How Depositors Lost $50 Billion in 43 Months

Once again, international experiences give us lessons that we refuse to learn from under various pretexts and we persist in accumulating mistakes as the crisis intensifies. The crisis of three American banks prompted the relevant authorities in the United States to act with utmost speed to address the situation and prevent a crisis whose repercussions, had they spread, could have affected the entire American financial system. Similarly, during the Credit Suisse crisis in Switzerland, the concerned authorities kept their meetings open throughout the weekend until they ensured the crisis was managed and the situation contained before the start of the following workweek.

In Lebanon, however, we are champions of the Guinness World Records. If the International Monetary Fund studies the Lebanese crisis, it describes it as unprecedented. If we face constitutional voids, we carry on with whatever is available, proving that we are the only country in the world capable of living with a presidential vacancy repeatedly and for years on end, without batting an eyelid. Our Guinness Records list could begin with the number of corrupt individuals in all sectors and would not end with the record-breaking number of months wasted during crises.

Forty-three months have passed since the crisis began, and the countdown continues. Guinness has not yet announced this as a record, only because we are capable of wasting even more time, a skill we have mastered. Over these forty-three months, depositors have lost $50 billion of their deposits, and yet the state continues to discuss plans, withdraw some, and reframe others. Even when certain laws are passed, they are met with disapproval from the IMF.

How $50 Billion of Depositors’ Funds Were Squandered After October 17, 2019:

1. Loans to the Private Sector

On October 15, 2019, loans to the private sector denominated in dollars amounted to more than $38 billion. By the end of March 2023, this figure had dropped to around $9 billion. This means $29 billion of depositors' funds were repaid, either in Lebanese pounds at the fixed rate of 1,507.5 or in local dollars. This occurred because authorities failed to enact the legislative and regulatory measures necessary to protect depositors' funds. Such delays fundamentally transformed Lebanon's economic system into one resembling wealth redistribution economies, where yesterday's borrowers became today's wealthy, and yesterday's wealthy became today's poor.

2. Mandatory Dollar Reserves

In Lebanon, we rely on one resource and that resource is the mandatory reserves. These reserves were used for financing fuel, medicine, and flour subsidies, meeting the state's foreign currency needs, paying public sector salaries, stabilizing the national currency via the Sayrafa platform, and other non-standard uses. It is as if everyone has forgotten that the reserves are a special-purpose deposit dedicated to protecting deposits and exclusively reserved for depositors—all depositors—each according to a percentage of their deposit.

At the beginning of the crisis, Central Bank’s balance sheet showed approximately $31 billion in foreign currency reserves, of which $22 billion has since been spent. Had this amount been returned to depositors at the time, the majority of accounts could have been settled, restoring justice to hundreds of thousands of depositors. Instead, politics chose to turn the Lebanese economy into what resembled communist economies, though without even respecting communist principles, as the lion's share of these funds benefited influential insiders or went abroad rather than supporting the people.

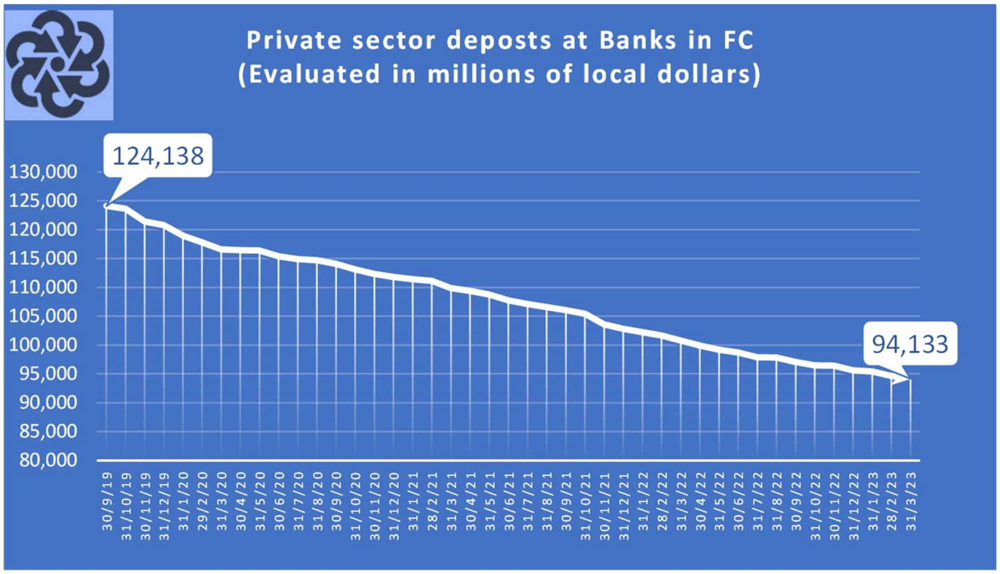
$31 billion used to represent 25% of the $124 billion in foreign currency deposits as of October 15, 2019. Today, only $9 billion remain, accounting for no more than 11% of the $93 billion in these deposits. How did this percentage decrease, and why?

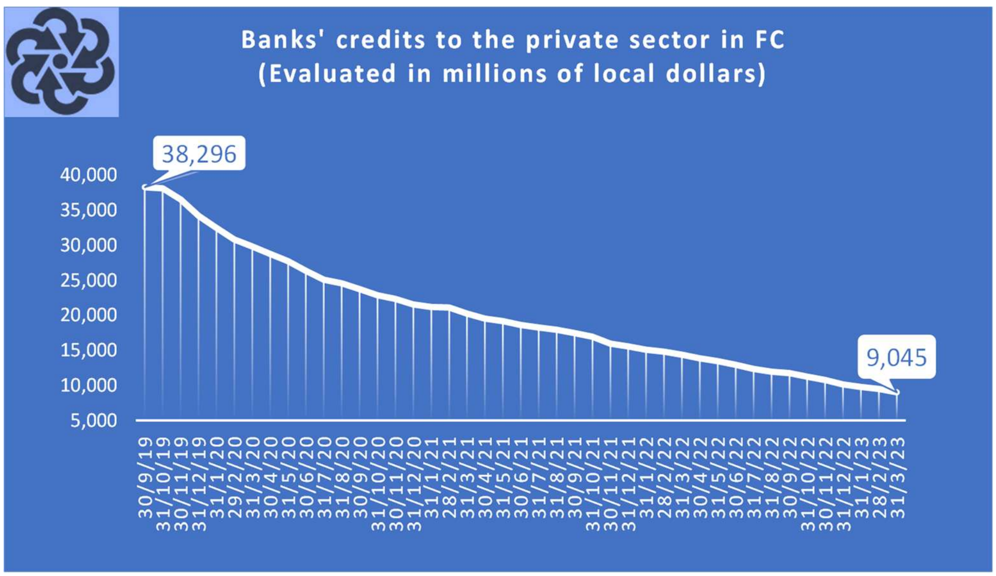
In July 2021, the Central Bank of Lebanon reduced the minimum required reserve ratio from 15% to 14%. Banks expected the 1% difference in deposits to be liquidated in cash for distribution to depositors. However, they were surprised to find that this percentage was instead placed in their current accounts at the Central Bank, without the option to withdraw it in cash. Currently, the reserve ratio has dropped to 11% of deposits without any logical explanation or official circular to justify this decline. It is not unlikely that the Central Bank will issue a circular in July lowering the reserve ratio to this level or even lower (depending on what remains at that time).

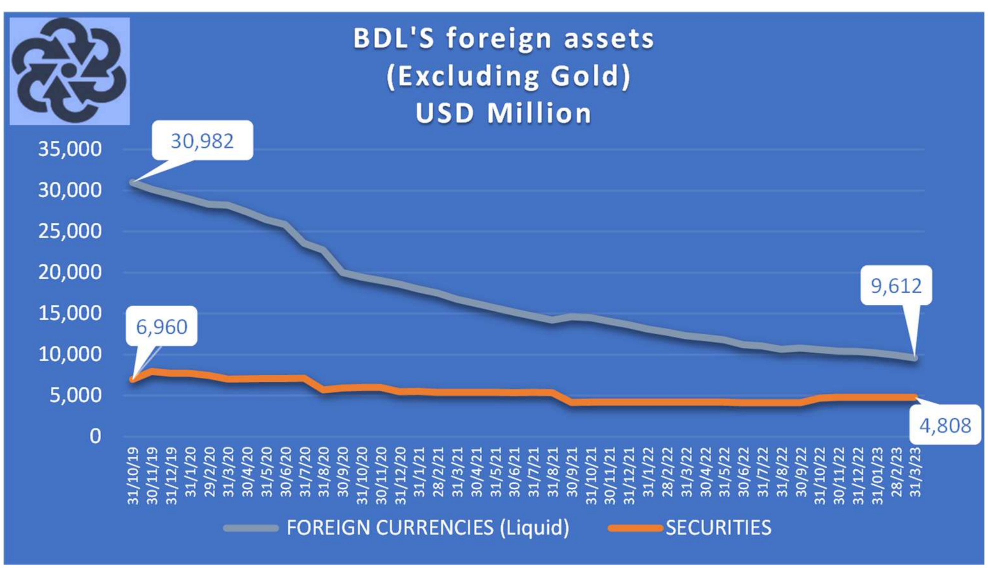
This is what depositors have lost so far, despite the multiple warnings issued by banks. However, the more alarming development is the leaked information about granting four licenses to new banks that will deal exclusively in "Fresh" dollars, whether in terms of deposits or loans. In effect, this means the creation of a new banking sector and the destruction of the current banking sector along with its deposits. It is worth noting that while discussions are ongoing about ways to recover deposits, this new blow diminishes all hope. The reality is as clear as daylight: if banking operations shift to a newly established sector, existing banks will not be able to participate in resolving the crisis unless the necessary conditions for their continuity are secured. This is a new call for attention that the relevant authorities must hear and not ignore. It is also worth mentioning in this context that, although the Governor of the Central Bank of Lebanon assured banks that there is no intention to issue new licenses, the Economic Committee has included this matter in its discussions. This leaves the issue unresolved and open to interpretation.

There is no doubt that the pressures mentioned above, which the Central Bank of Lebanon faces in financing all payments in foreign currency, in addition to the pressures to stabilize the exchange rate, may prove difficult to face in a systemic crisis like the one the Lebanese economy is enduring. However, banks, which are questioned about the fate of their deposits with the Central Bank, have a duty to remind that they addressed the Central Bank twice on this matter – on March 31, 2021, and April 4, 2022 – emphasizing the necessity not to touch the mandatory reserve. Moreover, they stressed that the banks' deposits with the Central Bank must remain intact and preserved without any reduction. The response they received indicated that the Central Bank could repay these deposits in Lebanese pounds according to the exchange rate of the LBP against the U.S. dollar (a rate that was not specified in the response letter).

A transitional, rather a critical phase awaits the banking sector amidst a presidential and legislative void that has postponed solutions indefinitely. Meanwhile, financial obligations are accelerating, and constitutional and administrative gaps are piling up, leaving banks and their depositors clinging to hopes tied to speculative dates. You hear them say "after the holiday," "at the end of spring," or "after the regional agreement." It seems that Lebanon and the Lebanese have been condemned to wait until others find solutions for them – so much that they have recently started seeking them even as far as China.


Private sector deposts at Banks in FC
(Evaluated in millions of local dollars)
124,138
94,133


Banks' credits to the private sector in FC
(Evaluated in millions of local dollars)
38,296
9,045


BDL'S foreign assets
(Excluding Gold)
USD Million
30,982
9,612
6,960
4,808
FOREIGN CURRENCIES (Liquid)
SECURITIES