مصرف لبنان
BANQUE DU LIBAN

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

2006

The war launched by Israel in July-August 2006, the month-long blockade, and the ensuing domestic political crisis, dealt a severe blow to the Lebanese economy, which had only started to recover in the first half of 2006. However, skillful management by the Banque du Liban (BDL) of exchange rate pressures and the strong liquidity position of commercial banks contributed to preserve financial stability. In 2006, GDP growth was flat and inflation reached 7%, while projections for 2007 point to a 2% growth in real GDP and a 4% inflation.

The donor conferences of Stockholm (August 2006) and of Paris III (January 2007), generated significant support from the international community, alleviating the burden on public finance. The Paris III Conference allocated to Lebanon grants and soft loans amounting to USD 7.6 billion, in order to trigger the private sector post-war revival and to implement the government's economic reform plan.

In preserving monetary stability, the BDL adopted several financial engineering tools, including the launching of a USD 1 billion CD issue, for a 3-year period and at a 7.5% interest rate. Moreover, shortly after the war outbreak, the BDL received a USD 1.5 billion deposit from Kuwait and Saudi Arabia. These measures allowed the BDL to replenish its foreign-currency reserves to over USD 13 billion, while the BOP recorded a surplus of USD 2.8 billion at end-2006, the highest since 2003.

Despite the adverse political and security climate, the banking sector showed a remarkable resilience: total assets currently exceed USD 78 billion; consolidated profits reached USD 665 million at end-2006; private sector deposits grew annually by 8% to USD 67 billion; and private equity increased significantly by 35% in 2006, supporting the regional expansion policies of leading Lebanese banks. Banks are seeking to diversify their asset structure and sources of income, while preparing to comply with the Basle II capital adequacy standards, by January 2008, as required by the BDL.

As one of the main post-conflict concerns was that of debtor clients affected by war, the BDL issued several Circulars, requesting banks to reschedule these clients' financial obligations, to grant them subsidized loans while exempting banks from reserve requirements for loans guaranteed by international financial institutions. As for Lebanese clients having incurred direct war damages, the BDL will guarantee bank loans up to 60% of the damages value, in a process that will ultimately turn this proportion into a grant.

Equity and Eurobond markets witnessed sharp fluctuations in 2006 and the first half of 2007. The favorable mood prevailing in both markets in the first half of 2006 was reversed in the second half, due to a year-on-year decline in prices. The deteriorating domestic security conditions in the first half of 2007 hampered the Paris III positive effects on both markets. Despite the crises, markets are witnessing an increasing annual demand for real estate.

While the government has achieved a significant progress in setting up the institutional structure to implement the comprehensive economic, fiscal and social reform program submitted at Paris III, the full implementation of this program still awaits a secure and favorable political climate. A timely implementation of the program, including the privatization of the telecommunications and power sectors, is a promising way out of the large public debt and financial weaknesses.