"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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How GCC countries can adapt policies for a post Covid-19 world, Article in The National, 23 Jun 2020

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How GCC countries can adapt policies for a post Covid-19 world

by Dr. Nasser Saidi and Aathira Prasad

As countries emerge from three-months of Covid-19 containment, policy makers need to plan for a transformed post-pandemic world and create a new

development model

Covid19 continues to be part of life as we know it. The GCC nations are gradually emerging from lockdown. There are nodes of optimism as the number of recoveries outpace the confirmed cases, including in the UAE.

Stimulus packages across the GCC included a number of common policy actions – rate cuts, liquidity enhancing measures, deferment of loans and credit card payments. Also noteworthy is the support extended to small and medium sizes enterprises (SMEs) and affected sectors impacted by the pandemic-induced lockdowns which include tourism, hospitality and aviation.

After almost 3 months of lockdowns, countries are phasing their recovery plans. As we gradually emerge from Covid-19 containment, policy makers need to plan for a transformed post-pandemic world, which underscores the need to create a new development model.

For the GCC countries, this means reviewing three broad policy measures related to monetary and fiscal policies as well as structural reforms.

Most GCC nations are pegged to the dollar except for Kuwait which pegs its dinar to a basket including the greenback. Hence, the countries follow the Fed's interest rate moves, which may limit the use of other instruments of monetary policy and might restrict other policy moves from the central banks other than stimulus packages to increase liquidity.

So what can the central banks do to support their economies, while maintaining a peg or moving to a currency basket? Two innovative ways of providing support would be the establishment of GCC central bank swap lines and monetising new government debt issued for deficit financing.

The establishment of GCC central bank swap lines, with an option for the larger central banks (SAMA, UAE) to tap the Fed or People's Bank of China (PBoC) would enable regional central banks to tap additional liquidity during times of market stress, support financial stability and provide a liquidity backstop.

Monetising new government debt issued for deficit financing can help avoid the crowding out of the private sector and inject liquidity, given the lack of developed local currency debt markets and central banks' limited ability to conduct open market operations.

On the fiscal policy front as part of their pivot towards diversifying their economies and becoming less reliant on oil revenues, a move towards deficit financing along with the institution of fiscal rules for long-term fiscal sustainability can help accelerate the development of local currency debt and mortgage markets to finance housing and long-term infrastructure projects.

Rationalising government spending either by reducing the size of government, shifting activities to the private sector, and moving to targeted subsidies is another element of fiscal reform. In conjunction governments can issue long term debt that can be bought by central banks during a crisis period which is happening in the US and Europe today.

Diversify government revenues by improving the management of public commercial assets and increasing the efficiency of tax collection is an important element of fiscal reform. Consolidating the large number of fees and charges on consumers and businesses into fewer broad-based taxes, can help lower business and living costs.

The Covid pandemic is also an incentive for "Green New Deals" through investment in public health, domestic AgriTech for food security, renewable energy, clean cities and technologies, that will support job creation and economic diversification. Governments can take the first step to ensure a project pipeline, focusing on public-private partnerships, with targeted incentives for SME participation.

Accelerating the digitisation drive will also lower the cost of broadband internet and accessibility while speeding up the implementation of 5G.

The establishment of social safety nets and protection programs and pension schemes will also help reduce financial burdens that can come around in periods of crisis. For employees, a contribution towards a pension fund would ensure sufficient savings in the event of job losses or retirement and for employers, this provides them with an investment fund and support end-of-service or gratuity payments.

Structural reforms including the acceleration of privatisation, working closer with private sector participation is key. Developing insolvency frameworks to support out-of-court settlement, corporate restructuring and adequately protect creditors' rights is another important element. Enhancing the environment that continues to attract and retain human capital through a permanent residency programme could help generate significant economic gains.

A positive side-effect of Covid-19 is the realisation that working from home is a feasible option. Companies can offer flexible work options, reduce office space and rents, while employees can stay at cheaper home locations, save on rents, and telecommute. To realise these benefits, requires removing barriers by amending labour laws and liberalising voice over Internet Protocol (VoIP).

The Covid-19 perfect storm is an unprecedented opportunity for the GCC countries for a policy reset, to steer toward a new development model for a post-pandemic world and move away from business as usual.