Interview with Al Arabiya (Arabic) on a potential looming debt crisis in 2025, 23 Dec 2024

In this TV interview with Al Arabiya aired on 23rd Dec 2024, Dr. Nasser Saidi discusses a potential looming debt crisis in 2025. Dr. Saidi believes that interest rates are likely to remain high while global public debt is high and rising towards $100trn. About 3.3bn people live in countries spending more on interest payments than education or health.

Watch the TV interview via this link

شبح أزمة مالية عالمية في 2025!.. تفجرها الديون

ناصر السعيدي": بقاء أسعار الفائدة" مرتفعة يؤثر سلبا على عدد من بلدان المنطقة مثل مصر

قال ناصر السعيدي رئيس شركة ناصر السعيدي وشركاه، إن ارتفاع الديون العالمية قد يؤدي إلى أزمة مالية بحلول عام 2025، خاصة في

الدول النامية التي تعاني من ارتفاع تكاليف الفائدة.

وأضاف في مقابلة مع "العربية Business"، أن هناك 45 دولة نامية تمثل الفوائد فيها أكثر من 10% من إيرادات الدولة، بينما هناك مجموعة الفوائد التي تدفعها 48 دولة هي أعلى من نفقاتها على الصحة والتعليم.

وأشار إلى ذلك يؤدي إلى مخاطر اجتماعية واقتصادية بهذه الدول، موضحا أن بقاء الفوائد مرتفعة قد يؤثر سلبا على بعض بلدان المنطقة منها مثل مصر التي تحاول التعافي تدريجيا.

"Markets face bumpy ride rather than soft landing", Op-ed in Arabian Gulf Business Insight (AGBI), 29 Jan 2024

The opinion piece titled "Markets face bumpy ride rather than soft landing" appeared in the Arabian Gulf Business Insight (AGBI) on 29th January 2024.

The article is published below.

Markets face bumpy ride rather than soft landing

Persistent inflation, high interest rates and slow growth will dog 2024

Inflation surged post-Covid, reaching multi-decade highs of 8.7 percent in 2022 globally, driven by pent-up consumer demand, supply disruptions, the Russia-Ukraine war and ultra-easy monetary policy.

But a less commented-on major cause of inflation has been fiscal profligacy.

Governments boosted spending, increased subsidies, provided business incentives and reduced taxes to revive consumption and maintain jobs, all financed by public borrowing encouraged by historically low interest rates and central banks' quantitative easing.

The result was a surge in budget deficits and public debt rising to the highest levels since the end of the World War II.

The world also experienced its largest debt surge since World War II during 2020. Global debt rose to $226 trillion (or 256 percent of GDP) with public debt accounting for about 40 percent of the total.

The global public debt ratio soared to a record 99 percent of GDP in 2020. The IMF forecasts global government debt to touch $97.1 trillion in 2023 (a 40 percent increase since 2019), with the US accounting for over one-third of total public debt ($33.2 trillion, or 123.3 percent of GDP).

According to the Congressional Budget Office, net interest will total more than $13 trillion over the decade through 2033, exceeding defence spending by 2025 and the net cost of Medicare by 2026.

In the Middle East, Bahrain's debt to GDP is running at 121 percent, while Egypt is expected to see around 40 percent of revenues going towards debt repayments. Lebanon has been in default since 2020.

Governments and central banks underestimated the inflationary impact of a doubled-barrelled bazooka of increased deficit spending, with low rates and quantitative easing. From 2009 until the end of 2022, net asset purchases by major central banks (the Fed, ECB, BoE and BoJ) totalled about $20 trillion.

Central banks have since reversed course and applied the monetary brakes, through high interest rates and quantitative tightening.

Inflation rates have eased, though core inflation rates declined more gradually and remain higher than central bank targets, with actual and expected price inflation feeding into cost-of-living wage and salary increases, further fuelling inflation.

Will monetary tightening result in lower inflationary pressures and usher in lower interest rates in 2024? Financial markets focused on data-driven central banks are over-optimistic, exhibiting soft-landing exuberance.

Short-termism disregards economic fundamentals and neglects growing geopolitical risks, which the markets have failed to price in.

First and foremost, 2024 is an election year in 64 countries, together representing over four billion people. Governments do not cut spending in election years, let alone with rising populism in advanced, and many emerging, markets.

The biggest overhanging risk is the US. Elections are taking place in a highly divided and divisive political landscape, with no parties willing to undertake spending cuts.

US budget deficits are running at 6 to 7 percent of GDP, which is unprecedented in a near-full employment economy. The Biden administration is also requesting additional spending of some $115 billion to finance Ukraine and Israel.

US Treasury funding in 2024 will be flooding markets with $4 trillion in issuance, and *net* issuance is set to increase to about $1.9 trillion. Investors are unlikely to absorb surging borrowing at lower interest rates.

What's more, the growing calls from the US, EU and UK for further decoupling from China increase the risk of disrupting global supply chains, leading to lower global growth and higher inflation rates.

Defence spending has also been rapidly rising and is likely to increase further given growing geopolitical flashpoints, the New Cold War and the potential risks of military confrontation with China in a US election year.

World military spending had already reached a new record high of $877 billion in 2022 (39 percent higher compared to 2021), with the US not only the world's largest military spender but also spending more on defence than the next 10 countries combined.

The ongoing conflict in Gaza could spill over to include other countries, engulfing the GCC and Iran and threatening global trade and energy supplies.

Marine war risk premiums have soared almost 50-fold since before the war, about 0.7 percent to 1 percent of the value of the ship; war risk rates for shipping in the Black Sea from Ukraine can range up to 3 percent.

The bottom line is that markets face a growing risk of debt crises, high interest rates, rising debt service burdens, high levels of inflation, weakening currencies and slower growth.

Rather than a goldilocks scenario, 2024 is likely to be a bumpy ride for economies and financial markets dominated by short-termism to the neglect of economic fundamentals and growing geopolitical and geostrategic risks.

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.

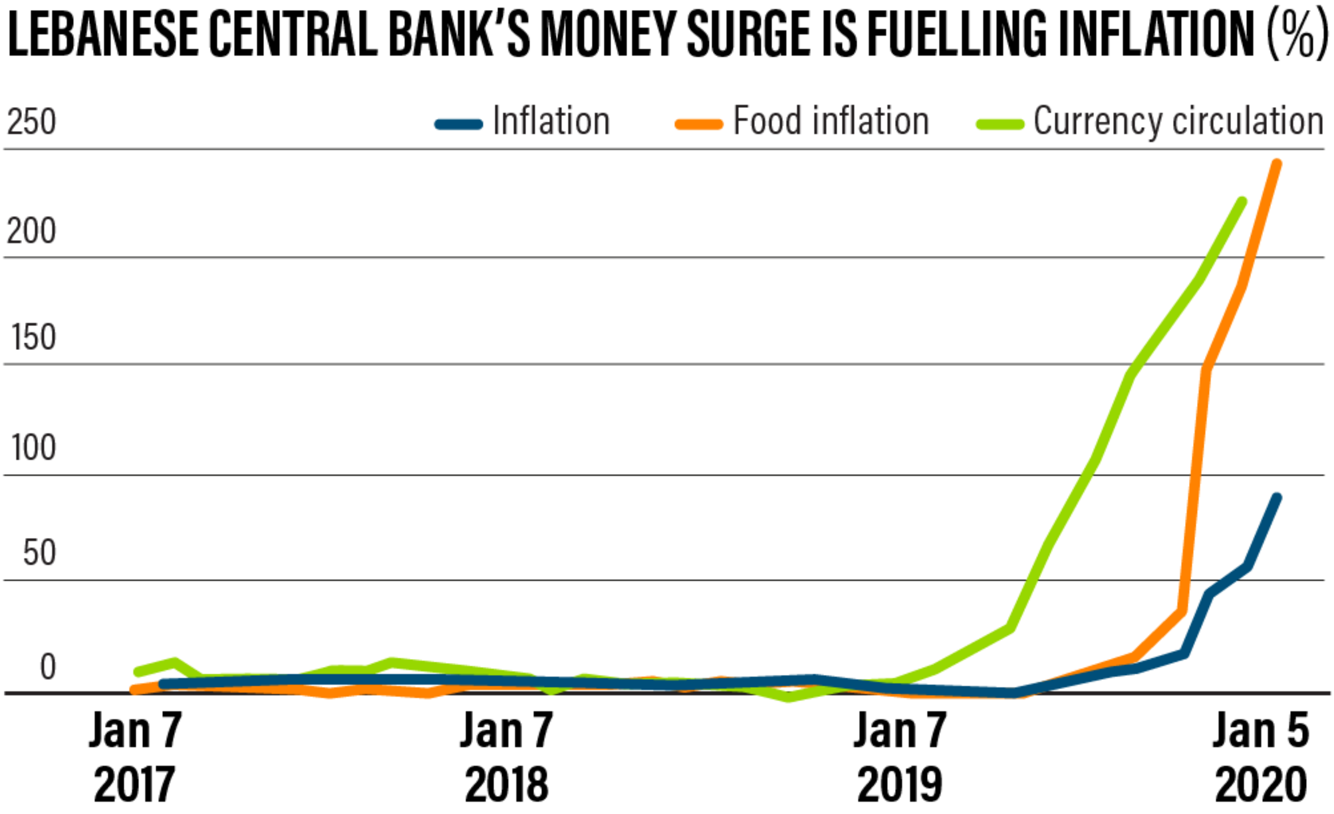
These immediate reforms should be followed by broader measures including improving revenue collection, reforming public procurement (a major source of corruption), creating a "National Wealth Fund" to incorporate and reform state commercial assets, reducing the bloated size of the public sector, reforming 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



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

To halt Lebanon's meltdown it is imperative to reform now, Article in The National, 4 Jul 2020

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

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

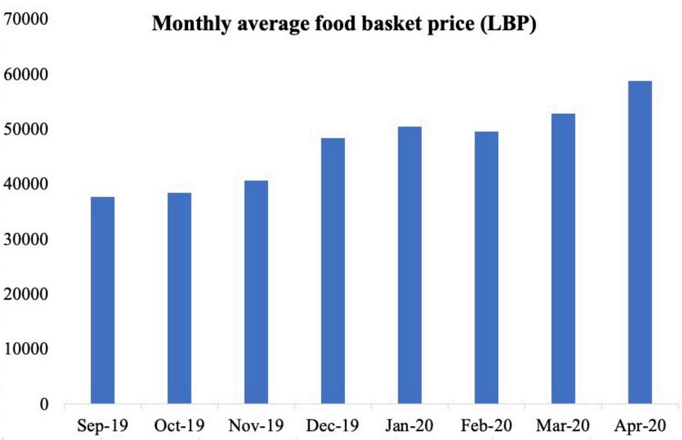
The country's currency has lost about 80% of its value against the US dollar and poverty and unemployment are on the rise

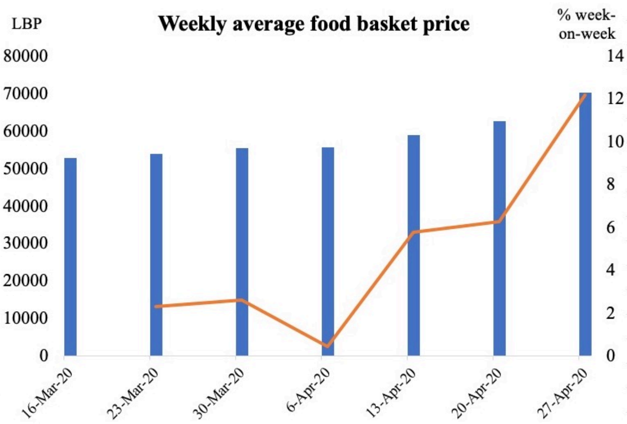
Lebanon is in the throes of an accelerating economic and financial meltdown. Unsustainable monetary and fiscal policies and an overvalued pegged exchange rate led to persistent fiscal and current account deficits.

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

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

rates.
The squeeze is severely curtailing domestic and international trade and resulted in a loss of confidence in the monetary system and the Lebanese pound. Multiple exchange rates created distortions in markets and new opportunities for corruption. The result is a sharp, double-digit contraction in economic activity, consumption and investment, surging bankruptcies, and rapidly rising unemployment rates estimated at above 30 per cent.
A dangerous inflationary spiral has gripped the country with the currency's value against the dollar nosediving as much as 80 per cent. Inflation is on the rise and reached an annual 56 per cent in May, according to Lebanon's [Central Administration of Statistics](). A Bloomberg survey of economists conducted in June, projects inflation will average 22 per cent in 2020 compared with a forecast of 7.7 per cent from a previous survey.





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

The minimum wage has shrunk from the equivalent of $450 per month while food prices have surged. Since the end of a 15-year civil war in 1990, extreme poverty has hovered at between 7.5 to 10 per cent, while about 28 per cent of the population is poor, according to the World Bank. In November, the World Bank warned if the economic situation in the country worsened, those living below the poverty line could rise to 50 per cent.
Given the collapse of the long-maintained peg, there is no anchor for expectations of the future value of the Lebanese pound.
The Central Bank of Lebanon does not have the reserves to

support the pound. There is great uncertainty concerning the macroeconomic outlook, fiscal and monetary policies, exchange controls and structural reforms.

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

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

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

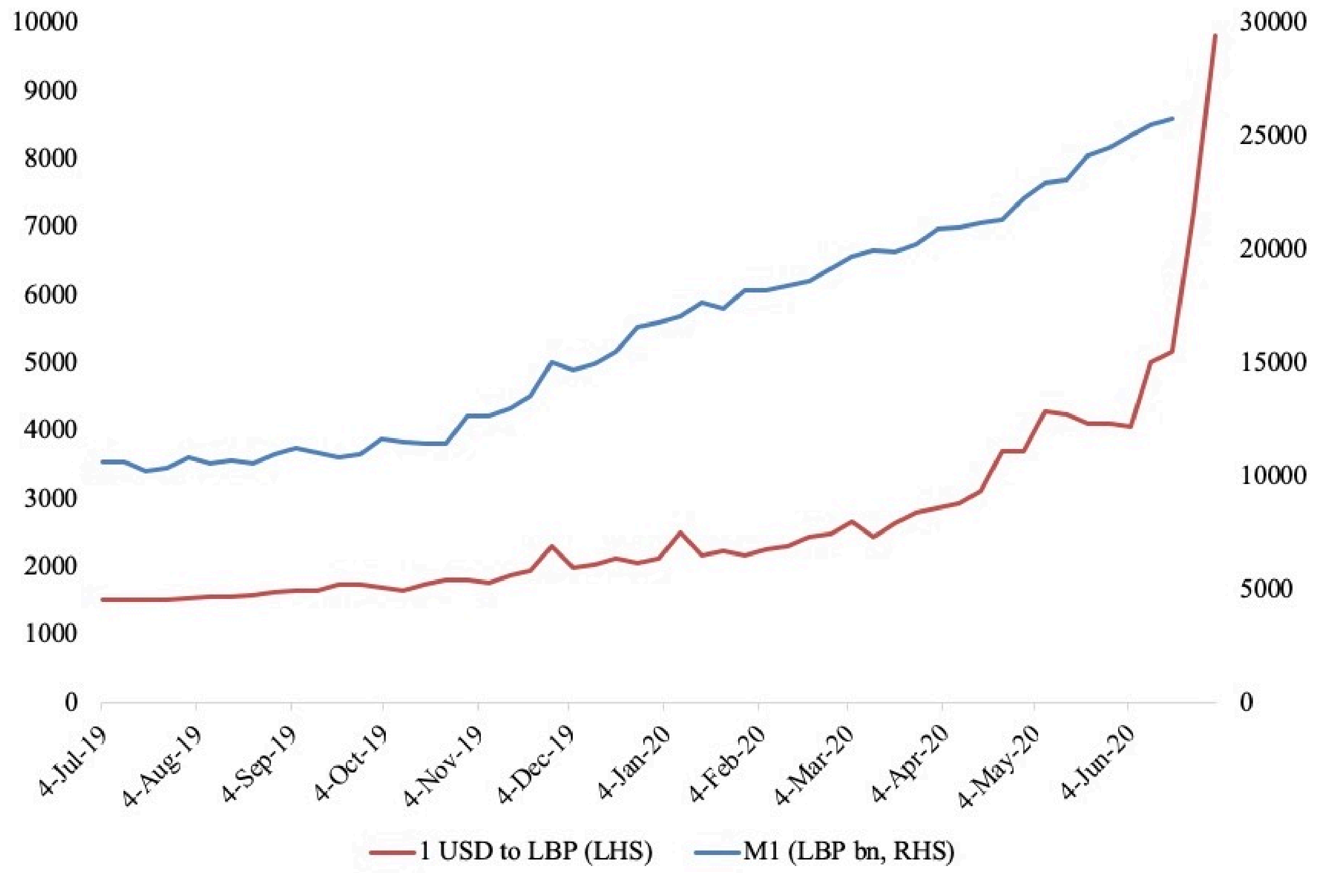
Two short-term factors have compounded the currency crisis. The Covid-19 lockdown meant a loss of remittances that would have come in as cash. Media reports cite an accelerated smuggling of imported, subsidised commodities like fuel and wheat into neighbouring Syria these past months due to the increasing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

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

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

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

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



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

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

The prices of subsidised commodities and services (fuel, electricity) should be raised to combat smuggling and stem the budget deficit. Smart and targeted subsidies are more effective. The impact of removing general subsidies is less

painful than financing budget deficits that accelerate overall inflation and exchange depreciation. Exchange rates need to be unified within a central bank and bank organised market.
Most important, is rapidly agreeing and implementing a financial rescue package with the IMF. That should be based on a comprehensive macroeconomic-fiscal-financial reform programme that includes structural reforms, debt, and banking sector restructuring, which would provide access to liquidity, stabilise and revive private sector economic activity.
Nasser Saidi previously served as Lebanon's minister of economy and industry and a vice governor of the Central Bank of Lebanon. He is president of the economic advisory and business consultancy Nasser Saidi & Associates.

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:

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

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

هل من فرصة للبنان للخروج من الأزمة؟

ناصر السعيدي: لا بد من إصلاح القطاع المصرفي وإعادة رسملته

قال وزير الاقتصاد اللبناني الأسبق، الدكتور ناصر السعيدي، إن الوصفة الأمثل لخروج لبنان من الأزمة المالية والاقتصادية تبدأ من تشكيل حكومة جديدة تكون مستقلة لتحصل على مصداقية، بالإضافة إلى معالجة مشكلة المديونية العامة، من خلال سلسلة إجراءات تشمل رفع أسعار الوقود وخصخصة بعض الأصول الحكومية، مثل شركة طيران الشرق الأوسط والمطار والاتصالات.
وأكد السعيدي في لقاء له مع "العربية" "أن لبنان يواجة عدة أزمات منها السياسية ومالية ومصرفية ونقدية وأزمة حول المستقبل والحلول، وهو ما يتطلب أن تتشكل لدينا حكومة ذات مصداقية داخلية وخارجية وهو ما يحتم وجود أشخاص مستقلين بدون تحزبات أو منتمين لتيارات محددة وما معناة أن لايكون بها أي محاصصة كما يتم حاليا. الاختصاص مهم لأن الموضوع الأساسي اليوم هو الاقتصاد والمال ويجب أن يعطى له كل الأهمية والدعم خلال هذة الفترة دقيقة وصعبة، وعلية

سيكون هناك رئيس وزارة وأعضاء بالوزراة بالعزيمة المطلوبة لرفض التدخل السياسي بهذه الإجراءات".

وأضاف "لبنان بحاجة لإعادة هيكلة الدين العام وإعادة جدولة للدين العام لسبب بسيط هو إذا اخذنا حجم الدين ككل الخارجي والداخلي والذي يمثل أكبر من 155 من الناتج المحلي والفوائد على الدين تمثل 10% من الناتج القومي وتمثل 50% من إيرادات الدولة وهو أمر غير مستدام. وما عنيته بإعادة الجدولة هو تخفيض الدين العام وتخفيض قيمة الدين الداخلي وإعادة جدولة على فترة طويلة مع خفض الفائدة وخفض الفوائد على الودائع. المطلوب أن تأخذ كل الاستحقاقات الداخلية والخارجية بالعملات الأجنبية والعملات الوطنية التي ستستحق خلال السنوات القادمة وإصدار لسندات جديدة تستحق على 5 و 10 سنواتٍ بفوائد أقل . وهو ممكن وستكون كلفة خدمة الدين منخفضة جذرياً ومجال أن يأخذ الأشخاص خطوات أخرى لتخفيض العجز الأولي. وعلية لابد من إصلاح القطاع المصرفي وإعادة رسملتة".

ويرى السعيدي أن إعادة هيكلة الدين العام قد تساهم في الخروج من الأزمة. كما يجب أن يتم إصلاح قطاع البنوك وإلغاء ربط العملة الوطنية بالدولار بالإضافة للدخول في برنامج إصلاح اقتصادي مع صندوق النقد الدولي.

"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.