

Amid protests and crises, Lebanon defaults on Eurobond

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Lebanon defaulted Monday on a \$1.2 billion Eurobond. The decision by the government of Prime Minister Hassan Diab not to meet the payment comes amid a spiralling financial and economic crisis, protests, increasing poverty and other signs of social disintegration within the country, as well as the first deaths from the novel coronavirus.

Diab, a former academic and Sunni figure who is not formally aligned with any party, took office in January after months of mass protests broke out against Prime Minister Saad Hariri, a political stooge of Saudi Arabia, on October 17. Hariri had announced a tax on popular messaging applications, including WhatsApp, triggering a mass revolt across Lebanon's sectarian divide against the raft of austerity measures imposed over the previous period, the growing poverty and unemployment, crumbling infrastructure and social services, and rampant corruption.

In announcing the government's intention to default, Diab said that foreign currency reserves had fallen to "a worrying and dangerous level which pushes the Lebanese government to suspend payment of the March 9 Eurobond maturity because of a need for these funds." He added, "The Lebanese state will seek to restructure its debts, in a manner consistent with the national interest, by entering into fair negotiations ... with all creditors."

Just days earlier, Diab admitted that the Lebanese state had lost the people's confidence after months of protests and the country's economic collapse. He said, "To put it frankly, the state, in view of its current situation, is no more capable of protecting the Lebanese people and ensuring a decent life for them. To be transparent, I would say that this state has lost Lebanese people's confidence."

Nevertheless, he indicated he would carry out the attacks demand by international finance capital, saying, "We have no choice but to take the path of the Calvary, whatever the sufferings, because other options are much more dangerous." As a first step, he has called in the IMF

to provide "technical advice" and legal and financial consultants to advise on the way forward.

It marked the first time that the government has opted not to meet debt obligations to the international lending institutions, despite a series of crises, including the 1975-90 civil war. Lebanon's \$90 billion debt burden, one of the highest in the world, stands at 160 percent of GDP. Much of this is rated as junk or near junk bonds.

As of the end of January, Lebanon's banks owned about \$12.7 billion of the country's outstanding \$30 billion Eurobonds, with the central bank holding \$5.7 billion and foreign creditors the rest, although Lebanese banks are believed to have since offloaded more of their Eurobonds to foreign lenders, who now hold more than one-third.

Foreign currency inflows have slowed, with foreign currency reserves officially valued at \$31.5 billion at the end of 2019. But Morgan Stanley estimated that net reserves—or gross foreign currency holdings less the banks' mandatory reserves and the country's own holdings—were \$11.5 billion at the end of 2019.

Lebanon's pound has sunk in value, with the pound now valued at around 2,500 pounds to the dollar, to which it has been pegged since 1997, far lower than the official rate of 1,500.

The banks have for months been imposing restrictions on dollar withdrawals and transfers that are waived for the wealthy and politically connected but enforced on the broad mass of the population. Businesses, dependent upon credit or imports, have either shut down entirely, laid off staff or slashed wages. Many Lebanese are working just half their normal hours and thus getting only half their normal pay. Unemployment is running at 40 percent. Hospitals have run out of medicines and gasoline is rationed.

This takes place amid soaring inflation. While official estimates put this at 10 percent, the leading consumer association says that prices—already 30 percent higher

than in neighbouring countries—have risen by 45 percent since October when the anti-government protests started, leading to a near halving of real wages.

According to surveys conducted by the Lebanese research company InfoPro, 220,000 jobs were lost between mid-October and late January, with more than 60,000 more people unemployed since the end of November. Half of the companies surveyed had cut wages by more than 40 percent. The World Bank has warned that the poverty rate will rise to 50 percent this year.

This economic disintegration now coincides with the coronavirus pandemic with which the country's inadequate health system is ill-equipped to deal. Lebanon has thus far reported 68 cases and two deaths. In late February, the government closed schools and universities and halted flights for non-residents from Iran, Italy, China and South Korea. Yesterday, the government banned public gatherings, ordered the closure of restaurants and malls and barred passengers from France, Egypt, Syria, Iraq, Spain, Britain and Germany from entering the country. These measures are set to put an ever-greater strain on workers' living conditions.

There were protests across the country on Saturday when Diab announced that the country would default. For months, anti-government protesters have opposed debt repayment and an IMF bailout that would in practice rescue the banks' rich Lebanese creditors at the expense of Lebanese workers. Protesters have attacked bank ATMs across the country in response to seeing their savings vanish into thin air as Lebanon's currency plummeted.

This economic crisis, brought on by the post-civil war political settlement that essentially gave each of Lebanon's major sects a stake in plundering the country and exploiting the Lebanese masses, has been exacerbated by US imperialism's drive to assert its hegemony over the region and roll back Iran's influence by means of crippling economic sanctions and criminal military violence.

Washington and its regional allies are undoubtedly attempting to manipulate these tensions to further their regional aims. Tehran responded by supporting the government's crackdown on the protest movement in an attempt to defend the influence of Hezbollah with which it is allied.

Hezbollah, a Shi'ite, bourgeois-nationalist group, played an important role in defending Syrian President Bashar al-Assad against the US-orchestrated war of regime change which has employed right-wing Islamist

forces, recruited, trained and armed by Washington's regional allies—Saudi Arabia, the United Arab Emirates, Qatar and Turkey.

The Shi'ite group became the largest political party in Lebanon's parliament after the 2018 elections. This, under Lebanon's sectarian constitution, gave it considerable powers of patronage and limited Hariri's freedom to manoeuvre. While Hezbollah opposed the mass demonstrations, it has met with their leaders, expressing agreement with their demands and offering them support, in the hope of restraining and deflecting the protest movement and retaining its own credibility.

Now, Lebanon's traditional financial supporters, the US, France and Saudi Arabia, are determined to use the economic crisis to bring the country firmly into the anti-Iran Sunni axis under Riyadh's leadership and eliminate Hezbollah as a political force in the country. They are demanding sweeping "reforms"—privatisation, the ending of all government subsidies and tax hikes—before providing \$11 billion in loans and grants.

Two weeks ago, Washington ramped up its attack on Hezbollah, blacklisting several companies and individuals it says have links with Hezbollah as "Specially Designated Global Terrorists" in another round of sanctions against Iran's ally. The designation freezes US assets of the named individuals and companies and prohibits Americans from doing business with them. Among those targeted are senior officials in Atlas Holdings and 11 companies affiliated with it, including petrol and pharmaceutical businesses.

Hezbollah has vehemently opposed an IMF bailout that would be subject to stringent conditions but has backed the government's decision to default and called upon the Lebanese people to support the government.

Ali Daamouh, a member of Hezbollah's Executive Council, said, "The government's decision not to pay the dues and to restructure the debt instead is less negative than paying, because paying without finding solutions to secure liquidity might lead to bankruptcy and to heading to the International Monetary Fund (IMF) to be subject to its conditions."



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