



بنك الإمارات دبي الوطني  
Emirates NBD

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# Lebanon seeking IMF support

Lebanon is a significant step closer to a roadmap out of its economic travails as the government agreed to approach the IMF for assistance at the close of last week, after political party Hezbollah withdrew its previous opposition to such a move. However, it is by no means a clear and easy path to economic reconciliation given that there will be inevitable losers in such a fraught reform process, and they have made their dissenting voices heard over the weekend. Further, these reforms will require a degree of political unity that has previously been lacking, and while the noises out of parliament concerning the necessity of reform are positive, implementation has previously been severely wanting. With the coronavirus pandemic having made a dire economic and financial situation even worse – not to mention the symbiotic political strife ongoing in the country since October – the need for drastic action is pressing, but still not guaranteed, and the likelihood is that the country still has difficult times ahead.

### CPI inflation (% y/y) hitting multi-year highs



Source: Haver Analytics, Emirates NBD Research

According to Prime Minister Hassan Diab's statement, the Lebanese government is asking the IMF for USD 10bn in assistance, and also hopes to secure the USD 11bn in pledges signed off by the Paris Club in 2018 – which has not to date been forthcoming owing to Lebanon's failure to hit the necessary reform targets. The government also intends to enter into negotiations with the holders of its foreign debt, after it defaulted on a Eurobond for the first time in March. Years of financial engineering enabled Lebanon to maintain its economic house of cards for years, sustaining twin deficits of around 10% (fiscal balance) and 20% (current account balance) and one of the highest debt/GDP levels in the world, but as growth stalled and there was a recurrent failure to reform and secure the promised CEDRE funding, inflows started to decline, and the cracks began to show. Now the government has a new 53-page plan which goes further than any previous blueprint, but there will be pushback from some quarters.

The Lebanese banking sector has been at the centre of this crisis, and its representatives have made clear their opposition to the substance of the plan, which will hit them hard. A restructuring of the central bank and commercial banks is planned, with a 'transitory exceptional contribution from large depositors', alongside a fund that will compensate depositors down the line. The banks, however, object that the plan is too vague, and exerts too great a cost from them, especially given that the financial sector has been financing the government's onerous deficits for years. A public spat has also emerged between Diab and long-serving central bank governor Riad Salame, with Diab accusing Salame of mismanagement, while Salame has defended his position, stating that the government wasted the time to reform that his financial engineering schemes bought it. The growing animosity between the government and the banks will make it more difficult to reassure external observers of the potential to reform.

It is not only the banks that are voicing their opposition, as protestors have renewed their demonstrations in recent weeks, despite pandemic-driven social distancing requirements. Already suffering under a sluggish economy, the effective devaluation of the pound from its peg is driving inflation up at a time when many households have seen their earnings crushed under lockdown. Last month, the central bank set the exchange rate at LBP 3,625/USD at transfer firms, markedly weaker than the official LBP 1,507.5/USD – while still maintaining the peg for essential imports. The black market rate had been diverging from the official rate for months as dwindling FX inflows led to an increasing shortage of dollars – one that will have been exacerbated rapidly by the moratorium placed on global travel and tourism. Inflation hit a multi-year high of 11.4% in February, and will head higher still as the pound's collapse feeds through.

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