



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

2015

At a time of continued regional uncertainties and turmoil on various levels, Lebanon has prevailed, yet again, as resilient. Political, social, and security challenges have made it more difficult for the Lebanese economy to bounce back to its desired levels, with real GDP growth rate less than 1% and inflation close to zero % in 2015. Nonetheless, thanks to achievements on the monetary front, confidence in the economy and in the Lebanese Pound remains strong.

A strong and consistent monetary policy and a stable and transparent financial sector have been the backbone of the Lebanese economy. The Banque du Liban (BDL) has deployed all its efforts to ensure that its main objectives, of safeguarding monetary and economic stability, in addition to increasing the Lebanese national wealth, have been met that year as well.

In this effect, exchange rate and interest rates remained stable with BDL's foreign assets exceeding USD 37 billion and gold valued at around USD 10 billion in January 2016. Open market operations, through the Central Bank's participation in bonds' market to manage liquidity, continued without disrupting market mechanisms.

More generally, the banking sector remained healthy and strong, despite internal and external challenges: total banking activity grew by around 6%, with total assets of banks exceeding USD 185 billion in December 2015. Bank deposits increased by around 5% to reach a new high of USD 159 billion at end-2015. In parallel, lending activity registered 6.4% growth during 2015, with total credit to the private sector exceeding USD 55 billion in December 2015. The Lebanese are persistently confident in their national currency,



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with deposit and loan dollarization on a continued downward trend, reaching 64% and 74% respectively at year end.

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 have already exceeded the requirements of Basel III in 2015. Moreover, BDL has recently issued circulars regarding consumer protection and debt restructuring, with the aim of promoting financial stability and well-being.

Furthermore, the credibility and integrity of the financial and banking sectors are essential for their subsistence. The BDL has unremittingly strived to uphold them to the highest levels and to always comply with international standards and practices. After years of perseverance from the BDL, the Lebanese Parliament passed in end-2015 three important laws related to the regulation of trans-border cash movements, cooperation to fight tax evasion and amendments to the anti-money laundering law. The Lebanese Parliament also approved Lebanon's adherence to the UN's 1999 International Convention for the suppression of the financing of terrorism.

The Central Bank has, in this respect, established a new unit in early 2016, the Compliance Unit, that aims at ensuring the compliance of BDL's departments as well as banks and regulated institutions with applicable laws and regulations, particularly in relation to combating money laundering and the financing of terrorism and proliferation. This unit will also propose measures to prevent and/or manage the risks that could arise in case of non-compliance with these laws and regulations.

On a more macroeconomic outlook, inclusive growth and job creation are at the heart of unlocking Lebanon's potential. They have been, as such, the drivers behind BDL's unconventional monetary policy.



On the one hand, and given the palpable results of the first stimulus package in 2013, the BDL renewed this stimulus for the third consecutive year, with an average of more than USD 1 billion per year. These credit incentives, provided through the banking sector, have played a key role in boosting and supporting the numerous segments of the Lebanese economy: fostering 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.

The BDL has also placed more focus on further developing the Lebanese Knowledge Economy in 2015. The first substantial results of Circular 331 have been perceived with the growing number of startups attracted and benefiting from this equity financing scheme. Another startling success was the “BDL Accelerate 2015” conference that gathered talent, ideas and experiences from around the world. Lebanon is effectively witnessing its highly qualified human capital unleashing its potential, and pushing the limits of innovation and creativity to a whole new level. Glimmers of hope for real, inclusive and sustainable development are sprouting as the Lebanese youth are, today, driving growth.

Additionally, the oil and gas sector is yet another viable source for inclusive growth and job creation in the near future. If efficiently developed, it can have innumerable potential gains on the economy, and will be able to restore public debt and finances to more sustainable levels.

The policies undertaken by the BDL have proven, yet again, to be the main driver of the Lebanese economy. The outlook for the coming year remains positive. However,



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optimism will not be able to take full effect unless it is coupled with the appropriate structural reforms. Barring adverse political and security challenges, whether internally or regionally, fiscal discipline is reiterated as an urgent priority if the economy is to fully recover and expand.