



The Comprehensive Plan: a prerequisite for the Banks' Reform

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It's encouraging to see a draft law for the reform and restructuring of banks in Lebanon emerge, even though it's still a second draft with deficiencies. However, it is unfair for the Central Bank of Lebanon (Banque du Liban - hereafter BDL) to abdicate its responsibility and position itself as an arbitrator within an entity where it is the most significant participant, especially without involving the primary stakeholder, the banks.

As for the state, it has spent four years going in a vicious circle. The government submits separated draft laws to the parliament, causing confusion due to their interconnection and contradictions. All of this is because the treatments lack the necessary comprehensive vision that can lead us to an effective solution.

Meanwhile, under its new governance, the Central Bank of Lebanon is making efforts through circulars to address the problems of a sector burdened by Riad Salameh's legacy. For those unaware of this legacy, the Alvarez & Marsal forensic report provides insight. It reveals how former governor Riad Salameh squandered the funds of banks and depositors, in collusion with the state, by concealing information in the financial statements and figures.

First: BDL did not uphold its previous commitments, so how can it become an arbitrator today?

Did BDL honor its promises to the banks? When the former governor, Riad Salameh, assured them during the monthly meeting on March 24, 2014 "... BDL is entrusted with the deposits of the banks in dollars and reinvests them with commercial banks and central banks with similar risks to banks' direct investments with non-resident banks. BDL does not use them but acts as an intermediary. The state does not have the right to use these deposits according to the Law of Money and Credit ...".

Then, on May 31, 2019, he reassured the banks again, saying, "... BDL has commitments from the Lebanese Treasury for repayment to preserve the currency reserves at BDL, as the state's solvency should not be at the expense of the Central Bank ...".

When the former governor was discussing responsibilities before the end of his term, a banker asked, "Do you consider that depositing with BDL is a mistake?", he evaded the answer. The same question could be posed to the Banking Control Commission during the drafting of laws. If indeed the deposit at BDL is considered a mistake, did the Banking Control Commission, which was responsible for monitoring banks' placements, take any action before the crisis to prevent banks from depositing with BDL? Was the Commission aware of what Riad Salameh was doing with banks' deposits? Here, the following saying applies, "if they knew, that would be a disaster, and if they did not know, the disaster is greater."

Regarding the state, which financed its budgets using funds from the banking sector, did it honor its commitments and laws? The banks not only relied on assurances given to them by the governor of BDL in the period before the crisis but also relied on the law, primarily on Article 113 of the Law of Money and Credit, which obliges the state to recapitalize the Central Bank of Lebanon in the event of any losses. Did the state apply its laws before working on new fragmented laws?

Second: determining the fate of deposits at BDL and Eurobonds comes first.

Before discussing any laws related to banks' balance sheets and solvency, shouldn't the following points be clarified:

- That BDL makes clear the fate of over \$80 billion deposited at its premises in foreign currencies by the banks.
- That BDL clearly shows, when publishing data related to its remaining liquidity in foreign currencies, that this liquidity corresponds to commitments towards banks and does not belong to BDL.
- That the state explains the fate of the Eurobonds held by banks.

These clarifications are necessary before any discussion, as how can the banks' situation be properly assessed without them?

In conclusion, the marginalization of the Association of Banks' opinion in draft laws, and the neglect of a comprehensive vision when proposing solutions, harkens back to the LAZARD plan. Its shadow is still evident in current draft laws, which lean more towards the liquidation of banks rather than their reform.

Note: This article is 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.