Depositors in Lebanon rebel, demand banks be held to account

As the global financial crisis worsens, taking shape in different ways in different nations, one thing is clear: The population will not be duped into believing that actions which prevent them accessing their bank accounts and securing their livelihood are solutions. A period of political revolution is unfolding, and only real solutions to reinvigorate the productive economy and put banks back in their place—financing real economic growth—will wash. Lebanon is the latest case in point.

Protestors target a bank in Beirut on 14 January. Photo: AFP/Marwan Tahtah

From last August through December, as the economy tanked and a crisis of confidence unfolded, Lebanese banks saw some $10 billion1 in deposits leave their coffers, according to an 11 February Reuters report. The situation worsened as the government of Prime Minister Saad Hariri fell in October, amid protests ostensibly triggered by government plans to tax WhatsApp calls. Banks closed for weeks at a time, schools and businesses were shuttered, highways were blocked and general strikes ensued. After a new Government—led by former Education Minister Hassan Diab—was confirmed on 21 January, the rallies continued, with protestors honing in on the banking sector and worsening economic crisis. Diab has close ties to the ruling political elite, and it does not help that the new Economy minister, Raoul Nehme, is the executive general manager of one of the country's largest banks and has served as an advisor, executive or board member at three other banks.

Heavily dependent upon foreign capital flows, the Lebanese banking system is facing a liquidity shortfall of $15-25 billion to keep balance sheets in accord with central bank requirements. This was unleashed by declining foreign investment which set off a gradual collapse of Lebanon's housing bubble, impacting banks. According to the IMF, "about 90 per cent of the banking sector's loan portfolio is exposed to real estate". Like Australia, Lebanon had escaped the worst of the 2008 global crisis, but now people have begun to lose faith in the banking system.

In October, banks were closed for two weeks, after which capital controls were imposed to prevent money being transferred overseas, along with weekly limits on cash withdrawals—at present $500 per week but as low as $200 at one point. Credit downgrades to "distressed" levels, as of December by all ratings agencies, have made the banks' position worse, forcing them to put up cash to secure letters of credit. Bank holdings of US dollar liquidity, for international transactions, is equivalent to just 3 per cent of their capital. Commercial banks are also the biggest creditors to the state, putting a fine point on the crunch point which has been reached.

The bank actions have led to irate customers holding bank staff to ransom to demand their cash, sometimes with guns, attacking ATMs or blocking bank entrances with trucks. Protesters, including outside the central bank, hold signs declaring "We won't pay the price" (of the financial crisis).

Proposals to rectify the situation include: new share issues which would heavily dilute share values; banks selling foreign investments or bank units; bank bail-in, whereby various 1. All figures in US dollars. bank creditors including depositors and holders of local currency would take losses; or nationalisation of a large part of the banking sector. (Lebanon is complying with but has not fully finalised Financial Stability Board bail-in requirements.)

No real economic solutions have been tabled, and the population can see that despite attempts to appear independent, “the new government seems to be working to save bankers and oligarchs at the expense of the middle and working classes”, *Middle East Eye* reported on 10 February. The new banker-economy minister immediately proposed to get more loans from the IMF—“as though we have learned nothing from the catastrophic history of neoliberal practices and IMF or World Bank interventions”, wrote Rima Majed. The solution must instead involve “new ways of doing politics that prioritise society over profits”.

Asia Times on 22 November talked to people who had had extreme difficulty accessing savings, at the same time as reports circulated that massive amounts of money was fleeing the country. “It seems the banking regulations are being applied only to regular people and low-income depositors”, Lebanese parliamentarian Bilal Abdallah tweeted. “How else”, he asked, “could anyone explain the $800 million that was allegedly transferred overseas when the banks were closed?” Economist Jad Chaaban tweeted in response: “You and your colleagues had the power to form a parliamentary committee of inquiry to hold the banks and central bank accountable, but you refused.” The Lebanese pound is pegged to the US dollar, but the arrangement threatens to be broken by ongoing events. Many businesses and agencies are only accepting payments in dollars, so with dollars in high demand black market exchange rates are popping up everywhere. The peg is becoming increasingly expensive to maintain. According to a Lebanese economist who spoke to Asia Times, many people believe money is “being wasted to maintain a system that has expired”. The belief that the peg will protect the Lebanese pound and avert crisis is fast being proved a myth. Financial instability has been set off all round—from October through November bond yields skyrocketed from 13 to 105 per cent and interest rates on Lebanese pound accounts are running as high as 10-15 per cent in an effort to stop money flowing into US dollars.

Unemployment stands at just under 50 per cent and the poverty rate is around one-third of the population (if Syrian refugees are not counted), according to the 12 December *Asia Times*. In recent years, while the economy collapsed the banks have still been very profitable, including via central bank exploitation of the peg through so-called “financial engineering”. This has driven up public debt, encouraged inflation, which had risen to 7.6 per cent by the end of 2019, and rising interest rates. Even former IMF economist Toufic Gaspar, who warned of a crisis in a 2017 paper, said the central bank operates like a “Ponzi scheme”. Goldman Sachs indicated in December that the central bank, Banque du Liban’s financial engineering may not be sustainable, warning the country could be close to default.

Prior to the October Revolution, as some are calling it, “For each bank it looked like this was paradise”, Lebanon’s former central bank vice-governor Nasser Saidi admitted, according to the 31 December 2019 *Financial Times*. Bank deposits had grown by over 70 per cent in two years, while offering ten per cent interest rates. With that era having come to an end, the people still have one major question: Will the government prioritise banks and foreign creditors over them? “You see people—how shocked they are—by the fact that they can’t access their money”, says Sibylle Rizk, director of public policy at lobby group Kulluna Irada. “It’s because they have been simply deceived.”

Despite big money-flows into Lebanon over many years, said Ms Rizk, “We have no infrastructure, no productive sector. We have nothing. All this money was burnt on consumption … through imports and real estate, which is a bubble, and to defend the peg.”

As with all nations facing the now-collapsing global financial bubble, the only answer to the population’s “we won’t pay” demand is to hold banks accountable by heavily regulating their speculative, profit-gouging activities and returning the banking system to the service of the real economy and the common good.

By Elisa Barwick, Australian Alert Service, 19 February 2020
