THE DAILY STAR
LEBANON

# Mikati calls on Arab Banks to create regional safety net November 25, 2011 02:39 AM

By **Elias Sakr**
The Daily Star

BEIRUT: Arab banks should introduce a comprehensive road map to integrate regional economies to create a financial safety net for the Arab world amid rising global and regional challenges, Lebanese Prime Minister Najib Mikati said Thursday.

“The lesson lies in follow-up and cooperative work to achieve regional integration that preserves the Arab economy in confrontation of future challenges and developments on the Arab and global economic level,” Mikati told the 15th Annual Arab Banking conference in Beirut.

The two-day forum, dubbed “the Future of the Arab world in light of recent transitions,” comes at a critical time for the Arab world after recent popular uprisings and political crises swept the region, triggering a drop in Arab GDP growth from 4.84 percent in 2010 to 3.76 percent in 2011.

However, despite the regional turmoil, Lebanon has weathered the crisis better than regional and global economies, Mikati said.

“Lebanon has achieved a growth rate close to 7.5 percent in 2010 and a GDP amounting to $40 billion at an acceptable inflation rate of 5 percent,” Mikati said.

However, Central Bank Governor Riad Salameh, another key speaker at the conference, projected Lebanon’s economic growth at the end 2011 to slide to 2 percent.

“Our markets have been influenced by internal political bickering since July 2011 as well as rumors concerning our banking sector following the events in Syria,” Salameh added.

Some recent media reports claimed Lebanon’s banking sector could face international sanctions over alleged inflows from key Syrian figures evading a worldwide asset freezes imposed by the United States and the European Union who both accuse the Syrian regime of violently crushing peaceful opposition movements.

But Salameh asserted that the Lebanese banking sector will not be the subject of sanctions in the future.

“Based on our communication with concerned financial parties particularly in the U.S. and Europe, we want to stress that the banking sector is not targeted and no future sanctions are expected,” Salameh said.

Lebanon’s commitment to international resolutions was also among the key points highlighted in Mikati’s speech. The prime minister stressed that his government was seeking to boost the country’s stability by expanding and reinforcing Lebanon’s network of foreign relations, particularly in the economic, financial and banking sectors.

Mikati added that the banking sector was acting in compliance with the highest international standards and enjoyed high credibility on the Arab and international level.

The size of Lebanon’s banking sector amounts to triple that of the Lebanese economy with a growth rate of 7 percent in 2011, according to Mikati, who said the government was working on decreasing its reliance on banks to fund the state.

“We are planning to launch projects that will allow banks to use their excess of assets to fund investments in Lebanon,” Mikati said.

Mikati was alluding to the efforts of his government to encourage banks to bankroll some vital infrastructure projects such as electricity and water.

The governor highlighted some of the measures adopted by his bank to encourage investments in the country.

“Part of the Lebanese Central Bank’s policy is to maintain low interest rates to encourage investments and boost growth,” Salameh said, adding that the CBL subscribed to government bonds amounting to over LL6 trillion (close to $4 billion) during the last 11 months.

“We succeeded. Now that banks and markets are financing the issuing of treasury bonds, interests rates maintained their low level that was reached in the past years owing to increased trust after the Lebanese model weathered the financial and banking crisis that started in 2008,” Salameh said.

The CBL liquid assets reached a record high of $32 billion in 2011, Salameh said.

Salameh said the high reserve in foreign currencies was key to preserving the stability of the Lebanese pound/U.S. dollar exchange ratio.

Banks were also seeing a decrease in U.S. dollar deposits, which would encourage loans in Lebanese pounds, according to Salameh. Lebanese banks were also determined to strengthen their balances by bringing the total capital requirement to 12 percent in line with Basel III requirements, he added.

Other speakers feared harsh economic conditions in the event that the Arab upheaval continued unabated.

“If the crises in the region prolongs, implications of the so-called Arab Spring might as well turn into a harsh economic winter ... ,” said Joseph Torbey, president of the Association of Banks in Lebanon.

“We clearly call for the creation of an Arab fund backed by rich Arab countries, similar to the ‘Marshall plan,’” Torbey added.

Torbey said incoming foreign investments in the region for 2011 decreased by about 83 percent from more than $20 billion to about $4.8 billion.

The Arab banking sector, which groups 430 institutions that manage around $2.5 trillion in assets and more than $1.3 trillion in deposits with a capital base of $270 billion, is expected to witness disparity in performance between oil producing countries and the rest of the Arab world.

While the banking sector in Gulf countries is expected to grow as oil-producing states benefit from a rise in prices due to political and economic uncertainty, most countries in turmoil will end 2011 on a negative note.

Among other key speakers at the event was Adnan Youssef, chairman of the Union of Arab Banks, and Adnan Kassar, head of the Arab Chambers of Commerce, Industry and Agriculture.