Liquidity Stress Test: A Key to Financial Stabilization

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The draft law on **"**Financial Stabilization and Deposit Repayment**"** is an attempt to break the stagnation in the deposits issue. However, its success will be measured first and foremost by its ability to secure the cash liquidity required for implementation. The law is not a statement of good intentions; any commitment to pay must be executable within known resources and a realistic timeline. Otherwise, implementation will turn into a new crisis of confidence rather than offering a path out of the existing one.

First: The Reality

- Estimates show that the liquidity required in the first four years to repay USD 100,000 to all depositors exceeds USD 20 billion, to be borne by the banks and Banque du Liban (BDL).
- If BDL decides to finance part of its share in those first four years by taking ownership of the banks' mandatory reserves – regardless of the illegality of such an act – the vast majority of banks (if not all) will not have sufficient liquidity to meet the requirements of this phase.
- The greatest risk lies in the inability to honor the promises made, at a time when there is still no clear plan to address the situation of depositors in banks that will be unable to continue operating.

Second: The Corrective Measures

1. Liquidity stress test before promises

   The risk lies in confusing "theoretical promises" with "actual capabilities." Therefore, a liquidity stress test remains a necessary condition to determine real capabilities before approving any ceilings or timelines. Those who put the solution framework must not offer depositors promises they may be unable to keep. It is also necessary to allocate the banks' mandatory reserves in order for them to cover their share of the required liquidity.

2. What if a bank defaults during repayment?

   It remains entirely possible that some banks will stop paying during the repayment period. Ignoring this "early test" means the plan could collapse from within before reaching its halfway point, because honoring commitments is the core of the law and the condition of its credibility.

3. The state's role in financing

   If the Lebanese state fulfills its obligations toward BDL, the ability to secure liquidity according to a viable schedule changes fundamentally. But, if the state does not pay what it owes, the process becomes hypothetical rather than realistic.

4. Ensuring the continuity of the banking sector

   Wiping out banks' capital and imposing future burdens on shareholders will destroy any incentive for recapitalization. Restructuring the banking sector requires a balance between restoring depositors' rights and ensuring the sector's continuity as a vital channel of financing and a partner in economic growth. Weakening or dismantling the banking sector will not serve depositors and will block any genuine path to repayment.

In conclusion,

Unless the liquidity constraints and the corrective measures outlined above are taken into consideration, the law will lead to a new default on payments instead of becoming a framework for restoring rights.

Note: This editorial 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 published by ABL. It reflects his personal opinion and analysis of the developments, without binding ABL to its content, which remains the sole responsibility of the Secretary General.