مصرف لبنان
BANQUE DU LIBAN

Overview of the Recent Monetary, Banking, and Financial Developments in Lebanon

2001

The year 2002 has been witnessing a resumption of growth, driven by several positive factors, namely a significant increase in tourism activities, real estate sales, and industrial exports.

There is a national consensus (Government, Central Bank, and the private sector) that improving the macroeconomic situation requires a stable exchange rate, a sound banking sector, and a government commitment to implement a reform program that would help it achieve self-financing capacity.

Unchanged since 1993, our commitment to exchange rate stability has been reinforcing economic and social stability. Although the dollarization rate of bank deposits peaked in May at 74 percent, we believe it reached a ceiling. And any improvement in the BOP performance, as witnessed in the last months, would lead to an increase in our foreign currency reserves.

For the last five years, our monetary policy has kept inflation below 5%, and we expect no change in this rate, despite the introduction in February of a 10% VAT. This policy was effective in stabilizing interest rates, though private and public sector indebtedness were on the rise. On another level, international markets are pricing our bond issues more favorably than credit agencies, a strong indication of confidence in our economic outlook.

Moreover, we have asked banks to diversify their risks, achieve a better control of their loan portfolios, and improve their risk management capacities. In the past six years, the sector has been well consolidated. Equity capital of operating banks increased by more than 140%, reaching three billion US dollars and pushing the average capital adequacy to 18% at end-2001. It is noteworthy that deposits in the Lebanese banking sector exceed USD 40 billion - more than double the GDP – with one of the highest ratios in the world.

Looking ahead, we are preparing our banks to comply with Basle-II requirements, through a set of regulations on managing operational risks and on improving transparency and good governance. Our banks remain well positioned in the international financial system, following the removal of Lebanon from the FATF's list of non-cooperating countries and the IMF report, which praised the quality, soundness and good supervision of the Lebanese banking sector . Our new law on fighting money laundering preserves the specificity of our banking secrecy law. The latter, coupled with the fiduciary contract law and the electronic banking regulations, will make our banking system more competitive.

Our swap operations shifted the maturity of LBP-denominated TBs to two years, which helped in relieving the pressure on public finances. We also used a new financial technique, by swapping a portion of our LBP-denominated TB holdings for a three-year Eurobond issue that bears a lower interest rate and allows direct subscription by the public.

We commend the government's plan to reduce expenditure by 10 percent in the 2003 Budget, and to lower the debt stock through privatization and securitization. Coupled with the anticipated positive results of Paris-II Conference, these measures would relieve the markets and pave the way for a successful implementation of the fiscal reform plan.