

Moody's: Govt plans will provide brief reprieve

BEIRUT:

Moody's vice president warned Wednesday that the cancellation of interest rates under the Lebanese government's economic program would provide the country with relief in the short term only and would undermine investor confidence in the medium and long term.

"While the mooted interest rate cancellation on BDL local-currency debt holdings would provide liquidity relief in the short term, the effective debt monetization invariably undermines confidence in government debt service capacity, compounding pressures on the currency peg and debt sustainability over the medium term," said Elisa Parisi-Capone, a Moody's vice president.

An economist who spoke on condition of anonymity told The Daily Star that the government's proposals wouldn't persuade protesters to call off their large scale demonstrations.

"Some of these measures are good but I think they came too late. Adding taxes on the banks will not solve the problem. Banks are already holding the bulk of the government debts and they contribute to at least 60 percent of all corporate taxes. The government needs to look at other sources of revenues," the economist said.

Parisi-Capone said the government's approval of fiscal reforms in the wake of popular protests underscored the enormous challenge the government and Banque du Liban faced in simultaneously achieving fiscal consolidation to preserve government debt sustainability, maintain financial sector stability and the currency peg with the U.S.-dollar, and appease the demands of an increasingly restless population.

"Additional financial sector taxes would be credit negative for banks, further pressuring the poor returns that Lebanese banks are seeing in light of previous rounds of tax increases, and therefore their ability to absorb shocks, while further reducing shareholders' incentives to invest in Lebanon and incentives for banks to attract deposits and invest in government paper," said Alexios Philippides, a Moody's vice president.

A banking source said that the president of the Association of Banks in Lebanon Salim Sfeir had discussed with Prime Minister Saad Hariri Wednesday the recent government economic proposals.

"Sfeir and ABL will study these proposals carefully before giving their final answer," the source added.

A statement from the prime minister's office said Hariri met with an ABL delegation headed by Sfeir.

During the meeting, discussions focused on the financial and banking situation and the recent decisions taken by the Cabinet in the reforms paper, the statement added.

The association also said in a statement that banks would remain closed Thursday due to the ongoing protests in the country.

A source at ABL said most ATMs were being filled with cash by bank staff every day in order to meet customer needs.

"We have not experienced any cash liquidity crunch yet and we hope to resume normal operations once the situation is back to normal," the source said.