مصرف لبنان
BANQUE DU LIBAN

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

2015

In 2005, the Lebanese economy witnessed one of its most challenging years since the end of the war. The assassination of former PM Rafic Hariri in February paralyzed all sectors of the economy during the first half of 2005. Skillful management of the crisis by the government and the Banque du Liban (BdL) reversed the economic downturn, thus ending the year on a positive note.

GDP growth was estimated at 1.3% while inflation declined to 0.3% in 2005. Growth for 2006 looks promising and is expected to reach 4 to 5% with inflation not exceeding 4%.

In maintaining monetary stability, the BdL resorted to several financial engineering tools that helped contain severe financial pressures in the first quarter of 2005. Among these measures: swap operations on TBs, a repurchase agreement with an international financial institution of a USD 500 million Eurobond from BdL's portfolio, and the biggest ever BdL issuance of a USD 2 billion Euro-CD.

Signs of recovery appeared in mid-April 2005 with renewed demand for the Lebanese Pound. BdL was able to replenish its foreign assets to over USD 12 billion by March 2006, excluding gold. The resumption of large capital inflows helped reverse the balance of payments deficit of USD 1.5 million accumulated in the first 5 months of 2005 into a cumulative surplus of USD 747 million at year-end and USD 659 million for the first quarter of 2006.

The presence of a well-capitalized and highly liquid banking sector has always played a key role in maintaining confidence. Total deposits decreased by 5% between January and April 2005, resuming their growth thereafter to reach USD 62 billion by March 2006- almost three times the GDP. Dollarization of deposits stabilized at 72% after reaching a peak of 80% in March 2005.

BdL's ongoing commitment to enhance the soundness and openness of the Lebanese banking and financial sector was reflected in the following measures: imposing academic, technical and ethical requirements for staff in key banking and financial positions; regulating Islamic banks' operations; reinforcing anti-money laundering measures; and promoting the export of banking services, particularly in the MENA region. In addition, BdL requires banks to abide by Basle II capital adequacy standards (Pillar I) by January 2008, giving them an additional five years to adopt Pillars II and III.

Capital markets ended 2005 with a positive momentum, which was strongly reinforced over the first months of 2006 mainly due to a rise in Gulf investments benefiting from a surge in oil prices. Stock prices grew exceptionally in 2005 and into 2006, with trading volumes recording historical highs mostly driven by soaring profits of the real estate company Solidere. A positive mood also governed the Eurobond market with a strong pick-up in demand by local and foreign investors.

To further consolidate the legal framework of capital markets, and in coordination with the BdL, two laws were passed in December 2005 dealing with assets' securitisation and collective investment schemes. A draft law regulating capital markets is being studied in Parliament.

Hoping that domestic political tensions will subside, the upcoming Beirut I donor conference is expected to give a boost to the government's ambitious structural reform program, advocating privatisation and widespread fiscal, social and economic reforms. Coupled with BdL's commitment to monetary and financial stability, the program would maximize efforts to reduce public debt, improve governance, strengthen the economy's competitiveness and increase growth.