



The Central Bank of Lebanon: A Step in the Right Direction

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Amid the economic and social crisis that Lebanon is facing, the Central Bank of Lebanon issued a circular aimed at granting three payments in October 2024 to beneficiaries of Circulars 158 and 166. This step comes in response to the exceptional circumstances imposed by the ongoing war in Lebanon, marking a shift in the Central Bank's policy in dealing with the liquidity crisis that depositors have faced for years.

Injecting dollars through depositors instead of money dealers

One of the most significant changes in the Central Bank's policy is its reliance on injecting cash dollars into the market through depositors rather than through money dealers and foreign exchange markets. This is not just a technical measure but a fundamental shift in monetary policy, reflecting an understanding that injecting dollars through depositors helps return money to its rightful owners, instead of depleting it through direct intervention in the foreign exchange market or wasting it through subsidy policies that have yielded little benefit to citizens. If this policy continues, it could provide an initial solution for deposits and reduce pressure on the exchange rate at the same time.

Questions about the future of this policy

Naturally, depositors are eager to know whether this widely welcomed step can continue. The key question remains: what are the future plans of the Central Bank, especially if the war persists for a long time? The decision rests with the Central Bank to assess the feasibility of proceeding with this policy and to find solutions that alleviate the burden of the current crisis on depositors.

What are the Central Bank's available resources?

- Banks' deposits with the Central Bank in dollars are approximately \$80 billion.
- Depositors' accounts in dollars with the banks (excluding Fresh deposits) amount to around \$87 billion.
- Mandatory reserves at the Central Bank account for 14% of the total \$87 billion, approximately \$12.2 billion.
- The Central Bank's balance sheet shows about \$10.3 billion of this amount.
- Therefore, the Central Bank still needs to reconstitute at least \$1.9 billion in reserves. This is feasible as long as the Central Bank's reserves are deposited with correspondent banks abroad and earn interest.
- Additionally, the Central Bank must build again the remaining \$67.8 billion (80.0 - 12.2) deposited with it by the banks, excluding mandatory reserves. And this can be done gradually.

Recently, the Central Bank of Lebanon has proven capable of reconstructing the mandatory reserves and making additional payments to depositors simultaneously. Thus, if the Central Bank continues to apply its current sound policy, it can significantly contribute to making additional payments to depositors on one hand, while maintaining the stability of the exchange rate on the other. In addition, this will gradually reduce its obligations towards banks.

A vision for the future

These new policies adopted by the Central Bank of Lebanon reflect a clear shift in its approach to the financial crisis. They signal a desire to achieve as much monetary and financial stability as possible, particularly benefiting depositors and helping to address the current challenges. Ultimately, these measures are a step in the right direction, as long as they consider the interests of depositors and the sustainability of the banking sector.

Note: This article is part of a series written by the Secretary General of the Association of Banks in Lebanon as part of his introductory articles to a number of periodicals issued by ABL. It represents his own opinion and personal analysis of the developments, without committing ABL to its content, which remains the sole responsibility of the Secretary General.
