

RT
3

FINANCIAL MARKET
IN LEBANON

A Research Topic

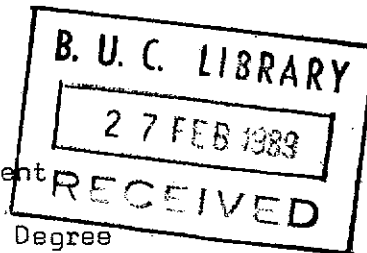
Presented to Business Division
Beirut University College

In Partial Fulfillment
of the Requirements for the Degree
Master of Science in Business
Management

By

SALEH S. TANNIR

June, 1984



BEIRUT UNIVERSITY COLLEGE

P.O.Box 98 13-5053

BEIRUT, LEBANON

APPROVAL OF RESEARCH TOPIC

CANDIDATE: SALEH S. TANNIR DATE: June, 1984

DEGREE: Master of Science ADVISOR: Dr. Singh

TITLE OF RESEARCH TOPIC: FINANCIAL MARKET IN
LEBANON

The following professor nominated to serve as the advisor
of the above candidate has approved this research topic.

ADVISOR:

Dr. M. Singh
Name

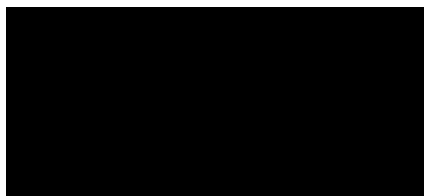


TABLE OF CONTENTS

Chapter		Page
1	INTRODUCTION.....	1
	STATEMENT OF THE PROBLEM.....	1
	STATEMENT OF THE PURPOSE.....	2
	PERFORMANCE OBJECTIVES.....	2
	METHODOLOGY.....	3
2	PRESENTATION AND ANALYSIS OF RESULTS.....	4
	A- HISTORY OF FINANCIAL MARKET.....	4
	Definition of Financial Market	5
	Instrument of Investment in Financial Market.....	7
	Development of Financial Market in Lebanon.....	10
	B- COMPONENTS OF FINANCIAL MARKET IN LEBANON.....	12
	Institutions.....	12
	Instruments Used By Financial Institutions.....	16
	Government Law Regulating Financial Market.....	17
	C- EFFICIENCY EVALUATION OF FINANCIAL COMPONENTS....	19
	Institutions.....	19
	Instruments.....	38
	Government Law.....	40
3	CONCLUSION.....	42
	RECOMMENDATION.....	43
	SUMMARY.....	46

BIBLIOGRAPHY

APPENDIX

Chapter 1

INTRODUCTION

The civil war which broke out in 1975, disrupted the Lebanese Economy and turned it into pieces. One of the segments badly affected by this war was the financial market and its components. No doubt, the Lebanese financial market was highly developed before the war but during the past ten years i.e during the civil war this development greatly declined to the detriment of country's economic interest.

The most important component of the Lebanese financial market is the banking system. In fact, it is known that Beirut is the most important banking center in the area. In order to verify its prominence one can look to the highest density of banking companies. The prominence of banking sector is due to socio-cultural and religious factors as well as to the banking operating practices with respect to maintenance of secrecy and freedom of fund transfers. Lebanon also enjoys the characteristics of free enterprise economy i.e free convertibility of currency and no threat for nationalization of industries.

Unfortunately, the civil war tarnished the economic image of the country, but Lebanon still enjoys the confidence of all investors. Most of those who are operating outside Lebanon have encountered many difficulties which they did not in fact encountered in Lebanon. Given proper atmosphere they are ready, more than ever, to return to Beirut to work again.

STATEMENT OF THE PROBLEM

A country which is faced with any kind of war, its economy in all its segments -will be effected and Lebanon is not an exception. It is clear that most of the industrial segments in Lebanon witnessed a declining state of condition. The inflation increased rapidly over the past ten years. The credit

to the public sector increased due to the inability of the government to collect its revenues and due to the increase in the military expenditures. The volume of government deficit reached to L.L. 23 billion of pounds and the balance of payment showed a deficit of L.L. 3.6 billion of pounds in 1983 for the first time in the history of Lebanon. The Bank deposits increased from L.L. 14.1 billion of pound in 1974 to L.L. 73.6 billion of pound in 1983, and the insurance premium collected increased from L.L. 74.6 million pound in 1974 to L.L. 205 million of pound in 1983, but this increase and development was not steady and reflected a great deterioration in each of various segments in the past two years.

In order to do the research, the researcher encounters the following questions:

- 1- What are the components of the Lebanese financial market and what is the state of their operating conditions?
- 2- How could this market be developed?

STATEMENT OF THE PURPOSE

Every sector in the Lebanese Economy is suffering from several problems and the Lebanese financial market is not an exception. Therefore, it is the purpose of this research to study the financial market in Lebanon as it existed before and during the last ten years and to ascertain what can be done to restructure the financial market.

PERFORMANCE OBJECTIVES

In order to answer the stated questions and achieve the stated purpose the following objectives are being adopted:

- 1- To review the history of financial markets and describe the necessary components of the financial market in general, and in Lebanon in particular.

2- To evaluate the efficiency of the financial Components in the Lebanese financial market.

3- To develop recommendations or suggestions which could help in promoting an efficient financial market in Lebanon.

METHODOLOGY

The major investigation of this research has been directed to an analysis of the efficiency and working of the financial market in Lebanon. Because of the present situation, the required data were unavailable, but most of the pertinent were obtained from primary and secondary sources. The primary data were collected from special seminars held on the subject and specifically from Library research. Other data were obtained from books that are available at the libraries. The secondary data are collected from various journal and monthly reports of the Bank of Lebanon, Bourse of Beirut, the Association of Insurance Companies in Lebanon, and from the Association of banks in Lebanon.

Chapter 2

Presentation and Analysis of Results

A- History of Financial Market

The concept of financial development depends on the principle of work distribution which in turn depends greatly on the market and production volumes. The development of financial market passed through five stages:

- The investors and the savors are the same persons, since the communities during its initial development are limited by its market where the principle of work distribution is also limited. In this case each individual depends on personal financing.

- The individual income increases with the development of production volumes, and consequently the market will be expanded as well as the investor will be separated from the savor but still the funds are being transferred directly from the savor to the investor without any broker since they know each other.

- Whenever the market volume is enlarged and the number of savors increases in such a way where the transfer of money or of their savings to the investors becomes very difficult which leads to the creation of certain financial brokers whose mission will be collecting savings and offering loans.

- When the existence of various financial needs is observed, the brokers are forced to offer several kinds of services in order to attract the savors and satisfy the investors' needs. Therefore these brokers will not be able to offer these operations alone, which needs special financial institutions to take over this important mission which include the issuing process of bonds.

- The development stage reaches a certain limit where the existence of every broker specialized in only one kind of financial paper is being

observed, as it will be very difficult on the same broker to handle more than one financial service.

Definition of Financial Market.

The Financial Market is a place where the supply and the demand meet in order to exchange financial papers. We distinguish two kinds of financial markets:

- Primary market: The operations of buying and selling financial papers are made directly between the investors and the bills editors, and usually the financial papers are being hold until its maturity date where it goes back to its editor in order to get its nominal value.

- Secondary market: The operations of exchanging financial papers are being done after the underwriting process of these bills has been done which is the selling and buying process.

In addition to that, the financial market is a mix of two markets:-

- Money market: in this market, the financial papers are being issued for short run periods which does not exceed three months (deposits, treassury bills,...), but usually it is shorter than that; and it is known that in the international financial markets the lending period could be for one night ohly.

The institution of this market are represented in commercial Banks, and some financial institutions which deal with short run lending periods.

- Capital market: In this market, long term bonds and Capital bonds are being exchanged. The financial instruments of this market are distinguished in its nature of maturity which exceeds one year, and in its high Risk-Return attributes, and also it is distinguished in its lower degree of liquidity compared with those of money market.

Conditions for financial market existence:

- The stability of the monetary, economical and political situations.
- The existence of several financial institutions such as banks, investment companies, insurance companies, bourse etc...
- The existence of large amounts of savings which search for proper channels of investment.
- The existence of a variety of financial instruments - long and short run- which satisfy investors' desires and needs.
- The existence of large network of financial brokers in the market.
- The existence of suitable investment atmosphere as tax rates, laws, legislations, communications etc...

Instruments of investment in money and financial market

The development of money and financial market depends on the existence of various investment instruments which can be easily sold and bought within the market, it depends also on the available adequate liquidity and the possibility of converting these instruments into liquid money when necessary.

Investment instruments in money market.

a) Certificate of deposits: it is a certificate issued by banks in a certain amount for a certain period with an annual interest rate. Its characteristics are represented in its high degree of liquidity, its ability to be exchanged between investors, and it could be issued for different periods depending on the kind of investor.

This kind of instruments was first introduced in London on 1966 and realized great progress.⁽¹⁾ Its importance is connected with the EuroDollar market in which it is the most important component, specially in the fields of short and medium run financing operations.

حكمت التاشيبي، استثمار الارصدة العربية، دار الشايع للنشر، الكويت ١٩٧٨، (١)
صفحة ١٩

b) Commercial paper: it is the oldest instruments in the money market, and the most important element in financing internal and external trade. These papers are usually issued by financial institutions which enjoy good reputation and good financial solvency like insurance companies and big commercial institutions etc... for a period not longer than 270 days. These papers are being purchased by banks and financial institutions since it enjoy or provide security and liquidity.

c) Banking acceptations: These bills are issued by banks asking their clients to settle certain amounts in the future at a predetermined time. These bank bills could be sold in the secondary markets or could be reserved by the bank till maturity date.

In fact these Banking acceptations are in general used in financing external Trades where the exporters find these acceptations less risky than issuing these bonds directly on the importers themselves.

Moreover these acceptations are being resulted from agreements between the importers and the concerned banks. Since these acceptations are approved by large banks, the exporters feel sure and more relaxed, that the payments or settlement of balances will occur on time i.e at the maturity date.

d) Tressury Bonds: These bonds are issued by Governments for short run periods in order to finance the deficit in their balance of payment or to absorb the excess in the available liquidity. These bills are free risk since it is issued on governments, but its rate of return is less than those resulting from other investment fields.

Investment instruments in financial market:

a) Stocks: It is consistent of equal shares of comapny's capital which could be exchanged in the financial market but indivisible. These stocks could be nominal, bear and participating certificates.

- Norminal stocks: where the name of its owner is mentioned clear-

ly, and can not be resigned only after registering the transferring process in the internal company records and after endorsement the stock.

- Bear stocks: where the name of the owner is not mentioned and can be transferred from one person to another without any constraints.
- Participating certificates: they are shares entitling the holder to participation in the net profit of the company without the right of voting.

There are three reasons for stock issuance:

- To increase the company capital by creating new stocks where the priority of buying these stocks is for the old stockholders.
- Difficulty in financing new projects specially when the return on investment will not be realized in the short run.
- Setting up new Company.

b) Bonds: It is legal document issued by the company in case of Long term loans, it has a nominal value and can be exchanged but indivisible. Each bond can not be considered as a unique loan, but it is part of one whole issue. There are many kinds of bonds:

- Bonds with nominal value and fixed rate of interest.
- Bonds with nominal value but are being sold to the underwriter at a certain discount rate.
- Bonds with an interest rate less than the market rate and its holder will get at the maturity date a prize through voting.

Bonds Versus Stocks:

- The bond represents a loan on the company while the stock is a share of its capital.
- The bond holder receives the predetermined interest whether the company realizes profit or not, while the stockholder does not receive any dividend unless the company realizes profit, and this profit is available for distribution.

- The bond holder has no right to attend to the company's general assembly.

Many companies resort to the process of bond issuing generally in case of long term financing for expansion purposes instead of increasing their capital, specially when the studies show that the financing through debt is more profitable than through stock financing.

c) Euro Dollar Market: This market represents the international loans of various currencies-most of them in U.S.Dollar- issued by Governments and special financial institutions from different nationalities which are not subject to the control of the money authorities for any of these Governments namely the place of issue. The instruments of this market are represented in certificate of deposits, Euro credits- medium periods-, and Euro bonds- long period.

Regarding certificate of deposits it was previously illustrated in the instruments of money market and I will discuss only the Euro credits and Euro bonds.

Euro Credits: The characteristics of this market is that the financing process occurs during a short period and does not require many documents, specially if the financial strenght of the borrower is too high; it also enjoys complete secrecy; and the commissions, management and legal fees are normal and less than those of public issues.

The applicable rate of interest in this market changes every six months and depends on the LIBOR (London Inter Bank Offered Rate). While computing the interest rates these factors are being taken into considerations:

- Certain percentage covering Loan fees
- Certain percentage representing banks profit
- degree of risk

Euro Bonds: It is consistent of obligations in foreign currencies, gene-

rally in U.S.Dollar and Deutch Mark, distributed over a large number of banks. Its interest are tax free in the Euro Financial Market for the non resident borrowers. It could be issued either directly to customers in order to reduce costs or through "Konsortium" where the banks undertake the responsibility of running, or selling, or covering the issue. The parties involved in this operation are:

- Managing Bank
- Underwriters
- Selling Groups

The "Konsortium" job is to determine for each issue its kind of Bonds-nominal or bearer-, kind of currency, Volume of the issue, interest rate, period of issue, value of the bond, method of Sale-Banks or Bourse-.

Development of Financial Market in Lebanon

The history of the Financial and money market in Lebanon comes back to the second decade of this century when the mandatory French authorities established the Bank of Syria and Lebanon in 1919. This Bank had the right of issuing money and playing the role of Financial Broker to the Government in all lending operations in addition to its normal Banking functions.⁽²⁾ It realized during the period of deputation a complete control over the Lebanese economy.

In 3rd July 1920 the Bourse of Beirut was founded under the desire of the mandatory power in order to extend the activities of the French companies to the Lebanese Market. The Bourse was initially concerned in gold operations due to the existence of only small number of companies which had been accepted in the Bourse and most of them were French.

(2)

د . نسيم صليبا ، محاضرة حول دور السوق المالي في لبنان ، مؤتمر الانماء الصناعي و تكامل دورة السوق المالي في لبنان ، نيسان ١٩٧٩ .

In fact the entrance of the Bank of Syria and Lebanon and the Bourse of Beirut was the main cause after the existence of the Financial Market in Lebanon but it did not realize the actual progress only after the independence of Lebanon in 1943. The Features of the Lebanese Economy appeared in the 1950th due to the development of Private Sector over the Public Sector and the domination of the Services sector over all other production Sectors in the country.

Moreover, the Lebanese temptation in opening the gates to the foreign countries, as a result of the existence of the laws and regulations that assure the liberty of exchange, the transference of funds, and the banking secrecy... leads to the development of the Banking System especially, the expansion of its branches, and the increase of its resources and its local and foreign uses.

The bloody events in Lebanon since 1975 did not influence its principal choices for a free economy depending on the services and financial sector, but this direction has been consolidated after 1977 through the establishment of the Free Banking Zone and the specialized Financing Banks in addition to the assurance of the new investments against the dangers of the Civil War.

B- Components of Financial Market in Lebanon

The Components of the Financial Market in Lebanon are represented in:

- Institutions: which are the Banking system including the Central Bank of Lebanon, the Commercial Banks and the Medium and long-term Credit Banks; the Insurance Companies and other Financial institutions.
- Investment Instruments: Where the Treasury bills are considered to be the main Financial Tool in this Market, as Lebanon is still missing such Financial Institutions which are able to deal with other kinds of Financial Instruments.
- Government Law and Legislations: which are mostly centered about organizing the Banking System, and directing its role in the Financial Market as it is considered to be the most important Financial and Investment Sector in Lebanon.

Institutions:

a) The Central Bank of Lebanon: It was founded in 1964 which main function is to preserve the money in order to secure a basis of permanent social and economical development.⁽³⁾ All that includes especially the preservation of the Safety of Lebanese Money, the economical stability and the Banking system in addition to the development of the Financial and Monetary Market; while its main operations are involved in the following:

- Gold and Foreign currencies: where it has the right to buy, Sell, import and export Gold and other kinds of valuable metals; and to open accounts with foreign Central Banks and International institutions. It also has the right to hold positions in different foreign currencies providing that its Maturity date does not exceed six months.

⁽³⁾ Article 70 of Money and Credit Law issued by the Central Bank, Beirut, 1974.

- Public Sector: where it is considered as the Bank of the Public sector without receiving any commissions or fees for the services it renders to this sector.
- Banks: The Central Bank has the authority to determine the rates of interest where the Banks are compelled to deal with these rates, in this respect the Central Bank is considered as a governmental control instruments on the different Banks working in Lebanon, where it organizes and directs their business and operations.

The Central Bank has also other operations, but it is not the aim of this study to discuss all its operations, and we are content only in presenting the above operations which could be considered as the main job of the Central Bank.

b) The Commercial Banks: At the end of 1983 Lebanon's Banking System comprised a total of 87 Commercial Bank as officially listed by the Central Bank of Lebanon. These Banks are active to a great extent and in a firm contact with the International and Financial Markets since an early date because of the variety of their nationalities and the nature of the formation of their Capitals and administration.

They are classified into four categories: 13 foreign non-Arab Banks, 5 foreign Arab Banks, 26 Lebanese Banks with majority foreign shareholding and 43 Lebanese Banks with majority or total Lebanese shareholding.

In September 1983 the deposit funds reached L.L54921 million pounds out of which LL 51459 million pounds were deposits by the Private Sector, LL 722 million pounds deposits by the Public Sector and LL2740 million pounds deposits by non residents; while its granted Loans where LL48015 million pounds among which LL 33884 million pounds were claims on the Private Sector, LL 12100 million pounds claims on the Public Sector and LL 2031million pounds claims on non residents.

c) Medium and long-term credit Banks: These specialized Banks, at the exception of the industrial, Land, and agricultural Credit Bank which was founded in 1955, are considered as being new institutions that began their activities in the early seventies in spite of the issue of the Law No.22/67 in 1967 that aimed at encouraging the establishment of Banks for works, medium and long-terms credit.

The state played a principle role in establishing specialized banks like the National Bank for Touristic and Industrial development, and the Banque de l'Habitat in such a manner that its participation reached 51% in the Development Bank and 20% in the Banque de L'Habitat in addition to 30% as a participation of the National Social Security Fund, which is considered a private Sector, in the Latest Bank also.

Nowadays, the number of specialized medium and Long-terms Banks is five banks which deposits were in 1982 L.L 301 million pounds and their capitals at the end of June 83 were L.L163 million pounds.

d) Insurance Companies: Among the 97 registered companies in Lebanon in 1983- of which 19 companies stopped working since the civil war- there are 34 foreign companies and 44 are locally incorporated. During the period 1968 and 1983 the Insurance Market in Lebanon witnessed a high turn over among registered companies where new companies entered the Market and others withdrew. For example, during 1968 there was 86 companies- out of which 12 local and 74 foreign-, and during 1975 before the civil war there was 97 companies - 24 local and 73 foreign-, while during 1980 there was 104 companies-40 local and 64 foreign-; so we notice that the number of local companies is increasing while that of foreign companies is decreasing.

In fact Lebanon has the highest density of insurance companies in the world relative to its population, that was before the civil war in the 1970's where the density of insurance companies per one million inhabitants was slightly over 30 in Lebanon, where it was about 25 in Kuwait, 22 in the

United States and 13 in the United Kingdom and less than 9 in France.⁽⁴⁾

Moreover, the net premium collected by insurance companies in 1983 reached L.L 205 million pounds (not including life premiums), where it was L.L 141 million pounds in 1981 and L.L 168 million pounds in 1982.

e) Investment and Financial Companies: The Lebanese Market is still missing such kind of institutions with the exception of the existence of Intra Exploitation company which capital is L.L 280 million pounds and which has 13 dependent companies and two other sister companies in addition to other principal exploitations.

During 1981 the committee of the Lebanese Banks established a new Financial Institution, the Lebanon Financial Company after the approval of the Central Bank and registered it on 1st June 1981. Its main mission is to encourage the Financial Market in Lebanon and has the right to underwrite with various lending operations, whatever its kind is and specially those which are related to the development and promotion of the Lebanese Financial Market providing that it satisfies the stated conditions of the articles 179 and 182 of the Money and Credit Law issued by the Central Bank.

f) The National Social Security Fund: It began its operations in 1965 and worked actively in three different branches:

- The indemnity of the end of service.
- The family indemnity
- The health security

Before the civil war i.e in 1974 there were 32485 institutions participating in the National Social Security Fund and covering about 225 thousand employees. Its deposited amounts in the Banking system reached L.L. 495 million pounds in 1979 in addition to the subscription in the treasury bills.

⁽⁴⁾ Salim El-Hoss, The Development of Lebanon's Financial Markets, Seminar about "Promoting Lebanon's Role as an International Financial Market", November 1974, p. 38.

g) The Bourse of Beirut: Among 700 joint-stock companies in Lebanon, there are 50 companies only registered in the Bourse. The number of their shares reached, in 1974, L.L. 8.2 million shares which nominative amount is LL258.8 million pounds, its market amount is L.L 874.9 million pounds and the volume exchanges in the Bourse was L.L 49.1 million pounds. So we notice that the role of the Bourse in the Financial Market was limited compared with other Financial institutions.

Instruments used by Financial Institutions

The instruments are virtually non existent in Lebanon. There is no market for commercial papers, commercial acceptancies, certificate of deposits and the kind of institutions which deal in such papers are also non existent in Lebanon.⁽⁵⁾ Because of the civil war and of the deficit in the government budget, the treasury bills in Lebanon were greatly adopted by the government as a Financial tool to cover its deficit. At the end of 1979 the treasury bills amount reached L.L 1165.8 million pounds of which LL280 million pounds were for short-term periods and L.L885.8 million pound for medium and long-term periods, where their amount reached at the end of July 1983 a run of L.L 13772 million pounds. Most of it was underwritten by the Banking System and some by the National Social Security Fund, bearing in mind that this issue of treasury Bills is not allowed to be underwritten directly by people or individual savors due to the Governmental Legislation which regulates this matter.

In fact the commercial papers and commercial acceptancies are exchanged between small Financial companies that deal with small loans and mortgages,

these companies often possess a portfolio of bills which are discounted from
(5)

Salim El-Hoss, The Development of Lebanon's Financial Markets, Seminar about "Promoting Lebanon's Role as an International Financial Market", November 1974, p. 26

commercial Banks, and from the other hand the commercial Banks possess portfolio of Bills, arising from loans granted to their clients, which could be discounted at the Central Bank. So there is no commercial paper market in Lebanon in the proper sense of the world.

Regarding the certificates of deposits, this instruments is still lacking in the Lebanese Market due to the fact that the commercial Banks have not felt yet the urge to resort to the use of such a new instruments.

Concerning the other financial instruments such as shares and Bonds their supply is considered as limited because of the family and tiny nature of most Lebanese joint-Stock companies, and because they are not opened to the general subscription.

Government Law Regulating the Financial Market.

The Lebanese legislations are characterized by the economical liberty stressed on by the laws and regulations issued since the independence up to this date. Since the fifties, it was emphasized on the liberty of exchange, the Banking secrecy (1956), the common accounts (1961) and the tax exemption of the Saving accounts interests (1966), the deposits security (1968) and the free Banking Zones (1977). These Laws and regulations were applied during the last period but not revoked even during the difficult circumstances of the two-years of war (1975-1976) and after it; however, more than that, the interdiction for opening new commercial Banks was eliminated in 1977 and a free zone was established within the Banks in addition to the establishment of the Banque de L'Habitat and the National institution for new investments security after 17.1.1977, against the dangers of the wars, troubles and crisis, and decreasing the tax burden on the joint-stock companies to 34% after it reached 54% in the past.

In addition to that the Government issued several legislations during the year 1977 and after it, aiming to reorganize the institutions and the laws

in order to improve the Financial Market in Lebanon. Some of these legislation are:

- Licensing to open new commercial Banks with the approval of the central Bank which has the complete authority in this respect. This law was issued on 27.6.77 and determined the minimum capital amount of a new Bank to be L.L 15 million pounds, half of it should be deposited in favour of the Lebanese Treasury without any interest.
- Legislation No. 108 dated 30.6.77 which cancelled the legislation number 22/67 dated 20.4.1967 and reorganized the conditions and characters that should be taken into consideration while establishing new medium and long-term Banks.
- Legislation No. 130 dated 2.11.77. This law organized the relationship between the Banks and the debtors in respect of the outstanding debts, where it allowed the Bank to divide the loans into several installments and to grant the debtors new facilities providing that the Government guarantees each Loan which does not exceed L.L 100.000 Pounds.

C- Efficiency Evaluation of Financial Components

In spite of the completion of the Financial Institutions in Lebanon, and the existence of a good Legislation climate and some of the Financial Instruments, there are some limits to their capability and efficiency. Before evaluating the various components of the Financial Market in Lebanon, one fact is observed regarding the specialty of the money situation in Lebanon where its role is still growing compared with the general economical activity over the past few years.

The Banking System is considered as the most important sector in the Financial Market in Lebanon, and because of the events which Lebanon is still witnessing, this sector is concerned nowadays mostly in dealing with treasury bills to finance the deficit in the Government Budget.⁽⁶⁾ In September 1983, the volume of the written business by Banks in treasury bills was LL 11882 million pounds, thereby representing 22% of their gross deposits and 35% of their total investments.

Regarding the other institutions, its role is somehow limited since their investments are concerned mainly with real estate and deposits in Banks, and this is due to the lack of Financial instruments.

Efficiency of Financial Institutions:

a) The Central Bank of Lebanon:

I will begin, first, by evaluating the role of the Central Bank and the mission it realized since its establishment until this date.

- Safety of the Lebanese money: The central Bank tried to increase the coverage in Gold and Foreign currencies in its assets for the aim of keeping the Lebanese pound as strong as possible. This could be observed clearly from its Balance sheet where in 1964 the co-

⁽⁶⁾ د. هشام بساط، السوق النقدى والمالى فى لبنان، محاضرة فى ندوة الآفاق الجديدة فى علم المال، بيروت، حزيران ١٩٨١.

verage was L.L. 739 million pound while in June 1983 it reached L.L 9952 million pounds, whereas the Currency in circulation in 1964 was L.L 560 million pounds while in June 1983 it reached L.L. 5925 million pounds.

(Figures in millions of pound)

	1964	1977	1981	1982	1983 ^{June}
Coverage in Gold and Foreign Currencies:	739	5865	8770	11386	9952
Currency in Circulation:	560	2923	4888	5879	5925

Source: Quarterly report of the Central Bank, 2nd Quarter 1983.

In addition to that the central Bank prevented the commercial bank from keeping debtor net positions of foreign currencies exceeding half their free capital as well as from keeping creditor net positions -Circular letter No. 297 date 12/5/1981.

On the other hand, the Central Bank interfered in the exchange market in order to modify the exchange rate of the Lebanese pound, and this interference was belated, but its profits from the difference of exchange rates were as follows:

(Figures in millions of pound)

	1977	1978	1979	1980	1981
Profit from the difference of exchange rates :	1055	508	732	604	1430

Source: Quarterly report of the Central Bank, 2nd Quarter 1983.

While it realized losses L.L. 1366 million pounds during 1982 and L.L 505 million pounds up to June 1983. From these figures we conclude that the interference of the Central Bank in the exchange Market was to preserve the value of the Lebanese pound eventhough on its expense.

- **Economical Stability:** In General the Central Bank uses several instruments in order to preserve the stability of the Lebanese economical situation and specially to fight inflation whenever it is observed. And due to the rapid inflation which Lebanon suffers, the Central Bank used its authority in order to decrease the inflation effect on the economy as much as possible, this was done over several stages where it issued several circular letters to the Commercial Banks limiting the loans volume and fixing ceilings for them, constituting statutory reserve funds, and raising the averages of discount rates on loans that Banks grant- Circular letters No.220, 234, 236 and 255 dated 24/2/79, 26/5/79, 8/6/79 and 28/2/80 respectively-. In fact this entrance happened after the occurrence of inflation, and did not result in a good management in facing this factor. Also, the Central Bank did not take into consideration other productive sectors in the country by securing them with special re-discount rates, or by granting them any kind of facilities.⁽⁷⁾
- **Safety of the Banking Position:** Due to the crisis of Intra Bank, the Central Bank gave more concern to the Banking position, issuing several Legislations regarding the Banking System. These are represented in the following:
- The establishment of the control committee.
 - The establishment of the Free Banking Zone.
 - The Security of Deposits up to L.L30000 pounds for each savor in every Bank.
 - Giving the right to Banks to merge.
 - Issuing exceptional loans to the industrial, touristique and hospital institutions.

(7)

الشيخ ميشال خوري، محاضرة حول مصرف لبنان ودوره في الاقتصاد اللبناني، غرفة
الصناعة والتجارة في بيروت، كانون الثاني ١٩٨٠.

- Arranging the settlement of the outstanding debts between Banks and debtors.
- Formation of provisions to face the loss of debt which occurred before 1977.
- Licensing for new Banks, providing that its capital should not be less than L.L 30 million pounds, and raised lately to LL. 50 million pounds, in order to reduce the competition between banks.

In addition to that the existing Banks are compelled to raised their capital to the new level during a certain period. But from the other hand, the Central Bank gave licenses to more than 10 new Banks without taking into account the capacity of the Market and the impact of competition.

- Improving the Financial Market in Lebanon: This is done through the following:
 - the establishment of specialized Banks with the participation of the Private Sector in order to finance the reconstruction operations by granting Medium and long-term loans with small rate of interest such as "Banque de L'Habitat".
 - Managing the issuance of treasury bills to finance the deficit in the Government Budget.

Table 1

Balance sheet of the Central Bank (millions of Leb. Pound)

Description	1981	June 1982	Dec. 1982	June 1983
<u>Assets</u>				
Gold and Foreign Currencies	8770	7920	11386	9952
Credit to Private Sector	149	158	267	299
Credit to Commercial Banks	124	141	116	125
Credit to Public Sector	1992	3742	3118	2415
Fixed Assets	26	25	42	41
Other Assets	835	362	247	1234
Total	11896	12348	15176	14066
<u>Liabilities</u>				
Currency in Circulation	4888	5560	5879	5925
Commercial Banks Call Deposits	2249	2700	4248	3071
Specialized Banks Call Deposits	6	8	8	8
Private Sector Deposits	17	16	13	10
Engagements to Public Sector	2976	2733	2497	2509
Foreign Engagements	103	102	67	5
Capital and Reserves	494	665	665	665
Other Liabilities	1163	564	1799	1873
Total	11896	12348	15176	14066

Source: Quarterly Report of the Central Bank, 2nd Quarter 1983

Regarding the Balance sheet of the Central Bank, shown in table 1, it is noticed that the Gold and Foreign Currencies represent between 70 and 75 percent of the total assets, and this has a positive effect on the value of the Lebanese pound, as I mentioned before, since it is covered by this large amount of Gold and Foreign currencies which no other currency in the third world enjoys and this helped to a great extent to preserve the value of the Lebanese Pound eventhough it has been deteriorating a little bit in the past few years due to the present situation. It is noticed also that the granted credits of the Central Bank are concentrated on the Public Sector where it reached in June 1983 to 17% of the total assets while credits to both Privat Sector and Commercial Banks represented 3% only. And this is in fact one of the main mission of the Central Bank, which is to finance the deficit in the Government Budget whenever it is observed.

As a conclusion, and with no doubt, the Central Bank achieved over the past 10 years its mission properly compared with that of previous years.

b) The Commercial Banks:

Commercial Banking is in fact the only segment of the money Market that is at present reasonably well developed, and the existence of 92 commercial Banks, with no doubt, is considered as sufficient with regard to the number and Variation of Nationalities, but it is practically overbanked relative to Lebanon's domestic requirements.

Prior to the Intra crach in 1966, some of the commercial Banks in Lebanon engaged extensively in long-term investment including real estate and equity investment.⁽⁸⁾ Since then the Banks have retranched its concern in these kinds of investments and continued to supply Medium-term credit. The role of the Banks in providing Medium-term loans has reinforced, by the amend-

⁽⁸⁾ Salim El-Hoss, The Development of Lebanon's Financial Market, Seminar about "Promoting Lebanon's Role as an International Financial Market", November 1974, page 32.

ment to the money and credit law, which empowers the central Bank to grant one year loans against three years paper, providing such paper originates in industrial, agricultural, Public works, or export operations.

The Banking Sector is characterized by a high efficiency and a big flexibility that are incomparable even with that of the most advanced countries. The Commercial Bank in Lebanon is in a direct contact with its agent that can accompany it from the beginning of its activity until the last stages of its commercial and industrial development, and satisfy its needs of money even the long-terms by means of the renewal of annual loans; and there is no doubt that these special relations influenced the continuity of the contact between the Bank and its agent and the absence of its sudden turn to specialized Banks because of the family nature of the works which generally kept the capital and the administration as one unity⁽⁹⁾ even in most joint-stock public companies- preferring to deal directly with the director of the commercial Bank instead of asking other associates or requiring the financing from the Financial Market.

But this high flexibility made the banking system fall in the instant and short-terms solutions where its attitudes change and become quickly reversed when the liquidity is exhausted, for example, as a result of the step taken by the central Bank- such as raising the percentage of statutory reserve funds- the Banks will scream, the interest will be raised on the Lebanese pound and the money Market in Lebanon will appear as limited. On the contrary when there is an increase in liquidity in some Banks, the interests on the Lebanese pound decrease among the banks to lower limits. Thus, it seems as if there is, in Lebanon, an abundance of lasting liquidity that no one knows how to benefit of it.

In fact this position pushes the large investors who are seeking to more

د. هشام بساط، السوق النقدى والمالى فى لبنان، محاضرة فى ندوة الاقاق الجديدة⁽⁹⁾

فى علم المال، بيروت، حزيران ١٩٨١.

and rapid profit, to invest in foreign currencies specially when their rates of interest are high compared with that of the Lebanese pound, thereby weakening the value of the Lebanese pound against other currencies, since the resulting demand is on foreign currencies rather than on the local currency. This ignorance of how to benefit from the excess of funds affects negatively on the value of the Lebanese pound, and nowadays, the concern of Businessmen is on increasing their investments in foreign currencies due to the lack of trust from the people in their local currency in addition to the low interest rates on the Lebanese pound, and this is due to the prevailing situation in Lebanon.

The consolidated Balance Sheet of the Commercial Banks in Table 2, showed in the first half of 1983 a relatively high rate of growth about 10%, and which is expected to grow more in the second half, compared with that of 1982 which was only 7.6%. This growth, in fact, is not due to an increase in the volume of Business, but due to the depreciation of the Lebanese pound since some of the Banks assets and Liabilities are in Foreign currencies. Thus, the normal results of compiling figures from Foreign currencies to the Local currency, when the latter is devaluated, will yield to inflated figures over the past years.

From table 2 we notice that the Credits to the Public Sector represent between 40 and 45 percent of the total assets. This proportion did not change over the past years due to the preservation policy that Banks are adopting, where these credits are being granted to customers who has strong financial position only, in order to avoid facing same problems as those prevailing during 1975 and 1976 where customers were compelled to delay in settling the granted loans. It is noticed also that Banks turned to increase its concern in the Public sector, and specially in treasury bills where it increased from 8% in 1981 to 18% at June 1983 from the total assets. Whereas the credits to Non-residents Banks decreased from 34% in 1981 to 21% at June

1983 as a result of the circular No. 227 of May 12, 1981 issued from the Central Bank, prohibiting Banks from giving loans to Non-residents in Lebanese pounds.

Table 2
Consolidated Balance Sheet of Commercial Banks (Million of Leb.pound)

Description	1981	June 1982	Dec. 1982	June 1983
<u>Assets</u>				
Cash, and Call deposits at Central Bank	2535	2766	4568	3204
Claims on Private Sector	21292	25352	25729	30468
Claims on Public Sector	4176	4073	11049	12194
Claims on Non-Residents	1992	1933	1577	1946
Claims on Non-Resident Banks	18065	18054	12504	14611
Fixed Assets	774	879	1073	1170
Other Assets	4147	3991	5218	4009
Total	52981	57048	61718	67602
<u>Liabilities</u>				
Deposits by Private Sector	35748	40738	42953	49161
Deposits by Public Sector	803	693	826	807
Deposits by Non-Residents	3181	2603	2486	2568
Engagements to Non-Resident Banks	4196	3887	4306	4370
Shareholders Equity	1668	1927	2162	2735
Other Liabilities	7385	7200	8985	7961
Total	52981	57048	61718	67602

Source: Quarterly Report of the Central Bank, 2nd Quarter 1983

On the other hand, it is noticed that the deposits by the Private Sector increased from 67% of total liabilities in 1981 to 73% at June 1983 whereas the deposits by Non-residents decreased from 14% in 1981 to 10% in June 1983, while the deposits by the Public Sector and the shareholders Equity did not change during this period.

From table 3, which represents the Deposits at Commercial Banks, it is noticed that the deposits in Lebanese pound increased from 55% of total deposits in 1981 to 70% at June 1983, while deposits in Foreign currencies decreased from 45% in 1981 to 30% at June 1983. This is because the rate of interest on the Lebanese pound was relatively high during 1983, compared with those of the Foreign currencies.

It is noticed also that Deposits by Residents, in Lebanon Pound and Foreign currencies, represent 95% of total deposits out of which deposits in saving accounts represent the highest proportion which is about 82% of total residents deposits or 78% of total deposits. This concentration on the saving accounts is because of the exemption from taxes that the interests on these accounts enjoy.

From table 4, which represents the Distribution of Bank Credits to the Economy, it is noticed that Banks are contributing in the development of the various Economical Sector by granting them fixed proportions of their total grants over the past years, where the credits to Trade occupies the highest proportion which is about 54% of total credits, then 17% to the Industry, 12% to Construction, 2% to Agriculture, 2% to Financial Institutions and 13% represent other credits. This means that Commercial Banks are adopting over the past years a unified lending policy.

Table 3

Deposits at Commercial Banks (million of Leb.pounds)

Nature of Deposit	1981	June 1982	Dec. 1982	June 1983
-Deposits by Private Sector in Lebanese pounds	20964	23365	31480	35070
-Deposits by Private Sector in Foreign Currencies	14784	17373	11473	14091
-Total Deposits by Private Sector	35748	40738	42953	49161
-Deposits by Non-Residents in Lebanese pounds	357	437	672	789
-Deposits by Non-Residents in Foreign Currencies	2824	2166	1814	1779
-Total Deposits by non-Resi- dents	3181	2603	2486	2568
-Total Deposits in Lebanese pounds	21321	23802	32152	35859
-Total Deposits in Foreign Currencies	17608	19539	13287	15870
- Total Deposits	38929	43341	45439	51729

Source: Quarterly Report of the Central Bank, 2nd Quarter 1983.

Table 4

Distribution of Banks Credits among Economical Sectors (millions of Leb.pound)

Economical Sectors	1981	June 1982	Dec. 1982	June 1983
- Credits to Agriculture Sector	561	677	700	617
- Credits to Industrial Sector	3635	4246	4366	5132
- Credits to Construction	2375	2887	3041	3759
- Credits to Trade	11527	13317	13364	16163
- External Trade	3103	3174	3133	3826
- Internal Trade	6137	7436	7449	8830
- Services	1603	1837	1861	2606
- Credits to consumption	684	870	921	901
- Credits to Financial Insti- tutions	475	859	888	570
- Other Credits	2719	3156	3119	4024
- Total	21292	25142	25478	30265

Source: Quarterly Report of the Central Bank, 2nd Quarter 1983

c) Medium and Long-term Credit Banks:

In spite of the existence of the liquidity in the Lebanese Banking System since 1972, the Medium and Long-term Credit Banks did not witness the same progress and development as those of the Commercial Banks because of many reasons that restricted its business.

In April 21, 1967 the Government issued the law No. 22/67 organizing the business of the Medium and long term Credit Banks. This law seems to be restrictive to allow the term credit Banks to perform an effective role at the regional level. These restrictions could be represented in the following:

- The term-credit Banks are prohibited from accepting deposits for shorter periods than two years. So, in case the interest rates are relatively high the term credit Banks are being deprived from attracting deposits on any substantial scale, thereby restricting granting medium and long term loans.
- The term-credit Banks are not allowed to grant any loans that fall due for payment or wholly within less than two years.
- The term-credit Banks may deposit funds with other Commercial Banks but only subject to notice not exceeding 15 days. This limitation is destructive to the function of these specialized Banks.

So, term-credit banks would find itself in possess of large amount of liquid funds for which no immediate outlets of long term investments might be available.

It is clear that these restrictions are not consistent with the best interests of the specialized Banks and may affect in the first stage their decision-making process in investment which is now a very long and time-consuming one.

Finally the legal provision governing the credit facilities which may be made available to the Banking System by the Central Bank do not distinguish between Commercial and term credit Banks; and as a conclusion, the above restrictions lessened the importance of the term-credit Banks, as well as de-

layed its progress and development.

d) Insurance Companies

With the existing high density of insurance offices in Lebanon, competition is apt to compel them to develop their business on a regional scale. The main obstacle facing them in developing their regional business is clearly the fact that they are barred from establishing offices in most of the countries of the Middle East, either because the insurance industry is nationalized (Egypt, Syria, Lybia) or because under the existing regulation entry of new firms is not allowed at present (Kuwait, Jordan, Iraq).

The role of the Insurance Companies in the Financial Market in Lebanon is not so efficient due to the existence of sharp competition which is a result of the existing high density of Insurance Companies, where the local Market is not in need for such a density. In addition to that, the absence and laxity of government control ⁽¹⁰⁾ are the main reasons for the irregularities in the activities of many Insurance Companies. On the other hand the anti-trust by people in Insurance Companies and their ignorance about the benefits of insurance and the lack of compulsory insurance; specially in respect of motor and life; did not help so much in developing the insurance market as to be an effective factor in the Financial Market in Lebanon.

Most of the Insurance Companies do not participate positively in transferring their combined premiums to a mean for providing the necessary funds to the Lebanese Economy. And they often prefer to invest their funds either in Banks as call or fixed deposits, or in real estate, or by investing abroad.

(10)

Marwan Iskandar and Elias Baroudi, The Lebanese Economy in 1982-83, Middle East Economic Consultant, Beirut, 1984, p. 262.

Table 5
Growth of Net Premiums Collected by Insurance Companies, 1972-1982, in Lebanese pound

Y E A R	National Companies		Foreign Companies		T O T A L	
	Non-Life Insurance	Life Insurance	Non-Life Insurance	Life Insurance	Non-Life Insurance	Life Insurance
1972	17 194 000	-	27 714 656	-	44 909 256	-
1973	22 770 000	-	29 183 000	-	51 953 000	-
1974	34 812 000	-	39 860 000	-	74 672 000	-
1977	24 105 000	-	20 357 000	-	44 462 000	-
1978	35 158 000	-	22 574 500	-	57 732 500	-
1979	72 140 000	8 213 558	23 583 716	18 107 809	95 724 601	26 321 278
1980	76 584 550	13 436 724	31 232 790	23 568 870	107 817 340	37 005 595
1981	105 687 000	17 066 762	35 645 000	29 842 985	141 332 000	46 909 747
1982	129 461 094	24 130 420	38 899 256	35 564 035	168 360 350	59 695 455

Source: Association of Insurance Companies in Lebanon

Table 5 represents the growth of net Premiums Collected by Insurance Companies in Lebanon during the period from 1972 to 1982. It is noticed that as a result of the civil war most of the Foreign Companies and representatives left the country, leaving the market to the Local Insurance companies who benefited from this leave. It is observed clearly from table 5 that the share of the Local Insurance Companies from the total Premium income increased from 38% during 1972 to 77% during 1982 whereas the share of the Foreign Companies and representatives dropped from 62% during 1972 to 23% during 1982. Therefore, the Local Insurance Companies become more aware of the Market, but in fact the fluctuating situation in Lebanon deprived the Insurance Companies to benefit more from this leave by investing their funds inside the country. This is in respect of non-life field, whereas in Life Insurance the dominant segment is still the foreign Companies where it occupy a share of 65% of total Premium income, while the National Insurance Companies occupy only 35%. And this is due to the lack of both the state control on Insurance industry and the obligatory Insurance, as well as the lack of trust by people in the National Insurance Companies in this kind of Insurance.

e) Investment and Financial Institution:

The Intra Exploitation company is considered the biggest financial institution in Lebanon that can play an important role in the development and activation of the financial Market in Lebanon in view of its high participation in many other Services and Financial and Real Estate Companies. But the effects of Intra crisis and the passivity that accompanied the foundation of this company retardated the transference of its big and various funds into the different Economical and Financial Sectors of the country.

Nowadays, the attempts aiming to introduce the shares of Intra Company- or the shares of its depending companies- into the Bourse of Beirut are considered to be a principal occasion for activating the life of Financial Institutions

and opening the gates for new Investors specially with regard to the issuance of shares or new bills that could be used as Financial Instruments in the Lebanese Market.

f) The National Social Security Fund:

Its activities were restricted, in the past, to depositing its funds in Banks and trying to obtain the highest possible average rate of interest. And with the issuance of treasury bills by the Central Bank, the National Social Security Fund turned towards this kind of Investment Instrument specially during the critical periods in which Commercial Banks withdrew, as a result of the lack of liquidity, from buying these bills. Thus, the National Social security Fund became the main subscriber of Treasury bills.

g) The Bourse of Beirut:

Its role is considered somehow limited due to the orientation of the Lebanese and Arab savors to the investment in foreign stocks and bills that are issued by the financial institutions and their representatives in Beirut. In addition to that the concern of the commercial Banks in collecting domestic and Arab deposits and investing most of these deposits abroad deprived the foundation of local financial companies for a certain period.⁽¹¹⁾

Table 6 shows the development of the volume of operations of the Bourse, Bank deposits, and external investments from 1964 up to 1974- Further informations are not available-. It is observed clearly that the volume of operations of the Bourse did not exceed 1% of the volume of the deposits of the Banking system.

On the other hand, there are many reasons that forbade the Bourse of Beirut from being more vital and regular and could be classified as (a) Physical causes

(b) Special causes.

(11)

انطوان باسيل ومصطفى فاخوري ، بورصة بيروت وضعها الحالي و شروط ازدهارها ، بيروت ، ١٩٧١ .

Table 6

Development of the operations volume of the Bourse, Bank deposits, and External Investments from 1964 to 1974 (millions of Leb.Pounds)

YEARS	Bourse operations Volume	Bank deposits Volume	External Investments Volume
1964	81	2509	437
1965	26	3041	692
1966	14	2938	764
1967	8	2727	705
1968	5	3086	671
1969	2	3314	807
1970	10	3991	1179
1971	14	5000	1549
1972	42	6050	1991
1973	52	7243	2105
1974	49	9749	1593

Source: Central Bank and Bourse of Beirut Reports, 1964-1974

The physical causes are represented in :

- The family and tiny nature of the Lebanese joint-stock companies, the endeavour of the family to dominate the majority of the shares.
- Weakness of the savors' protection because of the weakness of control and information system over the companies specially during the last period due to the events.
- The registration in the Bourse is still optional for the joint-Stock companies, and the great shares' owners prefer to keep them. That is what deprives the secondary market from its main matter and which made the Bourse of Beirut -before the events- a market for demanding shares rather than for supplying them.
- The existence of a narrow market for the stocks and bills. This is observed clearly in the existence of 700 companies where only 50 companies are being registered in the Bourse and the exchange within the Bourse is being done only between 17 companies, out of the 50.

While the special causes could be represented in:

- The crisis of Intra Bank which affected the exchange operations in the Bourse where a large number of the companies which are registered in the Bourse were being affected from this crisis
- The development of the political and military events in the area, and the increase of inflation and its negative effects on the prices of some stocks.
- The existence of speculations on the stocks during 1963 specially on those of the Lebanese Petrol Company which lead to a scare of the savors in investing in the Lebanese stocks.

Efficiency of Financial Instruments:

The most important instrument in the Financial Market in Lebanon is the Treasury Bills which witnessed a rapid demand and supply since 1975 and specially after the existence of the increasing deficit in the Government Budget. These treasury bills are considered as a positive element with regard to the evolution of the Financial Market in Lebanon that is in need to these Instruments to a great extent. These Treasury Bills are being issued in three types: Short-term bills, Medium-term bills, and Special bills- which may be used to cover up to a maximum of 50% of the obligatory reserve- where the short-term bills could be discounted by the central Bank, while the other two types which maturity date exceeds one year can not be discounted by the Central Bank eventhough one of its main mission is to accept or discount any kind of bills, this in fact does not provide any solution to the problem of liquidity with regard to the bills' holders.

In addition to that, the treasury bills are being supplied only to the Banking System and the National Social Security Fund, depriving thereby the Government to benefit from the Individuals 'Savings, leaving the Treasury bills Market to be dominated by the Banks, and impose their conditions. This action is observed clearly at a certain time where the rates of interest were raised in order to satisfy the Banking System.

Table 7 shows the development of the volume of treasury Bills from 1975 to June 1983. It could be concluded from this rapid increase in the volume of Treasury Bills that the Government is aiming to absorb the existing liquidity in the Market, and to reduce as much as possible the operations of gambling through buying and selling Foreign currencies which therefore can affect the value of the exchange rate of the Lebanese pound against Foreign currencies. It could be concluded also, that the issuance of treasury bills is to reduce the rapid growth of inflation in the country through withdrawing part of the liquidity from the peoples hand.

Table 7
Development of the Volume of Treasury Bills (Millions of Leb. pound)

Description	1 9 7 7	1 9 7 8	1 9 7 9	1 9 8 0	1 9 8 1	1 9 8 2	June 1983
- Issuance	527.40	3024.60	2432.35	4045.05	11067.23	24936.34	19309.00
- Settlement	-	2498.55	2320.15	2734.85	8633.64	17567.26	17815.25
- In Circulation at the end of the Period	527.40	1053.65	1165.85	2476.05	4909.64	12278.72	13772.47

Source: Quarterly Report of Central Bank, 2nd Quarter 1983.

Regarding other Financial Instruments such as stocks and Bonds, it is undoubted that the Family nature of most firms deprived the Market from supplying the available stocks eventhough those which relate to the registered companies in the Bourse.

Efficiency of the Government Law and Legislations:

Most Legislations were concerned in encouraging the Money Market and The Banking System without any actual concern in other Financial elements and tax legislation or in securing any Investment climate which can protect the savors, specially the small ones. The above conclusion is obtained from the issuance of various Legislations organizing the Banking System and are represented in :liberty of the exchange operations, The Banking secrecy, The common accounts, Exemption from taxes of interests on saving accounts, Security of deposits, lisencing for new Banks, and Finally the establishment of the Banking Free Zone.

On the other hand, it is noticed that some of the Government's new Legislation are belated and are being issued at the time after the problem occurs. This action in fact, restricted the efficiency of the solutions and is observed clearly from the adopted procedures by the central Bank, who has the authority in certain cases to issue the necessary Legislation, specially those which are related to face the inflation.

Concerning the services that must exist in the Financial Market in order to secure an efficient climate for the Market operations, like the regularity of the Post, Telephone and Telex Services..., its level are deteriorating today due to the unstable situation in Lebanon, constituting thereby obstacle before the evolution of the Financial Market, whereas other Financial Markets in the area are witnessing a rapid growth and progress while the Lebanese Financial Market, if it stays as it is now, will not thereof be able to follow their development.

Conclusion:

The capability and efficiency of the components of the Financial Market in Lebanon are facing nowadays, and more than before, serious problems which should be given more concern by the interested authorities, because these problems in fact are the main reasons for the limited capacity of the Lebanese Financial Market. It could be represented in:

- The Lebanese treasury is witnessing nowadays an increasing deficit as a result of the exceptional circumstances. This problem has been arisen when preparing the projected Budget of the year 1980 where its deficit reached LL 1083 million pounds, and the Budgetees said at this time, that the effective and estimated resources are decreasing while the state responsibilities are increasing.

- The existence of high inflation rate in the country which, during 1979, reached 30% and that in turn lead to several adjustments to the salaries in the following years, so as to face the weakness in the purchasing power of the Lebanese pound. In addition to that, the high inflation rate deteriorated the value of the Savings deposits which lead to an increase in the Interest rates in order to be in accordance with the deterioration of the Lebanese pound purchasing power.

- The existence of limited domain of investments which is a result of the Security and political situation in the country, in addition to the decreasing productivity of most of the economical sectors which opened the gates ahead the investors to turn out to real estate business which in turn increased their prices and generating huge benefits

- The need of Lebanon for financing all what the war has destroyed is very big and requires the use of the local savings as well as to ask for external funds. And it is undoubted that at the beginning of the reconstruction expenditures, the rate of inflation will show new growth, resulting thereby in more social and economical problems.

Chapter 3

CONCLUSION, RECOMMENDATIONS, AND SUMMARY

The Government tried its best in lessening the effects of the Civil War which disrupted the economy and turned the country to pieces, through issuing new legislations such as organizing the settlement of outstanding debts, granting exceptional loans, establishing reserves to face the unexpected losses... And it tried also to improve the financial market as much as possible through=

Adjusting some items of the tax law to decrease the tax burden on the joint stock companies.

Guaranteeing new investments through the establishment of the National Institution for Investments Guarantee which covers war and nationalizations risks...

Organizing a new system for establishing the holding companies and offshore companies.

Organizing the exchange operations of banks' stocks in the market.

Organizing the operations of the Bourse of Beirut by extending its Business to cover the market of raw materials, valuable metals and foreign currencies.

Giving the specialized banks the authority of issuing short-term guarantees and accepting deposits for periods less than six months.

With no doubt these legislations were in itself good and necessary for developing the financial market, but their effectiveness was limited because of the instability of the security situation and the retardation of the political consent. On the other hand these new legislations are not being applied yet and can not be judged nor can the effect on various activities of the financial market be evaluated. The following suggestions and recommen-

dations are entitled to this research so as it might help in developing the financial market whenever Lebanon achieves peace and reconstruction process, in the various segments of the economy, begins.

Institutions:

- a. In relation to the banking system, the central Bank should stop giving licences to new commercial banks because the number is more than sufficient, and it should also determine the number of new licences to be issued from time to time subject to qualifying requirements. The banking system is in need of tax relief in order to increase their reserve funds, and for a new legislation which can regulate the ratio between the deposits and loans.
- b. Regarding the medium and long-term banks, the law governing their operations should be changed so as to increase their ability to perform an active role in the market. Such adjustments could be represented in giving the term-credit banks greater flexibility in investing their excess funds in the market such as commercial papers, treasury bills and certificate of deposits, so as to help in promoting the development of an active money market.
- c. In order to complete the process of formation of specialized banks, the central bank needs to speed up the foundation of the Agricultural development Bank and enlarge the capabilities of "Banque de L'Habitat so that it can satisfy the needs of the housing financing; a sector increasing rapidly.
- d. In relation to insurance companies, a step in the direction of removing the stamp duty on life assurance may help attract people to such kind of insurance. In addition to that, there should exist an adequate state control to regulate the activities of many insurance companies which in the opinion of the researcher requires the establishment of a national reinsurance company in Lebanon. The main function of such a body will be to control and organize the business of insurance companies through statutory sessions. On

the other hand, the foundation of a national reinsurance company will keep inside the country a big portion of the premium collected by insurance companies to be used and invested in financing the reconstruction process.

e. The state should encourage the formation of investment companies in order to stimulate funding, researching for new investment opportunities in the various productive segments, securing financial consultation to the companies, and promoting the use of the financial instruments as stocks, bonds and certificate of deposits. These financial institutions could also help in creating a secondary market for the treasury bills.

f. Since the National Social Security Fund is acting as a financial institution through subscribing to the treasury bills, and since it possesses huge amount of funds, it is advisable to utilize these funds as loans to those who are affected directly by the war.

g. In relation to the Bourse of Beirut it should be improved by expanding its activities so as to cover the foreign exchange operations specially in respect of foreign stocks and bonds.

Instruments:

The instruments in the Lebanese financial market should be promoted by creating a secondary market for them with a view to facilitating the process of dealing in them by individuals and institutions. The following suggestions are made with respect to improving the dealing of financial instruments in the Lebanese market. The suggestion may call for:

a. To reorganize the issuance process of Treasury Bills by opening it to the general subscription, thereby attracting the small individual investors and lessening the domination of the Banking System on the subscription of Treasury Bills and their high interest rates. In addition to that it is necessary to encourage the development of a re-

discount Market for the Treasury Bills which requires the existence of specialized Financial Broker Institutions.

- b. To register the Treasury bills in the Bourse of Beirut, the natural legal market for financial Instruments, that could organize the supply and demand for this Instrument.
- c. To encourage the issuance of certificates of deposits, and exempting their interests from taxes in the first stage.

The first and third suggestions are helpful in case of the existence of high inflation rate and high liquidity, where the Central Bank would resort to these elements to absorb the excess funds in the market and to reduce as much as possible the impacts of inflation on the economy.

Legislations:

The State should issue new legislations so as to organize the financial market to become more efficient and consistent with the new developments and the facilities in the market. These new legislation could include the following:

- The foundation of a General Financial ^{Body} with authority to intervene in solving financial conflicts.
- Providing facilities to the productive sectors other than the financial sectors by granting them special loans in order to finance their reconstruction expenditure and allowing them special re-discount rates.
- Requiring the joint-stock companies to register in the Bourse of Beirut, thereby improving the Bourse role.
- Improving the Insurance activities through making insurance as compulsory what are related to Motor and life assurance.
- Improving the technical level of the Banking System and Insurance Industry through the teaching and research at all University levels.

- Raising the level of services and communications in the country, to be in accordance with those of the domestic and international financial needs.

The development and expansion of the Financial Market in Lebanon, which in fact exists in spite of all the difficulties and contradictions that we have, is related to the effectiveness of its role in the region. Thus the activity needs to be changed to an intermediary market, to become a market of studies, investments and presentation of new opportunities and services, forming therefore a positive intermediary in attracting the Arab funds and securing the domain of their use in the Arab World and abroad.

And, no doubt, the role of the Lebanese Financial Market has to change with improvement in the political climate and working conditions in the country.

BIBLIOGRAPHY

- Amlin, F. Investments: An Introduction to Analysis and Management, Prentice - Hall Inc., New Jersey, 1978.
- Baz, Dr. Freddie. Beyrouth dans la Geopolitique des Nouvelles Places Financieres du Moyen-Orient, Rapport du Conseil D'Association des Banques du Liban, 1981.
- El Hoss, Salim. The Development of Lebanon's Financial Markets, presented during the Seminar of the Association of Banks in Lebanon about "Promoting Lebanon's Role as an International Financial Market", November 1974.
- Gott, T.G. Introduction and Practice of Investment, William Heineman Ltd., London, 1980.
- Iskandar, Marwan and Baroudi, Elias. The Lebanese Economy in 1982-83, Middle East Economic Consultant, Beirut, 1984.
- الامام ، د . احمد فهمي . اسواق الاوراق المالية في البلاد العربية ، اتحاد المصارف العربية ، بيروت .
- ياسيل ، انطوان وفاخوري ، مصطفى . بورصة بيروت وضعها الحالي وشروط ازدهارها ، بيروت - بيروت ، ١٩٧١ .
- بساط ، د . هشام . السوق النقدي والمالي في لبنان ، محاضرة في ندوة الآفاق الجديدة في علم المال ، بيروت ، حزيران ١٩٨١ .
- خوري ، الشيخ ميشال . محاضرة حول مصرف لبنان و دوره في الاقتصاد اللبناني ، غرفة الصناعة والتجارة في بيروت ، كانون الثاني ١٩٨٠ .
- صليبسا ، د . نسيم . محاضرة حول دور السوق المالي في لبنان ، مؤتمر الانماء الصناعي وتكامل دورة السوق المالي في لبنان ، نيسان ١٩٧٩ .
- قانون النقد والتسليف ، مصرف لبنان ، بيروت ، ١٩٧٤ .
- النشاشيبي ، حكمت . استثمار الارصدة العربية ، دار الشايع للنشر ، الكويت ، ١٩٧٨ .
- النشاشيبي ، حكمت . استثمار الارصدة و تطوير الاسواق المالية العربية ، المؤسسة العربية للدراسات والنشر ، ١٩٨٠ .
- Reports: Association of Insurance Companies in Lebanon
Association of Banks in Lebanon
Bourse of Beirut
Bank of Lebanon