Eurobonds and the Five-Year Deadline

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Five years of payment suspension: reality and challenges

Nearly five years have passed since the Lebanese government stopped payments on its Eurobond obligations. This historic default has plunged the banking system and domestic economy into a spiral of legal and financial complexities, culminating in a systemic crisis that remains unresolved. Today, we stand at a critical stage requiring swift action from the state to safeguard the rights of both banks and depositors.

Legal risks for banks: time limitations and the loss of rights

1. **Loss of the right to claim interest:**
   - Under applicable laws, banks' right to claim interest on Eurobonds will expire if banks do not initiate legal proceedings against the state before the five-year statute of limitations ends. This legal reality places banks in a major dilemma whereby failing to take immediate legal action could result in losing their right—and that of depositors who entrusted their bonds to these banks—to recover due interest.
2. **Risk of losing the debt principal:**
   - What is even more concerning is that if six years pass without legal action, banks will also lose their right to claim the debt principal. This poses a direct threat to the rights of depositors who placed their funds with banks and to shareholders' equity, leaving banks in a position that cannot be tolerated.

Delays in legal action

While initiating legal proceedings is imperative to preserve rights, banks have waited, fearing significant repercussions for the domestic economy, including:

1. **Overburdening the state:**
   - If banks decide to sue the state, it would exert additional pressure on the remaining public assets, potentially leading to outcomes beyond the state's capacity to manage.
2. **Negative economic impact:**
   - Legal action by local banks could trigger international bondholders to take similar measures, exacerbating the crisis rather than resolving it.
3. **Loss of time and credibility:**
   - Any delay or procrastination by the state will prompt banks to accelerate legal actions to protect their rights, further complicating the situation and leading to inevitable confrontations.

Proposed solutions: a path to avoid the bitter cup

Recognizing the extent of these challenges, the Association of Banks has engaged in extensive high-level discussions with official entities to seek legal solutions that would prevent the need for litigation. The current situation can be summarized as follows:

1. **Official assurances:**
    - The Association of Banks has received preliminary assurances from government officials about finding legal solutions to extend deadlines, allowing for a balanced resolution. However, no concrete measures have been implemented by the state so far.
2. **Efforts for consensus solutions:**
    - The Association of Banks continues to work with stakeholders to reach a legal mechanism to extend deadlines and develop solutions that guarantee the rights of banks and their depositors while granting the state the time needed for financial recovery.

Urgent action required

Given this critical situation, the state must act seriously and swiftly through:

1. **Emergency legislation:**
    - The legislative authority must urgently pass laws to address this issue, ensuring the rights of banks and depositors are not forfeited.
2. **Enhanced dialogue among stakeholders:**
    - Any immediate measures should be followed by transparent and open dialogue involving the state, banks, and both local and international bondholders to reach fair and sustainable solutions.

Conclusion: "Forced by Necessity"

The challenges facing both banks and the state demand close collaboration and innovative solutions. Banks cannot afford being held accountable for failing to claim their rights, nor can the state ignore this complex problem. Bold decisions and practical steps are needed by mid-January 2025 at the latest, before filing a lawsuit against the state becomes not just an option but an unavoidable necessity.

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.