



Banks and Depositors to Fill the Gap

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After the draft Law on Financial Stabilization and Deposit Repayment has been referred to Parliament, it is necessary to shed light on fundamental flaws in this draft law, most notably the approach based on one fixed principle: using banks and depositors, almost exclusively, as the tool to close the financial gap, while the state evades any real contribution to resolving it.

It is well known that the liquidity the Central Bank of Lebanon is supposed to contribute in reality represents nothing more than the banks' funds deposited with it, as mandatory reserves that is, depositors' money. As for the state, which is the primary party responsible for creating the gap, it offers no direct or tangible financial contribution and takes no serious measures to recover the robbed public funds, which constitute the core of the gap and were taken from depositors' and banks' money.

The total cost of returning deposits below USD 100,000 may exceed what is currently being discussed and will be borne largely by the banking sector, directly and indirectly. Added to this are enormous burdens that banks will shoulder over the next twenty years as a result of their participation in servicing the bonds. Have those concerned calculated the size of the burden that will be placed on the banks, and how many banks will be able to survive? If some banks cannot survive under such conditions, what will happen to their depositors? How can any sector, no matter how cooperative, carry this burden without any participation from the parties that originally caused the crisis? Is this not, in effect, an undeclared death sentence for the banking sector?

Imposing these obligations on current banks' shareholders, without any clear horizon or future legal guarantee, raises an obvious question: who would agree to recapitalize a Lebanese bank that has been stripped of its capital and of its shareholders' deposits, had its past profits clawed back, and has its future profits tied up for twenty years? What is needed today is not the liquidation of the banking sector, but its restructuring and the safeguarding of its ability to meet the obligations imposed on it by the draft law. Destroying the banking sector in this manner would not only paralyze the financial system but would also inevitably expand the cash economy, in blatant contradiction with international guidelines aimed at enhancing transparency and combating smuggling and corruption.

One of the outcomes of the draft law is to give priority to the Lebanese republic Eurobond holders over local depositors, as evidenced by the rise in these Eurobond prices in global markets immediately after the law was approved by the Council of Ministers. By what logic does the right of a foreign creditor take precedence over that of a depositor? Would it not be more appropriate for the state to allocate to depositors, most of whom are Lebanese, the dollars it plans to transfer to creditors abroad? If not out of the principle of prioritizing depositors over creditors, then at least to keep foreign currency circulating within the Lebanese economy instead of exporting it overseas.

Ultimately, the assets of the Central Bank of Lebanon are today estimated at more than USD 80 billion, as follows:

- USD 11.9 billion: foreign assets
- USD 7 billion: real estate and participations
- USD 41 billion: gold
- USD 16.5 billion: claims on the state
- USD 5 billion: Lebanese republic Eurobonds

These figures show that there is no real gap in the Central Bank's balance sheet, and that any attempt to plug a financial gap, whether artificial or real, falls under the category of illicit enrichment of the state and the Central Bank at the expense of depositors and banks.

In conclusion,

The claim that the Central Bank's assets and state properties belong to future generations ignores the fact that those generations will not come from another planet; they are the children of the current generation. So, start by doing justice to today's fathers and mothers, or else there will be no future generations ahead.

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.
