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**:

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.

"The case for new green deals in the Gulf", article in Aspenia Issue No.89-90, Oct

2020

Dr. Nasser Saidi's article titled "The case for new green deals in the Gulf" appeared in Aspenia Issue No 89-90, issued in Oct 2020, and is posted below. A PDF file of the article can be downloaded here.

The case for new green deals in the Gulf
The world is in a "new oil normal", with permanently lower prices. The oil rich countries of the Gulf need to diversify and focus on clean energy alternatives. Europe has a significant role to play here, too, as the EU and the GCC should develop a strategic techno-energy partnership.

The Gulf Cooperation Council (GCC) is weaving its way through two major shocks. Covid-19 and the Great Lockdown resulted in a collapse of oil prices, against a background of climate change and global energy transition. The imf projects an estimated 4.9% decline in global growth this year, with cumulative output losses to the tune of over 12 trillion dollars for the 2020-21 period. Within the GCC, growth is forecast to shrink by 7.1% in 2020, before, optimistically, rebounding by 2.1% next year.
One unintended consequence of the current health crisis has been a record decline in global oil demand, along with emissions reduction and cleaner air as lockdowns were imposed across the globe. I would venture that we are currently in a "new oil normal", with permanently lower oil prices. It is imperative, therefore, that the GCC's recovery model include a strong clean energy policy component and structural reforms, alongside a recasting of its economic diversification model and social contracts. The current GCC economic model – over-dependence on fossil fuels, pro-cyclical fiscal policies and generous government subsidies – are unsustainable in the medium to long term.

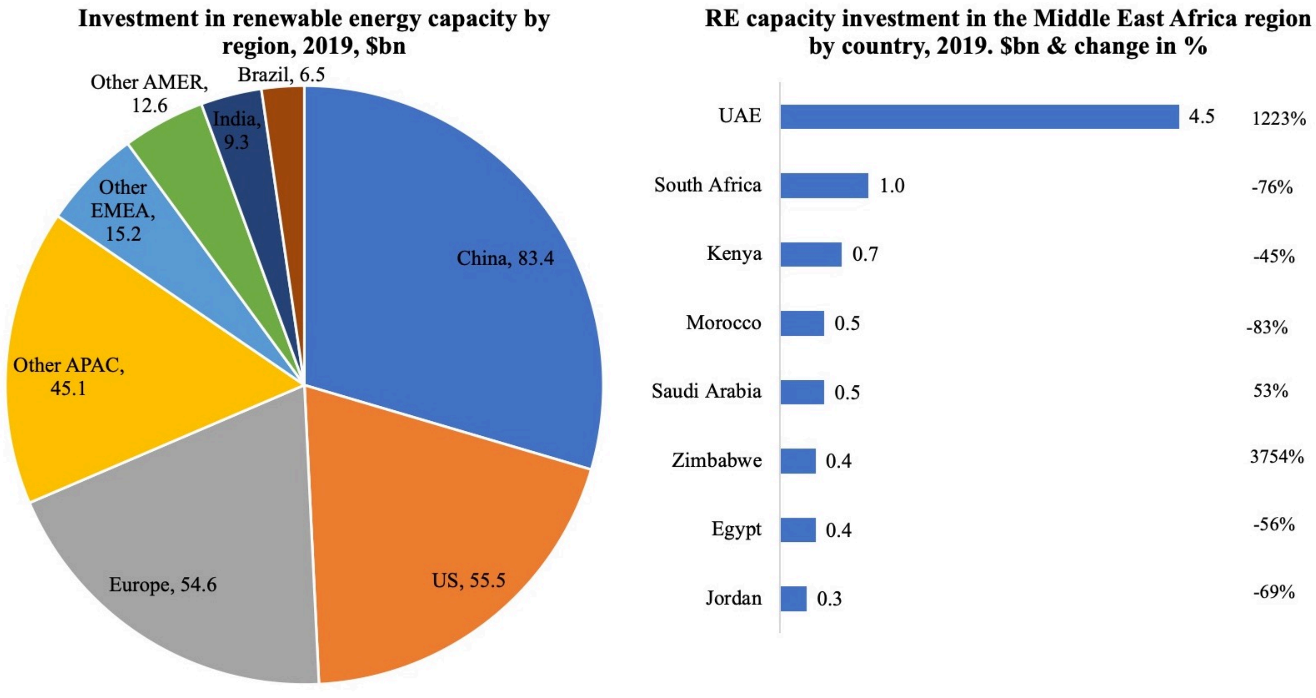
THE PATH LESS TRAVELLED. As countries enter the second phase of the Covid pandemic of easing restrictions along with social distancing norms, there are two divergent paths for economic activity. One track is that government stimuli, together with lower fossil fuel prices, result in diminished incentives to invest in clean energy and clean tech. This will lead to a business-as-usual mode, to a pre-Covid-19 path. Crises and disasters (sars, 9/11, the 2008 Great Financial Crisis) have been associated with temporary dips in carbon emissions, with a 1.5% decline in output associated with a 1.2% drop in co_2. Emissions pick up again, typically with a vengeance, once activity recovers. Recent history provides evidence: it is estimated that following the global financial crisis in 2008-09, carbon emissions increased by 5.9% as a result of policy stimuli.

The second path is a green one wherein countries implement cop21 commitments and energy transition policies, moving to “Green Deals”. This could take multiple forms: we could accelerate the decarbonization of power and road transport, place greater emphasis on energy efficiency investments, phase out subsidies, launch policy incentives to reduce carbon emissions and make a concerted effort to provide no bailouts for industries or business models that are not viable in a low-carbon world. Proactive fiscal policies can help nations become more climate-resilient through investment in climate resilient infrastructure and cities, along with instruments to transfer climate risks to markets (carbon taxes and carbon trading).

According to IRENA’s 2020 “Global Renewables Outlook: Energy Transformation 2050”, decarbonization of the global energy system – away from fossil fuels to renewables – could generate 98 trillion dollars in cumulative growth, adding an extra 2.4% to global gross domestic product. This is a conservative estimate that does not even take into account the negative growth effects of climate change and rising temperatures.[1]

CLEAN ENERGY AND CLEAN TECH INVESTMENTS. Governments in the GCC have been vocal supporters of renewable energy projects despite their vast fossil fuel reserves. The Covid-19 crisis has temporarily slowed deal-making in renewable energies in recent months, and this will likely affect investment levels in 2020. In comparison, renewable energy investments in the wider Middle East and Africa slipped 8% to $15.2 billion in 2019, from a record total of 16.5 billion in 2018.[2] The uae was the biggest investor in renewables in the region last year, with the massive 4.3bn Al Maktoum iv solar project, while Saudi Arabia is accelerating investments, with a total 502 million dollars invested (including a windfarm project). Record-breaking bids in renewable energy auctions in Saudi Arabia and the uae have made solar power cost-competitive with conventional energy technologies. The United Arab Emirates is already ahead of the curve in terms of deployed energy storage to support its grid during high demand hours with two NaS battery storage projects in Abu Dhabi and Dubai.

Figure 1 . Investment: Global vs. Middle East

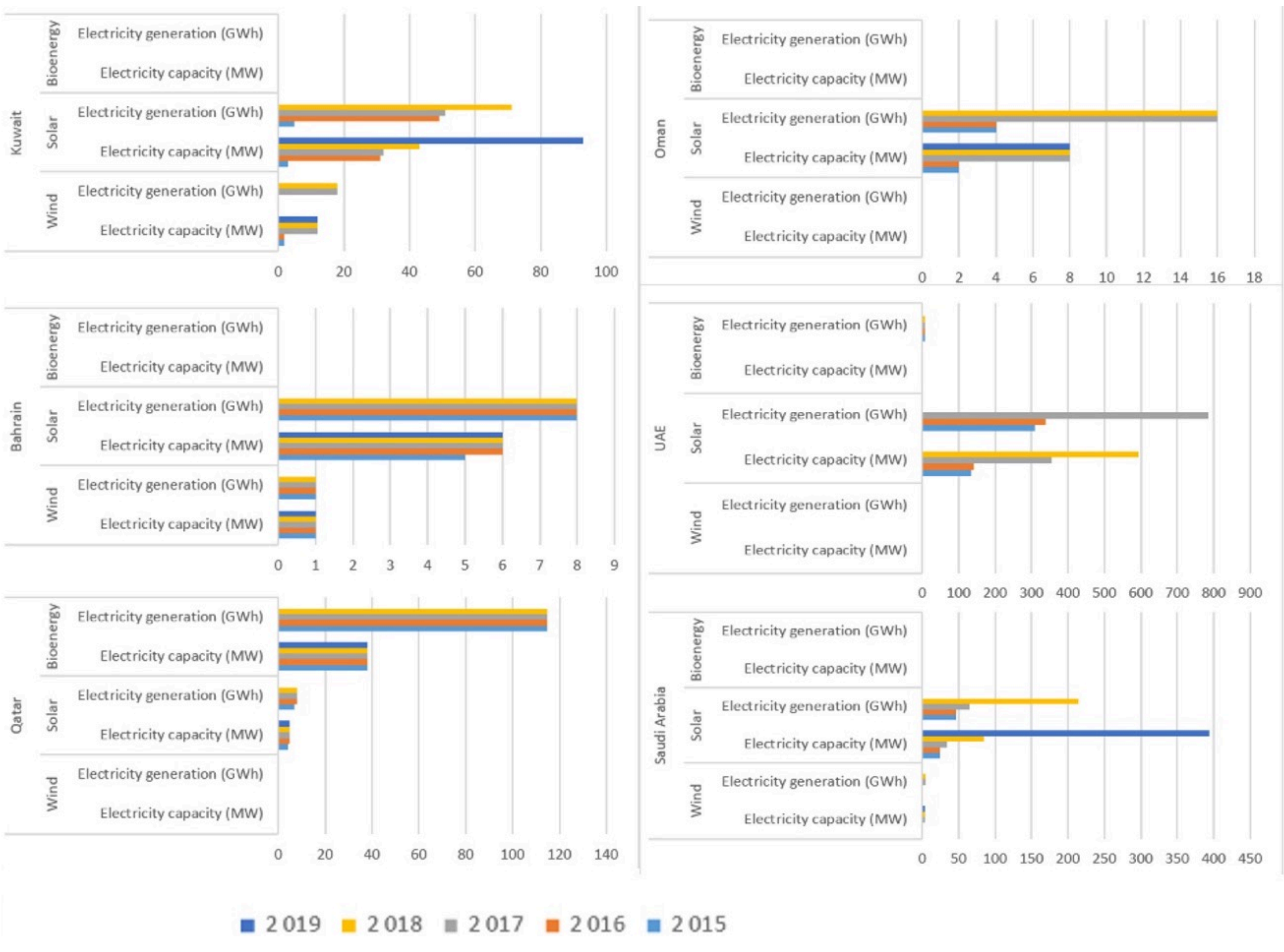


Source: Global Trends in Renewable Investment 2020

During the pandemic, governments have reiterated their commitment to support renewable energy policies. Recent announcements – Oman's financial closure of its Ibri ii plant, uae's upcoming plans to develop the world's largest solar power plant (2 gigawatt) in Abu Dhabi's Al Dhafra region (at a historically low price of 1.35 us cents per kWh), came just hours after Dubai awarded a contract for a project (part of a solar park designed to produce 5 gigawatts by 2030) to generate power at a tariff of 1.7 us cents per kWh, confirm the region's commitment to the sector.

New renewable energy projects in the region are becoming increasingly reliant on private funding (versus government support previously). Private power developers, who can borrow internationally at historically low interest rates, are helping to lower financing costs thereby leading to even cheaper power. The bottom line is that growing private sector participation in energy projects along with technological innovation that is rapidly lowering the cost of renewable energy production and storage, will accelerate the energy transition in the Arabian Peninsula.

Figure 2 . Electricity generation and capacity in the GCC



Source: IRENA Statistics.

NEW GROWTH MODELS. The new oil normal presages permanently lower real oil prices and the prospect that plentiful fossil fuel (including shale), with increasingly ubiquitous, cheap renewable energy, along with energy transition policy and regulatory measures, will lead to an increasing proportion of fossil fuel reserves becoming stranded assets. This poses an existential threat to the GCC countries, though they are among the world's low-cost producers. The imf estimates that the GCC's net financial wealth (estimated at 2 trillion dollars at present) could be depleted by 2034, with non-oil wealth depleting within another decade.[3] The policy imperative for the GCC goes beyond recasting economic diversification strategies that are vulnerable to pandemics, to new development and growth models, with a focus on developing "green deals" as well as "blue deals" (given the vulnerability of GCC coastal areas to climate change). All this, while supporting increased economic digitization too. The current combined crises are a wake-up call for GCC governments to design economic recovery programs to accelerate decarbonization and encourage investment in cost-competitive sustainable technologies. Pre-Covid, there were an estimated 6,722 active infrastructure projects with a combined value of more than 3.1 trillion dollars planned or under way in the GCC. These plans should be radically revised to invest in climate resilient infrastructure covering energy, water, transport and cities. Such a well-planned recovery would cut pollution, reduce the outsized carbon footprint of the GCC and also lead to job creation: each million dollars invested in renewables or energy flexibility is estimated to create at least 25 jobs, while each million invested in efficiency creates about 10 jobs.[4] The added macroeconomic benefit is that the GCC would release oil supply for export rather than subsidize wasteful domestic energy-intensive consumption and production activities.

Figure 3 . Energy transition in the Middle East OPEC nations, 2050

	Thousand jobs	Increment from current plans
Renewables	**816**	**169%**
Solar	365	223%
Bioenergy	139	156%
Wind	236	259%
Energy sector	**3317**	**12%**
Renewables	816	169%
Energy efficiency	1059	11%
Energy flexibility & grid	433	17%
Fossil fuels	975	-24%
Nuclear	35	-35%

Source: IRENA, “Measuring the socioeconomics of transition: focus on jobs”, February 2020.

BUILDING BLOCKS OF A RECOVERY PROGRAM. I see four major steps to be taken in order to launch a successful recovery in the Middle East.

1. Structural reforms. The lowest hanging fruit is the phased elimination of fuel and utilities subsidies that are a drain on government finances. Removing subsidies frees up fiscal resources to provide financial incentives for the ubiquitous use of clean energy and clean technology within the broader framework of a “zero net emissions policy”. Regional cooperation is required to support renewable energy growth across the region through a GCC integrated grid, unification of environmental standards along with a removal of barriers to trade and investment, to benefit from large economies of scale and avoid costly and wasteful duplication. A

regional GCC grid could change global power infrastructure by creating an energy corridor to East Africa, to Europe through Egypt and to India and Pakistan through a sea cable. Power exports would compensate the GCC for the gradual secular decline of fossil fuel exports through the export of higher value-added solar power.

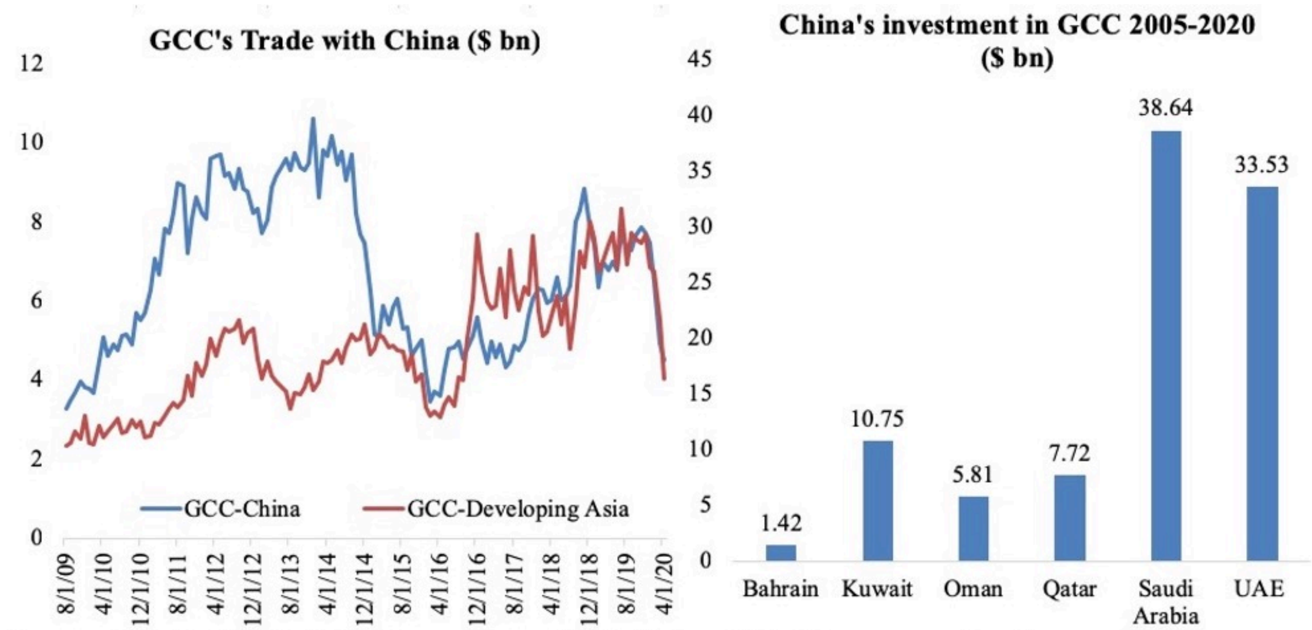
2. De-risk fossil fuel assets. Across the GCC, state-owned enterprises (soes) and government-related enterprises (gres) are majority owners and operators of upstream and downstream oil & gas (the power sector), while also investing heavily in renewables (even increasing their market share of new capacity relative to private firms in recent years). Given the growing risk of oil & gas reserves becoming stranded assets, the GCC states need to repurpose their soes and gres to support and survive a low-carbon energy transition plan. Saudi Arabia has recently shown the way through the partial privatization of Aramco. The privatization of oil & gas assets should be part of an overall strategy of sharing the risk of potentially stranded assets with investors. Proceeds of the privatization of fossil fuel assets need to be invested in a transformation of the economies of the GCC, sustainable diversification based on partnership with the private sector, with a strategy focused on investing in human capital and sectors capable of competing in increasingly digitized economies.
3. Green financing is integral to fuel climate change policies, for a low-carbon transition. Introducing carbon taxes should be the main plank: such taxes would not only raise revenue and increase energy efficiency, they would provide part of the funding for decarbonization strategies. The imf finds that large emitting countries need to introduce a carbon tax that rises quickly to 75 dollars per ton by 2030, consistent with limiting global warming to 2°C or below. For a country like Saudi Arabia, revenues from a carbon tax

(35 to 70 dollars per ton of emissions) could raise some 1.9% to 2.7% of gdp in revenue[5] in addition to reducing pollution, and being the most effective tool for meeting domestic emissions mitigation commitments. **The other plank for the capital rich GCC is "green finance".** The financial centers of the region could become regional and global centers for new energy financing, for the issuance of "green bonds" and Sukuk, as well as for facilitating the listing of Clean Energy and Clean Tech companies and funds. Ideally, this should be complemented with the creation of Green Banks to finance the private sector. Such institutions would support energy efficiency policies, retrofit where necessary, make climate risk mitigation investments and so on. The imf has estimated an annual financing gap of 2.5 trillion dollars through 2030 to attain the global targets set through the Paris Agreement and the broader un sdgs. Climate finance reached record levels of $360bn in 2019 – but this remains a tiny fraction of the required amount.

4. The Covid pandemic has accelerated the digitization process as people, governments and businesses have shifted online. The digitization of the energy sector is next through investments in smart grids, smart city technologies and the deployment of new digital technologies, low-cost cloud computing, the IoT, big data analytics, artificial intelligence and blockchain. This is an unprecedented strategic opportunity for the GCC countries to participate in the Fourth Industrial Revolution through the digitization of their dominant energy sectors, with massive "soft" (including training and building digital human capital) and "hard" investments by industry, prosumers, and governments to increase transform their economies and increase overall productivity growth.

GEOECONOMIC CONSEQUENCES. The year 2020 will likely witness the largest decline in energy investment on record, mostly due to Covid. A reduction of one-fifth – or almost $400 billion – is expected in capital spending compared with 2019.[6] Fossil fuel supply investments (e.g. exploration) have been the hardest hit while utility-scale renewable power has been more resilient, but this crisis has touched every part of the energy sector. As the energy transition progresses in the European Union and the United States becomes a net energy exporter, it implies less energy dependence on GCC. This lessens the region's geopolitical and geoeconomic importance. How should the GCC react? First of all, greater regional economic integration is required, with a focus on infrastructure and logistics: energy, water, transportation, digital highways. As noted above, a new energy infrastructure would enable the GCC to shift to selling renewable-energy-based electricity to Europe (via an interconnected power grid), to East Africa, but also to Pakistan, India and East Asia. Secondly, the GCC needs to formalize their shifting trade and investment patterns towards Asia and China through new trade and investment agreements with China, Japan, Korea, and the Asean countries. Thirdly, a new extended Gulf security arrangement needs to be negotiated to reduce arms expenditure and focus on economic development. Finally, the EU and the GCC should develop a strategic techno-energy partnership: the Gulf countries could supply solar-generated electricity, while Europe contributes as a renewable energy and climate change technology partner.

Figure 4 . China-GCC trade and investment



Source: IMF DoTS, Refinitiv Datastream, AEI's China Global Investment Tracker.

[1] Matthew Kahn et al, in their 2019 paper "Long-term macroeconomic effects of climate change: a cross-country analysis", found that a persistent increase in average global temperature by 0.04 degrees Celsius per year, in the absence of mitigation policies, reduces world real gdp per capita by more than 7% by 2100; abiding by the Paris Agreement limits the temperature increase to 0.01°C per annum, which reduces the loss substantially to about 1%. According to a nasa study, 2010-2019 was the hottest decade ever recorded. A goal of the Paris climate accord was that global temperatures need to be kept from rising more than 1.5°C, but a United Nations report in Nov 2019 found that the world's emissions would need to shrink by 7.6% each year to meet the most ambitious aims of the Paris climate agreement.

[2] See "Global trends in renewable energy investment 2020", Frankfurt School-unep Centre, BNEF report, June 2020.

[3] "The future of oil & fiscal sustainability in the GCC region, imf Working Paper, January 2020.

[4] IRENA, "Global renewables outlook: energy transformation 2050, April 2020.

[5] IMF, "Putting a price on pollution", December 2019.

[6] IEA, "World energy investment 2020".

"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 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.

Weekly Insights 6 Oct 2020: Economic activity in Bahrain & Saudi Arabia

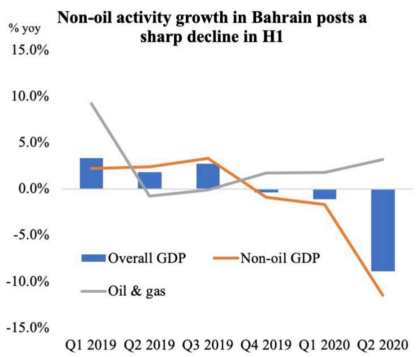
Charts of the Week: Last week, both Bahrain and Saudi Arabia released Q2 GDP numbers: as expected, overall growth contracted, with private sector activity significantly affected. The initial sections offers a forward-looking perspective on the two nations based on more recent data and proxy indicators. Saudi Arabia also disclosed a medium-term fiscal strategy, which forms the last section of this Insights’ edition.

1. **Bahrain GDP & economic activity**

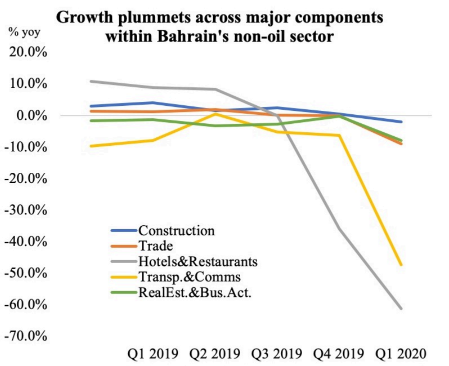
GDP in Bahrain declined by 8.9% yoy in Q2 2020, following a 1.1% drop the previous quarter. This was primarily due to the non-oil sector which plummeted by 11.5%. As expected, the largest dips in GDP came from the hotels and restaurants (-61.3%) and transport & communication (-47.4%) – both directly affected by the Covid19 outbreak. Spillover effects were also visible across the board: the financial sector, which accounts for the largest share of non-oil GDP (16.8% in Q2), posted a 5.8% drop while the sub-sectors real estate and business activities and construction slipped by 7.9% and 2.1% respectively.

With Covid19-related restrictions slowly being phased out in

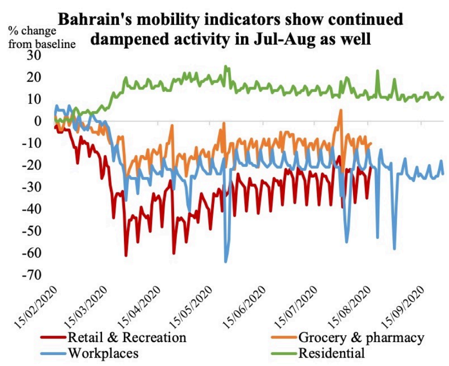
Bahrain, can we expect a resumption of economic activity? The data for Jul-Aug show the pace of recovery has been slow, with readings for retail and recreation still at an average 26% below the baseline data (pre-Covid19). Recent announcements of extended government support – be it the exemption of tourism levies for 3 more months or extended support to KG & nursery teachers, taxi drivers or Bahraini citizens' payment of utility bills and about 50% of salaries in the private sector (only those affected) – will provide direct support and likely nudge recovery. hotel occupancy rates in four- and five-star hotels increased by 13.3% mom and 17.6% in Jul and Aug respectively. Opening borders with Saudi Arabia will not only increase the number of trucks crossing the King Fahd Causeway (improving transport/ trade) but will also attract visitors from Saudi Arabia (supporting hospitality and retail).



Source: Bahrain Information & eGovernment Authority, Nasser Saidi & Associates



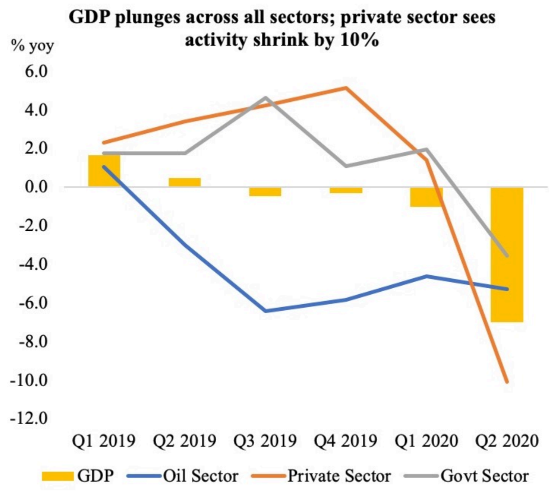
Source: Bahrain Information & eGovernment Authority, Nasser Saidi & Associates



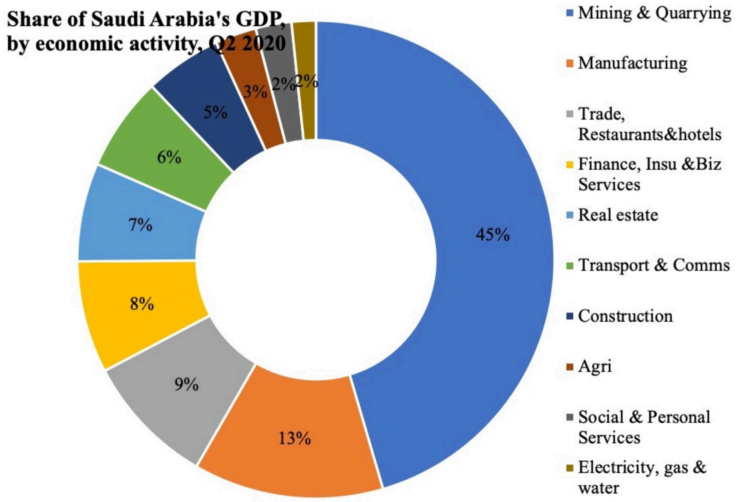
Source: Google Covid19 Community Mobility Report, Nasser Saidi & Associates. Note: Google have temporarily suspended updates in some categories to improve how they are calculated.

2. Saudi Arabia GDP & economic activity

Saudi Arabia's overall GDP plunged by 7% yoy in Q2 2020, with falls in both the oil and non-oil sectors. The oil sector's 4.9% drop in H1 is a result of the reduction in oil production in line with the OPEC+ agreement. Within the non-oil sector, all sub-sectors posted declines in Q2 ranging from trade and hospitality (-18.3%) to finance, insurance and real estate (-0.7%). The share of GDP by economic activity shows that the oil sector continues to dominate (45% of overall GDP), closely followed by manufacturing (13%) and trade and hospitality (9%).



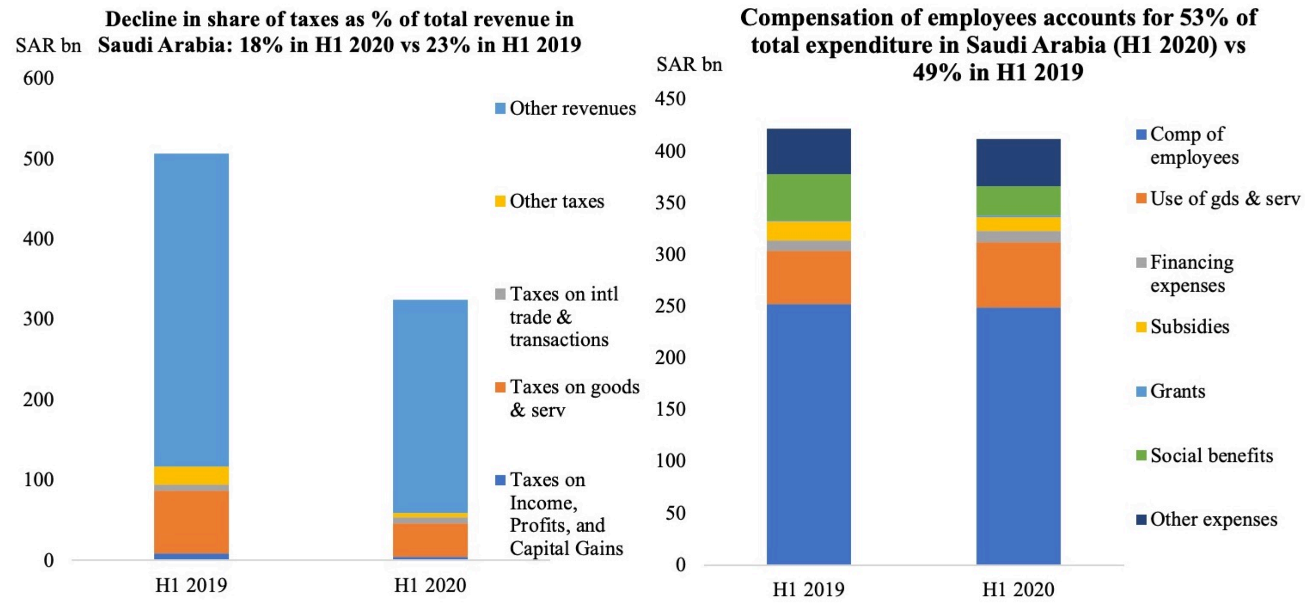
Source: Saudi Arabia GaStat, Nasser Saidi & Associates



To gauge any underlying change in activity during Q3, we refer to the central bank's data on consumer spending and point-of-sale (PoS) transactions by category. There is a spike before the VAT hike came into place in Jul, as expected, but the Aug data seems to indicate a slight recovery for hotels (+2.6% yoy, following 6 months of double-digit declines) while items like jewelry and clothing continue to register negative growth. The construction and real estate sector look well-placed to improve in H2 this year: not only has letters of credit opened for building materials imports increased by 64% yoy in Aug (following 5 months of double-digit declines), cement sales has also been picking up during Jun-Aug; a temporary boost for the sector will also come from the recent announcement that real estate would be exempt from the 15% VAT (to be replaced instead by a 5% tax on transactions, of which the government would bear the costs for up to SAR 1mn for the purchase of first homes).

3. **Saudi Arabia's fiscal space**

With oil prices around the USD 40-mark, extended government support in Saudi Arabia during the Covid19 outbreak will put a strain on finances. From the H1 2020 estimates disclosed by the Ministry of Finance, it is noticeable that the share of taxes as % of overall revenue has declined to 18% (H1 2019: 23%). Compensation of employees remain the biggest strain on the expenditure side, with the single component accounting for 53% share, though it is commendable that subsidies have declined by 27.8% yoy to SAR 13bn.



Source: Saudi Arabia Ministry of Finance, Nasser Saidi & Associates

Medium-term fiscal projections (in SAR bn)

	2019	2020e	2021f	2022f	2023f
Total revenues	927.0	770.0	846.0	864.0	928.0
Total expenditures	1059.0	1068.0	990.0	955.0	941.0
Budget deficit	-133.0	-298.0	-145.0	-91.0	-13.0
as % of GDP	*-4.5%*	*-12.0%*	*-5.1%*	*-3.0%*	*-0.4%*
Debt	678.0	854.0	941.0	1016.0	1029.0
as % of GDP	*22.8%*	*34.4%*	*32.9%*	*33.4%*	*31.8%*

Source: Saudi Arabia Ministry of Finance; Note: e refers to estimates & f to forecasts

If Saudi Arabia's fiscal consolidation plans are to be met, reforms are required on both revenue and expenditure side. The Kingdom has already increased VAT to 15% from Jul: however, with subdued demand and consumer spending, it seems unlikely that this move will add substantial revenue this year. We have highlighted in previous editions that Saudi Arabia can benefit from the introduction of other more revenue-generating taxes – e.g. carbon taxes, which will also contribute towards a cleaner environment. Additional measures could include energy price reforms (thereby reducing subsidies) as well as a consolidation or removal/ reduction of various small fees and taxes after undertaking an impact exercise (i.e. do these fees raise significant revenues or do they hinder development of the related sector?). The other major route to take is lowering "compensation of employees": this can be done either by reducing the public sector workforce (and increasing productivity through increased digitalization) or by decreasing wages (and synchronizing public holidays) to be on-par with the private sector – these moves could also support creation of jobs in the private sector, lead to higher productivity levels and growth.

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Comments from the Middle East Energy 2020 conference in Gulf Today, 3 Mar 2020

The below comments were published in Gulf Today, in an article titled "Global energy platform spotlights latest breakthroughs, challenges", on the basis of the discussion at the Middle East Energy 2020 conference, held in Dubai on 3rd March 2020. Dr. Nasser Saidi's comments are posted below.

Nasser Saidi, Chairman, Clean Energy Business Council Mena, said, "Currently, there are seven gigawatts of renewable energy projects in the region and this is very encouraging for the transformation of the energy mix in GCC countries. If you look at prices, we are currently at $0.14 per kilowatt for renewable energy and heading towards $0.01. This means the *region is not only at the forefront in adopting renewable sources such as solar power, it means fossil fuel power generation is now being outcompeted by renewables."*

He added, "If you're going to invest in the regional energy sector, it has to be in renewables. They are much more efficient, cleaner for the environment and can be achieved at much less cost."

Saidi also added that ending regional energy subsidies, which have historically kept energy prices lower, will benefit both public and private sectors, consumers and the planet, with money previously set aside for subsides instead being utilised in renewables-based research and development, job creation and a greater understanding of how much energy is being consumed versus how much is actually needed.

The clean energy advocate also stressed the region is primed to take the lead in energy grid integration, stressing his desire for "everyone across the GCC to have their own power plant" is unnecessary.

"Let's integrate the grids across the UAE, across the GCC. Integrated cooperation across the GCC will make for greater efficiency. It means that if there is a surge in energy demand in one location, it can be satisfied by other countries on the grid." Saidi told Middle East Energy delegates that while clean energy targets are a start, they mostly form part of a wider framework centred around climate policy and decarbonising economies for the future, insisting Mena governments and energy companies are already in the driving seat to chart a decarbonised future.

"There is an enormous opportunity for the region to invest in the industry and create jobs. We've long been energy consumers; now we should become exporters of renewable energy. There's no reason why we cannot be at the forefront, as producers of solar technology, to link Europe and North Africa," added Saidi.

"If there's one place where we should be doing research and development in solar it is here, not in Europe. We have approximately 355 days of sunshine. Let's take the lead, build

homegrown technology and become exporters of that technology. We can partner with countries such as China who are at the forefront of solar technology. I think this is the answer."

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.

How should MENA address the existential threat of climate change? Article in The National, 28 Aug 2019

This is part 2 of a two-part column. The first can be found here.

The article titled "How should MENA address the existential threat of climate change?" appeared in The National's print edition on 28th August, 2019 and is posted below. Click here to access the original article.

How should MENA address the existential threat of climate change?

The starting point for the Middle East and Northern Africa to address the existential threat of climate change is to reduce excessive fossil fuel use by removing subsidies and investing to increase energy efficiency.

The GCC nations – starting with the UAE – have initiated a phased removal of fuel, electricity and water subsidies that have distorted consumption and production choices and encouraged energy waste. The removal of subsidies will discourage energy-intensive activities, provide cost incentives to improve energy efficiency and shift the energy mix away from fossil fuels towards renewables. Eliminating subsidies also provides greater financial resources to fund renewable energy investments and climate-resilient infrastructure.

Given heat levels in the GCC, modernising air conditioning systems and retrofitting existing buildings can radically improve energy efficiency and reduce carbon emissions. Green buildings standards are a policy initiative gaining traction: Dubai Municipality has issued the Green Building Regulations and Specifications for all new buildings in the Emirate since March 2014.

But Dubai is the only city in Mena to join the Building Efficiency Accelerator programme, aiming to double the rate of energy efficiency by 2030. Overall, effective implementation of energy use targets and standards could lower energy use by some 30 per cent. Increasing energy efficiency is low hanging fruit and should be accelerated given the high returns on investment.

The Middle East and GCC are part of the Global Sun Belt: more energy falls on the world's deserts in six hours than the whole world consumes in a year.

Harnessing solar power is an efficient policy choice. The GCC nations, especially the UAE, are taking a lead in investing in renewable energy in Mena. There is now a GCC renewable energy project pipeline comprising over 7 GW of new power generation capacity to be realised within the next few years. To put it in perspective, one gigawatt is roughly equal to 3.125 million photovoltaic solar panels, 412 utility-scale wind turbines or 110 million LED bulbs. The surge in projects has been supported by the rising cost competitiveness of renewables: it is now cheaper to build new wind and solar PV plants than it is to run existing fossil-fuel ones. The falling costs of energy storage is addressing the intermittency problem of renewables; by 2021, the capital costs of lithium ion battery-based storage are expected to fall by 36 per cent compared to the end of 2017. While the wind power market is slowly catching up in Jordan and Morocco, the GCC has under-invested: more than 56 per cent of the GCC's surface area has significant potential for wind deployment.

The International Renewable Energy Agency's (IRENA) 2019 report estimates that by 2030 the GCC is on track to leverage renewables to save some 354 million barrels of oil equivalent (a 23 per cent reduction). Its efforts will also create some 220,500 new jobs, reduce the power sector's carbon dioxide emissions by 22 per cent and cut water withdrawal in the power sector by 17 per cent.

Renewable energy related targets range from the UAE's ambitious goal of 44 per cent of capacity by 2050 (from 27 per cent clean energy in 2021) to Bahrain's target of 10 per cent of electricity generation in 2035, and Saudi Arabia's 30 per cent of generation from renewables and others (mainly nuclear) by 2030.

While these targets sound ambitious, they do not meet the threat of climate change. The acceleration and intensity of climate change requires deeper and holistic strategic planning and action. Climate change poses some daunting challenges and existential risks.

To address the stranded assets risk, the GCC needs to share risk on a global basis by privatising or selling participation in their vast energy reserves and related assets (upstream and downstream). Saudi Arabia's announced plan to privatise Aramco is a structural reform that could be a model for other oil producers to emulate. In the same vein, the GCC sovereign wealth funds should divest from fossil fuel assets (as Norway's Government Pension Fund Global is doing) and the banking and financial sector should gradually divest and reduce its exposure to fossil fuel assets.

The GCC countries have developed energy sustainability policies. But these are modest given their natural comparative advantage in harnessing solar & wind power and their substantial financial resources allowing accelerated investment in renewable energy assets. This is the time for the GCC to commit to and implement comprehensive, Net Zero Emissions (NZE) goal climate strategies in or before 2050, along with some 15 other nations.

Decarbonisation and economic diversification are complementary strategies and a win-win opportunity. By diversifying and investing in renewable, sustainable energy and climate risk mitigating industries and activities –through Green Economy strategies – the GCC can create jobs, innovate and develop a new alternative export base.

The existential threat of climate change is real and becoming a clear and present danger requiring national and regional concerted policies and action, with the promise of new technologies, decarbonised growth and new economic development models. The alternative of inaction is decades of decline, dismal growth prospects, growing impoverishment, instability and conflicts. The choice is clear.