

## Lebanese Banking Day in London

### Opening Speech of

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Excellencies,

Ladies and Gentlemen,

It is both a pleasure and an honor for us at the Association of Banks in Lebanon to cooperate with the Arab Bankers Association in London in organizing this Lebanese Banking Day.

I would like to seize this opportunity to extend my deepest appreciation to His Excellency, the Right Honorable Alderman Nick Anstee, Lord Mayor of the City of London, for his valuable participation to our event.

I also warmly welcome the presence of the Governor of the Central Bank of Lebanon, Mr. Riad Salameh, the Chairman of the Banking Control Commission, Mr. Usama Mikdashi and all the esteemed officials and colleagues of the leading banks, who are convening around the important subject of banking in Lebanon.

***Ladies and Gentlemen,***

Lebanon is geographically a small country, which banking dimensions outreach by far its narrow territory and the scarcity of its natural resources.

Yet Lebanon's most fundamental resource, most important power, remains its human capital. Well educated, entrepreneurial, vibrant with a sharp sense of business, the Lebanese themselves constitute the most valuable asset of the country and its economy.

Another strong pillar of Lebanon is the economic system and structure's stability since the fifties, despite the political turmoil the country endured over the years. In difficult times, the Lebanese economy continued to function without any system change, and remained a liberal economy dominated by services. Moreover, the government's policy of minimum intervention in economic matters, paved the way for the private initiative to

fully develop and explore its dynamism in a market economy of free movement of people, goods and capital; total freedom of foreign exchanges and transfers; lack of barriers on foreign investments, in addition to a moderate tax system, where the highest income tax bracket rate is 20%, while corporate income tax is set at 15%. One can add to these, a series of exemptions and indirect methods of taxation that is attractive to investors.

For investors, only profits realized in Lebanon are taxable, regardless of whether the taxpayer is a resident of Lebanon, or not. The principle of "*territoriality*" exonerates tax payers from paying taxes on revenues realized abroad. The particularity of the Lebanese fiscal system is that it does not stipulate a general income tax on the total earnings of an individual.

All these economic, legal and fiscal attributes, reinforced by a long tradition of openness and a unique banking secrecy law, have created a favorable and attractive climate for investors. In normal times and in crisis periods, the markets were rewarding us.

Since 2007 till end of September 2010, owing to the regained regional and international confidence in the country, and based on the IMF article IV country reports, the current transfers to Lebanon exceeded on a net basis \$13.3 bn; the net capital and financial flows have reached more than \$ 28.4 bn allowing our country to finance its large current account deficit of \$13bn for the same period and showing a balance of payments substantial surplus of \$16 bn, increasing by the same amount our net foreign assets. Lebanon international reserves of the central bank and the banks, all together, are largely adequate. They cover 43% of the country's Broad Money, 70% of its total foreign currency deposits and, finally more than 86% of Lebanon short term external debt.

Our banks play a determining role in making all these flows processed swiftly, timely, and at low cost, through our efficient branches network outside and inside Lebanon, and through our modern and secured payment systems.

**Ladies and Gentlemen,**

It is widely known that the Lebanese financial sector is **bank-centric**, compared to the **stock** and **Bond markets**. Considered as the backbone of the economy, the banking sector's consolidated balance sheet, including the investment banks, exceeded \$ 133 bn as at the end of September 2010, nearing 3.5 times the GDP estimated at \$38bn by the IMF. Moreover, Lebanese banks are directly present in the major cities of the world, namely in 31 Arab and international countries, and deal with a network of correspondents banks throughout 111 cities across the globe. The banking industry has recently witnessed a consolidation and a diversification of shareholders' structure, which attracted large international and Arab investors.

During the last international financial crisis years, and opposite to worldwide trends and indicators, the banking sector in Lebanon, performed particularly well and has shown an impressive **resilience** to the financial turmoil. Today, while the world is still surfing on the complex and inter-connected crisis consequences and implications, the Lebanese banking sector continues its positive growth path with appropriate liquidity ratios and adequate capital funds base. It reveals the system's ability and flexibility to deal with, and manage repetitive internal and external adverse events.

Such resilience is due also to the sound, solid and efficient regulatory framework put in place by the Central Bank of Lebanon and its supervisory arm, the Banking Control Commission, added to an open dialogue and steady coordination with the Association of Banks in Lebanon founded in 1959, the oldest in the region. This continuous dialogue and consultation between the authorities and the industry helped create a strong and

stable **banking sector in Lebanon**: a balanced Assets/Liabilities structure, a solid and diversified deposit base and qualified human resources.

Moreover, the decision of the authorities for an early implementation of the Basel I and II regulatory framework has been decisive and wise steps toward modernizing and strengthening our banking sector. Basel II implementation was for us a good learning process in risk management and in internal capital allocation. We will as banking industry fairly and gradually implement the recently issued recommendations of Basel III in close coordination with our regulatory and supervisory authorities. We have always in Lebanon adopted and complied with best international norms and standards. We are a small economy widely opened to international markets, and are committed to international rules. This was, and still is, a constant vision.

**Ladies and Gentlemen,**

On a final note, despite the political and sometimes complex problems Lebanon is still facing, the economic and legal system are fairly working and fully respected. The economic performance of the country remains very positive on the whole. The commitment to private enterprise and general economic freedom, supported by an ambitious and dynamic business class and a sound, solid and regionally expanding banking industry, are, all, contributing to economic prosperity of a country of 4 million population and without any substantial natural resources currently exploited.

I wish our Lebanese Banking Day in London all the success!

Thank you.