Question:

The draft plan has been seen as placing the burden of the losses in the financial sector – valued at $69 billion overall – on depositors while putting the smaller share on the government, banks and the central bank. $38 billion are expected to be covered by depositors and the $31 remaining by the government, banks and BDL. How do you respond to this criticism?

Answer:

Other than what has been published and reported in the media, we haven't seen any official draft of any plan prepared by the government.

However, if true, this reported approach in addressing the losses occurred in the financial sector is not acceptable at all, and will definitely not reverse the spiral downhill of the economy.

For any plan to be successful, it should be consensual by the public and the private sector.

The plan must be comprehensive and it should include all structural reforms, mainly the governance of the inflated public sector and the good governance of the state's profitable assets.

If we take the responsibility scale of this unprecedented crisis, everyone, including the current Government, admits that the responsibility lies by order on the successive Governments, the Central Bank, the Banking sector and other factors.

The responsibility of the crisis lies first on the successive governments. Inadequate state governance framework, rampant corruption, unwillingness to introduce the necessary reforms, the frequent political impasse, and consistent fiscal deficit led to the current large public debt.

And instead of tackling the core issues, the decision by the last cabinet to default on the sovereign debt without the government engaging with creditors on an orderly restructuring, made things worse and eroded public and international trust in the financial sector.

This hypothetical draft plan indicates it can eliminate the so-called "losses" in order to balance the books. This approach, already adopted by the previous Government, is a liquidation approach and will lead to a persistent loss of confidence for generations to come.

As ABL, we will not endorse any plan that will lead to nominal haircut on customers' deposits, and definitely we will not approve the total wipe out of the shareholders' equity.

Of course, we are prepared to shoulder our fair share of losses from Eurobonds restructuring and from any losses on the loan portfolio to private sector, but we strongly advocate that the recapitalization of the Central Bank is a legal obligation on the Government, pursuant to applicable laws (article 113 of Money and Credit Law)

Question:

The plan envisions a bail-in of large depositors to the value of $12bn, equivalent to 78% of shares in the banking sector, and reducing shareholders and creditors to 28%. How do you view this proposal?

Answer:

Well, again, the approach is wrong, we cannot just try to quantify some subjective losses and ignore the objective liabilities in the BDL balance sheet. “Losses” are not an input to a liability management model or debt sustainability analysis: they are the result.
When we get to a consensual and comprehensive agreement with the Government, and after the Government fulfills its legal obligation to restore Central Bank solvency, only then, we can know if any bail-in is needed and the subsequent resulting dilution. All these figures have no scientific basis. And, needless to say that any needed bail-in should be assessed on a case-by-case basis for each bank and by the competent banking authorities, i.e: BDL and BCC.

Question:
The plan clarifies that banks can reduce depositors share of the banking system to 43% if they inject $1bn in fresh capital. How does the ABL view these proposals?

Answer:
We cannot stress more our strong objection to this hypothetical plan and its rationale. Concerning the injection of fresh capital, the shareholders of the banks have already fulfilled their obligation to increase equity by way of cash contribution to capital for more than USD 4 billion in compliance with BDL basic circular 154, mainly funded by selling foreign assets. We see no logic behind asking the old shareholders for fresh capital and consider the money from the bail-in as new capital leading to dilution of old shareholders. Moreover, every bank should submit, to the Central Bank and to the Banking Control Commission a recovery and restructuring plan, which includes a clear assessment of its solvency, liquidity and its business model. Only then, the banking authorities can impose a recapitalization roadmap that should be based on “Gradualism” and “Regulatory Forbearance Period” principles, recognized by Basel Committee, IAS Board and IMF.
It is important to keep in mind that no shareholder or new investor would ever invest if all the structural reforms have not been put into a credible implementation plan and a clear roadmap. For any economy to be revived again, it needs primarily the input of businessmen and the entrepreneurs, and those need to be confident that the country is on the right path.

Question:
What role, if any, has the ABL played in the drafting of this plan?

Answer
No role at all, and, again, we have no certainty that this draft plan has been prepared by the Government or not.
The ball is in the court of the government to come up with a rescue plan for the economy and not a plan to save the future of the politicians who led the country into the current unprecedented crisis in the history of Lebanon. Any plan must be scientifically driven and not politicized, especially when we are approaching the deadline of the parliamentary elections.