



LIFE's policy positions - a 10-point Q&A

March 2020

1. Is LIFE in favour of official capital controls in Lebanon?

Yes. Imposing well thought through, formal and legislated capital controls would ensure that depositors are treated fairly, which the current unofficial capital controls do not. Official capital controls should also privilege essential imports to ensure food security and availability of medical supplies and treatments. Those official controls should be thought of as temporary.

2. Is LIFE in favour of the government defaulting on its bond obligations?

Lebanon will not be able to service its sovereign debt and should therefore restructure it. Any debt liability management exercise should be handled delicately ideally in consultation with all creditors (including both International and domestic creditors) and form a component of a broader economic transformation plan, which includes severe fiscal consolidation, addressing financial imbalances, including the BdL balance sheet, and a long-term economic strategy.

3. What should be the immediate priorities of the government?

The government should immediately adopt and start implementing a holistic economic plan, focusing on fiscal consolidation (including a halt of subsidies to EdL and the adoption of a credible energy plan), bank recapitalisation (while reinforcing the protection of at least smaller depositors), addressing the Lebanese economy's competitiveness, enhancing the social safety net for the less privileged, and substantially strengthening Lebanon's rule of law.

This plan should include an eventual migration towards a new official credible and sustainable currency exchange regime, instead of the current untenable two markets system that is detrimental to the economy and bank depositors.

4. What should be the strategy with regards to the banking sector?

As the economy witnesses a deep and prolonged adjustment period, the Lebanese banking sector will witness significant impairments due to a deterioration in their asset quality and the likely restructuring of the sovereign debt and their BdL exposure. This will require a major recapitalisation of the banks, which could be facilitated through a legislated bail-in mechanism. However, as the situation progresses, it is imperative that smaller depositors be protected.

5. Should Lebanon deal with the IMF?

Lebanon has run out of options and engaging the IMF, within a well negotiated program, is likely to be one of the very few options available to avoid a complete economic and financial meltdown. The IMF's primary role is to assist countries going through economic and financial crises, by providing them breathing space while they implement an economic adjustment program to restore stability and conditions for a sustainable economic path.

Given Lebanon's multi-faceted crisis, it is imperative for the program to contain measures ensuring a social safety net for the less privileged and protect smaller bank depositors. Additionally, the adoption and



implementation of a credible economic program might encourage friendly countries and organisations to support Lebanon.

6. Are we blowing this economic crisis out of proportion?

No. This is a transformational crisis.

Idleness and inaction will increase costs and further endanger social stability, with significant increase in unemployment, poverty rates, emigration and security issues. Inaction also leads to the erosion of food security and disruption in critical materials such as medical supplies.

Lebanon requires strong and decisive economic leadership to be able to manage the crisis, mitigate losses and start an orderly but unavoidable economic adjustment that could eventually set Lebanon on a more sustainable path.

7. What should the government do with EdL?

EdL has been a major source of fiscal leakages and should be at the very top of the government's priorities. Tangibly, it means adopting a credible and transparent energy plan, leveraging potential financial facilities from the World Bank and other sources and ceasing subsidies to EdL.

Cutting subsidies to EdL will have to be actioned together with the immediate implementation of a credible electricity reform plan thus reducing government expenditures and dollar outflows from the country.

8. Are bank deposit "haircuts" inevitable?

The banking segment is under substantial stress and will require a major restructuring, which will likely involve a bail-in mechanism impacting a portion of deposits. More credible efforts should be made to salvage smaller depositors and we believe it is possible to do so.

9. What is LIFE's position on privatization of state assets?

Now is not a good time to consider privatizing state assets.

Privatization should however be contemplated when the rule of law is substantially stronger and transparency is credibly enhanced. Moreover, any potential privatization should be part of a holistic economic plan that will put Lebanon on a more sustainable path.

Privatising state assets that have historically been riddled with corruption and used to curry political favours will reduce the risk of this happening in the future. It should also be made commercially viable and generate future government revenue through tax collection.

10. Will oil and gas exploration save Lebanon from its current crisis?

No. Scientific evidence along with precedents indicate that any potential benefit from Lebanon's still to be confirmed oil and gas reserves is more than three to four years away in the best of cases.

LIFE is a global network of Lebanese professionals working together towards a brighter future. As an apolitical, non-sectarian organisation of Lebanese professionals, LIFE will continue to provide independent, objective and transparent views and advice and is not influenced by any body, association, or party.