

## E-Lira: Financial innovation or optical illusion?

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BEIRUT: The Central Bank is preparing a Lebanese digital currency project during the year 2021 that will help implement a cashless system which allows moving money locally and abroad, Central Bank Gov. Riad Salameh said at a meeting last month with the Lebanese Depositor's Association.

What precisely a "Lebanese digital currency project" entails remains unclear and, as of yet, there has been no debate on the subject in the Lebanese Parliament.

### **What is digital currency?**

Digital currency is money that can be used on the internet to pay for goods and services. As the name suggests, the currency is digital, and there is no physical version of it for someone to hold or throw in a tip jar.

Digital currency is a broad term and includes e-cash (as seen in an online bank account), cryptocurrencies such as Bitcoin, Ether and Ripple, and central bank digital currency.

The majority of cash in the world is already digital and mostly sits behind a computer or phone screen rather than in someone's pocket. In practice, central banks issue digital money to the banks that hold accounts with them, and there is usually no physical transfer of cash or assets.

However, the concept of CBDC, a national digital currency issued by a central bank directly to the public, would transform the banking system. CBDC transactions would effectively be instantaneous, as they would bypass the web of payment settlements that currently result in some transactions taking days to complete.

In contrast, blockchain-backed cryptocurrency such as Bitcoin includes a record of every transaction in which the Bitcoin was used as a way of creating a decentralized form of supervision. This structure means no individual or authority controls the use of the currency and effectively takes power away from governments and central banks. Bitcoin has been widely used by the public in Venezuela where the national currency has collapsed, while Carlos Ghosn's son infamously used cryptocurrency to pay the two Americans who helped Ghosn to escape from house arrest in Japan earlier this year.

### **The digital push:**

As mobile phone applications and online payments become increasingly sophisticated and trusted by consumers, many countries have seen a natural trend toward increased digital transactions and less physical cash.

For example, cash payments now account for less than 10 percent of payments in Sweden, with cash predominately used for small payments and by older people. The Swedish central bank has set an ambitious target for Sweden to be cashless by 2023.

In many countries, the COVID-19 pandemic has accelerated the trend toward digital payments, as governments and businesses discourage the use of cash to avoid transmission of the virus.

### **Digital currency in Lebanon:**

Digital currency, like any other currency, requires market confidence. "A currency must be stable to reduce uncertainty and facilitate planning by economic agents. If this [digital] currency is managed by BDL there is volatility," says Dr. Riad Obegi, chairman of BEMO Bank.

Lebanon's digital trajectory has been more complicated due to the loss of confidence in the banking system. While estimates vary, Salameh has estimated that \$10 billion in physical cash are held in homes right now, households refuse to deposit cash in banks and face strict capital controls on withdrawals. Many businesses, who face the same restrictions, have also stopped taking card payments from customers.

Nassib Ghobril, chief economist and head of the Economic Research and Analysis Department at Byblos Bank, views it as unlikely that the Central Bank would introduce a CBDC in Lebanon. Instead, it is more likely that the Central Bank wants to increase digital and mobile payments and cash transfers and reduce the use of physical cash in Lebanon.

Ghobril notes that despite a widely held view that cash has become king in Lebanon due to the financial crisis; the use of card payments has actually increased over the last year.

According to the Central Bank, a total of 2.9 million payment cards were in use in Lebanon in September 2020; this figure represented an increase of 140,370 payments cards since September 2019. The use of debit and prepaid cards had increased, as banks had encouraged people to obtain and use cards rather than queue at banks when capital controls began and the COVID-19 pandemic. In contrast, the use of credit cards has declined as banks impose limits on spending and use overseas.

In the view of Dan Azzi, a commentator and former chairman and CEO of Standard Chartered Bank in Lebanon, the digital currency project proposed by Lebanon's long-serving Central Bank governor is less about innovation and more about using "a cool name" to ration the withdrawal of Lebanese pound further.

Strict capital controls are already being used to artificially protect the value of the pound and manage the Central Bank's liability problem, according to the most recent interim balance sheet, the Central Bank currently has estimated assets (foreign, fixed and gold) of LL63 billion but deposit accounts with an estimated value of LL170 billion thus creating a substantial shortfall between assets and liabilities. In Azzi's view, this creates a situation where most currency in Lebanon is "not only digital but imaginary as well".

In functioning, developed economies which have a healthy balance between imports and exports, digital payments can improve the efficiency of transactions. However, Azzi argues that as Lebanon is so dependent on imports denominated in dollar, e-lira is pointless. E-lira could not be converted to the real dollars that most businesses and people in Lebanon ultimately need to pay for imported goods and supplies like cars and equipment.

"Even the British have to use dollars for international trade, so it is not possible that Salameh is going to invent a digital currency and suddenly Japan is going to sell Lebanon Nissans for e-lira," Azzi says.

Azzi adds, "Salameh is trying to ration the amount of lira that is converted to dollars; otherwise, the lira collapses further. In other words, what he is doing is a gimmick."

When contacted by The Daily Star, the Central Bank did not provide any comments regarding the digital currency project. While details of the project remain to be seen, it seems unlikely that the project will provide the financial innovation Lebanon needs and more likely that it will serve, in Azzi's words, as "an optical trick" in a banking system now infamous for financial illusion.