



مصرف لبنان
BANQUE DU LIBAN

Preliminary Comprehensive Plan

BDL Vice Governors – July 20, 2023

This constitutes a high level plan to enable the correction of the monetary policy, and start the recovery process. Its major objective is to float the exchange rate in a “managed” manner on an internationally recognized exchange platform, so that it reflects the real value of the Lebanese Pound. The expected timeline of this plan is over six months, while ensuring social stability and protecting the purchasing power of public sector servants and the most vulnerable population.

Given the close interactions between the fiscal and the monetary policies, the plan calls for major fiscal reforms, issuance of a number of laws, and adoption of a set measures that will assist in creating a demand on the Lebanese Pounds and depth on the new FX platform. BDL will complement all those actions by issuing the necessary regulations, adopting the required infrastructure, setting policies and procedures to ensure proper governance and all other administrative requirements.

The government and the Parliament shall commit to approving laws to rebuild trust and secure additional revenues from its budgetary framework to repay the newly outstanding loan.

This could happen through the following three steps:

- Budget Review
- Enactment of Capital Control Law, Bank Restructuring and Resolution Law, and Gap Resolution Law, with a protection of customers’ deposits.
- A coordination between BDL, the Parliament, and the Government to improve the depth of the Foreign Exchange Market.

In details, the plan is as follows:

1- Budget Review

At this stage, the proposed budget 2023 is balanced with revenues and expenditures reaching 181.9TLL, at an average revenue of 15TLL per month. At the current exchange rate of 92,000 LL/\$, this represents around of \$2Bn per year, \$164 mil. per month...

Given that the government is currently collecting on a monthly basis 20 to 24TLL and around \$20mil., on an annual level starting July 2023, the government should be able to collect 240TLL to 288TLL and \$240mil. It is important to note that currently around 40% of collected LL are in Cash and the remaining are in bank transfers.¹

¹ One mitigating factor is to consolidate M0 with DD, which represents around 30TLL liquid Lira.

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According to the World Bank, tax revenues above 15% of a country's gross domestic product (GDP) are a key ingredient for economic growth and, ultimately, poverty reduction. At an average GDP of \$20Bn (Source: IIF May 2023), the tax revenues should at least represent \$3Bn. In an effort to control the Cash Economy and take the necessary reforms, which could reach 50% of the current GDP, the tax revenues could exceed \$4.5Bn.

The government will need to strengthen its budget revenue framework through deeper reforms. A major review of tax, fees, and excises at the level of various ministries should be done. Several Examples can be provided that present low hanging fruits that will have direct and major impact on the revenues, and help the government enhance its revenues.

- ⇒ *The Parliament shall approve the proposed 2023 Budget before end of August*
- ⇒ *The Government shall prepare the 2024 budget with the required adjustments and submit it before end of October 2023.*
- ⇒ *The 2024 Budget shall be approved prior to end of November 2023.*

2- Financial reforms

- 1.2. The Government shall submit a Capital Control Law to the Parliament in the coming two weeks and it shall be approved by end of August 2023.
- 2.2. The Government will need to review and approve the Gap Resolution and Capital Restructuring Law by end of September 2023, while finding ways to protect eligible depositors (using DRF or other securities).
- 3.2. BDL will commit to setting the rules and regulations to move exchange rate into a floating system by end of September 2023 with the ability to intervene when necessary (Managed Floating).
 - a. BDL will continue buying USD in the market when possible according to articles 75 & 83 of the code of money and credit, to lesser the pressure on his foreign reserves.
 - b. BDL will commit to intervene in the market using the part of the approved envelope by the parliament (refer to point ---) during the coming few months to stabilize as much as possible a "unified exchange rate" on Sayrafa.
 - c. BDL will use the Auction mechanism on the International Provider Platform to respond to speculative attacks on the LL within clear policies and procedures to create a smooth transition into a floating market mechanism.

3- Coordination between BDL, the Parliament, and the Government to improve the depth of the Foreign Exchange Market

- BDL will coordinate with Authorized Banks and Financial Institutions (BFIs) to adopt new rules related to securing Demand and Supply on the new Electronic Platform (1 month)
- The Ministry of Economy shall force retail sales in LL. (1 month)

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- The Parliament shall approve a law amending article 5 of Law of Money and credit, for BDL to issue bank notes bigger than L.L. 100,000. (1 month)
- The Capital Control law shall contain an article imposing on all importers to buy the dollars of their imports from authorized BFIs. This will create depth (bigger volume) at the exchange platform, thus helping in better price discovery. Detailed procedures shall be set for that between authorized BFIs, Ministry of Finance and Customs Administration.

This is a summary of a six-month plan which will present the corner stone in the track for recovery.

However, we are approaching a very near milestone by the end of term of the Governor by July 31, 2023, we have a major challenge in ceasing the existing monetary practices which we look forward to turn it into an opportunity towards recovery.

We strongly believe that the remaining reserves in foreign currencies at BDL are mandatory placements of the banks, and this was our point of view which we defended throughout our mandate.

As vice governors, since our nomination, we made it clear that those reserves should be preserved until we have a comprehensive plan which explains the fate of banks' deposits, and use them in full alignment with the plan,

At this stage, we believe that the use of any part of those reserves should be based on a national consensus between the Parliament, the Government and the Central Bank within a plan, which allows the government to reimburse any used amounts from those reserves.

The Parliament shall pass a law that allows the Central Bank to lend the government, from the Mandatory Placements up to \$200 mil. per month on average over a six-month period with a total sum not exceeding \$1.2 billion over this period.

- o BDL will provide its best effort to stabilize the Exchange Rate of the Lira to USD, and secure a smooth transition to a "Managed" Floating Exchange Rate Platform. (1 month)

Given the fiscal reforms we are suggesting above, we believe the Government will have enough comfort to repay the newly agreed loan.

Wassim
Manssouri

Bachir
Yakzan

Salim
Chahine

Alexander
Mouradian

	<i>Time Period</i>	August	September	October	November	December	January
Budget Review							
Budget 2023 Approval		X					
Budget 2024 Submission				X			
Budget 2024 Approval					X		
IMF-related Reforms							
Capital Control Law		X					
Gap Resolution and BRL			X				
Foreign Exchange Market Reforms							
MoF Controllers		X					
Exchange Office Law			X				
New Electronic Platform			X				
Coordination BDL/Government/Parliament			X				
BDL Intervention to Create a Culture		X	X	X	X	X	X

X *[Signature]* *[Signature]* *[Signature]*

