

Recent Macroeconomic Developments in Lebanon



Banque Du Liban

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Recent Macroeconomic Developments

Several factors contributed to a more favorable situation in the last two quarters of 2002:

- Renewed regional interest in Lebanon for portfolio and real estate investments, and as a tourist destination
- The successful introduction of the VAT in February
- The removal of Lebanon by the Financial Action Task Force from its list of non-cooperating countries in the anti-money laundering initiative
- Progress in the preparations for privatizations of the telecommunications, power, and water sectors
- Successful outcome of the meeting held in Paris in November 2002 (Paris II) and related national initiatives to reduce public debt

Paris II Meeting

- **Place & date**

Paris - November 2002, under the auspices of the French Government

- **Participants**

22 major countries and international organizations

- **Aim**

To mobilize international financial assistance for Lebanon to help it with its public finance imbalances

Commitments Received from Donor Countries

Total amount committed = US\$4.4 billion as follows:

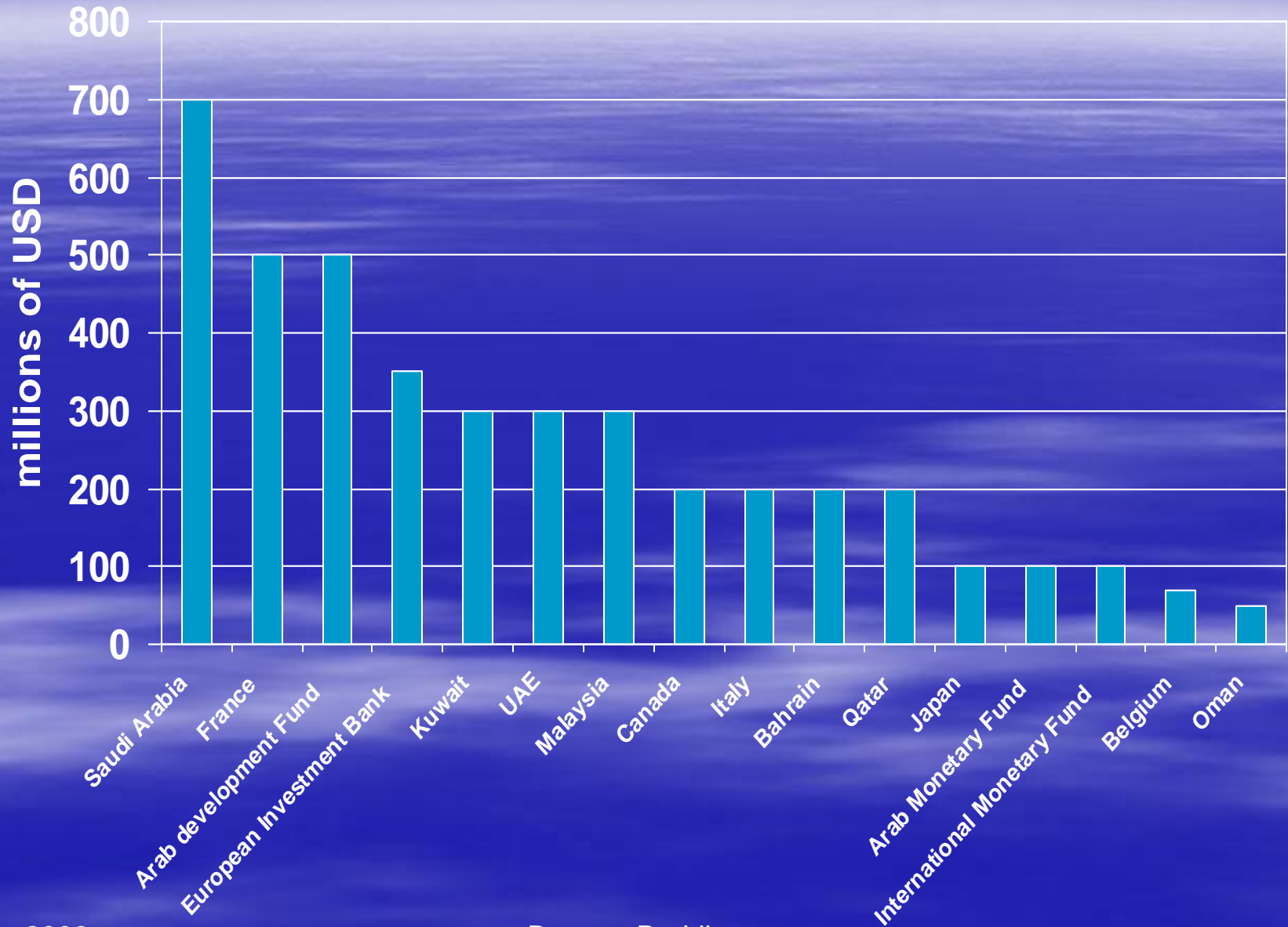
- US\$ 3.1 billion for budgetary support
- US\$ 1.3 billion in project-related loans.

Commitments from Paris II by Country

(4,170 million) source: BDL monthly report)

- USD 700 million from Saudi Arabia
- USD 500 million from France
- USD 500 million from the Arab Development Fund
- USD 350 million European Investment Bank
- USD 300 million Kuwait
- USD 300 million UAE
- USD 300 million Malaysia
- USD 200 million Canada
- USD 200 million Italy
- USD 200 million Bahrain
- USD 200 million Qatar
- USD 100 million Japan
- USD 100 million Arab Monetary Fund
- USD 100 million International Monetary Fund
- USD 70 million Belgium
- USD 50 million Oman

Commitments From Paris II By Country



Funds of US\$ 3.1 billion for budgetary support

- **Categories** (3.15 billion source: bank Audi weekly report)
 - USD 2.0 billion in government guarantees
 - USD 0.85 billion in special TBs
 - USD 0.3 billion in soft loans
- **Disbursements** (3.1 billion source: IMF Article IV report)
 - US\$ 390 million disbursed in December 2002
 - US\$ 600 million disbursed in January 2003
 - US\$1,250 million disbursed in February and March
 - US\$ 692 million disbursed during -----????
 - US\$ 168 million to be disbursed later in the year

National Initiatives

1- Agreement with commercial banks:

- subscription to zero-interest, two-year government securities
- amount equal to 10 percent of a banks deposit base as of October 31, 2002 (total of USD 4 billion)
- Subscription to be made in seven equal installments during January-August

2- Cancellation of US\$1.8 billion worth of the central bank's holdings TBs against a reduction in the revaluation account for gold and foreign exchange (December 2002).

3- Swap of most of the central bank's remaining holdings of government debt (TBs and Eurobonds), amounting to an additional US\$1.8 billion, for a 15-year Eurobond carrying a 4 percent coupon (December 2002)

Positive Results

- Broad money (M3) increased by 3.2 percent in December, bringing its 12-month growth rate to 7.6 percent (compared with 3.6 percent in the year through July)
- The share of dollar deposits in M3 declined to 64.2 percent in December, from a high of 69.8 percent in May 2002
- The interest rate on two-year TBs fell from an effective 16.1 percent (which included a 2 percent premium then offered by the central bank in its swap operations) to 9.2 percent by end December

- The yield on the three-month TB declined from 11.2 percent to 6.9 percent in the last auction held on February 6. The government is not currently issuing Treasury bills, given its comfortable liquidity position
- Spreads on Lebanese Government Eurobonds narrowed from 987 basis points before Paris II to 611 basis points at end-January, compared with a compression of about 41 basis points in the EMBI Global spread during the same period
- Interest rates on Lebanese pound and dollar deposits have declined, by about 200 and 100 basis points, respectively

- Lending rates on LBP dropped by about 180 basis points. Lending rate on USD dropped by 50 basis points
- The LBP/USD exchange rate improved from LBP 1,515 to LBP 1,500.
- Central Bank gross international reserves (excluding gold) increased to US\$5.1 billion by end-December (from US\$3.1 billion in June). Central bank accumulated another US\$ 5 billion in gross reserves during January - May, bringing gross reserves to more than USD 10 billion.
- Balance of payments recorded a surplus of 1,564 million at year end.