BDL's FX Market Operations and NFA: A Suggested Explanation

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	August 2023	**February 2025**
Assets[1]		
Foreign Assets in Bn USD	8.9	10.6
Deferred OMO in Tn LBP[2]	-	146.0
Liabilities[1]		
Currency in Tn LBP	61.6	85.1
Public Deposits (PD)		
PD in Bn USD	0.3	1.0[3]
PD in Tn LBP	110.2[4]	480.6

[1] Figures are rounded up

[2] Represents deferred cost resulting from Open Market Operations

[3] Author's estimate

[4] Figure adjusted for changes in the exchange rate from 15,000 to 89,500 LBP on 2/2024

Source: BDL

In the spirit of transparency, and under the new Acting Governor, BDL published at end August 2023 its itemized liquid foreign currency balance sheet, which showed that BDL' s liquid net foreign assets (NFA) amounted to 7.2 billion USD. It did the same at end September 2023, but then stopped. So any figures relating to BDL' s liquid NFA since then will have to be estimates. And this is what we intend to provide in this note, exploring in addition BDL' s FX open market operations between August 2023 and February 2025.

We will start with the FX open market operations and then, follow with an estimation of the liquid NFA.

There were three interesting developments that marked that period as far as our purpose is concerned. First, BDL widened USD monthly payments by incorporating new Circular 166 (paid fully by BDL at $150) to the existing Circular 158 (paid half-in-half between BDL and commercial banks at $300-400) . Second, public wages increased from 10-fold to 13-fold the basic salaries, and BDL continued to secure the USD payments for these wages. Third, and perhaps most important, BDL used public deposits on its balance sheet -- which come in both USD and LBP -- as an operating instrument in its FX open market transactions.

It we abstract from Gold and the re-valuations adjustments that arise from changes in its price, the table above lists the most relevant items that drove changes in BDL' s balance sheet during the studied period. We can derive several important observations from the table:

First, public deposits in LBP increased from 110.2 trillion LBP to 480.6 trillion LBP; yet at the same time Currency in Circulation (CC) increased from 61.6 trillion LBP to 85.1 trillion LBP. This implies that BDL used 370.4 trillion LBP (480.6 – 110.2) plus 23.5 trillion LBP (85.1 – 61.6), to a total of 393.9 trillion LBP, to buy USD from the FX market. At the prevailing market exchange rate of 89,500 LBP, this would amount to 4.4 billion USD.

Second, BDL foreign assets (FA) increased from 8.8 billion USD to 10.5 billion USD. This increase of 1.7 billion USD arose from two sources: first, the 0.7 billion USD rise in public deposits in USD and, second, the 1 billion USD from FX open market purchase. Note total FX market purchases were at 4.4 billion USD, so this leaves 3.4 billion that BDL had accumulated but had to disperse, but where?

Third, the deferred open market operations item was introduced and distilled from prior operations in January 2024. It amounted to 146 trillion LBP in February 2025 or the equivalent of $1.6 billion USD. We postulate that it captures the USD public wages that BDL undertook on behalf of the Ministry of Finance (MoF). As such, and thus dispersed, it would leave total FX market purchases by BDL at 1.8 billion USD.

Fourth and last, it is estimated that the cost of Circulars 166 and 158 to BDL during the period reached 1.1 billion USD. Accounting for this expense, the remaining BDL' s total FX market purchases would come down to 700 million USD.

Given the above analysis, we would like to propose two concluding remarks:

First, if our numbers are correct, then the residual 700 million USD could have been used to pay back the debt to international financial institutions (WB, IFC, etc..) and to various BDL and government expenditures not explicitly accounted for.

Second, assuming, as most likely, that all BDL' s liquid NFA changes during the period were driven by FA and public deposits in USD, then liquid NFA must have changed by 1 billion USD (1.7 – 0.7). And given that, as mentioned earlier, at end August 2023 liquid NFA stood at 7.2 billion USD, then at end February 2025 it must have reached 8.2 billion USD.

To close, it goes without saying that BDL did a good job not only stabilizing the exchange rate during the studied period, but also increasing its liquid NFA. Of course, our numbers are estimates, but they no doubt could have benefited from more disclosure by BDL of its foreign currency accounts. Going forward, and with new Governance taking over the BDL soon, we hope to see more of such disclosures and, more important, the use of monetary instruments in the design and implementation of monetary policy within a retooled/restructured banking system.

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