ISSN 2443-8030 (online)

A Double-Edged Sword – Can a Currency Board Help Stabilise the Lebanese Economy?

Uwe Böwer

ECONOMIC BRIEF 068 | DECEMBER 2021

EUROPEAN ECONOMY

Economic and Financial Affairs

European Economy Economic Briefs are written by the staff of the European Commission's Directorate-General for Economic and Financial Affairs to inform discussion on economic policy and to stimulate debate.

DISCLAIMER

The views expressed in this document are solely those of the author(s) and do not necessarily represent the official views of the European Commission.

Authorised for publication by Elena Flores, Deputy Director-General for Economic and Financial Affairs.

LEGAL NOTICE

Neither the European Commission nor any person acting on behalf of the European Commission is responsible for the use that might be made of the information contained in this publication.

This paper exists in English only and can be downloaded from
https://ec.europa.eu/info/publications/economic-and-financial-affairs-publications_en.

Luxembourg: Publications Office of the European Union, 2021

PDF ISBN 978-92-76-29623-2 ISSN 2443-8030 doi:10.2765/361198 KC-BE-21-005-EN-N

© European Union, 2021
Non-commercial reproduction is authorised provided the source is acknowledged. For any use or reproduction of material that is not under the EU copyright, permission must be sought directly from the copyright holders.

CREDIT
Cover photography: © iStock.com/Arjan de Jager

European Commission
Directorate-General for Economic and Financial Affairs

A Double-Edged Sword – Can a Currency Board Help Stabilise the Lebanese Economy?

By Uwe Böwer

Abstract

Lebanon is not defying gravity anymore. After a long period of surprising economic resilience, the Lebanese economy fell into a severe crisis in 2019, triggered by a sudden stop in life-sustaining capital inflows. The undercurrents of unsustainable public debt and twin deficits amid a weak institutional environment, however, had long been in the making. Drastic devaluation in parallel markets, high inflation and strong real GDP contractions reflect Lebanon's deep crisis, which has only been aggravated by the COVID-19 pandemic and the devastating Beirut port explosions. The government is facing a momentous task to address the devaluation-inflation nexus, improve public governance, rebuild the electricity sector, restore sound public finances, repair the financial system and reinvigorate the private sector. This paper discusses the potential contributions of a currency board arrangement as a possible external anchor that could help stabilise Lebanon's economy. Indeed, a currency board could end devaluation and rein in inflation, enhance discipline and governance, and, if accompanied by a broader reform agenda, help incentivise a return of capital inflows and improve private sector conditions. However, a currency board severely restricts certain macroeconomic adjustment mechanisms, requires a careful transition management and involves sizeable fiscal adjustments. While the stabilisation benefits of a currency board could be significant at Lebanon's current juncture, getting the accompanying reforms in place, cushioning the social impact of the adjustment and ensuring solid implementation all present major challenges to make a currency board sustainable. Lebanon's international partners stand ready to help. However, meeting these challenges first and foremost requires strong ownership by Lebanon itself.

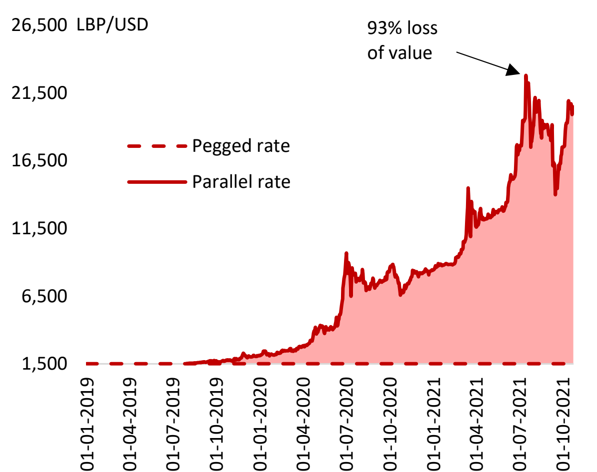
Acknowledgements: This paper benefited from useful comments by Jacques de Larosière, Elena Flores, Annika Eriksgård, Heliodoro Temprano Arroyo, Bettina Kromen, Ivan Lozev, members of the ECFIN Editorial Board, and participants of the ECFIN Lebanon Country Seminar on 11 October 2021.

Contact: Uwe Böwer, European Commission, Directorate-General for Economic and Financial Affairs, Neighbourhood Countries – Macro-Financial Assistance, uwe.boewer@ec.europa.eu.

Not defying gravity anymore

Lebanon has lost its long-standing resilience. For years, the Lebanese economy had expanded despite towering public debt and very large twin deficits in the fiscal and current accounts. Even the aftermath of the Syrian crisis had only dented Lebanon's economic momentum, kept afloat by continued yield-searching deposit inflows from abroad. Analysts had long questioned the sustainability of Lebanon's miracle, including our June 2019 Economic Brief which had asked rhetorically if Lebanon could defy gravity forever. The answer started to unfold with public protests over tax hike plans in October 2019. Diminishing deposit inflows reflected waning investor confidence, leading to a severe liquidity squeeze and rendering the central bank's financial engineering and monetary financing activities largely ineffective. Informal capital controls and withdrawal limits could not halt the ensuing capital flight, seeing the value of the Lebanese pound (LBP) plummet by more than an estimated 90% by mid-2021 in parallel markets and making inflation soar. The COVID-19 pandemic and the devastating Beirut port explosions of 4 August 2020 only aggravated an already deep crisis, which had long been in the making.

Graph 1: **Currency depreciation**



Sources: Banque du Liban (BdL), lirarate.org.

Lebanon's new government is facing an uphill battle. After a political vacuum of more than one year, a new government was finally agreed on 10 September. Up until that moment, neither domestic reforms nor external assistance to overcome the multiple crises had seen the light of day on account of continued political bickering over the distribution of posts and lack of decision-making. Now, the new government is facing the immediate tasks of revitalising the stalled talks towards an IMF-supported assistance programme, transforming the exchange rate subsidy system, and restoring electricity provision, which has repeatedly collapsed due to fuel shortages. The government will then need to secure a broad consensus for designing and implementing an updated reform plan.

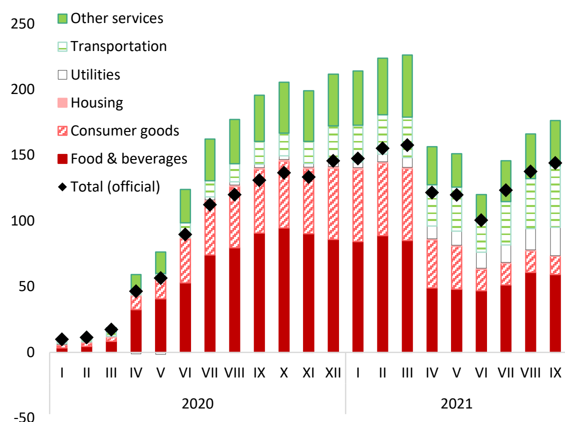
The Lebanese economy needs a game-changing reform effort. As the previous business model has run its course, ground-breaking policy action will need to address multiple layers to break the downward trend. Building a unified position and overcoming the high fragmentation among Lebanon's political leadership is an instrumental prerequisite. Much-needed policy reforms include renewing the monetary and exchange rate system, enhancing public governance, restoring sound public finances, repairing the financial sector and improving private sector conditions. The focus of this paper will be to discuss whether a simple, rules-based mechanism like a currency board could help mitigate the social hardship and re-anchor the drifting economy by arresting the soaring inflation and putting the currency on a solid footing.

Depreciation and inflation at alarming levels

Runaway depreciation has made inflation skyrocket. The endemic shortage of US dollars, fuelled by withdrawal limits and forced conversions imposed by banks, has seen the LBP lose more than an estimated 90% of its value against the USD. While the Banque du Liban (BdL) formally maintains the official peg at 1,507 pounds per dollar, the volatile parallel market rate peaked at around 23,000 and receded temporarily to around 16,000 after government formation in September (Graph 1). As most goods are imported, currency depreciation translates strongly into consumer price inflation, which has peaked at 158% year on year in early 2021, with food prices rising by up to 440%. Transportation and utilities were also increasingly strong inflation drivers, given the successive withdrawal of fuel subsidies and rising black market prices. Between April and June, inflation had eased somewhat due to favourable base effects. By September, officially reported inflation reached 144% year on year (Graph 2). According to standard definitions, Lebanon has not yet broken the hyperinflation threshold, typically understood as 50% month on month or 1,000% year on year for the

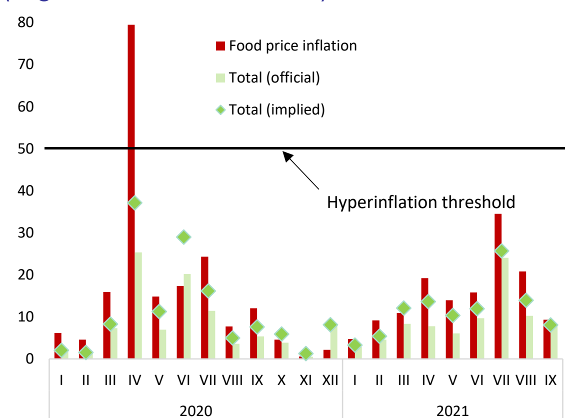
full consumption basket. Food prices, however, entered hyperinflation territory temporarily during April 2020 (Graph 3). High prices, coupled with poor access to health, education and utilities, have pushed the multidimensional poverty rate to 82% in 2021, according to the United Nations.

Graph 2: **Inflation components**
(percentage points, year on year)



Source: BdL. Note: Contributions based on official data exceed official total inflation.

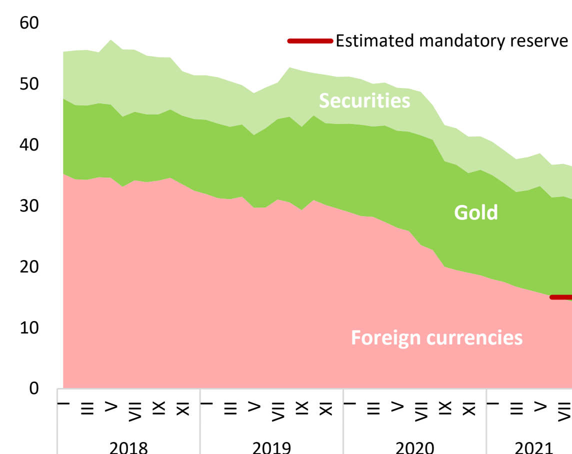
Graph 3: **Consumer and food prices**
(% growth month on month)



Source: BdL. Note: "Implied" denotes the sum of the contributions using official weights.

Official reserves are running low as the BdL struggles to subsidise essential imports. The BdL's subsidy scheme, which had guaranteed foreign currency at favourable exchange rates for essential imports like fuel, medicine and wheat, has reached its limit. Official reserves have melted as deposit inflows from abroad have dried up while the subsidy scheme has weighed heavily on reserves. Foreign currency reserves are starting to eat into the mandatory minimum holdings of banks at the BdL (Graph 4). Undercutting this level could put their remaining correspondent banking relationships at risk. Securities, also counted as official reserves by the BdL, consist largely of government-issued Eurobonds under sovereign default since March 2020. Gold reserves are still substantial at around USD 17 billion. However, practical and legal hurdles to utilise the gold are high, as any transfer or liquidation of the US-based gold would likely get entangled in litigation of the still unsolved sovereign default.

Graph 4: **Official reserve components**
(USD billion)



Source: BdL. Note: Securities refers to government-issued Eurobonds under sovereign default. The estimated mandatory reserves are foreign currency deposits of banks at the BdL.

A disorderly end to price subsidies could push inflation to even higher levels. The BdL announced that it will continue to scale back fuel subsidies. This could relieve acute shortages as the incentive for hoarding recedes. However, prices are expected to jump and raise poverty even further, calling for upgrading the social support system. While parliament has passed a law for handing out food ration cards for the most needy to replace import subsidies, the implementation of this measure remains unclear. Detailed recommendations for a managed transition from the current untenable scheme to a targeted cash transfer mechanism have not been implemented, highlighting the substantial risk of a disorderly adjustment and potentially fuelling hyperinflation, once the BdL's foreign currency reserves are depleted.

How could a currency board benefit Lebanon?

A currency board could offer short-term advantages to Lebanon. As an extreme form of fixed exchange rates, currency boards can provide

much-needed credibility for a crisis economy, arresting hyperinflation and reversing capital outflows (Box 1). Several analysts have advocated a currency board in Lebanon (De Larosière and Hanke 2021). This section lays out how Lebanon in its current dire situation might benefit from the advantages of such an arrangement. The subsequent section highlights a number of associated challenges.

Breaking the depreciation-inflation spiral

Credibly fixing the exchange rate would end depreciation and establish currency stability. Since the previous currency peg of 1,507 pounds per US dollar lost its effectiveness in late 2019, multiple exchange rates have operated in parallel. While the peg has applied only to a shrinking number of essential imports, the BdL set up a syndicated rate for limited USD withdrawals at 3,900, an official preferential rate for certain donor transactions at 6,240, as well as the so-called Sayrafa platform aiming at wider exchanges at 12,000. However, the black market rate has reportedly exceeded 23,000, reflecting the failure of the organised attempts to steer the exchange rate. This multiple exchange rate environment has suffered from opacity, rent seeking and inefficient resource allocation. Fixing the currency with a currency board would unify the exchange rate system and move it towards more transparency, predictability and stability for citizens, businesses and international partners.

By arresting inflation, a currency board could help mitigate the social hardship. As Lebanon imports most of its goods, the currency depreciation has had direct, large-scale effects on consumer price inflation. Rapidly expanding money supply has also pushed inflation, as the BdL has been printing new pounds in an attempt to compensate for the sudden stop in financial inflows and help finance the government. In this environment, inflation expectations have been entirely unanchored. Consequently, the purchasing power of incomes and the value of savings of the Lebanese population have plummeted, creating social hardship that has been further exacerbated by the COVID-19 pandemic and the devastating Beirut port explosions of August 2020. A currency board could help arrest inflation by stopping depreciation, importing a more stable and credible monetary policy and re-anchoring inflation expectations in a transparent and effective framework if accompanied by a credible and implementable reform programme.

Enhancing discipline and governance

Eliminating monetary financing would exert fiscal consolidation pressure on the government. Orthodox currency boards will not allow for any monetary financing of the government by the central bank. In Lebanon, the BdL has frequently resorted to financial engineering and monetary financing to help the government lower its fiscal deficit, allowing for a laxer fiscal policy conducive to nepotism and state capture in the highly fragmented political environment. Under a pure currency board, public expenditure would have to be covered by fiscal revenue or undergo the scrutiny of official or private lenders. Such a hard budget constraint would dampen fiscal profligacy and lead to more rationalised and efficient government spending.

Currency board operations can be conducted within or outside the central bank. The BdL has been widely criticised for lack of transparency, leading to calls for governance reforms. A forensic audit, failed once, has restarted but is still in its infancy. To avoid delays in renewing the monetary system, a currency board could be established separately from a central bank, like in Hong Kong. This way, the politically difficult and potentially time-consuming governance reforms and forensic audit at the BdL could be pursued in parallel to, and separately from, setting up a currency board.

A currency board's external focus could facilitate monetary policy amid domestic divisions. In conflict-prone countries with tension between ethnic groups, a technocratic design and foreign anchor can be helpful in breaking the deadlock of opposing political interests. This played a major role in post-war Bosnia and Herzegovina, where a highly rules-based currency board with no political discretion was stipulated by the Dayton Agreement that ended the civil war. In Lebanon, political infighting between rivalling confessional groups had led to long-standing blockades on key policy reforms. A currency board could provide the objective external anchor that might be more consensual than discretionary policy models.

Incentivising a return of capital inflows

Reduced uncertainty under a currency board could trigger a reversal in capital outflows. In view of Lebanon's institutional weaknesses, a currency board could reassure investors by constraining room for harmful discretionary policies.

Box 1: **CURRENCY BOARDS IN THEORY AND PRACTICE**

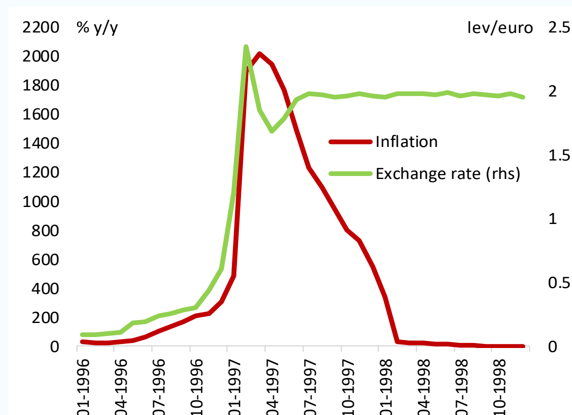
A currency board is a rigidly fixed exchange rate regime. Under a currency board, a country commits to a credible peg to an anchor currency. Foreign exchange reserves in the anchor currency need to cover at least the entire domestic money supply (M0) to ensure full convertibility, so that any amount of domestic currency can be exchanged into the anchor currency at the fixed rate at any time. Monetary policy will exactly mirror that of the anchor country, with no leeway for the domestic central bank. Effectively, a currency board is the strongest form of fixed exchange rates short of joining a currency union.

The main appeal of a currency board is credibility. By 'tying its own hands', a country with limited credibility can regain the confidence of investors and depositors who will welcome the elimination of harmful discretionary policy. Inflation expectations will be securely anchored as the monetary authority capitalises on the credibility of the central bank of the anchor country. Automatic stabilisers can dampen the effects of a potential capital flight, as any rush into the anchor currency would shorten domestic money supply and directly raise interest rates, providing a counterbalancing incentive to return to the domestic currency.

However, currency boards do not allow for cyclical adjustment through independent monetary policy. Having ceded the steering wheel to the anchor central bank, a country with a currency board can no longer address asymmetric shocks by idiosyncratic monetary policies or competitive currency devaluations. Instead, often-painful internal devaluations through price and wage flexibility need to compensate for losses in competitiveness. Hence, accompanying structural reforms and prudent fiscal management will have to ensure sufficient internal adjustment capacity. Moreover, having given up its power to print domestic currency at its own discretion, a central bank under a currency board has lost its role of an unlimited lender of last resort, which could severely complicate the resolution of a banking crisis.

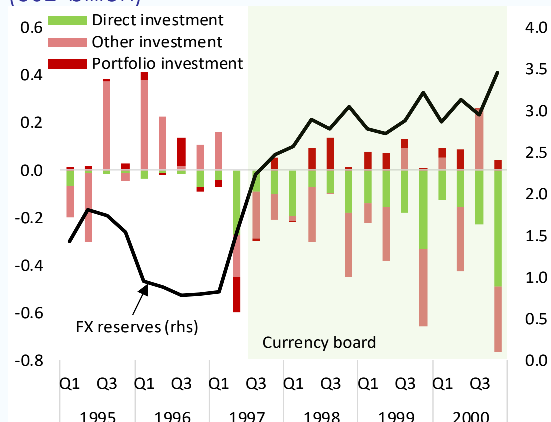
Currency boards have been largely effective in arresting inflation and building confidence. Research has shown that currency boards are associated with lower inflation and stronger growth (Ghosh et al. 1998). Estonia, Latvia[1] and Lithuania stabilised their economic transition by currency boards (Wolf 2016). Bulgaria brought hyperinflation down to single digits within one year after establishing a currency board in 1997, seeing capital inflows and foreign exchange reserves surge (Graphs B1 and B2) (Gulde 1999).[2] In post-war Bosnia and Herzegovina, a strictly rules-based currency board helped insulate monetary policy from political infighting and overcome distrust among hostile ethnic groups (Silajdzic 2005, Wolf et al. 2008). However, the collapse of Argentina's[3] arrangement in 2002, suffering from monetary financing loopholes, highlights the importance of prudent fiscal policy and structural reforms for a currency board to succeed (Wolf et al. 2008).

Graph B1: **Bulgaria: Inflation and exchange rate**



Source: Bulgarian National Bank.

Graph B2: **Bulgaria: Financial account and reserves** (USD billion)



Source: IMF.

On balance, currency boards tend to fit small, open economies with a need for an external anchor. If the lack of credibility, the severity of economic crisis and the mutual distrust of political actors is sufficiently large, a currency board may prove a suitable short-term solution outweighing its risks and potential costs. However, over the medium term, some countries without a perspective of joining a common currency like the euro area may need to devise exit strategies from the currency board if the costs start dominating the benefits.

[1] Latvia operated a monetary policy widely regarded a *de facto* currency board.

[2] Bulgaria's arrangement covers currency in circulation, the fiscal reserve and commercial banks' deposits at the central bank.

[3] Argentina's 1991-2002 arrangement, allowing for monetary financing, was not unequivocally recognised as a currency board.

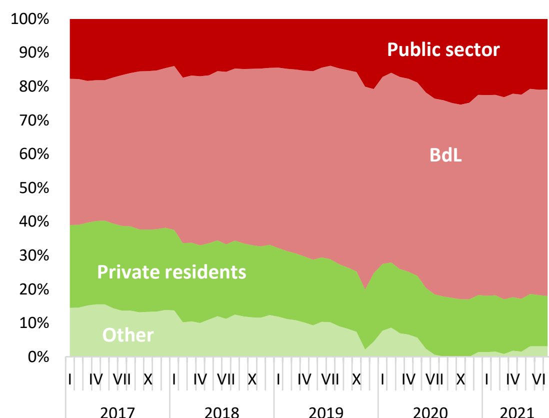
The stable exchange rate and reduced institutional uncertainty, coupled with interest rates that would be low but still slightly above the rates of the anchor country due to a risk premium, could help attracting fresh hard currency. This would mitigate the liquidity squeeze, release frozen USD accounts and replenish foreign currency reserves.

Automatic stabilisers would counterbalance volatility in capital flows. Should investors seek to exit Lebanon, the exchange of LBP into USD would mechanically increase reserves and tighten money supply, leading to higher interest rates. This would, in turn, provide incentives for investors to stay, or return to, Lebanon, inherently stabilising foreign exchange markets.

Improving private sector conditions

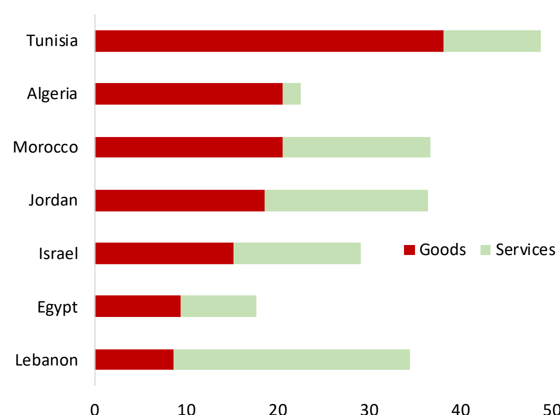
Raising bank liquidity would improve credit availability to the private sector. Domestic credit has long been biased towards the public sector and the BdL (Graph 5), essentially using customer deposits to finance the state's fiscal deficits. This has crowded out credit to private businesses and hampered private sector development. Under a currency board, revived capital inflows and a lower sovereign exposure would help banks to regain their financial intermediation role and make more liquidity available to the private sector. This could strengthen Lebanon's weak productive base, as the manufacturing and agricultural sectors contributed only 8.1% and 3.2%, respectively, to total gross value added in 2019, with services making up the rest. It could also put firms in a better position to export their products and raise Lebanon's disproportionately small share of goods exports, compared to regional peers (Graph 6).

Graph 5: **Distribution of bank assets** (% of total)



Source: BdL.

Graph 6: **Share of exports, 2019** (% of GDP)



Source: IMF.

What are the challenges of a currency board in Lebanon?

A currency board would not come without risks and challenges. By design, currency boards restrict domestic policy space and put a larger burden on internal adjustment mechanisms that can be socially arduous, calling for effective mitigation measures. They also require accompanying fiscal and structural reforms to be sustainable over the medium term. Some analysts have warned against implementing a currency board in Lebanon (Obegi 2021). These challenges need to be carefully addressed when assessing the feasibility of a currency board.

Forsaking macro adjustment tools

Monetary and exchange rate policy will no longer be available. By construction, a currency board would deprive Lebanon's authorities of instruments, which they could otherwise use for macroeconomic adjustment to idiosyncratic shocks and at a time when the economic outlook appears increasingly diverging across advanced, emerging and developing countries. Instead, internal wage and price flexibility will need to play a bigger adjustment role, which can be painful and time-consuming.

Under a currency board, a country has no lender of last resort. As foreign currency reserves will be strictly tied to money supply, the BdL would neither be able to emit currency at its own discretion, nor inject unlimited liquidity into banks in the event of a banking crisis. For Lebanon, it will be important to proceed with a comprehensive and timely financial sector repair closely linked to the needed sovereign

debt restructuring, given the large exposure of banks to the state.

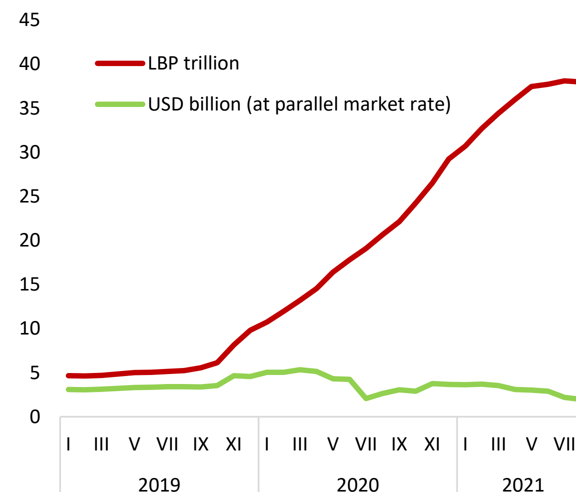
Managing the transition

Which currency should serve as external anchor? Lebanon's high degree of dollarisation and its longstanding tradition of USD pegs make a link to the dollar more plausible than with other currencies. Theoretically, currency boards can also peg the exchange rate to a weighted average of anchor currencies to reflect a country's trade and financing structure, with a potential role for the euro in view of Lebanon's strong trade links with the euro area. In practice, however, a peg to one single currency, rather than a basket of currencies, tends to make a currency board more transparent and comprehensible to the population.

Another challenge will be to identify the appropriate new exchange rate. Fixing the currency again at a new level will naturally bear the risk of renewed misalignment. One option would be to follow Bulgaria's example by allowing the pound to float without intervention while freezing the monetary base for one month. Thereafter, an informed assessment would determine the appropriate exchange rate (Hanke 2021). However, getting the equilibrium exchange rate right is a notoriously difficult endeavour, hurting export competitiveness when overvalued and complicating disinflation when undervalued.

Depleted reserves will need to be replenished to match money supply. Although countries typically experience a surge in capital inflows and foreign reserves after the launch of a currency board, reserves will have to cover at least the domestic currency in circulation up-front. This may have to feature as a key element in a financial assistance programme to be agreed with international partners. Money supply in LBP increased more than sevenfold between September 2019 and August 2021, while its value in USD at the strongly depreciating estimated parallel rate remained broadly stable and stood at around USD 2 billion in August (Graph 7). If demand and term deposits were to be included in the coverage, the amount would rise to around USD 4 billion.

Graph 7: **Money supply (M0)**



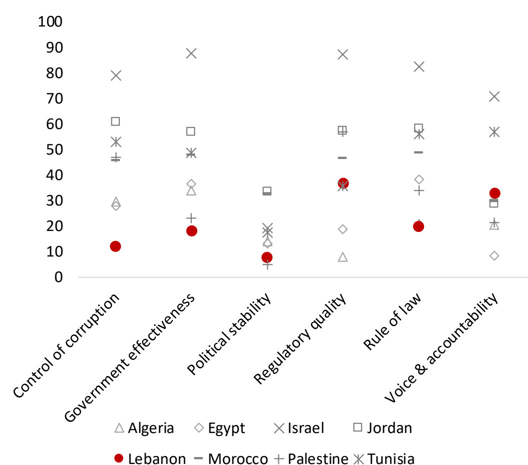
Sources: BdL, lirarate.org. Note: Money supply denotes currency in circulation (M0).

If 'too successful', a currency board runs the risk of reviving the old, unsustainable business model. Enhanced credibility and monetary stability, leading to renewed investor confidence and capital inflows, is one major advantage of a currency board in a dire situation such as Lebanon's. However, excessive inflows could also end up being counterproductive if they lead to breathing new life into the previoius business model with its allocative distortions and financing of non-productive expenses while neglecting the structural transformation of the productive capacity towards a higher growth potential. Similarly, the initial economic stabilisation achieved might take pressure off political actors and lead to further reform procrastination, which would undermine the functioning of the currency board.

Large implementation risks loom over the introduction of a currency board in Lebanon. Enacting the currency board would require legislative changes and reliable execution, and those have often been hard to achieve in Lebanon's challenging public governance environment. Watering down a currency board, for instance by adding monetary financing loopholes like in Argentina's arrangement, or corruptly mishandling the currency board, would endanger its sustainability from the outset.[1] Public governance and state capture are key weaknesses in Lebanon compared with regional peers (Graph 8).

[1] Argentina's 1991-2002 arrangement, allowing for monetary financing, was not unequivocally recognised as a currency board.

Graph 8: **Governance indicators, 2019**
(Percentile rank)



Sources: World Bank. Note: The percentile rank indicates the percentage of countries worldwide ranking below the specific country; hence, a higher value indicates better governance.

Making commensurate adjustments

A currency board requires broad accompanying reforms. Fiscal and structural reforms, long overdue in Lebanon, will be indispensable to make the currency board work (Box 2). Such reforms need to enjoy both government ownership and public support.

Digesting the required up-front fiscal adjustment will be challenging. While imposing fiscal discipline scores as one of a currency board's major attractions for Lebanon, balancing the deficit would require an enormous fiscal effort. At the same time, with a poverty rate above 80%, there are limits on how much and how fast fiscal consolidation can realistically proceed, calling for a carefully calibrated social safety strategy to buffer the expected deprivations. Conflicts among political factions about distributional questions could complicate this process and fuel further social hardship. External assistance would likely need to allow for a phased consolidation path.

Box 2: **REFORM PRIORITIES FOR LEBANON**

The most urgent task is a monetary and exchange rate strategy that will arrest the soaring inflation and put the currency on a solid footing. This would help mitigate the social hardship and re-anchor the economy. A simple, rules-based mechanism like a currency board could be one potential option to eliminate harmful discretion and re-establish confidence.

Other crucial reforms include fundamental changes in public governance to restore transparency and credibility, starting with a rigorous audit of the central bank. Sweeping anti-corruption measures will have to address nepotism and embezzlement of public funds, one of Lebanon's most crippling afflictions. Institutional improvements would also be needed to combat money laundering and to strengthen the regulatory environment, including financial supervision and resolution mechanisms and macroprudential instruments.

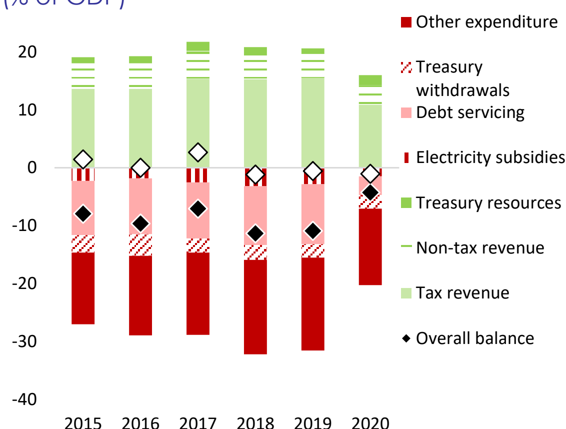
A phased fiscal consolidation plan with expenditure and tax reforms and improvements in public finance management will be important, buffered by effective social safety measures.

A comprehensive public debt restructuring following the default on around USD 30 billion of Eurobonds in March 2020 will have to proceed swiftly to lower the paralysing weight of public debt and re-open clogged investment channels.

This will have to be linked with a thorough clean-up of the domestic banking sector, in light of the large exposure of bank assets to the state, addressing losses on the asset side based on international best practices regarding a hierarchy of creditors, while protecting as much as possible the savings of the vast majority of depositors. This could enable banks to return to their function of providing the private sector with much-needed credit.

Reforms to enhance private sector development would also be vital. Businesses would benefit from repairing the dysfunctional electricity sector and a more diversified production structure with a stronger export orientation. Reconstructing and upgrading infrastructure and water management, as well as reforming education and healthcare, would help moving the Lebanese economy towards a more viable and inclusive growth path.

Graph 9: **Fiscal budget**
(% of GDP)



Sources: Lebanese Ministry of Finance, IMF.

Transitioning out of a currency board. A currency board may not be the ideal monetary policy regime forever. An adjustment in the peg or an orderly transition to a more flexible system, however, are very difficult to implement, as the currency board's credibility draws on its very stability. Unlike some successful currency boards in Central and Eastern Europe, Lebanon would not have a natural perspective like euro area membership. While regular evaluations about a potential shift to a floating regime with inflation targeting could be considered, they carry the potential of self-fulfilling destabilisation, raising the risk of disorderly and costly exit scenarios.

Conclusion

While offering clear stabilisation benefits, the hurdles of a sustainable currency board are high. In Lebanon's current situation, the extreme urgency for economic recovery and the extraordinary lack of policy credibility argue in favour of a strong stabilisation and disciplining mechanism like a currency board to import credibility through an external anchor. Eliminating room for discretionary policy and introducing a hard budget constraint on fiscal policy could be precisely what Lebanon needs to reassure investors and break the depreciation-inflation spiral. However, making a currency board sustainable would require a significant reform and adjustment effort. Making progress with sovereign debt restructuring and addressing financial sector losses, including at the BdL, are major challenges that need to be tackled. Other potential stumbling blocks include mobilising the necessary resources to replenish foreign reserves and allowing for a phased fiscal consolidation that would cushion the significant social repercussions.

Policy and implementation risks are looming large. Giving up monetary and exchange rate policy and restricting fiscal policy could incur a macroeconomic adjustment cost, notably over the medium term, when the currency board's initial stabilisation prerogative wears off. The forsaken function of lender of last resort could also be painfully felt, should the banking sector restructuring derail. Even with accompanying reforms underway, considerable challenges could emerge during the legislative and operative processes. These risk could, in part, be mitigated by a comprehensive and front-loaded IMF-supported programme with effective monitoring that is deemed as a necessary, but not sufficient complement for a currency board to be successful in Lebanon. An active involvement of the EU alongside other international institutions, like the World Bank, with its support conditioned on policy reforms could further help ensure reform implementation. In the end, however, a currency board-cum-reform package can only succeed with strong ownership of the government and broad support across the political arena and civil society.

References

De Larosière, Jacques and Steve Hanke (2021), "Lebanon could use a currency board", *Wall Street Journal*, 21 April 2021.

Hanke, Steve (2021), "Currency boards or central banks?", *Executive Magazine*, 3 March 2021.

Ghosh, Atish R., Anne-Marie Gulde and Holger C. Wolf (1998) "Currency boards: The ultimate fix?" *IMF Working Paper* 98/8.

Gulde, Anne-Marie (1999), "The role of the currency board in Bulgaria's stabilisation", *IMF Working Paper* 99/3.

Obegi, Riad (2021), "Why a currency board would not work in Lebanon", *The Daily Star*, 15 July 2021.

Silajdzic, Sabina (2005), "The currency board trap: The case of Bosnia and Herzegovina", *International Journal of Applied Econometrics and Quantitative Studies* 2(2), 47-79.

Wolf, Holger (2016), "Currency boards as the path towards the Eurozone: Lessons from the Baltics", *International Economic Policy* 13:45-57.

Wolf, Holger C., Atish R. Ghosh, Helge Berger and Anne-Marie Gulde (2008), *Currency boards in retrospect and prospect*. Cambridge, MA: The MIT Press.

EUROPEAN ECONOMY ECONOMIC BRIEFS

European Economy Economic Briefs can be accessed and downloaded free of charge from the following address:
https://ec.europa.eu/info/publications-0/economy-finance-and-euro-publications_en?field_eurovoc_taxonomy_target_id_selective=All&field_core_nal_countries_tid_selective=All&field_core_flex_publication_date[value][year]=All&field_core_tags_tid_i18n=22614.

Titles published before July 2015 can be accessed and downloaded free of charge from:

- http://ec.europa.eu/economy_finance/publications/economic_briefs/index_en.htm
  (ECFIN Economic Briefs)
- http://ec.europa.eu/economy_finance/publications/country_focus/index_en.htm
  (ECFIN Country Focus)

GETTING IN TOUCH WITH THE EU

In person

All over the European Union there are hundreds of Europe Direct Information Centres. You can find the address of the centre nearest you at: http://europa.eu/contact.

On the phone or by e-mail

Europe Direct is a service that answers your questions about the European Union. You can contact this service:

- by freephone: 00 800 6 7 8 9 10 11 (certain operators may charge for these calls),
- at the following standard number: +32 22999696 or
- by electronic mail via: http://europa.eu/contact.

FINDING INFORMATION ABOUT THE EU

Online

Information about the European Union in all the official languages of the EU is available on the Europa website at: http://europa.eu.

EU Publications

You can download or order free and priced EU publications from EU Bookshop at: http://publications.europa.eu/bookshop. Multiple copies of free publications may be obtained by contacting Europe Direct or your local information centre (see http://europa.eu/contact).

EU law and related documents

For access to legal information from the EU, including all EU law since 1951 in all the official language versions, go to EUR-Lex at: http://eur-lex.europa.eu.

Open data from the EU

The EU Open Data Portal (http://data.europa.eu/euodp/en/data) provides access to datasets from the EU. Data can be downloaded and reused for free, both for commercial and non-commercial purposes.

Publications Office
of the European Union