مصرف لبنان
BANQUE DU LIBAN

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

2013

For the third consecutive year, the Lebanese economy has witnessed a relative slowdown in activity amid political tensions and security challenges combined with spillover risks from the Syrian conflict. Since the Syrian crisis began in early 2011, foreign trade and tourist arrivals have been adversely affected while investment and consumption have slowly but steadily declined. Nevertheless, the Lebanese economy has maintained a relative resilience to challenges, most notably due to a stable monetary policy, a solid and highly liquid banking sector, and steady remittances from the large and wealthy Lebanese Diaspora. Real GDP has achieved around 2.5% annual growth in 2013, according to Banque du Liban (BDL) estimates, while inflation has been contained at around 3.5%, which is in line with BDL's objectives.

At the monetary level, BDL is maintaining its commitment to exchange rate stability, reinforcing confidence and stability in the financial system as a whole. BDL has all the means to confront any crisis that may hit the economy with its record level of assets in foreign currencies, exceeding USD 36 billion in February 2014, excluding gold. BDL is also aiming to maintain stability in interest rates through continued intervention in bond markets and without disrupting market mechanisms.

The stimulus package that has been introduced by the Central Bank in early 2013 to boost economic growth includes incentives to support housing, education, renewable energy projects, innovative projects, research & development ventures, entrepreneurship, and other productive sectors of the economy. Commercial banks have already extended to various projects more than 75% of the USD 1.46 billion credit facilities provided by BDL at a cost of 1% interest in 2013.

The stimulus plan proved to be successful contributing around 1.5% to the GDP real growth of around 2.5% achieved in 2013. An additional stimulus package of USD 800 million was announced by BDL to further stimulate the Lebanese economy in 2014.

BDL is also aware that strengthening the Lebanese knowledge economy improves the performance of all economic sectors, creates job opportunities, increases GDP per capita and ensures sustainable development. To achieve this, BDL has recently issued Intermediate Circular 331 where BDL grants banks wishing to participate in the equity capital of companies (startups, incubators/accelerators, venture capital companies) interest-free facilities covering up to 75% of their investment. Companies must be part of the knowledge economy sector, support socio-economic development, and enhance creative intellectual skills and intellectual capital. For the first time in Lebanon, an amount equivalent to around USD 400 million will be available to support creativity and innovation. The purpose of these initiatives is for BDL to safeguard monetary and economic stability and to increase the Lebanese national wealth.

Despite the challenging operating environment, the Lebanese banking sector is still reporting a healthy performance as revealed by a growth of 8.5% in total banking activity for the year 2013. Total assets of banks in Lebanon have exceeded USD 164 billion in December 2013.

Total bank profits have recorded a slight increase during 2013 even with the allocation of new provisions. Bank deposits, accounting for 86% of total banking activity, grew by around 9% to reach a new high of USD 142 billion at end-2013, with a dollarization ratio of 66%. In parallel, lending activity registered 9% growth during 2013, with bank credits to the private sector exceeding US$ 48 billion in December 2013. The loan dollarization ratio continued its downward trend to reach 76.5% at end-2013, its lowest level in more than two decades.

The Lebanese banking sector enjoys high levels of liquidity that enables commercial banks to finance the government and private sector needs while maintaining a stable interest rate structure. In terms of capitalization, Lebanese banks are exceeding the required ratios as stated by Basle III. Exposures of Lebanese banks operating abroad are regularly monitored and assessed by BDL. The banking sector has the appropriate regulatory and supervisory framework which is in line with international standards.

Despite all difficulties, Lebanon continues to have the potential for a strong economic recovery. A chief factor is its human capital, and soon a new oil and gas sector, the revenues of which will bring down the government debt to more sustainable levels. The key challenge remains to target budgetary deficits and to bring them down to international norms. Barring adverse political and security events, fiscal discipline is a priority if such a recovery is to be achieved.