

Lebanon steps up fiscal engineering to buy time in crisis

[Dana Khraiche](#) | Bloomberg

Lebanon's worst economic crisis in decades is forcing authorities to wade deeper into the kind of fiscal engineering that the International Monetary Fund said risks undermining the Central Bank's credibility. The Central Bank bought 3 trillion pounds (\$2 billion) of Treasury bills from the government at 1 percent, well below market rates, according to a person with knowledge of the matter. It's expected to buy half as much again at the same rate by the end of the year to reduce the government's rising debt costs, the person said on condition of anonymity because the issue is sensitive. The deal helps offset higher interest rates incurred by the Finance Ministry, which last month sold \$3 billion in Eurobonds to the Central Bank at as much as 12 percent.

It's the latest sign of how the government, effectively shut out of bond markets amid a crippling political crisis, is increasingly relying on the Central Bank to prevent a financial meltdown. The country has been without a functioning government since Prime Minister Saad Hariri resigned in late October in the face of mass protests against corruption and inequality.

"The ministry has to do this so that it can pay salaries," said Sami Nader, head of the Levant Institute in Beirut.

"Government revenue is declining and the deficit is widening. They need new sources of funding."

The turmoil has forced the government to indefinitely delay plans to tap bond markets for \$3 billion. The Central Bank also repaid maturing bonds this year on behalf of the government, including last month's \$1.5 billion Eurobond.

But the intervention has drawn criticism from some local economists and even politicians, who say policymakers should use the country's dwindling reserves to pay for vital imports instead of bonds.

Earlier this year, the IMF warned the Central Bank against subscribing to T-bill sales at below-market rates, saying that such "financial operations" would erode its balance sheet. Lebanon sold 10-year bonds at a yield of 10 percent in November, according to data compiled by Bloomberg.

Officials at the Central Bank and the Finance Ministry didn't respond to requests for comment.

Lebanon, one of the world's most indebted countries, has relied for years on remittances from its diaspora to keep public finances steady. But months of political turmoil have undermined the confidence of depositors and bond investors.

"We think Lebanon's funding model has run its course and will need to be revisited by policymakers in 2020," said Carla Slim, a Dubai-based economist at Standard Chartered Plc.

"We have long viewed Lebanon as a case of 'debtor moral hazard,' where the borrowing government has weak incentives to pursue policies consistent with debt sustainability."

Lebanon's crisis has battered the economy and led to the emergence of a black market in dollars. Banks have refused to dispense the U.S. currency, leading to trade disruptions in a country almost entirely reliant on imports.

President Michel Aoun Monday postponed for the second time this month talks to name a new premier. Local media reports have indicated Hariri will be reappointed to form a new Cabinet. Discussions are now set for Dec. 19.

A main Christian party allied with Aoun has refused to take part in any administration headed by Hariri, who's insisting on a government of experts to address the economic crisis.

Hezbollah, an Iran-backed group also allied with Aoun, has demanded it have political representation in the new government.

Last week, the United Nations special coordinator for Lebanon, Jan Kubis, said the international community would help Lebanon out of its crisis if it formed a government supported by the people that was committed to sweeping reforms.