"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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"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.