Lebanon's Economic Crisis: Current Conditions and the Way Forward

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ROOTS OF THE CRISIS

-A significant number of theories emerged recently on the roots and causes of the current intense financial crisis, some blaming the State for its long years of mismanagement, others blaming the Central Bank for its unconventional monetary policies and others blaming banks for excessive exposure on the ailing State.

-While there is no doubt that there is a shared responsibility across the different economic agents for the current conundrum, we should not neglect the fact that the real imbalances were driven by the excessive spending of an economy that has been living for decades at above its means amid unconventional domestic policies and acute State mismanagement.

-A glance over the past few years prior to the eruption of the recent macro/financial crisis suggests that the inflection point was the year 2014 and exacerbated further since 2016 with the drying up of inflows and the emergence of a foreign currency gap in the balance sheet of the Central Bank.

RESPONSIBILITY FOR CRISIS

The crisis responsibility is actually shared across various clusters:

-**The political class** that has expanded tremendously the inefficient and bloated public sector

-**The successive governments** that have spent aggressively with no checks and controls while neglecting fiscal adjustment,

-**The successive Parliaments** that have ratified expansionary budgets and a costly public sector wage scale,

-**Monetary authorities** that have stabilized the exchange rate for three decades without supportive macro fundamentals,

-**The banking sector** that has exposed itself heavily to an ailing public sector

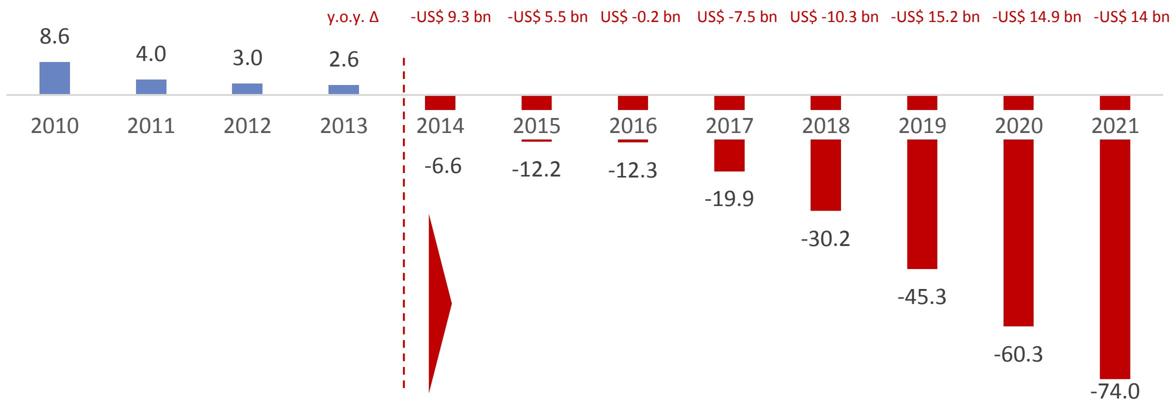
CENTRAL BANK: FCY ESTIMATED NET RESERVES EVOLUTION

A CRISIS IN THE MAKING SINCE 2014

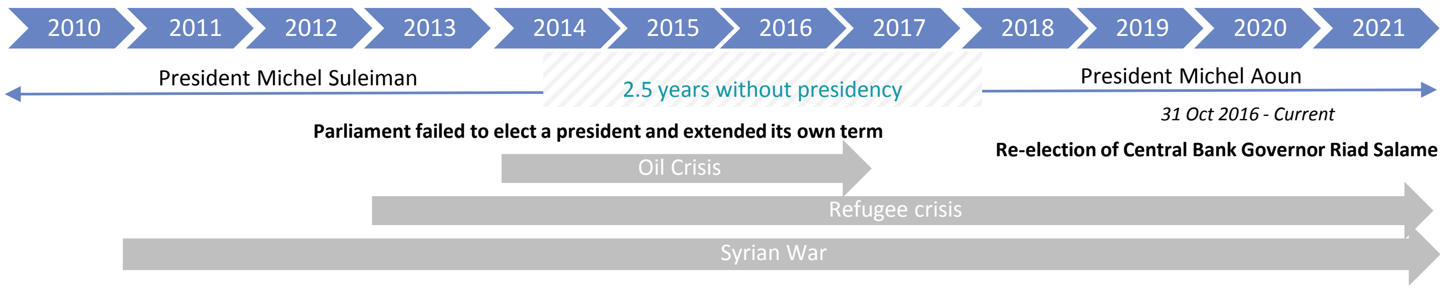
- The Central Bank net reserves position has been deteriorating over the last 10 years and are estimated to have turned negative in 2014.

- As at year end 2021, banks' deposits at BDL are estimated at US$ 86 billion, whilst FX reserve (incl. of Eurobonds at market rate and investments) are estimated at US$ 12 billion; consequently BDL's net reserve are estimated at - US$ 74 billion.

BDL NET RESERVES (US$ BILLION)



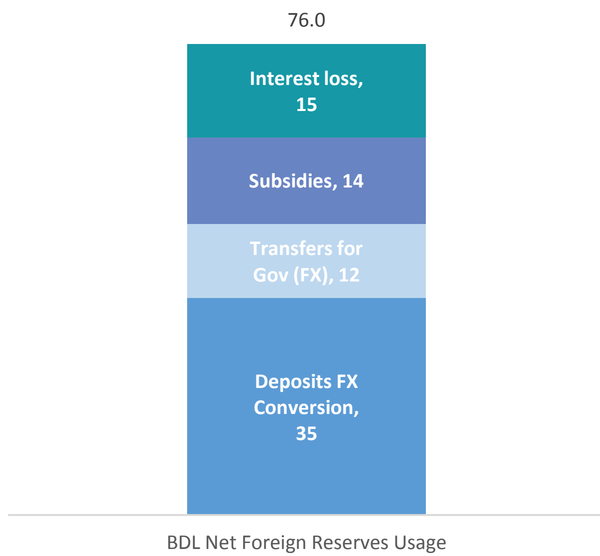
POLITICAL BACKDROP



FACTORS BEHIND DETERIORATION OF FX RESERVES
2014-2021

The estimated US$ 76 billion deterioration in BDL net reserves since YE 2013 is due to: US$ 35 billion FX conversions, US$ 15 billion interest income loss, US$ 12 billion transfers to support government foreign currency payments and US$ 14 billion in subsidies/market interventions since 2020.

ESTIMATED BREAKDOWN OF US$ 76 BILLION - Net foreign reserves deterioration since 2013

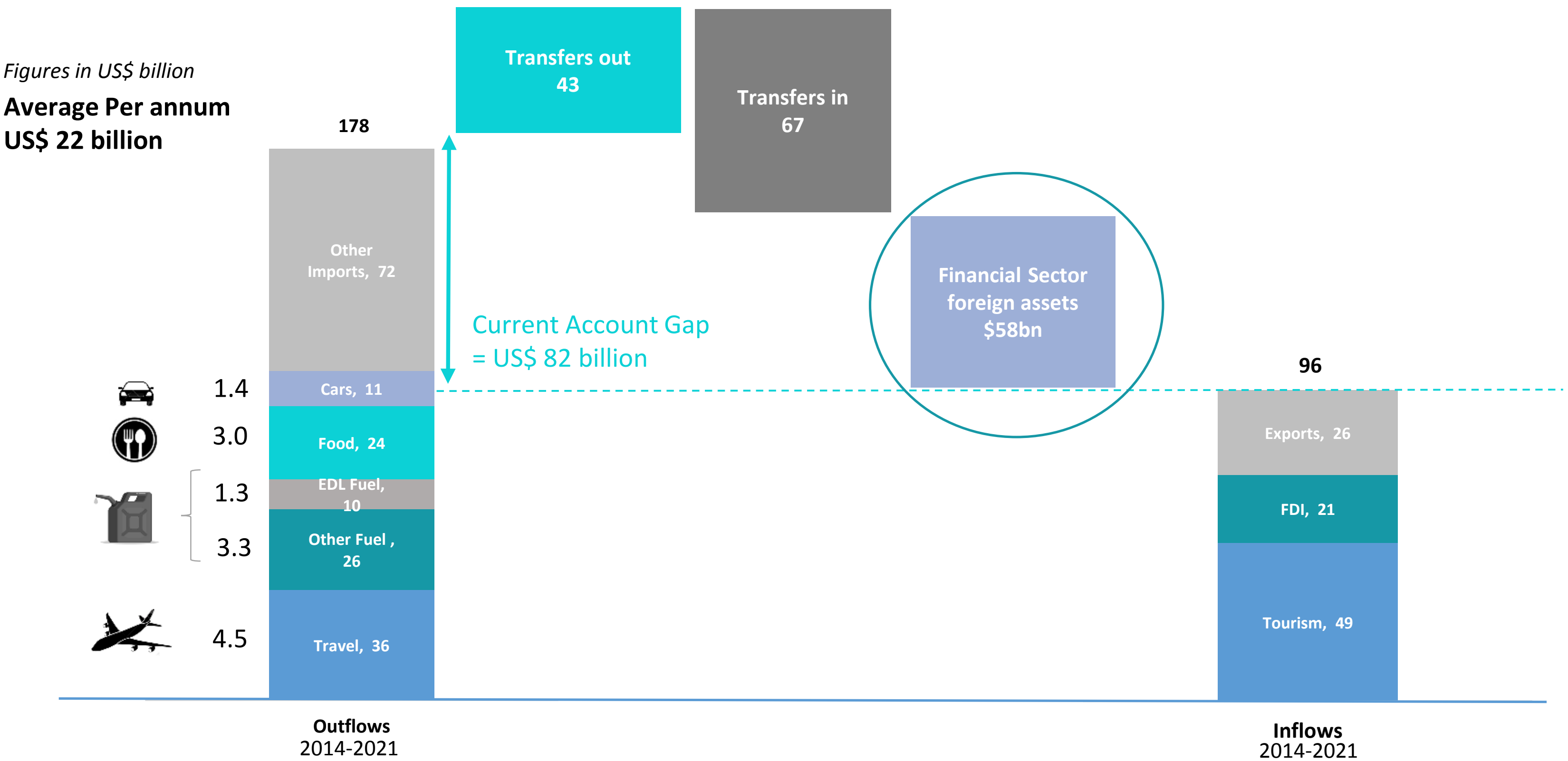


(1) Note: Subsidies of pharma, wheat, food, Gas and Diesel and market interventions by BDL over 2020-2021 estimated at US$ 14 billion. Government transfers are for Eurobonds and/or EDL.

ECONOMIC MODEL – SPENDING BEYOND OUR MEANS

2014-2021

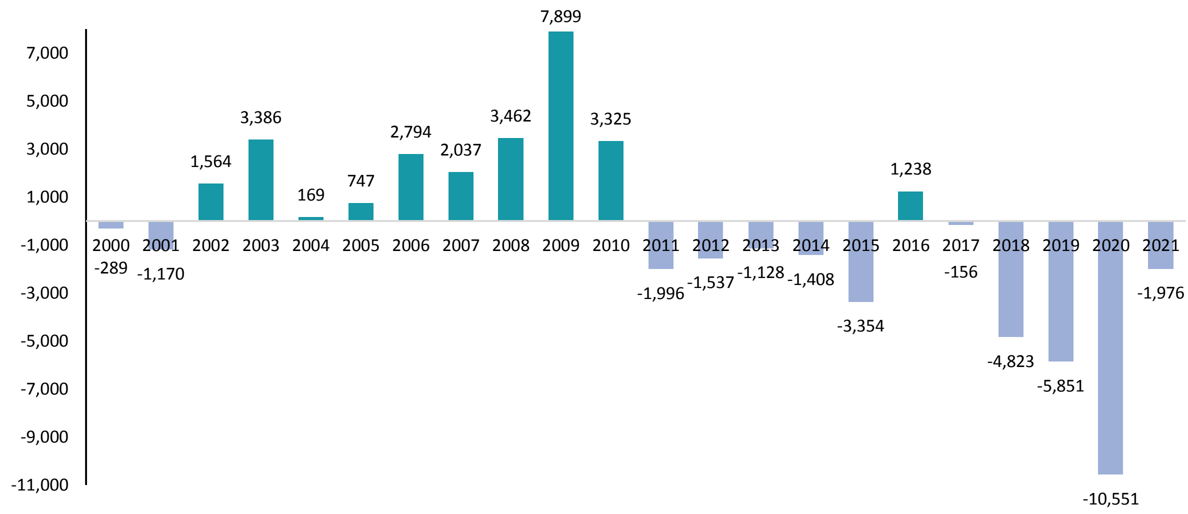
- Since 2014, US$ 178 billion were spent on imports and travel vs. US$ 96 billion received from incoming flows. Leaving a cumulative deficit of US$ 82 billion to fund.
- This was covered by net financial transfers of US$ 24 billion and estimated BDL and banks' foreign assets of US$ 58 billion.



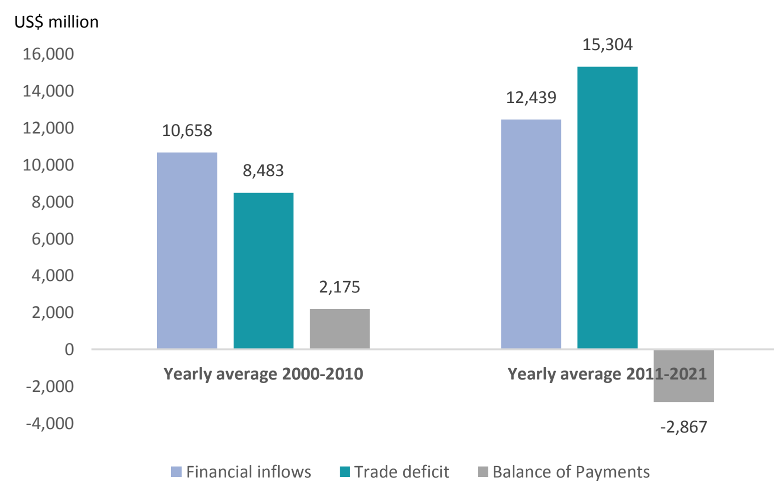
EMERGENCE OF LARGE BALANCE OF PAYMENTS DEFICITS

While the external situation was sustainable in the decade 2000 till 2010, with consecutive surpluses in the balance of payment, the situation was not anymore sustainable in the following decade amid the drop in inflows that are no more compensating the trade deficit and resulted in a permanent deficit in the balance of payment.

BALANCE OF PAYMENTS (US$ MILLION)



COMPARATIVE EXTERNAL SECTOR INDICATORS

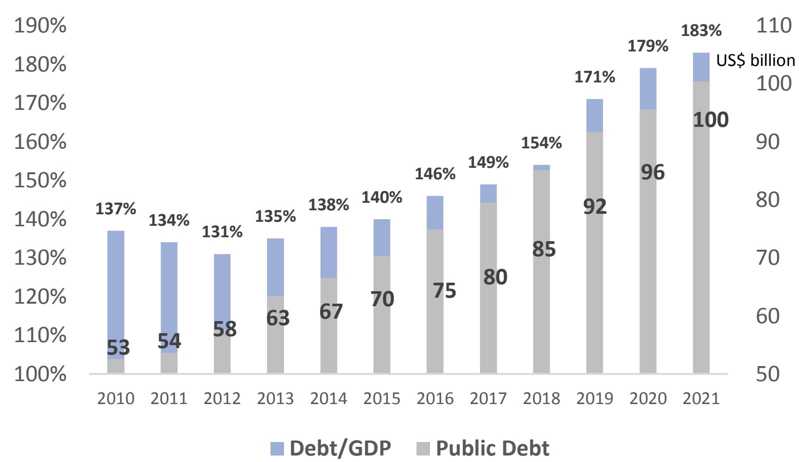


SURGE IN PUBLIC DEBTS AND DEFICIT RATIOS

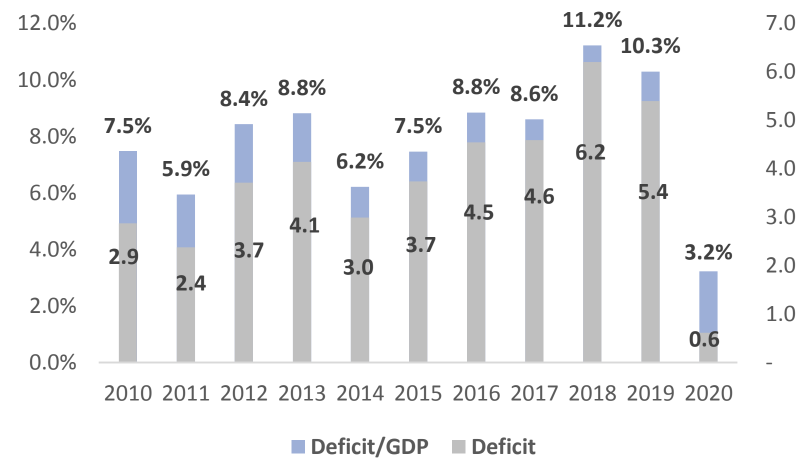
- BDL's FX reserves were also used to fund the government unproductive spending (directly and indirectly), in particular foreign currency budgetary spending, while State policy failed to invest in productive sectors or infrastructure, which exacerbated the situation even further within the context of growing infrastructural bottlenecks.

-Paradoxically, the State ratified a costly public sector wage scale that inflated real wages and fueled adverse currency conversions and outflows, fueling deficit surge and rise in debt ratios to unsustainable levels.

PUBLIC DEBT AND INDEBTEDNESS RATIO



PUBLIC DEFICIT AND DEFICIT/GDP RATIO



-Government: Public debt reduced by US$ 82 billion, from US$ 92 billion pre-crisis to US$ 10 billion market value today (Assuming Eurobond recovery at 15% and applying Sayrafa rate on LP debt)

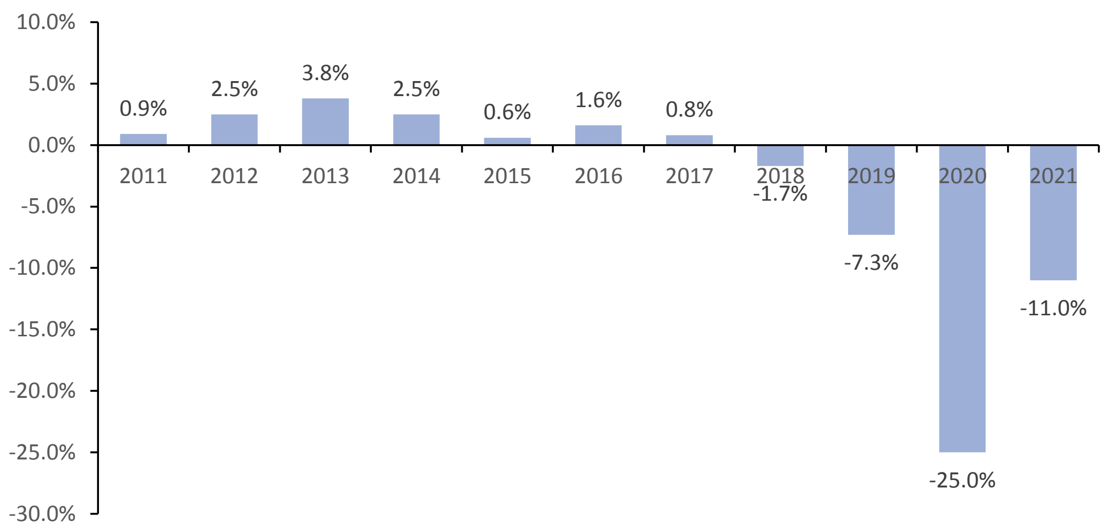
-Borrowers: Private FX loans reduced from US$ 38 billion to US$ 15 billion today – discounts on repayments and market value of remaining loans imply a profit estimated at US$ 25 billion. In addition LL loans reduced by US$ 12 billion due to devaluation. Total discount on loan portfolio is US$ 37 billion.

-Traders who benefited from subsidy schemes of BDL

ECONOMY STILL CAUGHT IN A CONTRACTIONARY MOOD

-It is a pity that when the World in general and all our MENA region in particular is recovering from the Pandemic contraction to witness healthy positive growth rates in 2021, Lebanon has witnessed last year another year of contraction within the quasi absence of investment (Investment aggregate is at record lows unseen since the civil war-nobody is investing) and a weak real consumption aggregate (amid the drastic drop in real incomes of households), while government spending cannot compensate because of the intense fiscal consolidation requirement and corollary austerity needs.

REAL GDP GROWTH IN LEBANON



Sources: IMF, Bank Audi's Group Research Department

DETERIORATION IN REAL SECTOR INDICATOR

The evolution of Lebanon's real sector indicators, of which lagging, coincident and leading indicators, mirror the drastic drop in economic activity over the past couple of years

-The result was the economy has contracted by 60% over a two-year period, resulting in one of the sharpest contraction in GDP per capita worldwide in decades.

LEBANON'S REAL SECTOR INDICATORS

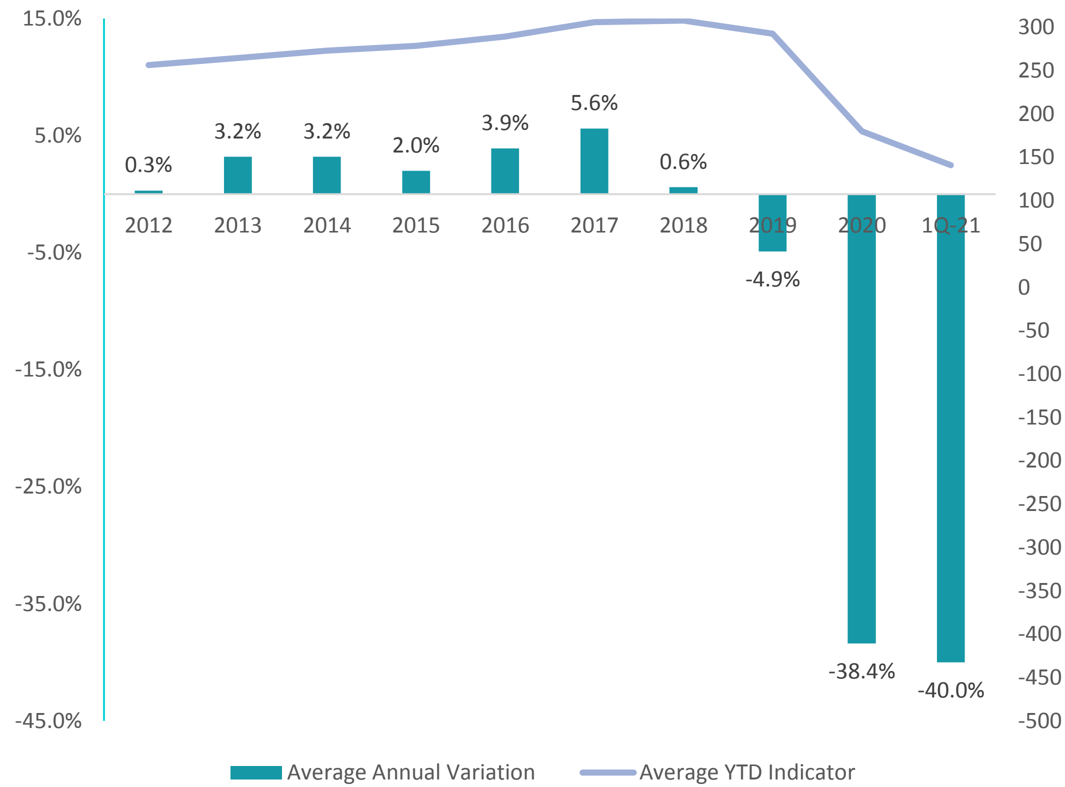
	2019	2020	2021	Var 2020/2019	Var 2021/2020
Electricity production (kWh million)*	11,273	8,907	6,473	-21.0%	-27.3%
Construction permits (000 square meters)	6,081	5,478	9,554	-9.9%	74.4%
Cement deliveries (000 tons)**	2,875	1,591	1,609	-44.7%	1.1%
Number of sales operations	50,352	82,202	110,094	63.3%	33.9%
Value of property sales (US$ million)	6,839	14,387	15,550	110.4%	8.1%
Property taxes (US$ million)	302	674	788	123.0%	16.9%
Merchandise at the Port (000 tons)	6,524	4,561	4,646	-30.1%	1.9%
Number of passengers at the Airport (000s)	8,630	2,440	4,277	-71.7%	75.3%
New car sales (unit)	21,991	6,152	4,702	-72.0%	-23.6%

** Year-to-date figures are first nine months figures*
*** Year-to-date figures are ten months figures*

DRASTIC TREND REVERSAL IN BDL COINCIDENT INDICATOR

Likewise, the evolution of BDL coincident indicator, a weighted average of a number of real sector indicators that are believed to coincide with economic activity, mirror the acute contraction in real economic activity

BDL COINCIDENT INDICATOR



GROWTH SENSITIVITY DEPENDING ON IMF PLAN, REFORMS AND INTERNATIONAL ASSISTANCE

-In case of an agreement with the IMF, launch of few serious reforms and securing some international assistance we project positive real growth in 2022 in the vicinity of 5%, benefitting from a low base effect and fully driven by private consumption and investment demand at large.

-In case there is no agreement with the Fund, we are heading towards another year of real contraction, which would make Lebanon's contraction not only one of the steepest contractions in contemporary history but one of the longest contractions in time.

LEBANON'S GDP ESTIMATES (SENSITIVITY ANALYSIS)

	GDP US$ million			**GDP LL billion**			**Avg GDP Exchange rate**			**Real GDP growth**		
	2020	**2021**	**2022**	**2020**	**2021**	**2022**	**2020**	**2021**	**2022**	**2020**	**2021**	**2022**
Bank Audi (Optimistic scenario)*	25,250	24,100	28,200	101,000	180,750	366,600	4,000	7,500	13,000	-23.0%	-10.0%	5.0%
Bank Audi (Pessimistic scenario)**	25,250	24,100	21,464	101,000	180,750	472,209	4,000	7,500	22,000	-23.0%	-10.0%	-6.0%
IIF (Optimistic scenario)*	23,900	21,400	22,800	96,300	201,700	395,700	4,035	9,422	17,320	-25.9%	-12.4%	3.5%
IIF (Pessimistic scenario)**	23,900	21,400	20,300	96,300	201,700	457,600	4,035	9,422	22,500	-25.9%	-12.4%	0.8%
World Bank	33,383	22,297	-	-	-	-	-	-	-	-20.3%	-9.5%	-
IMF	19,126	15,000	-	95,629	205,500	-	5,000	13,700	-	-25.0%	-11.0%	-
Ministry of Finance	26,449	22,311	-	104,343	224,964	440,255	3,945	10,083	-	-28.2%	-2.0%	3.0%

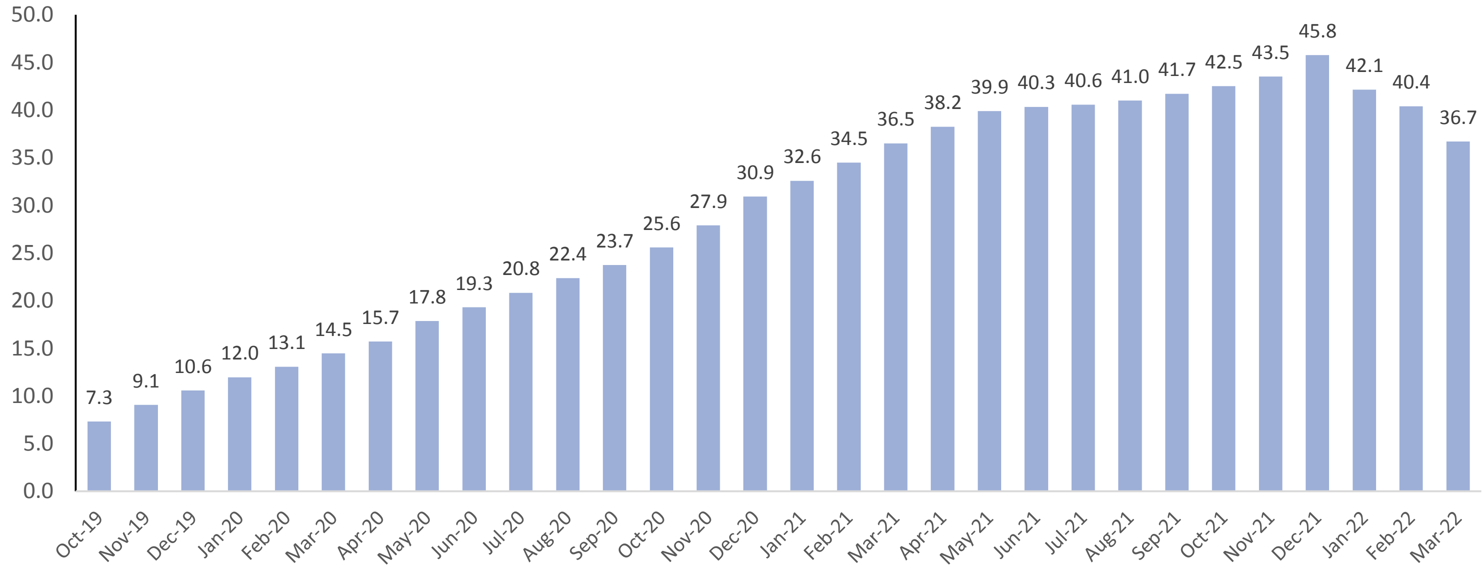
** Under favorable scenarios of IMF agreement, structural/fiscal reforms and international assistance for 2022*
*** Under intense political bickering, no IMF agreement, no reforms and no international assistance for 2022*

SIGNIFICANT DOMESTIC MONEY CREATION

-At the monetary level, significant money creation, full deficit monetization on behalf of the Central Bank, scarcity of US dollars in the market because of the drop in inflows and currency depreciation and high inflation along with a drastic decline in FX reserves at the Central Bank.

-The Currency in circulation quadrupled over the past two years, moving from LL 10 trillion to LL 40 trillion, while the decline reported this year is believed to be only temporary within the context of the BDL circular 161 issued by BDL at the beginning of this year.

CURRENCY IN CIRCULATION (LP TRILLION)



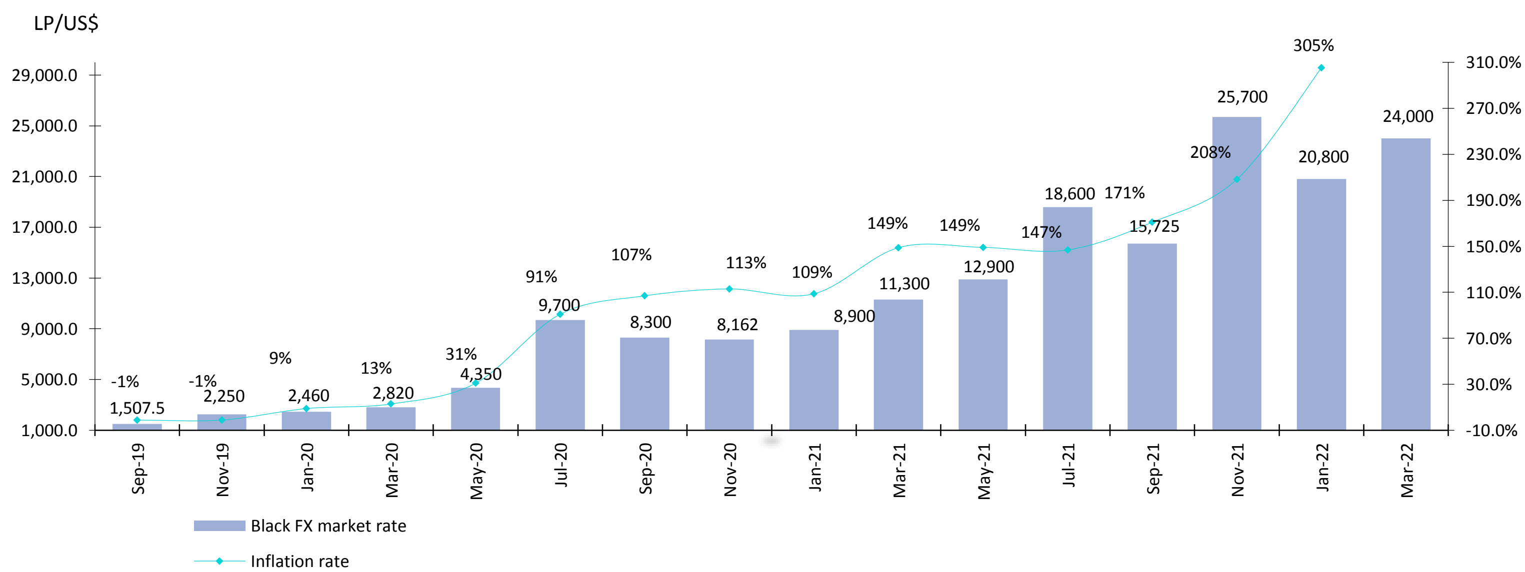
LL EXCHANGE RATE LOST 90% OF ITS VALUE

-There has been a 90% currency depreciation so far. BDL circular 161, implemented since the beginning of the year, which allows withdrawals of cash dollars from banks at the Sayrafa exchange rate, increases the supply of US dollar on the market and subsequently hinders the depreciation process of the Lebanese pound.

-However, the scope of the circular is limited and temporary, as if giving a morphine needle to a patient with chronic disease.

-This in addition to the fact that the scope of the new circular is restrained by the limited amount of foreign currency reserves at the Central Bank that amount currently to US$ 12 billion and that is bleeding by circa US Dollars 500 million dollar a month even after subsidy lifting.

-As such, the capacity of the Central Bank to inject US dollars in the market is limited in size and time.



ESTABLISHMENT OF TRIPLE DIGIT INFLATION RATES

-The depreciation of the exchange rate has very significant inflationary spillovers, which increased the proportion of households below the poverty line to around 78% today according the latest UN Statistics against a Global Average of around 28% (36% live below the "extreme" poverty line in Lebanon against a global average of 9%).

-According to Central Administration for Statistics, the cumulative inflation reached 700% between December 2019 and December 2021, as a result of a 146% inflation between December 2019 and December 2020 and a 224% inflation between December 2020 and December 2021.

-Lebanon is yet witnessing a very high inflation by global standards. While the World in general has seen a noticeable rise in inflation over the past year driven by the release of excess savings accumulated during the pandemic which fueled private spending and amid global fiscal and monetary stimulus, Lebanon is definitely an outsider at the global level, with Lebanon's inflation reporting three-digit rates. Comparatively, global inflation stood at 4.34% in 2021 according to the IMF's World Economic Outlook (2.76% for advanced economies and 5.53% for emerging markets and developing economies).

CPI (DEC 2021/DEC 2019)

Categories	Variation Dec 20/Dec 19	Variation Dec 21/Dec 20	Variation Dec 21/Dec 19
Food and Beverages	135%	337%	928%
Apparel	223%	375%	1435%
Housing	64%	308%	571%
Durable consumer goods	251%	221%	1027%
Healthcare	31%	212%	307%
Transportaion and telecommunications	118%	311%	794%
Education	10%	73%	90%
Recreation	101%	143%	389%
Other goods and services	86%	103%	278%
Total	**111%**	**283%**	**708%**

CONTRACTION IN BANKING ACTIVITY AMID SIGNIFICANT SECTOR LOSSES

-At the banking level, while the banking sector has been the main anchor for economic stability over the past thirty years, it is pretty clear that the banking sector operating conditions have deteriorated drastically today.

-Confidence is shaken, especially when the State has defaulted on its Eurobond instruments which are mainly held by Lebanese banks in addition to the rising uncertainties as to the fate of significant deposits with BDL (around US$ 85 billion in FX, or 83% of FX customer deposits) in the form of CDs and term deposits.

-The banking sector has seen deposits contraction by around US$ 39 billion since the onset of the crisis in 2019 (Almost 23%) coupled with loan deleveraging as loans dropped by more than US$ 27 billion (or 50%) representing two thirds of the deposits contraction.

-In parallel, the sector has been incurring consequent losses for circa US$ 5 billion since the onset of the crisis, with shareholders equity moving from US$ 21 billion to US$ 16 billion.

MAJOR ACTIVITY INDICATORS OF BANKS

In millions of US$	Oct-19	Feb-22	Var Oct-19 Feb-22	% Contraction
Total assets	262,804	173,728	-89,076	-33.9%
Total shareholders' equity	20,602	16,027	-4,575	-22.2%
Loans to the private sector in L.L.	16,029	11,857	-4,172	-26.0%
Loans to the private sector in FX	38,136	14,834	-23,302	-61.1%
Total loans to the private sector	**54,166**	**26,690**	**-27,476**	**-50.7%**
Customers' deposits in L.L.	44,727	26,943	-17,784	-39.8%
Customers' deposits in FX	123,637	101,671	-21,966	-17.8%
Total Customers' deposits	**168,364**	**128,614**	**-39,750**	**-23.6%**

INTEREST RATES CLOSE TO NIL

-Interest rates have reached close to nil. In LL, deposit rates contracted from 9.0% in October 2019 to 1.03% in January 2022. In US$, deposit rates contracted from 6.6% to 0.2% over the same period.

-The spread of dollar deposit rate with 3-month Libor which was at 4.7% in October 2019 moved to nil in January 2022 and is now turning negative with the increase in international rates.

EVOLUTION OF KEY INTEREST RATES

	Oct-19	Dec-19	Dec-20	Dec-21	Feb-22
LL deposits	9.03%	7.36%	2.64%	1.09%	0.99%
LL discount and loans	11.19%	9.09%	7.77%	7.14%	5.69%
US$ deposits	6.61%	4.62%	0.94%	0.19%	0.17%
US$ discount and loans	10.05%	10.84%	6.73%	6.01%	5.50%
3M Libor (US$)	1.90%	1.91%	0.24%	0.21%	0.50%
Spread IR on loans LL/deposits LL	2.16%	1.73%	5.13%	6.05%	4.70%
Spread IR on loans FX/deposits FX	3.44%	6.22%	5.79%	5.82%	5.33%
Spread IR on deposits LL/FX	2.42%	2.74%	1.70%	0.90%	0.82%
Spread IR on deposits FX/3M Libor	4.71%	2.71%	0.70%	-0.02%	-0.33%

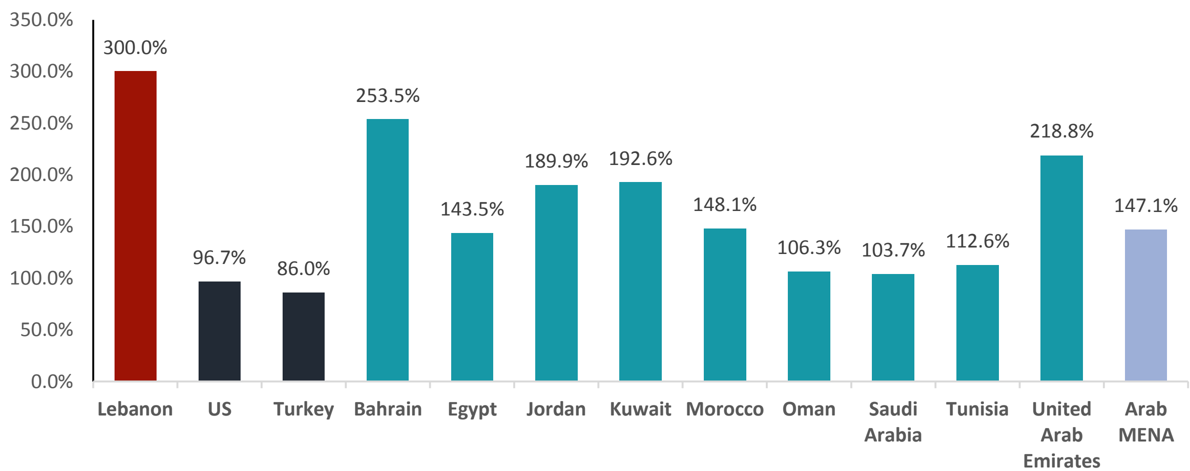
NEED FOR BANKING SECTOR RESTRUCTURING

-The banking sector does need restructuring. Reforming the banking system is a must with efforts to bolster its financial standing, governance and ability to withstand pressures.

-With a banking sector several times larger than GDP, it is normal to say that the local banking sector is overcrowded. Its size is way above what is needed to fulfill the financing of a productive economy.

-We believe that post restructuring total banking sector assets should shrink to circa 150% of GDP, which is in line with the banking dimension of countries that have similar economic structures like Lebanon.

BANK ASSETS TO GDP RATIO (2020)



CONDITIONS FOR A SUCCESSFUL BANKING RESTRUCTURING PLAN

-Restoring solvency of the Financial Sector (BDL and banks) to support economic recovery

-Delinking banks from BDL in FX

-Depositor treatment based on fairness and the need to fully protect the most vulnerable

-Additional long term recovery prospects on high wealth accounts

-Appropriate and equitable burden sharing

-Manageable money supply creation

-Ensuring parallel government debt sustainability

-Contribution to the development of the Lebanese power sector through the electricity PPP scheme

SIGNIFICANT COST OF DELAY IN ADJUSTMENT PROCESS

-National losses are finally assessed at US$ 69 billion, with a unification of views between the members of the Lebanese negotiation team on one hand and the IMF on the other hand. The IMF made a statement saying there has been considerable progress in identifying financial sector losses.

-The cost of delay in the restructuring process is huge. Had a resolution been done two years ago at the onset of the crisis (October 2019), the financial gap was US$ 31 billion, the equivalent of 25% of FX deposits. It rose to US$ 69 billion today (US$ 52 billion when accounting for gold), the equivalent of 67% of FX deposits.

EVOLUTION OF THE FINANCIAL GAP BETWEEN OCTOBER 2019 AND JANUARY 2022

US$ billion	Oct-19	Feb-22	Variation
FX deposits	123.6	101.7	-21.9
FX loans	38.6	14.8	-23.8
FX deposits net of FX loans	85.0	86.9	1.9
System FX liquidity:			
BDL Eurobonds market value	3.1	0.8	-2.4
Banks Eurobonds market value	9.3	1.5	-7.8
BDL Gold reserves	14.0	17.7	3.7
BDL liquid reserves	31.0	12.0	-19.0
BDL foreign securities	2.0	1.0	-1.0
Banks liquidity abroad	8.4	3.0	-5.4
FX liquidity	67.8	36.0	-31.9
Financial gap	17.2	51.0	33.8
Financial gap/FX deposits	13.9%	50.1%	36.2%
Financial gap (without accounting for gold)	31.2	68.7	37.5
Financial gap (without accounting for gold)/FX Deposits	25.2%	67.5%	42.3%

National losses would be covered by six components:

1. Lirafication
2. Asset Management company
3. Recovery of stolen funds
4. Electricity PPP scheme
5. Perpetual bond
6. Bail-In (Deposit to Equity Swap)

This will bring FX deposits in the banking system from US$ 100 billion to US$ 40 billion according to the government IMF delegation (the equivalent of 180% of GDP which is almost in line with the countries that have similar economic structure like Lebanon)

It should be leading to a delinking of banks balance sheet with BDL balance sheet, which is necessary for the recovery plan to be effective. A restructuring that would leave a significant chunk of bank deposits at BDL would not solve the problem and would not bring confidence back to the banking sector.

We need to have a one-time restructuring, not a stepped restructuring.

Lirafication: The IMF is for a maximum of LL 240 trillion lirafication under the new plan against LL 600 trillion under the old plan to avoid inflationary effects and pressure on the exchange rate

State assets: IMF tends not to resort to State assets, for debt sustainability issue. According to them, if the government issues any type of debt, it will increase overall public debt and put at stake debt sustainability

Hierarchy of Claims: IMF is for hierarchy of claims…which means using up shareholders equity before addressing deposits…If shareholders want to maintain presence in the bank, they have to inject new funds…Fresh equity needed is estimated at USD 1.5 billion after reducing the size of the sector by 70%

Eligible versus Non-Eligible deposits: The IMF is doubtful with the proposal of differentiating between eligible and non-eligible deposits

The Lebanon negotiation team is accepting suggestions provided by the IMF…It is being cooperative with the Fund

NEED FOR COMPREHENSIVE MACROECONOMIC AND FINANCIAL STABILIZATION PLAN

Any banking restructuring Plan will need to be accompanied by a comprehensive macroeconomic and financial stabilization plan to unlock international support, including:

-**A public debt restructuring** to achieve short term debt space and medium to long term debt sustainability

-**A phased fiscal adjustment** based on downsizing and restructuring the bloated and inefficient public sector

-**Create a new monetary policy** framework to rebuild trust and stabilize the exchange rate at a unified rate

-**Growth enhancing reforms** to expand the size of the domestic economy

-**Setting up a social safety** net program to lessen socioeconomic pressures on Lebanese households

SOFTLANDING

The soft landing assumption consists of a plan with the IMF prior to parliamentary elections along with a capital control law and a budget law ratified by the existing parliament, to be followed by parliamentary elections and presidential elections in due time, all opening the door for international assistance…This scenario would preserve the exchange rate at around the current level.

HARDLANDING

The hard landing assumption revolves around the lack of IMF program and reforms whereby the exchange would start skyrocketing with no ceiling amid a return to excessive LL money creation inflating the stock of Lebanese Pounds and external deficits depleting the stock of foreign currencies.

WHAT ARE THE REQUIREMENTS FOR SOFT LANDING?

-MEFP imminently (Memorandum of Economic and Financial Policies)

-SLA before end-April (Staff level agreement)

-Prerequisites before May 15th (distribution of losses, electricity plan, capital control law, budget law)

-IMF Board agreement before elections

If there is an agreement of the IMF board before the elections, even a caretaker cabinet can implement the program but if the current Cabinet did not enact a program with the IMF before parliamentary elections, it would be difficult to do it under a caretaker status, which means we have to wait for the formation of a new Cabinet that would launch again new negotiations with the IMF.

-The ratification of a Capital Control Law in Lebanon's Parliament is a necessary and urgent measure even if it is coming late.

-It is a prerequisite for any recovery in Lebanon, as the Lebanese economy cannot go back to positive growth and regain its health without a capital control Law that normalizes financial and banking activity in Lebanon.

-It is very surprising that despite the domestic consensus on its need and necessity, this capital control law did not see the light yet in any of its different versions of the past couple of years.

-The need for such a type of measures is tied to the exceptional economic and financial conditions that Lebanon is passing through amid a confidence crisis at the economic and financial levels.

-The ratification of official Capital Controls is a necessary step towards economic, monetary and banking stability, allowing the free use of new transfers without any restrictions, which regains back gradually confidence in Lebanon's financial sector, with what this entails in terms of stimulating the Lebanese economy in general.

- Capital Control stands amid core IMF prerequisites for a full-fledge program with Lebanon.

Bank of America – March 31, 2022:

“We think the relevant question in regards to Lebanon is whether the Eurobonds are recoverable, rather their eventual recovery value. This is likely to depend on the political class desire to pursue implementation of an International Monetary Fund (IMF) program. The poor reform track record and policy inaction over the past two years keep us cautious and suggest continued risk that the political class may not implement IMF reforms.

Indeed, the political class may be playing for time ahead of May parliamentary elections. The political class may not have interest in a transformative economic reform program supported by the IMF and the international community. Self-preservation of the political class likely commands ensuring preventing a total collapse of the country, but not necessarily targeting a strong rebound in the economy.

The political class may judge that the current equilibrium may be sustained without a social implosion. The status quo could likely result in a lost decade for Lebanon, in our view.”

V-SHAPED RECOVERY (LOW PROBABILITY)

-This scenario would reflect civil society and opposition movements gaining a majority in May parliamentary elections.

-This would translate into a reformist Cabinet and major support from the international community, in our view.

-In turn, this would pave the way from an orthodox IMF deal, robust Fx inflows into the country, strong real effective exchange rate (REER) appreciation and a V-shaped strong economic recovery.

-We assign a low probability to this scenario.

-An alternative V-shaped recovery scenario would be one in which the current political class pursues vigorous economic and governance reforms, but we assign a low probability to this scenario given the track record of the political class.

U-SHAPED RECOVERY (MEDIUM PROBABILITY)

-This scenario would reflect civil society and opposition movements forming a minority bloc in parliament following elections.

-This scenario would be consistent with the political class calculating its interests are better preserved through striking an IMF deal.

-Still, this compromise scenario could help stabilise the economy but the recovery could likely be more tepid than in the previous scenario.

-In this scenario, IMF talks would conclude prior to parliamentary elections with a staff-level agreement.

-There would be little or no institutional vacuum, and the Cabinet post-elections would consider itself bound by the IMF staff-level agreement. (Alternatively, IMF program talks could be concluded post- elections).

-The IMF agreement would be a compromise deal reflecting political economy considerations, but with relatively sensible economic policies.

-However, we expect the program to alternate between on- and off-track status as reform implementation is likely to be patchy.

BOA SCENARIO III: STATUS QUO

L-SHAPED RECOVERY (MEDIUM PROBABILITY)

-This scenario would reflect the political class maintaining the current status quo policy of economic adjustment without reforms.

-The political class could take the view that election results provide them with renewed legitimacy, and calculate it could persist with its policies without major social backlash and without losing its grip on power.

-The political class could further judge the gap is too wide versus the IMF for a deal to be reached. (Alternatively, the political class may decide not to implement any IMF staff-level agreement).

-The political class may also judge that the economy has currently reached an equilibrium, and that it could be sustainable over the medium-term.

-Near-term, this scenario could result in continued currency depreciation and economic contraction in 2H22. This could take place against the backdrop of Banque du Liban (BdL) likely stopping its costly Fx intervention after parliamentary elections.

-Medium-term, this scenario could likely result in a lost decade for Lebanon. It would likely imply that the economy has not yet bottomed out, and that there would not be substantial recovery once it does.

-The increase in monetary aggregates, to some extent likely boosted by monetization of the fiscal deficit, could continue to weaken the currency.

-In the status quo scenario, we think Eurobonds may not be recoverable. Continued status quo could imply no reforms, no IMF program, and financial autarky.

CONCLUDING REMARKS

In conclusion, there is no doubt that the prevailing structural and cyclical imbalances the country is suffering from are massive.

However exists are still plausible if the will is there, if tough choices are made and if drastic measures are taken without delay on behalf of the government, the Parliament and concerned authorities…

….so that the country goes out of the woods in a foreseeable future as a prerequisite for economic recovery in the medium to long term.

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