



LEBANON'S SPECIAL DRAWING RIGHTS ALLOCATION: AN OPPORTUNITY NOT TO BE MISSED

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The upcoming allocation of Special Drawing Rights (SDR) by the International Monetary Fund (IMF) provides Lebanon with a small but critical injection of hard currency (FX) liquidity. It represents an opportunity to replenish Lebanon's alarmingly low FX reserves and alleviate the impact of the unfolding humanitarian disaster. More importantly, it should be used to launch long-awaited and critically needed economic and financial reforms, starting with the regressive and distortionary subsidies system that is still in place. A new and capable government, formed in the next few days, will undoubtedly send a strong signal to the international community, especially if it decides to use the SDR allocation wisely.

The damage on Lebanon's economy and society is becoming deeper and potentially irreversible. Lebanon's window to avoid a complete humanitarian disaster is closing rapidly.



LIFE ADVOCATE



AN ALLOCATION NOT A GRANT

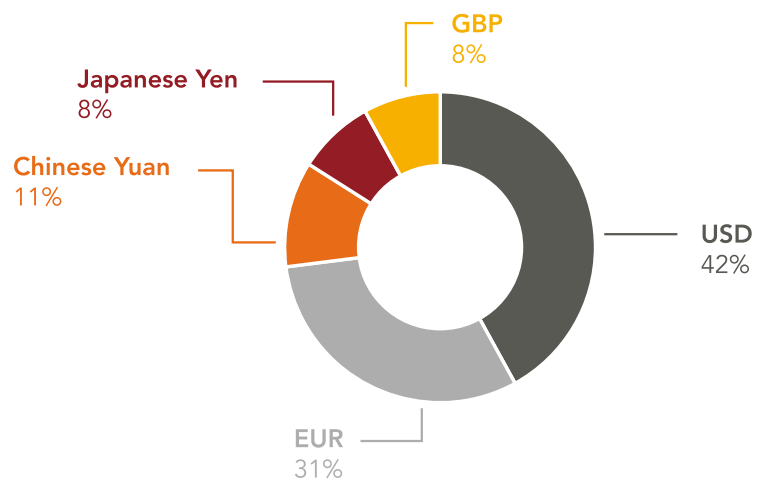
An exceptional measure to alleviate the impact of the pandemic

*An IMF SDR allocation is **not** a giveaway*

The value of an SDR is set daily based on a basket of five major international currencies

The IMF's executive board has backed a \$650 billion allocation of SDR to the fund's 190 member countries by the end of August 2021. This exceptional measure aims to alleviate the economic impact of the COVID-19 pandemic. The IMF has done so previously, most recently in 2009 following the global financial crisis.

SDR are not money or currency. They are an international reserve asset that member countries can exchange for liquid currency or use to bolster reserves, enhance budget positions, or meet external obligations.



Source: ['Explainer: Which countries will benefit most from an IMF SDR increase'](#), Reuters, 7 April 2021.

Lebanon's share of the upcoming SDR allocation is proportional to its quota share at the fund. If exchanged for hard currency, it amounts to approximately \$863 million. This amount is neither a free cash giveaway nor part of a negotiated programme with the IMF, but a claim on freely usable currencies that Lebanon is entitled to. In other words, **Lebanon's SDR allocation is an asset of Lebanon, not a grant.**

Use of SDR at full discretion of the Lebanese authorities

Lebanon's SDR are part of the Central Bank's (BdL) balance sheet. Their use is unconditional, meaning that the Lebanese authorities – namely the Ministry of Finance and BdL – will have complete freedom on whether to convert this asset, and how to potentially deploy it. While the exact numbers are unclear, BdL's available FX reserves are estimated at only \$7.5 billion.¹

Those reserves have been recently falling by \$0.5 to \$0.75 billion per month. At this rate, **available reserves will be completely depleted by the first half of 2022, even after accounting for the upcoming SDR allocation.**

¹ This figure is derived by netting \$13 billion of unavailable FX assets from BdL's reported \$20.5 billion of foreign assets (BdL Interim Balance Sheet, bi-weekly reported as of 15 July 2021). The reported figure includes unavailable FX assets: BdL's Eurobonds holdings (\$5 billion) and FX loans to domestic banks (\$8 billion estimate).

PUTTING THE SDR TO GOOD USE

Bolstering the FX reserves and protecting Lebanon's food and medical safety

LIFE believes that any potential liquidity generated by the exchange of the SDR should be used to bolster the BdL reserves and mitigate the impact of the removal of subsidies. According to a position paper [published by LIFE in March 2021](#), the current subsidies system is regressive, distortionary and untenable.

There has not been any serious framework or roadmap adopted by the Lebanese authorities to deal with this pressing matter, and while Lebanon's parliament recently approved a \$556 million/year programme to provide direct cash payments to about 500,000 struggling households, it has failed to specify funding sources or disbursement criteria and mechanisms, thus leaving the programme unused.

Supporting a highly targeted cash transfer system

With transparent and credible targeting and monitoring, proceeds from a potential exchange of Lebanon's SDR can be used to partially finance urgent humanitarian measures and ensure food and medical security for the country's most vulnerable citizens. Coupled with the long-awaited and still unused World Bank Emergency Social Safety Net project benefiting up to 190,000 households, cash transfers can reach 690,000 out of Lebanon's overall 1,266,000 households. With more than half of the country's population estimated to be living below the poverty line, such a disbursement can significantly reduce the magnitude and severity of the humanitarian crisis.

Ensuring continued support from the World Bank

It is however imperative that such a programme is conducted soundly and with World Bank oversight, especially ahead of a parliamentary election year in 2022, keeping in mind Lebanon's track record of politically-motivated handouts. **LIFE is concerned that the World Bank funds will be diverted away from Lebanon if political inaction and gridlock continue.**

THE WAY FORWARD

SDR need to be part of the bigger picture

The debate around the use of the SDR cannot and should not be held in isolation. If and when the SDR are converted into hard currency, they become money and money is fungible. In other words, they are part of the debate on how to best spend the BdL's FX reserves.

The need for drastic economic and financial reforms remain

They represent a temporary liquidity injection, a financial shot in the arm that will facilitate Lebanon's transition into a more sustainable economic model, which only drastic economic and financial reforms will permit.

This should not be another missed opportunity for Lebanon

LIFE also raises its concern at this time about the use of the country's gold reserves, which will drain the remaining reserves of the country. If this does happen, it will kneecap the ability of Lebanon to engage in any kind of financial restructuring necessary to put its financial system on course for recovery. **Using Lebanon's gold reserves can only be part of a comprehensive and holistic economic and financial plan, which LIFE thinks is impossible at this stage without the involvement of the IMF.**

LIFE is a global membership organisation for Lebanese professionals working in finance, consultancy, law and technology. Headquartered in the UK, LIFE is not-for-profit, apolitical and areligious. **LIFE** operates through its four pillars: **connect** Lebanese professionals together; **nurture** the future generation of Lebanon; **promote** the development of the Lebanese economy; and **advocate** for economic and social reform.

Advocate is LIFE's advocacy and influence pillar. Advocate channels the expertise, resources and goodwill of LIFE members to: 1. support the development of sound and rigorous economic, financial and social policies; 2. steer the economic narrative on Lebanon around the world in line with LIFE's impartial views; and 3. engage with students and grassroots organisations in order to raise awareness on civic duties and good governance.



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