



On the Lebanese and Middle East Investment Opportunities

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Ladies and gentlemen,

It is a pleasure for me to participate in this event to discuss "the Lebanese and Middle East Investment Opportunities", and to meet such a distinguished panel of participants.

I will address both components of the title with more emphasis on Lebanon. This small and open country which offers a favorable climate for investment due to its strategic location, liberal financial environment and market-oriented economy. The Lebanese economy is characterized by a long tradition of free trade and investment policies, based on free flow of capital and earnings, free access to foreign exchange, favorable taxation and fiscal incentives, support of private initiative and protection of privacy through the existence of several laws such as banking secrecy, joint accounts and fiduciary contracts. Other aspects of Lebanon's comparative advantages are its highly educated, multilingual and entrepreneurially skilled human capital and the good quality of life.

Despite the internal and external turmoil the country went through over the years, Lebanon's commitment to the empowerment of an autonomous private sector has been always advocated; the private sector covers the major economic sectors in the country and is considered the driver of the economy and a main pillar for growth and recovery. Accordingly, Lebanon has

enhanced its business climate and improved investor perceptions of the country, endowing itself with a sound and stable banking sector that constitutes the entry point for the capital inflows into the country and the region.

The Lebanese banking sector has been able to weather the global financial crisis and has shown a high resilience to the international downturn. Liquidity has been boosted in the Lebanese banking sector which is always perceived as a banking safe haven for capital in the region. The resilience of the banking sector didn't come by chance or pure coincidence. It was rather the result of Banque du Liban's financial model built over the years around prudent regulatory and supervisory banking controls, thus providing confidence and long-term stability in the system.

The Central Bank has put restrictions on the foreign investments of banks, especially in structured products and derivatives, and forbidden the acquisition of subprime mortgage debt. Moreover, banks were required to avoid excessive leveraging, maintain high levels of liquidity and build adequate provisions against doubtful operations. This has discouraged banks from venturing into risky investments using depositors' money. Lebanese banks, which abide by international standards on good governance, risk management, transparency and capitalization requirements, have been successfully meeting the challenges of globalization and accessing the regional and international markets. Thus, the Lebanese banking sector has proven its soundness while remaining profitable, highly liquid and well capitalized. Financial stability has been backed by a monetary policy committed to exchange rate stability.

In parallel, BDL has always been aware of the importance of the private sector as the only sustainable means to address unemployment, and to create more wealth and job opportunities in the economy. Thus, BDL has instigated programs and incentives in order to secure adequate financing to the private sector. Domestic and foreign investors can benefit from interest rate subsidies for loans extended by banks, financial institutions and leasing companies to industrial, agricultural, tourist and IT establishments. Investors can also benefit from loan guarantees from Kafalat, a semi-private financial institution that assists SMEs to access subsidized commercial bank loans.

BDL has also been offering exemptions from mandatory reserve requirements to banks that grant loans to productive sectors. According to BDL incentive circulars, domestic and foreign investors can benefit from loans at lower rates for housing or new productive projects financed between January 2009 and end 2011, as well as for high-education and environmentally-friendly projects such as renewable energy, waste management, waste water treatment and recycling.

Lebanon is a country open to Foreign Direct Investment (FDI). In general, the Lebanese law does not differentiate between local and foreign investors except for land acquisitions and very few other exceptions. The Investment Development Authority of Lebanon (IDAL), established in 1994, spearheads

Lebanon's investment promotion efforts, and offers a wide range of investment incentives for prospective investors. In addition, Lebanon's membership in the Multilateral Investment Guarantee Agency (MIGA) gives reassurance to potential foreign investors.

Foreigners can freely establish all kinds of companies in Lebanon with very limited exceptions. A foreign bank can easily have a presence in Lebanon through an affiliated bank, a branch or a representative office. As concerning the acquisition and trade in bank shares, a law was passed in 2001 that unified all banks' shares in one category, thus eliminating the discrimination that had existed between Lebanese and foreigners. There are no legal provisions limiting foreign investors' participation in Lebanon's privatization programs or government procurement. Infrastructure projects, especially BOT projects, are open to foreign investors.

There are opportunities for attracting foreign investors in infrastructures projects. In Lebanon, privatization plans are part of the reform program set by the government. Telecommunications, electricity and transportation are the principal sectors to be privatized. We hope that the new government will encourage FDI by speeding up the implementation of laws related to the Public Private Partnerships which will further enhance investment prospects in Lebanon.

With respect to all countries in the Middle East region, improving investment climate is essential in order to confront many challenges that face these economies from the need to achieve faster growth and create enough jobs for their rapidly growing workforces, to the growing poverty that is caused by the high prices of oil and commodities around the world, and to the necessity of improving the knowledge, skills, and productivity of their human capital. The countries of the Middle East region need to implement comprehensive reforms in order to enhance their business environment, improve investors confidence in the region and also to take hold of the financial tools necessary to overcome the difficulties in financing infrastructure and SMEs.

In conclusion, the region needs to undertake a transition from the old model driven by the public sector and supported mainly by oil and workers' remittances to a new model promoting governance and transparency, adopting more open investment policies supportive of private initiatives in order to create the needed employment opportunities and support faster growth. Most governments in the region have already embarked on this shift with a long term vision aimed mostly at bringing together existing initiatives to reinforce investment, providing a harmonized legal framework for investment protection, facilitating the long-term transformation of migrant savings into investments and ensuring greater monetary stability in the region.

Thank you.