



The Central Bank Between the Present and the Future Challenges

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The Central Bank of Lebanon's approach to the financial crisis: changes and future challenges

1- Between the past and the present

1. Shift in discussions:

- The Central Bank of Lebanon has shifted its approach to focus more on technical discussions with banks, even though there may still be different viewpoints in many areas.

2. Acknowledgment of systemic crisis:

- The Central Bank recognizes the systemic nature of the crisis. The state, having depleted funds, is primarily responsible for the crisis and must find suitable means to repay these funds in the future, considering the current weakness of state resources.

3. Banking sector continuity:

- Any viable solution must consider the continuity of the banking sector. Without this, there is no hope for rebuilding the sector or revitalizing the economy.

4. Gradual return of deposits:

- There is a general consensus that an immediate return of deposits is not possible. However, it is essential to gradually return the rights to their owners through all available means.

5. Categorization of deposits:

- Deposits to be screened based on their sources, and depositors to be categorized as depositors, investors, and those who benefited from high interest rates.

6. Separation of certain deposits:

- Deposits resulting from operations where owners benefited from the crisis at the expense of other depositors, such as through check trading and Sayrafa, to be separated.

7. Review of borrowers:

- The situation of borrowers who increased their wealth at the expense of depositors, as well as those who benefited from subsidy operations and smuggling, is being reviewed.

8. Bank balance sheet adjustments:

- Efforts are being made to adjust banks' balance sheets, reveal investment opportunities, and counter attempts to undermine the sector.

9. Unification of exchange rate:

- The exchange rate to be unified without tampering with the Central Bank's foreign currency reserves.

10. Accounting standardization:

- The standardization is to be applied to banks' balance sheets and to banks' deposits at the Central Bank. The era of double standards is not applied anymore.

11. Obligatory reserves:

- The Central Bank acknowledges that obligatory reserves belong to the banks.

12. State deficit financing:

- The Central Bank refuses to finance any state deficit outside legal frameworks, despite all types of political pressures.

13. Avoidance of partial solutions:

- The Central Bank is not accepting anymore partial solutions aimed at buying time.

14. Role clarification:

- The Central Bank is now limiting its role to what is strictly stipulated in the Code of Money and Credit.

15. Balance sheet correction:

- The Central Bank's balance sheet has been rectified, with significant items clarified, waiting for the completion of the remaining explanations.

16. Transparency:

- For the first time in decades, the Association of Banks in Lebanon is receiving more consistent statistics clarifying the current situation.

17. Ceasing “Seigniorage”:

- The Central Bank has ceased using the privilege of printing the Lebanese pound (Seigniorage) to cover its losses, that were labeled as deferred losses.

2- Future challenges

1. Regulating the cash economy:

- There is a need to regulate the cash economy through redirecting it towards the banking sector.

2. Balancing money supply:

- Aligning the control of money supply with the needs of those who rely solely on their bank accounts to meet their basic needs.

3. Protecting liquidity:

- The liquidity allocated to small depositors domestically must be protected from the potentials of large depositors abroad.

4. Safeguarding Central Bank assets:

- The Central Bank's assets (gold and currencies) must be protected from lawsuits abroad.

5. Ensuring bank operating expenses:

- The operating expenses of banks need to be ensured until the sector returns to its normal activity.

6. Restoring banks' role:

- Efforts must be made to restore the recognized role of banks in the economy (corporate lending, retail products and services, ...)

7. Stakeholder participation:

- Ensuring the participation of all stakeholders in the bank restructuring process is crucial.

The above points outline the current policies of the Central Bank of Lebanon and its future challenges. Hoping that those with good intentions will be given the chance to fix what politics has ruined.

Note: This article is part of a series written by the Secretary General of the Association of Banks in Lebanon as part of his introductory articles to a number of periodicals issued by ABL. It represents his own opinion and personal analysis of the developments, without committing ABL to its content, which remains the sole responsibility of the Secretary General.
