مصرف لبنان
BANQUE DU LIBAN

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

2012

Since mid-2010, the Lebanese economy witnessed a slowdown in activity as the annual GDP growth rate declined from an average of 8% during 2008-2010 to an average of 2% between 2011 and 2012. The turmoil in Syria continues to adversely affect transit trade and tourist arrivals which had spillover effects on other economic sectors. Nevertheless, the Lebanese economy has maintained a relative resilience to challenges, most notably due to a stable monetary policy, a solid banking sector, loyal investors and steady remittances from the large and wealthy Lebanese Diaspora. According to the economic results of the first quarter of 2013, real GDP is expected to register an annual growth of 2 to 4%.

BDL's continuous commitment to exchange rate stability has become the cornerstone in maintaining financial and price stability as a solid pillar of economic growth. BDL's 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 confront the economy. The BDL is currently holding more than USD 36 billion in foreign currency assets, excluding gold reserves which are the second-largest in the MENA region.

Earlier this year, the BDL has launched a stimulus package putting at the disposition of banks USD 1.47 billion in Lebanese pounds at 1% interest rate. The banks, in their turn, must lend these funds at reduced rates to support vital economic sectors such as housing, education, renewable energy projects, innovative projects, research & development, and other productive sectors of the economy. The Central Bank is aiming at stimulating growth rates in the country by creating more internal demand to compensate for the declining regional demand. This monetary tool used by the BDL is not likely to have negative repercussions on inflation. BDL is controlling inflation through the management of liquidity. Its objective is to meet a 4% inflation target this year, even with a 2% publicsector wage hike. Growing confidence in the national currency has enhanced the Central Bank's ability to have an efficient and independent monetary policy.

Despite the challenging operating environment, the Lebanese banking sector is still reporting a healthy performance as revealed by a growth of 8% in total banking activity for the year 2012. Total assets of banks in Lebanon have reached around USD 152 billion in December 2012, which is more than three times the GDP.

In spite of the slight decrease registered in bank profits in 2012, other indicators were satisfactory as compared to the year 2011. Bank deposits, the main driving force behind the Lebanese banking activity, grew by 8% to reach a new high of USD 131 billion at end-2012, with a dollarization ratio moving down from around 66% at end-December 2011 to 64.8 % at end-December 2012.

In parallel, lending activity last year registered more than 10% growth, with bank credits to the private sector reaching US$ 44 billion in December 2012. The loan dollarization ratio continued its downward trend to reach 77.6% at end-2012, its lowest level in more than two decades.

Despite the economic slowdown and the difficult situation in the region, the Central Bank does not expect any unpleasant surprises in the conditions of the country's financial sector in 2013, given that banks in Lebanon have been able to weather various internal and external crises in the past and have so far successfully absorbed the repercussions of the Syrian and Arab crisis. Lebanese banks have high liquidity ratios and this has allowed them to maintain the flow of credit within the local market. Basle III capital adequacy among Lebanese banks has exceeded 10% at a time many other countries have failed to reach the ratio of 7%. Moreover, banks in Lebanon had sufficiently increased their provisions to limit exposure to foreign operations.

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 of oil and gas exploitation off the Lebanese coast- would bring down the debt level and benefit the Lebanese economy over the medium term. The key challenge remains to target budgetary deficits and to bring them down to international norms, while maintaining macroeconomic stability and laying the foundation for a more dynamic economy.