



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

2018

Unstable political circumstances in the country, along with regional unrest and the burdens of the Syrian crisis, have impaired the Lebanese economy for several years now. The political vacuum caused by a nine-month absence of a government in 2018 further exacerbated the economic environment. As a result, main economic indicators such as foreign investment, tourism, and real estate, marked their lowest levels since 2011. GDP growth stood at around 1% compared to 2% growth in the region, while the inflation rate reached approximately 6%. Lebanon's singularity, however, continues to lie in its resilience and its unique ability to prevail under exceptionally arduous social, political, and economic pressures.

At the monetary level, the Central Bank was able to maintain its commitment to exchange rate stability, hence reinforcing confidence in the financial system as a whole. Its solid stock of assets in foreign currencies ensures that Banque du Liban (BDL) remains well-equipped to confront any crisis. As for interest rates, these witnessed an increase in 2018, in line with market tendencies and accounting for a rise in the budget deficit and a global increase in interest rates.



In spite of challenges that hampered its progress, the banking sector's performance remained healthy, recording a 13.5% increase in total assets of banks which exceeded USD 249 billion in December 2018. Bank deposits also grew by around 3% with most of the increase registered in foreign currency deposits, which raised the dollarization ratio from 68.7% in December 2017 to 70.6 % at the end of 2018. Bank loans to the private sector stood at USD 61.7 billion at end 2018, almost the same as in December 2017, with the loan dollarization ratio witnessing a slight decrease from the previous year.

In terms of capitalization, banks in Lebanon reached a capital adequacy ratio of 16%, exceeding the requirements of Basel III and complying with the International Financial Reporting Standards (IFRS9). The Lebanese banking sector's regulatory and supervisory frameworks are in line with international standards, thereby preserving its resilience and ability to withstand any contingencies.

BDL also maintained its position in stimulating the Lebanese economy by continuing to foster growth and employment, while upholding its commitment to the banking sector and its soundness. The Central Bank has revitalized various economic sectors by means of subsidized credit, which is sustained by a yearly renewal of BDL's stimulus packages since 2013.



Subsidized credit under these packages has so far amounted to more than USD 7 Billion.

The development of the Knowledge Economy remains a priority for the Central Bank which persists in encouraging the growth of the ecosystem as a whole and in steering private equity in that direction. According to the GEM (Global Entrepreneurship Monitor) Lebanon National Report 2018, Lebanon ranked fourth globally (among 49 world economies), and first within MENA, in terms of the level of *Total Early Stage Entrepreneurial Activity*. It also ranked 2nd globally for both *New Business Ownership* and *Established Business Ownership* and fourth for *Innovation in Entrepreneurship Impact*, based on the same report. BDL strongly believes that the Fourth Industrial Revolution rests on innovation and human capacity as fundamental elements to foster greater competitiveness.

In the same context, an electronic trading platform is expected to start its operations within one year. This platform should provide the necessary equity and liquidity for SMEs and should facilitate the access of people from around the world to the Lebanese markets, thus boosting investment in the Lebanese knowledge economy. It will be operated by a private company controlled by the Capital Markets Authority.



Moreover, it is necessary for BDL to remain electronically dynamic and abreast of the latest developments in this area in order to facilitate a smooth transition towards the inevitable widespread adoption of digital currencies. To this end, the Lebanese Parliament recently passed a law on electronic transactions and personal data. This long awaited law represents a great opportunity for the financial sector as it admits the use of electronic documents and signatures, an essential step forward in the digital era.

Finally, the formation of a national unity government at the beginning of 2019 marked the year with a positive start. However, optimism will not be able to take full effect unless it is coupled with a genuine political will to implement the much-needed structural reforms. The Lebanese Government's commitment to fiscal reforms will be the needed catalyst for the Lebanese economy to regain momentum and to achieve its full potential.