The contribution of the Association of Banks in Lebanon to Lebanon's economic recovery

The Association of Banks presented during the Finance and Budget Parliamentary Committee meeting today (20/05/2020) its approach to saving Lebanon from the crisis it faces. This is despite the fact that the Association was not informed or consulted in preparing the government's plan for economic recovery, even though the Lebanese banking sector is one of the most dynamic sectors in our national economy and contributes to 6 percent of the GDP.

The sector also contributes to a remarkable amount to government revenue and the financing of the public sector, while employing approximately 26,000 highly qualified and skilled employees.

During the meeting, ABL expressed its readiness to work with the authorities to find the most appropriate solution to adopt in the national interest.

1- The governmental plan for financial recovery involves several loopholes which will lead the country, if implemented, to a social and economic catastrophe. Although Lebanon is in an unprecedented crisis and suffering in the short term cannot be avoided, there is no reason to deepen the collective misery and delay the economic recovery. There is no doubt that there are better ways to resolve the crisis while enhancing the durability of the financial and economic system as a whole.

First, the government's proposal is not an economic plan but a set of accounting exercises, and has failed to address the roots of the crisis. Even if balance is restored in the coming months, this will only last for a short period, paving the way for the reproduction of new imbalances that will again need to be corrected, at the expense of the Lebanese people.

Second, the government's plan seeks to achieve this apparent balance by defaulting on internal debt. Internal defaults are extremely rare because they have serious complications. If Lebanon plunges into a severe economic downturn due to internal failure, no light will appear at the end of the tunnel: our capital is the human element that transcends borders.

Failure to pay off internal debt would lower our production to a level lower than that of Yemen and Cambodia, and our people would suffer from poverty for the next decade.

Moreover, the government’s plan also calls on the Banque du Liban to default. Central banks around the world always fulfill their obligations, if they do not want to be like the Central Bank of Zimbabwe.

Third, the government's plan does not even take account of its own initial repercussions. The severe economic recession coupled with this internal default makes the government's fiscal revenue projections unrealistic. A default on internal payments would lead to a sharper drop in GDP than the plan allows for, a fall of 25 percent rather than 14 percent.

The plan also fails to recognize the further deterioration of tax revenues that will result from a significant decrease in tax compliance. Citizens will feel a lack of responsibility in financial matters, which may lead to bankruptcy for many people and companies.

Finally, the government does not provide an economic vision to pull the economy out of recession.

Indeed, we at ABL are firmly convinced that Lebanon can achieve significant economic growth of 5-6 percent annually through the adoption of an economic structure that enhances our competitive advantages, as carried out by Hong Kong, Ireland, Singapore and others.

These countries share much with us: they all have a small geographical area, they are all surrounded by large countries, suffer from scarcity of natural or primary resources, and have qualified human capital.

2- The Association of Banks' contribution to Lebanon’s financial recovery has two pillars, and it is coupled with a clear timetable for implementation in stages:

The two pillars are:

• An immediate, balanced and effective response that addresses external financing needs and sets the financial and debt track in the medium term on a sustainable basis, while avoiding a domestic debt default that would have devastating consequences for the Lebanese people and the country's ability to restore confidence; and

• Launching long-awaited structural reforms in the coming months to promote sustainable and inclusive growth through economic diversification.

B - Clear and timely interim implementation

(1) We have prepared an economic approach based on the assets of Lebanon – its people – and the factors that have led similar countries to success. This approach is based on diversifying the Lebanese economy from a rentier economy to a productive economy, and making use of our incredible human capital to successfully introduce Lebanon into the knowledge economy.

(2) - This diversification will be accompanied by an ambitious and realistic infrastructure plan in the areas of transport and communications, with structural reforms required for these sectors.

(3) - Unlike those in the government plan, our balance of payments projections stem directly from the economic approach we have set out.

Our projections show the balance of payments evening out under the ABL plan, to achieve our vision of balance by 2024.

• On the financial front, our approach aims to achieve a realistic initial surplus of around 2.1 percent of GDP in 2024, which will put public debt in a positive context.

• Public finance performance will include the creation of a social safety net with an unprecedented value of 4 percent of GDP by the year 2024. We are not planning this level of social spending in an illicit and conciliatory manner, but rather proposing what we see as necessary to avoid the continuing decline of Lebanese citizens to poverty and destitution.

(4) - These results can only be obtained if the government abandons its dangerous choice of adding harmful internal defaults to external defaults. It is not possible to achieve financial stability or economic growth in a country that decides to cancel its debts unilaterally, confiscate property illegally, and interfere in private contracts. There is no question that the rule of law and respect for the sanctity of contracts are prerequisites for economic growth. We will not succeed as a country if we adopt quick, hasty solutions to our problems.

(5) - The Association's approach focuses on avoiding default on internal payments, and reduces external financing needs to about $8 billion instead of $28 billion within the same time horizon as the government's plan.

Our approach emphasizes the main role that the monetary and supervisory authorities in Lebanon play in terms of restructuring the Lebanese financial sector and restructuring and rescheduling public debt. Therefore, we see, as a first step, that the government's debt to the Central Bank must be settled fairly.

Our approach envisages a settlement mechanism that includes the following steps:

Establishment of a government debt relief fund (“GDDF”);

• The government’s contribution through public assets of $40 billion to the said fund in exchange for 100 percent of the fund’s shares, i.e. fully owned by the government;

• The issuance by the fund of long-term secured securities of $40 billion, to be held by the Banque du Liban in exchange for the final settlement of government debt in favor of the Central Bank;

• The Central Bank of Lebanon will assign to the fund the entire eurobond portfolio and Lebanese treasury bonds;

• In return, the fund will write off the government the entire debt portfolio referred to above, against the assets that the government contributed to the fund.

• The fund revenue balance is transferred to the public treasury after the fund pays the interest due to the Banque du Liban.

This internal exchange avoiding defaults can be implemented quickly and smoothly for the benefit of all stakeholders, allowing the government to move forward in dealing with the rest of the pressing issues the country faces.

Lebanese banks do not require rescue or bail in. The banking industry is sound, and all we need is for the government to adhere to its obligations.

Banks are ready to begin immediate negotiations with the government to reschedule public debt, moving in the direction of extending maturities and reducing benefits in line with the state's ability to pay, while preserving the interests of depositors and the integrity of the banking sector within the legal and constitutional framework of Lebanon.