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Economist warns Lebanon could face debt rescheduling next year

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BEIRUT: The chances of debt rescheduling could become a reality in mid-2020 if Lebanon does not benefit from CEDRE money, oil and gas exploration and the inflow of remittances and capital, a leading economist warned Monday.
“For the time being there is no concern about debt rescheduling because the Central Bank has enough money to roll over the maturing Eurobonds. But the possibility of debt rescheduling could grow in mid-2020 if the country did not receive any money from the CEDRE conference donors and if the gas exploration did not show the desired results. In addition, the situation could become critical if the capital inflows dropped drastically,” economist Ghazi Wazni told The Daily Star.
London-based Capital Economics warned in a recent report that the prospect of debt rescheduling in Lebanon was getting stronger due to the ongoing demonstrations and the government’s failure to implement reforms.
“The protests in Lebanon (and policymakers’ response) underline that pushing through the austerity needed to stabilize the public finances is politically impossible. With large debt repayments due over the next year, a crunch point is approaching fast. A debt restructuring now appears inevitable and the risk of a messy outcome, involving a devaluation of the pound and severe strains in the banking sector, is rising,” Capital Economics said.
Jason Tuvey, senior emerging markets economist at Capital Economics, said Lebanon’s public finances were among the worst in the world. The budget deficit has averaged 11 percent of GDP since the turn of the millennium. Government debt has climbed to more than 150 percent of GDP, the sixth-highest in the world.
The report added that debt restructuring would allow Lebanon to reduce and renegotiate its delinquent debts to restore liquidity.
It said that the combination of an overvalued currency and widespread holdings of government foreign exchange debt in the financial sector meant there was the risk of a messy default accompanied by currency and banking crises.
In response to the widespread protests that have brought the country to a halt, the government announced reforms, including a 50 percent cut in the salaries of government officials, $3.3 billion in contributions from banks to achieve a “near zero deficit” and opening Lebanon’s telecommunications sector to private investment.
“The recent protests highlight that the government will find it extremely difficult to push through the 5-6 percent of GDP fiscal squeeze that we estimate is needed to stabilize the debt ratio,” Tuvey added.
But Nassib Ghobril, the head of economic research at Byblos Bank, ruled out the possibility of any imminent debt rescheduling.
“We have avoided this scenario at this stage. The November Eurobond issue has been covered by the Central Bank. By mid-October the Central Bank had more than $38 billion in gross foreign currency reserves,” he said.
But Ghobril suggested that the current Cabinet might not be able to implement the reforms it planned, stressing that the formation of a new government composed of experts should be considered.
In his opinion, the new government should review the size of the large public sector, improve tax collection, close all illegal border crossing points and cut waste in most government departments.
“A key measure is to decentralize the production in electricity by allowing the private sector to produce energy. We have successful examples of towns and villages that have taken the initiative and are providing electricity to their inhabitants. Also, Parliament enacted a law in 2014 authorizing the private production of electricity, but the government has not issued licenses to private companies who applied,” Ghobril said.
Wazni said the demonstrators in the streets had lost faith in this government even it had promised to implement reforms.
“As a result of the wide-scale protests, the Lebanese economy is losing $200 million a year if the GDP is $60 billion. We probably have lost around $1.5 billion in the first 10 days of the protests,” Wazni said.
He said that two scenarios awaited Lebanon.
“The first scenario is that the current government will stay in power and each day the economy will get worse and worse and then probably there will be a big run on the dollar in banks as the protests continue.
“The second scenario is a new government is formed, and if this happens then the market will relax relatively and the dollar will continue to be traded at LL1,600 among the exchange dealers, just like what happened before the protests,” Wazni said.