



Lebanese Economic Association

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# The Financial Crisis : Its Implications on the Lebanese Economy

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# The Financial Crisis

Causes:

Collapse of 2001 Stock market in the US

Specially- Technology and small capital  
companies

Speculative elements in financial markets are  
significant

# Created a shift in demand Toward Real Estate

- Real estate market boom
- Speculative investors invaded the market
- Supply responded to real demand and speculation
- Oversupply when speculators leave the market to reap gains
- Lag in supply response

# Easy Credit

- Down payments were not required
- Decline in price implies negative equity for many mortgage holders
- Slow down in the economy due to property market decline
- Foreclosures

# Derivatives and related markets

- Wide spread derivatives markets:
  - Credit default swaps
  - Debt guarantees
  - Secondary markets for mortgages in Europe and Asia

# Losses in property markets

- Defaults first by speculators and buyers without margins
- Losses in Mortgage companies  
Fannie Mae and Freddie Mack

# Multiplier effect of Losses

- Banks
- Real estate companies
- Developers
- Industries that supply property

# Credit Crunch

- Fear of high risk
- Banks withholding lending/more strict
- Dry up in commercial paper markets

# Stock markets react

- Commodity prices up- Speculation a main element
- Signs of recession

Fall in World markets: this year about 60%  
30% in Sept/Oct

# Rescue Plan

- US Plan
- EU Plan
- British plan
- IMF Plan

# Rescue plan-Cont

## Government action

- 700 billion by the US
- Near a trillion by EU
- Etc.

Have not been implemented yet

# Rescue Plan-Cont.

- Central bank's plan

Quick results

Reduce interest rates

Inject liquidity

Guarantees

# Impact

- Global recession likely
  - Liquidity injection is not sufficient
  - Panic in markets remains
  - Speculation remains
  - Not sure Volume and instruments are adequate
  - Response by markets not assuring

# Implications for Lebanon

- On Economy

World wide recession will affect economic activity in Lebanon

Production down- sectors decline

-Services decline

Unemployment up

Prices (inflation) down.

# Balance of Payments

Exports of goods and services decline  
Due to recession and rise in dollar/euro rate  
21% to industrial countries  
79% to developing and emerging markets

Import of goods and services decline  
From recession and oil price  
47% from industrial countries  
53% from emerging and developing

# BOP

- Interest on government debt could increase  
As governments need to borrow massive amounts
- Transfers (grants) could decline

From Lebanese abroad

From government pledges- part of Paris3

# BOP

- Capital flows will be affected
- Foreign direct investment declines as Global economy is in recession
- Other capital may decline except government
- Government will increase its borrowing
- To finance a larger deficit including from abroad

# Government

- Revenues may decline or grow slower
- Grants decline
- Expenditure will increase to support the economy
- Subsidy to EDL declines as oil price declines
- Deficit will likely increase
- Borrowing will increase

# Banks

- Net foreign assets 24%  
With corresponding banks
- Claims on government 30%
- Claims on BDL 31%
- Claims on private sector 28%
- Equity -13%
- Net foreign assets are placed with corresponding banks in low risk placements

# Banks

- Profitability of banks declines
- Non-performing loans increase-  
Non performing loans ratio 6.8%  
Provisioning 54.2%

Bank's placements in corresponding banks is relatively low risk assets

# Banque Du Liban

December 2007

(in billions of LPs)

Net foreign assets	3541
Net domestic assets	4657

# Personal wealth

- Will decline from portfolio investments in international markets