World Bank: Utility of BDL's tools is depleting

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BEIRUT: The World Bank warned Lebanon's risk profile is rising sharply in light of the convergence of negative local and global factors, such as global monetary conditions. "The utility of some of the tools used by the Central Bank is depleting following years of application. The Central Bank has responded by beefing up its stock of foreign exchange reserves, lengthening the maturity of deposits and limiting the liquidity available, thereby inhibiting speculation against the Lebanese Pound," World Bank's Lebanon Economic Monitor, released in fall 2018, said.

The Central Bank launched a financial engineering in 2016 to beef up the foreign currency reserves.

As a result of the swap operation between the Lebanese banks and BDL, the Central Bank was able to secure more dollars from the banks in exchange for Lebanese pound denominated bonds that carry higher yield for the lenders.

The World Bank stressed that Lebanon's macro-financial conditions are under heavy scrutiny as the country faces increasing challenges.

The Central Bank was compelled to intervene in the market every time it noticed political tension and wrangling between the main factions may threaten the stability of the pound.

Several investment banks have praised the timely intervention of the Central Bank but cautioned BDL not repeat the financial engineering in light of the growing risk factor.

"Macro-financial fragility stems from a frail macro-fiscal framework underpinned by unsustainable debt ratios and persistent and sizable fiscal and current account deficits, exposing the country to significant refinancing risks. Attracting sufficient capital, and in particular deposits, to finance significantly larger budgetary and current account deficits is proving challenging in light of slower deposit growth," the World Bank said.

The report said the government has failed to tackle the macroeconomic imbalances in the country.

"There is a near complete void of government initiative to address macroeconomic imbalances and other structural bottlenecks such as power generation in Lebanon. Instead, progressively potent interventions by the Central Bank, the Banque du Liban, to actively manage economic and financial challenges facing the country, even when successful, offer only temporary reprieve, and are not without additional macro-financial risks," it said.

The World Bank also commented on the suspension of the subsidized housing loan program initiated by the Central Bank and its impact on the real estate market.

"The halt in Central Bank subsidized lending is having a significant impact on the real economy. Indeed, high frequency indicators mostly based on the first half of 2018 (H1 2018) point to a deceleration in economic activity thus far in 2018 across all but the external sector, where a 7.3 percent year-on-year rise in merchandize exports over H1 2018 neutralized higher imports to leave the trade deficit minimally varied in absolute value (and lower as percentage of GDP)," the report said.

It added that indicators for the real estate sector, which has been the main beneficiary of these lending facilities, point to a contraction in the sector, with cement deliveries down by 3.4 percent in first half of 2018.

The World Bank said Lebanon's net foreign asset position has been in a general decline since 2011.

"Within the context of a fixed exchange rate regime and long-term internal and external deficits, Lebanon necessitates a surplus accumulation in its NFA position on an annual basis. This was generally achieved in the pre-2011 period, with some exceptions. Nevertheless, a rise in the current account deficit, along with a sharp fall in FDI and other sources of inflows have resulted in a negative change in the NFA position of the economy for every year from 2011 to 2015," the report said.