



Overview of the Recent Monetary, Banking, and Financial Developments in Lebanon

2017

The uniqueness of Lebanon has always been in its ability to surmount difficulties. The country was able to confront internal and external challenging circumstances in 2017: GDP growth stood at 2.5%, an improvement from previous years, and the inflation rate was below 4.5%, in line with BDL's objectives.

The policies and tools that have been used by the Central Bank to safeguard the national currency and maintain financial and economic stability have withstood the test of time. These achievements include strengthening monetary policy, striving to achieve sustainable economic growth and financial sector stability, fostering transparency and integrity by establishing best-in-class financial sector supervision and anti-money laundering capabilities and improving internal systems and processes.

Challenging circumstances never inhibited the Lebanese banking sector from flourishing. Its performance remains healthy and all the indicators point towards general progress. During 2017, total banking activity grew by more than 7.6% with total assets of banks reaching around USD 220 billion



at end-2017. Customer deposits have increased by around 3.4% year-on-year to reach a new high of USD 178 billion at December 2017. Non-resident deposits continued to grow despite local and regional challenges. Lending activity recorded a 5.78% growth year-on-year up till end of year, with total credit to the private sector exceeding USD 62 billion. The deposit dollarization ratio was around 68.72%, while the loan dollarization ratio continued its downward trend to reach 70.95% at end-2017.

At the monetary level, BDL continued to maintain exchange rate and interest rate stability. BDL's foreign assets reached a historic record level of around USD 42 billion in December 2017, asserting stability and confidence in the Lebanese pound. The slight increase in interest rates last year is aligned with the Federal Reserve's normalization policy and in concurrence with other countries whose currencies are pegged to the US Dollar, such as the Gulf Cooperation Council countries. This increase will have a positive impact, attracting remittances and boosting deposits.

BDL is devoted to ensuring the soundness of the banking sector, and is equally dedicated to promoting economic and social stability. It has taken a leading role in stimulating the Lebanese economy by fostering growth and employment.



The BDL has long resorted to unconventional monetary policy tools to spur investment by providing incentives to the private sector offered through banks. These incentives have played a key role in boosting and supporting the numerous segments of the Lebanese economy: strengthening traditional sectors through productive loans; development of human capital and entrepreneurship through education, research and development and knowledge and innovation loans; reinforcement of the middle class through housing loans; and preservation of the environment through green incentives. The importance of these catalyst endeavors lies in their sizable contribution to real GDP, and their momentum in job creation.

Moreover, BDL extended its support to the development of the Knowledge Economy, encouraging the growth of the ecosystem as a whole, and steering private equity in that direction. Lebanon now ranks second among 54 world economies in the Entrepreneurship Spirit Index, according to the GEM (Global Entrepreneurship Monitor) annual Global Report 2017/2018. It is also ranked fourth both in Total Early Stage Entrepreneurial Activity and in Entrepreneurial Impact in Innovation, based on the same report.

The Central Bank of Lebanon will continue with its current strategies of safeguarding the national currency, and maintaining financial and economic stability. It also aims to extend additional support to SMEs through the establishment of an Electronic Trading Platform entirely dedicated to startup



funds and SMEs. The BDL will provide financial incentives to ensure the success of the IPOs when needed.

On another note, BDL is assessing the efficacy of digital currencies and their potential future use. Digital currencies are likely to play a key role in local and international payment systems.

The outlook for the year 2018 remains positive, supported by the completion of the successful fund-raising conference CEDRE, in Paris on April 6 2018. The Government's commitment to structural reforms will be the needed catalyst for the Lebanese economy to regain momentum and to achieve its potential.