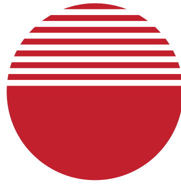

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FINANCIAL CRISIS IN LEBANON

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Executive Summary

Lebanon is living financial crisis conditions, which may turn into a full-fledged crisis affecting the Lebanese Lira's exchange rate and the banking sector unless appropriate and specific actions are soon implemented by the authorities.

Crisis conditions are essentially due to Banque du Liban's (BDL's) long-standing policy of generous interest rates paid to banks for their $-deposits, which significantly exceed the international interest rates it receives when placing the $-funds received from banks. This has resulted in mounting losses incurred by BDL since early this century. Crisis conditions also are due to rising fiscal deficits and government debt resulting from unrestrained spending by government on current items (interest on debt, wages and various transfers) rather than on capital projects.

The main implication of BDL's policy has been a situation of negative net reserves, where BDL's liabilities exceed its assets in foreign currencies, and a continuing need for $-funds at ever increasing interest rates. In fact, in the summer of 2016, a "financial engineering" operation by BDL has brought in additional $-funds by banks to BDL of about $5 billion. In parallel, BDL has paid the banks about the same amount in "commissions" but in Lebanese Lira. As confirmed by an IMF report, the amount paid by BDL was equivalent to a contribution by BDL to the banks' capital without any equity stake in return.

The impact of BDL's policy on Lebanese banks probably is an even more serious implication. About 60% of banks' total assets currently represent credit to the public sector. This adversely affects the banks' financial condition as it has become interlocked with the weak financial condition of the public sector. This bank asset structure also means that banks have been dis-intermediating with economic activity in Lebanon, noting that financial intermediation with the private sector is in principle their

main function.

The current situation carries additional risks and pressure on the financial situation in Lebanon: rising fiscal deficit and government debt, increasing need by BDL for $-funds, and a probable increase in international interest rates.

Two specific measures are proposed to contain the crisis conditions, measures that need a firm prior agreement among the President, the Speaker and the Prime Minister. The first is an announcement by the Council of Ministers of a declining fiscal deficit target over a number of years, say starting with a maximum of $4 billion in 2018. This would give local and international markets confidence in the future financial situation in Lebanon. The second consists in calling to account BDL's policy, as required by law, in particular its interest rate policy.

Fiancial Crisis in Lebanon

"Things are not in themselves risky,
if you understand them and control them."
Anonymous

Introduction

Lebanon is very likely heading towards a serious financial crisis, which would take the form of a depreciation of the currency and, more critical, a destabilization of the banking sector. This paper provides reasons for this strong expectation, and proposes specific and practical policies to prevent such developments.

The consequences of a financial crisis can be devastating at all levels, far exceeding those witnessed in the mid-1980s following the large depreciation of the Lebanese Lira (LL). They would include a drastic fall in the incomes and wealth of most households in the country, a sharp increase in bankruptcies and unemployment, and widespread uncertainty about the future amidst a shocked and helpless government, thus driving tens of thousands to emigration while upsetting an already fragile social and political balance. Yet, it is remarkable that since the early 1990s, financial policies, monetary or fiscal (the latter at least since 2005), have not been debated by any Government or Parliament.

The paper is divided into five sections. The first section presents a description of the origins of the current financial situation. Section 2 presents an analysis of the monetary and banking signals that point to the development of a crisis. Section 3 details the collateral damage that financial policies have inflicted on banks and the economy at large. Section 4 examines the fiscal behavior of governments in recent years, which has been exacerbating the crisis conditions. The last section proposes two specific and feasible policies that would significantly contain the mounting crisis and provide breathing time for reforms.

1 - Origins

In the autumn of 1992, following nine months of a severe depreciation of the Lira by more than two thirds of its exchange value to the U.S. Dollar ($), the then new Lebanese government decided to stabilize the Lira by adopting a fixed-exchange rate policy with a peg to the $. The Lira's exchange rate then gradually improved, reaching LL 1,507.5/$ in December 1997, and has to date remained stable at this level. Independently of the validity of that fixed-exchange rate policy for a small and open economy such as Lebanon's, it meant that the central bank, Banque du Liban (BDL), would necessarily have one dominant central objective: to accumulate a substantial cushion of foreign exchange (FX) reserves, usually in the form of $-funds that it would re-deposit in foreign prime banks, to defend the fixed exchange rate.

In fact, this is what the central bank has been doing since the adoption of that policy. The main problem, however, is not in that policy per se but in the unnecessarily generous interest rates that BDL has been paying local banks for their $-deposits at the central bank. This has prompted banks to shift their own FX-reserves, usually in $, from correspondent banks abroad to deposits at BDL, where these have accelerated from an average of $3 billion during 1997-2000 to somewhere in the range of $52-55 billion in mid-2017. This shift represents for the banks, during that period, a jump in their $-deposits at BDL from 13% to about 50% of the total private FX deposits at the banks themselves. In other words, local banks currently re-deposit at BDL about half of the FX-funds that they receive as deposits from the non-resident and resident private sectors[1]. The balance sheets and financial situation of the commercial banks have become increasingly interlocked with those of BDL.

1 The source of data on the consolidated balance sheet of commercial banks in Lebanon is BDL, at www.bdl.gov.lb. FX deposits by banks at BDL are estimated, based on published data, calculations, and information provided by officials at some large banks. Estimates accord, however, with IMF's data, e.g. for end 2015, in IMF reports at www.imf.org.
See on this text below and footnote 4.

Interest rates are not market-determined in Lebanon, for both LL-Treasury Bills and all BDL-issued Certificates of Deposit (CDs), which is confirmed by the International Monetary Fund (IMF)[2]. They can remain unchanged for years, and trading in the secondary market is practically non-existent. The interest rates, or more precisely their margins over international reference rates, are largely determined by BDL. As such, BDL's policy has anchored interest rates in Lebanon at unnecessarily high rates since at least early this century.

BDL's generosity regarding interest rates paid to banks for their funds prompted the bank behavior described above. To illustrate, consider the interest rate paid by BDL to local banks for their $-deposits. Unusually for a central bank, BDL does not publish data on the amounts of these deposits or on the interest rates it pays. Based on communication with senior bank officials, and on various published data on interest rates, a conservative estimate for an overall average interest rate paid by BDL during the last five years 2011-16 on these $-deposits is at least 5.5%. This rate gives the banks a margin, or "spread", of about 5% above the 6-month $-Libor (London inter-bank offer rate). That Libor is the most widely used international reference rate for these deposits and the one adopted by BDL for its pricing.

For the non-financial reader, the importance of these margins on inter-bank deposits usually is assessed in terms of a few "basis points" where 1% consists of 100 basis points. In other words, the BDL has been paying banks for their deposits a margin of about 500 basis points, instead of tens or at most 100 basis points in excess of the Libor. By any standard, and irrespective of any estimations errors, BDL's interest rate policy towards banks was indeed generous, especially against the background of persistently low interest rates in international markets, which offer no high-yield alternatives to depositors.

2 See IMF, 2016, p. 43.

BDL's generosity in interest rates given to banks extends to its LL-denominated instruments, in particular its LL-Certificates of deposit (CDs) or other term deposits, which usually carry long-term maturities of 15 years or more. As another illustration, in the last 14 years since 2003 (for which data are available), these interest rates on outstanding LL-CDs issued by BDL averaged 9.5%, yielding a margin or "spread" of 6.5% or 650 basis points over a long-term reference rate such as the 10-year US-TB[3].

Since early this century BDL has not been under pressure to offer high interest rates to attract $-funds since, fortunately for Lebanon, all international markets have been, and remain to date, characterized by low interest rates in an environment of so-called "financial repression". Interest rates for major currencies have even turned negative for short-term deposits in some financial centers such as in Germany and Switzerland. So BDL did not need to offer such high margins when the alternatives for $-depositors were very limited. It could have attracted the same amount of $-deposits even if it offered, for example, a margin of 2.0% to 2.5% instead of the 5.5% it has paid during 2011-16

2 - Why crisis?

A crisis is a turning point that brings about major adverse changes in a given situation. One may describe the current economic situation in Lebanon as one with crisis conditions that can likely develop into a full financial crisis, with adverse developments affecting the value of the currency and the banking sector overall, the latter being the more serious development in its impact.

The current crisis conditions are the product of policy and not of circumstance. They are the joint product of long-standing monetary policies by the central bank, and fiscal policies by successive Lebanese governments who are effectively responsible for budgets and government expenditures in particular.

3 See "Key Indicators" in Association of Banks in Lebanon (ABL), at http://www.abl.org.lb

a - Crisis signals

The technical details presented in the previous section are essential to explain the path that brought Lebanon to the current crisis condition. The following table provides some important crisis signals concerning the financial situation of the central bank and the banking sector at large.

In short, Table 1 indicates that the central bank has negative net reserves, i.e. more FX liabilities than FX reserve assets, even after accounting for the gold assets since 2016. It should be noted, however, that BDL's liabilities are not all due immediately, and that a large portion may include long-term debt with maturities in the years to come. Nonetheless, BDL's financial condition has been gradually deteriorating for more than a decade. It has reached, since 2015, an unusual situation with negative net reserves, which is not, by any standard, a sign of financial health and stability. This should be a cause for great concern to the authorities.

Table 1
Financial Crisis Indicators
(In $ billions, unless otherwise noted; end period)

	2010	2015	2016	June 2017
BDL FX Reserves[1]	**30.6**	**37.1**	**40.7**	**41.1**
BDL FX Liabilities	**22.7**	**42.5**	**53.3**	**53.9**
o/w to local banks- estimates[2]	18.8	41.4	52.5	53.0
BDL Net FX Reserves	**7.9**	**-5.4**	**-12.6**	**-12.8**
including gold	20.9	4.5	-1.9	-1.3
Memo				
Bank claims on public sector[3] (in % of total bank assets)	54%	58%	61%	60%

Source: BDL,www.bdl.gov.lb; IMF (2016).

Notes: 1 - BDL reserves, excluding gold, are foreign currencies (FX) deposited in foreign prime banks, plus short-term liquid investments, e.g. US Treasury Bills.

2 - See text below.

3 - The public sector consists of government and BDL. Bank claims are in the form of all Treasury Bills in their portfolio and all their deposits at BDL.

A note on data is in order. As previously noted, BDL does not publish data on $-deposits it receives from banks, which take the form of $-CDs or various short and long-term deposits, nor on the interest rates it offers on these deposits. The estimates in Table 1 on bank $-deposits at BDL are calculations based on published bank data and on data in IMF's publications on Lebanon. In fact, the amount of $41.4 billion at end 2015 in Table 1 originates directly from data published in IMF (2016)[4]. Moreover, later estimates for 2016 and 2017 in the Table derive strong support from the fact that BDL issued, between end-2015 and end-2016, additional debt of $12.8 billion in the form of $-CDs[5].

BDL's financial condition is, to a large extent, the cumulative result of its policies since at least 2005, in particular its generous interest rate policy towards banks, as noted above. One important result has been growing losses incurred by BDL since the $-funds it has been collecting from local banks naturally are re-deposited with international banks at significantly lower interest rates. These continuous losses are the reason for BDL's discontinuing the publication of its Annual Report since 2003. The mandatory Annual Report, since its first publication in 1964, usually includes BDL's Profit & Loss statement. Thus, all BDL's operations with banks, particularly $-operations, pricing of these operations, and losses, are handled in secrecy and are not available to the public.

Another crisis signal, likely more important than BDL's financial condition, is the impact of BDL's interest rate policy on the banks' balance sheet structure. As Table 1 indicates, currently 60% of all banks' total assets consist of credit to the public sector, in the form of Treasury Bills on government and all bank deposits at BDL. This unusually high level is set against an average of only 35% during the 1990s. The financial condition of banks therefore has weakened since it has become strongly linked to that of BDL and government. The current situation should be contrasted with that of the mid-1980s prior to the first strong depreciation of the Lira.

4 Pages 9, 57.
5 See ABL, op.cit.

Then, the banks' claims on the public sector were relatively small at an average of only 17% of their total assets, which allowed them to withstand the shock of the Lira depreciation, and to provide a solid banking basis for the subsequent recovery.

b - BDL's "financial engineering"

BDL's interest rate policy and its relations with banks culminated in the recent so-called "financial engineering" operation in the summer of 2016, which was a major operation in terms of the amounts involved and its impact on banks. It underlines the mounting costs of BDL's policies and highlights the seriousness of its present situation. That operation was not meant to become public, but it was brought to the open by a local newspaper[6]. The following is a brief presentation of the major elements of that operation; it is mainly based on a report by the International Monetary Fund (IMF) and the BDL Governor's interview with a local newspaper[7].

During June-August 2016, BDL undertook two parallel yet directly linked transactions. The declared objective was to support or "strengthen banks' balance sheet", and to bring in new $-funds to BDL through banks. The last objective is unfounded since BDL's $-reserves had been steadily increasing for years, albeit mainly originating from the banks' steadily increasing deposits at BDL, and were practically stable prior to the operation. A most likely but un-announced objective, however, was to strengthen the capital of at least two major banks that lost substantial amounts, of more than one billion dollars combined, from investments in Turkey and Egypt.

In the first transaction, the participating banks brought in about $5 billion in new funds, exchanged against $-CDs issued by BDL

6 See Al-Akhbar, June 30 and September 1, 2016.
7 See IMF, 2017, and L'Orient-Le Jour, December 3, 2016.

and $-Treasury Bills that were in BDL's portfolio. These were remunerated with the standard high interest rates offered by BDL. The second parallel operation provided substantial incentives to banks through discounting, at zero percent, LL-denominated Treasury Bills and BDL instruments held by banks. In addition to the full principal received by banks, which already included the "bonus" of a zero percent discount, BDL paid an additional "bonus" or "commission" of half the interest amount the banks would have earned in the future had they kept these LL-instruments until maturity. It is a "bonus" because the instruments were discounted and therefore should not earn any additional "future" interest. The total incentive amounted to a sum of about $5 billion, paid in LL, in full, and upfront, as confirmed by the BDL's Governor in his interview. It represented a gross "bonus" or "commission" to banks that is equivalent to about 100% of the $-funds brought in by banks to BDL.

Even the IMF could hardly contain a surprise at the operation, noting that "The discount of T-bills and CDs at zero percent is akin to a money-financed capital injection (without any equity stake in return; according to staff estimates, equivalent to 10 percent of GDP), *which helped strengthen banks' capital buffers.*"[8] So, as confirmed by the IMF, said-operation by BDL injected more than $5 billion into the banks' capital, not through loans nor against a share in the banks' capital as standard practice requires, but just *ex nihilo* as pure profits given to a few banks.

If the objective of the operation was to provide financial support to banks, it should be recalled that in cases where banks need assistance from the central bank, though no such need for assistance has been claimed by any bank in Lebanon, the course of action is well defined. First, the central bank usually asks the shareholders of the bank to put in more cash as capital. If this fails, the central bank may extend a loan against collateral provided by

8 Ibid. p. 11; original text.

the bank, as BDL has done in the past, especially in the 1980s for a few banks against real estate mortgages. If this also fails, the central bank resorts to a last solution, which is to inject cash in the bank but against a share in its capital or equity. This is what the US and UK central banks have done during the financial crisis that erupted about ten years ago. This is also what any central bank would do. But Lebanon's central bank BDL just injected into a few banks, without any counterpart, the equivalent of at least $5 billion, which corresponds to about 10% of GDP or 30% of all the banks' combined capital before the operation.

If the objective of the "financial engineering" operation was to bring fresh $-reserves into BDL, it has at most brought an additional $5 billion since mid-2016 when the operation started, while costing BDL the equivalent of $5 billion paid in LL. By any standard, the cost of that operation has been incommensurate with whatever objective BDL had, an unquestioned and unprecedented cost to BDL itself, to the public sector, and to the overall economy.

3 -Collateral damage

The cost of BDL's monetary policy is not restricted to a deterioration in its financial condition, nor to the exorbitant direct financial cost of its recent "financial engineering" operation. While BDL's policy has significantly raised bank profits and capital, it has also made banks less resistant to shocks and the whole banking sector less stable. Moreover, the strong expansion in the activity of the banking sector is little related to economic activity at large.

a - Banks' health

Table 2
Banks' Asset Structure
(In % of total assets, unless otherwise indicated; average of amounts at end period)

	1972-74	1994-96	2009-11	June 2017
Claims on public sector[1]	9	41	55	61
o/w on BDL	*8*	*12*	*32*	*43*
Claims on private sector	46	34	23	25
Foreign assets	37	22	19	11
o/w claims on NR banks [2]	*~27*	*19*	*12*	*6*
Other	8	3	3	3
Total	**100**	**100**	**100**	**100**
Memo				
Consol. B/S banking sector[3] (%GDP)	153	197	282	252

Source: BDL, www.bdl.gov.lb.
Notes: 1- The public sector is here defined as government and BDL.
2- NR banks are non-resident, usually prime, banks. The amount for 1972-74 is an estimate. "~" means approximately.
3- Consolidated balance sheet of the banking sector, i.e. of commercial banks and BDL.

The trend emerges clearly in Table 2, in all the listed categories. Since the early 1990s, banks have been steadily extending credit to the public sector, with close to half their assets at mid-2017 representing claims on BDL alone. As noted in the previous section, these developments have effectively weakened the condition of banks in Lebanon by linking their financial health and stability to the weak condition of the public sector. This assessment stands independently of the large profits recently enjoyed by banks, which are directly due to BDL's generous interest rates rather than the result of successful intermediation in economic activity.

Another adverse impact of BDL policy is on the liquidity of

banks. In times of financial stress on banks, their $-liquidity resides ultimately in their $-deposits with non-resident or foreign banks. As Table 2 shows, these reserves have been falling as a percentage of bank total assets, but also in absolute terms, owing to the banks' continuous shifting of their $-funds towards BDL, especially in mid-2017.

b - The economy

BDL has indeed succeeded in maintaining the stability of the exchange rate of the Lira for more than a quarter century. But the cost of that policy to the stability of the financial sector and the whole economy has been and remains immense. Continuing with BDL's policy as detailed above, and fiscal policy by government as noted below, means that the stability of the Lira will be very difficult to sustain.

Banks are technically defined as "financial intermediaries". Their main function is to intermediate between monetary savings and credit to the private sector. A major consequence of BDL's monetary policy has been a dis-intermediation of banks from the economy. Since 2003, bank credit to the resident private sector has been standing at close to only 25% of bank total assets, and this is taking place in an economy that is dominated by private sector economic activity. Instead, banks have been concentrating their activity on the public sector, especially BDL, effectively operating as cash or treasury-managers rather than carrying out their essential task as providers of credit to the wide private economy.

An indicator that shows the retreat of the banking sector from the economy is the consolidated balance sheet of the banking

sector, defined as the central bank BDL and the commercial banks combined. The process of consolidation eliminates all inter-accounts between BDL and the banks. The resulting consolidated balance sheet in relation to GDP then shows how total banking activity stands with respect to the economy.

That consolidated balance sheet of the banking sector has reached a high of close to 300% of GDP at end 2007. As Table 2 above shows, that ratio has since been falling to reach 252% of GDP in mid-2017. This means that, in the last ten years, almost all the registered increase in the balance sheets of BDL and the banks reflects nothing but transactions between BDL and the banks, with the economy being sidelined from this inter-bank activity. The banking sector has been expanding and profiting in monetary terms only through its operations with BDL and outside the general economic domain: a banking and monetary inflation without any corresponding expansion in real economic activity.

4 - Government budgets: spending other people's money

The deteriorating financial condition of the economy, and the associated flashing crisis signals, are not only due to BDL policy. Government expenditure bears a large supporting responsibility. Table 3 below shows the structure of cumulative expenditures by successive governments over almost a quarter century since 1993.

Table 3
Government Expenditures, 1993-2016
(In $ billions and %, cumulative expenditures)

Expenditures	**209.2**	**100.0%**
Interest on debt	69.7	33.3%
Wages & benefits	66.6	31.8%
Capital expenditure	17.5	8.4%
Électricité du Liban	18.7	8.9%
Other transfers	27.0	12.9%
Other	9.7	4.6%
Memo		%GDP
Gross debt -end 1992	3.0	50%
Gross debt -end 2016	74.9	148%

Source: Compiled from Ministry of Finance publications, at http://www.finance.gov.lb.
Note: Figures are for consolidated general government, including Treasury operations and Annex Budgets whose allocation among expenditure categories is estimated by the author based on partial budget information.

A "golden economic rule" states that governments should only borrow to spend on capital investment, e.g. on physical and human infrastructure, not on current items. Table 3 above indicates that almost two thirds of government spending during the past twenty-four years were allocated to interest on debt and to wages and associated benefits, with a full third of total spending going to interest cost alone. The share of expenditure on capital, including waste and inefficiencies, was only about 8% of the total. So, contrary to repeated pronouncements by government officials, current government debt cannot be justified on economic terms or explained by a so-called "reconstruction" spending.

Électricité du Liban benefited from a large share of spending, which took the form of transfers that mostly went on fuel imports

rather than expansion of production capacity. Other transfers, about 13% of the total, were almost equally divided between various transfers to institutions in the public and private sectors.

Such a pattern of government spending, and continuous deficits, has led to the strong increase in government debt to 148% of GDP at end 2016, one of the highest in the world. The danger stemming from this high level of debt does not essentially reside in its level but in its source, which is current expenditure rather than expenditure on capital projects that would have expanded the capacity of the economy and improved its productivity.

The fiscal and monetary policies by successive governments and BDL are both responsible for any financial crisis that will unfold in Lebanon. What makes this financial situation even more remarkable is its total absence from questioning or debate in the Council of Ministers, Parliament, or in the public domain. Lebanon has not had an officially approved budget since 2005. Moreover, since the early 1990s, the central bank, which answers to the Minister of Finance and especially to Parliament, has never had to answer any question relating to any aspect of its monetary policy. This is contrary to previous practices by the central bank, even during wartime when it had to explain its policies to Parliament on several occasions.

5 - Containing the crisis

Developments may take place, however, that could substantially reduce the pressure on the financial situation. For instance, peace in Syria and associated reconstruction spending would provide a strong boost to economic activity in Lebanon, improve expectations about the future, and relieve stress on the Lira, BDL and banks.

But absent such event, future developments look ominous, carrying additional risks and pressure on the financial situation. In particular:

- The fiscal deficit is increasing, with the same pattern of government expenditure. The deficit outcome was about $3 billion in 2014, $4 billion in 2015, and $5 billion in 2016, representing an increase in the deficit from about 6% to 9% of GDP. The draft 2017 budget, awaiting Parliament's approval, carries even a larger deficit of more than $6 billion, or in excess of 11% of GDP. In other words, Government and Parliament are totally indifferent to the worsening financial situation.

- BDL has increasing needs for $-funds, if only to service its own debt. Conservative assumptions point to BDL having at least $50 billion in $-deposits from banks (see Table 1 above), on which it pays an average interest rate of at least 5%. Then BDL's annual interest cost on these $-deposits alone amounts to an annual sum of more than $2.5 billion. Indeed, recent media reports indicate that BDL has already embarked on another "financial engineering" operation!

- "Financial engineering" operations by BDL are unsustainable. Already at end August 2016, banks had reached a minimum of $8.5 billion in their $-reserves deposited at foreign banks abroad. Subsequently, they have quickly and substantially replenished these reserves to $14 billion at end May 2017, most likely turning a good part of their LL-profits, earned from BDL during the summer of 2016, into $-reserves. In other words, any new "financial engineering" operation to bring in more $-deposits at BDL will be more costly than the previous one and would likely lead to a quick reversal of the entry of $-funds into an exit from the country.

- A rise in international interest rates, which has already started in the US and European financial markets, will increase the cost of servicing all government and BDL debts, thus putting more pressure on the financial situation.

Living beyond one's means is at the heart of almost all financial crises. And "official" Lebanon in particular has been living beyond its means for too long. A telling indicator is the balance of

payments that, from independence in 1943 until 2010, had never registered a deficit for more than two consecutive years. It then turned into a continuous deficit every year during the five years of 2011-15, while its brief period of surplus during 2016 was due to BDL's unsustainable "financial engineering" operation. In fact, a deficit of $1.1 billion has again emerged during the first half of 2017.

To contain the rising risk of a financial crisis, two specific measures are proposed. These should be soon implemented following a firm agreement among the three political heads: the President of the Republic, the Speaker of the House, and the Prime Minister.

1 - The Council of Ministers would then publicly announce the setting of, and commitment to, a lower budget deficit ceiling, say at most $4 billion for 2018, to be followed by even lower deficits every year for the following three years. That objective should be realized independently of the nature of the measures needed to achieve it. When there is an increasing risk of a fire in the house, one should not worry about re-arranging the furniture.

That announcement, in itself and with its immediate implementation, would boost confidence by domestic and foreign markets in financial Lebanon. It would not solve the serious financial problems, which require effective reform policies over a number of years, but it would significantly reduce the risk of a crisis. It would give breathing time for future reforms.

2 - BDL policy should be closely investigated and monitored. Activating standard regulatory processes by Government and Parliament would, in themselves, restrain BDL's unaccountable behavior. Above all, its generous interest rate policy should be called to account in order to reduce its high cost, and to gradually wean banks back to their natural role of re-engagement with the economy.

Otherwise, the financial and economic cost of inaction indeed will be very high, for most people, for a long time, with immeasurable political consequences.

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