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Supplement 1

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INFORMATION

April 24, 1986

To: Members of the Executive Board
From: The Secretary
Subject: Lebanon - Staff Report for the 1986 Article IV Consultation

The attached supplement to the staff report for the 1986 Article IV consultation with Lebanon has been prepared on the basis of additional information.

Mr. Zavadjil (ext. 7115) is available to answer technical or factual questions relating to this paper prior to the Board discussion tomorrow, Friday, April 25, 1986.

Att: (1)

Other Distribution:
Department Heads

INTERNATIONAL MONETARY FUND

LEBANON

Staff Report for the 1986 Article IV Consultation

Supplementary Information

Approved by P. Chabrier and J.T. Boorman

April 23, 1986

1. Exchange rate and external reserves

The Lebanese pound weakened further in March 1986, to US\$1 = LL 22.52 from US\$1 = LL 19.45 at end February 1986, despite intervention by the Bank of Lebanon. As a result, the Lebanese pound depreciated by 15 percent in nominal effective terms during the first quarter of 1986.

In March 1986 gross official external reserves fell by US\$0.1 billion to US\$0.5 billion.

2. Interest rates

The weighed-average yield on three-month treasury bills in the first quarter of 1986 was 18 percent compared to 16 percent in the last quarter of 1985.

3. Recent monetary measures

As noted in the staff report, the Bank of Lebanon took several measures in the first quarter of 1986 to slow monetary expansion and support the exchange rate. The obligatory reserve requirement has been raised to 21 percent as of March 27, 1986 and will be raised to 22 percent; half of the increase from 18 percent will be able to be placed in ordinary treasury bills. In addition, the reserve requirement will be calculated on a daily rather than weekly basis. A penalty of one percent per day was imposed on any shortfall in reserve requirements as of January 24, 1986.

In February 1986 the Bank of Lebanon approved the sales of treasury bills to the public through the commercial banks, the specialized banks, and the Societe Financiere du Liban, the discount house.