Between the Pursuit of Sector Reform... and the August 31 Deadline!

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At a time when Parliament is working on enacting the law for banking sector restructuring, and while awaiting the law addressing the Financial Gap, the Directorate of Revenues at the Ministry of Finance issued a decision, bearing serious consequences that could undermine what remains of the banking sector's viability.

What the Directorate of Revenues is requesting:

- That banks pay a 17% tax on provisions they had previously allocated in compliance with the Banking Control Commission's decisions at the Central Bank of Lebanon.
- These provisions were allocated to cover the losses from holding the Lebanese Republic Eurobonds, which the State defaulted on their payment in March 2020.
- The tax payment deadline: August 31, 2025.

What is the current status of these bonds?

- The bonds are currently trading on international markets at about 18 cents to the dollar.
- This means the State has effectively cut 82% of their value – funds that ultimately belong to depositors.
- Yet, the State is now demanding an additional 17% tax from banks on those losses!

The dangerous contradiction:

- The Banking Control Commission at the Central Bank had required banks to provision 75% of the value of Eurobonds after the State's default.
- Article 7 of the restructuring draft law explicitly states that "government bonds and sovereign instruments held by banks shall be valued at market price", currently around 18% of their nominal value.
- The Ministry of Finance, which drafted the restructuring law, contradicts itself by demanding taxes on these provisions, which are a mere accounting reflection of the bonds' collapse in value.

Catastrophic consequences of this decision:

- Draining hundreds of millions of dollars, possibly up to one billion, from the banks' liquidity – money that should be paid to depositors.
- Undermining banks' ability to meet monthly payments to depositors, if their liquidity is depleted to fund the State's deficit through unjust taxes.
- Threatening the implementation of any future reform plan.

Legitimate questions raised by banks:

- If the State officially defaulted, why doesn't the Directorate of Revenues perceive the need to provision for Eurobonds' losses?
- What is the benefit for banks to hold bonds if taxes erode their remaining value?
- Is it in the State's interest to push banks to realize losses by selling their bonds, leaving them entirely in the hands of foreign entities?

The message is clear:

- Banks remain committed to finding a fair solution to the crisis through a comprehensive law that addresses the financial gap and restructures the sector.
- But they consider taxing losses as an approach that undermines the credibility of the entire reform process.

The proposed solution:

- Either by including a legal framework for these provisions in the restructuring law.
- Or by postponing the tax payment deadline until the fate of the Eurobonds becomes clearer, in the near future, through the upcoming financial gap law.

In conclusion:

- Imposing taxes on losses caused by the same party that caused them is a precedent worthy of a global patent.
- If the issue of the Eurobonds' provisions is not addressed wisely, the Parliament's legislative efforts will be in vain, because there will be no banks left to restructure.

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.