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# No imminent threat to pound, economists, bankers say

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BEIRUT: The chances of a devaluation of the Lebanese pound are very remote in the short and medium term despite the negative economic indicators and the growing demand for the U.S. dollar, bankers and economists said Wednesday. “I am not worried about the pound at this stage. The national currency can withstand pressure as long as the government shows determination to implement reforms,” Louis Hobeika, professor of economics and finance at Notre Dame University-Louaize, told The Daily Star.

In recent weeks, the market has been awash with rumors that the pound was on the edge of total collapse due to a lack of confidence in the national currency and fears of an imminent downgrade of Lebanon by international rating agency Standards & Poor’s.

Despite the assurances of Central Bank Gov. Riad Salameh that the pound was stable and would remain so, many exchange dealers in the country sold the dollar at between LL1,530 and LL1,540. The official exchange rate of the pound against the dollar is LL1,507 to LL1,514, depending on the amount of money and the exchange dealer.

Some commercial banks have, under different pretexts, refused client requests to convert Lebanese pound accounts to dollars. Some bank employees have justified these actions as measures to contain the run on the U.S. dollar.

But other bankers insisted they always met the requests of their customers to convert Lebanese pound accounts to dollars.

Lebanon, like many states, is a dollarized economy, with more than 67 percent of deposits in the U.S. currency.

A number private universities have asked to receive college tuitions in dollars only.

Hobeika added that one effective way to boost confidence in the pound and the economy was to attract investments to the country.

“Lebanon is a small country and an investment of around $1 billion to $2 billion a year can turn the economy around and even contain the rush on the dollar,” he said.

Hobeika argued that Lebanese politicians had no choice but to implement reforms.

He and other bankers have ruled out the possibility that S&P will downgrade Lebanon from B- to CCC+ later this week, thanks to intensive negotiations between senior Lebanese officials and senior executives from the rating agency.

Salameh recently warned that floating the pound could lead to hyperinflation. “Our commitment to a stable exchange rate serves price stability, which is needed to maintain inflows in foreign currencies,” the governor said in lecture at the Holy Spirit University of Kaslik last Friday.

“Lebanon has a dollarized economy and is a net large importer. The dollar is used in 75 percent of the transactions in our local market. The deficit of our current account exceeds 20 percent of our GDP for the last three years. Floating the currency will undermine confidence and thus the inflows. It will also create hyperinflation. Dollarization and low exports will hinder us from gaining a competitive advantage. Of course, maintaining the peg is costly for Banque du Liban, but less costly than floating the currency.”

Marwan Kheireddine, chairman of AL-MAWARID Bank, said BDL had sufficient and effective tools to keep the pound stable at least for the medium term.

“There has been lot of speculations and rumors about the pound. I can assure [you] that there is no imminent risk to the national pound because the Central Bank has over $30 billion in foreign currency reserves,” he said.

Kheireddine added that S&P had no intention to downgrade Lebanon later this week, after Salameh and Finance Minister Ali Hasan Khalil reportedly persuaded the rating agency that Lebanon was determined to cut the budget deficit.

“The Cabinet plans to submit the 2020 draft budget soon and is also keen to implement the electricity reforms early next year. The exploration of gas and oil will also improve confidence in the country,” he added.

Ghassan Ayash, former vice governor of the Central Bank, did not see any immediate threat to the pound, but expressed deep concern about huge capital outflows from the country in the first five months of this year. “I am concerned about capital flight from Lebanon. The balance of payment in the first five months registered a deficit of more than $5 billion,” Ayash said.

Nassib Ghobril, head of economic research at Byblos Bank, insisted that the pound was stable and there was no pressure on the exchange rate.

“The overwhelming majority of the monetary mass in foreign currency is at commercial banks,” he told The Daily Star.

“The rumors about the exchange rate at some opportunistic money dealers does not reflect the broader situation in the market and should not be generalized. The exchange trade among banks is trading within the margins set by Banque du Liban. In any case, the Lebanese pound is stable and there is no pressure on the exchange rate.”