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The banking sector and the uprising

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In the current financial and political crisis, the banks and their employees have come under attack from the public and protestors - as if one with the ruling political class. In a defensive move, the banks have sought increased security measures from the Internal Security Forces to protect employees, while many seek to withdraw rationed amounts of cash. As the banks attempt to stay afloat, their leadership should engage in a proactive debate with the public. They too would benefit from successfully met revolutionary demands - namely better governance and increased confidence in the system. Keeping to short-term reactionary tactics masks the opportunity for potential cooperation and positive change for everybody.

In Lebanon, the banking sector has established itself over the years as one of the most important and profitable sectors in Lebanon. The sector contains about 40 commercial banks and contributes to 6 percent of GDP. It employs 27,000 highly educated Lebanese and holds $172 billion (roughly three times the GDP) in private sector deposits. Its branch and ATM penetration rates are among the highest in the world (top 15 worldwide) leading to high financial inclusion relative to other developing countries. Commercial branches are generously distributed around the country with 6 percent of branches in the Bekaa and 11 percent in south Lebanon. Further, the sector having navigated years of war and political uncertainty has grown conservative and resilient.

Internationally, Lebanese banks comply with worldly norms and standards set by the Bank for International Settlement, the International Monetary Fund and other international bodies including the U.S. Treasury Department’s Office of Foreign Assets Control. While playing by the rules, it emerged from the devastating 2008 financial crisis not only unscathed, but revered. Commercial banks have exported this resilience to other politically risky places such as Iraq, Sudan and Syria where they own several branches. The banks’ professionalism and unique accumulated experience should not be thrown by the wayside. This is an asset many developing countries aspire to as a vibrant financial sector is key to a growing and productive economy.

Despite close ties, the banking sector cannot be fully equated with the political elite. In actuality, the banking sector has interests of its own that often clash with those of the ruling coalition. Just as recently as this summer, the banks were suffering from the government’s irresponsible fiscal policy and its desire to increase taxes on the baking sector. In that instance, the banks - as one of the government’s main lenders (holding $86 billion in public debt) - were unwilling to finance the government’s unsustainable deficit, fueled by corruption and waste. The banks view the Lebanese government as a risky and dangerous client. To that end, the banks - before this revolution - were the only vocal force with some leverage pushing for more fiscal responsibility.

It is true that many banks have either direct or indirect connections with politicians in government or Parliament. Nevertheless, this holds true for almost every grand scale business in Lebanon. What distinguishes the banking sector, though, is that it resides in the formal economy: Some are publicly traded and they declare their earnings and financial statements openly. This level of transparency is hardly matched in other sectors. Because of this degree of reporting, the banks are a relatively easy sector to tax: They contribute a large chunk of the government’s tax revenue. This is in direct contrast to other profitable informal economic sectors with political connections that evade regulation and taxation altogether - say for example the quarrying or the generator cartels.

This does not mask the fact that, like every business, the banking sector is motivated by profit. But, this is not necessarily a bad thing. When the economy is flourishing, the banks do well. When there is increased demand for goods and services, banks disburse loans to facilitate production, consumption and increase standards of living. Furthermore, to catalyze this virtuous cycle, Lebanese banks reinject a significant portion of their profits as capital into the economy. In stark comparison, other industries tend to spend their profits on luxury item consumption (such as yachts), with minimal positive ripple effects in the economy. Therefore, the banks are vested in - and contribute to - a vibrant economy with long-term prospects for peace and prosperity. This is not a zero-sum game. The banks and the people want the same thing: good governance.

Finally, the banks are portrayed by some as an enabler of a rentier economy. This has become a popular term referring to the redistribution of income away from traditionally productive industries such as manufacturing and agriculture. Monetary policy - not bank behavior - can be hurtful to these sectors, especially as it relates to exports. Consequently, it is dangerous to antagonize the commercial banks. The blame should rest more heavily on monetary policy, regulatory agencies and failed industrial policy. Rather, the financial sector plays a crucial role, especially in advanced industrial societies to help finance productive activity. In Lebanon, the banking sector facilitates this by disbursing $55.16 billion in loans to the private sector. The banks extend around $7 billion in credit to the industrial sector and $790 million to agricultural businesses.

Therefore, as the Lebanese public demands transparency, accountability and good governance across the board, the financial sector should not be thrown out with the current political elites. It is important that the Central Bank - the regulator - be subject to high scrutiny and abide by stringent transparency and accountability measures. However, the collapse of the commercial banks is not a solution to 30 years of political mismanagement nor is it an avenue for fruitful revenge. On the contrary, financial collapse will further impoverish Lebanese citizens and fuel regional and income inequality. In countries affected by conflict, strengthening the financial sector is key to financial inclusion, improving standards of living and boosting the economy. Thus, the financial sector - however imperfect - should not be antagonized altogether.

Finally, in the current debate surrounding corruption and transparency laws, there is a missing conversation between bank leadership and its clients - the people of Lebanon. As the crisis unfolds, corporate communication has been left to the local bank managers and employees in ad hoc, disjointed, localized fashion. To this end, perhaps bank leaders and the Association of Banks in Lebanon should be more engaged in the public debate as a potential partner for scrapping corruption and bringing about good governance. After all, they are seasoned followers of stringent regulation and have everything to gain from efficient governance that ushers Lebanon into an era of economic prosperity and renewed confidence. At second glance, it seems that maybe the banking sector and the revolution have more in common than not.

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