

## Lebanon considers two options to fund govt

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BEIRUT: The Finance Ministry and Central Bank are reviewing ways to finance the country's needs either through the issuance of new Treasury bills, with possible higher return, or through a swap operation. These remarks came during the meeting between caretaker Finance Minister Ali Hasan Khalil and Central Bank Governor Riad Salameh, who touched on several key financial issues that have a major impact on the government's finances. Speaking to reporters after the meeting, Khalil and Salameh reiterated their confidence in the Lebanese pound, brushing off all rumors and speculations that the national currency is under imminent threat.

"I assure you that we are confident of the monetary stability in the country and the status of the lira. All the facts and figures confirm that this matter is firm and unshakable.

"There are political challenges at the state level that reflected directly and indirectly on the financial realities and created a range of challenges," Khalil said.

In the last few weeks, the availability of sustainable financing for the needs of the state has been hindered," he added.

He added that the Finance Ministry and the Central Bank were planning to find solutions for this matter.

Khalil allayed fears among the public sector employees that salaries would not be received on time.

The minister's remarks were in response to growing alarming reports that the state may not be able to meet its financial needs due to the mounting fiscal deficit.

Some international investment banks have warned that Lebanon's public debt is no longer sustainable in the medium and long-term.

"We have drawn up a mechanism for issuance [of bonds] in the next stage that allows the reinjection of funds through banks after measures taken by the Central Bank, related to certificates of deposit by BDL and the intervention of the bank if the need arises for additional subscriptions," Khalil explained.

He added that there are also other areas, institutions and ideas for subscriptions that can help provide liquidity in the country.

"We agreed that this financial and monetary course, apart from the detailed differences between us and the central bank, is not going to continue in the long-term.

"Serious reforms that were pledged during CEDRE conference are needed, but there are also structural reforms related to spending in the country," the minister said.

Khalil acknowledged that one of the problems that needs to be tackled seriously is the growing number of people joining government agencies, noting that 5,000 new employees joined the civil service in 2018, creating additional burdens.

"We urgently need to take a clear decision to abide by the legal provisions of the grade series and the general budget which have reforms the most important of which is to stop the indiscriminate employment, stop the waste and corruption.

"The other important thing is to take real measures to narrow the gap in the balance of payments and the balance of trade that drains the potential of Lebanon in foreign currencies," he added.

Sources told The Daily Star that Salameh prefers to raise the interest rates on Eurobonds and Treasury bills to be in line with the market rates, while Khalil opposes such a move because it would reflect negatively on the fiscal deficit.

According to figures released by the Association of Banks in Lebanon, the face value of outstanding Treasury securities denominated in Lebanese pounds reached LL72.05 trillion (\$47.8 billion) at the end of October 2018, compared to LL73.22 trillion at the end of October 2017.

The weighted interest rate on Lebanese Treasury securities denominated in Lebanese pounds was 6.13 percent in October 2018 compared to 6.36 percent in October 2017.

Sources said the other option was to make another swap operation.

Earlier this year, the Finance Ministry issued a \$5.5 billion four-tranche Eurobond that it swapped with LL8.25 trillion worth of Lebanese pound-denominated Treasury bills from Banque du Liban's portfolio.

the urgent need for a government that can put all these issues on the table, and take radical decisions that assure the internal and external public opinion that we cannot continue as we are.

"Our The Finance Ministry said at the time the issuance covers its refinancing needs and debt servicing in foreign currency until the end of 2018.

It further noted the swap operation would help BdL strengthen its assets in foreign currency through the acquisition of the Eurobonds.

It pointed out that it plans to issue another Eurobond towards the end of the year, or in early 2019, depending on more appropriate conditions in emerging markets.

"We have agreed today on a set of measures that do not negate or eliminate investment spending does not exceed 8 percent, compared to 92 percent, which is the current expenditure between salaries, wages, debt service and power deficit.

"We cannot continue this way, we are running out of resources and things go badly," Khalil said.

Salameh also told reporters that he and Khalil have agreed on a plan to attract funds to through the issuance of bonds.

"We should respect the game of the market and regulate external and internal debt repayment within our capabilities and within the banking sector's capabilities, achieved through the financial engineering we have done in the last three years," Salameh said.