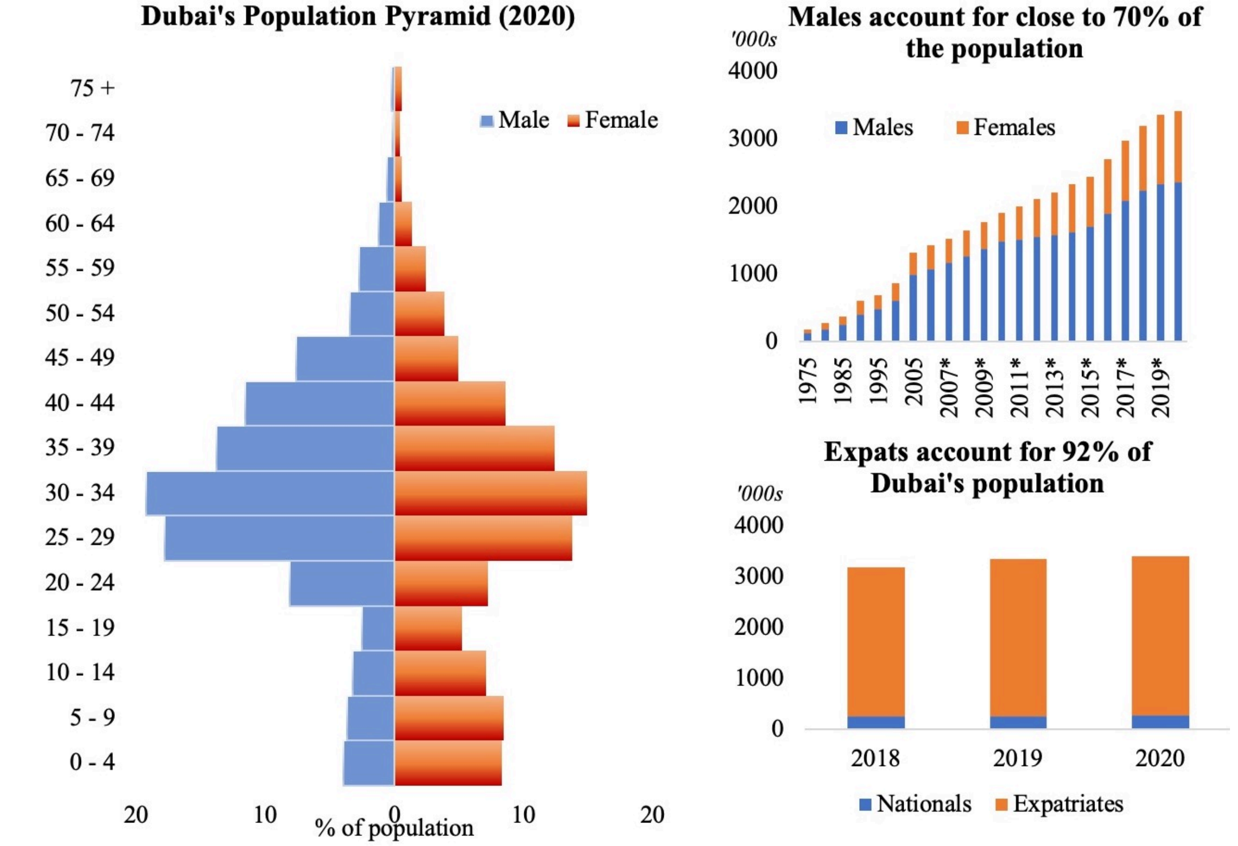


Source: UAE Central Bank, Refinitiv Eikon. Tables and charts by Nasser Saidi & Associates.

Chart 4. Up, Up

&

Away? Dubai’s Population ticks up to 3.4mn in Covid19-struck 2020



Source: Dubai Statistics Centre. Charts by Nasser Saidi & Associates.

- In spite of anecdotal evidence of job losses and repatriation flights, official Dubai Statistics Centre estimates that **Dubai’s population grew by 1.6% yoy to 3.41mn in 2020**.
- As expected, **expatriate population accounted for more than 90% of overall population**; males accounted for close to 70% of overall population – not surprising, with the construction sector accounting for almost 1/3-rd of employment in the UAE
- The population pyramid shows that about **70% of males and 55% of females are between the 25-49 years age group**. The gap between males and females are largest in the age groups of 30-34 and 25-29.
- The **Dubai Urban Masterplan 2040 projects population to surge by 76% to 5.8mn**. This follows recent reform measures including in visas (long term visas for

professionals and investors, retirement and remote working visas), 100% foreign ownership and even a path towards citizenship – all of which are likely to boost population numbers.
- **Dubai's openness at a time when other regional nations are pursuing localisation policies will likely work in its benefit**, though competition might be rife should Saudi Arabia emerge successful in its current reform path.

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Interview with Al Arabiya Al Hadath (Arabic) on the rapid depreciation of the Lebanese Pound, 17 Mar 2021

Dr. Nasser Saidi spoke to Al Arabiya Al Hadath's Lara Nabhan on 17th Mar 2021 about the rapid depreciation of the Lebanese Pound.

In the interview, Dr. Saidi touches upon on the collapse of the LBP due to a deliberate Inflation Tax imposed by the Diab government and the Banque du Liban, failed peg to the dollar, burst Ponzi scheme & "financial engineering" with an ill-designed subsidy policy, 80% of which benefited traders and smugglers – not the poor and needy.

Watch the full interview (in Arabic) below:

https://nassersaidi.com/wp-content/uploads/2021/03/Website-1.mp4

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

Dr. Nasser Saidi’s comments appeared in the Reuters article titled “Brawls in shops as Lebanon’s financial meltdown hits supply of food“, published 17th March 2021.
Comments are posted below:

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

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

Comments on Lebanon's ongoing economic turmoil in Arab

News, Mar 13 2021

Dr. Nasser Saidi’s comments appeared in an Arab News article titled “Prolonged crisis of governance leaves Lebanon adrift and isolated” on 13th March 2021.
The comments are posted below.
…the latest lockdown has all the trappings of the final straw.
“None of this is surprising,” Nasser Saidi, Lebanon’s former economy and trade minister, told Arab News.
“Income is down. GDP is down by at least 25 percent. We’re having inflation in excess of 130 percent; general poverty is over 50 percent of the population; food poverty is over 25 percent of the population; unemployment is rapidly increasing; and thousands of businesses are being shut down.
“All of this is coming to the fore and at the same time we have a lockdown. It was a very stupid decision the way it was done, to lock Lebanon down, because it prohibits people from even being able to go and get their groceries, their food and necessities. And then it meant also shutting down factories and manufacturing.
“If you get sick, you can’t even get to a hospital or afford a hospital. Hospitals are full now due to COVID-19. You have had a series of very bad decision-making and policies, and Lebanon is paying the price for it. This is going to continue. It is not going to go away. In my opinion, we are seeing just the tip of the iceberg.”

Comments on Lebanon's bank

recapitalisation efforts in Al Joumhouria (Arabic), 27 Feb 2021

Dr. Nasser Saidi’s comments on bank recpaitalisation efforts in Lebanon can be accessed in the Al Joumhouria article published on 27th Feb, 2021.

The comments are copied below:

وفي هذا الاطار، أوضح الوزير السابق ونائب حاكم مصرف لبنان سابقاً ناصر السعيدي انّ زيادة رأس المال المطلوبة لا تمثّل سوى 15 في المئة فقط من المطلوب لأنّ المصارف خسرت كامل رأسمالها، معتبراً انّ زيادة رأس المال هي جزء بسيط من حلّ شامل مطلوب هو اعادة هيكلة القطاع المصرفي في اسرع وقت ممكن ضمن خطة متكاملة، ومن خلال اعادة هيكلة ديون الدولة وديون مصرف لبنان والديون المتعثرة للقطاع الخاص.

واعتبر انّ رأس مال المصارف بحاجة لزيادة بمقدار 20 الى 25 مليار دولار، وبالتالي فإنّ الزيادة الحالية البالغة 3 مليارات دولار غير كافية على الإطلاق لتغطية الخسائر في الديون الحكومية وفي التوظيفات لدى مصرف لبنان، ناهيك عن القروض المتعثرة المتزايدة للقطاع الخاص بسبب حالات الإفلاس والتعثر.

وأشار السعيدي لـ«الجمهورية» الى انّ المصارف لم تقم بزيادة رأسمالها من خلال زيادة فعلية لأموالها الخاصة عن طريق المساهمين، بل لجأت الى زيادة رأس مالها عبر شراء دولارات من السوق المحلي ما أدّى الى تقليص حجم السيولة بالدولار في السوق وأعادها الى المصارف، علماً انها لن تستخدمها لتمويل القطاع الخاص بل لتغطية جزء من خسائرها.

كما شرح السعيدي انّ نسبة السيولة الخارجية المطلوب تأمينها من قبل المصارف (3 %) ضئيلة ولن ترضي المصارف المراسلة التي بدورها لن تعاود فتح خطوط اعتماد للمصارف اللبنانية، بل ستواصل تأمين التحويلات المالية التي تتوفر اموالها نقداً فقط، مما سيُبقي على التأثير السلبي على التجارة الخارجية للبنان وعلى تجارة المغتربين اللبنانيين الذين أودعوا اموالهم في المصارف اللبنانية وتم تجميدها ممّا أدّى الى تعطّل كافة اعمالهم التجارية وبلغوا حدّ الافلاس.

Currency Board: Salvation for Lebanon’s Woes? Presentation at LIFE webinar, 4 Feb 2021

Dr. Nasser Saidi shared his views on the topic “**Currency Board: Salvation for Lebanon’s Woes?**” at LIFE Lebanon‘s webinar held on 4th February 2021, **concluding that a Currency Board is NOT a salvation for Lebanon’s woes.**
The main discussion points were:

- What are Currency Boards? Main characteristics.
- Currency boards in history and practice: colonial history, recent examples
- Macroeconomic requirements for a sustainable currency board
- Is a Currency Board feasible for Lebanon? Reforms and requirements
- A Currency Board is not a salvation for Lebanon’s woes

The presentation can be downloaded here.

"Lebanon awaits deep and

immediate reforms", Oped in AnNahar, 14 Feb 2021

The Arabic version of the article titled "Lebanon awaits deep and immediate reforms" can be accessed on the website. Scroll down for the English translation.

لبنان Libazuela… هرباً من ينتظر إصلاحات عميقة وفوريّة

لبنان دولة فاشلة. إذ تغيب سيادة القانون، ويستشري الهدر والفساد، ويتزايد الاستقطاب السياسي. وحيث الافتقار للمساءلة (لنتذكر انفجار مرفأ بيروت الكارثي والاغتيالات)، وتصاعد القمع الحكومي العنيف للاحتجاجات. لبنان غارق في أزمات متداخلة في المالية العامّة والديون والمصارف والعملة وميزان المدفوعات، ما أدّى إلى #كساد اقتصادي وأزمة إنسانية تجلّت في فقر يعيشه نحو 50% من السكّان، وفقر في الغذاء لدى 25% منهم. وقد دُمّرت الركائز الأساسية للاقتصاد اللبناني القائم على التجارة والسياحة، والخدمات المصرفية والمالية، والخدمات الصحّية والتعليمية، ربما بشكل لا يمكن إصلاحه. ويحلّ الانهيار الاقتصادي والنقدي، الذي أدّى لانخفاض قيمة الليرة اللبنانية بنسبة 80% وإلى ضريبة تضخّم بنسبة 130%، نتيجة لانهيار مخطط بونزي وعمليات الهندسة المالية لمصرف لبنان، إلى جانب أخطاء سياسية متعددة. والأهمّ، أنه كان من الممكن تجنّب الأحداثٍ الدرامية التي وقعت خلال 2019-2020.

برغم ذلك لا يزال الأمل موجوداً، إن اعتُمدت إصلاحات أقترح منها التالي:

– حكومة قويّة من خبراء السياسة العامّة المستقلّين بصلاحيات استثنائية لفترة محدودة.

– تنفيذ تدابير إصلاح بناء الثقة، لخفض عجز الميزانية بشكل مستدام، بما فيها إزالة الوقود والكهرباء والإعانات الأخرى (20% فقط منها تذهب إلى الفقراء والمحتاجين) والاستعاضة عنها بالتحويلات النقدية المباشرة، كجزء من صافي الأمان الاجتماعي المستهدف.

– التخلّص من نظام سعر الصرف المتعددٍ المشوّه، والانتقال تدريجياً إلى أسعار الصرف المرنة.

– إعادة هيكلة الجهاز المصرفي و#إصلاح مصرف لبنان.

– إعادة هيكلة الديون العامّة وديون مصرف لبنان.

– التفاوض بشأن برنامج صندوق النقد الدولي وخطة "مارشال"،

بتمويل متعدد الأطراف من المؤسسات المالية الدولية والمشاركين في "سيدر"، بمن فيهم الاتحاد الأوروبي ومجلس التعاون الخليجي. وهذا من شأنه أن يُترجَم تمويلاً للبنية التحتية، وإعادة الإعمار، والوصول إلى السيولة، وتحقيق الاستقرار وإنعاش النشاط الاقتصادي للقطاع الخاص.

– العمل مع المجتمع الدولي (بما في ذلك الولايات المتحدة والاتحاد الأوروبي وبريطانيا وسويسرا وغيرها) لفرض عقوبات شخصية، وتجميد أصول السياسيين وصانعي السياسات والمنظمين الرئيسيين في لبنان، كجزء من برنامج استرداد الأصول المسروقة.

بدون مثل هذه الإصلاحات السياسية العميقة والفورية، سنتّجه نحو عقد ضائع، وسط هجرة جماعية واضطرابات اجتماعية وسياسية وعنف، وسيتحوّل لبنان إلى "Libazuela".

English translation

Lebanon is a failed state, with an absence of the rule of law, endemic waste and corruption, growing political polarization, lack of accountability (witness the cataclysmic Port of Beirut explosion, assassinations), and mounting government violent repression of protests. Lebanon is engulfed in overlapping fiscal, debt, banking, currency and balance of payments crises, resulting in an economic depression and humanitarian crisis with general and food poverty affecting some 50% and 25%, respectively, of the population. The main pillars of Lebanon's economy -trade and tourism, banking & finance, health and educational services- have been destroyed, if not irremediably. The economic and monetary meltdown, resulting in an 80% depreciation of the Lebanese Pound and a 130% inflation tax, is the result of the collapse of the Ponzi scheme and 'financial engineering' operations of the BDL along with multiple policy errors. Importantly, the dramatic events of 2019-2020 were avoidable.

There is hope through:

1. A strong government of independent, public policy experts, with extraordinary powers for a limited period;
2. Implement confidence building reform measures to sustainably cut the budget deficit, including by removing fuel, electricity and other subsidies (only 20% of which go to the poor and needy) and replacing with direct cash transfers, as part of a targeted social safety net.

3. Scrap the distortionary multiple exchange rate system and gradually move to flexible exchange rates.
4. Restructure the banking system and reform the BDL.
5. Restructure the public and BDL debts.
6. Negotiate an IMF programme and a 'Marshall plan' with multilateral funding from international financial institutions and Cedre conference participants, including the EU and the Gulf Cooperation Council. This would translate into financing for infrastructure, reconstruction, access to liquidity, and stabilise and revive private sector economic activity.
7. Act with the international community (including US, EU, UK, Switzerland and others) to impose personal sanctions and freezing of the assets of Lebanon's main politicians and policy makers and regulators, as part of a Stolen Asset Recovery programme.

Without such deep and immediate policy reforms, Lebanon is heading for a lost decade, with mass migration, social and political unrest and violence. Lebanon will become "Libazuela".

"Lebanon Must Enact Drastic Reforms to Survive", Comments in VOANews, 25 Jan 2021

Dr. Nasser Saidi's comments from a Malcolm H. Kerr Carnegie Middle East Center event appeared in VOA News in an article titled "Lebanon Must Enact Drastic Reforms to Survive,

Economists Say" published on 25th Jan 2021.
Dr. Saidi's quotes are posted below.

Lebanon has the third-highest debt-to-gross-domestic-product ratio in the world and is in need of extensive economic restructuring, Nasser Saidi, former minister of economy and trade in Lebanon, recently told the Malcolm H. Kerr Carnegie Middle East Center.

"If you look at other countries that have been in crisis – Greece, Argentina, Iceland – this goes well beyond that," he said. "We are seeing real GDP declining in 2020 by about 20 percent. It had already declined by 7 percent in 2019. So, this is a massive depression, even greater than that in the 1930s, in the Great Depression."

Saidi says billions of dollars of Lebanon's stolen assets need to be recovered. Sanctions, such as those under the Magnitsky Act, can help, particularly if the U.S. and European Union coordinate their efforts to get Lebanon back on track. Saidi says Lebanon's corrupt politicians and business elite "need to be held accountable for what they've done" to bring the country into such a dire situation.

"They've effectively destroyed Lebanon," he said. "They're now holding Lebanon hostage. The politicians in Lebanon will feel the bite, and particularly as you start getting perhaps the beginning of a dialogue with Iran and telling Iran: 'You've got to hold Hezbollah back and let's get the reform agenda moving in Lebanon.'"

Interview with Asharq Business (Bloomberg) on

Lebanon, 3 Dec 2020

Dr. Nasser Saidi joined Asharq Business (Bloomberg) on 3rd Dec 2020, to speak about the Lebanon, its need for reforms and the latest aid conference.
Watch the interview (in Arabic) at this link.

ناصر السعيدي: انهيار الاقتصاد اللبناني متعمّد وليس سوء إدارة

أكد الاقتصاديّ اللبنانيّ ناصر السعيدي، أنّ انهيار الاقتصاد في لبنان، وتردي الأوضاع المعيشية، لم ينتج عن إهمال أو سوء إدارة، إنما كان نتيجة تعمّدٍ من المصرف المركزي، والحكومة اللبنانية لإفقار الشعب اللبناني.

وأكّد الرئيس والمؤسس لشركة ناصر السعيدي، أنّ المصرف اللبنانيٍ يفتقد للشفافية في إدارة السياسة النقدية للبلاد، مشيراً أيضاً إلى أنّ الحكومة تعتمد سياسة مالية خاطئة في ضوء مخصصات الدعم الحالية التي لا تنعكس على الفقراء في لبنان، كونها تصل إلى 20% فقط من المحتاجين في البلاد، وتُسرّب باقي مخصصات الدعم في قطاعات لا تحقّق استفادةً للشعب.

وأضاف السعيدي في لقاء مع قناة الشرق للأخبار، أنّ مؤتمر دعم لبنان المنعقد برعاية فرنسية، ومنظمات دولية، يستهدف الضغط على المسؤولين اللبنانيين لاتخاذ إجراءات جادة، من أجل إنقاذ لبنان من الانهيار الحالي.

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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"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

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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

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"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”!

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

Dr. Nasser Saidi's comments appeared in the Reuters article titled "A year on, Lebanon's protests have faded and life has got worse", published 16th October 2020.
Comments are posted below:
"I think young people are trying to survive, that's why they're not going to the streets. I think they've been frightened because they've been threatened," said Nasser Saidi, a leading economist and former minister.
"We've never had anything this bad."

Interview with CNBC on Lebanon's economic crisis, 15 Oct 2020

Dr. Nasser Saidi, Lebanon's Former Minister for Economy, weighs in on the country's current economic and political peril in his interview with Hadley Gamble on CNBC's "Capital Connections" program, aired on 15th Oct 2020.

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

Dr. Nasser Saidi’s comments appeared in the Reuters article titled “‘We’re scared’: Lebanon on edge as time and money run out“, published 9th October 2020.
Comments are posted below:
“Everything that happened since last October could have been avoidable,” Nasser Saidi, a former vice central bank governor, told Reuters.
He said targeted aid to the poorest Lebanese would be more effective than subsidies across the board, which had benefited smugglers taking goods into Syria.
“It’s all kicking the can down the road. What should have been done is a full economic and financial plan,” Saidi said.

"Lebanon needs a digital revolution", Oped in AnNahar, 27 Sep 2020

The Arabic version of the article titled “لبنان يحتاج إلى ثورة رقمية” can be accessed on the website directly *(paywall)* or read below. The English version of the same article, titled “Lebanon needs a digital revolution” can be downloaded here.

لبنان يحتاج إلى ثورة رقمية

ناصر سعيدي*
ترجمة نسرين ناضر

يمرّ لبنان بأزمة اقتصادية هي الأعمق منذ تأسيسه في أيلول 1920. فالبلاد تتخبط راهناً في أزمات متداخلة على مستوى أوضاعها المالية ومديونيتها وقطاعها المصرفي وعملتها وميزان مدفوعاتها، ما يتسبب بركود اقتصادي وأزمة إنسانية، حيث يرزح نحو 50 في المئة من السكان تحت خط الفقر، ويعاني حوالى 25 في المئة من الفقر الغذائي. وقد تدهورت قيمة الليرة اللبنانية بنسبة تناهز 80 في المئة خلال العام المنصرم؛ وارتفعت نسبة التضخم إلى 120 في المئة، فيما يلوح في الأفق شبح التضخم المفرط. وبدا المشهد بعد الانفجار المروّع في مرفأ بيروت في الرابع من آب، بالإضافة الى تداعيات الإغلاق الناجمة جائحة "كوفيد 19"، مما زاد حدّة الأزمات الاقتصادية والإنسانية التي تنوء منها البلاد. تُقدّر كلفة إعادة الإعمار بعد الانفجار المروّع بأكثر من عشرة مليارات دولار، أي ما يزيد على 25 في المئة من قيمة الناتج المحلي الإجمالي، ولبنان ولا يمتلك لبنان القدرة على تمويلها.

هل يمكن انتشال لبنان من الهاوية؟ حجر الأساس هو إعادة بناء رجالات السياسة وإرساء مرتكزات الحوكمةالتي أنهكها تفشّي سرطان الفساد والمحسوبيات والاستيلاء على مقدّرات الدولة والالتفاف على القوانين والنظم خدمةً للمآرب الخاصة؛ إنها باختصار زمرة سرق تتلطّى خلف ستار الطائفية. والمطلوب من أجل تحقيق الاستقرار السياسي في لبنان هو فصل الدين عن الدولة، وبناء الدولة العلمانية. تقتضي المعافاة المستدامة وآفاق النمو في المستقبل إلى تغيير جذري في العمق اللبناني، وإرساء نموذج جديد للتنمية الاقتصادية، وتجديد الاستثمار في البنى المجسمة بطريقة "ذكيّة" والتوظيف في البنى التحتية الناعمة، وأيضاً التوظيف في القدرات البشرية. كما يجب دعم تلك الإصلاحات بمناقشات هيكلية موسعة مالياً ونقدياً. يجب ان يكون التركيز على أولوية النمو ورفع الإنتاج من أجل ابتكار استراتيجيا لاستحداث العمل. وينبغي لنا إطلاق ثورة رقمية تقود إلى دولة رقمية في لبنان (e-Lebanon). لقد باتت التقنيات الرقمية شديدة الانتشار، وتُحدث تغيراً في الحوكمة والتجارة والتصنيع والإنتاج والنقل والقطاعين المصرفي والمالي والخدمات الصحية وقطاعات أخرى. التقنية احدثت تغيراً سريعاً في الزراعة ما يُعرف بـ Agritech. نحن نعيش اليوم في ظل تطور سريع للاقتصاد الرقمي والمجتمع الرقمي. في هذا السياق، ساهم تفشّي فيروس كورونا في تسريع وتيرة التحوّل الرقمي، والدليل على ذلك "العمل من المنزل"، والمؤتمرات عبر الإنترنت (webinars)، وتوصيل المأكولات من دون تلامس (contactless)، والتعلم عن بعد. لبنان، في هذا الإطار، بحاجة ماسّة إلى التغذية الجيدة بالتيار الكهربائي، وإلى تأمين خدمة اتصال ثابت بالإنترنت ومتاح على نطاق واسع، فهذان العاملان هما أساسيان جداً لدعم النشاط الرقمي وتطويره، وتعزيزه للتواصل الدائم مع الكون.

من الضروري أن يوظّف لبنان استثمارات طائلة في البنى التحتية الرقمية لخفض الكلفة التشغيلية وزيادة سرعة خدمات الحزمة العريضة، من خلال الانتقال إلى شبكات ومنصّات الجيل الخامس (5G). لقد جرى توسيع شبكة الجيل الرابع (4G) جزئياً وإنشاء مزيد من المواقع الخليوية خلال 2019-2020، مع تطوير البنى التحتية (6000 مشترك متصلون بتقنية الفايبر أوبتيك، و120000 مشترك آخر جاهزون لشبك خط الاتصالات بها، وفقاً لشركة أوجيرو. أما عدد المشتركين في الحزمة العريضة فأكبر بكثير، ويبلغ 3 ملايين مشترك)، ولكن لم يُسجَّل أي تحسّن ملموس في السرعة حتى الآن! في هذا الصدد، تمارس الجهات المزوّدة بخدمات الإنترنت والخدمات الرقمية ضغوطاً من أجل الحفاظ على حصتها في السوق. أضف إلى ذلك الإخفاق في وضع أسس تنظيمية وتطبيقها، ما يتسبب بعرقلة التغيير. خلال العام الجاري، انتقلت إدارة الشركتَين المشغّلتين للقطاع الخليوي إلى وزارة الاتصالات، ما يُنذر بالقضاء على الابتكار والتطوير. يجب أن تكون الهيئة الناظمة لقطاع الاتصالات مستقلة تماماً عن الوزارة من أجل تحرير القطاع وتطويره وتنظيمه، وينبغي أيضاً خصخصة الشركتَين المشغّلتين ("ألفا" و"تاتش").

وحده التغيير الجذري في أسلوب العمل بعيداً من الممارسات المعهودة كفيلٌ بأن يتيح للبنان المشاركة بفاعلية في التحولات الأربعة الكبرى الأساسية التي سوف تتجلى في العقود القادمة ومنها: الخدمات الرقمية مثل التجارة الإلكترونية والتكنولوجيا المالية (FinTech)؛ والطاقة والتكنولوجيات النظيفة للحد من أخطار التغيّر المناخي وتداعياته؛ وعلوم الصحة والحياة؛ والذكاء الاصطناعي، وتقنية البلوك تشين، والروبوتيات، وتقنيات النانو.

سوف يشهد القطاع المصرفي اللبناني عملية كبرى لإعادة هيكلته وتقليص حجمه في السنوات المقبلة. ومع استعادة الثقة، سوف يكون استخدام التقنيات الرقمية واعتماد التكنولوجيا المالية على نطاق واسع ضروريين من أجل الحفاظ على التنافسية. تشهد دول مختلفة، مثل أستونيا والصين وكينيا ومالطا وتايلاند وسنغافورة، للفوائد التي يمكن أن تتحقق على مستوى التنمية الاقتصادية عند اعتماد التقنيات الرقمية في خدمات الدفع والعمليات المصرفية.

من شأن اعتماد التكنولوجيا الرقمية على مستوى الحكومة أن تعزز المالية العامة وخفض عجز الموازنة من خلال تحسين آلية الرقابة على المعاملات وجباية الضريبة على القيمة المضافة وتحصيل الرسوم الجمركية والضرائب العقارية، وزيادة إنتاجية الخدمات، والحد من الهدر والرشاوى والفساد في المشتريات العامة والإنفاق. ومن شأن اعتماد بطاقات رقمية لجميع الموظفين في القطاع العام أن يساهم إلى حد كبير في خفض أعداد موظفي "الظل" والموظفين الذين لا يحضرون إلى العمل، ونسبة هؤلاء نحو 20 في المئة من المجموع! ويؤدّي ذلك بدوره إلى خفض التكاليف الناجمة عن توظيفهم. الحوكمة الرقمية هي أداة قوية وفعّالة في مواجهة الرشوة والفساد.

يتيح إطلاق البطاقة الرقمية للهوية الشخصية (كما في أستونيا) الوصول إلى جميع الخدمات الإلكترونية، بما في ذلك الحكومية منها، ويسمح بالتصويت الآمن في الانتخابات. ومن أجل تحقيق الثورة الرقمية في لبنان، علينا إنشاء مؤسسات رقمية، ووزارة للاقتصاد الرقمي والذكاء الاصطناعي (بما يشمل قطاع الاتصالات)، وإقرار قوانين وتنظيمات لدعم التكنولوجيات الجديدة والاعتراف بالأصول الرقمية وتنظيمها. ويجب إنشاء معهد وطني للعلوم والتكنولوجيا يضمّ مختبرات رقمية وحاضنات ومسرّعات أعمال رقمية. وحين يصبح لبنان دولة رقمية، سوف يتيح ذلك للاستفادة القصوى من رأس المال البشري ومن الكفاءات التي يتمتع بها الشباب وروّاد الأعمال اللبنانيون، والموارد البشرية ويساهم بذلك أيضاً في استقطاب الاستثمارات الخارجية المباشرة لتعزيز الابتكار التكنولوجي والقطاعات الأكثر اعتماداً على المعرفة. في هذا الإطار، تشير الأدلة المستمدة من الصين وبلدان أخرى إلى أن زيادة بنسبة نقطة مئوية واحدة في تطبيق التكنولوجيا الرقمية تؤدّي إلى تحسّن النمو بمعدّل 0.3 نقطة مئوية. ومن أجل أن يصبح لبنان دولة رقمية، يجب إقامة شراكة بين القطاعين العام والخاص، لكن القطاع الخاص اللبناني الذي يمتلك مؤهّلات كبيرة يستطيع أن يكون رأس الحربة في إطلاق ثورة رقمية تنقذ لبنان وتُحدث تحوّلاً في المشهد الاقتصادي.

أسرتا "النهار" و"الأميركية" تضعان اللمسات الأخيرة على العدد.

(تصوير نبيل اسماعيل)

■ خبير اقتصادي ووزير سابق ونائب أول لحاكم مصرف لبنان سابقاً.

"Turning War Economies into Peace Economies: Lessons from Lebanon & Beyond", Presentation at IFIT webinar, 24 Sep 2020

Dr. Nasser Saidi presented on the topic "Turning War Economies into Peace Economies: Lessons from Lebanon and Beyond" *(click title to download)*, at a webinar hosted by the Institute for Integrated Transitions (IFIT) on 24th Sep 2020.

In conflict-affected states, achieving sustainable and inclusive growth depends in no small part on transforming the incentives and structures that underpin a wartime economy. The talk analysed key structural lessons from Lebanon and other countries in the wider region.

During the talk, Dr. Saidi touched upon Lebanon’s short history (1920-2020) in addition to laying out the economic consequences of conflicts and post-conflict reconstruction. Impact of population displacement and refugees as well as state capture by militias and allies formed valid discussion points. The talk was wrapped up by focusing on Lebanon, with respect to the structural reforms needed for economic-financial-fiscal-monetary-banking-financial stabilisation and reform.

"Lebanon: a multi-pronged tragedy with unforeseeable consequences", CJBS Perspectives Interview with Dr. Jenny Chu, Sep 2020

How has the Beirut explosion disaster been exacerbated by the global pandemic, economic crisis and the failures in government leadership? What is needed to rebuild Lebanon? Dr. Nasser Saidi shared his thoughts when interviewed by Dr. Jenny Chu as part of the University of Cambridge Judge Business School (CBJS) Perspectives series.
Watch the interview below:

Interview with Vice News on the Beirut blast & the real estate sector, Aug 2020

The Vice News segment focuses on the Beirut blast and how real estate developers are exploiting displaced residents in Beirut. Dr. Nasser Saidi comments on Solidere – watch the video below:

Comments on Lebanon's economy in Arab News, 25 Aug 2020

Dr. Nasser Saidi's comments appeared in the Arab News article titled "Can Lebanon avoid the Venezuela meltdown scenario?", published 25th August 2020.
Comments are posted below:
A former economy minister of Lebanon has coined a word for it: "Libazeula." Nasser Saidi, who ran the economy at the turn of the century and was also No. 2 in the Banque du Liban, the country's central bank, says Lebanon faces a scenario that could see it reduced to the chaotic impoverishment of Venezuela, once the richest state in Latin America but now a byword for political, economic and humanitarian failure.
"Lebanon is on the brink of the abyss of depression, with gross domestic product (GDP) declining by 25 percent this year, growing unemployment, hyperinflation, humanitarian disaster with poverty exceeding half of the population," Saidi told Arab News.

“Throw in food poverty that could grow to famine conditions, and a continuing meltdown in the banking and financial sectors, and the collapse of the currency, all leading to mass migration. This is the ‘Libazuela’ scenario.”“With Lebanon being the fulcrum of a geopolitical confrontation between the US and Iran, local actors will play strategic games at the expense of an expendable Lebanese population,” Saidi said.
Saidi is not optimistic this [genuine commitment by Lebanese leaders to reform] will come to pass. “The reform scenario requires concerted pressure by the international community, including the imposition of personal penalties and sanctions, on Lebanese bankers and politicians and policymakers for the implementation of reforms,” he said. “The entrenched kleptocracy, a corrupt political class, banking and financial sector cronies are unwilling to make reforms that would uncover the extent of their corruption, criminal negligence and incompetence. Currently, the Libazuela scenario is more likely.”

"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:

Comments on the Beirut blast & Lebanon's crisis, Bloomberg, 13 Aug 2020

Dr. Nasser Saidi's comments appeared in the Bloomberg article titled "Lebanon's Deepening Economic Crisis Laid Bare by Beirut Blast", published 13th August 2020.
Comments are posted below:
With talks at an impasse and the nation locked out of international debt markets, Lebanon's central bank began printing money with abandon, causing the value of the currency to plunge further and igniting inflation, which neared an annualized 90% in June. ***"We are heading the way of Venezuela,"*** *says Nasser Saidi, a former economy minister.*
Prices in the import-dependent nation—including those for food staples, which had soared 250% in the 12 months to June—are no doubt headed higher as a result of the blast, which damaged the country's main grain silo and other infrastructure vital to commerce. Saidi estimates the country's imports will drop by more than 70% this year.
The ruling class "has to be removed. They have to resign and

go away. If they don't go, we will get increasing violence in the street," *says Saidi, the former economy minister. "To do this we need sustained international pressure, from Macron, from others, and if necessary sanctions—international sanctions at the personal level that hit these people where it hurts."*

Saidi's comparison to Venezuela is apt. There, the divided opposition has been unable to unseat a government that's driven the economy of the petroleum-rich nation into the ground. In Lebanon, opposition forces have yet to conceive a viable alternative to the sectarian quota system.

Comments on Lebanon's financial sector post-Beirut blast, S&P Global Market Intelligence, 12 Aug 2020

Dr. Nasser Saidi's comments appeared in the article titled "After blast, Lebanon's 'uninvestable' banks face sector rebuild, depositor pain", published by S&P Global Market Intelligence on 12th August 2020.

Comments are posted below:

"Lebanon doesn't have the fiscal space to fund the reconstruction of the public sector infrastructure destroyed in the explosion, and has no ability to borrow either because no one will lend to the country," former vice-governor of the Lebanese central bank Nasser Saidi told S&P Global Market Intelligence. He said the ***banks will need to restructure, sell assets and consolidate.***

"The bankers and the central bank are trying to resist that

and push the burden of adjustment on to the government and depositors," *said Saidi, who has also held the positions of Lebanon's minister of economy and trade, and of industry, and is president of consultancy Nasser Saidi & Associates.*
"The banking system will have to be restructured," *said Saidi. "Banks will have to downsize, sell the assets they hold abroad and repatriate the proceeds, sell their real estate holdings, and rebuild their balance sheets if they want to stay in business … there will be M&A."*
Saidi estimates that about 60% of Lebanon's debts are due to interest rate increases designed to protect the pound, and criticized the central bank for failing to officially devalue the currency.
Saidi said Lebanon could solve the crisis by enacting capital controls, unifying the pound-to-dollar exchange rate, restructuring state-related debts and removing general subsidies. *Up to $30 billion is needed to restructure the public sector, and a further $25 billion to restructure and recapitalize the banking sector, he said.*

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

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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.”

Comments on the blast in Lebanon's Beirut in Arab News, 6 Aug 2020

Dr. Nasser Saidi’s comments appeared in the Arab News article titled “Doctors on emergency duty describe horror of Beirut explosions“, published 6th August 2020.
Comments are posted below:
“The scale of the destruction is unprecedented, even by Beirut’s sad history of explosions,” Nasser Saidi, a former economy and trade minister and founder of Nasser Saidi & Associates, told Arab News from Beirut.
“On a global scale, this was the most powerful explosion after Hiroshima and Nagasaki, and more devastating than Halifax (1917) and Texas City (1947) where 2,300 tons of ammonium nitrate exploded,” he said. “The resulting loss of life and injuries to residents has generated deep anger. The ammonium nitrate had been in storage at Beirut port since 2014, posing a clear danger. It was a disaster waiting to happen.”
“This is a case of criminal neglect by the authorities and management in charge of the port, customs, the security and judicial authorities and governments. Warnings were given, but they went unheeded. There must be justice and accountability.”
Saidi warned the explosions will deepen the economic, banking and financial meltdown, currency depreciation and soaring inflation. The destruction of the port will hit Lebanon’s imports of food, medicines and essential goods.

“International aid is required not only to address humanitarian needs but to push for political reform,” he said. “The Diab government cannot continue blaming the accumulations of past bad governance.”

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

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

Interview on CNN's Quest Means Business on the Beirut blast & accelerating financial collapse, 5 Aug

2020

Dr. Nasser Saidi was on CNN International’s Quest Means Business programme on 5th of Aug 2020. Following the blast in Lebanon’s capital city Beirut, Dr. Saidi said the “political message” to Lebanon has to come from the rest of the world, “and it is urgent. We don’t want another failed state on the Mediterranean coast…the rest of the world really cannot afford that.”
Watch the interview below:

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.

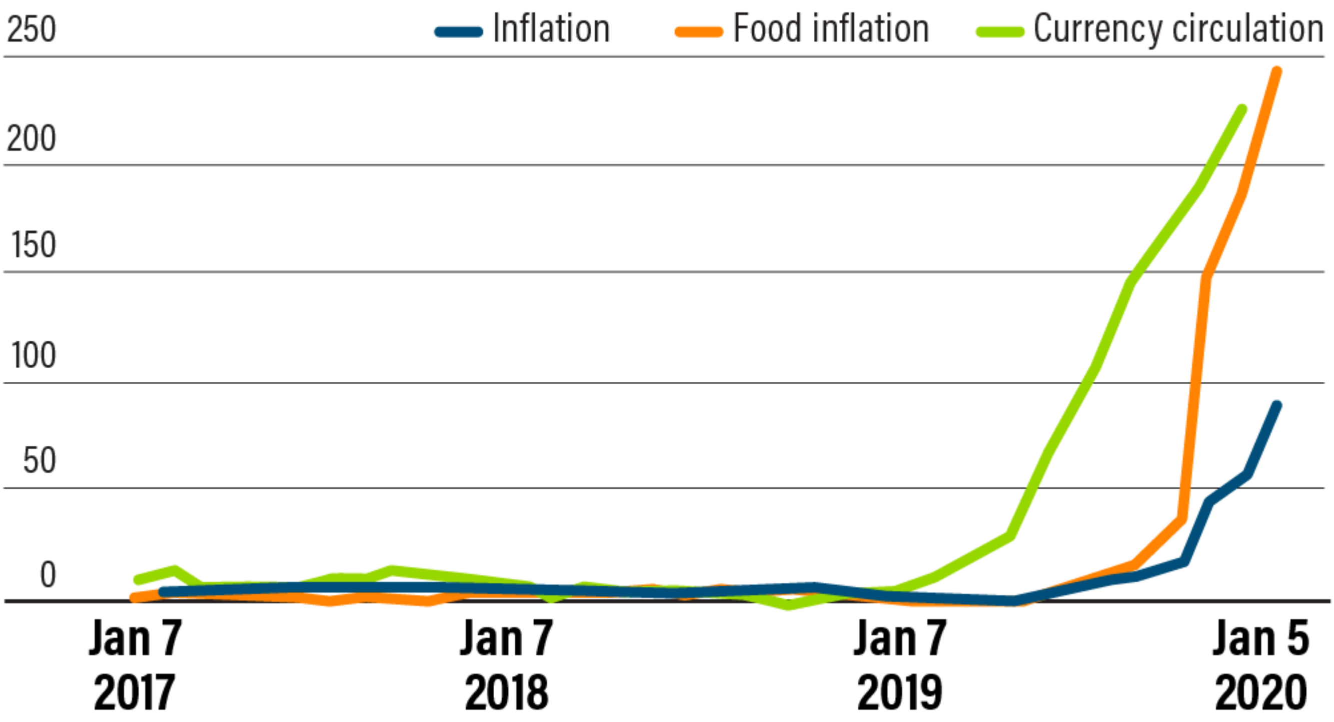
Third, unify exchange rates and move a to flexible exchange rate regime. The failed exchange rate regime has contributed to large current account deficits, hurt export-oriented sectors, and forced the central bank to maintain high interest rates leading to a crowding-out of the private sector. Monetary 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

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

Dr. Nasser Saidi's interview comments appeared as part of the Arab News article titled "Lebanon faces the abyss as political elites dither" dated 28th July 2020.
The comments are posted below; access the complete news article (including sound bites from Dr. Saidi) here.

"The view of the Hirak (Lebanon's protest movement) is that we probably need a total breakdown before we can change things," said Nasser Saidi, Lebanon's former economy and trade minister and founder of Nasser Saidi & Associates. "I love this quote from Giuseppe Tomasi Di Lampedusa: 'We have to change everything if nothing is to change.'
"It's only when it becomes practically unliveable that you are going to get change. But if you look at the experience of other countries in similar situations, two things are comparatively different. The first is that, politicians always shift the discourse to a pro-communitarian versus pro-sectarian, pro-Syrian versus anti-Syrian, pro-Iranian versus anti-Iranian, pro-8th of March versus pro-14th of March, pro-Hariri versus anti-Hariri thing," he said.

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

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

of national security.”

All of this may be already happening. On June 25, President Michel Aoun delivered a speech on Lebanon’s stability, in which he referred darkly to an “atmosphere of civil war” and portrayed the anti-government protests as an attempt to stir up sectarian discord.

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

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

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

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

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

Pointing to central bank losses of $50 billion and reports of unorthodox accounting practices by the bank’s governor, Saidi said: “They are refusing to admit that they made mistakes, that there are embedded losses in the system, that there was a

Ponzi scheme by the central bank – the banks benefited from this, and the shareholders of the banks and big depositors benefited from it.

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

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

Forbes Middle East Leaders' Insights: Breaking Down The Lebanese Situation With Dr. Nasser Al Saidi, Jul 2020

Dr. Nasser Saidi was interviewed by the Managing Editor of Forbes Middle East, as part of their Leaders' Insight series, to breakdown the factors leading up to the economic uncertainty in Lebanon and to understand the way forward.
Watch the interview below:

Lebanon's Hidden Gold Mine, Article in Carnegie Middle East Centre, 16 Jul 2020

This article originally appeared in the Carnegie Middle East Centre on 16th Jul 2020. Click to download a PDF of the article.
Click to read the Arabic version of this article.

Lebanon’s Hidden Gold Mine
by Dag Detter & Nasser Saidi

Treating Lebanon’s macro, fiscal & financial ailments alone will not resolve its multiple crises. Better management of the public sector, particularly the handling of public assets, is a critical prerequisite. Establishing a credible National Wealth Fund would help to alleviate the country’s multiple crises.

“One of the tragic illusions that many countries . . . entertain is the notion that politicians and civil servants can successfully perform entrepreneurial functions. It is curious that, in the face of overwhelming evidence to the contrary, the belief persists.” —Goh Keng Swee, former deputy prime minister of Singapore

Since October 2019, Lebanon has been in the throes of an economic and financial meltdown. Unsustainable monetary and fiscal policies and an overvalued fixed exchange rate have led to persistent fiscal and current account deficits. These twin deficits have led to a rapid buildup of debt to finance current spending, with limited public or private real investment.

Public debt is projected to reach 184 percent of GDP in 2020—the third-highest ratio in the world. And informal capital controls and payment restrictions to protect the dwindling reserves of Lebanon's central bank, the Banque du Liban (BDL), are generating a liquidity and credit squeeze and severely curtailing domestic and international trade. This situation has resulted in a loss of confidence in the banking system and the Lebanese pound, as well as a sharp, double-digit contraction in economic growth. Of course, the coronavirus pandemic has only exacerbated these problems.

Lebanon is simultaneously facing a public health crisis, a debt crisis, a banking crisis, and an exchange rate and balance of payments crisis. Together, these crises have created a vicious cycle. The deep recession has led to a steep reduction in government revenues and a rapid increase in the budget deficit financed by the BDL. In turn, the enduring and unsustainable monetization of deficits and debt by the central bank has accelerated inflation, depreciated the pound's value on the black market, and reduced real income—thereby further depressing consumption, investment, and growth. Layoffs, bankruptcies, and insolvencies, as well as unemployment and poverty rates, are spiking.

Given the economic and monetary dynamics, Lebanon's prospects are dismal unless a comprehensive reform package is implemented. It must comprise a macroeconomic, fiscal, financial, banking, and structural reform plan that includes restructuring the public debt and fundamentally reforming the public sector. The policy imperative should be credible and sustainable structural reforms with an immediate focus on combating the root causes of Lebanon's dire predicament—endemic corruption and bad governance.

The government of Prime Minister Hassan Diab has so far prepared a Financial Recovery Plan that comprises fiscal, banking, and growth-enhancing structural reforms. Passed on April 30, 2020, the plan has been presented to the International Monetary Fund (IMF), as part of negotiations for an IMF-funded reform program. But treating the country's macrofiscal and financial problems without addressing the structural components will not work. Public sector restructuring should be an integral part of the reform process. Fiscal and debt sustainability will not be possible in the absence of a fundamental, systemic overhaul of the government procurement process (a major facilitator of corruption), reform of the pension system and of salaries and benefits for civil and military personnel, and management of the ghost worker problem. The other pressing need is reforming the handling of public assets, an often overlooked part of the public sector balance sheet.

Policymakers and markets characteristically focus on public debt but largely ignore public assets. In most countries, public wealth is larger than public debt. Better management could help resolve debt problems while providing resources for future economic growth. This should be part of any solution for Lebanon.

The Economic Importance of Public Assets

How public wealth is managed is a crucial difference between well-run countries and failed states. Public wealth can be a curse when it tempts political overseers to engage in illicit activities and clientelism. This is exemplified in countries that are endowed with natural resources such as oil and gas but are financially vulnerable because of corruption and bad governance. Public assets in Lebanon are vast, as they are in virtually all countries. In fact, they are a hidden gold mine.

Public assets worldwide are larger than public debt and worth at least twice the global GDP. But unlike listed equity assets, public wealth is unaudited, unsupervised, and often unregulated. Even worse, it is almost entirely unaccounted for. When developing budgets, most governments largely ignore their assets and the value they could generate. Professionally managed public assets could, on average, add another 3 percent of GDP in additional revenues to a government's budget.

Public assets can be divided into two main types: operational and real estate. In most countries, the value of real estate is often several times that of all other assets combined, with government-owned commercial real estate assets accounting for a significant portion of land. But governments often know about only a fraction of these properties, most of which are not visible in their accounts. This wealth is hidden mainly because public sectors around the world have not adopted modern accounting standards similar to those used by private companies. These standards should be based on accrual accounting, as recommended by the International Public Sector Accounting Standards Board.

Typically, it requires a crisis to bring the issue of public assets to the surface. The political will to address this arises from a recognition that every dollar generated with an increase in yield from public commercial assets is a dollar less gained from budgetary cuts or taxation increases. That is the case today in Lebanon, where a public debate over the management and value of public assets is growing.

Operational assets—airports, ports, utilities, banks, and certain listed corporations—are sometimes called state-owned enterprises (SOEs) when owned by the national government. Although less valuable than real estate assets, these enterprises play a fundamental role in many economies by often operating in sectors on which the economy depends—electricity, water, transportation, and telecommunications. For these reasons, the importance of well-governed SOEs cannot be overstated.

The IMF finds that SOEs tend to underperform. They are on average less productive than private firms by one-third. In Lebanon, poorly performing operational assets are a major factor behind the country's dismal rankings in the cost of doing business (143 among 190 nations), corruption (137 among 180), and overall infrastructure (89 out of 141).

When properly designed, measures to improve public wealth management can help win a war against corruption. Efficient management of public assets can generate revenues to pay for public services, fund infrastructure investments, and boost government revenues without raising taxes. Such outcomes would simultaneously address two of Lebanon's greatest problems: the shortage of infrastructure investment due to the public debt overhang and the undermining of democracy through bad governance and through the capture of public assets by politicians and their cronies.

Reforming Lebanon's Management of Public Assets

The key to unlocking public wealth lies in separating the management of public commercial assets from policymaking and of ownership from regulatory functions. This ensures a level playing field with the private sector and provides a healthy environment for competition. A century of experimenting with public asset management in Asia and Europe has shown that the only effective way of managing public commercial assets is through an independent corporate holding company that is kept at arm's length from political influence.

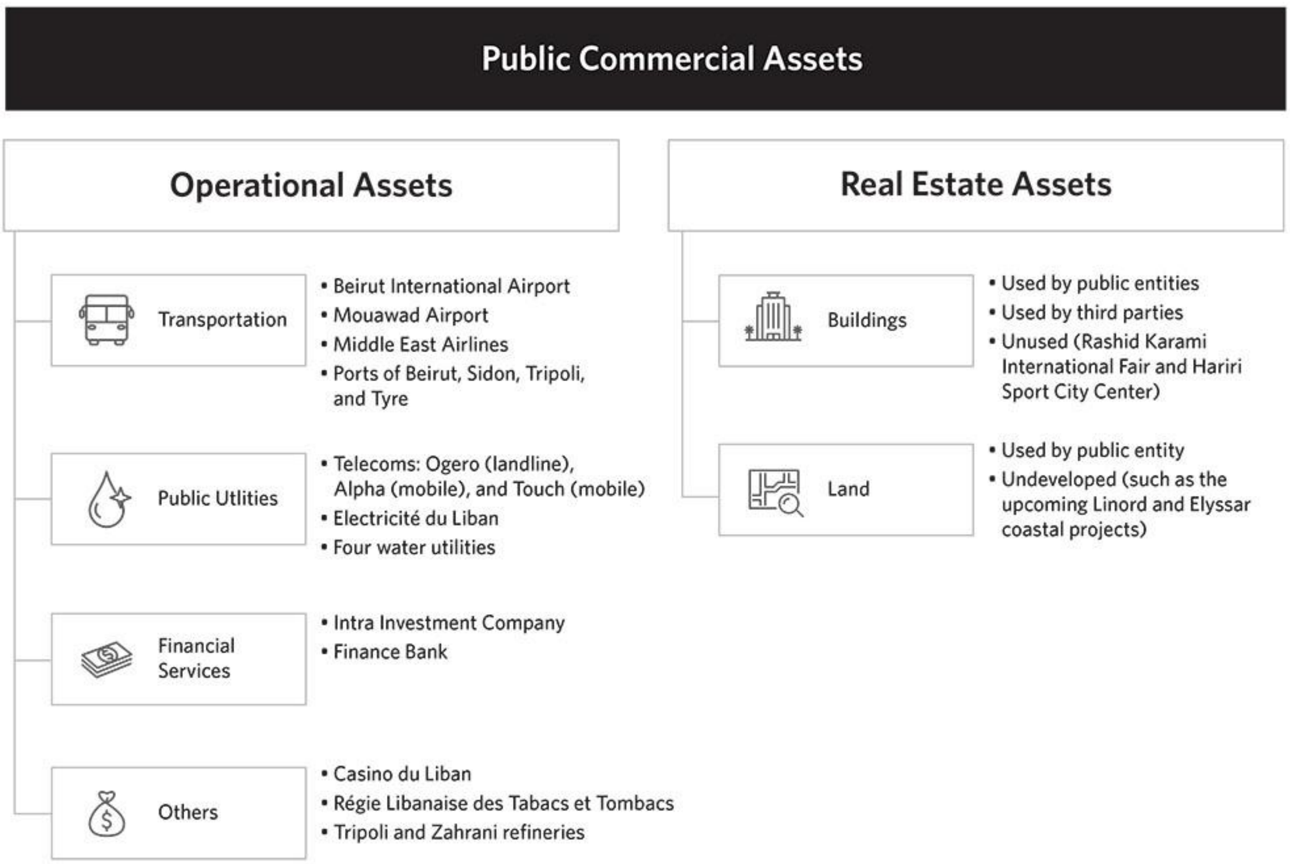
Implementing proper governance reforms should aim not only to improve the performance of operational and real estate assets but also to increase the value of the portfolio of assets as a whole. Without generating a relevant balance sheet as part of the budget process, a state's financial status is unclear—governments focus mainly on debt and cash, without recognizing the existing and potential value of their assets. A financial and fiscal focus on debt and cash alone can lead to bad decisions, such as privatizing an airport to finance infrastructure investment rather than arranging financing against the asset. Recognizing that even a government has a balance sheet consisting of assets and liabilities makes it possible to use net worth (assets minus liabilities) as a fiscal indicator instead of debt to GDP. With a focus on net worth, an increase in debt to finance an investment is matched with an increase in assets. This creates an incentive to invest in government-owned assets rather than to privatize, which is often carried out for the wrong reasons, at the wrong time, and at the wrong price.

A public financial management system that provides better information based on audited accrual data plays a crucial role in facilitating fiscal decision making. Without this information, any level of privatization offers tempting opportunities for quick enrichment through crony capitalism, corruption, or dysfunctional regulation. Privatization should not be undertaken without first also establishing a regulatory framework that includes politically independent competition and the oversight of regulatory authorities. Regulators should be recruited through a competitive, merit-based, and transparent system. Proper regulatory analysis must outline how best to structure market participants and the value chain in order to ensure maximum benefit to consumers, taxpayers, and society.

Empirical evidence internationally shows that waste and corruption can be reduced considerably by improving fiscal transparency and disclosure as well as by ensuring quality procurement systems, expanding digitalization, and reducing the administrative burden. Efficient use of public assets will result in increased overall productivity growth and innovation by encouraging investment and raising private sector productivity growth, thereby contributing to fiscal recovery and stability. Once they are well managed and subject to competition, public assets are ideal for lowering the degree of government ownership—provided that former monopolies are restructured, unbundled, and broken up to help create a fully transparent and competitive environment.

Lebanon's portfolio of public commercial assets comprises a wide range of operational assets. These include telecoms infrastructure, such as the Ogero fixed network and the Alfa and Touch mobile networks; Electricité du Liban, which is responsible for electricity production and transmission; and four water utilities. The government also owns Middle East Airlines; the Rafiq al-Hariri and Rene Mouawad airports; the Beirut, Sidon, Tripoli, and Tyre ports; the Casino du Liban; the Régie Libanaise des Tabacs et Tombacs; the Intra Investment Company; the Finance Bank; and two refineries in Tripoli and Zahrani (see figure 1).

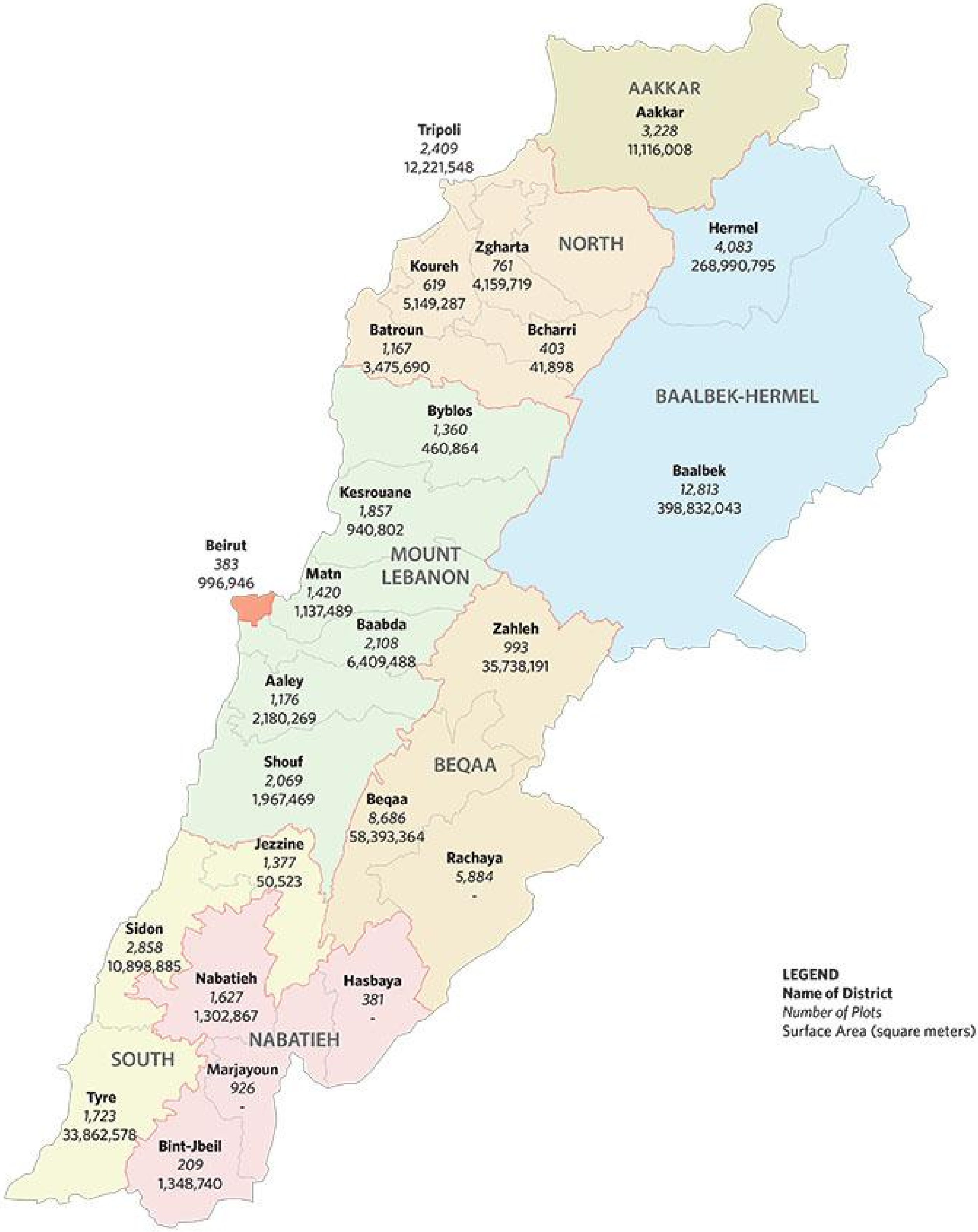
FIGURE 1
Public Commercial Assets



The real estate side of the portfolio is less well understood, due mainly to the absence of an accurate land registry and an official information system identifying relevant data on all geographical objects, including boundaries and ownership. Nevertheless, the government claims ownership of some 60,000 land plots with a total area of more than 860 million square meters (the exact sizes of 30,000 of the total plots are unknown). The land is distributed across Lebanon’s eight governorates, with the highest number of plots and surface areas in Baalbek-Hermel (see figure 2). The majority of plots are less than 1,000 square meters. Due to the lack of proper accounting, there are no valuations of land or buildings—not even of valuable seaside properties captured by politicians, their cronies, and political clients. However, more details are available for property developments such as the Rashid Karami International Fair, the Hariri Sports City Center, and the Linord and Elyssar real estate projects.

FIGURE 2

State Land in Lebanon's Eight Governorates (Plots and Surface Areas)



Historically, public assets have benefited only a small group of elites, largely due to the influence of politicians. Public assets, ultimately owned by the taxpayers, should benefit the consumers and serve the welfare of all citizens. Without proper transparency, SOEs are allowed to be unproductive and unsustainable, while receiving sizeable government support through budget transfers, subsidized inputs, and cheaper public funding, including loans at below-market rates. Their policies and activities are open to political interference, and as a result, nepotism, cronyism, and clientelism are rife. In addition, weak or nonexistent governance standards, with boards and management dominated by political appointees, have led to corrupt practices, high costs, and inefficiency through overstaffing and unproductive investment.

Political interference and the absence of strong regulatory authorities have resulted in a lack of accountability. In the case of the electricity, telecommunications, and oil and gas sectors, such authorities were established by law but were emasculated by their respective ministries. The lack of transparency and disclosure—with few publicly available, audited, or published accounts—has led to extremely low or negative returns on assets, with operational losses adding to budget deficits. The most visible case is Electricité du Liban, where annual deficits exceed $1–1.5 billion, representing some 30 percent of Lebanon's budget deficit and 14 percent of overall noninterest spending.

Lebanon's SOEs are, in fact, nonperforming assets and an integral part of the organized structure of corruption. Problems with inefficiency, low productivity, and lack of innovation have increased costs, lowered private sector productivity, and negatively impacted households more generally. These outcomes have had multiplier effects in the economy by crowding out the private sector and diverting capital and labor to inefficient public assets. Infrastructure quality is a major factor in determining investment and attracting foreign direct investment. The mediocrity of government-provided infrastructure services has reduced domestic and foreign investment, further dampening national productivity and economic growth.

Setting up Lebanon’s National Wealth Fund

The Diab government’s financial recovery plan aims to set up a Public Asset Management Company “tasked with the restructuring of public companies in its portfolio.” However, it does not offer a clear strategy, objectives, or governance mechanism. Is this a prelude to privatization? Will a consolidation of assets without proper governance and regulation enable further abuse by politicians? Meanwhile, the Association of Banks in Lebanon and other analysts have proposed creating a fund that includes public assets. It would serve to repay the central bank’s debts to commercial banks. But this implies giving preferential access to public assets to one set of creditors, namely banks, to the detriment of taxpayers and the public.

That is why Lebanon must establish an independent corporate holding company, such as a National Wealth Fund (NWF), that would own and manage public commercial assets for society’s benefit. The law establishing it would therefore include a fiscal rule stating that any dividend transferred to the government must be used to pay for public services that help alleviate human suffering and rebuild the economy. Monies generated from the better management of the assets, as well as the occasional divestiture or privatization, should first be used to further develop the portfolio so that basic services such as water, electricity, and transportation become more efficient. This to the benefit of the end users, the people, and the economy. In addition, with a commercial capital structure and dividend policy in place, the NWF would be able to produce a yearly dividend to the government—as a complement to revenues from taxes and other measures—to help fund other government requirements.

Professionalizing the management of public assets is a simple two-step process. The first step is to create a central public registry of all commercial public assets (both operational and real estate assets) and assign an indicative value to them. This should be done swiftly to help inform a feasibility study demonstrating what kind of yield and additional revenues could be expected from the NWF. The second step is to transfer these assets into the NWF. The responsibility and accountability of developing the NWF portfolio should be delegated to a professional, experienced, and politically independent board and management team.

With the institutional structure in place, the portfolio should be governed according to the same requirements as any privately owned company and thereby aim for similar returns based on three core principles: transparency, a clear objective, and political insulation. Transparency and disclosure are prerequisites for holding the fund’s board and management team broadly accountable. The NWF should operate according to the highest international norms, as if it is a listed company. Ultimately owned by the taxpayers, it is a truly public company.

Given that the assets in the portfolio are commercial in nature and would be subjected to competition, the NWF’s sole objective should be to maximize the value of the assets by being as financially focused and nimble as a private equity fund. Always aiming to achieve the best possible return would help avoid crowding out private sector initiatives.

Finally, political insulation will be critical for combating corruption and for managing the NWF in a truly commercial manner. That means delegating responsibility and holding the board of directors fully accountable for the day-to-day management of the assets, thereby enhancing the board’s professionalism. Creating an unambiguous separation between the government’s regulatory function and the fund’s ownership of public assets will also improve the likelihood of increased private sector investment and foreign direct investment—as additional ways to enhance and develop the assets in the portfolio.

Furthermore, there is no reason why the board and managers should not be subject to the same legal framework and requirements as private sector owners. In many countries, the functions and responsibilities of boards are clearly defined by law, with government-owned companies having the same accountability as boards in private joint-stock companies. Establishing a level playing field for private and publicly owned companies ensures that they operate under a single legal framework and that managers of public assets can use all the tools of the private sector.

An important advantage of consolidating all state assets under a common corporate structure is the ability to develop an asset to its full potential using the strength of the entire balance sheet of the holding company, instead of being tempted to privatize assets in a fire sale as part of the yearly struggle to close the budget deficit in a political budget process. The timely disposal of assets is instead part of the broader business plan for maximizing yield across the entire portfolio, until the asset has reached a fair value.

The efficient management of assets contributes to higher rates of real GDP growth, generates dividends for the government budget, and lowers operating costs. By making the value of the assets visible to the capital markets and debt holders, the government would improve key financial soundness metrics that the three global rating agencies use in their sovereign rating models. All together, these outcomes help to bolster a country's governance and institutional strength and, in turn, can improve its sovereign credit rating and lower the cost of borrowing.

Properly managed, the NWF would be able to generate an annual dividend that could help fund socially important functions, ranging from healthcare to infrastructure. This would also ensure that the fund enjoys public support to fight the endemic corruption currently characterizing the management of public assets. Eventually, the NWF would also help reduce the public sector debt load, strengthening the government's net worth as a buffer against future economic challenges.

Conclusion

Lebanon's economic and financial meltdown cries for a revolution in policy reform, including the creation of an NWF as part of comprehensive macroeconomic and structural reform. The objectives would be to restructure public assets to combat corruption and inefficiencies, help achieve fiscal sustainability, revive economic growth, and create additional revenues for the benefit of Lebanese society as a whole. Of course, setting up an independent NWF would be a leap of faith and break with the past. The government and the public would need to act together, as a nation, to dismantle the long-standing fragmented political kleptocracy.

About the Authors

Dag Detter is an investment adviser on public assets and the former president of the Swedish government holding company.

Nasser Saidi is a Lebanese economist, former minister of economy and trade and industry, and former vice governor of Lebanon's central bank.

Comments on Lebanon's links to Syria's economy in Gulf News, 16 Jul 2020

Dr. Nasser Saidi's comments appeared in the Gulf News article titled "Syria's collapse compounded by COVID-19", published

16th July 2020.
Comments are posted below:
"Economic collapse in Lebanon lowers the demand for imports from Syria and leads to the firing and rising unemployment of Syrian workers in Lebanon," said Nasser Saidi, a Lebanese economist and former minister. Speaking to Gulf News, he added: "This results in a decreased flow of remittances to Syria. The freezing of the deposits of Syrians (individuals and businesses) in Lebanese banks results in an inability to finance Syrian imports and trade through Lebanon."
He added: "The financial, banking and fiscal crisis in Lebanon means increasing pressure in supplying/smuggling of fuel, wheat and other subsidised commodities into Syria."

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

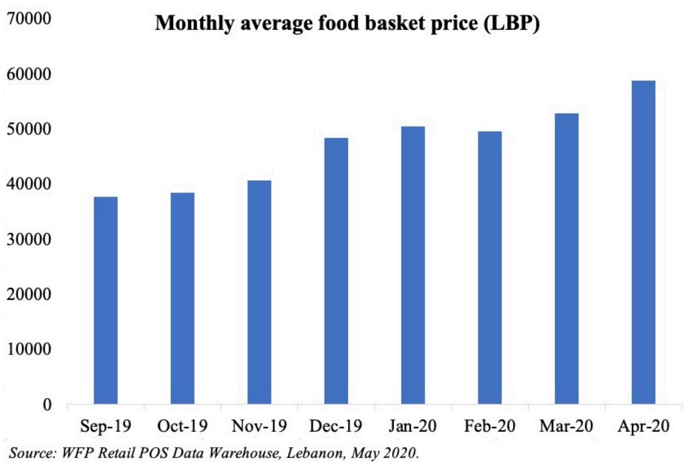
The article titled “To halt Lebanon’s meltdown it is imperative to reform now” was published in The National on 4th Jul 2020. The original article can be accessed here & is also posted below.

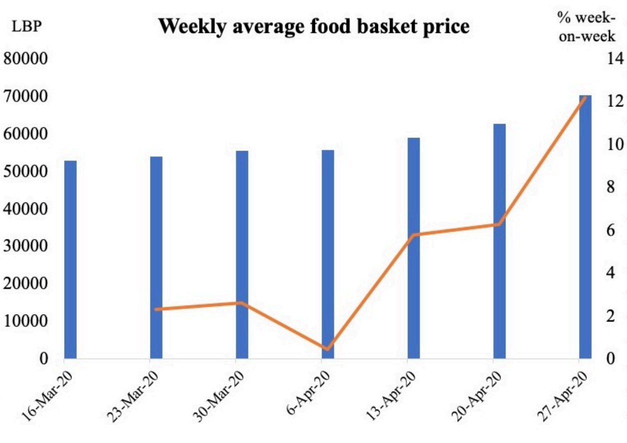
To halt Lebanon’s meltdown it is imperative to reform now

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.





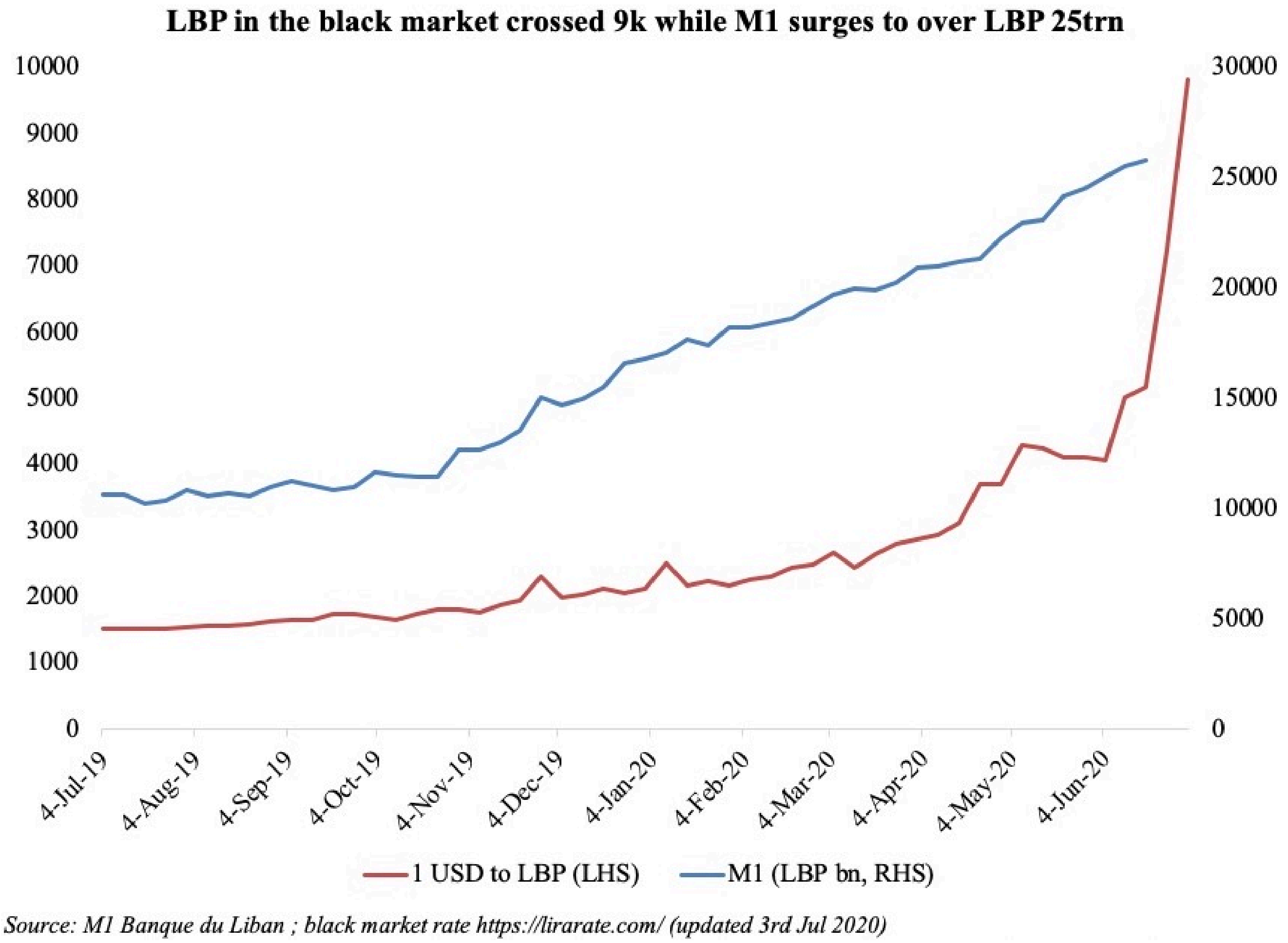
Source: WFP Retail POS Data Warehouse, Lebanon, May 2020.

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.



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.

How public assets can help revive Lebanon, Oped in FT Alphaville, 30 Jun 2020

The article titled "How public assets can help revive Lebanon" appeared in FT Alphaville on June 30th, 2020.

How public assets can help revive Lebanon

This is a guest post by Dag Detter, an investment adviser and former president of Stattum, the Swedish government holding company and Nasser Saidi an economist and former Minister and Central Bank Vice Governor in Lebanon, arguing that ***Lebanon should create a national wealth fund to help it maximise the value of public assets and thus better address its debt imbalances****.*

Lebanon is in the throes of a fiscal, banking, currency and debt crisis. It is negotiating a rescue package with the IMF and a restructuring of its public debt which stands at 175 per cent of GDP with an estimated budget deficit of 15 per cent.

Across the globe and in Lebanon, policymakers have focused on managing the debt to get the country back in balance. But they have largely ignored the question of how public assets and real estate can help to alleviate the problem. Governments around the world, including Lebanon, have trillions of dollars of public assets. These are potentially a hidden gold mine in the fight against debt crises, or more pertinently an iceberg because so little of the wealth is visible to sovereign bond investors. Globally, the IMF estimates public assets are worth at least worth twice that of global GDP. Yet the assets are often badly managed and frequently not even accounted for at all. Given that in most countries public wealth is larger than public debt, managing it better could help to solve many debt issues while also providing material for future economic growth.

The idea of public asset wealth may not ring true to anyone familiar with the operational part of the government portfolio in Lebanon. Yet the portfolio plays a fundamental role in the economy because it operates in important sectors on which the broader economy depends. This is why the importance of well-governed SOEs cannot be overstated.

………

……….

An efficiently managed National Wealth Fund would cut the

drain on the government's budget and resources, increase the value of public commercial assets, provide revenues and would be a major contributor to fiscal sustainability. More efficiently managed assets would contribute to a higher rate of real GDP growth, and lower private sector operating costs.
If properly administered, the move would then bolster faith in Lebanon's credit rating assessment, lowering the cost of borrowing on the international market, thus benefiting society as a whole.
The complete article can accessed directly (paywall) or download the article here.

Comments on the Caesar Act in The National, 27 Jun 2020

Dr. Nasser Saidi's comments on the Caesar Act appeared in the article titled "Lebanon braces for 'pain' of Caesar Act amid financial meltdown" in The National's 27th June 2020 edition. The comments are posted below.

Because of the close historical ties between Lebanon and Syria, the law will make business between the two countries "more problematic and expensive" and "hurt Lebanon", said Nasser Saidi, a former vice-governor of Lebanon's central bank.
The Caesar Act provides for secondary sanctions, which significantly widens its scope, he said.
"In other words, they are imposing sanctions on Syrian entities and business people and also on the people who deal with them," Mr Saidi told The National.
Should the US decide to impose sanctions against the Syrian

central bank, transactions inside the country "would be highly complicated", said Mr Saidi.

Comments on the Lebanese Pound in Washington Post, 26 Jun 2020

Dr. Nasser Saidi's comments on Lebanon's currency appeared in the article titled "Lebanon's currency takes a new dive, and there is no end in sight" in Washington Post's 26th June 2020 edition. The comments are posted below.

In the absence of a clear policy path ahead, there is no bottom to the value of the Lebanese pound, said Nasser Saidi, a former Lebanese finance minister who is now a financial consultant based in Dubai.
Citizens have lost trust in the banking system and the country is shifting to a cash-only economy. Some retail outlets have started accepting only dollars, which are hard to find. U.S. and European sanctions against neighboring Syria have deprived that country of dollars, too, making Lebanon the chief destination for Syrians seeking to fund imports there, increasing the demand for dollars, Saidi said.
Government revenue, meanwhile, has skidded to a halt because of the shutdowns and economic retraction, forcing the Central Bank to print Lebanese pounds to fund government expenditures, including salaries for the bloated civil service.
"Those go into the market and they are chasing fewer and fewer dollars," Saidi said. "There is no longer any anchor for the value of the Lebanese pound and we are going into the unknown."

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:

"Stability Redefined: Who Authors the Future?", Beirut Institute Summit e-Policy Circle 7, 17 Jun 2020

Dr. Nasser Saidi participated in a webinar on 17th June 2020 titled "Stability Redefined: Who Authors the Future?" organised by the the Beirut Institute Summit.
Beirut Institute Summit e-Policy Circle 7 hosted by Raghida Dergham under the theme of 'Stability Redefined: Who Authors the Future?' with HE Elliott Abrams, United States Special

Representative for Venezuela; HE Brian Hook, United States Special Representative for Iran; HE Nasser Saidi, Lebanese Former Minister of Economy, Trade and Industry; and Ms. Nora Mueller, Executive Director for Körber-Stiftung.
Dr. Saidi discussed many themes including Middle East's deep recession and a potential "lost decade", the economic, social & political effects of sanctions, higher military spending, nation-rebuilding & reconstruction of war-torn nations and more. Watch the webinar below.

Interview with Forbes Middle East (Arabic) on Lebanon, 12 Jun 2020

Dr. Nasser Saidi appeared in an interview with Forbes Middle East, broadcast on 12th June 2020, discussing Lebanon & import of essential materials into Syria.
The video can be viewed below; an article based on the interview can be accessed here.

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

Comments on Lebanon's currency collapse and protests, FT, 12 Jun 2020

Dr. Nasser Saidi commented on the currency fluctuations and associated protests in Lebanon in the FT article titled "Currency collapse fuels mass protests in Lebanon" published on 12th June 2020.
The full article can be accessed at: https://www.ft.com/content/a1c5f2aa-79a6-48ec-aa8e-6b5d60bda1f7

The comment is posted below:
Nasser Saidi, a former central bank vice-governor, said there was little the government could do at this point to stop the slide. "This is a cash market, not your usual forex market. The central bank is no longer able to intervene."
Mr Saidi, the former central banker, said the volatile price swings were driven by four main factors: uncertainty among currency traders about government policy; the printing of

currency to cover a fiscal deficit left by falling tax receipts; the economic impact of coronavirus; and panic in the exchange market in neighbouring Syria, where business people are anticipating the impact of new US sanctions next week.

Comments on Lebanon's currency fluctuations in Reuters, Jun 11 2020

Dr. Nasser Saidi's comments on the Lebanese pound and fluctuations appeared as part of the Reuters article titled "Lebanese pound changes hands near 5,000 per dollar, market sources say" published on 11th June 2020. Comments are posted below.

Nasser Saidi, a former economy minister, said the pound's decline had accelerated because of increased demand for dollars in neighbouring Syria, where the local currency has also hit record lows as new U.S. sanctions are set to come into effect. "There is the beginning of panic in Syria over the availability of dollars. This has transferred itself into increased demand in the Beirut market," he said.

Comments on Lebanon's recent

BDL appointments in Reuters, Jun 10 2020

Dr. Nasser Saidi's comments on recent appointments in Lebanon's central bank appeared in the Reuters article titled "Lebanese government picks central bank vice governors, fills top state jobs", published on 10th June 2020.
Comments are posted below.
Nasser Saidi, a former economy minister, said the government lost credibility by approving the proposed nominations for the central bank, the banking control commission and the capital markets authority.
"We missed a historical opportunity…The banking sector is at the heart of any rescue plan for Lebanon," he said. "You need a restructuring of the debt, of the financial sector, and you need people who are not political appointees to oversee that."

"Prospects for sovereign debt restructuring and access to financing", OMFIF webinar, 4 Jun 2020

Dr. Nasser Saidi participated in a webinar on 4th June 2020 titled "Overcoming debt crisis in emerging markets: Prospects for sovereign debt restructuring and access to financing" organised by the the Official Monetary and Financial Institutions Forum (OMFIF) on 4th June 2020.

As emerging markets face humanitarian and economic shocks, the ability to service their sovereign debt has led to concerns of a widespread debt crisis. While the G20 agreed to a standstill in April by freezing repayments on bilateral loans for 76 poorer countries, uncertainty remains over trade offs between debt relief and re-financing, the outlook for middle income countries, and how the private sector creditors will respond. The panel looks at the prospects for sovereign debt restructuring and access to financing across Africa, the Middle East and Asia.
Dr. Saidi focused on the case of Lebanon, while also highlighting the role of China as a global lender. Watch the webinar below.

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

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

A former minister of economy and trade said it was not realistic to expect the [IMF loan negotiation] process to be completed so soon, noting that a number of laws need to be passed. "And parliament, in the middle of this crisis, is going into recess until October," said Nasser Saidi, president of Nasser Saidi & Associates. "What you need is Lebanon to be in crisis mode. Both government and parliament need to be in crisis mode."
Saidi told CNBC on Wednesday that he doesn't think approval

will be granted very quickly. "It will be a hard path to convince the IMF and the international community that Lebanon's politicians and government are able to implement reform."
Watch the CNBC interview here: https://twitter.com/i/status/1268086096392527874

"Lebanon's Economy: Meltdown & Redemption Through the IMF", Ana Khat Ahmar webinar, 1 Jun 2020

Dr. Nasser Saidi presented at the Ana Khat Ahmar webinar held on 1st Jun 2020, during which he gave the presentation titled "Lebanon's Economy: Meltdown & Redemption Through the IMF?".

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."

"Lebanon's Economy: Meltdown & Redemption Through the

IMF", YPO Lebanon webinar, 22 May 2020

Dr. Nasser Saidi was part of a YPO Lebanon webinar held on 22nd May 2020, during which he gave the presentation titled "Lebanon's Economy: Meltdown & Redemption Through the IMF".

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.

"Lebanon's Economy: Staring into the Abyss", Presentation to the Harvard Business Club in Lebanon, 24 Apr 2020

Dr. Nasser Saidi's presentation titled "Lebanon's Economy: Staring into the Abyss", was aired as a webinar to the Harvard University Alumni Association of Lebanon (HUAAL) and the Harvard Business Club in Lebanon on 24th April 2020.
Click below to access the webinar, including Q&A.

Comments on cannabis legalization in Lebanon in Arab News, 24 Apr 2020

The article titled "[Can cannabis legalization rescue Lebanon's ailing economy?]", published by Arab News on 24th April 2020 carried the below comments from Dr. Nasser Saidi.

Among those expressing guarded optimism is Dr. Nasser Saidi, a former chief economist at the Dubai International Financial Center who was Lebanon's minister of economy between 1998 and 2000.

The move to legalize marijuana for medical use makes a great deal of sense for Lebanon, he said, noting that the country has long been a producer of hashish.

"In particular, the crop has helped the poorer areas of Lebanon, mainly the Bekaa Valley, and allowed agriculturalists to survive because many of their other crops aren't necessarily exportable," Saidi told Arab News.

"For the more traditional crops like potatoes, beetroot, olives and others, there is a lot of competition, whereas for hashish there is much less competition.

"Lebanon can build its reputation as a source of quality hemp. Medicinal marijuana in particular can be an important high-value export product."

Saidi draws a parallel between Lebanon's decision to decriminalize cannabis production, manufacturing and its use with the policies of some advanced industrial countries.

Pointing out that the US and Canada have legalized use of marijuana, hemp and hashish without any negative fallout, he said: "There is no reason why Lebanon should not be able to successfully and securely decriminalize hashish."

Similarly, Saidi, who served as vice governor of the Central Bank of Lebanon for two terms, said the new law should not amount to control of the business by Lebanese politicians.

“Hashish growers are afraid that legalization means the industry will come under the control of a government-licensing administration or body, which could then be open to abuse, corruption and clientelism,” he told Arab News.

“They will tell you they fear that licensing will be monopolized by politicians and their cronies, enabling the latter to control the production, distribution and export of hashish — to the detriment of the growers.”

Said said legalization should mean decriminalization with a light regulatory structure but not a strict licensing system.

“You cannot, in a country with Lebanon’s corruption levels, institute a system for the farming, manufacturing and distribution of hashish that can be monopolized by the state or captured by a corrupt political class and its cronies,” he said.

“The government can play a role in terms of ensuring the quality of medicinal hashish, particularly for export purposes, and monitoring for statistical, public-health and taxation purposes. But I would not favor a strict physical licensing system.”

Saidi sees a lot of hype surrounding the economic dividend of cannabis legalization.

But Saidi does not see income from the crop as something that can put Lebanon’s public finances on a sustainable footing.

“We should allow producers to switch crops away — from low value-added crops like potatoes and sugar beet — to go into hashish, (as) it would help some of the poorest of the poor in Lebanon who eke out a subsistence income from agriculture,” he told Arab News.

“But it’s not a problem solver for the Lebanese government.”

Said added: “You can impose a tax, which is fine. Hashish consumption could be subject to VAT for local consumption to generate revenue for government, or to a production tax at a low rate.

“But again, I am not in favor of a licensing system to raise revenue because of the potential of corruption and bribery.

“Effectively, a licensing system would mean a highly

inefficient regime for the benefit of politicians at the expense of growers. Licensing would become another form of political clientelism".

Comments on Lebanon's currency in Reuters, 21 Apr 2020

The article titled "[Lebanese depositors to get 'market rate' dollars in LBP -central bank]", published by Reuters on 21st April 2020 carried the below comments from Dr. Nasser Saidi.

Nasser Saidi, a former economy minister and ex-vice central bank governor, said the move was an effective formal devaluation in excess of 50% and represented the "lirasation" of deposits.
The step would lead to runaway inflation and impoverishment, he added. "Time for accountability for failed monetary & exchange rate policies," he wrote on Twitter.

Roundtable on Potential IMF Involvement in Lebanon,

Lebanese Center for Policy Studies & Jadaliyya, 16 Apr 2020

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

The complete article can be accessed here:
LCPS and *Jadaliyya* (LCPS&J): How much foreign capital does Lebanon need and for what purpose?
Nasser Saidi: The amount of foreign financing needs to be viewed within a comprehensive, multi-year adjustment and reform program that tackles macroeconomic, fiscal, banking, financial, monetary, and currency sectors of the economy. There are four components to such a program: Macroeconomic and structural reform; banking sector restructuring; public debt restructuring (including central bank debt); and social welfare.
According to government estimates (revealed at a recent presentation to investors) public debt was 178% of GDP at end-2019. The cost of servicing the debt would be just over $10 billion, which is equivalent to approximately 22% of GDP and more than 65% of government revenue. This was an unsustainable position even before the country fell prey to

the COVID-19 outbreak. Separately, the central bank (BdL) owes $120 billion to the local banks. BdL foreign exchange holdings have come under high pressure, dropping to about $29 billion in January 2020, of which 22 billion are liquid (18 billion of which is BdL-held mandatory banking sector reserves). It is evident that the banking system needs a comprehensive restructuring.

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

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

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

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

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

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

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

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

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

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

Interview with Al Arabiya (Arabic) on GCC's response to Covid19, 17 Mar 2020

Dr. Nasser Saidi discusses the GCC's responses to the ongoing Covid19 outbreak, in an interview that aired on Al Arabiya on 17th March 2020. In the interview, he reiterates the need for fiscal policy stimulus (given its effectiveness) vs monetary policy action; also highlights the sectors and countries that would be most adversely affected.
The video can be viewed below; the write-up can be accessed at https://ara.tv/4rmup

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"Saving the Lebanese

Financial Sector: Issues and Recommendations", by A Citizens' Initiative for Lebanon, 15 Mar 2020

The article titled "Saving the Lebanese Financial Sector: Issues and Recommendations", written by A Citizens' Initiative for Lebanon was published on 15th March, 2020 in An Nahar and is also posted below.

Saving the Lebanese Financial Sector: Issues and Recommendations

In order to restore confidence in the banking sector, the government and the Banque du Liban (BDL) need a comprehensive stabilisation plan for the economy as a whole including substantial fiscal consolidation measures, external liquidity injection from multi-national donors, debt restructuring and a banking sector recapitalisation plan. Specifically, the Lebanese banking sector which will be heavily impaired will have to be restructured in order to re-establish unencumbered access to deposits and restart the essential flow of credit. A task force consisting of central bank officials, banking experts and international institutions should be granted extraordinary powers by the BDL and the government to come up with a detailed plan which assesses the scale and process for bank recapitalisation and any required bail-in; identifies which banks need to be supported, liquidated, resolved, restructured or merged; establish a framework for loss absorption by bank shareholders; consider the merits of establishing one or several 'bad banks'; revise banking laws; and eventually attract foreign investors to the banking sector. In the meantime, we would recommend the imposition of formal and legislated capital controls in order to ensure that depositors are treated fairly and also ensure that essential imports are prioritised.

How deep is Lebanon's financial crisis?

The financial crisis stems from a combination of a chronic balance of payments deficits, a liquidity crisis and an unsustainable government debt load which have impaired banks' balance sheets, leaving many banks functionally insolvent.

Even before the government announced a moratorium on its Eurobond debt on March 7th, public debt restructuring was inevitable, as borrowing further in order to service the foreign currency debt was no longer possible and, dipping into the remaining foreign currency reserves to pay foreign creditors was deemed to be ill-advised given the priority to cover the import bill for essential goods such as food, fuel and medicine. Moreover, with more than 50 percent of fiscal revenue dedicated to debt service in 2019, debt had clearly reached an unsustainable level.

At the end of December 2019, banks had total assets of USD 216.8 billion (see Table 1). Of these, USD 28.6 billion were placed in government debt, and USD 117.7 billion were deposits (of various types) at BDL, which is itself a major lender of the government (see Figure 1 for the inter-relations between the balance sheets of the banks, the central bank, and the government). Banks also hold more than USD 43.9 billion in private loans. Already, the banking association is assuming that approximately 10 percent of private sector loans, such as mortgages and car loans, have been impaired due to the economic crisis. Other countries facing similar financial and economic crises have experienced much higher non-performing loan rates. For instance, the rate rose to above 35 percent in Argentina in 1995 and neared 50 percent in Cyprus in 2011.

Well before the decision to default however, Lebanon's banks have **had limited liquidity in foreign currency** and have been rationing it since last November, as the central bank was not releasing sufficient liquidity back into the banking system. Even banks that have current accounts with the Banque du Liban do not have unfettered access to their foreign currency deposits. The BDL has had to balance a trade-off between defending the Lebanese pound peg, releasing liquidity or continuing to finance government fiscal deficits and has chosen to prioritise maintaining the peg and covering the country's import bill.

Table 1: Consolidated commercial bank balance sheet (USD million)

	December 2016	October 2019	Dec 2019
	Assets		
Reserves	89,755	153,301	118,191
o/w cash	460	597	467
o/w BDL deposits	89,295	152,705	117,723
o/w CDs in LBP	22,972	31,867	
o/w CDs in USD	21,900	22,699	
o/w required reserves in LBP	2,677	2,544	
o/w required reserves in USD	16,043	18,621	
o/w remaining deposits in LBP	15,288	43,292	
o/w remaining deposits in FCU	10,414	33,682	
Claims on the private sector	51,040	47,836	43,912
In LBP	15,660	14,459	13,745
In USD	35,380	33,377	30,167
Claims on the public sector (T-bills)	34,722	31,652	28,665
In LBP	19,195	16,592	14,642
In USD	15,384	14,859	13,815
Foreign assets	23,100	21,326	17,969
Fixed assets	5,212	5,262	5,257
Resident securities portfolio	0	1,588	1,600
Unclassified assets	482	1,231	1,227
Total Assets / Liabilities	**204,311**	**262,196**	**216,822**
	Liabilities		
Deposits of residents	128,534	133,677	126,590
In LBP	51,014	42,412	
In USD	77,520	91,265	
Deposits of non-residents	33,961	36,625	32,451
In LBP	4,529	3,752	3,140
In USD	29,432	32,873	29,311
Public sector liabilities	3,951	4,722	4,895
Liabilities to non-resident banks	6,280	9,661	8,829
Bonds	271	448	272
Capital base	18,240	20,630	20,723
Unclassified liabilities	13,073	56,433	23,062

Source: Banque du Liban. (2019). Consolidated Balance Sheet of

Commercial Banks. Retrieved from https://www.bdl.gov.lb.
Note: In December 2019, commercial banks have netted the results of the swap operations with BDL, thus explaining the large swing in Reserves (asset side) and Unclassified liabilities.

Reducing public debt to a sustainable level will require deep cuts in government and central bank debts. This in turn will have a significant impact on bank balance sheets and regulatory capital. **For most banks, a full mark-to-market would leave them insolvent.** To avoid falling short of required capital standards, BDL has temporarily suspended banks' requirements to adhere to international financial reporting standards. But suspending IFRS cannot continue for a long period, as it effectively disconnects the Lebanese banking system from the rest of the world.

What will be the impact of the sovereign default on the banking sector?

Today, Lebanese banks are not able to play the traditional role of capital intermediation by channelling deposits towards credit facilitation. In most financial crises, public authorities are able to intervene to recapitalise the banks and central banks are able to intervene to provide liquidity. Unfortunately, in Lebanon, the state has no fiscal ammunition and the central bank is itself facing dwindling foreign exchange reserves. **This leaves the banks in a highly precarious situation.**

In a sovereign restructuring scenario where we assume a return to a sustainable debt level of 60% debt to GDP ratio and a path to a primary budget surplus, depending on the required size of banking sector in a future economic vision for the country, **we estimate the need for a bank recapitalisation plan to amount to $20 to $25 billion** to be funded by multi-lateral agencies and donor countries, existing and new shareholders, and a possible deposit bail-in. Under all circumstances, we strongly advocate the protection of smaller deposits. In addition, special care has to be taken during any bail-in process to (i) provide full transparency on new ownership;

(ii) avoid concentrated ownership; and (iii) shield the new ownership from political intervention either directly or indirectly. It is also worth noting that additional amounts of capital will be required to jumpstart the economy and provide short term liquidity.

Leaving the banking sector to restructure and recapitalise itself without a government plan would take too long and Lebanon would turn even more into a cash economy, with little access to credit, little saving, low investment, and low or negative economic growth for years to come. Economic decay would ultimately lead to enormous losses for depositors, and serious hardship to the average Lebanese citizen.

What should be the goal of financial sector reforms?

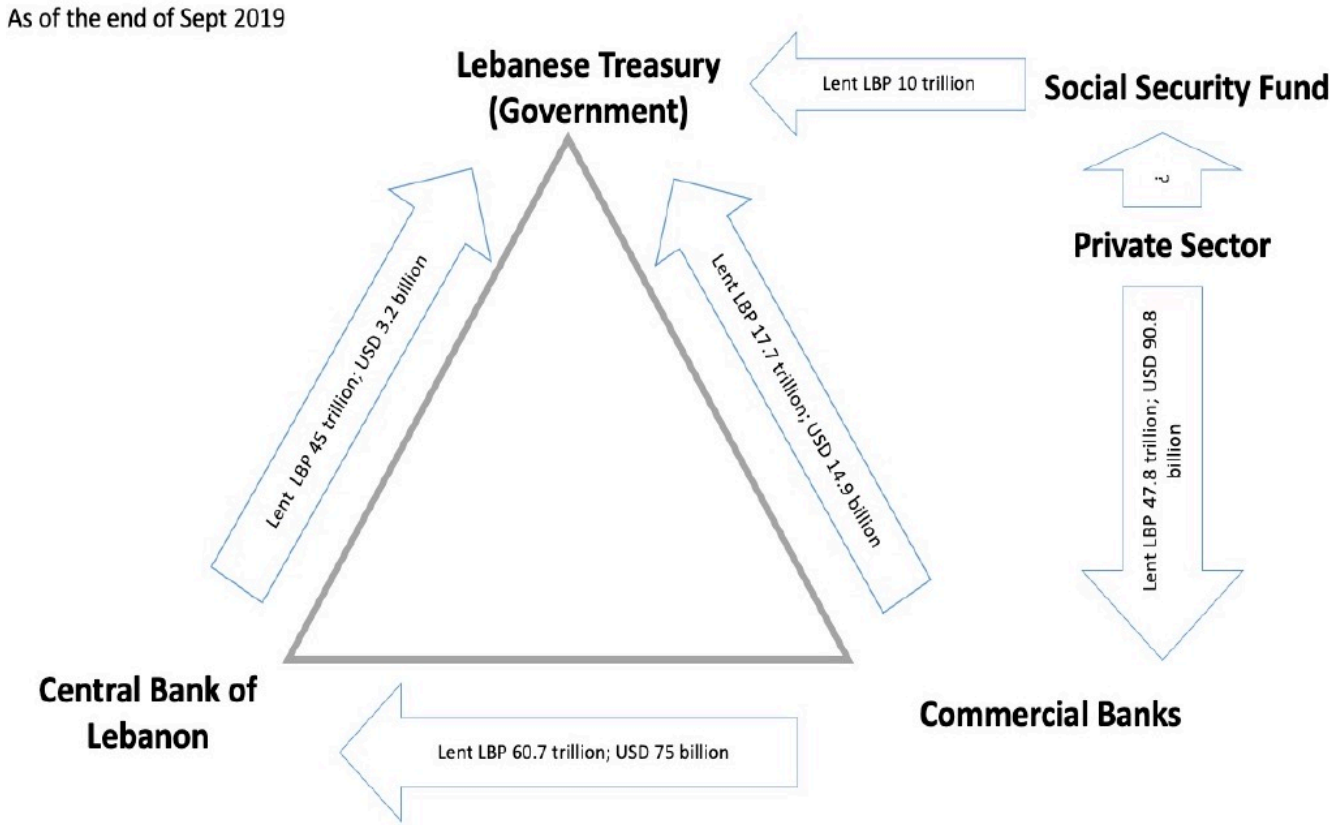
The primary goal of financial sector interventions must be to restore confidence in the banking sector and restart the flow of credit and unrestricted access to deposits. In addition to rebuilding capital buffers and addressing the disastrous state of government finances, we would advocate reforming the financial sector in order to avoid banks' over-exposure to the public sector in the future, incentivising them to lend instead to the real economy. This must include a prohibition of opaque and unorthodox financial engineering and improving banks' capacity to assess local and global markets.

Confidence in the financial sector will also require a strong and independent regulator. Lebanon has a unique opportunity in that regard as there are 13 vacancies in the regulatory space that need to be filled by end of March: four vice governors of the Banque du Liban, five members of the Commission of Supervision of the Bank (current members due to leave by end of March), three Executive Board members of the Capital Markets Authority, and the State Commissioner to BDL. These nominations should be completed following a transparent process shielded from political and sectarian influence ensuring candidates possess the requisite competencies.

In addition to these nominations, a revamp of the governance of the regulatory institutions has to be undertaken following a thorough review. In order to enhance risk management and avoid a repeat of concentrated lending in the future, the monetary and credit law should be amended to prohibit excessive risk taking related to the government, which will have the double benefits of forcing a more disciplined sovereign borrowing program and encourage a more diversified use of bank balance sheets directed at more productive areas of the real economy. Providing a framework to curtail so-called "financial engineering" transactions should also be addressed in order to discourage moral hazard and enhance the transparency and arms-length nature of any such operations in the future.

Finally, any future model will also require a migration towards a floating currency, and revised tax and financial sector laws and regulations, encouraging greater competition including from foreign banks. It is worth noting that while a devaluation of the LBP would have a positive direct effect on the balance sheet of banks, it would hurt their private sector borrowers, as most of these loans are dollar denominated, and thus, would lead to higher level of NPLs, hurting banks through second order effects.

Figure 1: Net obligations of Lebanese government, central bank, commercial banks and social security fund (as of September 2019 due to lack of some data as of December 2019).



How do we restructure the financial sector?

Saving the financial sector will require **empowering a task force** consisting of BDL officials, BCCL officials, independent financial sector experts, and Lebanon's international partners, including multilateral-agencies.

Bank equity should be written down to reflect the reality of asset impairment with existing shareholders being allowed to exercise their pre-emptive rights to recapitalize banks with their own resources or by finding new investors, thus reducing the burden on the public sector, multilateral agencies, donors or depositors. Certain banks could be wound down or resolved by the government. Banks that are liquidated or placed into resolution would transfer control to the government, though current bank administrators can remain in place so that regular business transactions can continue. Some banks may be too small to consider "saving' and should go into liquidation.

The purpose of this process would be to restructure (or wind down) insolvent institutions without causing significant disruption to depositors, lenders and borrowers. The first step in the resolution process is for shareholders and creditors to bear the losses in that order. If the bank has negative equity after this stage, it can begin by selling key assets, such as real estate or foreign subsidiaries before resorting to a capital injection.

One potentially useful tool to support asset sales and re-establish normal banking activities quickly would be to create a ‘bad bank’ consisting of the bank’s non-performing loans or toxic assets. A ‘bad bank’ makes the financial health of a bank more transparent and allows for the critical parts of the institution to continue operating while these assets can be sold. Bad banks have been used in France, Germany, Spain, Sweden, the United Kingdom and the United States, among others, to address banking crises similar to the current Lebanese situation. ‘Bad banks’ can be established on a bank-by-bank basis, managed by the bank itself (under government stewardship) or by the government on a pooling basis. The challenge in Lebanon is neither the BDL nor the largest banks have sufficient capital buffers to fund the equity of such a bad bank.

If the bank equity remains in the red once key assets have been sold (or transferred to a ‘bad bank’), absent sufficient recapitalisation funds, a bail-in may be considered. A bail-in refers to shrinking of the bank’s liabilities, consisting mainly of deposits, by converting a portion into bank equity.

Nationalization is impractical in the Lebanese context. While transferring control of operations away from bank management teams that have lost credibility will be necessary, nationalization is impractical in the Lebanese context since the government is effectively insolvent. Also, state-owned banks may be used to further serve political interests and can be easily misdirected and mismanaged by becoming platforms for politically motivated lending, hiring and pricing.

Does Lebanon need fewer banks?

We believe that a market like Lebanon requires fewer banking institutions and a round of consolidation is imperative to make the system more robust and competitive as well as more diversified business models in order to serve a broader spectrum of economic activity. Mergers will require first full clarity on banks' financials. As such, this crisis could be seized upon to achieve this outcome. Academic research in this area confirms that while bank consolidation can lead to higher fees and potentially higher loan rates, it also provides greater financial stability and less risk taking. Larger banks can also attract investors more easily, especially high-quality long-term shareholders.

In most countries experiencing a financial crisis, those banks that are overexposed to troubled assets have been absorbed into large healthy banks. However, in Lebanon, as most large banks are heavily exposed to central bank and government debt and non-performing loans they are unable to play the consolidator role**. We therefore believe that a consolidation can be best achieved by a combination of unwinding smaller banks, resolving some banks and merging larger banks** which would facilitate new equity fundraising, and cost cutting with fewer branches required in an increasingly digital world. Larger banks will also be able to afford to invest in newer IT systems and risk management systems over time and be viewed as better credits by foreign correspondents.

Conclusion. The solutions exist, the time to act is now!

Signatories (in their personal capacity)

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Interview on CNN's Connect The World with Becky Anderson on Covid19, low oil prices and Lebanon, 9 Mar 2020

Dr. Nasser Saidi was interviewed on CNN’s Connect the World with Becky Anderson on the 9th of Mar 2020.
Watch the interview videos below:
Just how bad are things with Lebanon’s economy? What will a combination of COVID19 & the collapse in oil prices bring about in the MENA region? With global stocks falling fast, oil plummeting and COVID19 fears spreading, how should policymakers respond to the crises?

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”.

Radio interview with Dubai Eye's Business Breakfast on UK's new finance minsiter & Lebanon's economy, 18 Feb 2019

Dr. Nasser Saidi spoke with Dubai Eye’s Business Breakfast team on various topics ranging from the UK’s new finance minister to Lebanon’s ongoing economic worries and also corporate governance issues given recent UAE equity-related news.

Listen to the full radio interview at https://omny.fm/shows/businessbreakfast/nasser-saidi-associates-18-02-2020

"Capital Controls and the Stabilization of the Lebanese Economy", by A Citizens' Initiative for Lebanon, 5 Feb 2020

The article titled "Capital Controls and the Stabilization of the Lebanese Economy", written by A Citizens' Initiative for Lebanon was published on 5th January, 2020 in An Nahar and is also posted below.

This note is the latest in a series of analysis by an independent group of citizens who met in their personal capacity in December 2019 to discuss the broad contours of Lebanon's financial crisis and ways forward.

Capital Controls [1] and the Stabilization of the Lebanese Economy

Summary:
In mid-October 2019, Lebanese banks shut down their branches, imposed informal capital controls and blocked depositors' access to their deposits. These informal capital controls are unprecedented in Lebanese banking history and are not based on legal grounds. To make matters worse, they have been applied without any transparency and in an arbitrary manner. In line with our 10-point action plan to avoid a lost decade, Lebanon urgently needs to replace these informal controls with formal

(i.e., based on laws and regulations), focused and effective capital controls that are an integral part of a macroeconomic comprehensive program for monetary and financial stabilization and economic recovery. Well-designed capital controls are essential in slowing down the outflow of capital and stabilizing Lebanon’s external finances until confidence is restored in the Lebanese banking system and economy.

What are capital controls?

Formal Capital controls are lawful restrictions placed by government authorities on the flow of capital, i.e. on foreign currency transactions. These restrictions are designed by governments, implemented by banks and financial institutions and are typically enforced by a central bank.

Capital controls can take many forms outright prohibition of any international transaction or, alternatively, any international transaction above a certain threshold; restriction depending on the type of the transaction debt vs equity investments, short term vs long term, or capital account versus current account. Iceland, for example, restricted capital account transactions in 2008 but allowed current account transactions in other words, no restrictions were placed on imports taxation of international transactions and, finally, requiring licenses or approvals for certain international transactions such as payments for imports of inputs to industries and other economic activity.

The type of capital controls that will be required in Lebanon will vary depending on the program for monetary and financial stabilization and economic recovery, and more specifically, the foreign exchange regime.

Why are capital controls required in Lebanon?

Capital controls are needed to slow down the outflow of capital from Lebanon. The key reasons for imposing capital controls are:

- the large net negative foreign currency position (net reserves) of the Central Bank of Lebanon [2]. BDL is not in a position to meet the banks’ foreign exchange requirements.

- the need to limit the rapid decline in foreign exchange reserves and, therefore, the loss of confidence in the ability of BDL in maintaining the exchange rate peg and the depreciation of the LL in the parallel market.

Given the large exposure of Lebanese banks to BDL, it will be very difficult to restore confidence in the banking system and stem the outflow of deposits without capital controls.

There are currently over $170 billion in deposits in the Lebanese banking industry. Given the lack of confidence in Lebanon’s economy and financial system and given the lack of trust in the ability of the political establishment to lead the country out of the financial crisis, most deposits will likely be transferred out of the Lebanese Lira (out of the banking system, and out of Lebanon at the earliest opportunity. A panic run on the banks will put many banks at risk of failure and depositors will lose their deposits. Furthermore, the LL is likely to depreciate even further below the current unofficial market rate which is itself more than 40% lower than the LL 1505-1515/US$ official BDL rate.

The informal capital controls that were introduced in October 2019 are unfair to depositors. Well-designed capital controls can 1) limit rapid currency fluctuations in Lebanon’s case, to slow down the rapid depreciation of the LL, and 2) contain panic runs on banks until confidence is restored if they are part of a credible and comprehensive macroeconomic fiscal financial stabilization program.

What do capital controls mean in the Lebanese context?

Lebanese banks have put in place informal capital controls since mid-October 2019. The alleged rationale is to avoid a panic run on the banks which could result in banks seeing all their deposits withdrawn at the same time. Despite the informal capital controls, about US$1.6 billion were transferred between October 17, 2019, and the end of 2019 It has been reported that these transfers were carried out when banks were closed to the public. This has fueled widespread anger and in some cases, violence against the banks.

The informal capital controls have been implemented in an arbitrary manner, with each bank and in some cases, each bank manager deciding how much foreign currency to allow each depositor to withdraw on a weekly or monthly basis or which transactions to honour. To date, there have been no less than three court rulings in favor of depositors who challenged the legality of the banks' sequestration of their deposits.

Formal capital controls should 1) replace the informal controls with legally sound, transparent, fairly and uniformly applied controls; 2) give time for a credible and comprehensive stabilization program to restore trust in the financial and economic system; and 3) lead to the phasing out of the multi-tier exchange rate system in line with the stabilization program.

How can capital controls be introduced in Lebanon?

Capital controls (قيود على رأس المال) in Lebanon can only be imposed by law and even then, for a finite period of time. Capital controls require either an act of Parliament or, if a government is so empowered, by legislative decree (مراسيم تشريعية). The legislation needs to identify the types of controls that should be introduced for how long, and how these controls are to be enforced by the monetary and banking authorities and regulators. Legislation should define the principles and the broad parameters for banking and capital controls ensure transparency and good governance and provide adequate checks and balances to avoid abuse and additional market distortions.

The specifics of capital controls should be set by government policy and BDL regulations. *Capital controls should be embedded in the government's comprehensive program for macroeconomic and monetary reforms, financial stabilization and economic recovery.* They should not be a substitute for stabilization nor a cause for delaying fiscal, structural, and financial reforms.

Capital controls are too important to be left to BDL and the banking system to decide. They are an instrument, albeit

temporary, of economic policy and they have a material impact on depositors. To be effective, they must have a solid legal basis including constitutional legitimacy and have the necessary political backing for the monetary and banking authorities to enforce these controls.
There are those who have made the case that existing legislation the 1963 Money and Credit Code and its amendments, gives the Governor of BDL wide powers that could be used to introduce capital controls. There are three problems with this argument. First, even by the admission of its proponents, there is no clear mandate for BDL to impose capital controls and, were it to do so, these will be easy targets for legal challenges. Second, such an expansive view of the powers of BDL will set a bad precedent including raising issues of accountability and, therefore, undermine confidence in the banking industry for decades to come. Third, introducing capital controls through BDL circulars does not relieve the government and the political parties that are represented in it from the responsibility of backing formal capital controls.
There is no substitute for legislation whether through Parliament or by legislative decree to ensure that capital controls adhere to the following principles:

- **Appropriate**: The controls should be bound by legislation to deliver the appropriate level of restrictions on capital account transactions. Controls are more effective when they are simple, wide reaching, and do not leave room for arbitrary decision making:
- Controls should not affect foreign exchange accounts that are below a certain threshold which would not materially affect the country’s overall external balances. Account holders should be allowed to transfer a maximum amount every year from LL to US$ or from a resident account to a non-resident account.
- Controls should not affect capital that reaches Lebanese banks after a certain date (what is commonly referred to as “fresh money”).

- The financing of current account transactions should be allowed while imbalances in the current account should be addressed via other measures (e. import duties).
- **Fair**: Controls should be applied fairly to all citizens and all depositors should have access to their deposits on the same terms and conditions. Decisions r elated to the implementation of controls should be subject to review (by the enforcing authority) and appeal (through the judicial system).
- **Limited**: Legislation should place a time limit a sunset clause on all controls. Previous experience shows that countries have kept controls in place for a few years. How long the controls will be needed in Lebanon will depend on the government’s stabilization program.
- **Transparent**: BDL and the Minister of Finance should present joint report s to the Council of Ministers every six months justifying and providing evidence of the effectiveness and the need for the continuation of controls. Parliament, too, should review these reports make them public and keep the pressure on the Council of Ministers to hasten the lifting of controls.

Are capital controls “bad”?

Capital controls lead to inefficient capital deployment, market distortions, slow growth, slow investment in socially desirable sectors such as education and healthcare, and, most importantly, scare away non-resident capital including FDI which is essential for productive investment and job creation. Capital controls can also cause a lot of damage to the perception of risk associated with that country. Once capital controls are used, it can take years for a country to outlive the perception that it is likely to use these controls again. Without countervailing measures, the country risk rating will be negatively affected for years to come.

Capital controls create incentives for evading enforcement and, therefore, present opportunities for abuse and corruption. The more latitude government and BDL officials have in determining when and how to apply the controls, the weaker the oversight functions and, hence, the easier it will be to evade the controls. The experience of countries in licensing access to FX which is not recommended for Lebanon, shows how pervasive corruption can become. Any application of controls should be accompanied by appropriate measures for the accountability of BDL and regulators for their implementation of the controls.

Despite all this, capital controls are urgently required. Introducing capital controls in Lebanon is not to be taken lightly. Some objections have been raised to capital controls on the ground that they would irreparably damage the reputation of Lebanon’s banking industry. Others would argue that the damage has already been done by the unjustified bank closures, informal controls and payment restrictions and that these should urgently be revised to be fit for purpose and regularized. We are squarely in the latter camp.

Capital controls are needed in Lebanon as a tool of last resort and not an instrument of industrial policy:

- They are necessary to stabilize the economy and manage, to the extent possible, the LL/US$ exchange rate in order to avoid a crash landing of the LL which will have devastating effects on the vast majority of the Lebanese population, over and above the 40% effective depreciation of the LL on the parallel market. It is, indeed, a stopgap measure and not a silver bullet, nor an alternative to genuine economic reforms;
- They are necessary to buy time to provide for an orderly restructuring of the financial sector;
- They allow for the reduction of interest rates which can help kick start investments and start generating growth.

In 1998, Paul Krugman wrote a letter to the Malaysian Prime Minister, in which he encouraged him to introduce capital controls. In it, Krugman wrote: “Currency controls are a risky, stopgap measure, but some gaps desperately need to be stopped.” [3] Malaysia introduced capital controls as part of a comprehensive stabilization program which resulted in a shallower and shorter recession, and a faster recovery than other East Asian economies.

Are International Financial Institutions opposed to capital controls?

The short answer is “No”. The IMF has, in recent years, been more flexible about capital controls as long as these are not meant to delay financial reforms. [4] IMF programs have been accompanied by capital controls in many countries, most notably in Iceland. The IMF Articles of Agreement rule out capital controls, but they carve out an exception.[5]

The IMF recognizes that formal capital controls may be needed in some very specific circumstances, such as the risk of drastic and rapid depreciation of the currency, the risk of depletion of foreign reserves and the onset of a crisis in the banking industry. However, IMF requires, as most Lebanese would, that capital controls be accompanied by a comprehensive program for economic, fiscal, structural and financial sector reforms.

In summary, Lebanon urgently needs to replace the informal and haphazard capital controls with formal capital controls to ensure fair, transparent, and regulated flows of capital and depositors’ access to their bank deposits. Capital controls, if introduced for a limited period of time and as part of a broader program for financial stabilization and economic recovery, do not mean the end of the liberal economic order n or the demise of the Lebanese banking and financial industry. Quite the contrary, they could be an integral part of a much needed program of economic, fiscal structural, and financial sector reforms that put s the economy back on the path to recovery.

Signatories (in their personal capacity)

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[1] We will use the term capital controls to refer to formal capital and banking controls in the rest of this paper
[2] Hereafter referred to as BDL, the acronym for Banque du Liban
[3] Paul Krugman, "Free Advice: A Letter to Malaysia's Prime Minister," Fortune September 28, 1998.
[4] IMF, The Liberalization and Management of Capital Flows: An Institutional View November 14, 2012
[5] Article XIV, Section 2, of the IMF Articles of Agreement makes an exception for transitional arrangements: "A member that has notified the Fund that it intends to avail itself of transitional arrangements under this provision may, notwithstanding the provisions of any other articles of this Agreement, maintain and adapt to changing circumstances the restrictions on payments and transfers for current international transactions that were in effect on the date on which it became a member (…) In particular, members shall withdraw restrictions maintained under this Section as soon as they are satisfied that they will be able, in the absence of such restrictions, to settle their balance of payments in a manner which will not unduly encumber their access to the general resources of the Fund."

Interview with Arab News on Lebanon's economy, 5 Feb 2020

Dr. Nasser Saidi was interviewed by Arab News on the state of the Lebanese economy: he provided his views on addressing the debt burden as well as financial support for the country. He states that a rescue package is needed ‘to restore confidence’ and kick-start major banking reforms.

The article, titled “Former Lebanon economy chief in plea for $25bn bailout plan“, was published in Arab News on 5th Feb 2020 and is posted below.

Former Lebanon economy chief in plea for $25bn bailout plan

A former Lebanese economy and trade minister has called for a second Paris summit to bail out the debt-ridden nation with financial support of up to $25 billion.

Nasser Saidi, who is also a former deputy governor of Lebanon’s central bank, told Arab News that restructuring of the country’s banking system is needed urgently and that “depositors should not have to pay for banks’ mismanagement.”

Financial support of between $20 billion and $25 billion is needed “to restore confidence,” he said.

The former minister’s comments come almost two years after a Paris conference rallied international support for an $11 billion investment program in Lebanon. More than 50 countries, including Saudi Arabia, the US and Russia, took part in the summit alongside the World Bank, the IMF and major finance institutions.

Saidi told Arab News: “We need to address Lebanon’s debt burden as part of a comprehensive macro-economic fiscal, financial, banking and currency reform program. The debt problem cannot be viewed in isolation.”

The country’s sovereign debt is now running at $90 billion, or

160 percent of gross domestic product (GDP), he said. The cost of servicing the debt is around $10 billion, which is 22 percent of GDP and more than 65 percent of government revenue – “a debt burden that is totally unsustainable.”

Lebanon’s central bank also owes $120 billion to the country’s banks that it is unable to repay. “So when we talk about the problem, it means addressing the sovereign debt problem and the central bank debt problem,” Saidi said.

He said the $11 billion in infrastructure spending promised at the 2018 Paris meeting “is no longer relevant because Lebanon’s financial circumstances have changed radically.”

“Lebanon is in a recession that will become a depression, meaning that GDP might decline by 8 to 10 percent this year,” the former minister warned. “An economic stabilization fund of around $20 to $25 billion is required for balance of payments problems, dealing with liquidity at the banks and, at the same time, it would need to be accompanied by a restructuring of the banking system.

Saidi urged major shareholders to help Lebanon’s struggling banks recapitalize with cash injections drawn from past profits.

“Recently Bank Audi sold its subsidiary in Egypt. Other banks should sell their subsidiaries outside and bring their money home. They may have other investments they can liquidate, such as real estate, in order to increase capital.”

The former minister claimed that “with the $25 billion Lebanon requires, confidence will be restored, and you can start attracting capital back into the country.”

Commenting on recent government reforms in the energy sector, including electricity, Saidi said: “It is totally unrealistic; power plants can be built in six months. We need to stop corruption and waste. GE, Siemens and the Chinese can build plants in six months. The fuel bought now is priced above international prices, so the government should approach Gulf countries and ask them to supply us with fuel at international prices or even lower, in line with what they did for Egypt in the past.

“That would reduce our fuel and electricity bill by $3 billion. This package needs to be completed with a social safety net since, according to World Bank figures, one-third of the Lebanese population is living below the poverty line,” he said.

"What Are the Top Three Priorities for Lebanon's New Government in the Coming Weeks?", Comment in Inquiring Minds, Diwan (Middle East Insights from Carnegie), 30 Jan 2020

Dr. Nasser Saidi was asked to provide his responses to the question “What Are the Top Three Priorities for Lebanon’s New Government in the Coming Weeks?” as part of a comment in Inquiring Minds, published by Diwan (Middle East Insights from Carnegie) on 30th Jan 2020. The comment is posted below and link to the original article is here.

What Are the Top Three Priorities for Lebanon’s New Government in the Coming Weeks?

Nasser al-Saidi | President of Nasser Saidi & Associates, former Lebanese economy minister

The Lebanese government must focus, first, on a macro-fiscal-financial-banking program. Lebanon’s key macroeconomic indicators point to a severe economic, financial, banking, currency, and current account crisis: a fiscal deficit of 15 percent of GDP and climbing; a sovereign debt equivalent to 160 percent or more of GDP; inflation nearing 30 percent; a depreciation of the Lebanese pound in the parallel market of around 40 percent; and officially declared international reserves of $31.5 billion, while Morgan Stanley estimated net reserves at $11.5 billion at the end of 2019.

The immediate step required is for a ministerial crisis task force (not another “committee”) tasked to prepare a macro-fiscal-financial-banking reform plan, in coordination with the International Monetary Fund (IMF) and the World Bank to include sovereign and central bank debt restructuring. The aim is to rapidly, within the next four weeks, establish an Economic Stabilization and Liquidity Fund for Lebanon, multilaterally funded by the IMF and World Bank, along with the Paris IV participants amounting to some $25 billion in order to stabilize the economy, support growth promoting infrastructure investment (in partnership with the private sector), fiscal reform, balance of payments support, banking sector (including the central bank) restructuring and debt restructuring, by providing guarantees of principal of restructured, longer maturity debt.

Second, the government must provide a social safety net. The sharp drop in economic activity (given the lack of government, business, and consumer confidence amid growing protests) has led to growing layoffs and unemployment, business closures and bankruptcies, falling incomes, a severe decline in household consumption, thereby pushing more people into poverty. The World Bank estimates the extreme poverty rate, that is people below the food poverty level, at 20 percent of the population (760,000), while 41 percent of the population (1,500,000) is* *below the poverty line. The government needs to set-up a targeted social safety net (via cash transfers mainly) to provide support for the elderly and most vulnerable segments during the painful reform process, with the aim of lowering inequality and reducing poverty in the medium term.*

Third, the government must introduce an anti-corruption and stolen asset recovery program. Endemic corruption, bribery, nepotism are a cancer eating and destroying Lebanon's economy and its social and political fabric. Lebanon is the 37th most corrupt nation out of total 180 countries. Protestors have, justifiably, focused on high-level corruption. The new government must prioritize combating corruption at all levels by appointing and empowering a special anti-corruption prosecutor and unit and implementing an anti-corruption program with respect to taxation and revenue collection as well as reforming government procurement law and procedures. In addition, the state must recover assets that have illicitly and criminally appropriated by politicians and their associates.

Recovering stolen assets can be a wealth-generating strategy if implemented properly with complete transparency. Lebanon will require international cooperation and building appropriate capacity to support asset recovery. It must abolish the Banking Secrecy Law of 1956, lifting the veil on the misappropriated monies and assets of politicians, their cronies, and civil servants.

"The Trouble with the Creeping Expropriation of Depositors", by A Citizens' Initiative for Lebanon, 24 Jan 2020

The article titled "The Trouble with the Creeping Expropriation of Depositors", written by A Citizens' Initiative for Lebanon was published on 24th January, 2020 and is posted below. Click here to access the original article.
This note is the second in a series of analysis by an independent group of citizens who met in their personal capacity in December 2019 to discuss the broad contours of Lebanon's financial crisis and ways forward.

While appearing to do nothing, policymakers are in fact tacitly responding to the crisis. They are doing so by allowing a maxi-devaluation of the LBP, while simultaneously weakening the rights of depositors without imposing pain on bank shareholders, as is legally required. In line with our recently released Ten Point Plan to Avoid a Lost Decade, we call for an immediate stop to these policies, which we argue are socially inequitable and economically inefficient.

A Toxic Policy-Mix

The first element of this mix is the steep depreciation of the LBP. The LBP market rate is in free fall, now heading to nearly twice the official rate. While depreciation is necessary to reduce the current account deficit, it has been made much larger than necessary by inaction on the fiscal front. Deteriorating tax collection (down by 40 percent

percent already) is generating an additional deficit in the primary balance of about $4 billion. With no other choices available, this will be increasingly financed by the Banque du Liban (BdL) injecting LBP liquidity, thus accelerating inflation and depreciation in the future.

While runaway inflation and devaluation constitute in effect a tax on people's real incomes, the creeping expropriation of deposits extends this effect further to their hard earned savings, even when they had sought protection by saving in dollar accounts, which represent close to 75 percent of deposits.

This started when the BdL left banks to self-manage a soft system of capital controls, which allowed them to sequester small depositors, while some large depositors were able to escape. The BdL also allowed banks to pay for deposit withdrawals from dollar accounts *at official LBP rates*. The BdL later capped interest on deposits, but not on banks' loans. It also required banks to pay half of the interest on dollar deposits in LBP, again at the official exchange rate.

Given these precedents one would expect "Lirasation" at a discounted exchange rate to continue to expand in the future, first to all the interest, and later to the principal. Indeed, in a recent publicly televised broadcast the Governor of the BdL declared that banks are only obligated to pay depositors in LBP at the official rate, a statement that is not supported by the Code of Commerce or case law.

Why this Policy?

A rampant "Lirasation" of deposits offers a magic solution to the public debt and banking sector problems. While the value of dollar deposits in banks would be reduced by as much as the LBP, bank assets would be much less affected, because they are largely denominated in dollars (loans to private firms, Eurobonds, and deposits at the BdL). If all deposits are

“Lirasised” and the LBP stabilizes at its current rate of 2000LBP/$, we calculate that banks would gain about $50 billion, a massive wealth transfer from depositors to banks’ owners.

Devaluation would also wipe out LL denominated sovereign debt, but it would increase the cost of servicing the remaining public debt dominated in dollars (Eurobonds and BDL deposits). However, it will be possible to finance the costs of a necessary restructuring of the remaining debt, held mainly by banks, by using up only part of the massive gain of the banks. At the end, the main burden of debt reduction and banking sector restructuring will be borne by depositors.

Costs of this Policy

The current approach to the debt problem comes at unacceptably high costs:

- It is unfair and discriminatory. Lebanon’s lower and middle classes will be decimated not only by lower real wages and pensions, but also by a liquidation of the wealth and lifetime savings accumulated by generations of expatriate and resident Lebanese. It is completely unprecedented to put the burden of loss on the depositors while shielding banks’ shareholders from such pain.
- It is inefficient. It will lead to a sharper contraction of the economy than necessary and a reduction in its growth prospects, for four reasons. Wealth destruction will push down demand. Many private firms will go bankrupt because their borrowings are mainly in foreign currency while their income is in LBP. Confidence in banks will collapse leading to severe financial disintermediation. And inflation will accelerate further because of “too much” Liras in the system.

In the second half of 2001, Argentina went through a similar experience. A sudden stop of inflows led to a bank run. Soon after, deposit withdrawals were sharply curtailed (the "corralito") and the ARS1/1$ currency peg was abandoned. A law was passed to convert all dollar deposits (which were predominant, as in Lebanon) into pesos at ARS1.4 for $1. The market rate collapsed however to ARS3.9 for $1, reducing the value of dollar deposits by 64 percent. A deep recession followed, with GDP collapsing by 12 percent. But there were two major differences with Lebanon: the banks held little public debt, and the exports improved rapidly. The resulting recession in Lebanon can be expected to be far more destructive, especially that Lebanon's exports are unlikely to rebound as fast as in Argentina.

Creeping Lirasation is also illegal. The Money & Credit Code of 1963 and its various amendments which is the legal framework for money and payments, does not provide a mandate or authority for the Central Bank to force the payment of interest in a different currency than in the deposit contract, let alone to force deposit conversion into LBP at below market rates. Such actions would require the passage of a 'nationalisation law' by Parliament and possibly, an amendment of the constitution.

To stop Lirasation, we recommend adopting the market rate as the legal reference for foreign currency deposit repayments. This calls for a mechanism to establish a market rate at all times, similar to the flexible exchange rate regime which characterized Lebanon's experience from 1949 till 1996 and which allowed it to weather domestic and external shocks.

The 10-point comprehensive plan that we have proposed calls for a quick adjustment in the fiscal accounts to reduce inflationary pressures, especially by curbing corrupt practices. It also calls for an immediate moratorium of debt repayment, and for an orderly reduction of public debt. This would be place the burden on bank equity, and by limiting haircuts to the 0.1 percent of depositors who account for more than 35 percent of all deposits. A well-devised policy package along the lines we recommend will be not only be socially fairer, but it will also lead to a faster recovery.

Signatories

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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.

Podcast on Lebanon with The National, 23 Jan 2020

In this episode of Beyond the Headlines, The National’s Willy Lowry reported from the tear gas-filled streets of Beirut. He spoke to young people angry at what they’ve called Mr Diab’s “one-colour” government.
Also on the show is Dr. Nasser Saidi *(from 10:00 onwards)***, a former Lebanese economy minister and former vice governor of the central bank of Lebanon. He lays out plainly the scale of the crisis and his recommendations of what the new government should do.**
https://audioboom.com/posts/7486040-tear-gas-fireworks-and-politics-in-lebanon-s-revolution

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Interview with Sky News Arabiya (Arabic) on Lebanon's economic crisis, 21 Jan 2020

Dr. Nasser Saidi discusses Lebanon’s ongoing economic & financial crisis, need to restructure public debt & the banking sector, and undertake an Economic Stabilisation & Liquidity programme with the IMF in an interview (in Arabic) that aired on SkyNews Arabiya on 21st Jan 2020.
The video can be viewed below:

"Road Map to an Orderly Restructuring of Lebanese Public Sector Debt", Article in An-Nahar, 21 Jan 2020

The article titled "Road Map to an Orderly Restructuring of Lebanese Public Sector Debt", written by A Citizens' Initiative for Lebanon appeared in An-Nahar's online edition on 21st January, 2020 and is posted below. Click here to access the original article.

We believe Lebanon's public sector debt is unsustainable. In line with our recently released Ten Point Plan to Avoid a Lost Decade, we strongly recommend that the Lebanese government commences with a comprehensive restructuring effort – one that brings down the debt burden to a level the country can afford. Using scarce international reserves to make future Eurobond payments will be a mistake. Equally, the bond-by-bond rescheduling approach being discussed postpones the inevitable and is costly and inefficient. Sovereign debt restructurings are not un-precedented and best practices do exist. But for the effort be successful, it should be part of a broader stabilization and reform package.

How large is Lebanon's debt?

Repeated government deficits have led to an extraordinary accumulation of public sector indebtedness. From $25 billion in 2000, gross debt had mushroomed to $90 billion by the end of 2019—the equivalent of 150 percent of GDP. Lebanon today is the third most indebted emerging economy worldwide.

However, this is not the whole story. This debt is likely to continue rising as a result of two additional factors:

- The larger the FX depreciation, the higher the debt/GDP ratio. On the positive side, a large portion of the debt is in Lebanese Lira (LBP). A Foreign Exchange (FX) depreciation will therefore reduce the “real” value of debt. As an indication, if the FX settles at LBP2260/$ (i.e., a 50 percent depreciation), gross debt, when measured in USD, will drop from $90 billion to $71 billion. However, and by the same token, an FX depreciation will reduce the country’s USD-measured GDP. Again, for illustrative purposes, a 50 percent FX depreciation, when combined with a 20 percent inflation and an 8 percent recession, will reduce GDP from $60 billion in 2019 to $44 billion in 2020.*1* Consequently, despite the FX-led dilution of LBP debt, debt to GDP will actually rise from 150 percent in 2019 to 161 percent of GDP in 2020.
- Deepening recession and public sector deficits will need to be funded through increased debt. First, the 2020 (and beyond) recession will result in a public sector deficit that will have to be funded through debt. Second, the official (IMF, World Bank, Cedre, etc.) funding support that the country needs will be debt creating. Finally, important quasi fiscal “holes” including, most prominently, BDL’s necessary recapitalization as well as the arrears recently accumulated by the fiscal authorities, will have to be recognized and will inevitably lead to significantly higher debt.

Is Lebanon’s debt sustainable?

No. The easiest way to see this is by examining what it would take to service the existing stock of debt. Given the $71 billion debt figure cited above (which is the debt calculated after the FX

depreciation dilutes the LBP debt but before any new debt is accumulated as described above), a conservatively assumed 7 percent interest rate would lead to $5 billion (annually) in

interest
payments. Moreover, if one assumes a seven-year maturity on the debt, there will be an additional $5 billion in annual principal repayments. Combined, this $10 billion represents almost a quarter of 2020's GDP. Seen in even starker terms, this amount is actually larger than the projected government revenues for 2020.

Lebanon's debt service burden is not a new phenomenon: it has been large and growing for years now. The government has sustained it thus far by borrowing the debt service and adding the amount to existing debt. However, a future repeat of this approach is extremely unlikely. First, the amount of new debt required to service the existing debt ($10 billion annually) is, in the foreseeable future, almost certainly impossible to raise in capital markets. Second, even if "borrowable", this will add to an already extraordinarily high level of debt. *2*

What's the "right" level of debt for a country like Lebanon?

The academic literature on debt "tolerance" indicates that emerging economies cannot sustain high indebtedness and that, when they do accumulate it, defaults often ensue.*3* The literature's
conclusion is that, to avoid defaults, an emerging country should hold a relatively "low" debt load. So, what defines "low"? "Investment grade" countries, that is countries seen as having strong
and healthy economies, offer a good benchmark. Historically, those countries have defaulted only 3% of the time. On average, those countries' debt load amounted to 60 percent of GDP. To
expand the universe a bit wider, countries that are rated three notches below "investment grade" and have defaulted 10 percent of the time, have held a debt load of 80 percent of GDP.

As such, we believe the above range (60-to-80 percent of GDP) is a maximum medium target for Lebanon's sovereign debt. We would be even more aggressive. Lebanon's institutional and political fragilities severely challenge the public sector's ability to generate the budget surpluses needed to service debt over time. We would therefore argue that the lower part of that range is more advisable. Given that Lebanon's debt today is (at least) 160 percent of GDP, achieving the medium-term target of 60 percent of GDP will require a dramatic debt restructuring effort.

Does a restructuring necessarily mean a "hair cut"?

Not really. Even though the previous section defined sustainable debt in "percent of GDP" terms, the reality is not all debt is created equal. An extreme example illustrates the point: a 100-year bond with zero coupon entails a dramatically smaller debt burden than, say, a 10-year bond with a seven percent coupon.

A more sophisticated way of thinking of the debt load then is to think of it in terms of net present value (NPV). In effect, this means thinking of debt along three different axes: i) the debt's notional amount; ii) the debt's interest rate; and iii) the debt's maturity.

How should the restructuring effort look like?

Following international sovereign restructuring experiences, we would recommend a "menu approach". Some investors will prefer a principal reduction so long as the interest and maturities remain unchanged. Others will prefer to keep the principal unchanged but could accept lower interest rates and/or extended maturities. The governing principal should be that all creditors are

asked to give the same NPV concession.

Once the negotiations with creditors are completed, the Lebanese government would announce an "exchange offer" where it retires the existing debt and issues a new set of securities. Some of the new bonds will have lower principal ("discount bonds") while others will have similar principal (to the existing bonds) but lower interest and longer maturities ("par bonds"). There is also an argument for including "sweeteners" into the exchange (including "warrants" that only pay if the Lebanon grows in the future). International experience suggests that creditors value these warrants thus improving chances of a successful operation.

Is a sovereign debt restructuring a "big deal"?

Yes it is. However, sovereign restructurings are not rare either. Since 1980, there has been 111 cases of sovereign debt restructurings—roughly three a year. This does not mean that debt restructuring is cost-less or "normal". There is ample empirical evidence that a stigma, measured by the country's market risk premium, persists. Nonetheless, restructurings have occurred across the globe and they do not spell Lebanon's ability to finance itself in international markets in the future.

Are debt restructurings disruptive?

They don't *have* to be. If handled properly, they can be cooperative and relatively smooth. Best practices do exist. First, retaining good legal and financial counsel is crucial as the negotiations will be complicated. Second, it is best not to wait too close to the next maturity before announcing the intention to restructure. The more advance notice creditors are given, the better. Third, Communication matters. In announcing the intention to restructure, the sovereign should make it clear that this is not meant as a "hard default". By the same token, strong-armed/cramdown tactics should be avoided if the objective is to reach an orderly and cooperative workout. Finally, fairness and contextualizing the restructuring as part of a broader macro package are crucial requirements for an orderly effort.

Will creditors be open to a restructuring effort?

Creditors are more likely to be open to restructuring efforts if they are part of a comprehensive macro package that includes official foreign support. It is worth keeping in mind that Lebanese debt is currently trading at a large discount and investors have already priced in a restructuring. They will therefore be open to offering concessions so long as the value of the new bonds is at or above the market value of the bonds they currently own. In other words, the bar for a deal is not too high and the timing is ripe for entering restructuring discussions with creditors.

We also believe that a credible and well-designed debt workout can actually be advantageous to creditors. If the restructuring is undertaken as part of a strong reform package, a Lebanon without a debt overhang will emerge as much more "creditworthy". This will translate into a lower "risk premium" which, in turn, could take the value of the new (i.e., post NPV-hit) debt above current valuations. This is not a theoretical possibility: most successful sovereign restructurings have resulted in a country's bonds, even after a large NPV hit, trading well above the pre-restructured bond levels. For this to be the case, though, the importance of a proactive, orderly, equitable and well-run restructuring process cannot be overstated.

Should the Government be selective in what debt it restructures and what debt it spares?

At the broadest level, comprehensiveness and equality of treatment should be the guiding principle. The size of the debt itself, as well as the challenging fiscal/growth backdrop over the
next few years, mean that the restructuring effort should touch all public sector debt and not just the Eurobonds.

That said, the arguments for selectivity are complicated and not straightforward. First, shortdated LBP debt will be hit hard by the FX depreciation so is probably best spared. Second, while
debt issued under Lebanese law (treasury bonds and BDL claims) is legally and politically easier to restructure, it's also debt the government will have easiest access to in the future. As such, there is an argument to treat it preferentially. Third, penalizing non-resident creditors is appealing politically and even morally (since most foreign creditors are institutional investors who weren't coerced to own the bonds and knew the risk they assumed). However, foreign creditors

won't be as cooperative as locals during negotiations and may complicate the process including through lawsuits. In that regard, actions that complicate the Republic's future return to the capital markets should be avoided if possible.

The bottom line is that there is no straightforward answer to the question of selectivity. The broad principal is that successful restructurings are ones where investors perceive the effort as
"fair" and reasonable.

Is restructuring sufficient to reduce the debt burden?

No. The stock of debt is too large to be brought down solely through a debt restructuring. There are other ways to reduce the burden. As we argued in our 10-point plan, there is scope for the
judicious usage of state assets including privatizations and securitizing future cash flows. Moreover, and as part of any future (large) depositors' bail in, there is room for swapping some deposits into concessional debt. Finally, the public sector should also assume some of the future burden by running primary surpluses that can be used to gradually lower debt over time.

Is debt reduction alone the answer to Lebanon's problems?

Absolutely not. It is but one part of the solution. The main argument of our 10-point plan was that a comprehensive stabilization and reform program is a must. Debt restructuring has to be
part of a larger macro package—one that deals with the banking sector, with BDL's balance sheet, and with private debt. More importantly, a successful debt workout is one that, in parallel,
convinces creditors that the "flow" issues that created the problem in the first place have been dealt with. This, in practice, means addressing Lebanon's endemic fiscal issues, its large external imbalances, as well as the other parts of the macro policy toolbox such as FX and monetary policy.

Creditors will give the sovereign significantly better terms if they perceive the macro framework as credible and sustainable. There are plenty of examples where restructuring proposals that were advantageous to creditors ex ante were rejected because the creditors didn't think the sovereign can follow through with its macro promises.

Will legal complications render restructurings impossible?

We don't believe so. But they are not straightforward. As noted above, retaining good legal counsel will be crucial to the effort. A broad point is that a cooperative approach will increase the chances of achieving the thresholds needed for a smooth and orderly restructuring.

Lebanese Eurobonds are issued under New York Law and have broadly standard terms including cross default clauses and a 7 days grace period for principal repayments and 30 days for coupon payments. A quarter of the principal holders are needed for acceleration of the Eurobond's repayment.

The area that may well complicate the restructuring effort relates to the collective action clauses required for modifying the terms of the Eurobond. The contracts foresee creditors' meetings that can modify bond terms so long as 75 percent of bond-holders consent. This includes changing amounts payable, reducing/cancelling principal, and modifying currency of payment. Any such resolution passed in this manner would be binding on all holders regardless of whether they voted in favor or not. However, there is no collective action clause across series. As a result, outstanding Eurobonds would have to be restructured series by series. Ownership structure of each Eurobond could thus be an important factor when negotiating with creditors. Our recommendation is that the Government approaches all bondholders across the different series with a single restructuring proposal but we wouldn't rule out the eventual possibility of differential treatment based on ownership structure.

Summary

In summary, we call on the Lebanese Government to immediately initiate a plan to proactively address the unsustainable debt

burden. An organized, fair and credible debt effort that is part
and parcel of a broader reform and stabilization program is imperative for Lebanon’s eventual recovery and its longer-term economic stability and growth.

Signatories in their personal capacities

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Interview with CNN's Richard Quest on Lebanon's path forward amid the crisis, 8 Jan 2020

Dr. Nasser Saidi was interviewed by CNN International’s Richard Quest on 8th Jan, 2020 to provide his insights on Lebanon’s path forward amid the economic and political crisis. Watch the interview below:

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 والمالية 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.

"Lebanon’s Economic Crisis: A Ten Point Action Plan for Avoiding a Lost Decade", by A Citizens’ Initiative for Lebanon, 6 Jan 2020

The article titled “Lebanon’s Economic Crisis: A Ten Point Action Plan for Avoiding a Lost Decade”, written by A Citizens’ Initiative for Lebanon was published on 6th January, 2020 and is posted below. Click here to access the original article.

An independent group of development specialists, economists and finance experts met in Beirut late-December to discuss the ongoing economic crisis and the path forward. This note *summarizes the deliberations and puts forth a ten-point action plan meant to arrest the crisis and place the country on a path of sustained recovery.*

How did we get here?

The economic crisis is, at its core, a governance crisis emanating from a dysfunctional sectarian system that hindered rational policymaking and permitted a culture of corruption and waste. The country, led by the public sector, lived beyond its means. Decades of pursuing this model left the economy with high debt and a bloated banking sector.

Inevitably, the dramatic debt increase resulted in an-expanding debt-*servicing* burden. The large yearly funding needs rendered the country vulnerable to external and regional shocks. As external financial flows into Lebanon slowed, the central bank resorted to desperate and extremely expensive efforts to attract them. Ultimately, this proved unsustainable. Since October, we've had a virtual cessation of capital inflows and a sharp acceleration of outflows.

Where are we now?

This situation leaves the country with three simultaneous crises.

The first is a balance of payments and currency crisis. For 2020, we estimate the gap between USD supply and USD demand at $8 billion. If this gap is not filled, the economy will experience difficulties including the servicing of external debt, imported goods' shortages, currency devaluation, and economic contraction.

The second crisis is that of public finance. Beginning with a 10 percent of GDP deficit in 2019, government revenues are now collapsing under the weight of the recession and the banking crisis described below. Inflation-adjusted spending is also crumbling. We estimate a $3 billion primary budget deficit (excluding interest payments) for 2020. In the current situation, funding this deficit will prove challenging.

The third crisis is that of the banking system. With almost half of banks’ assets invested in Lebanese sovereign risk including with the Banque du Liban (BDL) and another quarter representing risky private sector claims, banks are effectively insolvent and illiquid. Despite the loose and inefficient capital and banking controls recently put in place, the sector is experiencing a deposit run. In similar international experiences, the central bank usually steps in and provides the liquidity that banks need. However, the BdL is constrained by its limited USD reserves and by fears that an oversupply of LBP would lead to further currency weakening.

Consequences of continuing on the current path

Persisting with the current ad hoc approach to policy making will lead Lebanon on a path of implosion and political disintegration. We foresee seven consequences:

1. ***The economy will experience a deep recession.*** USD shortages will force the economy to adjust to lower imports. Bank and capital controls will hit a private sector that is dependent on liquidity and credit; business closures, salary reductions, and layoffs have already become common. The public sector will retrench given difficult financing conditions. Under this scenario, we forecast the economy will experience a double-digit contraction in 2020—i.e., a recession equivalent to what the US experienced during the Great Depression.
2. ***The Foreign Exchange (FX) will weaken sharply.*** The LBP will adjust downwards to bring the supply and demand of

USD into balance. Left to its own devices, we estimate the FX could lose up to half its value leading to high inflation. In turn, this will have a massive negative impact on the cost of living, the availability of essential goods, food and healthcare, businesses and unemployment.

3. ***Capital and bank controls will intensify***. Banks will continue rationing deposit withdrawals and external transfers. The private sector's liquidity crunch will deepen and disorderly and un-managed debt defaults (including on Eurobonds) will prove inevitable. BdL will hemorrhage international reserves.
4. ***Debilitating social conditions will intensify.*** This kind of economic collapse will cause catastrophic wealth destruction. Poverty rates could rise to more than 40 percent of the Lebanese population with 1.6 million people unable to afford food and basic nonfood items. Unemployment will increase and much of the middle class could be eliminated.
5. ***A seismic political shift is likely to occur.*** The current political parties will not emerge unscathed. The security repercussions of social unrest will be significant and difficult to predict.
6. ***Without addressing the root causes, the crises will prove long lasting.*** To put it in stark terms, this would become a decade long economic crisis—one from which chances of recovery are significantly dim. A "lost decade" will result from this scenario.
7. Finally, ***international financial support is likely to fall far short*** of what is needed to relieve the economy.

Is there a better approach?

We think there is. Below we outline a three-year program that aims to arrest the crisis, deal with its root causes and set the country back on a path of recovery. The program seeks to ensure equitable burden sharing of the crisis' fallout while protecting the most vulnerable especially during the period of transition. The ten concrete steps below should be implemented in parallel rather than piecemeal.

1. ***Establish an empowered economic emergency steering committee*** to design, negotiate and implement the program. In parallel, create participatory mechanisms to discuss with civil society the policy package, and to empower citizens to monitor its implementation.
2. ***Replace the ad hoc and self-administered capital and banking controls.*** Controls are likely needed for an extended period even in the best of scenarios. They need to be run in a centralized and transparent fashion backed by proper legislation.
3. ***Decisively deal with public sector debt.*** Immediately announce a moratorium on debt payments (external and domestic), hire legal counsel, and convene a creditor's committee. Our view is that Lebanon's fundamentals justify a debt load ranging between 60 and 80 percent of GDP over the medium term. To reach this target, creditors should be offered a menu of concessions including lower principal, reduced interest rates, and extended maturities.
4. ***Embark on a credible fiscal reform.*** Public spending, currently inefficient, wasteful, and vulnerable to corruption, must be transformed. The electricity sector is but one example. A wholesale governance and regulatory reform program is needed to curb the rent seeking culture. These reforms, along with savings accruing from lower debt servicing, should allow for increased spending on social sectors and infrastructure. Second, a broad revenue reform is needed that focuses less on raising tax rates and more on addressing weak collection and overt reliance on specific sectors. Third, we recommend the adoption of a binding and credible "fiscal rule" that caps the size of future budget deficits.

5. ***Deal with private sector debt***. The private sector is facing a severe crisis. Convene a creditor/debtor roundtable to agree on a standardized menu of financial relief actions aiming to safeguard viable firms while orderly liquidating those that aren't. The existing draft *Bankruptcy and Restructuring law* should be promptly passed.
6. ***Repair BdL's balance sheet***. BDL is a large lender to the government and has an estimated USD30 billion negative net FX position rendering it vulnerable to devaluations. Until this is dealt with, it is tough to see confidence in the LBP returning.
7. ***Bring the banking sector back to health*** as a prerequisite to reinvigorating the economy. Public debt restructuring and mounting Non-Performing Loans (NPLs) will render many banks insolvent. Complicating matters, banks are highly exposed to the BdL whose own balance sheet is impaired. Current bank equity is far from sufficient to cover these hits. Our estimates suggest $20-25 billion of fresh capital is urgently needed. Current shareholders need to assume the losses and be required to bring in fresh capital. This may also necessitate a reduction in the number of banks. In parallel, foreign loans and State assets could conceivably be used to recapitalize the sector (see below). As the above is not likely to be enough, there is a near certain need for reducing portions of large deposits and swapping them into bank equity.
8. ***Preserve social peace through a focus on social justice.*** This involves a distribution of losses that is concentrated on the richest in society while sparing small bank depositors. Foreign funding should be used to blunt the pain of adjustment. A safety net must be put in place to fight poverty and support health and education. And workers should be helped to transition out of decaying sectors into those that benefit from the devaluation.

9. ***Re-think the FX/monetary policy mix.*** The fixed (and overvalued) exchange rate regime has contributed to large current account deficits, hurt export-oriented sectors, andforced BdL to maintain elevated interest rates. Looking forward, we recommend a more flexible exchange rate arrangement centered around a weaker LBP. However, until confidence in the LBP returns, it will be dangerous to allow the currency to freely float. Some form of currency management will have to be maintained for the medium term.
10. ***Secure a multi-year Stabilization and Structural Reform Facility.*** We estimate that a three-year $25 billion fund is needed. This facility should be used to shore up BDL’s net reserves, help fund the immediate government budgetary needs, finance badly needed social spending, and contribute to bank recapitalization. The economic program recommended above can garner this kind of support, including from the World Bank, the EU, and the GCC. However, it will realistically require an IMF program as an umbrella. We also think there is scope to partly fund this facility with state assets and possibly hoped-for oil and gas revenues. We cannot overstate the importance of good governance, transparency and accountability in this regard.

Conclusion

The consequences of the current path are catastrophic. Delays will only increase dislocation, exponentially magnify the needed adjustment, and place the burden on those least able to shoulder it. A better option is available. It won’t be easy, may at times prove painful and will certainly require a new social contract. But we sincerely believe this approach will pave the way to a better and prosperous future.

Signatories (in their personal capacities)

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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.

"Time is Running Out": Interview on Lebanon with Diwan, Middle East Insights from Carnegie, 8 Dec 2019

The interview with Dr. Nasser Saidi titled "Time is running out" appeared on Diwan, a blog from the Carnegie Endowment for International Peace's Middle East Program and the Carnegie Middle East Center.The original article (copied below) is available at: [*https://carnegie-mec.org/diwan/80524*](https://carnegie-mec.org/diwan/80524)

Time is running out

In an interview, former minister Nasser al-Saidi explains why Lebanon's financial revival will be a massive undertaking.

Nasser al-Saidi is a Lebanese economist who served as first vice governor of Lebanon's Central Bank in 1993–2002 and as minister of economy and trade in 1998–2000. He was chief economist and strategist of the Dubai International Financial Center, and acts as an advisor to governments, central banks, and regulators in the region. He is currently the founder and president of Nasser Saidi & Associates. Diwan interviewed Saidi in early December to get his views on the financial crisis that Lebanon is facing today, and to ask him what steps are needed to install financial stability in the country. The monumental task ahead is why Saidi said that any new government willing to grapple with Lebanon's financial problems would effectively face a politically suicidal *undertaking.*

Michael Young: You've described the way Lebanon has been raising money in recent decades as a "Ponzi scheme." Can you elaborate on what you meant?

Nasser al-Saidi: A Ponzi scheme develops when promised returns on investments are paid to existing investors from funds contributed by new investors. How did this happen in Lebanon? Successive governments have been fiscally reckless, with an average budget deficit of 8.5 percent of GDP since 2010. The high levels of government borrowing along with high interest rates led to a "crowding out" of the private sector and a sharp decline in investment and domestic credit to the private sector. This resulted in dismal economic growth and now a recession.

In tandem, the Central Bank raised U.S. dollar interest rates to attract deposits of the Lebanese diaspora and foreign investors to help finance Lebanon's twin deficits—the persistent current account deficits and the budget deficits. Higher interest rates raised the overall cost of government borrowing and led to a "crowding out" of the public sector: Government deficits were increasingly financed by the Central Bank. In turn, banks preferred to deposit at the Central Bank rather than risk lending to the private sector or the government, earning rates on U.S. dollar deposits exceeding international rates by 600 to 700 basis points. They were paid 8 percent and more, while international rates were 1 percent.

By 2016, the flow of remittances and capital inflows that served to finance Lebanon's twin fiscal and current account deficits started declining. The Central Bank attempted to shore up its international reserves and preserve an overvalued exchange rate by increased borrowing from the banks through so-called "financial engineering" schemes and swap operations. It also engaged in a massive bailout of domestic banks—in excess of $5 billion—that had suffered large losses on their foreign operations in Turkey, Syria, Saudi Arabia, and other countries.

While in the United States and Europe such bailouts after the 2007–2009 global financial crisis were undertaken by governments as part of their fiscal operations in return for equity and through the imposition of conditions, no such conditionality was imposed by Lebanon's Central Bank. Financial engineering, swaps, and other quasi-fiscal operations led to a ballooning of its balance sheet, from 182 percent of GDP in 2015 to 280 percent by October 2019, the highest ratio in the world. The growth in Central Bank assets—largely Lebanese government bonds and T-bills—was financed by more bank borrowing at high interest rates and led to a growing liquidity crunch for the private sector.

The bottom line is that the Central Bank was financing government budget deficits and monetizing the public debt through bank borrowing, earning less on its "assets" than it was promising and paying the banks. Increasingly, it was paying high returns on deposits from fresh money from domestic banks and international borrowing.

MY: Lebanon has imposed de facto capital controls. Is the message here that the decisionmakers favor protecting the banking sector over economic growth? And if so, does Lebanon have other choices given the pain that would ensue if the banking sector were to collapse?

NS: The de facto, informal capital, payments, and exchange controls imposed by the banks, with the implicit consent of the Central Bank, are intended to control capital flight, given the growing loss of confidence in the sustainability of government finances and the ability of the banking system to continue financing government deficits. But the self-declared bank holidays only brought on panic by depositors and investors. Indeed, the measures were self-defeating: Capital and foreign exchange controls, along with payment restrictions, while temporarily protecting the banks and the international reserves of the Central Bank, have generated a downward spiral in trade and economic activity and will result in an increase in non-performing loans, directly hurting banks.

In addition, the imposition of controls is left to the arbitrary discretion of the banks, which has generated heightened uncertainty concerning transactions and payments, and has led to a drying up of capital inflows and remittances, weakening the net foreign asset position of the banking system. International country evidence shows that while capital controls can be effective as part of a policy toolkit, they are not a substitute for the well-structured macroeconomic, fiscal, financial, and monetary reform program that Lebanon needs.

MY: Today there is a liquidity crunch, which has dire consequences for a country very heavily reliant on imported goods. Given that the Central Bank appears to have much lower reserves than initially announced, does Lebanon have any other choice than to go to the international community for such liquidity?

NS: Given the large level of sovereign and Central Bank debt—a total of LL150,183 billion, of which LL82,249 billion is Central Bank debt as of the second quarter of 2019—and the direct exposure of the banking system, with 70 percent of bank assets being in government and Central Bank paper, Lebanon will need to turn to the international community. The promised CEDRE Conference commitments made by a group of donors and investors in April 2018 will have to be renegotiated and recast into a multilateral economic stabilization and liquidity fund. This fund will be subjected to conditionality relating to fiscal, sectoral (electricity, water, transport, and other), structural, and financial reforms.

MY: Can the banking sector survive the current shock?

NS: The banking sector, including the Central Bank, is at the core of the required macroeconomic and financial adjustment program, given that it holds an overwhelming share of public debt. Public debt (including Central Bank debt) will have to be reprofiled and restructured. For example, a domestic Lebanese pound debt reprofiling would repackage debt maturing over 2020–2023 into new debt at substantially lower rates, maturing over the next five to ten years. Similarly, foreign currency debt can also be restructured and repackaged into longer maturities, benefiting from a guarantee of the CEDRE participants, which would drastically lower interest rates. The suggested debt reprofiling and restructuring operations would result in substantially lower debt service costs from the current 10 percent of GDP and would create fiscal space during the adjustment period.

There will have to be a bail-in by the banks and their shareholders, accompanied by a consolidation and restructuring of the banking system. In turn, the extensive bail-in means that a large recapitalization and equity injection will be required to restore banking system soundness and monetary stability.

MY: Where do you see Lebanon going in the coming months? What dynamics will be in play?

NS: Absent the formation of a confidence rebuilding and credible new government and rapid policy reform measures, the current outlook is a deepening recession, growing unemployment, with a sharp fall in consumption, investment, and trade. It will also come with a continued depreciation of the Lebanese pound 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 and payments, and market distortions.

MY: What would you do at this stage to prevent the worst from happening? Can you outline a realistic step-by-step process the government and the banking sector can adopt to emerge from the financial mess they've created.

NS: Time is running out. A new government needs to be formed, dominated by non-partisan, independent, competent "technocratic" ministers known for their integrity, endowed with extraordinary decision making powers, and willing to sacrifice their political future, given the difficult policy decisions required. Effectively, this would be a "hara-kiri government." The government should, *within weeks*, prepare and start implementing a comprehensive macroeconomic, fiscal, monetary reform program with a clear policy road map including the implementation of structural reforms. While the policy road map should include deep structural reforms—for example pension system reform—these can be sequenced, but need not be implemented immediately.

The immediate priority is to address the interlinked currency, banking, fiscal, and financial crises. For the adjustment program to be credible, public finances must be put on a sustainable path through dramatic and sustained fiscal adjustment to reduce debt and the budget deficit—requiring a massive primary surplus of 6 percent of GDP, excluding interest payments. The state must also resize the public sector and restructure the financial system through a reprofiling and restructuring of public debt, including Central Bank debt. Lebanon will need to call on the international community to support its adjustment program through a reconfigured, recast CEDRE program. As part of the program, the Central Bank's reserves will need to be supported by bilateral Central Bank swap lines. External multilateral funding worth some $20–25 billion (35–45 percent of GDP) will also be required.

These painful measures require a broad and strong political commitment. The choice is between market-imposed, disorderly, and painful adjustments, meaning a hard landing, or self-imposed reforms that are credible and sustainable. However, nothing indicates the ruling political class and policymakers are ready for these difficult choices. Nor is there political courage and capacity for reform.

Interview with BBC on Lebanon’s economic crisis, 6th Dec 2019

Questions answered in this interview include: How did Lebanon get to this crisis scenario? Why should the international community come to Lebanon’s aid? Also discussed is the urgency to form a new technocratic government and an eventual move to a secular state.
Listen to the interview (from 1:00 to 7:00) at https://www.bbc.co.uk/sounds/play/w172wq52b0xp9qs

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Comments on Lebanon's ongoing economic crisis in FT, 28 Nov 2019

Dr. Nasser Saidi’s comments on Lebanon’s potential debt crisis appeared in the article titled “Lebanon urged to restructure

debt as crisis deepens" published in the FT on 28th Nov 2019.
The full article can be accessed at: https://www.ft.com/content/e0c02d14-104e-11ea-a225-db2f231cfeae
Comments are posted below:
Nasser Saidi, a former central bank vice governor, said he expected the central bank would be able to provide the foreign currency needed to cover Thursday's repayment, pointing out that not all the funds would automatically flow overseas. He estimated that over two-thirds of the $1.5bn owed would remain in the country as the debt is already held by local lenders and the central bank. "The balance to foreign investors can be covered from existing [foreign exchange] reserves," he said.

Comments on Lebanon's worsening default risk in FT, 16 Nov 2019

Dr. Nasser Saidi's comments on Lebanon's escalating economic-financial-fiscal crisis appeared in the article titled "Lebanon's creditors adopt crash position as default risk worsens" published in the FT on 16th Nov 2019.
The full article can be accessed at: https://www.ft.com/content/11d008d6-07b5-11ea-a984-fbbacad9e7dd
Comments are posted below:

Nasser Saidi, a former BdL vice-governor and former economy and trade minister, said different approaches were needed to ease the debt servicing burden of Lebanon's foreign currency and local currency debts.
Mr Saidi said that maturities on local debt could be extended

and interest rates lowered, if BdL, local banks and pension funds were to agree with the measures. He added that multilateral development banks and foreign donors could offer guarantees on Lebanon's foreign currency debt, lessening the pain for investors taking forced losses.
But he said that politicians need to act fast and appoint a government with technical skills to see through this difficult process. "The longer you take to . . . undertake a painful adjustment, the worse the problem becomes," Mr Saidi said.

Comments on Lebanon's escalating economic crisis in New York Times, 15 Nov 2019

Dr. Nasser Saidi's comments on Lebanon's escalating economic-financial-fiscal crisis appeared in the article titled "Economic Crisis Looms as Protests Rage in Lebanon" published in the New York Times on 15th Nov 2019.
The full article can be accessed at: https://www.nytimes.com/2019/11/15/world/middleeast/lebanon-protests-economy.html
Comments are posted below:

"The problem is that the current policies are unsustainable," said Nasser Saidi, a former Lebanese economy minister. Putting the country on the right track would require simultaneously dealing with a large budget deficit and bringing down public debt — a gargantuan task.
"You really don't have much choice," he said. "You are at the edge of the precipice and you are looking down, so unless you do that, where is this going to end?"

Interview with Dubai TV (Arabic) on Lebanon's protests and economic crisis, 10 Nov 2019

Dr. Nasser Saidi discusses Lebanon's Economic -Fiscal-Financial-Exchange Rate crises and urgency of appointing a National Emergency Cabinet to implement deep fiscal-monetary & structural reforms, seek multilateral funding to avoid a crash landing & lost decade of depression & austerity.
The interview (in Arabic), which aired on Nov 10th 2019, can be viewed below:

Interview on CNN's Quest Means Business on Lebanon's anti-government protests, 1 Nov 2019

Dr. Nasser Saidi was on CNN International's Quest Means Business programme on the 1st of Nov 2019 to provide his views on Lebanon's anti-government protests, reopening of banks after a 10-day closure, external debt concerns and more.

Watch the interview below:

Bloomberg Daybreak Middle East Interview, 27 Oct 2019

In the October 27th, 2019 edition of Bloomberg Daybreak: Middle East, Dr. Nasser Saidi speaks about the "phase one" US-China trade pact, answers questions about Lebanon's potential for debt restructuring amidst anti-government protests, and also touches upon the UK elections, possibilities of a 2nd referendum and the pound sterling

Watch the interview below.

The original link to the full episode (Dr. Nasser Saidi joins from 57:00): https://www.bloomberg.com/news/videos/2019-10-27/bloomberg-daybreak-middle-east-full-show-10-27-2019-video

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Comments on the protests in Lebanon & closure of banks in Asia Times, 25 Oct 2019

Dr. Nasser Saidi's comments on the Lebanese protests and closure of banks appeared in the article "Lebanon's shuttered banks bracing for dollar run" published by Asia Times on 25th Oct 2019.

The full article can be accessed at: https://www.asiatimes.com/2019/10/article/lebanons-shuttered-banks-bracing-for-dollar-run/

Comment are posted below:

“It was a mistake to close the banks,” Dubai-based economist Nasser Saidi told Asia Times by phone.

“When you shut down the banks, you create a crisis of confidence because people feel they can no longer access their deposits, so when it opens they will want to access their deposits.”

“What you can expect is a rush on the banks, if not a run on the banks” when they finally re-open, Saidi added.

Already, “people are worried about capital controls. You are already seeing a black market or parallel market for Lebanese pounds, and it is increasingly difficult to convert pounds to dollars, if not impossible.”

Economist Saidi says he does not believe Lebanon is at “imminent” risk of default.

“The Central Bank and Lebanese banks own something like 90% of the debt … they have a lot of skin in the game,” he said.

For Saidi, confidence in the ruling elite is beyond repair, and a new musical chairs of political faces would most certainly deepen the crisis amidst already depleted confidence in the system.

“They need to have a new government in place as quickly as possible with the main portfolios in the hands of technocrats – not political appointees – and they need to put together as quickly as possible a macro financial fiscal plan to rescue Lebanon. That is the priority right now to avoid the meltdown,” he said.

“You cannot expect the people who are source and origin of the problem to reform. You need fresh blood. Besides that, I don’t think they have the technical expertise to deal with Lebanon’s fiscal and debt problems,” Saidi added.

The key word, besides technocrat, will be independent, as past

technocrats appointed by political movements were still beholden to those superiors.
Lebanon's political elites control vast chunks of equity in the banks, 50% of whose deposits are owned by the top 1%.
"Any default will wipe out the equity of the banks, and their own deposits are at risk, so it is in their own self-interest that a government of technocrats comes in and helps solve the problem they created," said Saidi.

Interview on the Lebanese protests in Al Hadath, 24 Oct 2019

Dr. Nasser Saidi speaks on Lebanon's ongoing protests which initiated with a proposed and then retracted WhatsApp tax. Watch the interview below.
https://vid.alarabiya.net/2019/10/24/nasseralsaadi2/nasseralsaadi2___nasseralsaadi2_video.mp4

Radio interview with Dubai Eye's Business Breakfast on Lebanon's economy, 23 Oct

2019

Dr. Nasser Saidi spoke with Dubai Eye's Business Breakfast team on the ongoing protests in Lebanon. Some comments are listed below:
The catalysts for Lebanon's unrest include deep economic-financial-fiscal issues, environmental problems, rampant corruption and lack of trust in the government. The government needs to address multiple issues including reduce public debt, address size of the government/ public sector & pension system, tackle corruption and increase competition among others.
Listen to the full radio interview at https://omny.fm/shows/businessbreakfast/lebanon-economy-nasser-saidi-associates-23-10-2019

Al Arabiya Interview on the Lebanese protests, 21 Oct 2019

Dr. Nasser Saidi speaks on Lebanon's ongoing protests which initiated with a proposed and then retracted WhatsApp tax. Watch the interview below.
https://vid.alarabiya.net/2019/10/21/nasseralsaedi/nasseralsaedi___nasseralsaedi_video.mp4

Comments on the protests in Lebanon in Arab News, 21 Oct 2019

Dr. Nasser Saidi's comments on the Lebanese protests appeared in the article "Lebanese unite in protest against their political elite" published by Arab News on 21st Oct 2019.

The full article can be accessed at: https://www.arabnews.com/node/1571806/middle-east

Comment are posted below:

Nasser Saidi, a former finance minister and vice governor of the country's central bank, believes that the unrest is the result of a combination of factors: Poor governance; a rapid decline in health, education and environmental standards; and deteriorating economic conditions and prospects for the future.

"Lebanon has a high misery index of 36 percent, as measured by the sum of the unemployment rate (30 percent) and inflation (6 percent), similar to that of countries such as Nigeria, Bosnia and Iran," he told Arab News.

"It is estimated that half of the labor force is in the informal sector without access to social insurance, and there is a high degree of inequality in the distribution of wealth and income – 1 percent of depositors own more than 50 percent of the value of deposits."

Former minister Saidi said that there is a clear consensus that Lebanon needs a regime change, with a new beginning that establishes the rule of law, combats corruption and addresses the country's many divides.

"It is time for a new government with extraordinary powers, composed of non-partisan technocrats, able to implement a financial plan to address Lebanon's high level of debt, among other things," he said.

"New elections should bring forth fresh blood and a new vision

for the country. Clearly, this will be an uphill battle and there will be opposition from the varied forces of the establishment. But the future of Lebanon and our young is at stake.”

Interview on the Lebanese protests in SkyNews Arabia, 21 Oct 2019

Dr. Nasser Saidi speaks on Lebanon’s ongoing protests which initiated with a proposed and then retracted WhatsApp tax. Watch the interview below.

Radio interview with Dubai Eye's Business Breakfast on Lebanon's economy, 7 Oct 2019

Dr. Nasser Saidi spoke with Dubai Eye’s Business Breakfast team ahead of the Lebanon Prime Minister Saad Hariri’s visit to the UAE. The UAE meetings resulted in the travel ban to Lebanon being lifted.
Listen to the full radio interview at https://omny.fm/shows/businessbreakfast/lebanon-economy-nasser-saidi-associates-07-10-2019

"Transforming & Disrupting the Insurance Landscape: InsurTech, RegTech & SupTech", Lecture at Institut Supérieur des Sciences de l'Assurance USJ, 27 Feb 2019

Dr. Nasser Saidi presented "Transforming & Disrupting the Insurance Landscape: InsurTech, RegTech & SupTech" at the Institut Supérieur des Sciences de l'Assurance, Université Saint-Joseph de Beyrout on 27th February 2019.
The presentation focused on the characteristics, trends and outlook for global and regional insurance markets, and progresses to address technology-led disruption in the sector, before ending with some key takeaways and recommendations for Lebanon's insurance sector. A section is also dedicated to the factors affecting the insurance industry including climate change and the data revolution (Big Data) among others. Click to download the presentation.

Comments on McKinsey's Lebanon report in Arab News, Jan 2019

Dr. Nasser Saidi's comments (below) appeared in an Arab News report titled "Lebanon's damning McKinsey report: how the experts reacted", on January 7, 2019. The full article can be accessed here and here; the Arab News report can can be downloaded here.

One of the damaging figures reveals that Lebanon's residents spend 50 percent more time than needed on congested roads, only 15 percent of which are in good condition. It also discloses that Lebanon's infrastructure ranks 113th out of 137 countries.

"These numbers come from a variety of sources like the World Bank and others, so these have been assessed by various international parties," Dr. Nasser Saidi, former chief economist and head of external relations at the Dubai International Financial Center, told Arab News.

"What's more important is the cost of this in terms of productivity and income, because when you spend time on the road you aren't producing anything, so congestion costs are very large in terms of both loss of business opportunities, lost income and lost productivity."

Lebanon's perceived corruption was shown to have increased by 26 points since 2012 to 146 out of 180.

"In terms of governance, it has been deteriorating over the past five to six years on a continuous basis," Saidi said.

"It's corruption, bribery and nepotism. In all reports on transparency and corruption, Lebanon is unfortunately one of the most corrupt (places) in the world, and the importance of it is not only that we want to be able to fight corruption, but that it has become a cancer and it is so pervasive."

He emphasized the issue as it is a major contributor to public finance and the budget deficit. "Corruption is directly related to government procurement and government contracts as well as government revenue," he said. "So there is widespread tax evasion, and corruption is at the core of Lebanon's large budget deficit, which was close to 11 percent in 2018 and likely to be the same or higher in 2019… The economic and fiscal impacts are extremely important."

"If you want to measure the real damage that the civil war and the (Israeli) occupation have done to the country, it's where Lebanon stands vis-a-vis countries that were equivalent to it before the war," he added. "So it has regressed a lot by that measure." Saidi said the poor quality of statistics in the country needs to be improved as the central statistics office lacks resources and figures on key areas including GDP and investment.

He said the lack of field productivity growth and investment means it is unsurprising that there has not been much of an increase in per capita income or real GDP.

The McKinsey report highlighted the country's education system, deeming it to be of low quality and in decline. It said many skills are not being taught to suit labor force needs, partially because the curriculum has not been upgraded since 1997. Experts, however, said this is only the case for public sector schools and universities.

"The picture is diverse and there's a big gap between public and private education," Saidi said. "The major private sector universities are St. Joseph, the AUB and the LAU, which are able to deliver competitive quality education. The evidence for that is that our graduates are able to go to top-notch universities internationally." But the problem is that it is mostly elites who can afford high-quality education, leaving behind most of the population, including Syrian refugees, he said.

He pointed the finger at the Arab world as a whole. "You need to think of two things: Education for employment, which should give you skills to be able to get jobs, and digital education *for digital employment, because economies on a global basis and in the Arab world are increasingly going to have to move to become digital."*

In terms of the country's diaspora and its $6.9 billion in remittances sent back to Lebanon, the report said they are not largely channelled into productive areas.

"There's very little public investment, and all remittances and the capital coming in from the diaspora go into bank deposits, treasury bills and to finance the budget deficit," Saidi said. "We have one of the highest levels of debt to GDP in the world, in excess of over 158 percent, which makes it the third most indebted country in the world after Japan and Greece."

He attributed the problem to very little public investment, which trickled down to poor infrastructure performance. "It's all going to finance wages, pensions and interests on public debt," he added, calling it a resource curse due to the government's dependency on it. "They're happy to pay high rates just to attract them. Had we not had them, they would've had to adjust on their own and had fiscal reform."

The main issues at hand, he believes, are fiscal reform and corruption, cutting down the budget deficit and the level of public debt.

Lebanon Needs a Digital Revolution to Leap Forward: Article in An Nahar

newspaper, 27 Sep 2018

Dr. Nasser Saidi's article titled "Lebanon Needs a Digital Revolution to Leap Forward" was published on 27 September 2018 in a special issue of the daily An Nahar newspaper with the American University of Beirut. The article is posted below.

Click to download the original article in English and Arabic.

Lebanon is in deep economic malaise, suffering from stagflation: dismal economic growth, high budget deficits, debt, unemployment and inflation. Lebanon's recovery and its future growth prospects are highly dependent on developing a new economic development model, renewed investment in physical infrastructure and in soft infrastructure, including human capital and rebuilding political capital which has been depleted by mal-governance, the widespread cancer of corruption, nepotism and state and regulatory capture. Lebanon's corruption rankings are dismal: 87th out of 113 countries on corruption. We rank 105 out of 137 countries on competitiveness and ranked 133 out of 190 countries on cost of doing business.

Yet things can be turned around. Beyond the much discussed structural, fiscal, and monetary policy reforms, we need a major, growth lifting, productivity growth increasing strategy. We should launch a "**Lebanon Leap Forward**" strategy, a **Digital Revolution** to create **e-Lebanon**. New technologies are disrupting markets, products and services. Digitalization is becoming pervasive, transforming retail, manufacturing, industry, transport and logistics, banking and finance, health services and other sectors. Technology is rapidly changing agriculture to AgriTech. We are increasingly living in digital markets.

Lebanon must make massive investments in digital infrastructure to lower the cost and have faster telecom services (jump to 4G), networks and platforms in order to actively participate in four major transformations that will unfold over the coming decades: Digital Services such as e-commerce, Clean energy & Clean Technologies to mitigate the risks and consequences of climate change, health and life sciences, AI, BlockChain, FinTech, robotics and nanotechnologies.

Digitalization can radically change, revolutionize, Lebanon's banking and financial sector. FinTech for banking & corporate finance, capital markets, financial data analytics, payments, insurance, and asset and wealth management has the power to open new horizons and cross-border markets for our banking and financial sector. Countries as diverse as Estonia, China, Kenya, Malta, Thailand and Singapore show the benefits of digitized payment and banking services. Digitized services are the most efficient tools to serve our wealthy Lebanese expatriate community. Crowdfunding can be key to economic development and economic diversification supporting SMEs and financial inclusion.

Digitalization can substantially strengthen public finances and reduce budget deficits through better reporting of transactions and collection of VAT, customs and other taxes, increase the efficiency of spending and reduce waste, bribery and corruption in public procurement and spending. Introducing a national digital ID system (like in Estonia) can provide access to all e-services, including those provided by government. Digital IDs for all public sector employees would dramatically reduce "shadow" and absent employees and workers. Digital government is a potent, effective tool against bribery and corruption.

To enable Lebanon's Digital Revolution, we need to establish digital institutions, set-up a Ministry for Financial Services, Digital Economy and Innovation, enact laws and regulations to support new technologies and FinTech and recognize digital assets to enable Lebanon to develop a Silicon Valley and attract investment and startups. Our universities and institutes of technology will need major investments in labs, incubators and accelerators; a multiplication of current initiatives. A digital Lebanon would maximize the use of Lebanon's talented youth and entrepreneurs and human capital and attract FDI to promote technological innovation and knowledge-intensive sectors. Lebanon ranks 4th globally on math and science education (WEF, 2018)! The evidence from China and other countries indicates that a 1 percentage point increase in digitalization increases growth by 0.3 percentage points.

Our private sector can make Lebanon Leap Forward. A Digital Revolution can transform our economic landscape. Are our politicians and policy makers capable of delivering their side?

Comments on Lebanon's fiscal standing in the Executive magazine, Jun 2018

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

The noose around Lebanon

Lebanon’s economy at risk from external pressures

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

American focus appears to follow that of Israel. In other words, their focus is on Iran. This leaves Syria, as of right now, as a tertiary concern to the Americans. Meanwhile the month of May saw escalations from the Israeli side over what it perceives as Iranian encroachment, escalations that risk further inflaming the Syrian war. These included Israeli airstrikes on Iranian military facilities in Syria, the American withdrawal from the Iran Deal (formally known as the Joint Comprehensive Plan of Action), moving the American embassy in Israel to Jerusalem, and American sanctions that targeted Iranian central bank officials, leaders of Hezbollah, and Hezbollah’s alleged illicit global financial network. All of these could increase the risk of a new war in the region. But what could happen to Lebanon and its economy, including the financial sector?

Wider consequences

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

Economic woes

What we do know is that the risk of a regional war that could engulf Lebanon has already had implications for the country's economy.

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

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

Challenges ahead

The Eurobond fell to 94.67 points as of May 14 according to the BLOM Bond Index, a measurement of the performance of the Lebanese government in the Eurobond market, a decline of 8.5 percent from its peak of 103.42 points on January 17. *Dollar-denominated bonds have also tumbled, according to the May 14 Weekly Economic Commentary published by Nasser Saidi, a former Lebanon economy minister: "Lebanon's dollar-denominated bonds fell to multi-month lows after Trump pulled out of the Iran deal: the $1 billion bond maturing in 2022 tumbled to 90.66 cents (the steepest loss) – its lowest level since Nov 2017." In a message to Executive, Saidi explained the drop as investor uncertainty by stating that "investors consider Lebanon at risk of war as a result of potential Iran confrontation."*

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

Internal dynamics, coupled with some external factors, hold the possibility to trip up Lebanon's economy, rather than indirect pressure of sanctions which at this point really do not look like an economic instrument but more like a political one that makes noise and headlines but does not change the economic equation fundamentally. Yes, there are sanctions on Lebanese individuals and companies and that does pile on political pressure on the country, but the standard answer from Lebanon's central bank is that it complies with international standards and foreign and local legislation, while the banking community is in compliance with global anti-money laundering and counterterrorism financing requirements.

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

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