

LEBANON OPPORTUNITIES

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Anyone for a haircut?

The argument against



Undertaking a haircut on bank depositors has been widely discussed. Many schemes have been suggested by the government, 'mediaconomists', articles and reports in the media, and a small number of otherwise serious people.

A haircut on deposits, under any name or scheme, in any amount, belonging to any type of depositor, should not be considered in an economic revival plan.

A haircut is not only a violation of constitutional rights, but counterproductive and harmful to the (real) economy as well. It does not achieve an equitable distribution of losses. Most importantly, it is not necessary, as demonstrated by the Economic Revival Plan prepared by Lebanon Opportunities.

Some proposed schemes include one or a combination of the following

- Outright cuts in the amounts of bank accounts. All types of deposits, or those in foreign currency. The proposed thresholds varied from the equivalent of \$100,000 to \$1 million
- Converting deposits in USD into LL below market exchange rates
- Exchanging deposits with long-term debt certificates, certificates of deposit (CDs), Treasury bills, issued by the State at zero or low interest rate
- Retroactively recuperating all, or a portion of, interest income earned by depositors in the past few years, or income from interest exceeding a certain threshold rate
- Exchanging deposits for equity shares in banks (aka bail-in)
- Exchanging deposits against proceeds from privatization, or shares in a Sovereign Fund
- Wealth taxation (one-time or recurring) – focused on cash ownership

Not all deposits in banks are owned by individuals. Institutional depositors have not been omitted in the various proposed haircut simulation models based on a percentage of total deposits. The models should be revised accordingly.

Some of the institutional depositors

- Public sector entities
- The National Social Security Fund
- Medium and large companies whose bank deposits are earmarked for planned future investments, working capital financing, provisions for 'Accounts Payables' such as salaries and dues to suppliers, VAT, and other taxes, in addition to other provisions set aside to pay for end-of-service indemnities, upcoming purchases of inventory, future rent, bad debt, unsettled legal liabilities, and for other outlays necessary for the continuity of their businesses
- Insurance companies' provisions for future claims on their policies
- Real estate developers, law firms, and other types of companies that hold money in escrow or as deposits and advance payments for goods to be delivered or services to be rendered
- Large NGOs which typically allocate financial reserves for ongoing and future activities
- Cooperatives (agricultural, employees, consumers, etc.)
- Business borrowers who have obtained loans from non-bank entities such as shareholders and other investors, individual lenders, and foreign lenders for business purposes and planned investments
- Capital of companies

Some of the harmful effects of a haircut to the economy

- Trust in the banking system has already been shattered. Instead of regaining that trust within a few short years, a haircut will extend it for at least a decade or more. This in turn will push people to continue hoarding cash at home, or placing it in banks abroad for those than are able to do so
- Funds affected by the haircut will be taken out of the real economy, preventing their rightful owners from:
 - Market consumption (in grocery stores, restaurants, clothing, electronics and appliances, education, health, furniture, real estate, automobiles, etc.)
 - Passive investments (in stocks and equity, bonds, real estate projects, lending to family's and friends' businesses)
 - Active investments (starting or expanding a business, real estate development, and other ventures)

Some of the harmful effects of a haircut to social matters

- It will substantially diminish the level of financial donations and support provided to NGOs who are playing a vital role in filling the void left by the State such as in health, education, poverty alleviation, orphanages, homes for the elderly, arts and culture, combating domestic violence and substance abuse, protecting the environment support of religious activities, sponsoring sports events, and family solidarity associations
- It will be detrimental to end-of-career financial security, especially for pensioners deprived of monthly incomes and who are beyond employability

A haircut cannot achieve an equitable distribution of losses

Under any of its schemes, a haircut is a regressive tax. It is biased against wealth in cash deposited in local banks – but spares the following types of wealth:

- Cash transferred abroad
- Real estate properties
- Other types of high value ownership (jewelry, equity shares in companies, intellectual property rights, artwork, etc.)

It is difficult for a haircut to do justice when considering the length of time that these funds have been deposited, and the time spent accumulating these savings. Several billions of dollars were transferred from abroad in 2019 alone. Other amounts have been deposited in the banking system for a decade or more. Will a haircut differentiate between local and foreign, resident and non-resident, old and young depositors? Could it distinguish hard-earned or investment-grade funds from speculative or suspicious money?

Conclusion

Don't think about it!
