

RAED CHARAFEDDINE

Central and Commercial Banker, former First Vice Governor of the Central Bank of Lebanon

Jean-Claude Trichet, European Chairman of the Trilateral Commission, former President of the ECB

I turn now to Raed Charafeddine. You have the floor.

Raed Charafeddine

Thank you, Mr. President. While the global health crisis and large-scale lockdowns resulting from Covid-19 are inflicting a huge impact on different levels of the global economy, including growth, risk management, inflation and over-indebtedness, the divergent recovery among advanced, emerging and developing economies has been a major concern. In addition to the aforementioned risks, inherent downside financial risks have been exacerbated, particularly excessive risk taking and abnormal asset valuations, vulnerabilities of the non-bank financial intermediaries, financial tensions due to market corrections, crypto asset disruptions and cyber insecurity. Due to the widening gap between economies, improvements in global health and economic indicators might have significant upside risks for the global economy and vulnerable developing economies in particular.

Lebanon is a developing country that is struggling on diverse fronts which are general and specific in nature. One is the Covid-19 lockdown. Two is the geopolitical tensions, including the Syrian crisis. Three is the liquidity crisis that erupted in the last quarter of 2019. Four is the government's decision to default on payment of all of its outstanding Eurobonds in March of 2020. Five is the Beirut port explosion on 4 August 2020, which caused major destruction in the Lebanese capital and led to the resignation of the government. Six is the prevailing energy deficit that is paralyzing dynamic socioeconomic sectors on national scales. Those are to name a few.

The Lebanese economy has plunged into a severe contraction across all economic sectors, combined with an unprecedented surge in prices. According to the International Monetary Fund, the economy has contracted by about 30% since 2017 and it is expected to contract further in the remainder of 2021 and 2022, while growth contraction has been estimated by Banque du Liban, the central bank of Lebanon, BDL, at negative 21.5% in 2020. The Lebanese lira has lost approximately 90% of its value and food prices have increased almost tenfold since May of 2019. Unemployment is exceptionally high and over half of the households are below the poverty level. The average inflation rate in 2020 is 85%, whereas the year-on-year inflation between July 2020 and July 2021 has reached 123%.

In the midst of the challenging circumstances that Lebanon is facing, BDL, the central bank of Lebanon, has been deploying measures to help the economy survive, and here I am talking in my capacity as an observer. I am not a central bank official. I have not been an official for the past two and a half years, so as an observer looking at what the central bank has been doing and assessing the effectiveness of the measures, I have really counted and put together what the central bank has been doing.

Through these measures, Banque du Liban has issued a series of circulars that reflect its crisis management strategy, along with some key economic priorities. These initiatives can be divided into three main categories: one, the monetary and exchange rate policies; two, socioeconomic support; and, three financial sector regulations. The first one is the monetary and exchange rate policies. BDL took measures aimed at facing the challenge of inflation caused by foreign exchange depreciation. They included supporting imported raw and industrial material and prohibiting banks from buying foreign currencies on the parallel markets. As for the socioeconomic support, BDL took measures through many circulars aiming at mitigating the effects of GDP growth deterioration, such as launching the Lebanese Oxygen fund to support industrial imports and providing banks with foreign currencies to finance the import of basic food items and raw materials necessary for the food industry.

Another measure within that context was confronting the diverse macroeconomic crises that have exacerbated the level of poverty, including the economic financial crises, the Covid-19 crisis and the port of Beirut explosion. These measures include directing banks to refrain from downgrading the classification of defaulting borrowers and compelling banks to provide exceptional loans to individuals and businesses affected by the Beirut port explosion.

The third element was the financial sector regulations. BDL took measures aimed at strengthening the positions of banks in terms of solvency and capitalization, which in turn contributes to protecting depositors' funds. These measures include actions such as applying a statutory expected credit loss on foreign currency placements, directing banks to refrain from distributing profits to shareholders and compelling banks to prepare a plan to conform to the minimum capital requirements. In addition to that, there was a committee that was established to look at and restructure the Lebanese banking sector.

My concluding remarks: the initiatives launched by BDL, the central bank of Lebanon, through its circulars to address the economic financial crisis in Lebanon need to be combined with a set of key performance indicators to be able to assess their economic, financial and monetary repercussions and measure the quantitative results, along with the extent of compliance. Monetary policy measures would remain of limited impact in terms of timeframe and macroeconomic factors if they are not accompanied by and integrated with the development of a comprehensive and integrated economic financial plan in the short, medium and long term.

Such a plan would include structural reform, measures aiming at, first, treating the underlying imbalances in public institutions, especially those related to governance, public services and sources of production; second, implementing a fiscal strategy that addresses the inherent inequity in the tax systems and its mechanisms, the deficit in the public finances, the rescheduling and restructuring of the public debt and the expansion of the social safety net; third, correcting the shortages in the balance of payments, especially resulting from the deficit



in the trade balance, in addition to the weaknesses in the mechanisms of the competitive economy and integration of the market forces; fourth and last, pursuing a comprehensive restructuring of the financial sector and establishing a credible exchange rate system. The ultimate objective remains to transfer the Lebanese economy from a rentier state to a productive reality. Thank you very much.

Jean-Claude Trichet

Thank you very much indeed. I must say I am very impressed by what you said on the drama of the situation which Lebanon has to cope with and all of the elements of a perfect storm are there, without any exception, and I also see the acceleration of inflation, which is quite impressive, because you mentioned, if I understand well, 123% over the last 12 months, which is totally dramatic. Thank you very much indeed.