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MANAGEMENT OF BANK FUNDS IN LEBANON

by

MAURICE ELIAS BARDAWIL

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in the Department of Business Administration

of the

AMERICAN UNIVERSITY OF BEIRUT

BEIRUT - LEBANON

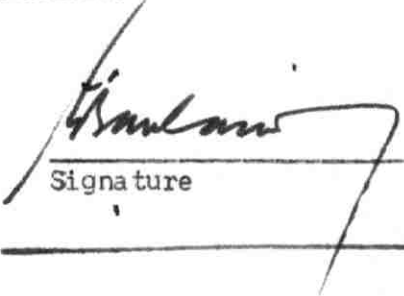
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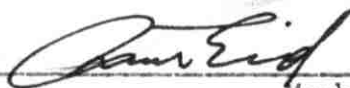
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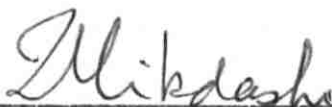
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MANAGEMENT OF BANK FUNDS IN
LEBANON

ACKNOWLEDGEMENT

Undertaking the task of writing about the management of bank funds in Lebanon is beset with many difficulties. The main difficulty has been the collection and selection of reliable and adequate data which sometimes were not available and up-to-date or could not be communicated for reasons of banking secrecy.

In consequence of the lack of accurate and comprehensive statistics, the writer has had to rely on private information gathered from some local or foreign bankers. Personal contacts with some professionals and experts in the field of banking, proved of great help also.

I am particularly indebted to my good friend and former professor, Dr. Salim Hoss, Chairman of the Banking Control Commission at the Bank of Lebanon, who encouraged me to undertake the present task some five years ago since when he has been generous with his time and advice.

It is superfluous but nevertheless true to state that the shortcomings of this thesis are the writer's sole responsibility.

ABSTRACT

The purpose of this study is to give a clear assessment of the growth of commercial banking in Lebanon, the sources and uses of their funds. It proposes to describe current practices in Lebanese banks and appraises them in the light of what ought to be done for achieving a sound, banking system. Due to the fact that accurate and comprehensive statistics are lacking the research was undertaken by following the method of sampling both in respect of banks studied and statistics chosen for analysis.

In addition to research data the writer draws on his experience in the field of banking which exceeded ten years. It is felt by the writer that this approach has brought about a realistic and practical approach which reveals many of the gaps and defects in the structure and practices of the Lebanese banking system.

Laws and institutions connected with banking are considered at length. Special reference and analysis is made of the new Money and Credit Law, the Central Bank, the Banking

Control Commission, the National Institution for Insurance of Deposits and the Bankers' Association. Furthermore, an analysis of the sources and uses of funds in Lebanese banks has been undertaken with an appraisal of policies related to them.

In the final part of this work recommendations based on evaluation of banking practices and policies and the speed of growth of the banking sector are suggested for improving the present system.

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CHAPTER I

THE BANKING SYSTEM OF LEBANON

A. Introduction

Economists describing the Lebanese economy always emphasized the growth and performance of the banking sector. In a services oriented economy banking seemed to be the fastest growing services area.⁽¹⁾

The fast growth of banking, if at least in the number of banks and quantity of deposits, is studied in this chapter to have an appropriate background for later evaluation. This chapter demonstrates the growth of banking in Lebanon, shows its evolution, describes its structure, and defines its intrinsic characteristics.

(1)

Review the writings on the Lebanese economy of most Lebanese economists especially the specialized work of A. E. Asseily, Central Banking in Lebanon (Beirut: Khayat Book and Publishing Co. S.A.L., 1967), forward by Prof. E. T. Penrose, p. xi.

B. Evolution of the System

1 - General Aspect

The Lebanese economy since independence developed in line with Lebanon's favorable features. While Lebanon's size, lack of mineral resources and small population were factors which restricted development, Lebanon's geographic position, the general educational level of its population and the special advantages it could muster vis-à-vis oil rich Arab countries were favourable factors to the development of a prosperous economy with services and trade accounting for two thirds of the national income.²

The particular characteristics which distinguish Lebanon and its people from other countries in the Middle East make it possible to understand the imbalance between services and trade on the one hand and agriculture and industry on the other in the Lebanese economy and particularly why the production of services is two times that of goods.³

2.

A.Y. Badre, "The National Income of Lebanon". Middle East Economic Papers 1956, Economic Research Institute, American University of Beirut, (Beirut: Dar Al-Kitab, 1957), p. 34.

3.

Ibid.

2 - Period Before World War I

The preponderance of trade and services and the concomitant development of commercial banking is a fairly recent phenomenon. Yet it is important to explore briefly the historical roots of the banking sector in Lebanon to better understand its present characteristics.

During the first half of the nineteenth century, there was practically no real banking in Lebanon, although some discounts and loans were made by money-lenders.⁴ This practice was rudimentary due to the poverty of the country in the days of the Ottoman Empire.⁵ The second half of the nineteenth century, however, witnessed the establishment of some local and foreign banks. The former were some form of discount houses to finance domestic trade, while the latter financed overseas trade.⁶ Unfortunately, it is not possible

4. S.B. Himadeh, Monetary and Banking System of Syria, (Beirut: American Press, 1935), p. 28.
5. Lebanon at that time was a colony of the Ottoman Empire, a "Sandjag" excluding the cities of Beirut, Tripoli and Sidon. See Royal Institute of International Affairs, The Middle East: A Political and Economic Survey, 2nd ed. (London: Chatham House, 1954), pp. 468-470.
6. ^x Ibid., pp. 30-31.
 ↙ Himadeh, op. cit.

to show the volume of banking business at that time due to the absence of reliable statistics. However, the volume of such business was certainly very small.⁷

Aside from local discount houses which were shaping into banks, the foreign banks operating at that time were: the Banque de Salonique, the Anglo-Palestine Company Limited, the Deutsche Orient Bank, the Deutsche-Palestina and the Imperial Ottoman Bank.⁸

The Banque de Salonique was founded in 1888 by a group of Salonica Jews. Later on its capital became controlled by the "Societe Generale pour le Developement du Commerce et de l'Industrie", one of the largest banks in France. The Anglo-Palestine Company Limited was a Jewish bank established in London. It started its operations in Palestine in 1903 and established a branch in Beirut among several other places. It

7.

Ibid., p. 31.

8.

Ibid., pp. 29-30.

continued its operations in Beirut until May, 1933. The Deutsche Orient Bank was established in Constantinople in 1906 by a group of three German banks. This bank had only one branch, in Aleppo. It absorbed the Deutsche-Palestina in 1914 which bank had been established in 1889 and was the first German bank to operate in the Orient with branches in Beirut, Tripoli, and Damascus. The Imperial Ottoman Bank was the biggest of all non-Lebanese banks operating in Lebanon at that time. It was established in 1856 by a group of British capitalists. However, in 1863, some French capital was added to the British capital and made out of it the State Bank of Turkey with the exclusive right of note-issue in the country.

3 - Period between World War I and World War II

This period was characterized by the establishment of new banks, foreign and local. The activities of the foreign banks may be summarized as follows:-⁹

9.

Ibid., pp. 168-173.

- Discounting bills of exchange and promissory notes.
- Advances on current accounts.
- Advances on goods.
- Advances on collateral security.
- Demand and time deposits.
- Foreign exchange.

The operations of local banks consisted of: ¹⁰

- Receiving deposits.
- Granting current account advances.
- Granting collateral or mortgage loans.
- Discounting notes.
- Dealing in foreign exchange.

It is noteworthy that irrespective of the growth in the number and functions of banks, one should not fail to mention the activities of both the discount houses and the money-lenders.

10.

Ibid., pp. 179-181.

The former specialized in discounting commercial papers not acceptable by banks while the latter granted commercial, agricultural, and consumption loans. ¹¹ Prof. S. B. Himadeh differentiates discount houses and money-lenders from banks in the following manner:

The banker proper depends for his loans mainly upon deposits; the discounting house, upon the proceeds of rediscounted papers and money borrowed from the banks; the money-lender, upon his own funds. ¹²

On this basis there were during 1934 thirty bankers and discount houses scattered all over Lebanon, as shown in Table I:1.

11. Ibid., pp. 184-185.

12. Ibid., p. 173.

TABLE I:1

NUMBER OF BANKERS AND DISCOUNT HOUSES
IN LEBANON IN 1934

Beirut	:	17
Tripoli	:	7
Sidon	:	1
Tyre	:	1
Zahle	:	4

Source: Himadeh, op. cit., p. 173.

The five most important foreign and local banks operating in Lebanon at that time are shown in Table I:2.

TABLE 1:2BANKS OPERATING IN LEBANON DURING 1934

French	x	: Banque de Syrie et du Grand Liban (established in 1919)
		Banque Francaise de Syrie (branch of the Société Générale, established in 1919)
		Credit Foncier d'Algérie et de Tunisie (established in 1912)
		Compagnie Algérienne, (established in 1931)
Italian		: Banco di Roma, (established in 1919)
Lebanese		: Banque Misr-Syrie-Liban (partly Egyptian) xx
		Banque Georges Trad et Cie. xx
		Banque Alexandre P. Haddad
		Banque Pharaon et Chiha xx
		Banque Robert Sabbagh et Cie. xx

xSee 15 ans de Mandat, "l'Oeuvre Francaise en Syrie et au Liban", (Beirut: Imprimerie Catholique, 1936).

xx still operating under the following names:

Banque Misr-Liban SAL, Banque G. Trad (Credit Lyonnais) SAL,
Banque Pharaon et Chiha SAL, Banque Sabbagh SAL.

Source: Himadeh, op. cit., pp. 165 and 174.

Between 1934 and 1945, more banks opened offices or branches in Beirut while others stopped operating. The following table shows the banks operating during 1945:

TABLE I:3

BANKS OPERATING IN LEBANON IN 1945

French	:	Banque de Syrie et du Liban Compagnie Algérienne Credit Foncier d'Algérie et de Tunisie Banque Nationale pour le Commerce et l'Industrie
Italian	:	Banco di Roma
Palestinian	:	Arab Bank, Ltd.
Lebanese	:	Banque Misr, Syrie, Liban Banque Tohme Banque G. Trad ^x Banque Robert Sabbagh ^x Banque Pharaon et Chiha ^x

^x Banks excluded from the source of this table which was complemented by information privately held.

Source: Abdel Karim Al-Khalil and Hisham El-Bissat, Intra: Crisis of a Bank or of a System? (in Arabic), (Beirut: Dar Al Yawm Lil Teba'a Wal Nashr, December 1967), p. 10.

4 - Period after World War II

Since the Second World War, banking in Lebanon has grown so rapidly (that the first and former Governor of the Bank of Lebanon, Mr. Philip Takla, wondered whether this growth had not been too rapid).¹³ From 1945 to 1966, the number of banks increased from 11 to 93 in the manner shown in the following table.

TABLE I:4^x

GROWTH OF THE NUMBER OF BANKS IN
LEBANON BETWEEN 1945-1966

Year	Number	Increase
1966	93	5
1965	86	34
1960	54	23
1955	31	8
1950	23	14
1945	12	-

^x For a complete list of banks operating in Lebanon at present, see Appendix I-A.

Source: Abdel Karim Al-Khalil and Hisham El-Bissat, op. cit., p. 18.

13.

L'Orient, (in French), Lebanese daily newspaper, (Beirut: May 27, 1964).

This growth has not only been in the number of banks but also in the volume of their operations. The following table shows the evolution of deposits in Lebanon from 1950 to 1967.

TABLE I:5

DEPOSITS IN LEBANON FROM 1950 TO 1967

(IN MILLIONS OF LEBANESE POUNDS)

End of Year	(1) Time ^x Deposits	(2) Foreign Currency Deposits	(1)+(2)=(3) Time and Foreign Currency Deposits	(4) Demand Deposits	(5) Govern ment Deposits	(4)-(5)=(6) Private Demand Deposits	(3)+(6)=(7) Total Private Deposits
1967	n.a.	n.a.	1784	782	Excluded	782	2566
1966	n.a.	n.a.	1891	894	"	894	2785
1965	n.a.	n.a.	1705	962	"	962	2667
1964	n.a.	n.a.	1271	890	"	890	2161
1963	261	434	695	1419	"	1419	2114
1962	184	449	633	971	"	971	1604
1961	138	452	590	796	"	796	1386
1960	113	369	482	716	"	716	1198
1959	78	165	243	621	"	621	864
1958	54	136	190	443	"	443	633
1957	50	115	165	447	"	447	612
1956	42	82	124	307	"	307	431
1955	39	72	111	444	145	299	410
1954	27	54	81	362	116	246	327
1953	19	n.a.	19	324	105	219	238
1952	12	n.a.	12	301	69	232	244
1951	6	n.a.	6	253	31 ^{xx}	222	228
1950	6	n.a.	6	209	24 ^{xx}	185	191

^x For the years 1950-1955: Ministry of National Economy, Bulletin Statistique Trimestriel, 2nd quarter, 1956, p.42. Time deposits do not include foreign currency deposits; demand deposits include government deposits.

^{xx} Zuhair Mikdashi, The Monetary System of Lebanon, typescript M.A. thesis (Beirut: American University of Beirut, 1956), p.80.

Source: International Monetary Fund, International Financial Statistics. (Washington: IMF, 1956/1967) IX-XX.

Loans and discounts which reflect the pace of economic activity grew with the growth in deposits and were more nearly in line with overall economic growth. The volume of bank advances and clearing operations developed as is shown in Tables I:6 and I:7.

TABLE I:6

ADVANCES IN LEBANON FROM 1955 TO 1967

(IN MILLIONS OF LEBANESE POUNDS)

End of Year	Amount
1967	2285
1966	2336
1965	2310
1964	1945
1963	n.a.
1962	1157
1961	1004
1960	892
1959	649
1958	528
1957	516
1956	447
1955	393

Source: International Monetary Funds International Financial Statistics. (Washington: IMF, 1956/1967), IX-XX.

TABLE 1:7

CLEARING OPERATIONS IN LEBANON
(IN MILLIONS OF LEBANESE POUNDS)

End of Year	Amount
1965	3916
1960	2277
1955	926
1950	365

Source: Abdel Karim Al-Khalil and Hisham El-Bissat, Intra: Crisis of a Bank or of a System? (in Arabic), (Beirut: Dar Al Yawm Lil Teba'a Wal Nashr, December 1967), p. 20.

The fast growth in the number of banks and in the volume of some banking operations stresses the need for clarifying two phenomena associated with this period.

- (a) What was the role played by local banks as distinct from foreign banks;
- and
- (b) What were the factors behind the enormous growth of banking in Lebanon.

5 - Lebanese Banks

Local Lebanese banks survived and developed alongside their foreign resourceful competitors for the following reasons: 14

- (a) The major business of foreign banks was foreign trade. Thus domestic trade was left to be financed mostly by local banks.
- (b) Due to deficient credit ascertainment, foreign banks dealt only with customers of indisputable solvency.
- (c) Local banks were able to extract higher rates on loans than foreign banks and as such were in a better position to pay higher rates of interest on their deposits.
- (d) Local banks were less formal and more lenient in their dealings than foreign banks. Their customers are mainly personal friends having access to their top men practically at anytime, unlike the foreign bankers who usually receive at specific hours.
- (e) Local banks acted often as intermediaries between customers and foreign banks. They used to secure lines of credit from foreign banks whether in Lebanon or outside and in turn use such credit for extending credit to their clients at higher interest rates than they paid to foreign banks.

14.

Himadeh, op. cit., pp. 186-188

All those undertakings of the local banker are par excellence a normal sequence of a good relationship between the community and himself. This is one major factor which helped local banks to expand. It is a factor of universal importance and relevance and is well summarized by Sayers ¹⁶ where he says:

Banking is thus conditioned by the general economic structure, especially in the readiness with which property, in goods, land, and other assets, lends itself to the creation of security for loans. But everywhere and at all the time it is a matter of relations between people, and any discussion of banking must not be confined to balance-sheets and payment mechanics but must go beyond these to the relations between banker and customer and the detailed background of their everyday business.

6 - Growth Factors

Many factors contributed significantly to the growth of banking in Lebanon. Foreign banks with abundant resources made available their funds and were ready to lend them out to local bankers who, in turn, lent them out against real estate securities. Consequently, a major asset for borrowing,

16.

R. S. Sayers, ed., Banking in the British Commonwealth (Oxford: The Clarendon Press, 1952), pp. VII-VIII.

real estate, was mobilized indirectly by the relationship between local and foreign banks which enabled the former to increase their lending against real estate.

The Lebanese borrowers proved to be in most instances good customers, not only in the use they made of borrowed money, but also in the readiness to settle their debts on time. Consequently, most banks found in Lebanon and in the Lebanese a potentially favorable atmosphere and a promising field for expansion, especially as the Lebanese economy was growing at a fast rate.

The geographical location of Lebanon and particularly of its capital, Beirut, have made of it a center for international trade and a doorway to the Middle East.

Lebanon's location on the Eastern coast of the Mediterranean is very favourable for international trade and the channelling for centuries, of a substantial part of Middle Eastern commercial and financial operations through Lebanon, has created an experienced class of businessmen, entrepreneurs and bankers. ¹⁷

17.

Nadim G. Khalaf, Long Term Credit in Lebanon, typescript M.A. thesis (Beirut: American University of Beirut, 1957), p. 2.

To enhance the favourable geographic location of Lebanon and the cosmopolitan orientation of its people the successive Lebanese Governments stressed free enterprise and minimal restrictive legislation. The free exchange system was brought about in 1948.¹⁸ It was one facet of a free economic system that placed few restrictions on the inflow and outflow of capital, goods and persons. This freedom facilitated the growth of the trade sector and, consequently, commercial banking. The absence of a Money and Credit Law made it easy for any Lebanese to establish a bank; "the fact that they could run it the way they chose certainly accounted for the opening of not a few banks".¹⁹ This complete freedom seems to have encouraged Americans, English, French, Germans, Italians, Canadians, Dutch, Belgians, Jordanians, Kuwaitis, Iranians, Pakistanis and others to establish branches, to co-own a bank in Beirut, or even to have a representative office in the city of Beirut.²⁰

18.

Al Khalil and El-Bissat, op. cit., p. 19.

19.

Asseily, op. cit., p. 32.

20.

For a complete list of banks and their nationality: see Appendix I-A Columns 1, 2 and 3.

Although Lebanon has about two and a half million residents, it is reported that there are Lebanese emigrants in excess of the resident population.²¹ The figures are likely to be exaggerated in so far as they include second and third generation Americans, Australians, etc., as Lebanese simply because their parents or grand-parents emigrated from Lebanon. In spite of the superficial identification of Lebanese emigrants it would be wrong to underestimate their impact on the Lebanese economy including the banking sector. Consequently, their favourable effect on the growth of the economy and banking in Lebanon is briefly reviewed.

Most of the Lebanese emigrants established themselves in the Two Americas, along the west side coast of Africa and the Arabian Gulf, where they run very prosperous businesses. From time to time, they send home substantial sums of money to their families or to establish or participate in new businesses in Lebanon. Some estimates have been made of these transfers and it is shown that substantial funds flow to Lebanon yearly from this source.

21.

Estimates made by the World Lebanese Union.

TABLE 1:8ESTIMATES OF INFLOW OF FUNDS TO
LEBANON FROM EMIGRANTS(IN MILLIONS OF LEBANESE POUNDS)

Year	Amount
1965	106.7
1964	99.5
1963	93.0
1962	88.0
1961	92.0

Sources: G. Medawar, Balance of Payment of Lebanon (Beirut: Economic Research Institute, 1964 and 1965).

Khalil Saleem, Balance of Payment of Lebanon (Beirut: Economic Research Institute, 1962 and 1963).

Khalil Saleem, Balance of Payment of Lebanon (Beirut: Economic Research Institute, 1961).

Lebanon, with its liberal economic and political policies proved attractive to Arab capital both from the oil rich Arab states and other Arab countries bent on nationalization schemes. Capital escaping nationalization by socialist regimes in neighboring countries found refuge in the banks of Lebanon. Capital

from oil rich Arab countries found its way to Lebanon because of friendly ties between wealthy rulers and traders and Lebanese businessmen. Moreover, the flourishing economy of Lebanon and its free system of government were added attractions. Another reason that helped the attraction of capital which deserves special note is the Law of Banking Secrecy.²²

Law of Banking Secrecy²³

This law was specifically promulgated to encourage Arabs, non-Arabs, Lebanese emigrants, and residents, to deposit their money in the banks of Lebanon.²⁴ In other words this law aimed to make of Lebanon an attractive center for international banking activity.

22.

See Appendix I-B.

23.

Published in the Official Gazette No.36 dated September 5, 1956 and was put into effect two months later.

24.

Though the importance of such action should not be overestimated it may at the same time be stated that the official establishment of banking secrecy would constitute a small sacrifice on the part of the Lebanese authorities. Since international capital movements are entirely free and uncontrolled, anybody preferring to avoid the chances of official scrutiny is at liberty to keep his funds in such places as to make them inaccessible to government investigation... under those conditions, the official recognition of banking secrecy... may serve to dispel fears or misunderstandings on the part of depositors that might otherwise arise. "F. Keesing, the Monetary and Banking System of Lebanon, mimeographed, (Beirut: May 10, 1955) p. 34.

Banking Secrecy as stipulated for in the law prohibits bank officials and employees from relating information about any bank customer. This prohibition applies to any person or group of persons, private or official, and in the face of requests by any authority be it military or judicial.²⁵ To betray such a confidence is an offence subject to clauses of the penal law and is considered as a crime. However, there are three exceptions to the Law of Banking Secrecy; a bank may disclose information related to clients in cases when:

- the customer is declared bankrupt.
- a suit relating to a banking operation arises between the bank and its clients.
- An application is made by the Judicial authorities for a law-suit of unlawful enrichment of civil servants.

C. Structure Of The Lebanese Banking System

1 - Repartition of Banks

The last bank registered at the Central Bank was the ninety-fourth.²⁶ However, at present, the number has di-

25.

Switzerland has a banking secrecy law which, however, is less strict. Information privately held: Prof.M. Attallah.

26.

Republic of Lebanon, Official Gazette, XXI (Beirut: May 2, 1968.)

minated. With the failure of two banks (not included in the list) in 1964 and the subsequent failure of another in 1965, and that of Intra in 1966, the number came down to ninety-two. Around the end of 1967 and during the first half of 1968, five banks were taken over by the special Custodian Authority for the administration of banks placed under custody, leaving as such eighty-seven banks. Three more banks were crossed out from the bank list for not commencing business in due course. Thus, the number of commercial banks, operating in Lebanon during July 1968, became eighty-three, (excluding the "Banque de Credit Agricole Industriel et Financier" that operates under the State's patronage). According to a recent statement ^x by the Governor of the Central Bank, in few months' time, after the self liquidation procedures underway by a number of small banks are finalized and some merger negotiations lead to agreement, the number of ^cCommercial banks in Lebanon could well be somewhere between 70 and 74 banks.

Above figures include local ^{xx} and foreign banks ^{xxx} as well as Lebano-foreign banks. ^{xxxx} In the official bank list 27 ,

x

Statement made around end of November 1968.

xx

A local bank is a bank established as a Lebanese "Société Anonyme" with local capital and management.

xxx

A foreign bank in Lebanon is a branch of a bank with a head office outside Lebanon. However, the Money and Credit Law does not discriminate between local and foreign banks as to the application of most of its clauses.

xxxx

Banks operating as Lebanese "Société Anonyme" with, however, foreign capital and management.

27.

See Appendix I-A.

one may distinguish nineteen foreign banks and nine Lebanese banks. This brings the number of local banks to 55 with about 200 branches.^x

It is to be noted, however, that foreign participation increased substantially before the end of 1968. A definitive statement about the extent of foreign participation at present is very difficult to make and will be subject to rapid change. This process was speeded by a number of laws which preceded and followed the Intra crisis.

2 - Laws

Until April 1, 1964, banks in Lebanon were governed only by the commercial code that regulated all commercial transactions.²⁸ In the intervening period between independence in 1943 and the promulgation of the Money and Credit Law in 1964 a number of banking laws and regulations were passed. These are covered briefly to facilitate later discussions.

28.

Banking was regulated simply as an act of commerce: legislative decree No. 304 dated April 7, 1943, Art.6.

x

In July, 1968:

Clearing Operations 29

In 1943 the Banque du Syrie et du Liban (which used to perform some functions now undertaken by the Bank of Lebanon especially note-issue) was given the power and responsibility of managing the clearing office. The clearing office is where all banks send representatives everyday to offset checks drawn on them against checks drawn by them, with the balance charged as a debit or credit as the case may be to the particular bank.

Law of Banking Secrecy 30

Law Governing Joint Accounts 31

This law dated December 12, 1961 stipulates that any two or more parties can open a deposit account in any accredited bank. Such accounts are not affected by the death of one of their co-owners. To differentiate this form of account from others, "and/or" is inserted between the names, i.e. A. Qury and/or B. Qury, etc.

29.

obtained
given
secured } It is not really a law but a note; information privately held: Dr. Salim Hoss, Chairman, Banking Control Commission, Bank of Lebanon, Beirut.

30.

See Appendix I-B. Already discussed in this chapter.

31.

See Appendix I-C.

Law of the "Centrale des Risques" ³²

According to Decree No. 9860 of May 25, 1962, it has become a prerequisite for any bank before being officially accredited to become a member of the "Centrale des Risques".³³ Banks are to supply this office with monthly statements relative to any customer enjoying a total of over LL.20 thousands in any form of banking facilities. The purpose of this law is to protect banks from unworthy customers and to protect the banking system from the overuse and/or illuse of credit facilities. For this end, any bank can acquire, by phone, credit information from the "Centrale" about any customer. At present, no information may be obtained about any non-client unless he authorizes in writing the bank seeking the information to draw on the data at the "Centrale".³⁴

Law Governing Savings Accounts ³⁵

This law which became effective as of the first of August 1963 gives banks the right to accept savings deposits. No with-

32.

Decree No. 9860 dated May 25, 1962. See Appendix I-D.

33.

An accredited bank is a bank whose guarantee is accepted by the State.

34.

Interview with Dr. François Bassile, Deputy General Manager, Byblos Bank SAL, Beirut.

35.

Decree No. 13513 dated August 1, 1963.

holding tax shall prevail on any such accounts. Some more details about saving deposits will be discussed later on in this study.³⁶

3 - Banque de Syrie et du Liban

Establishment

One cannot discuss the new Money and Credit Law and the Bank of Lebanon without a consideration of the latter's predecessor: the Banque de Syrie et du Liban (BSL).

The Banque de Syrie et du Liban was established after the First World War, on the second of January, 1919, by a French military decree. It was to take over from the Ottoman Bank which until then had the right of note-issuing in the country. By the convention of January 23, 1924, the Banque de Syrie et du Liban acquired an official and legal status. The convention also defined its activities, amongst which was the issuing of currency for a period of fifteen years.³⁷ This period was subsequently extended when the convention, amended in 1937, was renewed in 1939 for another period of twenty-five years ending 1964, which was the date at which the Central Bank took over some functions performed until then by BSL on behalf

36.

For more details about savings accounts, see Chapter II, Pt. C.

37.

See Himadeh, op. cit., pp. 317-348.

of the Lebanese Government.

Activities

From 1924 onwards, the Banque de Syrie et du Liban acted
as: ³⁸

- i. Commercial bank.
- ii. Currency issuer.
- iii. Government bank.
- iv. Lender of last resort - Banker's Bank.

The Banque de Syrie et du Liban was the custodian of government funds and had the sole right to receive its deposits. It also acted as the government fiscal agent and was to provide the government or public agencies with loans. The rates of interest charged on government debts varied between two and a half and four percent while its deposits earned only one percent.

The note-issue functions of the B. S. L. were controlled in a rudimentary but fairly adequate manner. Notes in circulation were increased at the rate of 4-5 percent a year which was felt to be the rate of expansion of the economy. This method did not produce harm-

ful effects except in so far as it might have retarded growth in periods of depression. ³⁹

Beside managing, clearing operations and accepting deposits from banks for clearing purposes, the Banque de Syrie et du Liban used to lend banks according to one of the following methods. Also, it managed the "Centrale des Risques" between 1962 and 1964.

Rediscount: This method consisted of discounting first class notes carrying the signatures of a drawer, a drawee and a payee, the maturity of which was within ninety days. It was reported that banks did not make much use of this facility because the rates were not published and depended thus on each bill separately. Also, many bankers used to see in the Banque de Syrie et du Liban not a banker's bank but a competitor and were reluctant thus to uncover to it the name of their clients.

39.

Information privately held: Dr. M. Iskandar.

Overdraft: This meant granting banks unsecured current accounts, overdrafts, against contracts determining the extent of such loans. The maturity of overdrafts could go up to one year with the reserved right to be called in at forty-five days' notice.

In addition to these simple banking activities the B.S.L. ventured into some arrangements which contributed towards the beginning of a money market. Of these Borrowing en pension^{is} the best example.

It is reported that Banque de Syrie et du Liban has adopted a third device known as borrowing en pension, which is simply a sale of bonds or bills under a repurchase agreement. A bank needs funds, sells trade bills to Banque de Syrie et du Liban and receives the latter's checks in payment. The period of advances is seven days subject to an extension on a seven-day basis. After the lapse of the agreed period the bank will repurchase the trade bills from Banque de Syrie et du Liban. ⁴⁰

40.

Mikdashi, op. cit., p. 85.

4 - The Money and Credit Law
and the Bank of Lebanon

Central Banking

Whether "central banking has been a matter of fashion"⁴¹ or is a response "to the needs of the environment in which they (central banks) exist, and the main end to be achieved in the underdeveloped world is manifestly the promotion of economic growth",⁴² is a matter of value judgement. However, the fact is that Lebanon established its central bank, the Bank of Lebanon (BL), on April 1964. Whether the Bank of Lebanon has been fulfilling its tasks properly or not will be discussed later on.

The Money and Credit Law⁴³
and the Central Bank

The Money and Credit Law, defines the capital of the Bank of Lebanon and its organization, its functions and its relationship with the state and the public sector. It regulates the monetary and credit policy of Lebanon as well as interest rates, money

41.

Sayers, op. cit., p. XI.

42.

Royal Economic Society, Economic Journal, (London: Macmillan Journals Ltd., 1965) LXXV, p. 592.

43.

Decree No. 13513 issued August 1, 1963.

issue, foreign exchange and the gold coverage of the Lebanese currency.⁴⁴ This law sets regulations and conditions for establishing a bank as differentiated from "financial institutions" also defined.⁴⁵

The law indicates permitted transactions and prohibitions; it stipulates the obligations of commercial banks with regard to minimum capital (LL three millions), registration, bank list, elimination, accounting, statistics and control.⁴⁶ It also provides banks with special management rules, and it levies fines on "illegal practices".⁴⁷

The Banking Control Commission

Subsequent to the Money and Credit Law coming into effect, a new law dated May 9, 1967 was passed to complete the legislation relative to banks. Previous to the promulgation of this law Intra bank, which accounted for approximately 25-30 percent of

44.

Republic of Lebanon, Money and Credit Law, Its Implementation and Amendments (in Arabic) (Beirut: Sader Press, 1967), pp.2-17.

45. Ibid., pp. 29-30

46. Ibid., pp. 21-25

47. Ibid., pp. 31-34

total deposits and commercial banking business in Lebanon, had failed. The Lebanese Government sought means and ways for restoring confidence in the banking system. Consequently, Law No. 28/67 must be viewed in the context of the post Intra aftermath. This law in line with its purpose of restoring confidence in the banking system established the Banking Control Commission, the Higher Banking Commission, and the National Institution for Insurance of Deposits.⁴⁸

Article 8 of this law establishes, at the Bank of Lebanon, an independent commission to exercise full control over banks.⁴⁹ This commission, however, is not subject to the authority or power of the Bank of Lebanon, and is as such an autonomous organization attached only to the Bank of Lebanon, whose control committee reports to the said commission.

The Banking Control Commission has three members appointed for five years by a special decree by council of ministers upon

48.

Ibid., p. 49.

49.

Ibid.

the recommendation of the minister of finance. Its main function is to assume the powers of the Governor of the Bank of Lebanon vis-a-vis bankers; that is, to effect full control over banks as per section three of the Money and Credit Law, Articles 149 and 150. ⁵⁰

It is noteworthy, however, that the commissions independence is more theoretical than real. Appointments to the commission other than the three principal members have to be approved by the Governor of the Bank of Lebanon. Also, remuneration is to be determined by the Governor. Due to these factors the Banking Control Commission has faced severe difficulties in trying to fulfil its task.

The Higher Banking Commission

Article 10 ⁵¹ of Law 28/67 provides for a commission formed of the Governor of the Bank of Lebanon as Chairman, one Deputy Governor, the Director-General of the Ministry of Finance, a judge with over ten years practical experience and ~~one~~ members of the

50.

Ibid., p. 25.

51.

Ibid., p. 50.

Control Commission. The Higher Banking Commission replaces the disciplinary body as per article 209 of the Money and Credit Law.⁵² By contrast to the Control Commission the Higher Banking Commission is to pass judgements on such matters as:

- (a) To forbid or restrict banks from undertaking (strictly) commercial transactions.
- (b) To appoint a controller or a temporary manager to run the bank placed under custody.
- (c) To cross banks off the list of accredited banks.
- (d) To take legal measures against the management of banks and to subject same to penal sentences in case of negligence for recommendations passed by the commission.

Finally, this commission has the right to take over any bank it decides is incapable of running its own business. On practical grounds, this measure means that the entity of the bank taken over will go to the "Banque du Crédit Agricole, Industriel et Financier"⁵³ who will operate the bank under the same name with a special mention added to it "new institution as

52.

Ibid., p. 34.

53.

"Banque du Crédit Agricole, Industriel et Financier", a state owned bank specialized in medium term loans mainly to farmers and hotels.

per law of May 9th, 1967. As such the original company will be dissolved and its prerogatives transferred to the "Banque du Crédit Agricole, Industriel et Financier".

National Institution for Insurance of Deposits

Article 12 of Law No. 28/67 provides for the establishment of an institution for the insurance of deposits to become effective starting January 1, 1969.⁵⁴ Its object was originally to insure all Lebanese credit accounts in any one bank up to LL.15,000 per account. This institution was to be set up as a joint venture between the Lebanese Government and operating banks. Each bank has to subscribe LL.100,000 as its nominative share. The Lebanese Government will subscribe an equivalent amount to the sum total of subscriptions by all banks. In addition to the original payment, each bank has to pay a yearly fee of two per mil during the first three years, and one and a half per mil subsequently, of its total deposits at the end of every fiscal year. The government shall pay as much as the total amount of fees paid by banks.

54.

Ibid., p. 50. Until December 31, 1968 all deposits are guaranteed by the Government through the Higher Banking Commission. See: Money and Credit Law op. cit., Art. 28.

Very recent legislation, December 1968, raised the insured sum to LL.30,000 per account per bank.

Sundry Laws and Provisions

Law 28/67: Law No. 28/67, in addition to provisions already discussed requires a special licence to be issued by Bank of Lebanon in conformity with the recommendation of the Bankers Association, before the opening of any new branch of a local or foreign bank on Lebanese territory is authorized.⁵⁵

No more bank licences shall be issued for at least five years, with the exception of the "Banque d'Affaires"⁵⁶ and long term credit banks⁵⁷ or the merging of two or more banks or the "Lebanization"⁵⁸ of a foreign bank.

55.

Money and Credit Law, op. cit., art.1, p. 49. See Republic of Lebanon, Legislative Decree and Lebanese Rules relative to Banks (in Arabic)(Beirut: January, 1968), pp.140-141.

56.

Explained further below in this section.

57.

See Law 22/67 dated April 21, 1967. Legislative Decree and Lebanese Rules relative to Banks, op. cit., pp. 86-90.

58.

Turning the ownership to a Lebanese "Société anonyme".

All foreign banks operating in Lebanon have to deposit at the Bank of Lebanon fifty percent of their capital in a blocked non-interest bearing account.⁵⁹ This provision was later changed to allow for purchase and deposit of Government bonds instead of non-interest bearing funds.

Other Laws: A number of decrees have been issued since 1964 and subsequent to May 1967 to complete and amend both the Money and Credit Law and the Law 28/67:

- Decree No. 16400 dated May 22, 1964⁶⁰ relative to the organization of the government delegation at the Bank of Lebanon with respect to its Central Board, the issue and backing of currency, interrelationship between the government and the Bank of Lebanon, its accountancy and records.

- Law No. 2-67 dated January 16, 1967⁶¹ pertains to banks that are not able to meet their liabilities. The aim

59.

Money and Credit Law, op. cit., art.6, p. 49.

60.

Legislative Decrees and Lebanese Rules, op. cit., pp. 74-77.

61.

Ibid., pp. 78-85.

of this law was to prevent such banks from going bankrupt. For this purpose, maintaining a threatened bank functioning, a temporary committee is appointed which replaces the former Board of the bank in all its prerogatives. This committee, with the approval of the authorized court shall decide the fate of the bank. This is what actually happened with the Intra Bank.

- Law 22/67 dated April 21, 1967⁶² aims to encouraging "Banque d'Affaires" and banks which specialize in medium and long term credits. Those banks are defined in this law as banks having a minimum capital of fifteen millions Lebanese pounds. Their purpose is to give long or medium term loans and to participate in projects and current concerns, buying bonds and issuing long or medium term secured guarantees. Also, they can buy and sell bonds for the account of a third party and are forbidden to receive deposits maturing within two years.

- Law 30/67 dated May 16, 1967 consists of stiffening the penal sentences for issuing a check without supporting funds.

62.

Ibid., pp. 86-90.

Not only is the drawer in this context subject to such penalties but also the payee who receives such checks with the knowledge that they are issued without funds. ⁶³

- Legislative Decree No.8, dated July 3, 1967. ⁶⁴
This law establishes, at the "Banque du Credit Agricole, Industriel et Foncier", a special division called The Bank Management Division to run banks taken over by the Higher Banking Commission, as already mentioned. This division is managed by a commission headed by the President of the "Banque de Credit Agricole, Industriel et Foncier", and comprises one representative of the government, and another of the National Institution for Insurance of Deposits.

- Decree No. 8284, dated September 28, 1967. ⁶⁵ This decree provides the means of encouraging mergers among banks. One of the advantages offered is that no income tax is paid

63.

Ibid., pp. 108-109.

64.

Ibid., pp. 110-114.

65.

Legislative decrees and Lebanese Rules, op. cit., pp. 136-139.

by the merged banks one year prior to the merger and from two to five years after it. Another advantage is that merged banks do not pay any registration or notary public fees or stamp duties. The same advantages apply to banks which desire to self-liquidate with the approval of the Higher Banking Commission.

5 - Special Features of the Banking System of Lebanon

Bankers Association

This is a sort of syndicate grouping all banks operating in Lebanon. Although it has no control over banks and does not fulfil any particular function other than representing the banks vis-à-vis the government and the Central Bank, it has been growing in influence in recent years. It exerted some influence in setting up the Central Bank and the power allocated to it. ⁶⁶

Non-Existence of Savings Institutions

There are no real savings banks in Lebanon although commercial banks have quite a substantial amount of savings. Insurance savings have been practically negligible. It is reported, that insurance companies operating in Beirut are not interest-

66.

Information privately held: from a member of the Bankers Association.

ed in local investment, although some claim that they do so by depositing a part of their funds in commercial banks.⁶⁷ However, recently a new decree No. 9812, dated May 4, 1968 was passed by which insurance companies have to invest a part of their funds in Lebanon. As such, insurance companies have to keep in Lebanon 25, 40 and 100 percent of funds obtained in connection with the following respective type of insurances: Maritime, Accidents, Fire and Life.⁶⁸

Non-Existence of Long and Medium
Term Loans Banks and Private Owner-
ship of Banks.⁶⁹

Commercial banking in Lebanon is predominant. Many reasons contributed to discouragement of long or medium term banking in Lebanon. Among them are: the family ownership of some local commercial banks, the lack of savings in institutional form, and the preponderance of trade with its short term financial requirements.

67.

See T. Yaffi, "Industrial Credit in Lebanon", Chamber of Commerce, The Economy of Lebanon and the Arab World: (Beirut: September, 1956), p. 20.

68.

Republic of Lebanon, Official Gazette LXXIX (Beirut: September 30, 1968).

69.

Yaffi, op. cit., pp. 16-17.

Money - Market

Some claim that the money market is practically non-existent in Lebanon.⁷⁰ One activity which is witnessed in developed money markets has been manifested in Lebanon. This relates to inter-bank deposits. In the past statistics on inter-bank deposits were not very clear but at present, there are quite accurate and reliable recent statistics issued by the Central Bank as shown in the following table:

TABLE 1:9

INTERBANK DEPOSITS AND TOTAL PRIVATE
DEPOSITS IN LEBANON

(IN MILLIONS OF LEBANESE POUNDS)

End of Year	Interbanks Deposits	Private Deposits ^x
1967	916	2.725
1966	1.001	2.937
1965	1.433	3.042
1964	1.099	2.510
^x excluding sundry creditors account.		

Sources: Bank of Lebanon, Yearly Publication for the years 1964, 1965, 1966 and 1967.

70.

See Khalaf, op. cit., p. 26.

While comparing interbank deposits to the total of private deposits, one cannot fail to notice the relative importance of this type of activity usually highly developed in money markets. Interbank deposits help banks to invest profitably any excess of funds they have. Also interbank deposits help banks to support those banks in need of liquidity which do not want or prefer not to resort to the Central Bank. The implication of this becomes more significant when one comes to foreign banks. Foreign banks have many funds which they can pass over to local banks in need, in the form of deposits. Such undertakings are easy to understand once one remarks that banks in need of liquidity can re-discount at three percent. It is only normal for them, hence to borrow or to solicit deposits at three percent or less from other banks. By the same token, it is a sound practice for the local banks to deposit excess funds they have in safe banks rather than keep them idle in the Central Bank or in their vaults. Another point to note here is that foreign banks have a tendency to invest locally excess funds in Lebanese pounds rather than convert them into foreign currency to invest abroad. The risk of loss due to the possible fluctuations in the exchange ratios might offset the anticipated

benefit from the difference in interest rates obtainable.

Concluding Remarks

In this chapter an attempt was made to sketch the historical development of banking and banking laws in Lebanon. Patterns of cooperation between foreign and local banks were also covered to demonstrate the sort of general division of labor that came about.

Laws and institutions relating to banking were enumerated to facilitate better understanding of later discussion. No major conclusions stem from this chapter, because it is intended as a background survey only.

CHAPTER II

SOURCES OF FUNDS IN THE COMMERCIAL BANKING SYSTEM OF LEBANON

A. Introduction

The growth of the Lebanese banking system has been tremendous since the Second World War. From eleven banks with deposits of about 200 million Lebanese pounds at the end of 1945, the number of banks jumped to more than 80 banks with private deposits of about 3 billion Lebanese pounds at the end of 1966. Since 1965, around 100 local, foreign and Lebano-foreign banks as well as representative offices operated in Lebanon alongside a Central Bank.

This growth has been due to many factors, human and natural, internal and external. They all contributed to make commercial banking in Lebanon what it is now. It is important to assess whether this growth was sound or not? Whether it has been too rapid? Whether the Central Bank achieved its goal? The content of this chapter lays the foundation for answering these questions later on in the study.

B. Methodology

The operations of commercial banks in Lebanon, like in other countries, consist of getting funds and investing a major part of them. To study these funds, the balance sheet approach has been used because it is the most adaptable in analysing such funds. ¹ A modern commercial bank balance sheet is divided into assets, considered as uses of funds; and liabilities, considered as sources of funds. ² Accordingly, the present chapter and the following one, by stratifying those assets and liabilities of banks in Lebanon, attempt to analyse the sources and uses of their funds.

For this purpose, the analysis has been based on Two sets of figures. The first set is represented by figures of the balance sheet of the banking system, including all banks operating in Lebanon. The second set of figures are those of a sample of banks selected as a representative sample of the 55 local banks operating by July, 1968.

1.

Roland I. Robinson, The Management of Bank Funds, 2nd. ed., (New York: MacGraw-Hill Book Co., Inc., 1962), p. 9.

2.

Ibid.

Balance sheets of local banks have been studied over a period of three consecutive years, starting in 1964, the year during which the Bank of Lebanon commenced its operations. Only three years were selected because the balance sheets of many banks for 1967 were not published at the time the sample was chosen. Out of the 55 local banks referred to, the balance sheets of 24 banks considered to provide reliable figures have been obtained for the years 1964, 1965 and 1966.

The banks selected were further classified with respect to their total deposits, by the end of 1966. Depending on total deposits, each bank is classified into one of seven categories ranging from Class A to Class G as shown below.

				<u>Banks</u>			
- Class A -	deposits equal to or more than LL.61 millions			1	2	3	4
				Appendix II-A			
- Class B -	" between LL.51 and 60	"		5	6		
				Appendix II-B			
- Class C -	" between LL.41 and 50	"		7	8		
				Appendix II-C			
- Class D -	" between LL.31 and 40	"		9	10	11	
				Appendix II-D			

	<u>Banks</u>				
- Class E - deposits between LL.21 and 30 millions	12	13	14	15	16
	Appendix II-E				
- Class F - " between LL.11 and 20 "	17	18	19		
	Appendix II-F				
- Class G - deposits equal or below LL.10 "	20	21	22	23	24
	Appendix II-G				

A comparison of the figures of those banks chosen with the individual balance sheets of local banks, has shown that the first eleven banks represent the 11 largest local banks, while the remaining banks are 13 of the small banks. Consequently, for analytical purposes the 24 banks studied have been classified into two major categories: the first includes the 11 largest banks, the second includes the remaining 13 small banks.

The breakdown of the sample into two major groups produces two representative samples. Sample R₁ and Sample R₂, representing respectively Group I and Group II. Figures for Group I are the average outcome of the assets and liabilities of individual banks in Group I. The same method is followed in respect of Group II; (Tables: 2-15 and 2-16). By projecting figures of R₂ to the 44 small banks, a projected consolidated balance sheet of those banks, has been obtained, subject to a certain degree of accuracy (Table: 2-17). Having the

balance sheet of all banks included in Group I (Table: 2-18), and the projected balance sheet of the remaining banks; and by subtracting their respective totals (Table: 2-19), from the balance sheet of the banking system (Table: 2-20); the consolidated balance sheet of all foreign banks, operating in Lebanon, has been derived (Table: 2-21).

As such, the analysis has come out with three sets of figures, those pertaining to local banks, foreign banks and the banking system (Table: 2-22). As a final step in this analysis, those figures were compared with corresponding figures in the banks and banking systems of other countries (Tables: 2-9, 2-14, 3-15, 3-16 and 3-17).

C. Deposits

1 - Theoretical Background

Deposits are the most important source of funds. ³

According to Reed, in a discussion of deposits in U.S. Banks;

3.

E.W. Boehmler, and others, Financial Institutions,
 Home wood
 Housewood, Illinois: Richard D. Irwin Inc. 1956),
 p. 94.

"They are the lifeblood of commercial banks. They are the chief source of bank funds and account approximately 96 percent of bank liabilities".⁴ In a discussion of deposits, one should distinguish between deposits of the individual bank and the deposits of the banking system. Individual banks have no absolute control over the deposits of the banking system where the level of deposits depends to a certain extent on the amount of credit extended by banks in the form of loans and investments. If banks did not engage in lending and investing they would have deposits equal only to the amount of currency left with them by depositors.⁵ If for example, deposits are LL.10 million in one bank with a 20 percent cash reserve to back up deposits, this means that this bank could lend LL.8 million. If this amount is withdrawn and deposited in another bank which keeps on similar cash reserve, the latter bank could lend LL.6.4 million and so forth. This is an unlimited geometrical progression, the ultimate total of which is given by the equation $T = \frac{N}{n}$, where N would be the initial deposit and n the cash reserve ratio. This means that given

4.

Edward W. Reed, Commercial Bank Management, (New York: Harper and Row, 1964), p. 86.

5.

Ibid., pp. 86-87.

one bank with LL. 10 million deposits, 20 percent reserve ratio and assuming loans in one bank become deposit in another, the initial individual deposit of LL.10 million will create a deposit of LL.50 million in the banking system.

Although this example is oversimplified, it helps to give a realistic picture of the expansion of deposits in the banking system. The reverse also holds true. If banks reduce their lending and the public abstain from seeking credit, there would accordingly be a reduction in deposits.

In a discussion of the type of deposits, Reed says that the deposits of Commercial banks may be classified in several ways.⁶ The most common classifications are by ownership, origin, security, and withdrawal. The ownership type includes public deposits made by governmental bodies, and private deposits (which constitute the majority of deposits), made by individuals, firms and private institutions. The deposits by origin are either primary or derivative. The former are deposited in the form of cash or checks which would be readily turned into cash: deposits as such "always increase the bank's

6.

Reed, op. cit., pp. 97-103.

ratio of liquid reserves to deposits obligations".⁷ The latter arise when banks make loans or investments, part of which are left in the lending bank. "An expansion of derivative deposits reduces the ratio of reserves to deposits".⁸

Another more common classification is that based on withdrawals. Accordingly deposits are divided into demand and time deposits, that correspond in England to current and deposit accounts.⁹

Demand deposits can be withdrawn by checks at any time without previous notice to the bank. They are kept mainly by depositors who need a liquid balance. Checking deposits as such account for 85 percent of the U.S. money supply and it is commonly estimated that 90 percent of the exchange transactions in the U.S. are effected by the use of checks. (Demand deposits can be designated ... as working balances ... they are funds which must be kept in the most liquid of all forms of money).¹⁰ Time deposits are deposited for a certain period of time and cannot be withdrawn by checks. They may

7.

Boehmler, op. cit., p. 94.

8.

Ibid.

9.

Sayers, Modern Banking, op. cit., p. 31.

10.

Crosse, op. cit., p. 4

take several forms:

(a) Savings which are referred to as a "regular" or "passbook" savings accounts. This type of account is evidenced by a passbook which contains the rules and regulations governing the account. The passbook is usually required to be presented to the savings teller when the owner makes a deposit or withdrawal and contains all transactions relative to the account. Savings deposits, the largest components of time deposits account for 80 percent or more of total time deposits in the United States. "Such accounts are generally accumulated by individuals for a relatively long period of time for purposes such as the proverbial "rainy day".¹¹

(b) Time certificate of deposits: They are "evidenced by a formal negotiable or non-negotiable receipt issued for funds left with the bank for a specified period of time on which the bank pays interest if left until maturity. These deposits are payable only upon surrender of the receipt properly endorsed".

(c) Time deposit open accounts: "This type of deposit cannot be withdrawn before 30 days has been expired from the date of deposit or prior to the expiration of the period of notice which is required by the bank in writing if that period is more than 30 days".

11. Ibid., p. 5.

Crosse points out, however, that the kind of label given to deposits is not as important as the "likelihood that any specific deposit or group of deposits may be withdrawn within a relatively short period of time". Eventual withdrawal of deposits may be divided into: "(a) Those which will surely occur, (b) those which might but are not certain to occur, and (c) those which are unlikely to occur but under certain circumstances, would possibly occur".¹² This is why the competition for both types of deposits, demand and time has always been keen. "While not essential, time and savings deposits have long been an important part of commercial banking. From the viewpoint of the individual bank both demand and time deposits bring in funds (reserves) which are equally available for lending and investing",¹³ Still in many small communities, the local bank could not take care of the community's credit needs without the availability of saving funds.¹⁴ Moreover, many bankers, among them Crosse, state that "demand deposits are directly related to credit accommodation; they may be considered the most accurate single measure

12.

Crosse, op. cit., p. 135

13.

Ibid., p. 9.

14.

Marcus Adler, The Banking Situation in New York State, Study proposal for New York Bankers Association (1956), p. 287.

of a bank's ability to compete for local commercial banking business".¹⁵ While talking about competition, one should note that "competition for demand deposit business of a bank is necessarily with other commercial banks" while "the competition for time or savings deposits is of a somewhat different character. This competition tends to be rather stronger between banks and other types of savings agencies than among commercial banks themselves." ¹⁶

2 - The Case in Lebanon

In Lebanon at the end of 1967, the consolidated liabilities of all commercial banks operating in the country, were as shown in the following table.¹⁷

15.

Crosse, op. cit., p. 27.

16.

Boehmler, op. cit., p. 42.

17.

In Lebanon, governmental deposits are deposited with the Central Bank.

TABLE 2:1

LIABILITIES OF COMMERCIAL BANKS IN
LEBANON FROM 1964 TO 1967

(IN MILLIONS OF LEBANESE POUNDS)

Account	End of 1964	End of 1965	End of 1966	End of 1967
Savings	835	1,255	1,485	1,422
Checking Account	641	668	548	483
Current Account	645	675	587	544
Time Deposits	388	443	317	276
Banks	1,099	1,432	1,001	916
Sundry Creditors	429	385	388	435
Bonds	2	9	10	10
Payable Dividends	1	1	1	1
Transitory Acct.	153	186	181	229
Reported Profits	3	2	2	4
Reserves	33	36	62	34
Capital	386	420	413	438
Total	4,615	5,512	4,995	4,792

Sources: Bank of Lebanon Publications for the years 1964, 1965, 1966 and 1967.

From the above table, the following comments could be made:

- (a) Savings Deposits: A decree law No. 13513, dated August 1, 1963, gives banks in Lebanon the right to receive savings deposits. These savings could be withdrawn at any time. Although withdrawals have to be effected against the saving book, some banks honour

cheques drawn on such accounts.¹⁸ The interest offered on such accounts is generally between four and six percent.¹⁹ A law dated August 8, 1963 exempts beneficiaries of such accounts from income tax on interest earned. The tax rate charged was 10 percent.²⁰

Before 1964, there is no accurate data on saving accounts proper. However, one could refer to the deposits in Lebanon from 1950 to 1967 (Table I:5) to note the growth of both demand and time deposits. The former include saving accounts. From 1964 onward, the publications of the Bank of Lebanon provided a reliable indication of the status of such accounts in all banks.

TABLE 2:2

SAVING DEPOSITS IN LEBANON
FROM 1964 TO 1967

(IN MILLIONS OF LEBANESE POUNDS)

End of Year	Amount
1967	1.422
1966	1.485
1965	1.255
1964	835

Source: Bank of Lebanon Publications for the years 1964, 1965, 1966 and 1967.

-
18. Information privately held: Dr. Francois Bassile, Deputy General Manager, Byblos Bank SAL, (Beirut: July, 1968).
19. Idem.
20. As per legislative Decree No.144 dated June 12, 1959.

(b) Checking Account Deposits: A checking account deposit is a deposit on demand pertaining to persons. Before 1964, demand deposits used to include both checking and current accounts. With the establishment of the Central Bank the two kinds of accounts have been differentiated. ²¹

TABLE 2:3

CHECKING ACCOUNTS IN LEBANON

FROM 1964 TO 1967

(IN MILLIONS OF LEBANESE POUNDS)

End of Year	Amount
1967	483
1966	548
1965	668
1964	641

Source: Bank of Lebanon Publications for the years 1964, 1965, 1966 and 1967.

21.

Information privately held: Dr. Salim Hoss, Chairman Banking Control Commission, Bank of Lebanon, Beirut.

(c) Current Accounts Deposits: Current account are deposits made by firms as distinguished from the latter which are deposits made by private individuals. They are both interest bearing in most local banks in Lebanon. The interest ranges from two to four percent, and reaches five percent,²² in some instances. The figures of such accounts are as shown in the following table:

TABLE 2:4

CURRENT ACCOUNT DEPOSITS IN LEBANON
FROM 1964 TO 1967

(IN MILLIONS OF LEBANESE POUNDS)

<u>End of Year</u>	<u>Amount</u>
1967	544
1966	587
1965	675
1964	645

Source: Bank of Lebanon Publications for the years 1964, 1965, 1966 and 1967.

22.

Information privately held: Mr. Georges Mirza, Manager Head Office Credit Division, Bank of Beirut and Arab Countries, SAL, Beirut. (July, 1968).

(d) **Time Deposits:** Time deposits in Lebanon are of two types. They are either fixed for a specific time or are drawn after a notice of a specific period of time.²³ The interest on such accounts is generally over five percent.²⁴ Figures of such accounts are as shown in the following table:

TABLE 2:5

TIME DEPOSITS IN LEBANON
FROM 1964 TO 1967

(IN MILLIONS OF LEBANESE POUNDS)

End of Year	Amount
1967	276
1966	317
1965	443
1964	388

Source: Bank of Lebanon Publications for the years 1964, 1965, 1966 and 1967.

23.

In the USA, regulation Q of the Board of Governors of the Federal Reserve system distinguishes between "time certificates of deposits" with fixed maturity and "time deposits open account" subject to stated notice of withdrawal. It provides further that "savings deposits" may be held only for individuals and certain non profit organizations engaged in charitable, educational and similar activities. Crosse, p. 5.

24.

Information privately held: Mr. Georges Mirza, Manager Head Office Credit Division, Bank of Beirut and Arab countries, SAL, Beirut (July, 1968).

(e) Banks and Correspondents: As can be noted from Table 2:1, banks and correspondents deposits are quite substantial in Lebanon. The figures for the last four years have been as follows:

TABLE 2:6

BANKS AND CORRESPONDENTS DEPOSITS
IN LEBANON FROM 1964 TO 1967
 (IN MILLIONS OF LEBANESE POUNDS)

End of Year	Amount
1967	916
1966	1,001
1965	1,432
1964	1,099

Source: Bank of Lebanon Publications for the years 1964, 1965, 1966 and 1967.

If one is to study Tables 2:1, 2:2, 2:3, and 2:4, it would be noted that while saving accounts have been growing, demand and time deposits on the contrary, have been more or less stable and even diminishing. The reason for this growth of savings on the account of other deposits is due to the nature of this account. It is a high interest bearing account with a demand character. Still it is not subject to income tax.

(f) Foreign Currency Deposits: In Lebanon, any person can make a deposit in any currency he wishes. Data on this type of deposit is not given by the Bank of Lebanon for the years 1964 to 1967. They are included in the other types of deposits. Figures before 1964 are available as shown in the following table:

TABLE 2:7

FOREIGN CURRENCY DEPOSITS IN LEBANON
FROM 1956 TO 1963

(IN MILLIONS OF LEBANESE POUNDS)

End of Year	Amount
1963	434
1962	449
1961	452
1960	369
1959	165
1958	136
1957	115
1956	82

Source: International Monetary Funds, International Financial Statistics. (Washington: IMF, 1958/1963), XI-XVI.

Some estimates have been made about the owners of such accounts. It has been claimed that 25 to 30 percent of such accounts belong to residents while 70 to 75 percent belong to foreigners.²⁵

(g) Miscellaneous Deposits: A final type of deposit is that which covers sums of money with banks that await a final determination of their identity and magnitude. Margins taken on letters of credit or letter of guarantees, as a guarantee for a current risk, fall into this category. This type also includes amounts collected by banks on behalf of a third party, credit granted by head offices to branches, and deposits of the Board of Directors.²⁶ Those deposits were for recent years as follows:

TABLE 2:8

SUNDRY CREDITORS IN LEBANON
FROM 1964 TO 1967

(IN MILLIONS OF LEBANESE POUNDS)

End of Year	Amount
1967	435
1966	388
1965	385
1964	429

Source: Bank of Lebanon Publications for the years 1964, 1965, 1966 and 1967.

25.

Information privately held: Mr. R.E. Wells, General Manager, Bank of Nova Scotia, Beirut (August, 1968).

26.

Information privately held: Dr. Salim Hoss, Chairman Banking Control Commission, Bank of Lebanon, Beirut.

D. Capital

1 - Theoretical Background

"Banks like other business must have capital to start operations and to continue in business ... In most business firms, the primary function of capital is to finance the purchase of buildings, machinery and equipment. Its secondary function is to protect long and short-term creditors... In banking, however, the function of capital is primarily to serve as a cushion or insurance fund to absorb losses that may occur. As a source of funds for the acquisition of physical assets, bank capital serves a secondary function".²⁷ Thus bank capital could be defined as a "cushion of excess assets with which to absorb losses and still remain solvent".²⁸

The amount needed by any bank is related to the risks it assumes. This risk pertains "to bank's assets, its loans and investments".²⁹ The greater the risk involved, the greater the

27.

Reed, op. cit., p. 520.

28.

Gaylord A. Freeman Jr., The Problems of Adequate Bank Capital prepared for the Illinois Bankers' Association (May 23, 1952), p. 10.

29.

Howard D. Crosse, Management Policies for Commercial Banks (Englewood Cliffs, N.J. Prentice-Hall Inc., 1962), p. 164.

capital should be. Capital should be consistent with the risks a bank assumes. To acquire a deposit is not a risk; but to invest deposits involves risk. Therefore, a bank "can adjust or raise capital to cover the risk implicit in its assets".³⁰ "In many countries there is a legal requirement relating the minimum capital to the deposit liabilities of a bank. Ten percent has been a commonly required ratio, this being a figure that should cover even an unlucky year in bad debts and still leave a good margin to maintain confidence".³¹ This ratio applies also in the U.S.A. where the controller of the currency recommended that no national bank be permitted to hold deposits in excess of ten times the size of its capital account".³²

Other means for determining the adequacy of capital is to compare it with total assets. If one looks at the world's largest banks and groups them by their nationalities and compares their total assets (including per contra accounts) with their respective capital, one obtains roughly the following table:

-
30. Robinson, op. cit., p. 436.
31. R. S. Sayers, Modern Banking, 7th ed. (Oxford: Clarendon Press, 1967), p. 31.
32. Reed, op. cit., p. 525

TABLE 2:9

ASSETS TO CAPITAL IN WORLD BANKS

Nationality	Asset/Capital
English	30
Swiss	35
U.S.	50
Japanese, Canadian, Italian and French	80

Source: "The World's Largest Bank", Stock Exchange (June 18th, 1965).

These figures are quite misleading because the proportion of per contra assets is not known. However, it helps in giving a clue while comparing the same ratio in Lebanese banks.

2 - Amount of Capital

The Lebanese Money and Credit Law requires that the minimum capital of any bank operating in Lebanon should be LL.3 million with a built-up yearly reserve of 10 percent of its profits, to be accumulated up to one third of the capital. The Money and Credit Law specifies in Article 133, this obligation in respect of foreign banks to equate their obligations with those of local banks as provided in the Commercial Code.³³

33.

Money and Credit Law, op. cit., art. 133, p. 22.

Before this law was promulgated, some banks used to have their capital less than LL.3 million. The total paid up capital of the total banking system for the last four years has been as shown in the following table: ³⁴

TABLE 2:10

CAPITAL OF LEBANESE BANKSFROM 1964 TO 1967(IN MILLIONS OF LEBANESE POUNDS)

End of Year	(1) Autho- rized Capital	(2) Re- serves	(1)+(2)=3 Capital Account	(4) Unpaid Capital	(3)-(4)=5 Net Paid Up Capital
1967	438	34	472	59	413
1966	413	62	475	86	389
1965	420	36	456	67	389
1964	386	33	419	54	365

Source: Bank of Lebanon Publications for the years 1964, 1965, 1966 and 1967.

34.

See Appendix A Column 4.

3 - Payment of Capital

Although bank capital is shown on the books of most local banks to be paid up, in certain instances part of the capital was not really paid up but merely a book entry.³⁵ One common method followed to overcome the requirement of payment in full of bank capital has been the following. To establish a bank with controlling interest, a group of people subscribe for 51 percent of the authorized capital. They pay what they have in cash and borrow the balance. Once the bank is in business, people overdraw their accounts to pay their debts or preferably the same group of people make the bank buy some of their properties at very generous prices, which enables them to settle their initial debts. Presently, the Money and Credit Law prohibits banks from granting loans to their directors, managers, or any members of their families, without the previous consent of the General Assembly of the bank.³⁶ The Law also limits the investment which any bank could

35.

As was the case of some banks that stopped payment in the past two years starting with Intra Bank. See Republic of Lebanon, Beirut Commercial Law Court Decision pertaining to Intra Bank. (Beirut: January, 1967).

36.

Money and Credit Law, op. cit., art. 152, pp. 25-26

make in different forms within 75 percent of the paid-up capital.³⁷

E. Borrowing

1 - Loans

Banks could get funds by borrowing from each other³⁸ or from the Central Bank. In either case, such loans appear on the private banks balance sheets under banks and correspondents, a form of deposit that could include direct loans. The individual balance sheets of banks do not show the amount of loans; accordingly, the banking system balance sheet also does not. However, the balance sheet of the Bank of Lebanon shows loans to the private sector that include loans made to banks and also loans made to other institutions under special arrangement.³⁹ What share goes to banks is not known. The International Financial Statistics fills this gap by showing the loans given by the Bank of Lebanon to commercial banks for the last 4 years as shown

37.

Ibid., art. 153, p. 26.

38.

See Chapter I, pt. C5.

39.

Information privately held: Dr. Salim Hoss, Chairman of the Banking Control Commission, Bank of Lebanon, Beirut.

In the following table:

TABLE 2:11

CLAIMS OF THE BANK OF LEBANON ON
COMMERCIAL BANKS FROM 1964 TO 1967

(IN MILLIONS OF LEBANESE POUNDS)

End of Year	Amount
1967	219
1966	166
1965	24
1964	18

Source: IMF, International Financial Statistics (Washington: IMF 64/67), difference in the figures between XVII-XX.

The difference in the figures between 1965 and 1966 was due to the predicament banks found themselves in after the Intra Bank stopped payment in October 1966. The State had to issue a special decree authorizing the Bank of Lebanon to grant banks extraordinary facilities. 40

40.

A note issued by the Council of Ministers asked the Central Bank to put into effect all facilities like rediscount, loans against notes, loans against mortgage and blank loans; interest rate on discount was 3 percent and 7 percent on the others. Information privately held: Mr. Debbas, Loan Division, Manager, Bank of Lebanon, Beirut.

2 - Rediscount

This is another means of borrowing available to banks in need of funds. Separate figures for rediscount do not exist in the statistics issued by the Central Bank. Rediscount is considered as a claim and its figures therefore, are included in Table 2:11. On the individual level, it appears as a per contra account. Some banks show it separately and others include it in the total of the per contra account.⁴¹ Thus, no figure exists of the total amount of rediscount. However, as it has been said since the days of the BSL, banks never liked this means of getting funds. Until now, many banks resent discounting their notes for prestige purposes. They claim that once they put their signature on the note, the customer is bound to see it and will lose confidence in the bank. Another claim is that the operation of rediscount is complicated. The notes have to be eligible. To be eligible, a note has to have the signature of the Bank in addition to the signature of solvent individuals or firms. One signature could be replaced by a merchandise warrant or a mortgage accepted by the Central Bank. The

41.

See Appendixes II-A, II-B, II-C, II-D, II-E, II-F and II-G.

maturity of these notes could run up to 90 days. Recently the maturity has been extended to 180 days.⁴² These notes should be grouped in "Bordereau".⁴³ All notes of one "Bordereau" should fall due at seven days intervals, and are considered as one note which should be paid two days before maturity.⁴⁴ The problem with rediscount is not only that bankers did not have much recourse to rediscount, but also the Central Bank did not encourage it even at the time the banks were given extraordinary facilities after the Intra crisis. Those facilities were confined against notes deposited as security.⁴⁵ This was probably due to a lack of eligible notes for rediscount.

F. Analysis

1 - Banking System

The above discussion was based mainly on figures related to the Banking system as a whole. The figures were those of

42.

Money and Credit Law, op. cit., art. 4, p. 49.

43.

"Bordereau" means "List".

44.

Information privately held: Mr. Hammoush, Rediscount Department, Bank of Lebanon, Beirut.

45.

Idem.

the liability side of the balance sheet as published by the Bank of Lebanon. Transformation of the figures of Table 2:1 into their respective ratios of the totals produces some interesting percentages as shown in Table 2:12. Table 2:12 shows the relative high figures of saving deposits and of both current and checking accounts combined. The latter figures become much higher if added to the sundry credit accounts. Only time deposits do not enjoy a high share of total deposits.

TABLE 2:12

TYPE OF DEPOSITS AS PERCENT OF TOTAL
PRIVATE DEPOSITS FROM 1964 TO 1967

Type	1964 %	1965 %	1966 %	1967 %	Average %
Time	13	13	10	9	11.25
Savings	29	37	45	45	39.00
(Checking Accounts)	(22)	(19)	(16)	(16)	(18.25)
(Current Accounts)	(22)	(19)	(17)	(17)	(18.75)
(Sundry Credit Account)	(14)	(12)	(12)	(13)	(12.75)
Demand Deposits	58	50	45	46	49.75
Grand Total	100	100	100	100	100.00

Source: Table 2:1.

Due to the fact that the characteristics of a saving account in Lebanon fit those of demand and not the time deposits, it would seem that a policy in favor of increasing time deposits should have been followed. As such, the structure of deposits shows for the past 4 years the following breakdown: 11.25 percent time deposits and 49.75 demand deposits with the residual falling under savings deposits which are quite similar to demand deposits. The ratio for time deposits is very low when compared with the U.S.A. where it was approximately 28 percent as at June 30, 1960,⁴⁶ and 49 percent as at September 30, 1966.⁴⁷ In the London Clearing banks, time deposits accounted for 43 percent and current deposits for 57 percent⁴⁸ of total deposits. If one is to add bank deposits to demand deposits, the ratio of time to demand deposits would be much lower. But for the purpose of this study, it is estimated that bank deposits are made of time and demand deposits proportion of which is in conformity with that of private deposits. (11 percent time deposits and 89 demand deposits). At the end of 1964, 1965, 1966 and 1967, total deposits and total assets have been as follows:

46.

Robinson, op. cit., p. 10.

47.

Robinson, op. cit., p. 10.

48.

Sayers, Modern Banking, op. cit., p. 31.

TABLE 2:13

ASSETS, PAID CAPITAL, AND DEPOSITS^x OF
BANKS IN LEBANON FROM 1964 TO 1967

(IN MILLIONS OF LEBANESE POUNDS)

End of Year	(2) Assets	(3) Capital	(4) Deposits
1967	4792	413	4076
1966	4995	389	4326
1965	5512	389	4858
1964	4615	365	4037

^x including bank deposits.

Source: Bank of Lebanon Publications for the years
1964, 1965, 1966 and 1967.

The ratio of deposits to capital is roughly 10 to 1 and the ratio of assets to capital is roughly 11 to 1. The first ratio is in conformity with the rule of thumb already spoken about. To compare the second ratio with that of world banks one has to make an adjustment. From Appendix II-A, II-B, II-C, and II-D, one could note that per contra assets are around 50 percent of the assets of Lebanese banks. As was noted earlier the corresponding ratio for big banks in the rest of the non-communist world does not clarify the ratio of per contra assets

to total assets, and therefore any comparison with Lebanon is not strictly accurate. Nevertheless, after adjustments, the ratio of total assets to capital in Lebanon becomes about 16 to one. This contrasts with a low ratio of 30/1 in England and a high ratio of 80/1 in Japan and Canada. This means that, banks in Lebanon have less commercial activities than world banks although their deposit to capital ratio is similar to world banks. Another point to be noted is that the capital of foreign banks in Lebanon is assumed to be around 40 percent of the total banking system capital,⁴⁹ while their deposits are over 66 percent of the banking system deposits.⁵⁰ Accordingly, the ratio for local banks of deposits to capital becomes around 5 to one as opposed to the overall average of 10:1, and the ratio of the assets of local banks to their capital becomes around 6 to one as opposed to the overall average of 11 to 1.

49.

See Appendix I-A, Column 4.

50.

A.M. Alameh, Nine Lessons from the Crisis (in Arabic) (Beirut: by the author, December, 1966), p. 20, estimates them at 85 percent while Dr. Salim Hoss, Chairman, Banking Control Commission, Bank of Lebanon Beirut, estimates them at 2/3. Information privately held.

After making the requisite adjustments one finds the respective ratios for local banks very low. This could be interpreted as a sign of conservatism on behalf of Lebanese bankers or alternatively as an indication of lack of confidence. Perhaps the corresponding ratios for foreign banks which are known to be conservative in the Lebanese market, provide a clear picture that lack of confidence is the most important factor affecting local banks. For foreign banks the ratio of total deposits to total capital was around 17 to 1, and that of total assets to total capital was 18 to 1.

In the total banking system capital accounted for approximately 10 percent of total assets whereas time deposits accounted for a similar ratio. The residual 80 percent was in demand deposits of one form or another. By contrast, in the U.S.A. as of September 28, 1966, the capital assets were about 5 percent of total assets, and time deposits were 46 percent and current deposits 49 percent.⁵¹ In the London clearing banks, the ratios were respectively 5 percent, 40 percent and 55 percent, on November 16, 1966.⁵²

51. Sayers, Modern Banking, op. cit., p. 31.

52. Ibid., p. 31.

The following table compares capital, demand deposits and time deposits in Lebanon with U.S.A. and England.⁵³

TABLE 2:14

LIABILITIES COMPARED, LEBANON, ENGLAND
AND U.S.A. 53

Country	Capital	Demand Deposits	Time Deposits
Lebanon	10	80	10
England	5	55	40
U. S. A.	5	49	46

Sources: Computed from Sayers, Modern Banking, *op. cit.*, p. 31 for figures related to England and U.S.A.

2 - Local Banks

The above figures and comparisons pertain to the Lebanese banking system including foreign and local banks. To have a clearer view of the position of local banks, relevant statistics for the sample of 24 local banks is considered in this section.⁵⁴ It is unfortunate that the deposits structure could not be obtained for one sample in sufficient detail. However, available

53.

Figure for England and U.S.A. are not very representative since they are at one particular day, but they serve for comparison purposes.

54.

See Appendixes II-A, II-B, II-C, II-D, II-E, II-F and II-G.

statistics tended to conform with the general ratios obtained for the total banking system.

From Appendixes II-A, II-B, II-C, and II-D, one could obtain a balance sheet relative to representative bank R₁, being the bank having items of its balance sheet equal to the average of the sample of the 11 banks in Group I.

TABLE 2:15

BALANCE SHEET OF BANK R₁ AS OF THE
END OF 1964, 1965 AND 1966

(IN MILLIONS OF LEBANESE POUNDS)

	1964	1965	1966	Average
Cash and at Banks	15.1	17.1	14.0	15.4
Investment	5.0	5.7	6.3	5.7
Advances	24.8	30.0	35.3	30.0
Discount	<u>10.8</u>	<u>12.5</u>	<u>15.0</u>	<u>12.8</u>
Total Assets	55.7	65.3	70.6	63.9
	----	----	----	----
Capital	7.5	7.6	7.9	7.7
Deposits	46.8	55.7	50.7	54.3
Other Accounts	<u>1.4</u>	<u>2.0</u>	<u>2.0</u>	<u>1.9</u>
Total Liabilities	55.7	65.3	70.6	63.9
	----	----	----	----

Sources: Appendixes II-A, II-B, II-C, and II-D.

One could similarly obtain the balance sheet of bank R₂, being the representative bank of the sample Group II, which includes 13 of the smaller local banks operating in Lebanon.

TABLE 2:16

BALANCE SHEET OF BANK R₂ AS OF THE
END OF YEARS 1964, 1965 AND 1966

(IN MILLIONS OF LEBANESE POUNDS)

	1964	1965	1966	Average
Cash and at Banks	3.028	3.346	3.815	3.392
Investment	2.061	2.185	2.546	2.262
Advances	6.823	7.885	8.854	7.854
Discount	<u>3.662</u>	<u>3.969</u>	<u>4.808</u>	<u>4.146</u>
Total Assets	<u>15.569</u>	<u>17.385</u>	<u>20.023</u>	<u>17.654</u>
Capital	3.755	3.861	4.054	3.885
Deposits	11.560	13.270	15.554	13.462
Other Accounts	<u>.254</u>	<u>.254</u>	<u>.415</u>	<u>.307</u>
Total Liabilities	<u>15.569</u>	<u>17.385</u>	<u>20.023</u>	<u>17.654</u>

Source: Appendix II-A, II-B, II-C, II-D, II-E, II-F, and II-G.

The above table can be used to project roughly figures relative to the total 44 smaller local banks as is shown in the following table:

TABLE 2:17

PROJECTED BALANCE SHEET OF THE 44 SMALLER LOCAL
BANKS IN LEBANON AS OF THE END OF
1964, 1965 and 1966

(IN MILLIONS OF LEBANESE POUNDS)

	1964	1965	1966
Cash and at Banks	133.0	147.2	167.9
Investment	90.7	96.2	112.0
Advances	300.2	347.0	389.6
Discount	<u>161.1</u>	<u>174.6</u>	<u>211.5</u>
Total Assets	685.0 -----	765.0 -----	881.0 -----
Capital	165.2	169.9	178.4
Deposits	508.6	583.9	684.4
Other Accounts	<u>11.2</u>	<u>11.2</u>	<u>18.2</u>
Total Liabilities	685.0 -----	765.0 -----	881.0 -----

Source: Table 2:15

The sum of all items pertaining to the balance sheet of Group I of the sample banks that includes all 11 of the larger local banks gives the following table:

TABLE 2:18

BALANCE SHEET OF THE 11 LARGER LOCAL BANKS
IN LEBANON AS OF THE END OF 1964, 1965 AND 1966

(IN MILLIONS OF LEBANESE POUNDS)

	1964	1965	1966
Cash and at Banks	165.7	188.3	154.0
Investment	55.5	63.2	69.1
Advances	272.2	329.5	388.7
Discount	<u>118.5</u>	<u>137.2</u>	<u>165.3</u>
Total Assets	611.9 -----	718.2 -----	777.1 -----
Capital	82.2	82.9	87.6
Deposits	514.6	613.1	665.2
Other Accounts	<u>15.1</u>	<u>22.2</u>	<u>24.3</u>
Total Liabilities	611.9 -----	718.2 -----	777.1 -----

Source: Appendixes II-A, II-B, II-C, and II-D.

Table 2:17 and Table 2:18 give an approximative picture of the breakdown of the balance sheet of all local banks operating in Lebanon.

TABLE 2:19

APPROXIMATIVE ESTIMATE BALANCE SHEET OF LOCAL BANKS
IN LEBANON AS OF THE END OF 1964, 1965 AND 1966

(IN MILLIONS OF LEBANESE POUNDS)

	1964	1965	1966
Cash and at Banks	298.7	335.5	321.9
Investment	146.2	159.4	181.1
Advances	572.4	676.5	778.3
Discount	<u>279.6</u>	<u>311.8</u>	<u>376.8</u>
Total Assets	<u>1,296.9</u>	<u>1,483.2</u>	<u>1,658.1</u>
Capital	247.4	252.8	266.0
Deposits	1,023.2	1,197.0	1,349.6
Other Accounts	<u>26.3</u>	<u>33.4</u>	<u>42.5</u>
Total Liabilities	<u>1,296.9</u>	<u>1,483.2</u>	<u>1,658.1</u>

Source: Tables 2:17 and 2:18.

The balance sheet of all banks operating in Lebanon is:

TABLE 2:20

BALANCE SHEET OF ALL BANKS OPERATING IN LEBANON
AS OF THE END OF 1964, 1965 AND 1966

(IN MILLIONS OF LEBANESE POUNDS)

	1964	1965	1966
Cash and at Banks	1,244	1,354	785
Investment	313	317	221
Advances	2,566	3,233	3,337
Discount	<u>492</u>	<u>608</u>	<u>652</u>
Total Assets	<u>4,615</u>	<u>5,512</u>	<u>4,995</u>
Capital	419	456	475
Deposits	4,037	4,858	4,326
Other Accounts	<u>159</u>	<u>198</u>	<u>194</u>
Total Liabilities	<u>4,615</u>	<u>5,512</u>	<u>4,995</u>

Source: Bank of Lebanon Publications for the years 1964, 1965 and 1966.

Considering Tables 2:19 and 2:20, the difference between their respective items gives an approximative balance sheet in relation to the foreign and Lebanese banks operating in Lebanon, as shown in Table 2:21.

TABLE 2:21

ESTIMATE OF THE AGGREGATED BALANCE SHEET OF BANKS
WITH FOREIGN CAPITAL OPERATING IN LEBANON AS OF THE
END OF 1964, 1965 AND 1966

(IN MILLIONS OF LEBANESE POUNDS)

	1964	1965	1966
Cash and at Banks	945.3	1,018.5	463.1
Investments	166.8	157.6	39.9
Advances	1,993.6	2,556.5	2,558.7
Discount	212.4	296.2	275.2
	<u>3,318.1</u>	<u>4,028.8</u>	<u>3,336.9</u>
Total Assets	-----	-----	-----
Capital	171.6	203.2	209.0
Deposits	3,013.8	3,661.0	2,976.4
Other Accounts	132.7	164.6	151.5
	<u>3,318.1</u>	<u>4,028.8</u>	<u>3,336.9</u>
Total Liabilities	-----	-----	-----

Source: Tables 2:19 and 2:20.

From Tables 2:19, 2:20 and 2:21, one could draw up a balance sheet which compares local and foreign banks with the whole banking system.

BALANCE SHEETS COMPARED, LOCAL, FOREIGN
AND BANKING SYSTEM OF LEBANON AS OF THE END
OF 1964, 1965 AND 1966

(IN MILLIONS OF LEBANESE POUNDS)

	1964				1965				1966									
	1	9	6	4	1	9	6	5	1	9	6	6						
	Local Banks		Fore. Banks		Bank. Sys.		Local Banks		Fore. Banks		Bank. Sys.							
	LL	%	LL	%	LL	%	LL	%	LL	%	LL	%						
Cash & at Banks	299	24	945	76	1244	100	336	25	1018	75	1354	100	322	41	463	59	785	100
Investment	146	46.7	167	53.3	313	100	159	50.1	158	49.9	317	100	181	81.9	40	18.1	221	100
Advances	572	22.3	1994	77.7	2566	100	676	20.9	2557	79.1	3233	100	778	23.3	2559	76.7	3337	100
Discount	280	57	212	43	492	100	312	51	296	49	608	100	377	58	275	42	652	100
Total Assets	1297	28	3318	72	4615	100	1483	27	4029	73	5512	100	1658	33	3337	67	4995	100
Capital	247	59	172	41	419	100	253	55	203	45	456	100	266	56	209	44	475	100
Deposits	1023	25	3014	75	4037	100	1197	25	3661	75	4858	100	1350	31	2976	69	4326	100
Other Accounts	27	17	132	83	159	100	33	17	165	83	198	100	42	22	152	78	194	100
Total Liabilities	1297	28	3318	72	4615	100	1483	27	4029	73	5512	100	1658	33	3337	67	4995	100

Source: Tables 2:19, 2:20 and 2:21.

From the above table the following deductions, with respect to liabilities, could be made:

At the end of 1964, the authorized capital of local banks was 59 percent of the total authorized capital of the system, while foreign capital was only 41 percent. At the end of 1965 and 1966 foreign capital was respectively 45 and 44 percent, while local capital was 55 and 56 percent of the total authorized capital of the banks operating in Lebanon.

Deposits, and other accounts in the nature of call deposits, were 25 percent for local banks and 75 percent for foreign banks at the end of 1964 and 1965 respectively. At the end of 1966 local banks had, 31 percent of the total deposits in the banking system of Lebanon, whereas foreign banks had 69 percent of deposits.

Considering the total assets of the banking system one finds foreign banks accounting for 72, 73 and 67 percent respectively as opposed to 28, 27 and 33 percent for local banks at the end of 1964, 1965 and 1966. The ratios for local versus foreign banks demonstrate that the ratio of capital has been more or less stable during the years covered in this study, whereas the ratio of deposits changed

from 25 - 75 percent to 31 - 69 percent at the end of 1966. This means that deposits in local banks increased while deposits in foreign banks decreased along with the decrease of deposits in the total banking system. This statement at its face value is misleading. One should note that in the third quarter of 1966, following the Intra Bank crisis, the Bank of Lebanon gave banks extraordinary facilities to meet any eventual rush on deposits. Local banks made use of such facilities while foreign banks did not. This increased the total deposits of local banks.⁵⁵ Foreign banks did not make use of such facilities, but, on the contrary, they lost a substantial part of their bank deposits made by local banks.⁵⁶ Accordingly, their local deposits were affected though their private deposits (excluding interbank deposits) increased up to a point where some foreign bankers had to refuse many deposits.⁵⁷ Another interesting point to note with respect to the above table is that the paid up capital of the system has remained around 10 percent of total assets. It was about 11 percent at the end of 1964, 8 percent at the end of 1965 and

55.

See Table 2:10.

56.

See Table 2:4.

57.

Information privately held: the informant wishing to remain anonymous.

10 percent at the end of 1966. This gives deposits respectively the following ratios: 89 percent, 92 percent and 90 percent. During that same period, the ratios of deposits to capital in local banks were respectively about 4 to 1, 5 to 1 and 5 to 1. The corresponding ratios for foreign banks were 18 to 1, 18 to 1 and 15 to 1, as opposed to about 8 to 1, 11 to 1 and 9 to 1 for the banking system. If one assumes that the per contra liabilities are about 50 percent of the real liabilities, the ratio of total assets to capital, being respectively 18 to 1 and 6 to 1, becomes 27 to 1 for foreign banks and 9 to 1 for local banks as opposed to 16 to 1 in the banking system of Lebanon.

Of the latter ratios only that of foreign banks could compare to that of banks in foreign countries like England, Switzerland and the United States, where the asset to capital ratios in 1965 were respectively 30, 35 and 50.⁵⁸ Similarly, one could compare the deposit to capital ratio with its counterparts in other countries. Only that of foreign banks is about equal to that of England and the U.S.A. where the ratio of deposits to capital is about 20 to 1.⁵⁹ This shows that local banks have less ability to attract deposits than foreign banks.

58. See Table 2:8.

59. See Table 2:14.

A final note in this section should go to testing the results of figures obtained from the appendix and on the strength of which a projected balance sheet of local banks has been obtained. For this purpose, the authorized capital as at the end of 1966 has been used because it is the nearest to the date of paid up capital given in Appendix I-A (LL.102 millions for foreign banks and LL.253 millions for local banks).⁶⁰ At the end of 1966, the authorized capital of local banks was LL.266 millions and that of foreign banks LL.209 millions, with a total of LL.475 millions for the system. This LL.475 millions includes⁶¹ the reserves of LL.62 millions and the unpaid capital of LL.86 millions.⁶¹ By deducting the latter two figures one obtains a net paid up capital of 327 millions. Out of this, LL.25 millions which represent the capital of local banks taken over from the end of 1966 till the present day, should be deducted.⁶² This leaves LL.302 millions. This figure after further adjustments for payment of capital corresponds to the LL.355 millions, the net paid-up capital of the banking

60. See Appendix I-A, Column 4.

61. See Table 2:10.

62. This figure would be subtracted another time in computing the capital of local banks. Also, it must be noted that the number of banks put under custody increased substantially in 1968. Consequently, similar deductions must be made for these banks.

system at present.⁶³ The difference of LL.53 millions between the last two figures is essentially the increase in paid-up capital between December 31, 1966 and July, 1968. The LL.53 millions is assumed to be paid-up by local banks. The local banks had, at the end of 1966, a capital of LL.266 millions. Out of this figure, LL.33 millions (being the balance of LL.86 millions unpaid capital at that date and LL.53 millions the newly paid-up capital as brought about above) should be deducted. By deducting again reserves of 10 percent of local capital amounting to LL.26 millions, the figure of LL.207 millions is obtained representing the net paid-up capital of local banks at the end of 1966. Two more adjustments are needed: subtracting the capital of banks taken over by the state, which amounts to LL.25 millions⁶⁴, and adding the capital increase of LL.53 millions from the end of 1966 to July 1968, as mentioned above. This would give the figure of LL.235 millions as the net paid-up capital until July 1968, as brought about by the estimates of the present study. The difference between LL.235 millions and the actual figure of LL.253 millions is about 8 percent. This is quite satisfactory for the purpose of this study, in which figures are considered accurate to within 10 percent.

63.

July, 1968

64.

See Note 62 on the previous page.

CHAPTER III

USES OF FUNDS IN THE COMMERCIAL BANKING OF LEBANON

A. Theoretical Background

"The essential banking problem is to resolve the conflict between safety and profitability in the employment of bank funds".¹ Banks get funds through the means already described. Those funds have to be used. "If too much liquidity is maintained, it means that the banking system is foregoing income. Too little liquidity, however, may be fatal not only to an individual commercial bank but to the commercial banking system as a whole, the financial structure of the country, and the economy of the nation. Too little liquidity and the demands of depositors in the form of 'runs' on banks are like oil and water, they do not mix well".² The problem of liquidity for any commercial bank is that of having enough funds at any time to meet any eventual demand for deposits. Liquidity shortage may lead or force a bank to undersell a credit-worthy asset. In this sense liquidity is protective. In another

1.

Robinson, op. cit., p. 11.

2.

Reed, op. cit., pp. 114-115.

sense, liquidity could be defined as a "bank's ability to meet not only possible withdrawals of deposits but to provide for the legitimate credit needs of the community".³

In this latter sense liquidity has been mostly questioned in recent years: "At some point, banks and their customers quite naturally feel a bit uneasy with their high loan deposit ratios, raising questions as to whether their banks can contribute their share toward further needed growth in the economy".⁴

The primary purpose of commercial banks in most countries is to make a profit for their shareholders. "Even in countries such as France and Italy, where the principal banks are owned by the State, the general nature of their business and the attitudes of the people who run them have continued to be those of the profit-seeking bankers of England and most other countries".⁵ "Banks as such, deal in financial claims. They borrow from depositors and they lend to debtors. Their success in this business depends on making themselves appear

3.

Grosse, op. cit., p. 114.

4.

Ibid., p. 114: Alfred Hayes, President of the Federal Reserve Bank of New York, in an address to the New Jersey Bankers' Association in Atlantic City, May 1960.

5.

Sayers, Modern Banking, op. cit., p. 175.

quite attractive as debtors and on their efficiency in attracting good borrowers and servicing them well to keep them and prevent them from going to other lenders. Those two major undertakings rest not so much on confidence that the banks will repay on demand as on the extreme convenience with which banks do repay on demand ... due to the efficiency of the clearing system ... and the command they have achieved over public confidence. The banks won this high place in public confidence by adapting their lending policies to the implications of their obligations to the depositors".⁶ How are those policies related to the asset side of the balance sheet of commercial banks?

"Since bank liabilities are payable in cash, it is obvious that cash is the premier banking asset".⁷ Any other way of using the funds which commercial banks have is not as good in the sense of prompt safety. This is because the degree of safety attached to banking activities relating to lending and investing decreases as income or likely reward increases.

6.

Ibid., p. 176

7. Robinson, op. cit., p. 11.

Some funds could be invested in such a way that cash recovery could be obtained immediately without a chance of material loss. Such investment, normally, earns a very low income. On the other hand, some other investments offer more income, but also a possible chance of loss especially if the instrument is to be converted into cash suddenly. Another form of using funds is loans. Loans are more profitable but more risky. They are frequently of short-term maturity while investments are of long-term maturity. Loans are usually granted to operating enterprises whose performance is reliably known. By contrast, investments have to be more venturesome and could involve a high degree of risk. Risk and liquidity considerations exert tremendous pressures in favor of loans in underdeveloped countries where expertise in long-term evaluation in investment prospects is generally poor and complicated by uncertainty. However, in practice "some loans are syndicated among a number of lenders and are very nearly open-market obligations. Some investments turn out to have almost no market and are like long-term loans".⁶ Despite those disadvantages this division is traditional and useful due to the institutional nature of commercial banks. Commercial banks traditionally adapted themselves to lending rather than to investing. They are also close to lending markets and not so close to the investments of capital markets.

8. Ibid., p. 12.

Broadly considered there are two major types of banking assets: cash assets, and earning assets which include investments and loans. The percentages of these assets in commercial banks of the United States were as follows on June 30, 1960: cash assets, 20.6 percent; investments, 37 percent; and loans, 42.4 percent.⁹ On September 28, 1966 the percentages were as follows: cash assets, 15.2 percent; investments, 27.6 percent; loans, 57.2 percent. The London clearing banks' figures were, as of November 16, 1966: cash assets, 8.6 percent; investments, 13 percent; loans, 78.4 percent.¹⁰

The above division is a practice commonly used in the publications of banking statements. It is not the most meaningful one, however. The degree of liquidity in the earning assets is not shown and the distinction between each type of earning asset is not brought about. "The division between 'loans' and 'investments' is more conventional than logical".¹¹

After balancing safety and profitability in determining the division of their resources between the two major types of assets which they keep, banks have to ascribe priorities to principles of managing these assets. For this purpose, banks are guided by two rules: wherever a conflict arises between safety and profitability, "it is better to err on the side of

9. Robinson, op. cit., p. 10.

10. Sayers, Modern Banking, op. cit., p. 31.

11. Robinson, op. cit., p. 12.

safety".¹² Commercial banking should prefer the type of credit for which "it is institutionally well adapted and should avoid those types for which it does not enjoy a natural advantage."¹³

✓ The highest priority is reserves: "primary reserves", "secondary reserves", and "tertiary reserves",¹⁴ or "investment reserves".¹⁵ The highest priority goes for primary reserves, defined as "cash on hand and demand balances from banks, or legal reserves plus any excess holdings of non-interest-bearing forms of money".¹⁶ Those reserves are kept in the form of cash to meet the community needs of cash. Legal reserves which classify under primary reserves are those required to be kept by all banks and the amount or percentage of these and of total assets varies from one place to another. Primary reserves are also justified by "the practical need of providing a means of paying or clearing checks and other credit

12.

Ibid., p. 13.

13.

Ibid., p. 13.

14.

Crosse, op. cit., p. 125.

15.

As adapted by Robert G. Rodkey, Sound Policies for Bank Management (New York: the Ronald Press Co., 1944) and Roger A. Lyon, Investment Portfolio Management in the Commercial Bank (New Brunswick) N.J.: Rutgers University Press, 1960).

16.

Crosse, op. cit., p. 126.

obligations among banks".¹⁷ A very important point to note here is that although cash as such is a primary reserve, it does not really help the safety of the bank because all or a part of it is legal. "Only cash in excess of legal requirements or assets that can be converted into cash give a bank a real flexibility in meeting its legal obligations".¹⁸

The second priority is for the secondary reserves or protective investment: "Banks keep such reserves for two reasons: for likely and indeed almost forecastable cash need and for remote, unlikely, but possible cash needs".¹⁹ The former is to protect against fluctuations of deposit accounts and loan demand. The latter is to protect against moves due to fluctuations in the business cycle, runs, local depressions and the like.

The third priority is for the customer credit demands: once a bank has made itself safe, it would go into its normal trend of operations, that is lending. A commercial bank ventures into investment only after it satisfies local demand requirements for loans. "Once a commercial bank has provided the

17. Robinson, op. cit., p. 14.

18. Ibid., p. 14.

19. Ibid., p. 15.

liquidity needed for safety and has satisfied in full the local customer demand for loans, it can enter the investment markets with any remaining funds; indeed, in some cases it must do so in order to earn a minimum living".²⁰

B. The Case in Lebanon

1 - Cash and Liquid Assets

Banks in Lebanon keep part of their funds in cash in their vaults, at the Central Bank or at other commercial banks. Cash at hand is for taking care of daily cash transactions, and the balance at the Central Bank is for taking care of clearing operations. This type of asset is not interest bearing. Funds deposited in other commercial banks earn interest and are deposited either in local currency or in foreign currency. Foreign currency deposits are either made locally or abroad.

Cash on hand and at the Central Bank constitutes the primary reserves of commercial banks. By contrast, cash with other banks constitutes secondary reserves. This is due to the absence of bonds and guilt-edged securities in Lebanon which in more developed money markets constitute a useful re-

course to secondary reserves.²¹ The statistics published by the Bank of Lebanon do not separate cash from money at banks. However, the International Monetary Fund gives figures relative to the cash holdings of banks. These figures, for the last 4 years, have been as follows:

21.

Recently Decree No. 2647 dated November 3, 1967, published in the Official Gazette, XVII (Beirut: November 16, 1967) was issued to provide for the issue of government bonds in the following manner:

TABLE 3:1

NOVEMBER 1967 BONDS ISSUE

Quantity	Unit Price	Maturity	Interest
	LL		%
400	25,000.00	31/12/68	$3\frac{1}{2}$
600	25,000.00	31/12/69	$3\frac{1}{2}$
600	25,000.00	31/12/70	$3\frac{3}{4}$

Source: Official Gazette, XVII (Beirut: November 16, 1967).

TABLE 3:2

CASH AND AT BANKS, IN THE LEBANESE
BANKING SYSTEM FROM 1964 TO 1967

(IN MILLIONS OF LEBANESE POUNDS)

(1) End of Year	(2) Cash ^x	(3) At Banks	(4) Total
1967	149	655 ^{xx}	804
1966	188	597 ^{xx}	785
1965	108	1,246	1,354
1964	100	1,144	1,244
^x International Monetary Fund, <u>International Financial Statistics</u> , (Washington: IMF, 1964/67, XVII-XX).			
^{xx} This drop in 1966 and 1967 is due to the repercussions of the Intra crisis.			

Source: Bank of Lebanon Publications for the years 1964, 1965, 1966 and 1967.

Unfortunately, figures of other liquid assets exist neither at the Central Bank level ²² nor in the International Financial

22.

Information privately held: Dr. Salim Hoss, Chairman, Banking Control Commission, Bank of Lebanon, Beirut.

Statistics. Foreign assets are given in the International Financial Statistics but the degree of liquidity of such assets is not identified. The total of such liquid assets is estimated to be too negligible to be included as part of the liquid assets of the banking system.²³

Once foreign liquid assets are neglected, the cash ratio of the total Lebanese system would be Column (2) in Table 3:2 over figures of Column (3) in Table 3:3. This gives the following table:

TABLE 3:3

CASH TO DEPOSIT RATIO FROM 1964 TO 1967

(IN MILLIONS OF LEBANESE POUNDS)

(1) End of Year	(2) Cash	(3) Total Deposits	(4) Cash to Deposit Ratio Percentage
1967	149	4076	3.7 ✓
1966	188	4327	4.3
1965	108	4858	2.2
1964	100	4037	2.5

Source: Col.2, International Monetary Fund, International Financial Statistics, (Washington: IMF, 1964/67, XVII-XX).

Col.3, Bank of Lebanon Publications for the years 1964, 1965, 1966 and 1967.

23.

Idem. It must be noted, however, that foreign liquid assets could be very volatile, and are affected by political factors.

The relative high ratio which banks had to keep at the end of 1966 following the Intra crisis is noticeable here. At the end of 1967 the cash ratio, although lower than in 1966, was still high.

By the same token, the liquidity ratio of the Lebanese banking system could be measured as the ratio between cash at hand and with banks to total deposits. This gives the following table, where one should also note the drop in liquidity due to the predicament banks found themselves in after the Intra crisis:

TABLE 3:4

LIQUIDITY RATIO FROM 1964 TO 1967

End of Year	Cash at Hand and at Banks LL Millions	Total Deposits LL Millions	Liquidity Ratio Percentage
1967	804	4076	19.7
1966	785	4327	18.1
1965	1354	4858	27.8
1964	1244	4037	30.8

Source: Bank of Lebanon's Publications for the years 1964, 1965, 1966 and 1967.

There is another type of liquidity called "available liquidity" (L_a), required by the Bank of Lebanon data of which is to be sent by banks every fortnight. This liquidity is obtained by dividing cash on hand and at the Central Bank C by: total current deposits D_c plus 5 percent of the sum of savings D_s and time deposits D_T plus payment orders and transfers.²⁴ This gives the following formula:

$$L_a = \frac{C}{D_c + 5 \frac{D_s + D_T}{100} + T}$$

Based on Table 2:11 and Table 3:3, "available liquidity" for the last 4 years could be estimated only because figures on pending transfers are not available and are likely to be insignificant considering the daily volume of transfers between banks.

24.

Information privately held: Mr. J.A. Maamari, Chief General Accounting Division, Head Office, Bank of Beirut and Arab Countries, SAL, Beirut.

TABLE 3:5

"AVAILABLE LIQUIDITY" FROM 1964 TO 1967(IN MILLIONS OF LEBANESE POUNDS)

End of Year	Numerator		C	D _C	D _S + D _T Denominator	T	L _a
	Cash on Hand	Cash at Central Bank	Total Cash	Current Deposits	5% of Time and Savings Deposits	Total Denominator	Percentage Ratio of Available Liquidity
1967	149	90	245	2.378	85	2463	10.-
1966	188	127	315	2.525	90	2615	12.-
1965	108	68	176	3.160	85	3245	5.5
1964	100	65	165	2.814	61	2875	5.7

Source: Bank of Lebanon's Publications for the years 1964, 1965, 1966 and 1967.

Table 3:3

The increase in available liquidity in 1966 is due to the decrease in deposits and to the excess of cash which banks kept for a possible rush on deposits following the Intra Crisis. Another reason is the extraordinary facilities given to banks by the Central Bank.

With the last 3 tables one could draw a comparison of different liquidities for the banks in Lebanon.

TABLE 3:6LIQUIDITY IN THE LEBANESE BANKING
SYSTEM COMPARED FROM 1964 TO 1967

End of Year	Cash Liquidity Percentage Ratio	Available Liquidity Percentage Ratio	Liquidity Percentage Ratio
1967	3.7	10.-	19.7
1966	4.3	12.-	18.1
1965	2.2	5.5	27.8
1964	2.5	5.7	30.8

Source: Table 3:4, Table 3:5, and Table 3:6

The most significant of the above ratios is the liquidity ratio. Cash liquidity does not reflect a true picture since cash at the Central Bank and at banks is not taken into consideration. The available liquidity too is not very indicative since it does not account for balances banks keep with each other - balances that could be deposited eventually with the Central Bank. The only ratio that includes all relevant items is the liquidity ratio, which is really all available liquid funds over total deposits. This ratio corresponds

to the short-term liquid asset ratio in the U.S.A., which fluctuated between 11 percent and 17 percent between 1958 and 1961.²⁵ Therefore, in Lebanon the corresponding liquidity ratio, although made of much more liquid assets, is definitely higher. However, the relevant point here is not the relation of liquidity in Lebanon to that in other countries, but the decline in ratio as shown in Table 3:4. This decline in figures might be misleading due to the fact that the liquidity ratio in question is indicative only in the sense that it is as of the end of the year. To prove the above conclusion one has to note the trend during a certain period of time. The most representative period for this purpose would be the period before and after the Intra crisis. The Intra crisis was the result of the decline in liquidity ratio rather than its cause, as the following table shows:

25.

Crosse, op. cit., p. 116.

TABLE 3:7

LIQUIDITY RATIO IN LEBANON
FROM DECEMBER 31, 1965 TO MARCH 31, 1967

(IN MILLIONS OF LEBANESE POUNDS)

End of Year		Cash and at Banks	Total Deposits	Liquidity Ratio %
March	1967	848	4342	19
February	1967	826	4412	18
January	1967	769	4444	17
December	1966	785	4326	18
November	1966	763	4350	17
October	1966	731	4391	17
September	1966	838	5123	16
August	1966	881	5092	17
July	1966	907	5103	17
June	1966	950	5024	18
May	1966	917	4944	18
April	1966	833	4822	17
March	1966	808	4710	17
February	1966	1017	4787	21
January	1966	1241	4812	25
December	1965	1354	4858	27

Source: Republic of Lebanon, Bulletin Statistique Mensuel, (in French and Arabic) (Beirut: Ministry of Planning) February and March 1967, Vol.5, Nos. 2 and 3.

2 - Investments

Under this heading are included stocks portfolio and land, buildings and equipment. Those two major types of investment are shown separately on the balance sheets of individual banks and on the balance sheet of the whole banking system. The former, stocks portfolio, includes local and foreign stocks, the value of which has been as follows for the last 4 years:

TABLE 3:8

BANK'S PORTFOLIO OF STOCKS FROM 1964 TO 1967

(IN MILLIONS OF LEBANESE POUNDS)

End of Year	Amount
1967	151
1966	99
1965	176
1964	170

Source: Bank of Lebanon's Publications for the years 1964, 1965, 1966 and 1967.

Again here, the drop at the end of 1966 is due to the fact that some banks had to convert a part of their portfolio into cash to meet an eventual rush on deposits following the Intra crisis.

Before the enforcement of the Money and Credit Law, banks in Lebanon were free to invest in any kind of security and with no limitation whatsoever. Whereas presently, their investment can reach up to 75 percent of their paid-up capital only.²⁶

The amounts that banks invested in fixed properties and equipment for the last 4 years are shown in the following table:

TABLE 3:9

BANK INVESTMENTS IN FIXED ASSETS
AND EQUIPMENT FROM 1964 TO 1967

(IN MILLIONS OF LEBANESE POUNDS)

End of Year	Amount
1967	142
1966	122
1965	141
1964	143

Source: Bank of Lebanon's Publications for the years 1964, 1965, 1966 and 1967.

26. Money and Credit Law, op. cit., art. 153, p. 26

Here also, one could explain the relative fall in such investments at the end of 1966 by the same reasons given for stocks. The difference between investments in building and fixed assets and investments in stocks is that the former is more often used for the bank premises and operations; it is usually less liquid.

3 - Loans

Loans granted by banks could be classified by purpose and by term.²⁷ The former is based on the purpose loans are granted for and the fields they serve. And the latter is based on the conditions against which they are granted.

(a) Loans By Purpose

Statistics published by the Bank of Lebanon, unlike published balance sheets by individual banks, show which fields loans made by banks go into. The major classified fields are: agriculture, industry, real estate, commercial and non-bank institutions and others as shown in Table 3:10.

27.

Classification suggested by Dr. Salim Hoss, Chairman Banking Control Commission, Bank of Lebanon, Beirut.

(i) - Agriculture

The amount allocated to this sector is relatively very small. As compared to the total loans made by banks to the economy, it does not exceed 5 percent. It is nowhere near the proportionate importance of Agriculture to the National Income, estimated to vary between 14 - 16 percent.^x Thus, most farmers are having difficulties in financing their activities.²⁸ The absolute amounts allocated for agriculture were, for the years 1965 and 1966, as shown in Table 3:10.

TABLE 3:10

AMOUNTS ALLOCATED TO DIFFERENT SECTORS OF THE LEBANESE ECONOMY
AT THE END OF YEARS 1965 AND 1966 RELATIVE TO ALL BANKS WITH
THE EXCEPTION OF THE BCAIF AND INTRA

(IN MILLIONS OF LEBANESE POUNDS)

	31/12/65	31/12/66	Percentage Increase In 1966 Over 1965
Agriculture	82	93	13
Industry	244	291	19
Real Estate	177	195	10
Commerce	979	1,243	27
- External	(234)	(349)	(49)
- Internal	(485)	(564)	(16)
- Services	(125)	(172)	(38)
- Consumer Product	(135)	(158)	(17)
Financial Institution	115	143	24
Miscellaneous	364	328	- 9
	1,961	2,293	17
	-----	-----	----

Source: Bank of Lebanon's Publications for the years 1965 and 1966.

28. Information privately held: Dr. E.M. Mubarak, Agriculturist.

x. These figures are provided by the IRFED mission and the latest study of the Lebanese National Income by the Ministry of Planning which pertains to 1964.

Figures for agriculture show an improvement in 1966, but the improvement was less than that in all other definite sectors. Consequently, agricultural loans were lower in relation to total loans. This is because the amount given to agriculture was 13 percent higher in 1966 than in 1965, while total loans were 17 percent higher in 1966 on average than in 1965. This same conclusion applies for 1965 when the increase in loans given to agriculture was only 3 percent more than in 1964, while the increase in total loans was 19 percent. This result does not change significantly if the advances of BCAIF are included in the total.^x In other words, credit availability to agriculture in Lebanon is fairly restricted when compared with other sectors and the requirements of the agricultural sector.

(ii) - Industry

The study of figures pertaining to industry in Table 3:10 shows that industry benefited of 12% of the total loans at the end of 1964. In 1965 industry increased its borrowings by 29 percent and in 1966 by 19 percent. These figures

^x According to the Chairman of BCAIF, nearly half of its loans are given to the Agricultural sector. These loans equal in total LL.50 million.

were ahead of the total increase in availability of credit which meant that industry improved its overall proportion of total loans. However, what is more relevant here, is that the maturity of loans given to industry is not shown by the figures. What industrialists suffer from is not the lack of funds inasmuch as it is the lack of long or medium term loans.²⁹ Again the relative position of industry is not significantly affected by the incorporation of BCAIF figures.

It is possible to say that whereas industry appropriates a proportion of total credit approximate to its share of the national income (16-18 percent) the growth of this credit has not been in line with the growing requirements of the sector, and long term credit is still very inadequate.

(iii) - Real Estate

This sector enjoys about 9 percent of the total loans. Loans given to real estate increased by 46 percent from 1964 to 1965, and by another 10 percent from 1965 to 1966. This sector, like industry, does not suffer

29. Information privately held: Association of Lebanese Industrialists.

from lack of funds but from the lack of long or medium term loans.³⁰ In the U.S.A.³¹ and Canada³², one pays a down payment as low as 10 percent for a house, the balance of which would be amortized up to 20 years. In Lebanon, on the other hand, mortgages on buildings run generally for one year and are expected to be paid by the end of the second year.³³

(iv) - Commerce

This sector gets over 50 percent of the total loans. Credit made available to this sector increased by 20 percent from 1964 to 1965 and by 27 percent from 1965 to 1966. These rates were higher than the average rates of increase of total loans in this period.

-
30. Information privately held: Mr. Gabriel Bashir, engineer and builder.
31. Information privately held: Kayes & Co., Miami, Florida, U.S.A.
32. Information privately held: Dr. K.W. Nasser, Victory Construction Ltd., Saskatoon, Canada.
33. Information privately held: Mr. Fouad Abi Yaghi, Real Estate Register Secretary.

Loans to commerce can be classified into four categories: those to international trade, local trade, services, and consumer products. Table 3:10 shows that the internal commerce sector occupies less than one half of the total trade sector, while international trade occupies one quarter. Another quarter is shared more or less equally by the last two sectors. All trade sectors benefitted from an increase in the amount of loans given to them from 1964 to 1965 and from 1965 to 1966. The increase has been respectively 20 and 49 percent for internal trade, 22 and 16 percent for international trade, 16 and 38 percent for services, and finally 11 and 17 percent for trade in consumer products. It is interesting to note that while in 1966, the increase in internal and consumer trade is parallel to the increase in loans to all sectors, loans for international trade and services increased by 49 percent at the expense of other commercial sectors giving an average increase for the trade sector of 27 percent.

It must be noted that classifying commercial loans into four categories is misleading. This is especially true in the case of internal trade. Such operations are very often merely distribution operations of imported products. Consequently, the economic impact of these loans is to encourage imports and trade as a service with little effect on local production. In turn this emphasizes the great importance of foreign commerce to Lebanon.

(v) - Non-Bank Institutions

Non-bank institutions can handle most banking transactions with the exception of receiving deposits and having checks drawn on them, as defined by the Commercial Law, Article 307³⁴. Defined as such, they have to get loans from commercial banks to increase their funds, amounts of which are shown in Table 3:10. However, this share goes eventually to other fields of the economy. There are no figures on the final destination of these funds, but it is very likely they feed local trade.

The last item in Table 3:10 includes all loans made to sectors not classified in the above table.

(b) Loans by Terms

The balance sheets of the banking system, as published by the Bank of Lebanon, differentiate between discounts and advances. The former consists of discounting commercial bills endorsed by the customers, maturity of which is generally up to four months but which could go

34.

Money and Credit Law, op. cit., art. 178-184,
pp. 29-30.

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34.

Money and Credit Law, op. cit., art. 178-184, pp. 29-30.

up to 12 months.³⁵ The latter are given to customers under different securities. They are classified, according to the form which banks fill for the "Centrale des Risques",³⁶ as follows: blank unsecured advances, advances secured by a personal guarantee, mortgage, bills, stocks and merchandise.

The unsecured advances are given to a customer on the strength of his signature. When the customer is not judged worth of the amount he is to be granted, the banks ask for a co-signer or a guarantee. Another security a bank can ask is a mortgage on a real asset or, as often done now, on the premises he uses for his business as per the new ownership law.³⁷ Sometimes a customer lodges with the bank a certain amount of bills, stocks or claims on merchandise against which he is allowed to draw up to a certain amount. Although the latter practice is rare, due to the absence of trust receipts in Lebanon, it has been practised on a moderate scale by some banks.³⁸

35.

Information privately held: Mr. R.E. Wells, Manager Bank of Nova Scotia, Beirut.

36.

Information privately held: Dr. Francois Bassile, Deputy General Manager, Byblos Bank SAL, Beirut.

37.

It consists of considering the premises (with its good will and key money) a businessman uses as a real estate owned by him. Source: Legislative Decree cancelling Articles 40 and 41 of the commercial law relative to the Commercial Institution.

38.

Information privately held: Professor Zuhair Mikdashi, Department of Business Administration, American University of Beirut.

Another way of borrowing applies in the case of entrepreneurs or contractors. They generally empower the bank irrevocably to cash all amounts pertaining to their assignments, as per contract between the contractor and his principle. This is what is known as cession. In other words, the bank is guaranteed payment from the proceeds of the contract under execution before the contractor gets any money.

A final source of security is an export documentary collection or an export credit which a customer could endorse to his bank and draw on it up to a certain amount.

The lack of long-term credit witnessed in the shortage of loans made available to agriculture, industry and real estate reflects the pattern of deposits in the Lebanese Banking System. Time deposits which enable and encourage banks to make long-term commitments constitute only 11 percent of banking deposits in Lebanon. The overwhelming proportion of deposits are demand deposits and savings accounts similarly treated.

C. Statistical Analysis

1 - The Banking System

The asset side of the balance sheet of the total banking system is provided by the statistics of the Central Bank. For the past 4 years, its figures were as shown in the following table:

TABLE 3:11

USES OF FUNDS BY BANKS IN LEBANON FROM 1964 TO 1967

(IN MILLIONS OF LEBANESE POUNDS)

Accounts	End of 1964		End of 1965		End of 1966		End of 1967	
	Total	Percent	Total	Approx. Percentage of Total	Total	Approx. Percentage of Total	Total	Approx. Percentage of Total
Cash and Banks	1244	27	1354	26	785	16	804	17
Discount	492	11	608	11	652	13	642	13
Loans	2388	51	3009	54	3089	62	2807	60
Stocks	170	4	176	3	99	2	151	3
Shareholders	54	1	67	1	86	2	59	1
Land, Buildings and Equipment	143	3	141	2	122	2	142	3
Transitory Accounts	124	3	157	3	162	3	187	3
	<u>4615</u>	<u>100</u>	<u>5512</u>	<u>100</u>	<u>4995</u>	<u>100</u>	<u>4792</u>	<u>100</u>
	-----		-----		-----		-----	

Source: Bank of Lebanon's Publications for the years 1964, 1965, 1966 and 1967.

In the above table, transitory accounts are debit accounts of a non-permanent nature. Shareholders' accounts represent that part of capital which is still unpaid. Both

are debit accounts in the form of loans and could be added to loans and discounts. Similarly, securities on buildings are added together to give the total investment. As such, the structure of banks assets would be as is shown in the following table:

TABLE 3:12

STRUCTURE OF BANKS ASSETS IN LEBANON FROM 1964 TO 1967

(IN MILLIONS OF LEBANESE POUNDS)

Type	End of 1964	End of 1965	End of 1966	End of 1967
Cash	1244	1354	785	804
Loans	3058	3841	3989	3695
Investments	313	317	221	293
	<u>4615</u>	<u>5512</u>	<u>4995</u>	<u>4792</u>
	----	----	----	----

Source: (Table 3:11).

From Table 3:12 one could derive the percentage ratio of each type of asset.

TABLE 3:13

PROPORTION OF EACH TYPE OF ASSET TO THE TOTAL ASSETS OF THE
BANKING SYSTEM IN LEBANON FOR THE YEARS 1964, 1965, 1966
AND 1967

(IN MILLIONS OF LEBANESE POUNDS)

T y p e	1964 Percent	1965 Percent	1966 Percent	1967 Percent	Average
Cash	27	25	16	17	21
Loans					
- Discount	11	11	13	13	12
- Advances	55	58	67	67	61
	—	—	—	—	—
	66	69	80	80	73
Investments	7	6	4	3	6
	<u>100</u>	<u>100</u>	<u>100</u>	<u>100</u>	<u>100</u>
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Source: Tables 3:11 and 3:12.

The above figures, relative to the total banking system, compare with corresponding figures in the U.S.A. and England as is shown in the following table:

TABLE 3:14

COMPOSITION OF TOTAL ASSETS OF COMMERCIAL BANKS IN LEBANON,
ENGLAND AND THE UNITED STATES

C o u n t r y	Cash	Loans	Investments
Lebanon	21	73	6
England	9	78	13
U.S.A.	15	57	28

Sources: Table 3:13 and Sayers
Modern Banking, op. cit., p. 31.

The above table provides a general, comparative idea although the figures for Lebanon are an average and those of England and U.S.A. reflect the position on one particular day.³⁹ In Lebanon there is more cash and less investment. This makes the Lebanese banking system relatively more liquid but less profitable. Whether this conclusion is applicable to local and foreign banks or not will be shown in the following section.

2 - Local Banks

The above analytical study was based on the total banking system of Lebanon, which includes foreign and local banks. This section is based on the sample selected for analysis, and makes use^{of} statistics relevant to it. It is unfortunate, however, that banks do not publish their cash holdings separately but include their figures with those of cash kept at banks. However, the Central Bank publishes cash holdings separately.⁴⁰ The study, therefore, will be confined to cash on hand and at banks, investments, and loans (including discounts and advances.)

39.

September 28, 1966 for the U.S.A. and November 16, 1966 for England.

40.

See Table 3:5.

From Table 2:22 the following deductions could be made. At the end of 1964, local banks had LL.299 millions of liquid assets as opposed to LL.945 millions for foreign banks thus making a total of LL.1244 millions. At the end of 1965, those figures were LL.336 millions, 1018 millions and 1354 millions respectively. At the end of 1966, local banks had LL.322 millions, foreign banks had LL.463 millions, thus making a total of LL.785 millions. This means that local banks had only 24 percent, 25 percent and 41 percent out of the liquid assets of the total system, as opposed to 76 percent, 75 percent and 59 percent for foreign banks at the end of 1964, 1965 and 1966 respectively. During that same period the investments were: for local banks LL.146 millions, 159 millions and 181 millions, as opposed to LL.167 millions, 158 millions and 40 millions for foreign banks. This means that local banks had, at the end of 1964, 1965 and 1966, 46.7 percent, 50.1 percent and 81.9 percent respectively of the total investments of the banking system. Foreign banks had 53.3, 49.9 and 18.1 percent respectively. At the end of 1964, 1965 and 1966, local banks had invested in advances the following amounts: LL.572, 676 and 778 millions as opposed to LL.1994, 2557 and 2559 millions by foreign banks. Discounts were LL.280, 312 and 377 millions for local banks as opposed to LL.212, 296 and 275 millions. Those figures give the following ratios for each type of those investments in relation to the total of the

banking system: loans made by local banks: 22.3, 20.9 and 23.3 percent; loans by foreign banks 77.7, 79.1 and 76.7 percent. Discount of local banks were 57, 51 and 58 percent, as opposed to 43, 49 and 42 percent. This shows that local banks invest relatively more in discount than foreign banks due to an eventual need for rediscount. The figures on assets show that local banks occupied only 28, 27 and 33 percent of the total assets of the banking system as opposed to 72, 73 and 67 percent for foreign banks. If one compares the share of local banks versus foreign banks in total assets of the banking system with respect to each type of investment, one will note that at the end of 1964 the share of discount was the highest; investment comes next, followed by cash and advances. At the end of 1965, discounts came first and investment next, cash third and advances fourth. At the end of 1966 investment was first, discount second, cash third and loans fourth. This sudden amelioration of the cash rank was due to the loans which local banks received from the Central Bank in the last quarter of 1966. For foreign banks the classification was as follows: 1964: advances first, cash second, investments third and discounts fourth; 1965: advances first, cash next, investments third and discount fourth; 1966: advances first, cash second, discount third and investments fourth. This decrease in the foreign bank cash reserves was

due to the withdrawal of many local bank deposits following the Intra crisis in October, 1966.

Another major deduction could be made, from Table 2:22, to complement former conclusions. It concerns the type of preference demonstrated by local and foreign banks vis-à-vis assets. This leads to the following table:

TABLE 3:15

PRIORITIES GIVEN TO USES OF FUNDS BY BANKS IN LEBANON AT
THE END OF 1964, 1965, 1966
(EXPRESSED IN PERCENTAGE)

	1964			1965			1966		
	Local Banks	Foreign Banks	Banking System	Local Banks	Foreign Banks	Banking System	Local Banks	Foreign Banks	Banking System
Cash and at Banks	23.1	28.5	26.9	22.7	25.3	24.6	19.4	13.9	15.7
Investments	11.2	5.0	6.8	10.7	3.9	5.8	10.9	1.2	4.4
Advances	44.1	60.1	55.6	45.6	63.5	58.6	47.0	76.7	66.8
Discounts	21.6	6.4	10.7	21.0	7.3	11.0	22.7	8.2	13.1
Total:	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: Table 3:13.

The above table could be interpreted in the following terms: local banks invested in liquid assets 23.1, 22.7 and 19.4 percent of their total assets at the end of 1964, 1965 and 1966, as compared to 28.5, 25.3 and 13.9 percent respectively for foreign banks; thus giving 26.9, 24.6 and 15.7 percent for the total system. One notes here the decreasing preference for this type of investments by local and foreign banks as well. Investments show also a decreasing trend. At the end of 1964, 1965 and 1966 local banks had respectively the following investment to total assets ratio: 11.2, 10.7 and 10.9, as compared to foreign banks which had 5.0, 3.9 and 1.2 percent; thus giving the system 6.8, 5.8 and 4.4 percent. Loans, however, showed a positive trend on both levels. As a matter of fact, the investment in loans by local banks measured 44.1, 45.6 and 47.0 percent at the end of 1964, 1965 and 1966, as compared to 60.1, 63.5 and 76.7 percent out of the total assets for foreign banks; thus giving the system 55.6, 58.6 and 66.8 percent. In discount, local banks invested for the same period 21.6, 21.0 and 22.7 percent, as compared to 6.4, 7.3 and 8.2 percent for foreign banks; thus giving the system 10.7, 11.0 and 13.1 percent.

Another deduction worth making from Table 2:22 concerns the cash to deposits ratio, which was at the end of 1964, 1965 and 1966 as shown in the following table:

TABLE 3:16

PERCENTAGE LIQUIDITY RATIO IN LEBANON AT THE END OF 1964
1965 AND 1966

	1964	1965	1966	Average
Local Banks	29.2	28.1	23.8	27.0
Foreign Banks	31.4	27.8	15.6	24.9
Banking System	30.8	27.8	18.1	25.6

Source: Table 2:22

One should note that foreign banks could afford to have a lower cash to deposit ratio since they felt that their deposits were more stable than those of a local bank, although the investment of local banks in liquid assets is relatively higher than that of foreign banks. If one is to compare the asset structure in Lebanon with other countries such as England, the U.S.A. and Canada, one obtains the following. Local banks in Lebanon kept at the end of 1964, 1965 and 1966 average liquid assets of 21.7 percent of the total assets, while foreign banks kept an average of 22.6 percent, thus

giving the system an average of 22.4 percent. In investment, at that time, local banks had an average of 11 percent as opposed to 3.3 percent for the foreign banks and 5.7 percent for the system. Finally, in loans, local banks invested 67.3 percent against 74.1 percent for foreign banks and 71.9 percent for the whole system. These figures compare with 9 percent for cash, 13 percent for investments and 78 percent for loans in the London clearing banks on November 16, 1966. The same figures compare with 15 percent for cash, 28 percent for investment and 57 percent for loans in the U.S.A., on September 28, 1966. When the liquidity ratio in Lebanon averaged 25.8 percent at the end of 1964, 1965 and 1966, the cash to deposit ratio in England was 9 percent (on November 16, 1966), 18 percent in the U.S.A. as (on 28 September, 1966)⁴¹ and 9 percent in Canada (on December 31, 1949)⁴², while the same ratio was 29.9 in Ceylon at the end of the same year⁴³ and 7.1 percent in Jamaica.⁴⁴

A last note in this chapter, deducted from Appendix II, concerns the relative low proportion in some cases of per contra

41.

Sayers, Modern Banking, op. cit., p. 31.

42.

Sayers, Banking in the British Commonwealth, op. cit., p.103.

43.

Ibid., p. 406.

44.

Ibid., p. 442.

assets in relation to total assets. This proportion did not average over 50 percent of the real assets and fluctuated between the peak of 130 percent and the trough of 15 percent at the end of 1964, 1965 and 1966. This remark is particularly important since in case of a low proportion of per contra assets the ability of a commercial bank to make profits diminishes. This is because if loans are mainly interest bearing, per contra transactions are a source of commission, involving operations of international trade and their apertaining documents like letters of credit and documentary collections. Also included in such accounts and consequently profitable are: letters of guarantees, bills for collection, travellers checks and other operations which are quite decisive in the survival and prosperity of any bank.⁴⁵

45.

Information privately held: Mr. Varoujan Boyadjan, formerly General Manager, "Societe Centrale de Banques" (Syria).

CHAPTER IV

DEFECTS AND GAPS IN THE COMMERCIAL BANKING OF LEBANON

A. Introduction

From the description of the banking system in Lebanon, its evolution and structure, and from the analysis of the sources and uses of funds of banks in Lebanon, one comes out with various findings. However, these are based on figures of balance sheets and yearly statements, only. These could be misleading and even inaccurate. Consequently, the interpretation of figures would best be achieved by coupling numerical deductions with facts of daily relations between the banks on one hand, and their customers on the other, as well as the background of the general atmosphere governing their business relationships. Sayers supports this view by stating:

Any discussion of banking must not be confined to balance sheets and payment mechanics but must go beyond those to the relations between banker and customer and the detailed background of their everyday business.¹

1.

Sayers, Banking in the British Commonwealth, Op. cit., p. VIII.

Thus, this crucial functional element involved in the "relations" and "backgrounds", Sayers writes about, is to be accounted for in any study of banking. Unfortunately, this element cannot be tabulated nor interpreted in figures. Some of the factors affecting it such as the legislation in force can be evaluated against accepted criteria, but the overall picture remains to be assessed as a matter of value judgment.

Due, to these considerations this chapter has two basic parts. In one the assesement is based on figures and laws whereas in the other a more subjective interpretation is provided. The scope of evaluation covers banking institutions and peripheral organizations, laws, and public organizations.

B. Structural Findings

1 - The Private Sector

(a) Commercial Banks

Many factors contributed to the growth of banking services in Lebanon and the emergence of Beirut as a financial center. The history of foreign banks in Lebanon, since Ottoman times, and the free foreign exchange system and generally

liberal political and economic atmosphere contributed to a cosmopolitan and active banking community.

In areas usually avoided by foreign bankers but urgently requiring finance, the Lebanese bankers exerted great efforts. A complimentary in banking functions came about and Beirut acquired a reputation for cooperation between local and foreign banks.

As such Lebanon has had three types of banks: Foreign, Lebanese and Lebanese with foreign capital. The total number of banks in Lebanon reached at one time 94. At present, and, after the failure and take-over by the State of a number of banks and the putting in process of self liquidation procedures by two banks, it is likely that no more than 75 - 78 banks will be operating in Lebanon in the near future. Also, it must be noted that during 1968 foreign participation increased substantially.

This number of banks is very high relative to the population of Lebanon. But, the corresponding number of branches does not exceed two hundred. A relevant point is to be noted here, that despite the fact that local banks are more numerous

than foreign and Lebano-foreign banks, their total deposits and assets do not exceed $\frac{1}{3}$ of the total deposits and assets of the banking system. By contrast, the total capital of the foreign banks is about $\frac{1}{2}$ that of the privately held local banks, 11 of which only have deposits over LL.31 millions.

(b) Bankers' Association

The Bankers' Association was established in 1959. But until today, although morally influential, it has not been able to bring about an appropriate degree of specialization among the personnel of its fellow members.² It has also failed to establish effective control over its members.³ The lack of achievement in respect of personnel specialization and improved banking practices became very clear whenever there was a crisis such as the one brought about by the bankruptcy of the Commercial Bank, Real Estate Bank, Sogex Bank and the biggest of them all, the Intra Bank.⁴ However, one should not underestimate the influence it has in official centers as well as its consulting capacity. This influence was further strengthen-

2.

See Bankers' Association 1963 Yearly Report (Beirut: 1963), p. 10.

3.

Ibid., p. 12.

4.

See Bankers' Association Yearly Reports for the years 1965 and 1966 (Beirut: 1965/1966). It must be noted that Intra was not declared bankrupt due to the passing of special legislation.

ed. by the provision for a Bankers' Association nominee on the Higher Banking Commission which is empowered to review and approve or disapprove of requests for the opening of new branches by operating banks.

During 1968, moreover, a program was started under the auspices of the Bankers' Association in the St. Joseph University for the training of bank employees. The curriculum for the program is prepared by the Bankers' Association and the Association finances it. This program is intended to provide training for bank employees in the principles and practices of sound banking.

(c) ~~Non-Commercial~~ Banks and Financial Institutions

Another characteristics of the banking system of Lebanon is the non-existence of savings institutions, long and medium term credit banks and real estate credit institutions. Interbank deposits are quite substantial in Lebanon and have played a positive role in the growth of local banks, and have consequently contributed to the development of banking in Lebanon. But, a real money and capital market does not exist in Lebanon as yet, and accordingly firms in need of equity capital, cannot raise funds in the open market, despite the presence of a weak stock exchange market. This factor restricted corporate growth in Lebanon and in recent years the Lebanese Government attempted to encourage the development of investment banks by

granting tax advantages to such institutions. Irrespective of these advantages Lebanon has not had its first investment bank.

2 - The Public Sector

(a) The Central Bank and Banking Laws

The growth of banking in Lebanon has taken place in the absence of a central bank which commenced its operations only in April 1964. Before that date, the French "Banque du Syrie et du Liban" acted as a central bank, with respect to the issue of currency, government deposits and being the bankers' bank.

Lebanese banking legislation has been rather peculiar in its development and characteristics. As a matter of fact, Lebanon had its first law related to banking in 1956, the law of Banking Secrecy. In the early sixties, 1961, 1962 and 1963, some new laws were passed. The Money and Credit Law, that established the central bank, was passed in 1963. Subsequently, many laws were passed to amend the Money and Credit Law and to establish institutions considered necessary for the better functioning of the banking system. The most important of these laws were Law No. 28/67 issued on May 9, 1967 and Decree No. 7739 published in the Official Gazette on August 8, 1967.

Law No. 28/67 provided for the establishment of a Banking Control Commission. The Higher Banking Authority and the National Deposit Insurance Agency or Institution. It aimed to rectify gaps which were assumed to have contributed to malpractices by Lebanese bankers. Decree No. 7739 established procedures for the take-over and management of banks put under custody.

(b) The State

One might wonder whether some of the very reasons behind the growth of banking in Lebanon have not contributed to a too rapid growth responsible for the present predicament of some banks. For instance, the absence of state planning in a practically wide open economy with almost no protection or restrictions, has not always helped the orderly development of a sound banking system.

The Lebanese Economy which has expanded and grown tremendously during the last twenty years has not undergone a similar growth in organization, business management, and legalisation processes which should safeguard the country's interests, and these failings have manifested themselves in a number of establishments in the various sectors of the economy. ⁵

5.

A.H. Alameh, How to insure the Security and Prosperity of Banking (Beirut: by the Author, August 1, 1965), p. 1.

One could also state that so far, there has been practically no cohesive development policy. The five years plan, that has been the talk of government officials for some time, is nothing but a set of projects with no consideration whatsoever for any of the variable or stable factors to be taken into consideration before setting up any development project.⁶ Along with the lack of planning, goes the chaos associated with a liberalistic economy which was not even tempered by firm observation. This type of economy certainly did not make of Lebanon the prototype for an ideal free economy, although it proved itself unique with respect to state interference.⁷ This has led sometimes, to "general economic crisis" the presence of which was witnessed for example in the "predicament in which two of the local banks found themselves last year and the symptoms involved in the whole affair".⁸

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6. Mohamed Attallah, "Declaration of M. Attallah, E. Ghannage and Paul Khlaf" (In Arabic) Businessmen Review I (Beirut: March, 1966) p. 13.
7. Yussuf Sayegh and Mohamed Attallah, Another Look into the Lebanese Economy (In Arabic) (Beirut: Dar Al Talia, 1966) p. 88.
8. Alameh, How to Insure the Security and Prosperity of Banking, op. cit., p. 7.

Another point directly, linked with the state, is that related to the leniency demonstrated by law courts in considering legal responsibility for financial crisis.

"Negligence and leniency of law courts ... have resulted in considerable damage to the country's economy".⁹ Should courts decisions have been strict and enforced, many bankruptcies would have never occurred.

C. Functional Findings

1 - Commercial Banks

Savings in Lebanon are usually deposited on demand and could be developed much more because there has been no concerted public or private effort to encourage savings institutions. Demand deposits are interest bearing and are the object of keen competition among banks. They amount to 8 times time deposits which should as such be much higher, as in developed countries like England, and the United States, where demand and time deposits are almost equal.

9.

Ibid., p. 3.

Capital reserves are still very low and the capital of local banks is relatively much higher than that of foreign banks. However, in Lebanon, the subscribed capital of the banking system is relatively twice that in England and the United States when measured in relation to deposits. Consequently, the ratio of deposits to capital is much higher in the latter countries, and in Lebanon it is much higher in foreign banks than in local banks. This shows, a lack of confidence in the local banks which have to attract deposits on the strength of their capital rather than reputation. Foreign banks, although fewer than Lebanese banks, account for deposits twice as large or more. Also, local banks are more liquid than foreign banks, and have thus a lower earning power.

The total Lebanese banking system is also more liquid than that of England and the United States, due to the high ratio of demand to time deposits and the lack of instruments that could constitute eventually banks reserves. However, the relative size of the loan portfolio of those three countries, is more or less similar. Local and foreign banks have about the same relative loan portfolio size, although the former invest less in advances and more in discount. They also invest more than foreign banks in land and buildings, and this affects their liquidity. The

priority for loans in Lebanon goes to commerce that occupies over 50 percent of the loans portfolio. Industry comes next with 12 percent, followed by real estate with 9 percent and agriculture with only 5 percent of the total loan portfolio.

The priority received by Commerce is a direct result of having the banking sector controlled by foreign banks which "would have monopolized the country's deposits and other banking operations, had it not been for a few excellent national banks".¹⁰ These banks prefer to finance regular commercial activities in the import-export sector. Such being the case, the commercial sector developed tremendously and brought about a profusion of little shops, stores, agencies, services firms and so forth. This situation created very keen competition in an uncontrolled and unprotected market full of products and merchants with inadequate capital, relying mainly on borrowing. This situation contributed to the deterioration of business ethics and certainly did not help neither industry nor agriculture or real estate all of which required long term financing.

Irrespective of the preference given by the banking community to commercial loans, industry achieved a high degree of progress in the past ten years. It could have expanded, however,

10.

Alameh, How to insure the Security and Prosperity of Banking; op. cit., p. 3.

at a much faster rate and it would have been stronger and more organized if industrial long term or at least medium term loans were provided. Industrialists had to rely as such on renewable commercial loans for their working capital and remechanization. The need for long term financing is still urgent in industry. Agriculture as was noted in Chapter III, also suffered from a great lack of term loans as well as short term loans.

One major functional finding is that most local banks have acted as an intermediary between depositors and foreign banks and investments. Substantial sums of money were sent abroad in this manner as shown in the following table: ¹¹

TABLE 4:1

ASSETS AND LIABILITIES OF BANKS OPERATING IN LEBANON
WITH FOREIGN COUNTRIES

(IN MILLIONS OF LEBANESE POUNDS)

End of Year	Assets	Liabilities	Excess Assets
1966 ^x	1584	820	764
1965	1848	1156	692
1964	1459	1023	436

^x excluding Intra Bank

Source: Bank of Lebanon Yearly Publications for the years 1964, 1965 and 1966.

11. Mohamed Attallah, "Liquidity Problems in Lebanese Banks", in his discussion with: K. Djumblat, P. Edde and E. Saba. The Economist, VII (Beirut: March, 1966).

This means that at the end of 1966 LL.1584 millions were invested abroad mainly through the foreign banks operating in Lebanon against foreign liabilities of LL.820 millions at the end of the same year showing an excess of assets in the order of 36 percent of private deposits.

These findings pertain to practices while policies and management remain to be considered. One cannot talk about management without a long pause at the people who perform "the art of having things done and doing things". A Lebanese Banker summarizes bank management in Lebanon in the following terms:

Bank management in Lebanon suffers from two dangerous weaknesses. I must frankly state that some banks are controlled by either somewhat dishonest people or unqualified ones or absolutely dishonest and incompetent ones. The continued presence of such institutions is dangerous for the national economy in general and for some local banks which operate on studied, sound lines, whose directors act wisely, and show competence and high morals.¹²

12.

Alaneh, *Nine Lessons from the Crisis*, op. cit., p.12.

The following figures support the above quotation. They show the standard of education prevailing among bank employees. In 1964, and out of 4500 bank employees, 3802 were members of the bank employees syndicate.¹³ From estimates made among the syndicated employees, 500 only were college standard and 2600 had secondary education only.¹⁴ Another factor which supports this quotation relative to bank management in Lebanon is the fact that with the growth of banking, many banks and branches have been established with haste. As such, the country has witnessed an urgent need for managers and officers to assume responsibilities in the newly established banks. To remedy this

13. Republic of Lebanon, The Working Power in Lebanon (in Arabic), A report published by the Ministry of General Planning (Beirut: 1964).

14. Al Khalil and Bissat, op. cit., p. 104.

situation, and because of a lack of appreciation for a specialized staff, and due to the absence of such staff and to its high cost, most banks had to recruit their new managers mainly among assistant managers; their new assistant managers, among comptrollers and so forth. Therefore, with the opening of new branches and new banks, the quality of staff has deteriorated. The junior members of the banks' staff have been too quickly promoted to assume key positions without any solid training, nor proper background or experience. The Bankers' Association was prompted by these conditions to launch its educational project at the St. Joseph University.

It follows that the routine adopted by most banks could not include a qualitative study that should be given to each operation, and many objectives are not taken into consideration. The liquidity concept and the portfolio management as well as "determining the size to the loan portfolio" ¹⁵ are practically never studied; also the turnover, profitability of the account and the "overall desirability

15.

See Crosse, op. cit., p. 193.

of the loan" ¹⁶ do not enter seriously into the picture. The only objectives they try to achieve pertain to securing collateral and the character approach. That is why most local banks have so many bad debts intensified mainly by a lack of "assets acquisitions supervisions" ¹⁷, a very important function of bank management. Another element that contributes to such a situation is the bad information department some banks have which does not take into account that "all credit information without exception fall into three categories: antecedent information, investigational facts and financial information" ¹⁸. Thus the information department, in most of the cases, has been superficial and most of the time personal and unobjective. Lebanese banks have also lacked credit analysis and a specialized loan department with "an organizational structure" properly appropriated, like the one described by Hayes ¹⁹. The only credit analysis they have had so far is personal

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16. See Donald R. Hodgman, Commercial Bank Loan and Investment Policy (Champaign, Illinois: Bureau of Economic and Business Research, University of Illinois), p. 18.
17. See H. Livingston, Management Policies in American Banks, (New York: Harper and Bros., 1957), pp.113-116.
18. See Herbert V. Prochnow and Charles E. Sumer, Jr., The Process of Management (Englewood, Cliffs, N.J.: Prentice-Hall, Inc., 1961), p. 283.
19. Douglas A. Hayes, Bank Lending Policies (Michigan Business Studies, Michigan: XVI, No. 3).

and subjective, one which could not be used as a serious approach of any study pertaining to anyone's statement of income and position.

2 - Central Bank

The daily operations of the Central Bank reflect the monetary policy of Lebanon. It is generally recognized that economic development requires, if it is to involve available resources in a useful manner, the coordination of monetary policy with fiscal policies. This objective has not been realized in Lebanon. Cooperation between fiscal authorities and the Central Bank is provided for in an inadequate manner, by the nomination of the Director General of the Ministry of Finance to the Board of the Central Bank.

Irrespective of the lack of coordination between the Central Bank and fiscal authorities in Lebanon for achieving growth targets, the Central Bank could and was expected to develop a healthy monetary policy. In underdeveloped countries, central banks must fulfil the role of bankers' bank and should offer commercial banks protection and advice. ²⁰

20.

Sayers, Richard, Central Banking in underdeveloped Countries (Oxford: The Clarendon Press, 1964), Chap.VI.

The Lebanese Central Bank acted as the Bankers's Bank only after the failure of Intra forced it to do so. Even less exacting tasks were not performed by the Central Bank.

The reasons which explain the passive if not negative role played by the Central Bank are many. It has not been equipped with the proper human elements and skills that could ensure adequate, punctual and wise performance. Reference to the failure of the Central Bank to implement simple and essential policies is indicative of its calibre. The Central Bank has not yet played an efficient role in fixing the parity of the Lebanese Pound with respect to other foreign currencies, in accordance with Articles 75 and 81 through 83²¹, of the Money and Credit Law and as per the International Monetary Fund Regulations. This role is essential for supporting confidence in the Lebanese Pound.²² Another example is given by Table 3:7. A 40 percent drop in the liquidity of the total banking system of Lebanon took place in the months preceding the Intra crisis without any interference from the Central Bank. It also failed in its primary duty to exercise control

21.

Money and Credit Law, op. cit., pp. 11 and 13.

22.

Elias Saba, "Banking Crisis in Lebanon" (in Arabic), Al Nahar, daily Lebanese newspaper, IX CDXLIII, (Beirut: October 30, 1966), p. 5.

over banks as per Articles 148 and 149 of the Money and Credit Law, after two years and a half following the starting of its operations.²³ Finally, the Centrale des Risques was not conducted on a scientific basis, and even the data processing equipment supplied to the Central Bank was left without use for a long time until after the Intra crisis.^x

Unlike the U.S.A., where the Federal Reserve Board has to approve any loan made to non-residents, the Money and Credit Law of Lebanon does not provide for any preference in the loans of locally operating banks in favor of investments in Lebanon. Also, it does not impose any restrictions on investments by banks in foreign stocks. Consequently, the flow of funds from Lebanon for the purchase of bonds, notes, bills, stocks, mutual funds and the like has been much greater than could be expected.^{xx} The Money and Credit Law did not provide for any restrictions on investments by banks operating in Lebanon with banking institutions operating abroad. These could be viewed as gaps in the banking legislation. Their

23.

Ibid.

x.

Information privately held; Dr. M. Iskandar

xx.

Opinion given by two Managers of Stock Brokerage Houses operating in Lebanon.

impact on the pattern of operations of banks must be considered in the light of gaps in the Commercial Code and other legislation pertaining to economic transactions.

This law had many more major failings. It lacked provisions relating to the human element involved in the banking system, and did not give the Central Bank the power to grant banks extraordinary facilities like the ones given after November, 1966, when special legislation (Law 28/67) was passed to enable the Central Bank to grant extraordinary facilities until the end of 1968.²⁴ Also, the Money and Credit Law did not cancel nor amend sections 8 and 10 of Article 7 of Legislative Decree Number 144 issued on June 12, 1959. These sections made it impossible for banks to allocate any reserves for bad debts other than ones pertaining to customers already declared officially bankrupt by the proper court. By the same token, the banks cannot amortize any loss incurred with a client unless they have recourse and deplete all legal procedures for the collection of the debt. That practice involved banks in a great deal of unnecessary expense.

24.

Money and Credit Law, op. cit., p. 52.

A closer look at the Money and Credit Law and its amendments entails criticism of some of its important Articles.

- Article 33²⁵ makes of the Board of the Central Bank a consultant without power in respect of measures pertaining to banks. In practice, however, and especially after the Intra crisis the Central Bank assumed stronger persuasive powers.
- Article 76²⁶, although not enforced yet, limits the maximum reserves to be deposited by each bank at the Central Bank to 25 percent of the total demand deposits and to 15 percent of time deposits.

The disadvantage of this Article lies in its general dictates. For whereas the Central Bank could require the specified margin in full, it could by the same token abstain from requiring any deposit. This latter alternative was the rule until after the Intra crisis. This Article also specified those margins to deposits in Lebanese Pounds only, and did not mention deposits in foreign currencies²⁷, which factor minimized its impact on confidence, as the Lebanese system had substantial foreign reserves.

25. Ibid., p. 5.

26. Ibid., p. 11.

27. Saba, op. cit., p. 5. However Art.5 of Law 28/67 amended above article to include all deposits.

- Articles 99 to 104²⁸, describe loans given by the Central Bank to commercial banks as compulsory and of a relatively very short period of time. Thus, those loans can only serve commercial and not industrial or agricultural purposes.
- Articles 105 to 108²⁹, hindered the selling speed of the government bonds by limiting to 90 days the maturity of loans the Central Bank could give against such bonds. It also did not allow the Central Bank to accept any bonds as a collateral for a loan unless it is marketable in the stock exchange, while Article 102 exonerates stocks and movable values of this prerequisite.
- Article 1³⁰ of Law 28/67 restricts the opening of new banks and branches in Lebanon, but does not set up bases for the eventual establishment of banks or branches in the future.

28.

Money and Credit Law, op. cit., p. 16.

29.

Ibid., p. 17.

30.

Ibid., p. 49. However, prerequisites for a new branch opening, by a local bank, have been set-up by the Council of the Central Bank on October 3, 1967.

- Article 19³¹ limits the interest rate to be applied to insured deposits up to LL.15 thousand, but left without any limit the interest rate to be applied on other deposits. This failure might lead to the payment of high rates on demand deposits which would further prejudice depositors in favor of demand deposits as opposed to time and savings deposits.

31.

Ibid., p. 52.

CHAPTER V

C O N C L U S I O N S

Banking in Lebanon has a long history. But, fast growth in the number of operating banks, deposits and loans was essentially witnessed in the period after 1958 and until the failure of Intra in 1966. During this period the number of banks more than doubled, while deposits and loans increased by more than 300 percent.

This phenomenal growth took place for various external and internal reasons. A fair degree of political stability and a large measure of free enterprise in Lebanon, contrasted with growing socialism and autocracy in neighboring countries. This contrast produced a flow of capital and human resources to Lebanon. In addition, and perhaps more importantly, there was a growing availability of capital in oil producing countries. Lebanese contractors, professionals, craftsmen and traders developed extensive ties with the oil rich Arab countries. Partly in consequence of this phenomenon and partly because Lebanese bankers had more expertise than

Saudi and Kuwaiti bankers, Lebanon attracted deposits and banking business from oil rich Arab countries.

Previous to the latter half of the last decade and the first half of this one, banking operations were growing in line with the growth of the commercial sector in particular. In the period referred to, however, banking developed at a rate much faster than any other sector. Deposits and loans increased by more than 300 percent between 1959 and 1960. This growth could take place only because Lebanon enjoyed a free foreign exchange system which enabled banks and individuals to channel a substantial part of the deposits and loans abroad.

Growth in the banking sector exceeded by far the rate of growth of the GNP, which was estimated to range between 7 and 9 percent in the period. Also, it exceeded the growth in population, the working force, and money in circulation prior to the Intra crisis. Consequently, banking as part of the services sector played a major role in stimulating other sectors, whether directly or indirectly, and by varying degrees.

Lebanon was not prepared from the human resources point of view for this fast growth in banking activities.

Neither was legislative pertaining to banking comprehensive nor enforced. Consequently, serious defects in the development of the banking sector emerged. Some of these defects were unavoidable, in so far as they are structural defects in underdeveloped countries. Other defects were amenable to rectification, by private and public figures involved in banking.

Structural defects were essentially reflected in the shortage of long term loans for agriculture, industry and real estate. This was due to the very low proportion of time deposits in the deposits structure in the Lebanese banking system. It is also due to the type of saving deposits; treated, most of the time, as demand deposits, themselves, subject to a very keen competition at very high interest rates. Therefore, short term lending was more suitable, from a risk point of view to foreign banks, and more easy to handle by local banks. In view of this orientation, banks operating in Lebanon contributed to a faster growth of the services and commercial sectors as opposed to industry and agriculture. However, the shortage of long term loan capital to agriculture and industry received greater attention as the requirements of both sectors became more pressing in the sixties. But, inspite of increases in loans to both sectors, the need for long term loans is still pressing and the banks operating in Lebanon have not expressed an interest in widening their activities accordingly. This gap

between need and availability is likely to persist because tax exemptions for newly established investment banks did not encourage the formation of any such bank though two licences were secured by interested groups. Long term capital will only become available when the sources of funds structure changes, substantially, in favour of time deposits or when political security encourages foreign banks, to participate with local Lebanese interests, or otherwise, in such ventures. The concept of reasonable returns to steady investment is alien to the Lebanese character but is in the early stages of formation.

Institutional and legal defects in Lebanese banking are more serious than structural defects, because these are particular to the system. Local banks, as compared to foreign banks, suffered from growing lack of confidence. Consequently, liquidity in local banks was higher than in foreign banks, and the deposits to capital ratio was much lower. Both indicators demonstrate the inability of local banks to compete with foreign banks by achieving high profits, building their reserves and expanding their operations. This comparative disadvantage was further compounded, after the Intra crisis by the tremendous increase in the number of Lebanese banks seeking respectability through association with foreign banks. After the Intra crisis, private de-

posits in foreign banks exceeded deposits in Lebanese banks by a growing margin. At one time the respective ratios of private deposits with foreign versus local banks was reported to be in the order of 85 to 15 percent. The high liquidity, and limited deposits of Lebanese banks impose credit restrictions on the whole economy because local bankers maintain wider contacts with local businessmen and undertake business which foreign banks might refuse. To overcome the general economic difficulties that can derive from this situation, selective facilities in favor of local banks by the Central Bank might be very useful. But, the Central Bank is bent on a restrictive as opposed to a permissive policy, which highlights the failure of its management to comprehend the proper role of the central bank in a developing economy.

Central Bank negligence for supervision responsibilities and for the requirements of the role of the bankers' bank contributed to the banking crisis witnessed in Lebanon since the failure of Intra in 1966. Improvements at the Central Bank and in the legislative framework of banking in Lebanon are still far short of what is required. For instance, the central bank has not yet interfered to maintain the foreign exchange rate of the Lebanese Pound within limits prescribed by the International Monetary Fund.

Various laws passed in 1967 and 1968 provide for the establishment of institutions and commissions, which, however, are left without powers to achieve their objectives. In particular, the Banking Control Commission at the Bank of Lebanon does not have the independence it requires or the personnel to do its work, and the National Institution for Insurance of Deposits has become nothing more than insurance fund whose resources are largely mortgaged for the payment of debts accumulated by banks put under custody.

The most important salient feature about banking in Lebanon which explains the weaknesses of the system and illustrates the method for improvement, is the lack of trained minds in the private and public sectors alike. Until this defect is rectified, and time is required for the process of education and recruitment necessary, banking in Lebanon by the Lebanese will remain a subsidiary occupation to the prosperous and mature foreign banking institutions which are numerous in Beirut.

APPENDIX I - A

DETAILED LIST OF BANKS OPERATING IN LEBANON

(Amounts in Millions of Lebanese Pounds)

List No.	(II) Name of Bank	(III) Nationality	(IV) Capital		(V) Head Office And Branches
			Auth.	Paid Up	
1	Societe Centrale de Bank	French	3	3	10
2	Banco di Roma	Italian	3	3	4
3	Banque Misr-Liban	Lebano-Egyptian	5	5	14
4	Banque Tohme	Lebanese	3	3	1
5	Arab Bank Limited	Jordanian	3	3	4
6	Banque Nationale pour le Commerce et l'Industrie	French	3	3	2
7	The British Bank of the Middle East	British	3	3	5
8	Societe Bancaire du Liban	Lebanese	3	3	
9	Rafidan Bank	Iraqi	3	3	2
10	Compagnie Francaise de Credit & de Banque	Lebano-French	5	5	5
11	Banque Libanaise pour le Commerce	Lebanese	5	5	23
12	Banque Sabbagh	Lebanese	3	3	4
13	Banque G. Trad	Lebano-French	3	3	4
14	Banque du Liban & d'Outre-Mer	Lebanese	3	3	3
16	Federal Bank of Lebanon	Lebanese	10	7.75	8

APPENDIX I - A

DETAILED LIST OF BANKS OPERATING IN LEBANON
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List No.	(II) Name of Bank	(III) Nationality	(IV) Capital		(V) Head Office And Branches
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1	Societe Centrale de Bank	French	3	3	10
2	Banco di Roma	Italian	3	3	4
3	Banque Misr-Liban	Lebano-Egyptian	5	5	14
4	Banque Tohme	Lebanese	3	3	1
5	Arab Bank Limited	Jordanian	3	3	4
6	Banque Nationale pour le Commerce et l'Industrie	French	3	3	2
7	The British Bank of the Middle East	British	3	3	5
8	Societe Bancaire du Liban	Lebanese	3	3	
9	Rafidan Bank	Iraqi	3	3	2
10	Compagnie Francaise de Credit & de Banque	Lebano-French	5	5	5
11	Banque Libanaise pour le Commerce	Lebanese	5	5	23
12	Banque Sabbagh	Lebanese	3	3	4
13	Banque G. Trade	Lebano-French	3	3	4
14	Banque du Liban & d'Outre-Mer	Lebanese	3	3	3
16	Federal Bank of Lebanon	Lebanese	10	7.75	8

List No.	(II) Name of Bank	(III) Nationality	(IV) Capital		(V) Head Office And Branches
			Auth.	Paid Up	
17	Saudi National Commercial Bank	Saudi	5	5	1
19	Banque Belgo-Libanaise	Lebano-Belgian	5	5	1
20	Algemene Bank Nederland	Dutch	3	3	1
22	Eastern Commercial Bank	Lebanese	5	5	5
23	The Chase Manhattan Bank	American	3	3	1
24	The First National City Bank	American	3	3	1
25	Eastern Bank Ltd.	British	3	3	1
26	Banque Chartouni	Lebanese	3	3	1
27	Banque Saradar	"	3	3	1
28	Banque Beyrouth & des Pays Arabes	"	5	5	8
29	Comptoir National d' E.I.P.	"	1	1	1
30	Banque Joseph Lati & Fils	"	6	5	1
31	The First National Bank of Chicago	Lebano-American	4	3	1
32	Beirut Riad Bank	Lebanese	25	12.5	6
33	Banque S. Schoucair	"	6	6	1
34	Banque d'Epargne	"	3	3	7
35	Banque Pharaon & Chiha	"	12.8	12.8	1
36	Banque de Credit National	"	2	2	1
37	Banque Mebco	"	10	6.25	1
38	Bank of Lebanon & The Middle East	"	15	15	4

List No.	(II) Name of Bank	(III) Nationality	(IV) Capital		(V) Head Office And Branches
			Auth.	Paid Up	
39	Banque Byblos	Lebanese	5	5	8
40	Adcom Bank	"	3	1.5	1
41	Union National Bank	"	10	6.95	4
42	Lombard Bank Lebanon	Lebano-British	5	3	1
43	The Arab Real Estate Bank	Lebanese	10	10	1
44	Banque des Activites Economiques	"	5	5	1
45	Banque Sabbabeh	"	3	3	3
46	Banque de L'Industrie et du Travail	"	10	10	5
49	Jordan National Bank	Jordanian	3.22	3.22	3
50	Eastern Development Bank	Lebanese	10	10	2
51	Banque Libano-Bresilienne	"	5	3	5
52	Development Bank	"	8	8	32
53	Credit Libanais	"	3	3	3
55	Banque Beyrouth pour le Commerce	"	3	3	5
56	Banque Audi	"	4.5	4.5	4
57	Banque Nasr Libano-Africaine	"	4	3	5
58	Bank of Kuwait & The Arab World	"	12	12	2
61	Banque Joseph Geagea	"	3	3	1
62	Societe Tunisienne de Banque	French	3	3	1
63	Kairouz Bank	Lebanese	5	3	2
65	Banque de Credit Populaire	"	3	3	2
66	Banque Emile Farran	"	3	3	2
67	Bank Saderat Iran	Iranian	3	3	1

List No.	(II) Name of Bank	(III) Nationality	(IV) Capital		(V) Head Office And Branches
			Auth.	Paid Up	
68	Societe Nouvelle de la B.S.L.	Lebano-French	15	10.39	14
69	Moscow Narodny Bank	British	3	3	1
70	Bank of America	American	3	3	1
71	Banque Majdalani	Lebanese	4	3	1
72	Banque de Credit Professionnel	"	2	2	3
73	Rifbank	Lebano-Kuwaiti	4	4	1
74	Commercial Business Bank	Lebanese	5	3	2
75	Banque d'Affaires Immobilières	"	10	3	1
76	Banque El-Arz	"	2	2	2
77	Prosperity Bank of Lebanon	"	3	3	1
78	Rabia Cooperative Bank	"	3	3	1
80	Investment Bank	"	3	3	2
81	Banque de L'Essor Economique Libanais	"	5	2	11
82	Beirut Universal Bank	"	5	3	3
83	Banque Libanaise des Emigres	"	3	3	2
84	The Federal Arab Bank	"	6	3	5
85	Habib Bank Limited	Pakistani	3	3	1
86	Bank of Nova Scotia	Canadian	3.23	3.23	1
87	Litex Bank	Lebano-Bulgarian	5	5	1
88	Banque Zahle	Lebanese	3	3	1
89	Trans-Orient Bank	"	3	3	1
90	Banque Arabo-Africaine	Egyptian	3	3	1
92	Banque Bekaa	Lebanese	3	3	2
93	Medinvest Liban	"	3	3	1
94	Banque de Credit	"	3	3	1
T O T A L:			409	355	280

Source: Information privately held: Bank of Lebanon.

APPENDIX I - B

"SECRECY OF BANKS LAW"

Enacted on September 3, 1956

The Chamber of Deputies has passed, and
The President of the Republic has promulgated the following law:

Article 1.- All banks incorporated in Lebanon as joint stock companies, as well as branch banks of foreign companies shall be subject to professional secrecy, provided that such Lebanese and foreign banks would have obtained a special approval granted by the Minister of Finance.

The provisions hereof shall not apply to the Agricultural, Industrial and Real Estate Credit Bank.

Article 2.- The managers and officials of the banks referred to in Article 1, as well as any person, who, by reason of his capacity or office, has, by any means, access to the records of the bank registers, formalities and correspondence, are bound to keep the absolute secrecy thereof in the interests of the bank's clients; they shall not divulge any information regarding the names and monies of clients and other relevant affairs, to any individual, public administration, judicial or military authorities, except when permitted to do so by the person concerned, his heirs or legatees; or when the person concerned is declared bankrupt or when a suit, relating to a banking operation, arises between the banks and their clients.

Article 3.- Banks referred to in Article 1 may open for their clients numbered deposit accounts, the owners of which shall only be known to the manager in charge of the bank or to his deputy.

The identity of the owner of a numbered account shall only be revealed upon written permission or that of his heirs or his legatees, or if he is declared bankrupt or when a suit, relating to a bank transaction, arises between the banks and their clients.

Such banks may, also, according to the same conditions, lease safes under numbers.

Article 4.- It is not allowed to attach any of the property and assets, deposited with the banks referred to in Article 1, except with the written permission of the owners thereof.

Article 5.- It may be agreed beforehand to grant the permit, referred to in the preceding Article, in any kind of contract; such permit may only be withdrawn with the consent of all the contracting parties.

Article 6.- In order to safeguard the investment of their monies, the banks referred to in Article 1, may secretly exchange only the information relating to the debit accounts of their clients.

Article 7.- Banks referred to in Article 1, may not plead the professional secrecy provided for herein, in respect of applications made by the judicial authorities, in respect of suits of unlawful enrichment, initiated under Legislative Decree No. 38 of 18th February, 1953 and the Law of 14th April, 1954.

Article 8 .- Any wilful contravention to the provisions hereof renders the perpetrator liable to imprisonment from three months up to one year. Commencement of commission of the offence is punishable with the same punishment.

Public right may only be initiated upon a complaint from the person aggrieved.

Article 9 .- All legal provisions contradicting or inconsistent with the text hereof shall be repealed.

Article 10.- This law operates after two months from the date of its promulgation in the Official Gazette.

(Sgd.) Camille Shamoun

ENACTED BY THE PRESIDENT OF THE REPUBLIC.

PRIME MINISTER

(Sgd.) Abdalla El-Yafi

FINANCE MINISTER

(Sgd.) George Karam

APPENDIX I - C

LAW ISSUED ON THE 19TH DECEMBER, 1961

AUTHORIZING THE OPENING OF JOINT ACCOUNT AT THE
BANKS GOVERNED BY THE BANKS SECRECY LAW

The House of Deputies has ratified, and
The President of the Republic promulgates the following law:

Article 1.- The banks governed by the banks secrecy law may open for their clients joint accounts which may be operated on the strength of the signature of any of the parties thereto.

Article 2.- The application for the opening of the joint account shall be signed by all concerned who should all be enjoying the capacity to contract.

Article 3.- Upon the death of any of the parties to the joint account, the other party or parties shall have the right to operate the account in full. In this case the bank shall not intimate any information to the heirs of the deceased party unless explicitly provided for in the agreement concluded upon the opening of the account. The literal provision of this clause shall be reproduced in the joint account opening agreement.

Article 4.- Should any party to the joint account be declared bankrupt, the credit balance of the joint account shall be deemed the property of the bankrupt unless the contrary is proved.

Article 5.- In the event of any law suit being instituted between the parties to the joint account, the bank shall block the account immediately upon being notified of the suit, and shall keep it blocked until such time as a final executable judgement in the case is delivered.

Article 6.- The bank shall not effect compensation between the different accounts pertaining to anyone party to the joint account except with the written consent of the other parties.

Article 7.- The authorisations provided for in the banks secrecy law shall not be valid unless issued by all the parties to the joint account.

Article 8.- All legal stipulations and provisions which are contradictory to or inconsistent with this law shall be considered cancelled.

Article 9.- This law shall be enacted as from the time of its promulgation in the Official Gazette.

Azzouk 19.12.61

Issued by: The President of the Republic (Sgd.) Fouad Chehab

Signed : Rashid Karamah
Prime Minister

(Sgd.) Rashid Karamah
Minister of Finance

(Official Gazette No. 54 dated 20th. December, 1961).

APPENDIX I - D

DECREE NO. 9860 DATED JUNE 25, 1962

(With its Amendments)

"Centrale des Risques"

Article 1.- A bank is not considered accredited unless it is a member of the "Centrale des Risques" affiliated with the Institution of Issue.

Article 2.- Joining the "Centrale" is effected by the bank's direct application to the Institution of Issue. Previously accredited banks, to be still considered as such, have to apply within one month of publication of this decree.

Article 3.- (as amended by Decree No. 10412 dated August 24, 1962) Banks members of the "Centrale" have to submit monthly statements relative to all customers enjoying a line of over LL.20 thousands granted them in one of the following forms: discount, advances against tangible guarantees, advances against personal guarantees, trade bills, unsecured advances, advances against letters of Credit, letters of guarantees, guarantees and avals.

Those statements have to be submitted within 15 days following the end of every previous month.

Article 4.- The statements submitted by banks are kept absolutely Secret and are used only to inform banks inquiring about the total line relative to each customer.

Article 5.- The expenses of the "Centrale" are equally shared by all member banks as per a scale issued in due form by the "Centrale" subject to approval by the Minister of Finance.

Article 6.- (amended by Decree No. 10412 dated August 24, 1963). This decree shall be published whenever the need arises and shall be enforced starting September 1, 1962, detail of which shall be fixed by the Minister of Finance as suggested by the Institution of Issue.

APPENDIX II - A

BALANCE SHEETS OF BANKS OF THE FIRST GROUP CLASS A WITH DEPOSITS OVER
L.L. 61 MILLIONS AS OF THE END OF 1964, 1965 AND 1966

(amounts in millions of Lebanese Pounds)

	Bank No.1			Bank No.2			Bank No.3			Bank No.4		
	1964	1965	1966	1964	1965	1966	1964	1965	1966	1964	1965	1966
ASSETS												
Cash and at Banks	37.3	35.9	27.9	12.9	17.0	15.2	16.4	15.6	14.6	13.9	19.7	21.4
Investments	11.0	13.8	11.5	8.8	10.1	9.7	-	-	-	.2	.5	1.4
Advances	55.6	77.4	71.7	37.9	37.8	50.5	21.4	33.5	47.2	23.2	24.6	29.0
Discount	33.7	37.2	58.1	12.7	17.4	13.4	4.5	5.6	6.9	15.0	21.7	25.4
Total Assets	137.6	164.3	169.2	72.3	82.3	88.8	42.3	54.7	68.7	52.3	66.5	77.2
Per Contra Accounts	40.4	46.7	47.4	48.9	53.6	78.9	18.3	32.7	12.7	51.0	59.5	32.9
Grand Total:	178.0	211.0	216.6	121.2	135.9	167.7	60.6	87.4	81.4	103.3	126.0	110.1
LIABILITIES												
Capital Account	5.5	5.6	5.6	12.9	13.0	13.0	3.2	3.3	3.3	6.1	6.4	6.8
Deposits	126.7	151.6	155.7	57.5	67.2	73.5	38.6	50.9	64.8	42.8	54.7	62.1
Other Accounts	5.4	7.1	7.9	1.9	2.1	2.3	.5	.5	.6	3.4	5.7	8.3
Total Liabilities	137.6	164.3	169.2	72.3	82.3	88.8	42.3	54.7	68.7	52.3	66.5	77.2
Per Contra Account	40.4	46.7	47.4	48.9	53.6	78.9	18.3	32.7	12.7	51.0	59.5	32.9
Grand Total:	178.0	211.0	216.6	121.2	135.9	167.7	60.6	87.4	81.4	103.3	126.0	110.1

Sources: "Annuaire Financier du Liban" (Beirut: Slim Press, 1967).

Republic of Lebanon, The Official Gazette (Beirut: 1965, 1966 & 1967)

APPENDIX II - B

BALANCE SHEETS OF BANKS OF THE FIRST GROUP CLASS B WITH DEPOSITS
 BETWEEN LL.51 & 60 MILLIONS AS OF THE END OF 1964, 1965 & 1966
 (amounts in millions of Lebanese Pounds)

	Bank No.5			Bank No.6		
	1964	1965	1966	1964	1965	1966
ASSETS						
Cash and at Banks	17.6	20.9	11.3	13.6	14.3	9.6
Investments	11.8	12.9	17.8	2.5	2.5	2.5
Advances	25.7	26.2	33.4	25.2	29.1	32.4
Discount	14.1	10.9	14.5	11.9	15.2	14.8
Total Assets	69.2	70.9	77.0	53.2	61.1	59.3
Per Contra Accounts	76.6	92.1	111.2	23.9	26.9	22.0
Grand Total:	145.8	163.0	188.2	77.1	88.0	81.3
LIABILITIES						
Capital Account	16.1	16.2	19.1	5.3	5.3	5.3
Deposits	51.7	52.6	55.5	47.6	55.5	53.6
Other Accounts	1.4	2.1	2.4	.3	.3	.4
Total Liabilities	69.2	70.9	77.0	53.2	61.1	59.3
Per Contra Accounts	76.6	92.1	111.2	23.9	26.9	22.0
Grand Total:	145.8	163.0	188.2	77.1	88.0	81.3

Sources: "Annuaire Financier du Liban" (Beirut: Slim Press, 1967)
 Republic of Lebanon, The Official Gazette (Beirut:
 1965, 1966 and 1967.

APPENDIX II - C

BALANCE SHEETS OF BANKS OF THE FIRST GROUP CLASS C WITH DEPOSITS
BETWEEN LL.41 & 50 MILLIONS AS OF THE END OF 1964, 1965 & 1966

(amounts in millions of Lebanese Pounds)

	Bank No.7			Bank No.8		
	1964	1965	1966	1964	1965	1966
ASSETS						
Cash and at Banks	15.7	22.4	18.9	7.2	10.0	10.7
Investments	8.5	8.1	9.7	1.5	1.4	2.9
Advances	13.7	16.9	23.9	19.8	22.8	28.7
Discount	5.8	3.2	4.1	5.7	8.5	10.8
Total Assets	43.7	50.6	54.6	34.2	42.7	53.1
Per Contra Accounts	14.9	22.8	11.3	35.4	41.8	8.0
Grand Total:	58.6	73.4	66.9	69.6	84.5	61.1
LIABILITIES						
Capital Account	6.7	6.7	6.7	8.0	8.0	8.0
Deposits	37.0	43.9	47.9	25.9	34.4	44.8
Other Accounts	-	-	-	2.3	.3	.3
Total Liabilities	43.7	50.6	54.6	34.2	42.7	53.1
Per Contra Accounts	14.9	22.8	11.3	35.4	41.8	8.0
Grand Total:	58.6	73.4	66.9	69.6	84.5	61.1

Sources: "Annuaire Financier du Liban" (Beirut: Slim Press, 1967).Republic of Lebanon, The Official Gazette (Beirut: 1965, 1966 and 1967).

APPENDIX II - D

BALANCE SHEETS OF BANKS OF THE FIRST GROUP CLASS D WITH DEPOSITS
BETWEEN L.L. 31 & 40 MILLIONS AS OF THE END OF 1964, 1965 & 1966

(amounts in millions of Lebanese Pounds)

	Bank No.9			Bank No.10			Bank No.11		
	1964	1965	1966	1964	1965	1966	1964	1965	1966
ASSETS									
Cash and at Banks	18.0	17.0	19.1	3.4	4.9	5.8	9.7	10.6	9.5
Investments	6.2	7.1	7.0	3.5	5.0	7.0	1.5	1.8	1.6
Advances	16.7	21.0	26.8	22.0	27.3	28.4	11.0	12.9	16.7
Discount	<u>2.5</u>	<u>4.2</u>	<u>5.6</u>	<u>4.3</u>	<u>2.3</u>	<u>3.2</u>	<u>8.3</u>	<u>11.0</u>	<u>8.5</u>
Total Assets	43.4	49.3	48.5	33.2	39.5	44.4	30.5	36.3	36.3
Per Contra Accounts	<u>7.8</u>	<u>8.3</u>	<u>22.0</u>	<u>21.5</u>	<u>24.5</u>	<u>17.3</u>	<u>20.0</u>	<u>17.8</u>	<u>19.0</u>
Grand Total:	<u>51.2</u>	<u>57.6</u>	<u>70.5</u>	<u>54.7</u>	<u>64.0</u>	<u>61.7</u>	<u>50.5</u>	<u>54.1</u>	<u>55.3</u>
LIABILITIES									
Capital Account	10.0	10.0	10.0	5.1	5.1	6.5	3.3	3.3	3.3
Deposits	33.0	38.7	37.8	26.9	31.2	36.8	26.9	32.7	32.7
Other Accounts	<u>.4</u>	<u>.6</u>	<u>.7</u>	<u>1.2</u>	<u>3.2</u>	<u>1.1</u>	<u>.3</u>	<u>.3</u>	<u>.3</u>
Total Liabilities	43.4	49.3	48.5	33.2	39.5	44.4	30.5	36.3	36.3
Per Contra Accounts	<u>7.8</u>	<u>8.3</u>	<u>22.0</u>	<u>21.5</u>	<u>24.5</u>	<u>17.3</u>	<u>20.0</u>	<u>17.8</u>	<u>19.0</u>
Grand Total:	<u>51.2</u>	<u>57.6</u>	<u>70.5</u>	<u>54.7</u>	<u>64.0</u>	<u>61.7</u>	<u>50.5</u>	<u>54.1</u>	<u>55.3</u>

Sources: "Annuaire Financier du Liban" (Beirut: Slim Press, 1967)Republic of Lebanon, The Official Gazette (Beirut: 1965, 1966 and 1967).

APPENDIX II - E

BALANCE SHEETS OF BANKS OF THE SECOND GROUP E A WITH DEPOSITS
BETWEEN LI.21 & 30 MILLIONS AS OF THE END OF 1964, 1965 & 1966

(amounts in millions of Lebanese Pounds)

	Bank No.12		Bank No.13		Bank No.14		Bank No.15		Bank No.16						
	1964	1965	1964	1965	1964	1965	1964	1965	1964	1965	1966				
ASSETS															
Cash & at Banks	5.3	4.0	5.0	7.6	7.1	5.2	2.9	5.2	4.6	2.2	3.1	3.2	10.3	9.5	12.4
Investments	2.4	2.4	2.5	4.1	5.5	7.7	5.5	4.6	4.5	1.3	1.6	1.6	2.9	3.4	5.4
Advances	11.3	14.9	22.0	14.4	18.9	16.7	2.4	3.6	6.5	18.3	18.7	19.2	4.2	4.5	5.0
Discount	4.0	4.0	4.8	7.2	5.0	7.1	7.5	12.5	15.3	2.5	2.9	4.0	8.5	6.6	3.6
Total Assets	23.0	25.3	34.3	33.3	36.5	36.7	18.3	25.9	30.9	24.3	26.3	28.0	25.9	24.0	26.4
Per Contra Accounts	9.7	12.1	18.4	11.2	n.a.	16.0	7.4	10.4	16.1	18.6	35.5	38.1	8.1	9.6	7.1
Grand Total:	32.7	37.4	52.7	44.5	n.a.	52.7	25.7	36.3	47.0	42.9	61.8	66.1	34.0	33.6	33.5
LIABILITIES															
Capital Account	3.0	4.5	4.6	8.8	8.5	10.5	5.0	5.0	5.1	2.5	2.7	3.0	2.0	2.0	2.0
Deposits	19.9	20.7	29.6	23.5	27.8	25.9	13.0	20.3	25.3	21.6	23.4	23.3	23.5	21.4	23.6
Other Accounts	.1	.1	.1	1.0	.2	.3	.3	.6	.5	.2	.2	1.7	.4	.6	.8
Total Liabilities	23.0	25.3	34.3	33.3	36.5	36.7	18.3	25.9	30.9	24.3	26.3	28.0	25.9	24.0	26.4
Per Contra Accounts	9.7	12.1	18.4	11.2	n.a.	16.0	7.4	10.4	16.1	18.6	35.5	38.1	8.1	9.6	7.1
Grand Total	32.7	37.4	52.7	44.5	n.a.	52.7	25.7	36.3	47.0	42.9	61.8	66.1	34.0	33.6	33.5

Sources: "Annuaire Financier du Liban" (Beirut: Slim Press, 1967)

Republic of Lebanon, The Official Gazette (Beirut: 1965, 1966 and 1967)

APPENDIX II - F

BALANCE SHEETS OF BANKS OF THE SECOND GROUP CLASS F WITH DEPOSITS
BETWEEN LL.11 & 20 MILLIONS AS OF THE END OF 1964, 1965 & 1966

(amounts in millions of Lebanese Pounds)

	Bank No.17			Bank No.18			Bank No.19		
	1964	1965	1966	1964	1965	1966	1964	1965	1966
ASSETS									
Cash and at Banks	2.7	4.4	5.5	1.6	1.4	2.6	1.0	1.3	2.0
Investments	.2	.3	.5	4.2	4.3	4.3	.1	.1	-
Advances	6.3	5.9	6.3	10.3	10.7	10.7	8.3	8.8	9.2
Discount	1.7	4.3	5.5	.2	.3	2.0	2.1	2.4	4.4
Total Assets	10.9	14.9	17.8	16.3	16.3	19.6	11.5	12.6	15.6
Per Contra Accounts	7.0	8.3	8.8	9.4	9.6	17.0	5.7	6.2	14.5
Grand Total:	17.9	23.2	26.6	25.7	25.9	36.6	17.2	18.8	30.1
LIABILITIES									
Capital Account	2.5	2.5	2.5	5.0	5.0	5.0	3.0	3.0	3.0
Deposits	8.3	12.3	15.2	11.3	11.3	14.6	8.0	9.2	12.0
Other Accounts	.1	.1	.1	-	-	-	.5	.4	.6
Total Liabilities	10.9	14.9	17.8	16.3	16.3	19.6	11.5	12.6	15.6
Per Contra Accounts	7.0	8.3	8.8	9.4	9.6	17.0	5.7	6.2	14.5
Grand Total	17.9	23.2	26.6	25.7	25.9	36.6	17.2	18.8	30.1

Sources: "Annuaire Financier du Liban" (Beirut: Slim Press, 1967)Republic of Lebanon, The Official Gazette (Beirut: 1965, 1966 and 1967).

BALANCE SHEETS OF BANKS OF THE SECOND GROUP CLASS G A WITH DEPOSITS EQUAL
OR BELOW LI.10 MILLIONS AS OF THE END OF 1964, 1965 AND 1966

(amounts in millions of Lebanese Pounds)

	Bank No.20		Bank No.21		Bank No.22		Bank No.23		Bank No.24							
	1964	1965	1964	1965	1966	1964	1965	1966	1964	1965	1966					
ASSETS																
Cash and at Banks	.4	.7	.7	.7	1.6	1.6	1.8	2.2	3.4	4.5	.2	.5	.4	1.3	1.3	1.7
Investments	3.4	3.3	3.5	3.5	.2	.2	.5	.1	.4	.5	2.2	2.2	2.1	.2	.1	-
Advances	2.7	4.6	4.3	4.3	2.8	4.7	7.5	4.7	4.2	4.3	2.0	2.5	2.2	1.0	.9	1.2
Discount	7.8	6.8	7.2	7.2	2.0	2.0	2.7	.8	1.2	1.8	.9	1.2	2.0	2.4	2.4	2.1
Total Assets	14.3	15.4	15.7	15.7	6.6	8.5	12.5	7.8	9.2	11.1	5.3	6.4	6.7	4.9	4.7	5.0
Per Contra Accounts	13.6	16.7	8.8	8.8	3.6	6.9	10.0	5.5	8.2	9.5	1.0	1.3	1.8	2.5	2.7	2.3
Grand Total:	27.9	32.1	24.5	24.5	10.2	15.4	22.5	13.3	17.4	20.6	6.3	7.7	8.5	7.4	7.4	7.3
LIABILITIES																
Capital Account	5.0	5.0	5.0	5.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0
Deposits	8.9	9.8	10.0	10.0	3.6	5.5	9.5	4.7	5.9	7.9	2.3	3.4	3.7	1.7	1.5	1.6
Other Accounts	.4	.6	.7	.7	-	-	-	.1	.3	.2	-	-	-	.2	.2	.4
Total Liabilities	14.3	15.4	15.7	15.7	6.6	8.5	12.5	7.8	9.2	11.1	5.3	6.4	6.7	4.9	4.7	5.0
Per Contra Accounts	13.6	16.7	8.8	8.8	3.6	6.9	10.0	5.5	8.2	9.5	1.0	1.3	1.8	2.5	2.7	2.3
Grand Total:	27.9	32.1	24.5	24.5	10.2	15.4	22.5	13.3	17.4	20.6	6.3	7.7	8.5	7.4	7.4	7.3

Sources: Annuaire Financier du Liban (Beirut: Slim Press, 1967)

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