

A difficult end of month Is there a solution

The coronavirus hit the country in the aftermath of a serious crisis that saw the state default on its obligations and the economy threatened with a deadly freeze. The pandemic has generated an economic crisis worldwide, some say it is stronger than September 2011 and the crisis of 2009 combined. Most countries have already declared a business support plan. Few countries, among which Lebanon, do not have unemployment insurance; and as a result, workers will be more affected if the company closes.

The crisis generated by the coronavirus will take as long as it takes, but it will eventually resolve to an end. Already the recovery of China, the country most affected at the start, announces short term decline of the pandemic. Demand during the period of containment is limited to basic food and sanitary products; but at the end of the crisis the needs will appear again with an acceleration that we always witness after periods of deprivation. If, in the meantime, the companies that provided these products and services had disappeared a crisis of a different kind will surge and the economic circuit will be destabilized for a long time. Suffice to say that business support is a winning strategy, the cost is generally much lower than the cost of destabilizing the economic circuit.

Profit & Loss

But can the state budget with its abysmal deficit still support businesses and employees? The answer, of course, is what would be the form and cost of support if it ever proves possible? and what would be the cost of abandoning the economy to its fate.

Companies that close will see their staff and often their managers emigrate, this is the most common situation in Lebanon, or move to other jobs not necessarily more profitable or more efficient, or place themselves on the "margins" of the workforce in waiting for better days. GDP is estimated to decline by \$10 billion this year, or 20%, as a result of the 17 October crisis. The impact of coronavirus would be at least as much. And if nothing is tried to

stop the fall we will end up when the pandemic will end with a very depressed GDP, if however, the social fabric will accept without reacting such descent into hell.

Criticism that rating agencies and other sources focus on public debt is less about its size than the fact that it is largely the result of cumulative deficits year after year, i.e. permanent mismanagement. Sovereign debt virtually represents a state's mortgage on its future income, the taxes it is entitled to levy, guaranteed by the huge real possessions that make up public property. Hence the sovereign name. When a state fails, what often happens in the third world is more a matter of management than a liquidity problem; because financiers are always ready to adapt to the debtor's needs provided that he has a positive income stream.

The main pillar of a positive flow for the state is the country's economic activity and the tax base. This shows that the slowdown in the economy is a disaster for the state, as well as for employees and businesses. Some states have already revealed that the slowdown for the first quarter would be in the order of 25% of GDP. A more or less aggressive policy of support has emerged everywhere. In Europe some states have given their guarantees to banks to insure the salaries of companies; they paid at the minimum wage employees who were confined to their homes and whose jobs did not lend themselves to telework; they deferred rents and bills, water, electricity, telephone, gas, etc.; they have postponed the maturities of bank receivables; they continue to meet the needs that that show up with the prolongation of the crisis.

What Lebanon can do

The turmoil in Lebanon is particularly heavy. In February we were already talking of 250,000 workers who were paid half-wages and 250,000 unemployed. Unemployment is likely to be higher now, but a large part were already idle by October 17. At the outset of the crisis, in October, the banks denounced lines of credit. The decline in private sector commitment from \$53 billion to \$47bn means that banks were not renewing advances after collections.

80% of companies rely on the overdraft to finance their need in working capital and especially salaries. The main reason is that the Return on Investment is all the greater when the capital devoted to the business is smaller; that is why equity and long-term credit are allocated for investment. Last months, many companies have used sales revenues to finance wages; however, each month this becomes more and more random especially as the depletion

of stocks requires to keep the cash for supply. From one month to another, there is a risk of a sudden break in many businesses with layoffs and a permanent shutdown of the company. What should be avoided at all costs. The Government can take a series of positive steps to ease the burden on businesses and to keep them as going concern, and above all, to keep workers in their jobs and to provide their wages:

- Postpone the settlement of tax deadlines to 6 renewable months, as well as rents, electricity, telecommunications;
- Postpone the maturity of bank receivables to 6 months revolving, interest-free;
- Request the banks to restore, and the BDL to finance, the overdraft granted to companies at least within the limits of wages;
- Provide a "citizen's income" through the Ministry of Social Affairs to all Lebanese in need, according to the ministry's lists and/or a procedure that involves municipalities.

The company, which loses its workforce, loses its competitive advantages as well, and is unlikely to ever resume business; it takes years to form a competent work team. If the company is given the opportunity to retain its workforce it will certainly do.

Moreover, the postponement of deadlines does not constitute a sacrifice for either the Administration or banks, one might well imagine that companies facing such a crisis will devote their meagre means to their survival, and first of all to wages. and the renewal of their stocks.

Finally, the banks will provide for the salaries with the contribution of the BDL which will therefore put more money into circulation. The inflationary impact is undeniable, but it will be strongly mitigated by the production of goods and services that will then continue to be possible.

The Government and Central Bank initiative

Unsurprisingly, we noted that the Central Bank has taken the initiative to support businesses in order to ensure wages and to meet their commitments for the months of March, April and May, according to intermediate circular 547/13213. Under this circular the banks are invited to grant their customers an exceptional credit in Lebanese pounds or dollars, depending on the currency of the commitment, at 0% interest, in order to meet their liabilities

and pay salaries. This credit would be repaid by monthly or quarterly instalments over five years. The Central Bank in turn finances at 5-year in dollars and 0% interest the total advances made by the banks in both currencies.

The weak point of this measure is that the risk of the loan remains at the bank's charge, which may not want to take the risk with customers whose situation has deteriorated, or whose condition does not justify additional credit. The Central Bank has given banks two incentives: first, it advances all the credit in dollars, even the amounts that the banks will give in Lebanese pounds; second, a large part of the commitments are towards the banks themselves, which them to recover them. It is wishful that the spirit of solidarity will play out and that this initiative solves much of the crucial wage problem.

On another level, the Council of Ministers has allocated \$18 billion to provide food and cleaning products to the poorest through the network of municipalities. The commission in charge groups 9 ministers and representatives of the army and security forces. The Ministry of social affairs and the Ministry of interior and municipalities will have the heaviest responsibility in the execution of this project. Auctions are already underway to insure the products.

This initiative is undoubtedly good and will alleviate great suffering; however, the World Food Program, which provides a monthly aid to 700,000 displaced people, has chosen to give them a revolving credit card that allows them to purchase their needs in first necessity goods from licensed distributors. This system considerably reduces the task of distributing food and cleaning products and streamlines its use over time.