Office Memorandum

July 25, 2014

To: Members of the Executive Board

From: The Secretary

Subject: **Lebanon—Deletion—Staff Report for the 2014 Article IV Consultation**

Attached for the **information** of Executive Directors is a deletion from SM/14/156 (6/13/14), which has been proposed by the authorities of Lebanon and agreed with the staff in accordance with the policy on publication of papers.

Highly Market-Sensitive Material

Page 8, text figure: data for the period 2006–08 deleted

Comment: The authorities are concerned that showing the central bank's negative net foreign exchange position (NFEP) excluding gold for the pre-2009 period (which included episodes of political crises) may undermine market confidence in central bank's buffers and its ability to maintain the peg. They note that the NFEP excluding gold is currently on a steady downward trend and the ongoing political crisis is deepening. By way of background, the 2012 staff report included a similar chart on central bank's NFEP excluding gold, but only for a period starting in December 2010 during which the position remained positive. In addition, earlier staff reports presented estimates of central bank's NFEP *including gold* in the monetary table.

Questions may be referred to Ms. Fedelino (ext. 36053) and Ms. Luca (ext. 36098) in MCD.

This document will shortly be posted on the extranet, a secure website for Executive Directors and member country authorities.

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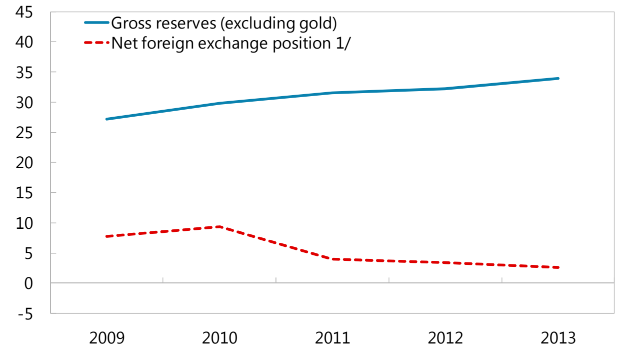
11. **The BdL has proactively sought to maintain stability**. Supported by sustained deposit inflows, the BdL has continued to attract banks' foreign exchange deposits, keeping gross reserves at a comfortable $35 billion at end-April—about 11 months of imports or 25 percent of broad money. The BdL has also continued to finance the government. On the pound side, it has been offering banks long-term deposits with yields generally matching T-bills with similar maturities, and channeled this liquidity to cover demand shortfalls in the T-bill auctions. On the foreign currency side, it has been increasingly providing funding to the government, with an impact on its net foreign exchange position. Finally, the BdL has supported credit to the private sector—still growing at an annual rate of 10 percent—by providing $1 billion in low-cost funds to banks to on-lend to specific economic sectors.[5] All these operations have further weakened its balance sheet.

BdL's Foreign Exchange Reserves
(In billions of U.S. dollars)



Sources: Lebanese authorities; and IMF staff estimates.
1/ Gross reserves (excluding gold) minus foreign currency liabilities.

12. **Foreign exchange and financial markets have been largely resilient**. Deposits have continued to grow at 7–8 percent a year, though with some occasional outflows. Dollarization declined in 2012, but has been since on an upward trend, reaching 65.8 percent at end-April—still below the end-2011 level (Figure 3). Eurobond spreads have moved in line with regional averages and stand at levels similar to end-2011. Standard & Poor's upgraded the outlook in April, from negative to stable—on account of the continued resilience of deposit inflows and improved political conditions following the government formation—while maintaining the rating for the sovereign and the three largest banks at B-.

[5] The BdL has launched another stimulus plan of about $800 million—similar to the $1 billion package for 2013—and a new scheme for banks of about $400 million to invest in start-ups in the knowledge economy.