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“Sustaining a Sound Financial and Monetary Sector”

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Ladies & Gentlemen,

Fransabank has turned into one of the leading banking groups in Lebanon. And since my appointment as Governor of the Central Bank, I have witnessed the efforts made by Minister and President Adnan Kassar and by President Adel Kassar, owing to which the bank has grown steadily and has contributed to a large extent to the economic development and the growth of the financial sector in Lebanon.

90 years but still young and dynamic! So, many happy returns of the day!

Today, Lebanon enjoys a sound financial situation strengthened by the appropriate monetary environment. However, this was achieved through lengthy efforts, with the aim of building up a solid and strong system, characterized by its conservatism, and well-equipped to face any financial risk, political risk or security-associated risk.

The conservative model that we adopted has borne fruit, as shown by the progress recorded in the balance sheet of the Central Bank and of Lebanese banks in general.

Our conservative banking model is based on a good capitalization. Lebanese Banks are meeting already the 7% solvency ratio required by Basle 3. We have put an objective to reach the 12% solvency ratio by 2015, as stipulated in the BDL recent Circular and agreed upon with banks. Moreover, a 30% minimum liquidity was imposed more than 15 years ago, bringing down the level of leverage to 10 times against the own funds of a bank. We also maintain a strict division between commercial banks and investment banks, since they play totally different roles. We have also established specific regulations that govern derivatives and structured products, as well as credit to the real estate sector and to financial instruments.

Needless to say that markets have appreciated this model, as confirmed by the available figures and ratios. Our model gained confidence, knowing that confidence is a prerequisite for stability.

However, this confidence stems from the strenuous efforts made constantly by the Central Bank, in terms of leadership, credibility, transparency, anticipation and decision-making.

**Concerning leadership:**

The Central Bank has constantly taken initiatives, some of which were not classical, in order to maintain the stability of the Lebanese pound and preserve liquidity in the banking sector. As a result, the inflation rate in Lebanon, though varying at present between 5% and 6%, was maintained for many years below 4%. But we will spare no efforts to reach this rate again in 2012/2013, despite the recently-approved wage hike that penalizes inflation by 3%.

Concerning credibility:

The Central Bank has always striven to ensure stability and to prevent any default by the Government or by banks. It has filled the gaps in Government funding, while avoiding inflation. It has also facilitated mergers between ailing banks and stronger ones, with no losses incurred by depositors or correspondent banks. This policy is still applied but we will not allow mergers between the first 11 banks.

Concerning transparency:

The Central Bank has always kept markets abreast of its policies regarding the exchange rate and the interest rates. It has required from banks to establish a Risk Committee and a Governance Committee and has increased auditors' responsibilities in order to reassure depositors. In addition, the achievements of both the Banking Control Commission and the SIC have contributed to preserve a proper credit environment and protect the reputation of the financial sector.

Concerning anticipation and decision-making:

Anticipation and decision-making were instrumental in maintaining markets' confidence, particularly through innovative financial engineering instruments that were market-driven and not relying on any administrative ruling.

The IMF is predicting a 4% growth for 2012, a rate that can be higher if a stable political and security context prevails. Besides, in case deposits register a growth of 7% to 8%, credit activity will continue on an upward trend, thus helping the economy to grow, as forecasted.
