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Sader: Govt rescue plan will ruin economy, banking sector

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BEIRUT: The government's rescue plan would choke the Lebanese economy for the next 20 years and decimate the banking sector, the Secretary General of the Association of Banks in Lebanon Makram Sader warned Wednesday.
"We have lot of remarks about the government's economic plan which will be discussed with the International Monetary Fund. If we go along with this plan, the Lebanese economy will suffocate for 20 years. This plan will also destroy the banking sector and the Central Bank without giving another alternative," Sader told The Daily Star in a phone interview.

He added that the association had commissioned the Paris-based Global Sovereign Advisory to prepare an economic plan which would be also discussed with the government.
"GSA will hammer out the economic plan but will not negotiate with the government on our behalf. We will also study the plan presented by GSA before submitting it to the concerned parties," Sader explained.
The government of Prime Minister Hassan Diab prepared a 56-page economic paper that outlined the measures the Cabinet needs to take to bail Lebanon out of its enormous financial problems.
The paper argued that the accumulated losses of the both the Central Bank and commercial banks, estimated at $83.5 billion, should entail urgent restructuring of the public debt as well as the banking sector.
The paper suggested that banks needed to be recapitalized and one way to do that was to inject new capital from the savings of large depositors.
Sader stressed that the plan attempted to place all the responsibility on the shoulders of the commercial banks and the Central Bank.
"They [Cabinet] are trying to blame the losses on BDL and commercial banks. These are fictitious losses. The state has the losses and not us. They are trying to blame all the public spending over the last 15 years on BDL and banks," he added.
Sader indicated that the one behind this paper was the Finance Ministry and its director general along with some experts.
This proposal has triggered a rapid reaction from ABL, which said in a statement on May 1 that the government's restructuring plan could destroy confidence in Lebanon locally and internationally.
The association added that it could not endorse this unilateral plan for numerous reasons.
"ABL's members have fiduciary duties to their nearly 3 million depositors. The ABL can therefore in no way endorse this unilateral plan," the statement said.
It added that ABL had neither been consulted nor associated with the plan presented.

"However, it is a key part of any solution. An economy requires a strong banking sector able to fulfill its role, as a means of social inclusion and growth by providing credit to individuals and companies. As laid out in the plan, the domestic restructuring will further destroy confidence in Lebanon both domestically and internationally," ABL said.
ABL argued that the plan was not funded: "It assumes international financial support, in particular from the IMF and/or CEDRE. To the best of our knowledge, official discussions with the Fund on this matter are about to start while CEDRE disbursements are contingent on the implementation of reforms."
It added that revenue and expenditure measures – essential for IMF support – remain vague and are not backed by a precise implementation calendar.
Sader insisted that any restructuring of the banking sector was the responsibility of the banks and BDL and not the authorities.
"Any restructuring of the banking sector is the responsibility of the regulatory and supervisory authorities and all these measures should be in line with the BDL's Money and Credit law," he added.
Sade emphasized that any discussion of such plans should be in the parliament which will review all these proposals to give its opinion on them.
"It's up to the parliament to either approve or not approve the government's economic plan," he noted.
Commenting on the IMF's expected position on the government's economic plan, Sader pointed out that the IMF deals with more than 180 countries and naturally it will sit down and negotiate with the Lebanese Cabinet and the Central Bank.
"If the IMF decided to sit with us [ABL], we will be glad to discuss the economic paper with them," he added.
Sader noted that in the government's economic plan, the rate of the dollar against the pound had been set at LL3,500.
"Let the government explicitly say that it aims to unpeg the pound with the dollar. Let the government be audacious and tell the Lebanese people they want to float the exchange rates," he added.
Sader reminded that financial authorities set the rates of the dollar against the pound and not the banks.
The secretary-general wondered why the government didn't use the state assets as collateral to offset the losses especially since the successive governments borrowed from the banks.

“The state has many assets and among these assets are the gold reserves held by BDL. Of course I am not in a position to tell the government what to do with the gold reserves but they can use it as collateral to borrow against if they desired. There are many options at the disposal of the government,” Sader said.