

Is dollarisation worth the risks?

By Fahad Badar

The new president in Argentina was elected on a radical pledge of dollarising the economy, although the plans are on hold for now. The policy might be more appropriate for Lebanon

Dollarisation is back on the agenda in the world economy. In November Javier Milei, a maverick outsider, won the Argentine presidential election on a platform that included replacing the peso with the US dollar. Also in November, a group of leading economists recommended dollarisation for the Lebanese economy. Given that dollarisation – a nation replacing its own currency with the US dollar – means sacrificing autonomy over monetary policy, it is a radical option. It has arisen in Argentina because the state has failed to shake off a long-standing problem of inflation, deficits and

related macro-economic instability. By this year, with inflation at around 140% and the peso devalued further, many personal savings are in dollars, as are real estate transactions. In 2001 the government's attempt to maintain a currency peg to the dollar led to a controversial policy known as the corralito, which imposed severe limits on cash withdrawals from bank accounts, and forced conversion of withdrawals from dollar accounts to pesos. Since then, Argentinians with dollar savings keep them in overseas accounts, or simply in the form of banknotes in their household. In Lebanon, the situation is more severe: In effect the lira-based economy has collapsed, with a significant part of the real economy dependent on remittances from the Lebanese diaspora. Output in Lebanon has fallen 38% since 2019. This compares with 26.3% in the crisis in Greece in 2009, and 18.4% in the Argentina in 2001. The

Lebanese lira has lost 98% of its value since 1997. Yet the fact that the crisis is more severe may make the policy decision easier. The Banque du Liban, the central bank of Lebanon, is insolvent. A group of eminent Harvard University economists, including Ricardo Hausmann and Carmen Reinhart, have published a paper Towards a Sustainable Recovery for Lebanon's Economy. It recommended converting \$76bn in commercial bank dollar claims on the Banque du Liban into interim restructuring certificates. This would have the effect of transferring the bulk of the insolvency from the bank to the government. Government debt would be restructured. Replacement of the lira with the dollar, combined with measures to ensure efficient tax collection and encourage exports, would enable the economy to grow and the fiscal situation to be stabilised. Other nations to have adopted dollarisation are Ecuador and Zimbabwe. In Ecuador, the

policy was introduced in 2000 and has been widely seen as effective. This is attributable to lack of confidence in economic institutions and a fear that populist politicians would print money and spend in irresponsible ways if they had control over a currency. In Zimbabwe, the hyper-inflation reached unprecedented levels in the early 2000s. The local currency was abolished in 2009, and replaced by the dollar. It was a drastic policy, made more difficult by a relative shortage of dollar-denominated notes, especially lower denomination, but at least it brought some economic stability. The local currency was reintroduced in 2019 but dollars are still widely used. An economy formally transferring to a new currency involves a considerable logistical exercise. A conversion rate has to be agreed, and a deadline set, supported by a public information campaign. In the replacement of national currencies with the euro, for

example, there were difficulties for consumers in adjusting to the newly-denominated prices. In Lebanon and Argentina, however, dollars are already widely in use. Banks will need to convert all current accounts, loans and savings to dollars at the agreed rate. Software and ATMs will have to be upgraded and staff trained. Government finances will have to be converted to dollars. Larger deposits may have to be exchanged for an interest-bearing bond, rather than directly for cash, if the state does not possess enough dollars. Legislation, and documents with a financial element – rent agreements, commercial contracts and so on – will have to be updated. The same applies to company accounts and payrolls. Internationally, the government may have to co-ordinate with international financial institutions such as the IMF. There will also be a need for monitoring of implementation of the policy. Once wages start to be paid in dollars,



however, there is a chance for an economy to recover. The Argentine economy would be by far the largest economy to adopt dollarisation – it is around five times bigger than Ecuador's – and with greater size comes greater complexity. This may explain the signals from the President-elect Milei that he is in no hurry to implement the policy. It may make more sense for Lebanon.

■ The author is a Qatari banker, with many years of experience in the banking sector in senior positions.

QSE index rises 44 points on buying support; M-cap adds QR1.84bn

By Santhosh V Perumal
Business Reporter

The Qatar Stock Exchange (QSE) yesterday opened the week on a stronger note with its key index gaining as much as 44 points and its key index surpassed 10,500 levels on the back of buying interests, particularly in the telecom, transport and real estate sectors.

The domestic institutions were increasingly net buyers as the 20-stock Qatar Index gained 0.42% to 10,509.85 points.

The foreign retail investors' weakened net selling had its influence in the main market, whose year-to-date losses shrank to 2.96%.

The Gulf individuals' lower net profit booking also had its say in the main bourse, whose capitalisation nevertheless added QR1.84bn or 0.3% to QR611.2bn with small cap segments gaining the most.

The Gulf institutions continued to be net buyers but with lesser intensity in the main market, which touched an intraday high of 10,539 points.

The local retail investors were seen increasingly bearish in the main bourse, which saw as many as 0.05mn exchange traded funds (sponsored by Masraf Al Rayan and Doha Bank) valued at QR0.28mn trade across 17 deals.

The foreign funds were increasingly net profit takers in the main market, which saw no trading of sovereign bonds.

The Islamic index outperformed the other indices in the main bourse, which witnessed no trading of treasury bills.

The Total Return Index rose 0.42%, the All Islamic Index by



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0.61% and the All Share Index by 0.29% in the main bourse, whose trade turnover fell amidst higher volumes.

The telecom sector index shot up 2.09%, transport (1.78%), real estate (0.89%), industrials (0.28%) and banks and financial services (0.02%); while insurance declined 0.59% and consumer goods and services 0.3%.

Major movers in the main market included Ooredoo, Milaha, Gulf International Services, Untied Development Company, Nakilat and Lesha Bank.

Nevertheless, Qatar Industrial Manufacturing, Qatari German Medical Devices, Inma Holding, Zad Holding, Widam Food and Gulf Warehousing were among the losers in the main market.

In the venture market, Mahhar Holding saw its shares depreciate in value.

The domestic institutions' net buying increased noticeably to QR17.78mn compared to QR11.7mn on January 11.

The foreign individuals' net selling weakened significantly to QR0.95mn against QR12.67mn the previous trading day.

The Gulf retail investors' net profit booking shrank perceptibly to QR0.83mn compared to QR3.19mn last Thursday.

However, the local retail investors' net selling strengthened marginally to QR7.16mn against QR6.7mn on January 11.

The foreign institutions' net profit booking expanded considerably to QR5.75mn compared to

QR2.99mn the previous trading day. The Arab individuals turned net sellers to the tune of QR5.06mn against net buyers of QR6.88mn last Thursday.

The Gulf funds' net buying weakened significantly to QR1.96mn compared to QR6.98mn on January 11.

The Arab institutions had no major net exposure for the second straight session.

Trade volumes in the main market rose 15% to 153.36mn shares, while value declined 18% to QR371.94mn and deals by 13% to 11,787.

The venture market saw an about six-fold jump in trade volumes to 0.17mn equities and value grew more than six-fold to QR0.19mn on doubled transactions to 8.

US progress on inflation is likely to slow, warns Fed official

Reuters
New York

Atlanta Federal Reserve President Raphael Bostic said inflation could “see-saw” if policymakers cut interest rates too soon, warning that inflation's descent towards the central bank's 2% goal was likely to slow in the months ahead, the *Financial Times* reported yesterday.

Bostic, who will be a voting member on the Federal Open Market Committee this year, said he was “expecting to see much slower progression of inflation moving forward,” adding that there were “some risks that inflation may stall out altogether” according to the report.

The Atlanta Fed president acknowledged that price pressures had fallen faster than he had expected in 2023 but still thinks inflation is likely to be nearly 2.5% by the year-end and only hit the Fed's goal in 2025, the *FT* said.

After the Fed's December policy vote, Bostic said he thought rates would need to

remain on hold until after the summer. He told the *Financial Times* that the uncertainty facing the US economy warranted such a cautious approach.

“Inflation must be firmly and surely getting back to our 2% target,” the newspaper quoted Bostic as saying. “It would be a bad outcome if we started to ease and inflation started to rise up and down like a see-saw. That would undermine people's confidence in where the economy is going.” Bostic said the recent increase in shipping costs due to the disruption of traffic in the Suez Canal caused by Houthi targeting vessels would need to be watched “very closely,” according to the *FT*.

“It will be very interesting to see to what extent the Middle East conflict and attacks on the container ships is starting to show up in the cost structure for businesses in my district,” Bostic told the newspaper.

In an interview with Reuters in December, Bostic said the Fed can begin reducing rates “sometime in the third quarter” of 2024 if inflation falls as expected.



Raphael Bostic, Atlanta Federal Reserve president.

Nvidia's red-hot 2024 start a bright spot as S&P 500 eyes record

Bloomberg
New York

Nvidia Corp is off to its strongest-ever start to a year by one measure, keeping up a blistering rally that saw shares gain nearly 240% in 2023. The artificial-intelligence darling has added roughly \$128bn in market capitalization after rising about 10% this month, an unprecedented gain in value in the first nine trading days of the year for the company. It's a boon for Nvidia bulls and signals that the AI trend still has momentum, at least for the firm viewed by many as one of the biggest early winners. Nvidia this year is easily outpacing the broader market and the rest of the so-called Magnificent Seven megacap technology stocks. That's making it a major bright spot as the S&P 500 Index has stalled near record highs amid questions around corporate profits and the timing of anticipated Federal Reserve interest-rate cuts. “From my standpoint, Nvidia is best of breed,” said Shana Sissel, chief executive officer of Banrion Capital Management LLC, adding that it's dominant in its

marketplace, has strong customer relationships and is growing fast. “It's hard to find a lot of holes in the story.” Nvidia had a better start on a percentage basis last year, to kick off its record rally. To be fair, those gains came after the stock lost half its value in 2022. For the next 12 months, analysts covering Nvidia have an average target price of almost \$650, indicating roughly 19% upside for a company that now has a market capitalisation greater than \$1.3tn. The CES trade show this month solidified confidence for proponents of Nvidia shares. The company announced three new desktop graphics chips that will allow computer users to make better use of AI on personal machines. The shares also got a boost last week when Chief Financial Officer Collette Kress reaffirmed Chief Executive Officer Jensen Huang's assertion that the company expects it can continue to grow through calendar year 2025. “NVDA expressed a tone of confidence regarding end demand and pointed to supply increases each quarter this year,” Piper Sandler & Co analysts led by Harsh V Kumar wrote in a note, referring to a meeting with management at CES.

