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“The Metamorphosis of Hezbollah: An Empirical Test for the Political Economy of the Party of God”

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The Metamorphosis of Hezbollah

An Empirical Test for the Political Economy of the Party of God

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Note: The data and figures of the present research are based on personal calculation and on datasets provided by the Banque du Liban. The information on specific banks are taken from their most updated and available balance sheets.

Introduction

"This Government is tasked with endorsing an austerity budget unprecedented in the history of Lebanon. That is what is asked of us to ... save the country".

Saad Hariri, April 2019

What the Prime Minister of Lebanon, Saad Hariri described as an unprecedented contingency in the budget year of 2019 is foremost the consequential result of economic relationships between public and private actors. In fact, in Lebanon boundaries between private and public sectors are blurred. Currently, Lebanon has $76 billion of public debt, accounting for more than 160 percent of annual GDP. In 2018, overall deficit was equalling to 10.6 percent of GDP[1] and the balance of payment also shows a negative sign. Remittances, real-estate development and absence of capital gain taxes have contributed to foster a deep financial system that strongly relies on these three factors and on increasing public debt. Conversely, State finances depend on this arrangement which many State representatives, including the current Prime Minister acknowledged as the main source of Lebanese *resilience*. The intricated bond between market and institutions goes well beyond the territorial extension of the country and lies with its Eastern economic partners, mainly the Kingdom of Saudi Arabia (KSA), Qatar, and Iran. In particular, the Central Bank played a crucial role in this framework, since its financial engineering operations have supported the weight of public finances and contributed to the increase of profits for commercial banks. In fact, the latter are the largest holders of TBs and their balance sheets are vastly exposed to credit default risk.

The abovementioned relationships between public and private sector have been stretched and fiercely tested during the negotiations to form the 2019 Cabinet. The political landscape resulting from the legislative elections of May 2018 gives a leading role to the winning March 8 Alliance that totalled 80 seats out of 128 (63%) and obtained 19 ministers out of 30 in the Cabinet. The coalition, which benefits from the outstanding results of the Free Patriotic Movement (FPM) and the political defeat of Hariri's Future Movement (FM), is composed by the following parties: FPM, Amal, Hezbollah, Syrian Social Nationalist Party, and other smaller forces. In these times of crisis, the political debate revolves around two main policy options to face the urgency of real economy reforms and avoid credit default: the devaluation of the Lebanese Pound (LL) fixed exchange rate and the restructuring of sovereign debt. However, the two alternatives cannot rely on the same degree of consensus, as they would imply major costs and depletion of economic rents for almost opposite parts of the Lebanese constituency. Hence, in order to predict the more likely scenario, it is necessary to explore the subdued economic network behind each political force.

The present study aims at identifying the main determinants of Hezbollah's position with respect to the two alternatives. *The Party of God* indeed represents a fascinating case study to assess such issue, as throughout the last decades it

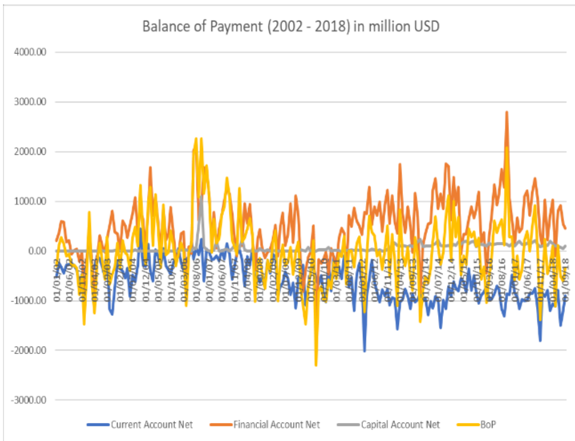
[1] IMF (2018). IMF Executive Board Concludes Article IV. Consultation with Lebanon. Press Release No. 18/250.

reformed its internal political economy to follow the evolution of the Lebanese market structure. As a matter of fact, the ideology of Hezbollah has traditionally been rooted in the support of low-income classes. Hence, one might guess that *the Party of God* is the partisan of the option consisting in debt restructuring. Nevertheless, currently Hezbollah cannot afford to promote such a policy, which would harm high-income citizens and commercial banks, for two main reasons. Firstly, Hezbollah has become a major economic body and is currently deeply integrated within the financial system of Lebanon. Secondly, most members of the March 8 Alliance, and remarkably the FPM, would be strongly hit by public debt restructuring.

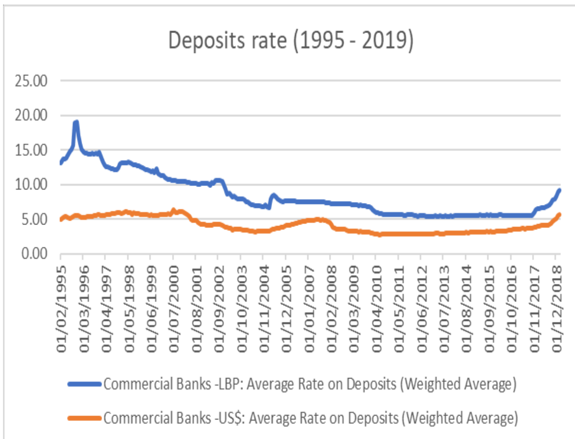
Therefore, the present research proceeds as follows: sections one and two highlight the most significant features of Lebanese macroeconomy and the role of the banking system in it, thus explaining the urgent necessity for either debt restructuring or devaluation. The third section investigates the position of Hezbollah in terms of political economy, underlining its evolution and the party's current network of supporters. Section four then examines in detail the balance sheet and the political connections between the party and three major financial institutions: Fenicia Bank, Lebanese Swiss Bank and Société Générale de Banque au Liban (SGBL). Hence, the final section analyses the consensus among members of Hezbollah for the two alternatives and draws conclusions accordingly.

The Macroeconomic Environment: Remittances and Public Deficit

The evolution of the balance of payments (BOP) depicts very well the Lebanese market structure. Such public accounting notion is composed by the current account, the financial account and the capital account, which theoretically should sum to zero[2]. The poorly productive economy primarily depends on imports and large financial inflows. As a matter of fact, the current account consistently shows a negative deficit whereas the financial account, which takes into account financial transfers and assets purchases, is more volatile, and among wide fluctuations it is now positive. In particular, since 2009 the spread between the two has widened following two drastic events (see Figure 1).



The financial crisis of 2008 pushed the FED, the ECB, the Bank of England and the Bank of Japan to decrease market interest rates; consequently, many investors, mainly Lebanese citizens, seeking higher returns have moved their capitals to Lebanon, where market rates observed smaller reductions (see Figure 2)[3].

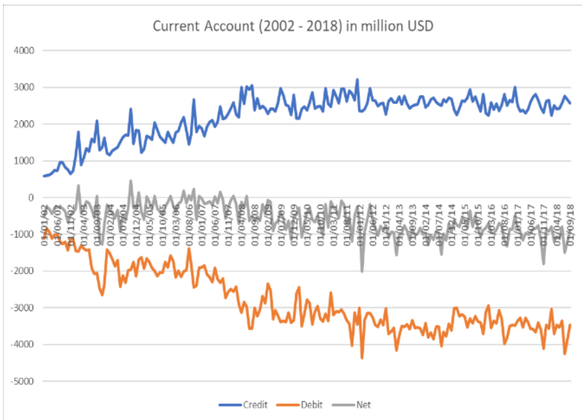


[2] The Lebanese Balance of Payment dynamics presents interesting characteristics as it does not tend to zero. The reason could be: the magnitude of informal economy (including drug trafficking) and direct transfers through aid donation and CEDRE Conferences.

[3] See among others: "Lebanon's borrowing habits reveal a cultural shift". Collard, R. (21/11/2017). Financial Times. https://www.ft.com/content/cf85d6b2-c0bd-11e7-b8a3-38a6e068f464

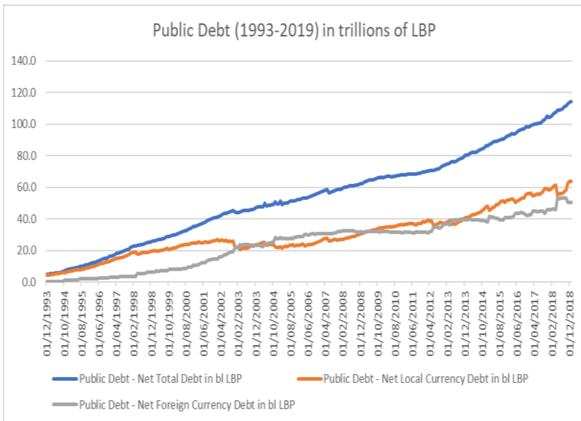
Secondly, after 2011, when the Syrian civil war started, Lebanon has lost one of its main trade partner, its export flattened and imports became more costly (see Figure 3).

Two main factors have sustained the fragile economic arrangement: incoming remittances and increasing deficit. Both, as it will be subsequently analysed, depends and reinforce bounds between private and public sectors.



Low capital taxation, fixed exchange rate and the magnitude and the form of Lebanese diaspora have made Lebanon one of the largest recipient of remittances through dollar denominated deposits and direct money transfers. In 2015 the World Bank estimated that remittances reached 7.2 percent of annual GDP. Since then, remittances decreased, thus signalling perceived worsening conditions of Lebanese economy: the negative trend can be observed in the sharp reduction of migrants' transfers and by looking at the decreasing rate of growth of non-residents deposits in Lebanese Pound and in US dollar. Assessing the exact figures is almost impossible as, according to Banque du Liban (BdL)'s estimates, remittance inflows through bank deposits account for only 27 percent of the total, while 14 percent came through money transfer operators (MTO) and the remaining 59 percent in kind.

To bolster the shaky economic conditions, the Government with the support of major commercial banks and the BdL has progressively increased its public debt (Figure 4). The largest shares of public debt is represented by public wages (9.2 percent of GDP) and direct transfer to publicly-controlled or owned companies (17 percent of GDP). It is of particular



interest and of stunning magnitude the expenses poured over the electricity sector (11.4 percent of GDP)[4]. The sector has been underperforming and in crisis for several decades. The macroeconomic impact has been massive; accruing debt on investments in and transfers to Electricité du Liban's (EdL) amounts to 40 percent of Lebanon's gross public debt and it is escalating rapidly as transfers now account for over half of the fiscal deficit[5]. Currently, EdL controls over 90 per cent of the Lebanese electricity sector with a standing monopoly despite the enactment of Law No. 462 in September 2002[6]. With a tariff covering an oil price of only $25 per barrel (based on 1996 oil prices), it effectively subsidizes all households[7], and a significant portion of generated electricity remains unbilled (either due to technical losses or illegal consumption).

The Banking System and the Banque du Liban: The Vicious Dependency

[4] IMF (2016). IMF Executive Board Concludes Article IV Consultation with Lebanon. Press Release No. 17/20

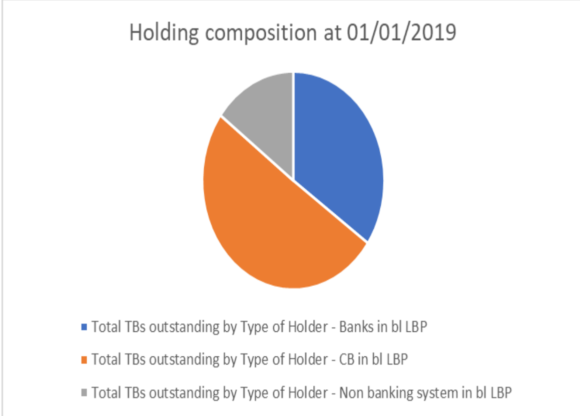
[5] Harake, W., Hamadeh, N., Kostopoulos, C., and alt. (2018). *Lebanon Economic Monitor - De-Risking Lebanon (English)*. Lebanon Economic Monitor. World Bank Group.

[6] Bassil G., Ministry of Energy and Water (2010), Policy Paper for the Electricity Sector, *Unpublished paper*.

[7] Ruble I., Nader P. (2011), Transforming shortcomings into opportunities: Can market incentives solve Lebanon's energy crisis?, *Energy Policy n. 39*, P. 2468.

With assets close to 400 percent of GDP, the financial sector is very large, with banks' balance sheets accounting for 97 percent of the total. Government securities and deposits at the Banque du Liban (BdL) account for more than half of aggregate bank assets (more than six times Tier 1 capital)[8]. Furthermore, the exposure to sovereign debt for commercial banks has been amplified by the swap operation ruled by the Central Bank. As of May 2016, the BdL gross reserves had declined yearly by 10.1 percent[9] reflecting lower foreign exchange inflows, as presented above, and the economy's large foreign currency funding needs. To offset the sharp decline of foreign reserves, the BdL has started purchasing newly-issued Eurobonds from the Ministry of Finance (MoF), then it proposes Eurobonds to Lebanese commercial banks through an articulate scheme, that includes soft loans and long-term certificates of deposits (CDs) denominated in dollar. This type of *cosmetic* financial operation managed to raise foreign reserves at the Central Bank, to extend Government debt maturity and to strongly increase banks' liquidity. Conversely, foreign assets position of banks has weakened, and excessive liquidity has been invested in new Treasury Bonds denominated on local currency. If in the very short-term the BdL has improved its tools to maintain the fixed exchange regime which due to BoP's trends is at risk, in the long term has sustained the vicious path dependency that bounds the destiny of Lebanese economy to its banking sector. Furthermore, as of May 2020, the Central Bank is the largest TBs holder, with 50 percent of outstanding debt, followed by the commercial banks with 35 percent (see Figure 5).

As it has been shown, maintaining currency pegging through sterilization of liquidity (i.e. high interest rates and TBs issuing) has rendered banks' profits dependent on the increase of public debt. Indeed, excessive liquidity (i.e. the liquidity beyond required liquidity ratio) tends to be offered to the BdL which, in turn, invests into public debt,



acting as a clearing house. Thus, public expenses seem to crowd funds out of the private sector. As a matter of fact, the banks have broadly similar business models, with long-term exposures to the Government and to the BdL as well as to real estate sector[10], which is highly concentrated and politically connotated[11]. In this mechanism, the characteristics of the *rentier* Lebanese financial sector emerge clearly: the vast majority of banks' boards are dominated by political affiliations, real estate is primarily in the hands of politicians and banks' boards members, the two rely on increasing public expenses and everyone is at risk of default if remittances and international grants decline.

Under these circumstances, the two policy options abovementioned – exchange rate devaluation and debt restructuring – seem crucial. Should foreign currency deposits diminish, and the banks become unable to buy Government bonds, we would see a real threat to Lebanon's monetary policy and its liquidity — a twin currency and banking crisis. On one hand the positive effects of Lebanese pound devaluation would be: increasing competitiveness of its export, increase of real productivity and real reduction of LL denominated debt; hence,

[8] IMF (2017). Lebanon Financial Stability Assessment. IMF Country Report No. 17/21.
[9] IMF (2017). Ibidem.
[10] Real-estate-related sectors (housing loans, and loans to construction and real estate services firms) accounted for 37 percent of loans as of June 2016. Source: IMF (2017). Ibidem.
[11] Hassler, O. (2011). Housing and real estate finance in Middle East and North Africa countries. *The World Bank.*

restoring the country's current account. On the other hand, devaluation would harshly hit consumers, low-income residents, as the cost of imported goods would rise, and civil servants particularly. The latter, which are paid by definition by public expenses constitute almost 10 percent of annual budget and contribute to 9.4 percent of total GDP[12]; although compared to other countries in the MENA region Lebanon has a lower share of its expenses devoted to public wages[13], numerous protests occurred since talks on freezing public wages are in place[14]. Moreover, devaluation would reduce the real value of TBs LL denominated which are largely held by commercial banks and by the BdL. The size of the exchange rate depreciation would determine the eventual outcome.

Debt restructuring is the other policy option at the current moment. The Lebanese Government should address its financiers and debt-holders and agree with them on extending current maturity, reducing the upfront value of bonds or renegotiating interest payment. The costs are vast and large, and they bring two main consequences: on one hand, as the largest debt owners are the Central Bank and the local banking sector, it might endanger the entire stability of the financial system. As a matter of fact, such policy would largely reduce the value of banks' balance sheet and consequently their lending operations to the private and public sector, under the scheme seen above. Secondly, it would harm the real value of foreign reserves held by the Central Bank, which are its vital tool to maintain the peg. On the other hand, the debt restructuring would harm the credibility of the country internationally. In particular, as the *Hariri case* shows, KSA which recently pledged $3.5 billion in credit[15], is worried about the rising importance of its local opponent political force: Hezbollah. Hence, after 2018 elections it might be even harder for the country to start the negotiating process.

Therefore, to better understand the internal political preferences for the two policies, a dive into Hezbollah's multi-faceted position is deemed more than necessary.

The Political Economy of Hezbollah: Social Card vs. Islam de Marché

Numerous scholars have tried, more or less successfully, to provide a rigorous definition of the Party of God. Primarily, K. E. Wiegand labels it as a terrorist militia, Islamic resistance organization, social services organization and political party which, according to timing and political situations focuses its efforts on one or two roles and downplays or ceases other roles altogether[16]. According to the purpose of this research it is worth to consider Hezbollah in the form of services provider and political party with evolving alliances and economic relations. As a matter of fact, if the political economy of the party has been characterized in its earlier stages by the combination of simple Marxist populism and Shia Islam[17], since 2006 it has undertaken a public process of political integration that today makes it the fifth largest party in the Parliament, and the third largest party within the winning coalition. Nevertheless, the pragmatic shift of the party can be identified much earlier. Following the end of the Lebanese civil war and Ta'if Agreements, Hezbollah has not distanced itself from the process of neoliberal reforms characterizing the reconstruction plan mainly envisaged by the then-PM Rafiq Hariri[18]. On the other side, it has

[12] Harake, W., Hamadeh, N., Kostopoulos, C., and alt. (2018). Ibidem.
[13] World Bank. (2018). Lebanon Economic Outlook - Spring 2018 (English). *MENA Economic Outlook Brief*. World Bank Group.
[14] "Fearing Austerity, Lebanese protest ahead of budget". Reuters (16/04/2019). Reuters. https://uk.reuters.com/article/us-lebanon-economy/fearing-austerity-lebanese-protest-ahead-of-budget-idUKKCN1RS1K9
[15] See among others: "The dire debt numbers facing Lebanon's new government". Jones, M. (04/02/2019). Reuters. https://uk.reuters.com/article/lebanon-bonds/the-dire-debt-numbers-facing-lebanons-new-government-idUKL5N1ZW62S
[16] Krista E. Wiegand (2009), Reformation of a Terrorist Group: Hezbollah as a Lebanese Political Party, Studies in Conflict & Terrorism, 32:8, 669-680, P. 669.
[17] Falallah, S. (1988). An Open Letter-The Hizballah Program. *The Institute for Counterterrorism*.
[18] Daher, J. (2016). *Hezbollah: the political economy of Lebanon's Party of God*. Pluto Press.

strengthened its social grass-roots undermining the legitimacy of Lebanese Government by challenging the monopoly on the use of force and the stability of the social contract through an extensive provision of social services[19]. Within this framework, the multifaceted political economy of the Party of God should be analysed according to two separate matrixes. Firstly, coherently with its claimed ideological foundations Hezbollah has, throughout the last decades, enforced a para-welfare state to support low-income classes and to strengthen its economy. Secondly, consistently with the so-called Lebanonization[20] (namely the progressive adherence to the institutional and social environment) and following the evolution of country's market structure under neoliberal reforms, Hezbollah has gained different allies and created economic boundaries with high-income classes often located outside the country.

In the Open Letter to the Downtrodden in Lebanon and the World, the Party of God has portrayed itself as the party of the oppressed which opposes deprivation and champions rights of poors in the subjugated sectarian system of the country[21]. Hence, the political philosophy of Hezbollah can be found in the abovementioned text and in the political thoughts of previous important figures of Shi'a Islamic fundamentalism such as al-Sadr and Khomeini. Nonetheless, scholars such as Patrick Haenni underpin the incoherencies of this current of thought by pointing at the embourgeoisement in the process of Islamization of society. Heanni comes up with the concept of *Islam de Marché* that is sympathetic with neoliberal policies and services provisions while combining it with moral conservatism[22]. These intertwined factors within Hezbollah, on one side gathered consent of various strata of Lebanese society, on the other they created forms of dependency of the low-income class[23]. On this matter, Hezbollah, through the multi-layered system of associations, voluntary groups and political alliances constituted a hegemonic apparatus spreading over formal and informal structures.

Concerning the provision of social services, the organizations range from electricity provision, trash management to educational services and health services supply. The absolute strength of this welfare, compared to other sects' and political groups' assistance, relied on the high level of internal income coming directly from Iran, namely form Iranian institutions called *bunyads*: foundations run by clergy, whose funds are used to finance Iran's charitable activities abroad[24]. It has been estimated that Iran has provided funding for Hezbollah since the mid-1980s in the amount of approximately $100 million each year[25]. A specific means by which Hezbollah provides its welfare support is the "discount card", which can be purchased for a small fee and then entitles the holder to significant price reductions in party-affiliated shops and community services, usually guaranteeing 50 percent discount on a wide range of consumption goods[26].

As it has just been shown the social grass-roots of Hezbollah – the Downtrodden of Lebanon – have been nourished by the informal network of association and voluntary groups under the direct administration of the party. As a consequence, a large part of the current constituency of Hezbollah is indeed constituted by the low-income class dwelling in the Bekaa Valley, in the suburb of Dahiyeh and in southern region of Lebanon.

Therefore, it would be hard to imagine Hezbollah supporting the devaluation of the Lebanese pound.

[19] See among others: Verdeil, E. (2008, June). Water and electricity networks between stress and reform: from post-civil war reconstruction to the new Lebanese wars. In *The Politics and Planning of Destruction and Reconstruction in Lebanon*. Traboulsi, F. (2012), *A History of Modern Lebanon*, Second edition published by Pluto Press.

[20] Krista E. Wiegand, ibidem, P. 673.

[21] Daher, J. (2016). *Ibidem*.

[22] Haenni, P. (2005). L'Islam de marché. *Editions du Seuil, Paris*.

[23] See among other: Lob, E. (2014). Is Hezbollah confronting a crisis of popular legitimacy. *Middle East Brief, 78*.

[24] Bortolazzi O. (2015), *Hezbollah: Between Islam and Political Society Popular Mobilization and Social Entrepreneurship in Lebanon*, American University in Cairo. John D. Gerhart Center for Philanthropy and Civic Engagement. P. 31.

[25] Iran/Lebanon Hostage Payments Reported, Facts on File World Digest, 23 January 1992, p. 35 D3.

[26] Daher, J. (2016). Ibidem. P. 98.

As mentioned above, this policy would harm the cost of living of consumers and producers highly dependent on imported goods, and it would harshly hit civil servants' wages, thus posing serious threats on the main source of consent for the party.

Nonetheless, the pragmatic side of the organization has shown, since the end of the Civil war its adaptability in other social and political contexts while drawing consent also from different social strata. Indeed, the concept of *Islam de Marché* largely fits the party's evolution in accordance with the progressive Shi'a accumulation of wealth. As for Khomeini after the Islamic Revolution of 1979, the oppressed ceased to be an economic category describing the deprived masses, becoming instead a political label for the new party's supporters such as wealthy merchants, real estate investors, and bankers. *Islam de Marché* should thus be considered not only as a descriptive paradigm, but also as a political strategy.
The gradual increase of Shi'a members in trader association and in the Lebanese Chamber of Commerce, clearly outlines this trend. As a matter of fact, Baroudi notes that the number of members representing the Shi'a fraction of the bourgeoise never held more than two out of twenty-four seats in the Jam'iyyat Tujar Beirut (Beirut Traders Association) board prior to the Civil war. This number doubled to four in 1998, following consultations between Rafiq Hariri and Nabih Berri (the Head of Amal and current Speaker of the Parliament)[27]. Daher notices that the majority of the new large business controlled by the Shi'a fraction, is clustered around two main economic activities: construction/real estate activities and the import/export trade[28]. Secondly, most of these businesses are internationally connected: while these conglomerates are generally based in the core areas of Hezbollah's influence – Dahyeh, the Bekaa Valley and the South of Lebanon – they have very strong connections with Shi'a communities in the African diaspora primarily located in the Democratic Republic of Congo (RDC), Ivory Coast and Cameroon.
To fully understand the complete picture of the party's transformation it is worth to assess also its new political alliances following the death of Rafiq Hariri. As a matter of fact, after the FPM split from the March 14 Alliance on 6 February 2006, when its leader Michel Aoun signed a Memorandum of Understanding with Hezbollah, the logic of sectarian division publicly ceased to exist. Since then the March 8 Alliance has been the ruling coalition between 2011 and 2013 and resulted victorious in the 2018 parliamentary elections. The FPM is considered a centre-right party that represents rights of Lebanese expatriates and it has often adopted harsh measures and bitter words while addressing labour movement and Muslim lower-income classes[29]. Furthermore, it has strong linkages with the economic élite in particular within the financial system[30].

Following the institutional integration and new political alliances, Hezbollah went from being a radical, anti-systemic party in the 1980s to a party participating to all level of Lebanese political and market structures. Therefore, it is necessary to have another deeper look into its boundaries with the banking sector to re-assess its position towards debt restructuring and exchange rate devaluation.

A Micro Perspective: Banks associated with Hezbollah

As stated in the introduction, the present research attempts to shed light over Hezbollah's preferences with respect to debt restructuring and exchange rate devaluation by assessing implicated benefits and costs for the party's constituency. Consequently, the following paragraph investigates the relations between the party and three major financial institutions: Fenicia Bank,

[27] Baroudi, S. E. (2000). Sectarianism and business associations in postwar Lebanon. *Arab Studies Quarterly*, 81-107.
[28] Daher, J. (2016). Ibidem. P. 80.
[29] Daher, J. (2016). Ibidem. P. 145.
[30] Chaaban, J. (2016, October). I've Got the Power: Mapping Connections Between Lebanon's Banking Sector and the Ruling Class. In *Economic Research Forum*.

Lebanese Swiss Bank and SGBL, that are highly exposed to sovereign risk and would largely suffer a restructuring of Lebanese public debt. The first two banks are today listed among financial institutions controlled by Shi'a shareholders[31], whereas SGBL has tight linkages with Hezbollah's main ally, FPM.

1. Fenicia Bank

Fenicia Bank was founded in 1959 by Arab investors, mainly the well-known Kuwaiti Al-Sabbah family and the prominent Baydas Group[32], whose control has been until his death in the hands of the contradictory Palestinian investor Yousef Baydas. During the 1990s the bank witnessed a rapid growth thanks to its involvement in the reconstruction plan envisaged by Rafiq Hariri. Concerning its political connections, the Board of Directors includes the Shi'a ambassador to Armenia Mr. Aziz Maacaron and his brother, who together with other members of the family hold 15 percent of the Bank's shares. Furthermore, Mr. Maacaron owns companies and real-estate agency in the Bekaa Valley as well as a large firm in DRC[33]. More interestingly, in 2012 Fenicia Bank has been involved in U.S. Department of Treasury's investigation over money laundering network linked to drug trafficking of Hezbollah[34]. According to the investigation, Mr. Ibrahim Chibli used his position as the manager of the Abbassieh branch of Fenicia Bank in Lebanon to facilitate the movement of money for Joumaa and Harb, two notable drug kingpins associated with Hezbollah. In 2010, Joumaa supposedly moved over a million dollars into an account owned by Harb and managed by Chibli.

Today, Fenicia Bank is the 17th Lebanese largest financial institution by asset share, with around 1 percent of total assets in the highly concentrated sector[35]. Concerning its assets portfolio, balances and cash with the BdL constitute almost 25 percent of total assets. Within this balance sheet item, liquidity with the Central Bank accounts for more than 30 percent of the total, and it increased sharply between 2016 and 2017 consequently to the swap operation described above. On the other side, mandatory reserves at the Central Bank slightly decreased but they are still above 8 percent of total assets. Currently, in accordance with BdL basic circulars no. 84, 86 and 87, banks are required to constitute non-interest-bearing mandatory reserve in Lebanese pound calculated on the basis of 15% of the weekly average of term deposits and 25% of current accounts denominated in LL. These reserves are macro prudential measures to assure the bank from a liquidity crisis. Nevertheless, as these are 0 interest rates reserves, they nullify a consistent share of potential revenues.

On liabilities side, debts due to the Central Bank amount to 10 percent of the total. Two items are worth to discuss. In 2016, Fenicia Bank was granted a soft loan by BdL to finance credit given to three customers affected by July War of 2006 representing 60 percent of the value if the buildings and damaged equipment. Most of industrial damages and casualties occurred in the Bekaa Valley, in the southern suburbs of Beirut and in the southern city of Tyre[36]. The loan was also invested in treasury bills amounting to LL 57.8 billion. Secondly, during 2017, the BdL granted loans to Fenicia Bank against term placements denominated in USD. The loans are denominated in LL and subjected to annual interest rate of 2%. Such loans are equal to 125% of the USD term placements and are to be reinvested in Lebanese treasury bills. These borrowings, as well as the whole Fenicia Bank's balance sheet, highlight the strong financial ties between commercial banks, the BdL and public debt, as the analysis of the bank's governance and

[31] Daher, J. (2016). Ibidem. P. 81.
[32] Website of Fenicia Bank: http://www.feniciabank.com/en/AboutUs/Directors
[33] Website of Fenicia Bank: http://www.feniciabank.com/en/AboutUs/Directors
[34] Website of the US Department of Treasury. Press Release at: https://www.treasury.gov/press-center/press-releases/Pages/tg1624.aspx
[35] Chaaban, J. (2016, October). Ibidem.
[36] See among others: "Israeli strikes deal major blow to Bekaa's working class". Quilty, J. (05/08/2006). The Daily Star. http://www1.dailystar.com.lb/Business/Lebanon/2006/Aug-05/42259-israeli-strikes-deal-major-blow-to-bekaas-working-class.ashx

operations showcases its potential ties with the Shi'a community and Hezbollah.

2. Lebanese Swiss Bank

Lebanese Swiss Bank (LSB) was founded in 1962 and in 1973 it was taken over by Credit Swiss. In 1988, 99% of the shares have been bought by a group of Shi'a business men[37] connected to real-estate sector headed by the current chairman Dr. Tanal Sabbah[38]. Among controlling shareholders Mr. Khater Habib ai Habib is the director of NIGD (National Institute for the Guarantee of Deposits)[39]. The institution insures up to LBP 5 million (about USD 3,317) of Lebanese and foreign currency deposits in commercial banks). Even though there is no proven link between LSB's shareholders and Hezbollah, the sectarian electoral system of Lebanon might suggest that such connections exist[40].

As the entire Lebanese banking sector also LSB is highly exposed to sovereign risk. Indeed, 15% of his assets are constituted by cash and balance with the BdL. Unfortunately, a more detailed version of its balance sheet is not available online.

3. Société Générale de Banque au Liban (SGBL)

SGBL was founded in 1953 by a partnership between Michel Sehnaoui & Sons, Banque Belge pour l'Etranger and Compagnie Belge de Banque et de Gestion. Currently, the main shareholder is the Sehnaoui family who holds in the person of Antoun Sehnaoui 51.65% of shares[41]. Among the most relevant family members, there is Mr. Maurice Nicolas Sehnaoui who currently serves as Non-Executive Vice Chairman at AstroBank Ltd, whereas he has served as the General Manager and Chairman of the Board of SGBL since 1981[42]. He was also Minister of Energy in Lebanon from 2004 to 2005 under the cabinet of Karami[43]. His son, Nicolas Sehnaoui is a FPM MP and former minister of Telecommunication. In 2011 SGBL merged with the Lebanese Canadian Bank SAL[44], which was found to be involved by the US Treasury in funding Hezbollah and other terrorist organizations and also in money laundering for the narcotics community[45]. The US authorities also believed that some of LCB's senior managers had assisted certain customers a scheme to launder narcotics payments by layering it cashflows related to used car trading between the United States and Africa, from which a share of cashflow was diverted to Hezbollah. The investigation was eventually settled by the counterparts who agreed on paying $102 million as fine.

Currently, SGBL is the 7th largest bank by assets' share with 7 percent of total assets held by the Lebanese banking sector. Among the three financial institutions analysed, SGBL is the one with the largest exposure to the BdL and to sovereign debt. Indeed, it holds almost 13 trillion Lebanese pounds in time deposit at the Central Bank, which equals to 40% of the bank's total assets. Time deposits are an alternative to the standard savings account and will usually pay a

[37] Daher, J. (2016). Ibidem. P. 81.
[38] Website of Lebanese Swiss Bank: https://www.lebaneseswissbank.com/LSBProfile.aspx
[39] Chaaban, J. (2016, October). P. 19.
[40] See among others: Nucho, J. R. (2016). *Everyday sectarianism in urban Lebanon: Infrastructures, public services, and power* (Vol. 10). Princeton University Press. And concerning 2018 Parliamentary elections: "Hezbollah, Amal and allies biggest winners in Lebanon elections". Ajroudi, A. (08/05/2018). Al Jazeera. https://www.aljazeera.com/news/2018/05/hezbollah-amal-allies-claim-lebanon-election-sweep-180507160524402.html
[41] Website of SGBL: http://www.sgbl.com.lb/sgbl_fr/Pages/home.aspx
[42] Website of Bloomberg: https://www.bloomberg.com/research/stocks/private/person.asp?personId=22385074&privcapId=31160121
[43] See among others: "Karami unveils final Cabinet lineup". Raad, N. (27/10/2004). The Daily Star. http://www.dailystar.com.lb/News/Lebanon-News/2004/Oct-27/3794-karami-unveils-final-cabinet-lineup.ashx#axzz2NbofFgrl
[44] See: "UPDATE 1-Lebanon's LCB to merge with Societe Generale unit". Karouni, M. (03/03/2011). Reuters. https://www.reuters.com/article/lebanon-bank/update-1-lebanons-lcb-to-merge-with-societe-generale-unit-idUSLDE7222G420110303
[45] See: "Lebanese bank to pay U.S. $102 million in money-laundering case". Raymond, N. (25/07/2013). Reuters. https://www.reuters.com/article/us-lebanesebank-settlement-idUSBRE95O17P20130625

higher rate of interest. Between 2016 and 2017, time deposits at the Central Bank increased dramatically; conversely, purchases of Lebanese Treasury bonds dropped. This shift might suggest, as we discussed above, that the banking sector is nowadays more reluctant to invest directly into Government deficit and it prefers to address the BdL as market intermediary carrying default risk. Nevertheless, SGBL is still highly exposed to sovereign as of December 2017 it held LL 3.7 trillion of TBs.

The same strong connections can be identified among liabilities. Indeed, due to the sharp increase of Term soft loans which rose from LL 430 billion in 2016 to LL 1.63 billion in 2017, the exposure of the BdL to SGBL deepened. As for Fenicia Bank, the Term soft loans, namely subsidized loans with actual rate averaging below 2 percent (the market loan on LL loans was in 2017 well above 6 percent[46]), includes funds to cover credit losses relating to debtor directly affected by July 2006's war, and a bulk of loans used in the purchase and in the covering of additional losses of the Lebanese Canadian Bank SAL[47].

Conclusion

In the above sections, the urgency of the two policy options has been outlined. Such urgency is the product of macroeconomic and microeconomic variables. As far as the former are concerned, we should pay attention to BoP's dynamics, highly leveraged public expenditures and the country's financial stability. Nowadays, financial stability and public debt are theoretically guaranteed by the Central Bank. Nevertheless, the vicious circle that starts from real economy inefficiencies and enormous deficit- and then requires support from the BdL- should be tackled at the origin. Furthermore, as the third paragraph suggested, any attempt to correct real economy weaknesses with *cosmetic* financial engineering could unleash even more dramatic consequences for the private sector. As a matter of fact, the exorbitant exposure of the Central Bank and of commercial banks to sovereign risk poses serious threat to the sustainability of these operations, which eventually strengthen this circle. Despite such urgency, decisions should not be rushed. On the contrary, a cost benefit analysis should be taken into consideration, in particular concerning how debt restructuring or devaluation would differently hit Lebanese social classes. Indeed, the present paper attempts to underpin the economic drivers that lie behind one of the pivotal forces of Lebanese politics, Hezbollah. Although the Party of God has championed the right of the oppressed through its hegemonic apparatus of services provision and low-income class support, it has progressively become part of the neoliberal structure of the country through political alliances and increasing wealth accumulation. If on the one hand, we would expect the organization to strongly favour debt restructuring to the detriment of the banking sector, on the other hand it is has been shown that throughout the *Lebanonization* process Hezbollah has developed strong ties with the financial system. Consequently, Hezbollah's support for debt restructuring is nowadays much less obvious. In this context, the descriptive concept of *Islam de Marché* can be developed further into a politically defined agenda which aims to please a richer constituency.

Nevertheless, growing tensions with KSA and newly imposed sanctions on Iran, paired with the negative rating on Lebanese TBs (Moody's has recently downgraded it to Caa1) oblige the party to take actions about this delicate matter. In this regard, Hassan Nasrallah has recently pointed out the party's stance during one of his rare public speeches. The Hezbollah's secretary, addressing Lebanese banks, has stated firmly that they should not withdraw their support to the Government as they will be held responsible for the economy's faith. It appears that- more than reassuring the debt's holders on the commitment of necessary reforms- Hezbollah is threatening them. Besides any rhetoric considerations, such statement would suggest that the party, as the vast majority of political forces, would prefer to hold on to the

[46] Personal calculation based on Banque du Liban data.
[47] See SGBL balance sheet note n. 30, page 42.

described loop instead of any substantial intervention to correct the current disfunctional arrangement. This does not come as a surprise.

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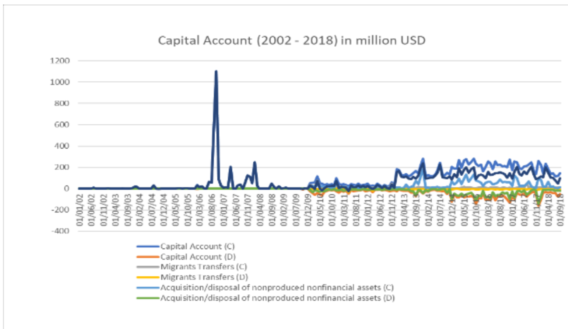
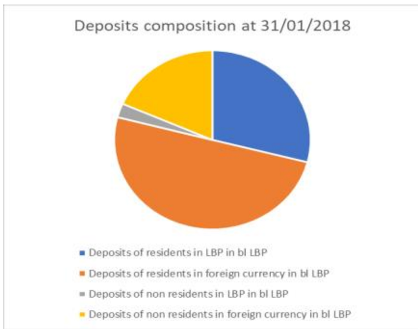
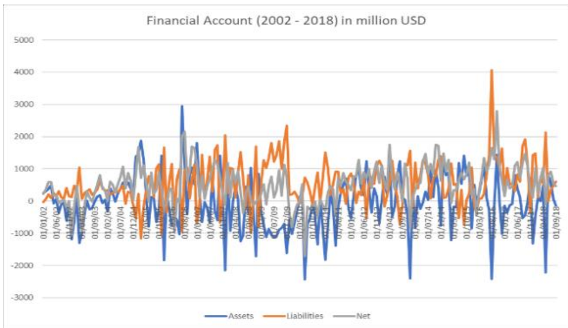
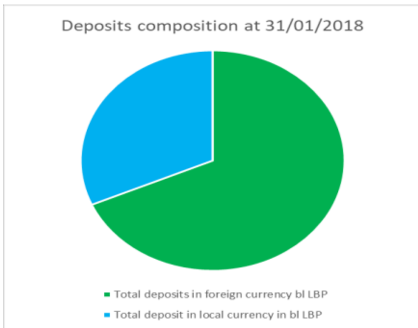
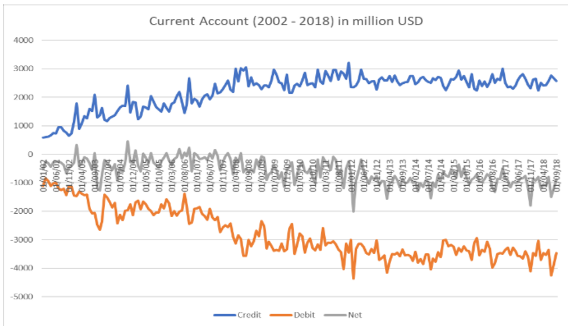
Appendix

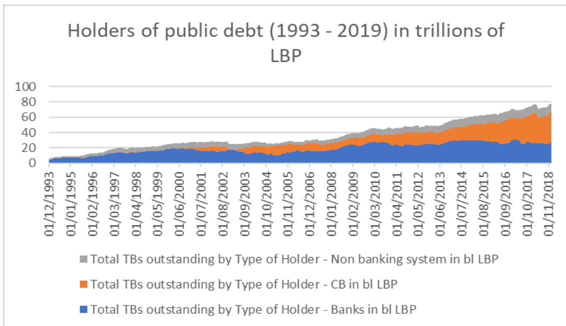

Capital Account (2002 - 2018) in million USD
Capital Account (C)
Capital Account (D)
Migrants Transfers (C)
Migrants Transfers (D)
Acquisition/disposal of nonproduced nonfinancial assets (C)
Acquisition/disposal of nonproduced nonfinancial assets (D)

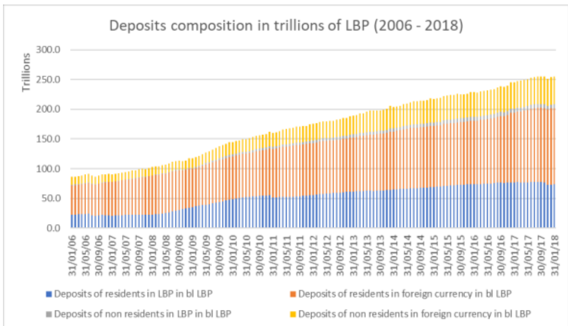

Deposits composition at 31/01/2018
Deposits of residents in LBP in bl LBP
Deposits of residents in foreign currency in bl LBP
Deposits of non residents in LBP in bl LBP
Deposits of non residents in foreign currency in bl LBP

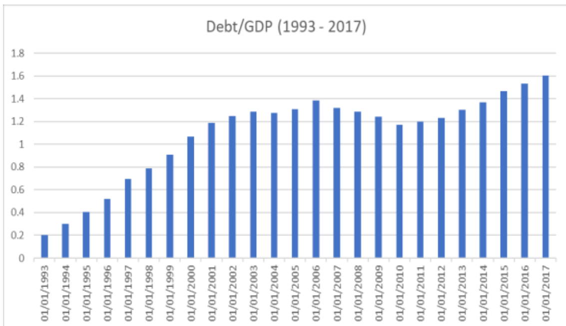

Financial Account (2002 - 2018) in million USD
Assets
Liabilities
Net


Deposits composition at 31/01/2018
Total deposits in foreign currency bl LBP
Total deposit in local currency in bl LBP


Current Account (2002 - 2018) in million USD
Credit
Debit
Net


Holders of public debt (1993 - 2019) in trillions of LBP
Total TBs outstanding by Type of Holder - Non banking system in bl LBP
Total TBs outstanding by Type of Holder - CB in bl LBP
Total TBs outstanding by Type of Holder - Banks in bl LBP


Deposits composition in trillions of LBP (2006 - 2018)
Trillions
Deposits of residents in LBP in bl LBP
Deposits of residents in foreign currency in bl LBP
Deposits of non residents in LBP in bl LBP
Deposits of non residents in foreign currency in bl LBP


Debt/GDP (1993 - 2017)