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."

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 متعمَّد وليس سوء إدارة

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

وأكَّد الرئيس والمؤسس لشركة ناصر السعيدي، أنَّ المصرف اللبناني يفتقد للشفافية في إدارة السياسة النقدية للبلاد، مشيراً أيضاً إلى أنَّ 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، وتُسرِّب باقي مخصصات الدعم في قطاعات لا تحقِّق استفادةً للشعب.

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

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:

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.

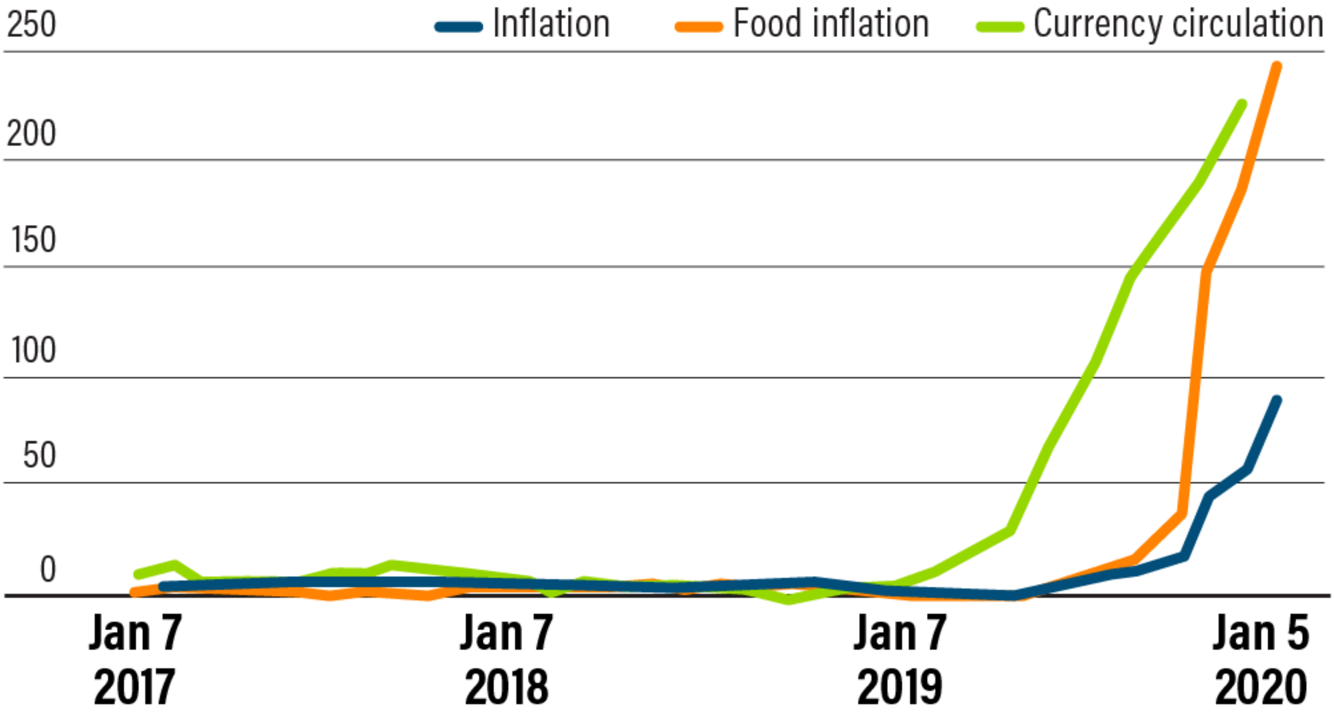
Third, unify exchange rates and move a to flexible exchange rate regime. The failed exchange rate regime has contributed to large current account deficits, hurt export-oriented sectors, and forced the central bank to maintain high interest rates leading to a crowding-out of the private sector. Monetary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

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.

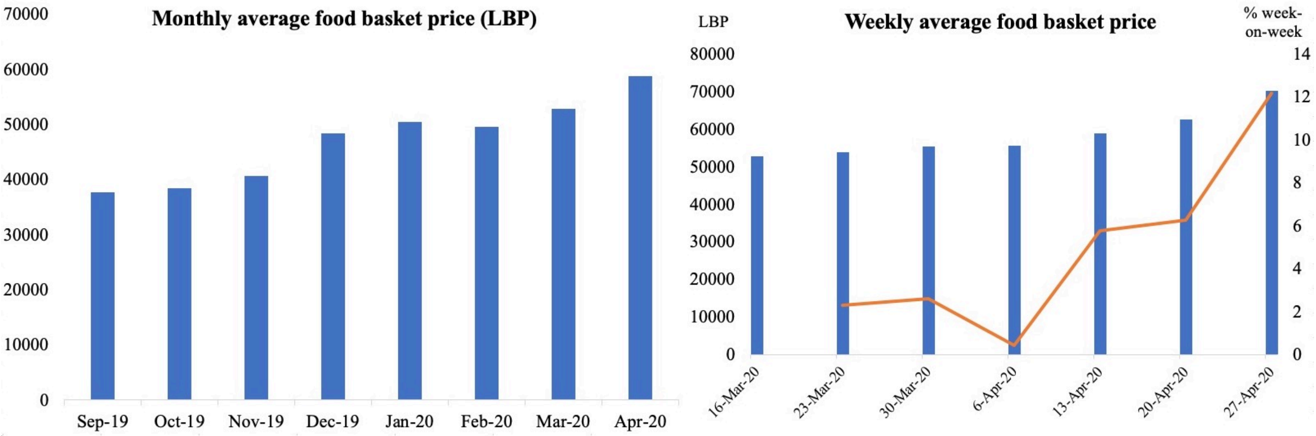
Public debt which reached more than 155 per cent of gross domestic product in 2019, is projected rise to 161.8 per cent in 2020 and 167 per cent in 2021, according to International Monetary Fund estimates. That is the third highest ratio in the world after Japan and Greece.

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.

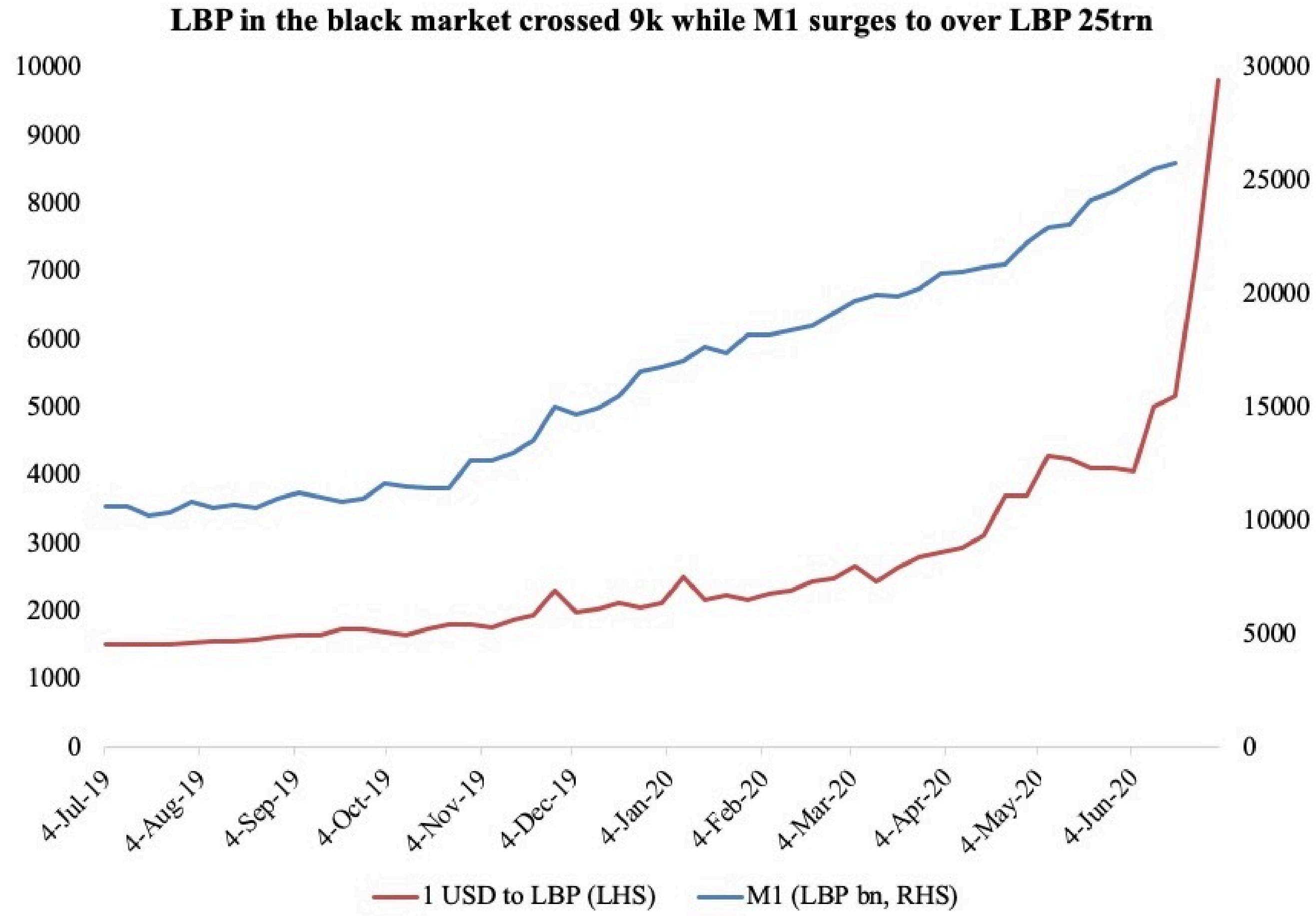
With capital and payment controls and lack of intervention by the central bank, the foreign exchange market became a cash market with little liquidity, therefore highly volatile and subject to large fluctuations, rumours and panic.

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.



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

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

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

Most important, is rapidly agreeing and implementing a financial rescue package with the IMF. That should be based on a comprehensive macroeconomic-fiscal-financial reform programme that includes structural reforms, debt, and banking sector restructuring, which would provide access to liquidity, stabilise and revive private sector economic activity.

Nasser Saidi previously served as Lebanon’s minister of *economy and industry and a vice governor of the Central Bank of Lebanon. He is president of the economic advisory and business consultancy Nasser Saidi & Associates.*

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