مصرف لبنان
BANQUE DU LIBAN

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

2016

The past few years have strained the Lebanese economy with political tensions, security challenges, and regional unrest, caused particularly by the spillover risks from the Syrian crisis. The situation was also exacerbated by the political paralysis which kept the country without a president for more than two years. As a result, the main economic indicators, namely foreign trade, tourism, investment, and consumption, have decreased since 2011. Despite these challenges, confidence in the economy and in the Lebanese Pound remains strong, with a real GDP growth of around 2% and inflation close to zero percent in 2016.

Based on the aforementioned, and in light of the persisting global economic stagnation and regional politico-economic turmoil, the Banque du Liban (BDL) has resorted to additional financial engineering policies as part of its monetary policy objectives. In fact, BDL has deployed all its efforts to ensure that its main objectives, to safeguard monetary and economic stability in addition to increasing the Lebanese national wealth, are also met this year.

The recent financial engineering scheme, launched by BDL between May and August 2016, has had a positive impact on both the monetary and banking fronts. BDL's foreign assets reached a historical record level of more than USD 41 billion, thus conferring stability to the Lebanese pound and to interest rates. In addition, the balance of payments has recorded a surplus of USD 1.3 billion in 2016.

The banking sector, in turn, has proven its worth despite the pressing challenges that took some toll on its advancement. However, its performance remains healthy and enduring: total banking activity grew by more than 9% with total assets of banks exceeding USD 204 billion in December 2016. Customer deposits have increased by around 8% to reach a new high of USD 172 billion at end-2016, with additional funds of around USD 10 billion entering the banking sector. Lending activity recorded a 5.4% growth during 2016, with total credit to the private sector exceeding USD 58 billion in December 2016. The deposit dollarization ratio registered a slight increase, reaching 65.8%, while the loan dollarization ratio continued its downward trend to reach 72% at end-2016, 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, banks' capital base has exceeded USD 18 billion in December 2016, with an annual growth rate of 9%, which enables banks to comply with the new international capital, risk and IFRS requirements.

In early 2016, The Central Bank has established a new unit, the Compliance Unit, to ensure 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 also proposes 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. On one hand, and given the tangible results of the first stimulus package in 2013, the BDL renewed this stimulus for the fourth consecutive year, with an average of 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 2016. It has increased the margin of funds that banks could dedicate to the financing of this sector, by authorizing them to invest, with BDL's guarantee, up to 4% of their own funds, compared to 3% previously. After only three years of implementation, the substantial results of Circular 331 have been perceived with the growing number of startups attracted and benefiting from this equity financing scheme.

The oil and gas sector should also present another viable source for inclusive growth and job creation. If efficiently developed, it can have innumerable potential gains on the economy, and will be able to substantially reduce public deficits and debt.

The policies undertaken by the BDL have proven to be major drivers of the Lebanese economy. The outlook for the coming year remains positive, especially with the election of President Aoun and the formation of a new Government. However, 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 continues to be an urgent priority if the economy is to fully recover and expand.

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