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

2011

After 4 years of impressive growth rates, the Lebanese economy witnessed a slowdown in activity reflecting domestic political tensions and regional uprisings. GDP growth has been estimated at around 2% in 2011, and is expected to reach 3.5% in 2012 according to the IMF. Inflation projection has been revised from 4 percent in 2010 to 6 percent in 2011, while more pressure is expected to be exerted on consumer prices in 2012 due to the increase in wages.

BDL's continuous commitment to exchange rate stability policy has become the cornerstone in maintaining financial and price stability. Its strategy of preserving a high stock of assets in foreign currencies as a precautionary measure proved to be essential in dealing with any crisis that may hit the economy. The BDL is currently holding around USD 32 billion in foreign currency assets, excluding gold reserves which are the second-largest in the MENA region.

Growing confidence in the national currency has enhanced the Central Bank's ability to have an efficient monetary policy through controlling interest rates and preserving their current low structure. The Central Bank is ready to make use of the appropriate monetary tools in order to manage liquidity and keep inflation under control. Despite a slight increase in deposit dollarization in 2011, it is still maintaining a low ratio of around 65% as compared to a high of 77% at end-2007. The loan dollarization ratio continued its downward trend to reach 78% at end-2011, its lowest level in more than 2 decades. The only negative factor in 2011 was the balance of payments which has recorded a cumulative deficit of around USD 2 billion, as compared to a surplus of 3.3 billion in 2010. The Central Bank underlines the importance of re-stimulating large capital inflows into the Lebanese economy. In fact, annual remittances from the Lebanese Diaspora usually represent a major source of external funding that spurs the Lebanese economy.

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As for the banking sector, the year 2011 reported a healthy performance as revealed by deposits growing at around 7% and credits rising by more than 14%. While last year's activity has been satisfactory, it turned out to be relatively less favorable than that of 2010 which saw a 10% growth in deposits and 23% growth in credits. Nevertheless, our banking sector is still recording very high liquidity buffers, capital above the regulatory minimum, low levels of non-performing loans and stable profits.

There are some key measures that have preserved our banking sector from being infected by international and regional crises, and built a cushion against any external or internal political pressure. BDL is committed to regulating banks' dealings with derivatives and structured products, restricting involvement in risky investments- the main reason behind massive debts accumulated on international banks- and it is insisting on policies that prevent any Lebanese bank from going bankrupt. Moreover, BDL is closely monitoring the performance of Lebanese banks operating in countries that are experiencing political turmoil. Our banks, whether operating in Lebanon or abroad, are abiding by international standards on good governance, risk management, transparency and capitalization requirements; they are keen to keep clear and transparent relationships with correspondent banks.

BDL is also aiming at strengthening banks capital funds in order to attain a capital adequacy ratio of 12% by the year 2015. Capital adequacy has reached 7% among Lebanese banks and this is the ceiling required by international standards (Basle III). BDL is attempting to increase this ratio as a further prudential measure to exercise better control and protect the banking sector by sending positive signals at the international level.

Moreover, circulars issued in 2011 have revealed BDL's ongoing efforts to improve corporate governance, reinforce anti-money laundering measures, and deepen the regulation and supervision of financial institutions, brokerage firms and money dealers. BDL is still emphasizing the clear separation between the role of commercial banks and investment banks in order to protect both banks and customers’ interests. In fact, BDL aims to preserve the banking sector’s conventional approach toward monetary policy, by insisting that commercial banks in Lebanon won't be allowed to make any investments in financial markets, based on the capital markets law which was recently approved by the Lebanese Cabinet.

In parallel, confidence in the Lebanese currency has allowed BDL to direct loans towards productive and socially beneficial sectors such as housing, education and environmentally-friendly projects. This has led to significant increases in loans to the private sector which have exceeded those to the public sector. BDL believes that loans to the private sector are essential to stimulate the Lebanese economy. In 2011, BDL has extended incentives on housing and other loans earmarked for development.

With the current regional and domestic political climate not being supportive of major fiscal initiatives, government plans to establish a sovereign wealth fund from the expected proceeds from the exploitation of offshore oil and gas reserves would reduce the debt level and benefit the Lebanese economy. The key challenge remains in reducing the size of the yearly growing budget deficit, while maintaining macroeconomic stability and laying the foundation for a more dynamic economy.