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

2014

For the fourth consecutive year, the Lebanese economy has not been shielded from political tensions, security challenges, and regional unrest combined with spillover risks from the Syrian crisis. In effect, the main economic indicators, namely foreign trade, tourism, investment and consumption for instance, have been witnessing steady decrease since 2011. In addition, the debt-to-GDP ratio has risen from 130% to about 143%; and debt is expected to increase again in 2015 by about USD 4 billion.

Yet despite all of these challenges, the Lebanese economy was able to achieve real annual growth of 2% in 2014 while inflation remained below 4%, in line with BDL's objectives.

A stable monetary policy, a solid and highly liquid banking sector, confidence in the markets and in the Lebanese Pound, as well as steady flow of remittances from the Lebanese Diaspora were the main components that enabled the economy to maintain its relative strength.

At the monetary level, BDL's main commitments have been to maintain exchange rate and interest rate stability. On one hand, BDL's record level of foreign assets, which have exceeded USD 38 billion in March 2015 excluding gold, provides it with more than sufficient means to confront any crisis. On the other hand, the Bank will spare no efforts to continue its intervention in the bonds markets without disrupting market mechanisms.

The BDL also resorted to unconventional monetary policy tools to stimulate internal demand and sustain the country's growth and job creation potential. The stimulus packages of 2013 and 2014 proved to be successful, contributing around 50% of real

GDP growth. These included incentives to support housing, education, renewable energy projects, innovative projects, research & development ventures, entrepreneurship, and other productive sectors of the economy. In 2015, BDL announced a third stimulus package amounting to USD 1 billion, coupled with the funds revolved from 2014.

More recently, the BDL placed additional focus on targeting the knowledge industry. Lebanon's highly qualified human capital is apt to effectively turn innovative ideas into successful businesses, creating room for new employment opportunities, therefore expanding the country's GDP and ensuring sustainable development. Believing that this is the new growth model, and having faith in the Lebanese youth, BDL accordingly issued Intermediate Circular 331 to encourage Lebanese banks to invest in the equity capital of startups, incubators, accelerators and other companies working in the knowledge economy. This innovative scheme made available around USD 400 million to support creativity and innovation. This initiative was launched more than a year ago and some USD 200 million has been committed by the banks and invested in start-up funds and companies.

Challenging circumstances never inhibited the Lebanese banking sector to flourish. Its performance remains healthy with total banking activity growing by around 7% and with total assets of banks exceeding USD 175 billion in December 2014.

Bank deposits grew by around 6% to reach a new high of USD 151 billion at end-2014, with a dollarization ratio of 65.7%. In parallel, lending activity registered 7.6% growth during 2014, with total credit to the private sector exceeding USD 52 billion in December 2014. The loan dollarization ratio continued its downward trend to reach 75.6% at end-2014, its lowest recorded so far.

The Lebanese banking sector's high levels of liquidity enable commercial banks to finance the government and private sector needs while maintaining a stable interest rate structure. In terms of capitalization, Lebanese banks are expected to reach BDL's 12% capital adequacy ratio in 2015, exceeding the requirements of Basel III. Moreover, BDL has recently issued circulars regulating consumer loans and requiring the formation of provisions. These measures are intended as preventive steps to avoid any future crisis.

Exposures of Lebanese banks operating abroad are regularly monitored and assessed by BDL. The banking sector has the appropriate regulatory and supervisory framework which is in line with international standards.

On another note, and as part of its modernization plan launched in March 2014, BDL has established two new units: the Financial Stability Unit whose mission is to monitor the financial sector in Lebanon in order to avoid any likely crisis, and the Consumer Protection Unit to ensure that banks deal equally with all their customers in a transparent manner.

The Lebanese economy is still showing signs of optimism. A chief factor is its human capital and the potential it has to turn Lebanon into a regional hub for innovation, a knowledge economy. Another sector with potentially great positive impact on the economy is that of the oil and gas. With new employment opportunities and added revenues, this sector will be able to bring down the government debt to more sustainable levels. Yet this optimism will not be able to take full effect unless it is coupled with the appropriate structural reforms. Barring adverse political and security events, fiscal discipline remains a priority if the economy is to recover and move towards its full potential.