BDL's Monetary Overview for 2015

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According to the Lebanese Central Bank's (BDL) new Monetary Overview for 2015, the Lebanese economy has proven to be resilient amid the political and security turbulences locally and regionally. However, these mayhems have halted real economic growth in Lebanon, with the economic growth standing at a rate below 1% and inflation rate near 0% in 2015. Moreover, the bearish oil trend resulted in lower levels of remittances, at $7.16B in 2015, which in turn, with lower exports and investments, led to an increasing deficit in the balance of payments, standing at $3B in 2015. As for public debt, it stood at $70.30B taking a 148.7%[1] share of GDP. Despite this alarming situation, confidence in the Lebanese economy in general, and the Lebanese Pound in particular was not lost, due to the achievements accomplished on the monetary front.

Looking at the adopted monetary policy, BDL remained the anchor of the Lebanese economy via realizing the following objectives:

- keeping the Lebanese exchange rate and interest rates stable
- maintaining the strength of the financial and banking sectors
- developing the Lebanese financial markets
- strengthening the payment and money transfer systems
- managing liquidity
- setting a target rate for inflation
- managing public debt
- increasing national wealth

In this context, the banking sector proved to be adamant to the pressures affecting the Lebanese economy, with growth in its activity reaching 6%, and commercial banks' assets exceeding $185B by the end of 2015. Moreover, deposits increased 5% to record a new high level of $159B. Concomitantly, private lending growth rate stood at 6.4% with loans to the private sector at $55B.

[1] This ratio depends on BDL's estimate of GDP. According to the Ministry of Finance and the IMF, Public Debt-to-GDP ratio is 139%

This high liquidity allowed commercial banks to finance the public and private sector, and satisfy the solvency targeted by BDL, a 12% capital adequacy ratio, exceeding Basel III requirement.

One of the main reasons behind the strength of the banking sector is the monetary policy that BDL undertook during the year.

Conventional Tools Adopted by BDL in 2015

The exchange rate of the Lebanese Pound remained stable, owing to BDL's foreign assets that exceeded $37B, and gold reserves of around $10B. In this sense, demand for foreign currencies was equal to its supply, since the start of 2015, with no intervention from the central bank. However, due to developments occurring on the security and financial fronts, BDL intervened in November to keep the Lebanese exchange rate stable. Foreign reserves at the central bank declined slightly by only $771M, despite this intervention and the reimbursement of maturing foreign currency debt of the government.

Moreover, interest rates maintained their stability, and the private sector was offered the financing it needed. The interbank rate moved within a narrow range between 2.75% and 3.35%, which indicates the abundance of liquidity in the banking sector.

The BDL succeeded in strengthening confidence in the Lebanese Pound, which is shown by the lower dollarization rates of deposits and loans at 64% and 74%, respectively, end of 2015.

BDL also offered a secure and advanced payment system in order to facilitate transfers and banking operations for institutions in the public sector. This new system "PayGov", which will be launched end of 2016, will enable ministries and public institutions to perform their payments electronically through their accounts at BDL, in a fast and secure way.

In addition, BDL managed liquidity surplus, provided sources of financing for the government, and administered public debt. In fact, subscriptions in Lebanese Treasury Bills reached LP 16,275B ($10.80B) during 2015, in which treasury bills' and notes' rates maintained their stability on the primary market. Furthermore, new subscriptions exceeded maturing treasuries by LP 791B ($524.71M) due to the reimbursement of a big amount of interest payments. Similarly, due to the high liquidity in the banking sector, Repo rates stabilized at 10%.

BDL also collected 4 maturing loans, amounting to LP 116.10B ($77.01M), that it had offered to 4 commercial banks that were impaired by the war in July 2006. Hence, BDL's profits in 2015 stood at $58.71M.

Unconventional Tools Adopted by BDL in 2015

As for the unconventional tools adopted, they remained an important part of BDL's expansionary monetary policy in boosting the economy, by aiming at increasing growth and providing job opportunities.

Due to the success of the monetary stimulus adopted in 2013 in bolstering real GDP, enhancing lending activity in the local currency, directing the liquidity surplus towards investments, and increasing job opportunities, BDL renewed this stimulus for the third year in a row, with an average of $1B annually.

This stimulus resulted in the following:

- increase in loans subsidized by BDL, with total loans to the agricultural, tourism, and manufacturing sectors standing at around LP 750B ($497.51M)
- increase in the value of loans that are based on lower required reserves, given to the housing, non-housing, and manufacturing sectors to LP 400B ($265.34)

- subsidized loans to the energy, renewable energy, and environmental sectors, amounting to LP 217B ($143.95M)

- 25,000 beneficiaries profiting from the stimulus package of BDL, for a total amount of LP 1,400B (This package, launched in 2013, offers credit to banks at a rate of 1%.)

On another note, hoping that the knowledge sector would become one of the pillars of the Lebanese Economy, BdL initiated the "Knowledge Economy"- where information is capitalized for the creation of new goods and services with a high value added. The central bank encourages banks to invest in this sector's companies, by guaranteeing 75% of the risks born from such investments, and preserving 50% of the profits stemming from the guaranteed investment. Therefore, BDL guaranteed the investments of 2 banks in 3 companies by an amount $488,437, in addition to 75% of the investment of 19 banks by a total amount of $47,065, during 2015. Until now, more than $250M have been invested in the knowledge economy.

Operational Framework of the Monetary Policy

In the operational framework of the monetary policy, BDL issued a series of intermediate decisions to organize the banking and monetary sectors in line with local and international standards.

First, BDL continued its efforts to decrease borrowing costs through exemptions on required reserves. BDL decreased the rate of required reserves on deposits equivalent to loans to eco-friendly projects excluding energy projects. Moreover, BDL added new housing loan categories with lower required reserves on an equivalent amount of deposits, and extended the re-payment duration of non-housing loans subsidized by BDL to 15 years.

BDL granted credit facilities to all banks up to an amount of LP 1,500B for 2015, in addition to the remaining amount of the stimulus of 2014, for loans in the housing, educational, manufacturing, new investments, and environmental sectors on condition that the total amount of credit facilities does not exceed LP 900B. In addition, BDL enforced incentives by increasing the rate of credit facilities of loans in Lebanese Pounds given to eco-friendly projects excluding energy projects, with a maximum loan amount of LP 30B per project.

At the end of 2015, BDL allocated another LP 1,500B in stimulus for the year 2016, which are offered as loans to banks with 1% interest only. In return, banks will provide loans to different sectors with special emphasis on environmental projects and housing.

Moreover, BDL amended the centralized risk management system. The decision orders banks to declare letters of credit that exceed LP 5M, or what is equivalent to it in foreign currency, instead of LP 7M. This threshold will be gradually decreased until it reaches LP 1M.

In its efforts to organize electronic monetary and banking operations, BDL has banned mobile banking transactions between clients of different banks. However, clients' orders of banking transfers could be done through the application, on the condition that the execution of the transaction takes place between the Back Offices of the banks through the SWIFT system.

In addition, all financial institutions, other than banks, monetary and exchange institutions that perform electronic monetary transfer operations to abide by Anti-Money Laundering and Anti-Terrorist Financing codes, and implement an internal control system, and appoint a compliance officer who will regularly attend trainings.

In its efforts to implement international standards of transparent banking operation, BDL issued a decision that requests banks, monetary institutions, and all other institutions that fall within BDL's supervision to always review the UNSC website to check names on its lists to abide by security council's decisions 1267, 1988, and 1989, and subsequent decisions issued by the special sanctions committee. Based on these decisions, the above-mentioned institutions must freeze all cash, accounts and transactions that are linked to names mentioned in the list, and provide all necessary information to the special investigation committee.

To improve the quality of banking operations towards clients, BDL issued a decision to educate banks' employees, through awareness campaigns in all its branches, headquarter, website, and other communication methods with clients.

Moreover, due to the fragile economic conditions and slowdown in growth in Lebanon, BDL issued a new circular in October 2015, that allows the restructuring of substandard and doubtful debt portfolios (excluding all subsidized and soft loans) of banks and financial institutions upon a mutual consent between the borrower and creditor, under the oversight of the Banking Control Commission. The purpose of this circular is to improve financial markets and reorganize the relationship between debtors and creditors. If the borrower is involved with many banks and financial institutions, the borrower should have the approval of two-thirds of the creditor banks and financial institutions that hold at least 60% of the debtor's total bank debts.

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