

## LEBANESE REPUBLIC

# Situation Update for Lebanon's Creditors Presentation (27 March 2020): Q&As

The Ministry of Finance of Lebanon held a presentation by webcast on 27 March 2020, (the "Presentation"). During the Presentation, attendees were given an opportunity to submit questions in writing. In this document, the Government of the Lebanese Republic (the "Government of Lebanon") seeks to address the main issues raised therein.

The questions below are grouped by topic. Some of the questions received have been merged or reworded for clarity. In addition, this document does not address all questions received. As the Government of Lebanon progresses with its work on a comprehensive reform program, it will continue to revisit the questions and address any remaining ones as needed.

## I. MACRO-FISCAL

### General

#### **1. When do you expect to produce the reform plan? When will the appropriate economic data and financial data assumptions underlying the plan be published?**

*As indicated in the Presentation, the Government of Lebanon is currently developing a comprehensive reform plan that seeks to address Lebanon's economic and financial issues, with the expectation of finalizing it over the course of the coming months. Some of the main features of the reform plan have already been described in the Presentation. Additional key elements of this reform plan and the main underlying macroeconomic assumptions will be made public when approved by the relevant authorities.*

### Impact of COVID-19 on the economy

#### **2. Can you please provide an update in relation to the economic support measures undertaken to face the negative impact of the COVID-19 pandemic?**

*Since the beginning of the COVID-19 outbreak, the Government of Lebanon has been working on taking all the appropriate measures to limit the spread of the virus and to minimize the damage to the economy to the extent possible.*

*While the COVID-19 pandemic will inevitably impact the economy, both globally and in Lebanon, the Government of Lebanon is focused on developing economic support measures to support its citizens and businesses. These measures are being developed continuously.*

*Other than general measures taken to stop the spread of the virus, the Government of Lebanon has already approved:*

- A LBP 75 billion (US\$50 million equiv.) overall food and aid budgetary package
- A LBP 400,000 allowance for the families most affected by the outbreak, to be distributed by the armed forces based on a list established by the Ministry of Social Affairs

*Banque du Liban (“BdL”) also intervened by calling on commercial banks to grant extraordinary interest and commission-free loans in LBP or USD to clients with existing credit history. These loans could be used to cover installments of current loans for the months of March, April and May 2020, the salaries of firms’ employees or other productive and operational needs for the aforementioned period. Moreover, on 3 April 2020, BdL issued a circular according to which, for a period of 3 months, holders of deposits worth US\$3,000 or less\* will be able to withdraw their funds in Lebanese pounds at the given market rate at the time of the transaction. Likewise, holders of deposits of LBP 5,000,000 or less\* will be able, for a period of 3 months, to withdraw their funds, which will first be converted by the bank at the official rate and then delivered to depositors in LBP at the given market rate. According to a second BdL circular published on 3 April 2020, the market rate will be published on a regular and transparent basis through an electronic platform operated by the commercial banks.*

*\* on a cumulative basis in a given bank at the time of the publication of the circular*

### **3. Are you planning to apply for IMF emergency assistance via the IMF’s rapid financial support facilities in your response to COVID-19?**

*The Government of Lebanon is exploring all possible options at its disposal to fight off the rapid spread of the COVID-19 virus in the country and its harsh effects on the economy. In that regard, we may seek foreign assistance, which will be disclosed in time if received.*

### **External support**

#### **4. Which sources of bilateral and multilateral external support can you reasonably expect?**

*The Government of Lebanon is proud to have a number of multilateral and bilateral partners in the international community that have historically stood by its side and supported it in times of need. Today, the Government of Lebanon looks to their support as well to play an important role in helping Lebanon overcome this difficult period.*

*In developing its reform plan, the Government of Lebanon will seriously consider all options available for assistance in confronting its ongoing economic, financial and sanitary crises.*

*The Government of Lebanon has solicited the International Monetary Fund’s technical assistance across a broad range of macroeconomic issues and structural reforms, including advice to help the Government develop the reforms to be put in place to restore stability and growth. The Government of Lebanon understands that the support of multilateral and bilateral partners will be crucial in navigating its current challenges, and is focused on pursuing the paths and partnerships that are in the best interest of the country.*

## **Public finance and fiscal policies**

### **5. What are the main reforms being envisaged to ensure the fiscal consolidation?**

*The Government of Lebanon is currently designing a comprehensive reform program, which will include a detailed fiscal consolidation plan. As indicated in the Presentation, such fiscal reform plan will include:*

- *Reforming the electricity sector and the pension system to reduce transfers*
- *Rationalizing current expenditures and streamlining the government's institutions and enterprises*
- *Improving tax collection and compliance rates, and reorienting the tax system towards increasing the burden on rent income and privileges given on public properties and assets*

## **FX reserves and exchange rate policy**

### **6. What are the usable FX reserves of Lebanon?**

*As indicated in the Presentation held on 27 March 2020, Banque du Liban ("BdL") held US\$29 billion of foreign exchange reserves in its balance sheet as of January 2020. Of these US\$29 billion of foreign exchange reserves, BdL considers US\$22 billion as liquid reserves (US\$18 billion of which represent Lebanese commercial banks' mandatory reserves in USD at the central bank).*

## **II. COMMERCIAL BANKING SECTOR & BdL**

### **7. How is the government planning to restructure the banking sector and disentangle commercial banks and BdL?**

*The Government of Lebanon understands that a healthy banking sector is vital for the health of the broader economy. As noted in the Presentation, the banking sector today is oversized with the majority of its assets concentrated in public debt instruments and BdL liabilities. The Government of Lebanon understands that a healthy banking sector is one that invests in a real and thriving economy.*

*Given the current tight interlinkage between the balance sheets of the Government of Lebanon, the BdL and the banking sector, the Government of Lebanon aims to execute a comprehensive financial plan that addresses both the sovereign debt issue and the need for the restructuring of the commercial banking sector. The plan would aim to restore the soundness of Lebanon's financial system, such that the banking sector is effective and supportive of a real economy going forward. Limiting the exposure of the Lebanese banks to the BdL will be one of the measures towards that objective.*

**8. How does the government plan to protect the interests of depositors as part of equitable treatment of all stakeholders?**

*A key tenet of the overall restructuring plan will be fair distribution and sharing of the burden among the various stakeholders in the work towards a solution.*

*In this context and as announced by the Prime Minister of Lebanon in his speech on 7 March 2020, the Government of Lebanon will seek to prioritize the protection of small depositors.*

**III. POLITICAL & INSTITUTIONAL FRAMEWORK**

**9. Can you please elaborate on the concrete plan of actions to fight corruption?**

*The Government of Lebanon has fully endorsed its people's claims to put an end to corruption and mismanagement of public funds, and is therefore engaging in the design of a national anti-corruption strategy.*

*The elaboration of this strategy, as well as the concrete plan of actions it entails, will be entrusted to a specialized independent committee that will be equipped with the necessary powers and autonomy to fulfill its mandate. The formation of this committee and the presentation of the national anti-corruption strategy to the Lebanese people is a key priority of the Government of Lebanon in the coming months.*

*In addition, in an effort to promote and encourage transparency, the Government of Lebanon has submitted to its parliament a draft law aimed at lifting banking secrecy for everyone who was or is currently involved in public affairs, and will continue to push for its adoption.*

**IV. DEBT RESTRUCTURING / EUROBONDS' TREATMENT**

**Debt restructuring elements**

**10. Can you please confirm that the government will not pay interest on the Eurobonds? Will the restructuring cover all Eurobonds, regardless of maturities?**

*As announced in the Ministry of Finance's press release dated as of 23 March 2020, the Government of Lebanon has decided to discontinue payments on all of its outstanding foreign currency denominated Eurobonds, including principal and interest payments. These measures have been taken in order to safeguard Lebanon's limited foreign currency reserves.*

*As such, Lebanon's sovereign debt restructuring will cover all outstanding Eurobonds, regardless of maturities.*

**11. Will the restructuring of the public debt cover only Eurobonds?**

*As indicated in the Presentation, the Government of Lebanon is contemplating a comprehensive public debt restructuring to restore Lebanon's debt sustainability. As a result, the perimeter of the envisaged public debt restructuring comprises both the USD denominated Eurobonds issued by the government and the LBP denominated treasury bills and bonds.*

**Debt restructuring process****12. How are you planning to organize negotiations with creditors? How shall creditors participate in the debt restructuring negotiation process? Will creditor committees be organized?**

*The Government is committed to engaging in good faith discussions with its creditors in relation to its debt restructuring on the basis of:*

- Transparency both in terms of process and availability of information;*
- Good faith efforts for a collaborative approach;*
- Equitable treatment, so as to ensure fair burden-sharing among all stakeholders; and*
- The need for a credible, permanent and sustainable solution to Lebanon's structural debt problem*

*In the context of the global health crisis related to the COVID-19 outbreak, the Lebanese Government will conduct consultations with holders of the public debt as early as practicable regarding the ongoing debt restructuring efforts via audio and video conference calls. The Government invites all bondholders or ad-hoc groups of bondholders willing to be part of these consultations to come forward and contact [lb.bondholders@lazard.fr](mailto:lb.bondholders@lazard.fr). Depending on the feedback received through initial consultations, the Government of Lebanon will decide whether, how and when to engage with creditors, including any creditor committees that may be formed. Engagement with creditors demonstrating significant holdings may be prioritized.*

*Additional information in relation to the organization of the debt restructuring negotiation process will be posted regularly on the website of the Lebanese Ministry of Finance.*

**13. Who will be coordinating the interactions with private creditors on the side of the government?**

*The Government of Lebanon has retained Lazard Frères as financial adviser and Cleary Gottlieb Steen & Hamilton LLP as legal adviser to assist in negotiations and interactions with its creditors.*

**14. Are you planning to negotiate the banking sector/banks' restructuring before the restructuring of the Eurobonds?**

*The government is currently working on a comprehensive reform program that will take into account both the restoration of public finances and the restructuring of the commercial banking sector. It is still premature to provide a precise timeline. The immediate focus is the restructuring of the public debt. However, in view of the interrelation and complexity of these issues, the restructuring of the public debt and the banking sector reform will necessarily inform one another, and this relationship will in turn inform the larger reform plan.*