مصرف لبنان
BANQUE DU LIBAN

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

2009

Lebanon achieved impressive macroeconomic and financial performance in 2009, preserving a marked resilience in the midst of global turmoil and reaping the benefits of prudent financial policies by the Banque du Liban (BDL). GDP growth reached 9% driven by a boost in tourism, consumption and capital inflows, while inflation remained contained at around 3%. The BDL expects economic expansion to continue in 2010 with inflation kept below 4%.

The BDL's commitment to exchange rate stability has become the cornerstone of financial stability. Growing confidence has been evidenced in gradual interest rate cuts and persistent bank deposit conversions from US dollars into Lebanese Pounds (LP). BDL's foreign currency assets reached a historical high of US$30bn, and are topped up by gold reserves of around US$10bn. Contrary to previous expectations, remittances from expatriates increased by 10% to US$7bn, contributing to a BOP surplus of US$7.8bn in 2009, more than double the surplus registered in 2008.

In order to absorb the excess in LP liquidity and to keep inflation under control, the BDL resorted to issuing 5-year LP CDs during the first half of 2009. Following the Ministry of Finance's (MOF) decision to suspend the issuance of LP TBs in March 2010, the BDL resumed selling LP CDs with 5 and 7-year maturities. On the Eurobond market, the favorable conditions in 2009 have carried on into 2010 with the MOF successfully closing a new US$1.2bn swap operation. Strong local and foreign demand benefited from stable financial market conditions.

The Lebanese banking sector has managed to avoid the effects of the global financial crisis, remaining well-capitalized and profitable thanks to a tradition of prudent regulation and supervision by the BDL over the past sixteen years. Bank deposits grew at an annual rate of 24%, reaching around US$103bn in January 2010, while the dollarization rate dropped to 63.7%, from a peak of 77% in early 2008. Loans to the private sector exceeded US$30bn in January 2010, thus recording an annual healthy growth of 17% amid an environment of global credit tightening. To further enhance lending in LP and to direct the excessive liquidity towards more productive investments, the BDL has offered banks new exemptions on obligatory reserves. These incentives target housing loans and new productive projects financed between January 2009 and mid-2011, as well as high-educational loans and environmental projects.

While Lebanese banks are fully implementing Basle II standards with a solvency ratio exceeding 12%, the BDL continues to work on strengthening good governance, risk management and transparency requirements within banks. In this regard, new units have been created at the BDL in 2009 to promote corporate governance and financial stability in domestic markets.

In spite of the global recession, Lebanon's economy has performed very well, supported by stable political conditions. The government budgetary deficit remains the main weakness that needs to be addressed urgently by implementing pending reforms in vital economic sectors. With the liquidity available, the government should build on the private sector to implement new projects especially in the field of energy, which is key to improving public finance conditions.