



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

2004

The economic and financial situation improved in 2004. While estimates for 2005 looked equally promising, these positive prospects were overshadowed by the assassination of former PM Rafik Hariri in February 2005 and the political uncertainty that followed. Nonetheless, Lebanon showed tremendous resilience in weathering the crisis, most notably due to the **strength of its financial sector, investor loyalty and the commitment of the Banque du Liban (BdL) to monetary stability**. Although the first quarter of 2005 was characterized by a slowdown across all sectors of the economy, activity started to rebound soon after.

Real **GDP growth** accelerated by an estimated 5% in 2004 compared to 3% in 2003. A 2% growth rate is forecasted for 2005. **Inflation** was contained at below 4% in 2004 and is expected to remain at the same level in 2005.

On the monetary policy level, BdL's strategy of maintaining a high stock of **assets in foreign currencies** as a precautionary measure proved to be essential in dealing with the crisis of early-2005. It was also able to maintain **exchange rate stability** and contain financial market pressures. The BdL did so by adopting several **financial engineering tools**, most importantly the issuing of a tradable USD 2 billion Euro-CD sold in the primary market to banks and financial institutions and later in secondary markets to individuals locally and abroad through Euroclear. This issue was considered as the biggest ever in Lebanon and one of the largest in emerging markets.

As **for the banking sector policy**, BdL continues to work on the **modernization of regulations** in order to foster banking performance, **combat the misuse** of the banking sector **for illicit activities** while preserving banking secrecy, establish **good governance** and **transparency** requirements, as well as abide by **Basle II** standards.



Consolidation of the banking sector is being encouraged without compromising competition. Moreover, bank's endeavors to **export their services** are being pre-conditioned by the enhancement of necessary technical capabilities to mitigate related risks.

The successful development of **Islamic Banking** is being promoted by limiting Islamic financial operations to qualified institutions and encouraging the operations that provide liquidity to banks' real estate portfolios.

The central bank has been working on ensuring the provision of **adequate financing to the private sector**. It issued circulars to solve the problem of non-performing loans by allowing creditors to reschedule their loans over a 10-year period. In addition, BdL is currently addressing **credit risk** issues, with the aim of decreasing borrowing costs to the private sector without increasing banks' risk exposure. This will allow banks to base their lending decisions on **companies' audited financial statements**, in addition to establishing a unit at BdL for **companies' rating** that will encourage them to increase their capital. The BdL is also planning on amending the Code of Money and Credit allowing banks to engage in **corporate restructuring** activities within a specified time frame.

The BdL will continue to play an important role in the **development of the payment systems**. Work is underway on completing the virtual electronic network for banks - Secure Banking and Information for Lebanon (**SeBIL**). Most recently, the online information exchange network between banks and the Central Office for Bounced Checks at BdL was launched.

Finally, the government's commitment to structural reforms, curbing the budget deficit and halting indebtedness through privatization and securitization will help restore fiscal sustainability. Coupled with BdL's strong commitment to monetary stability and financial sector development, this will foster growth and sustainable development.