

## Is debt rescheduling inevitable this year?

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BEIRUT: The newly formed government will probably consider the idea of rescheduling the public debt for the first time in Lebanon's modern history as the financial crisis continues to take its toll on the economy and the population. The Cabinet will be forced to choose one of two options this year: either continue with the traditional but costly policy of refinancing the outstanding debts through the commercial banks and the Central Bank, or take the bold move of rescheduling the \$4 billion in Eurobonds, a step that would possibly prompt the international rating agencies to downgrade Lebanon even further.

Those who are in favor of debt rescheduling say that it's advisable not to exhaust the Central Bank's foreign currency reserves which has dropped to \$31 billion, while the more optimists believe that BDL and with the help of commercial banks have sufficient resources to re finance the outstanding Eurobonds in 2020.

New Finance Minister Ghazi Wazni was reluctant to say whether he was in favor of debt rescheduling, insisting that this decision was up to the Cabinet.

But he did favor cutting the interest rates further on both deposits and loans and this includes Eurobonds and Treasury bills in collaboration with BDL.

Again the minister said that such a step should be taken by the Cabinet collectively.

Standard Chartered Bank has in its new report that debt rescheduling has become a strong choice for Lebanon.

"Our base case is that the new Cabinet's funding plan will likely entail external funding and attempt to restore confidence - as pointed out by Finance Minister Ghazi Wazni (previously adviser to Parliament's finance and budget committee). PM Hassan Diab's first official visit has been set for the GCC. Still, chances of debt restructuring could rise materially if Lebanon fails to secure sufficient external funding in the next six months. We think any restructuring would best be tackled under an IMF program to both secure funding and ensure timely implementation of reforms," the report said. It noted that the new government will first priorities the funding crisis and then tackle the recession, which has led to job and salary cuts and fuelled further social unrest.

"We think Lebanon's funding model has run its course and will need to be re-visited by the new Cabinet," Standard Chartered said.

Bloomberg News said Thursday that investors are watching a \$1.2 billion Eurobond, payment for which is due on March 9.

"Its price has risen this week due to the formation of the government, ending a period of caretaker rule since protesters forced the resignation of the prime minister in October. But it's still trading at just 84 cents on the dollar, equating to an annualized yield of around 170 percent. That suggests there are still plenty of investors doubtful it will be repaid," the agency said.

But economist and financier Hassan Khalil gave a very bleak picture of the state of the economy and finance, stressing that this political class can't resolve the current crisis.

"My opinion is Lebanon will collapse. Lebanon probably needs to collapse because of the existence of this political class. The only solution is to have a breed of politicians that can tackle the financial crisis in a transparent manner," Khalil said. Khalil said if he were finance minister he would call for an international conference and tell the participants that we made mistakes and we need to be bailed out.

In his opinion, the authorities with the help of the BDL need to recapitalize the banks as a first step.

"In order to recapitalize the banks we need a transparent system and this means that people behind this move should be in no way involved in corruption," Khalil said.

He indicated that there is no reason to have 63 banks in Lebanon and favored the idea of only five to six mega banks.

Khalil did not see any reason why Lebanon should not reschedule the debt as in the case of Argentina and Greece.

"Why should we worry about reputation if we defaulted? We don't have any reputation. Rescheduling the debt is a good move but there are other financial steps that need to be taken as well," he added.

Nassib Ghobril, the head of the economic research at Byblos Bank, did not agree with the argument that BDL will exhaust its foreign currency reserves if it settled the maturing Eurobonds this year.

"We need to remember that 63 percent of the public debt is in Lebanese pounds and the Finance Ministry can have an operation with the Central Bank because the latter holds 56 percent of these debts. The other public institution that holds a big chunk of the Treasury is the National Social Security Fund. When we talk about debt rescheduling we have to be very careful since the proceeds from T-bills is a major source of income for the NSSF," he added.

Ghobril emphasized that it was illogical to talk about haircuts because banks need to protect the interests of the depositors. "The banks are willing to absorb a decline in revenues from a potential rescheduling of the Lebanese pound denominated bonds. But this cannot be the only solution," he added.

A chairman of a bank told The Daily Star he did not see any reason to reschedule debt if the government managed to secure \$3 billion to \$4 billion in soft loans to finance the needs of the industrialists.

“We don’t have a problem to finance the outstanding Eurobonds for March and April this year. But we have to wait for the next step by the new finance minister,” he added.

The banker did not dismiss the possibility of further cuts in interest rates this year.

“The Association of Banks in Lebanon has said it is willing to help the new Cabinet in tackling the budget deficit but it wants to see a clear cut program on how to address all the financial problems,” he added.