



Banks: Truth versus Assumptions (Part 1)

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A lot has been said about what banks want or reject. Still, there is a truth that cannot be denied or leave any room for assumptions.

First assumption

Banks oppose Capital Control so that they keep on transferring funds abroad.

The truth

Any future transfers abroad cannot be in favor of banks as their viability is currently being assessed by the regulatory bodies and international parties according to their liquidity in foreign currencies. Therefore, any transfers abroad will certainly reduce their liquidity in foreign currencies and threaten their continuity, which makes this assumption absolutely invalid.

Second assumption

Banks oppose Capital Control because they don't have enough liquidity to pay \$1,000 per month as mentioned in Article 6 of the draft law.

The truth

Most banks may not currently have sufficient liquidity to pay a maximum of \$1,000 per month, as required by the draft law, but the majority of banks can continue applying Circular 158 according to the following: \$800, half of it in Lebanese pounds and the other half in cash dollars, of which \$200 secured by the Central Bank and \$200 provided by banks from their own liquidity. This equation might be applicable by number of banks, although in reality, we cannot confirm that all banks will be able to do so. Therefore, continuing to apply Circular 158 remains the most applicable solution.

Third assumption

Banks support the Capital Control Law to protect themselves from lawsuits through Article 12 of the draft law.

The truth

With regards to Article 12 of the draft law, related to judicial procedures, it is acknowledged that few large depositors residing abroad are the ones who won lawsuits against banks, drying up their liquidity that is supposed to be equally distributed among all depositors by virtue of Circular 158. Allowing few non-resident depositors to take over the rights of small depositors, who have no capacity to bear the costs of lawsuits abroad, is a pure discretionary act that can be referred to as "the lawsuits of large depositors against small depositors". To face this discretion, the remaining liquidity in banks should be preserved, despite its scarcity, in order to be used for providing deposits as per Circular 158.

Fourth assumption

Banks have no interest in proceeding neither with the draft law on rebalancing the financial sector nor with the draft law on restructuring the banking sector, as they prefer to maintain the current situation with the aim of depleting deposits over the years.

The truth

This assumption lacks accuracy as numbers confirm the opposite. The decrease in foreign currency deposits by about \$27 billion, since the beginning of the crisis, is mostly due to the repayment of a large part of the loans by checks or bank transfers. As a result, these loans currently represent about \$12 billion. Any future drop in the amount of deposits will only be the result of withdrawals, which may not represent more than 2 to 3 billion dollars annually. This means that any depletion of the remaining deposits would only be realized in 30 years! Does the banking sector have the luxury of time to wait for decades with what it's accumulating as annual losses and the downsizing that it's suffering from? Is it in the interest of banks to consider keeping the situation as is? Therefore, this assumption is considered invalid, at least from a practical point of view.

Fifth assumption

Some mistakenly believe that writing off deposits relieves banks from their obligations.

The truth

Writing off deposits at any time in the future would in fact be motivated by the State's desire to discharge itself of its financial commitments to banks, in an indirect way. In that case, we will continue witnessing the State as a passive spectator watching irresponsibly the confrontation between the banks and the depositors. It's as if a reckless driver caused a pile-up, then ran away and looked at the scene from afar, allocating responsibilities and directing ambulances.

Sixth assumption

The "Deposit Recovery Fund" is the most appropriate solution for banks.

The truth

The banks perceive such a fund as one of the possible solutions, provided that they don't end up bearing the bulk of its financing, while the State only assumes a small share that is more hypothetical than realistic. The State has squandered 62 billion and 670 million dollars from deposits in foreign currencies at the Central Bank, out of a gap of 73 billion, the equivalent of 86% of this gap. Therefore, it must contribute in the same proportion to the "Deposit Recovery Fund" by different means, including but not limited to partnering with the private sector, as well as allocating part of the expected future oil revenues to this Fund. Otherwise, it is nothing but a way for the State to evade from its responsibilities in a clear violation of Article 113 of the Code of Money and Credit, which stipulates that it is up to the State to fully cover the losses of the Banque du Liban.

Seventh assumption

The solution starts with reforms in the banking sector, and everything else will follow naturally.

The truth

Going back to the basic question "Who drained the depositors' money?" we realize that the banking sector reform is only part of the solution and cannot achieve its expected outcomes in the absence of a radical reform of the public sector. Depositors' money was dilapidated because the public

sector used the private sector's money to finance its corruption. In other words, if the banking sector undergoes reforms and money is reinjected into the system, the deficit of the public sector will drain, directly or indirectly, everything again. This is what has been happening since decades. What is requested today from Banque du Liban in terms of ensuring the financing of Electricité du Liban in exchange for repayment from collection falls within this context, and everybody knows what collection means in Lebanon. This approach is no longer acceptable neither for bankers nor for depositors.

Eighth assumption

Banks are hindering the adoption of any solution or recovery plan.

The truth

Neither the government, nor the Central Bank, nor the banks are able to overcome the Parliament, which is the ultimate decision-maker. The Association of Banks has expressed full cooperation and clearly stated its opinion in its circular issued on the 4th of October 2022. Nevertheless, the final say goes to the legislative authorities.

Ninth assumption

The funds that will be provided by the IMF will not be sufficient.

The truth

The importance of the agreement with the IMF does not lie in the \$750 million that the fund will provide on an annual basis over four years, nor in what the fund's partners will secure. Those partners can be split into two categories:

- The Gulf countries that have their well-known political requirements.
- Western countries and international organizations whose assistance is limited mostly to infrastructure projects and linked to terms and conditions that will not make them available in the short term.

The importance of an agreement with the IMF lies in the package and sequencing of reforms that must be implemented to eradicate corruption and improve the efficiency in the public sector, in addition to stopping the smuggling across the borders.

Note: This article is part of a series entitled “Banks: Truth versus Assumptions” 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.