



# Banque du Liban's Policies: Bridging Between Finance and Economy

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At a time of secular stagnation, when world economies have been striving to regain their paths towards growth, sustainability and prosperity, Central Banks have seized the momentum to assume their new roles. After the 2008 crisis, Central Banks have shifted from being pure regulators overseeing the financial sectors into important players in the real economies. They are no longer only required to preserve financial stability and to adhere and implement international best practices and standards, but more recently they have been mandated to develop unconventional monetary policies to stimulate the core of their economies. Job creation, real economic growth and social development have become their new priorities.

Banque du Liban (BDL), Lebanon's Central Bank, being the avant-gardist that it is, did not need to shift any of its functions to undertake unconventional monetary policies, as it was mandated by law to safeguard monetary as well as economic stability. The classical dichotomy or the dissociation between real and monetary variables was never recognized nor applied.

In effect, for the past two decades, BDL did not spare any efforts to ensure the resilience and success of the Lebanese banking sector, the backbone of the Lebanese economy, in the midst of political and security risks which have constantly threatened the financial sector. Despite the latter, the past twenty years have been characterized by a strong monetary policy (conventional and otherwise), a conservative and stable modern financial sector, and, more importantly, sustained growth.

More recently, at a time of economic distress due to internal and regional turmoil, especially the repercussions of the Syrian crisis on the Lebanese economy, BDL introduced its first stimulus package in 2013. And given its palpable results, BDL renewed this stimulus for three consecutive years, with an average of more than USD One 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: support of traditional sectors through productive loans; development of human capital and entrepreneurship through education, research & development as well as knowledge and innovation loans; reinforcement of the middle class through housing loans; and preservation of the environment through green incentives. The importance of these catalytic endeavors lies in their sizable contribution to real GDP, and their momentum in job creation.

On another hand, the BDL acknowledged that economic growth and financial stability can only be sustainable if they are inclusive. And in this regard, BDL conceived a new and innovative engineering scheme that would motivate the youth, Lebanon's most valued capital, to unleash their potential in Lebanon rather than abroad and to push the limits of innovation and creativity to a whole new level. BDL enabled banks, and indirectly venture capitals and accelerators & incubators, to participate for the first time in the capital of startups. The Lebanese knowledge economy has been capitalized with around USD 600 Million to date to be utilized as equity financing. BDL has effectively planted the first seeds for real inclusive economic growth. The momentum that it has created cannot be overlooked: the number of startups and various players in the ecosystem are growing exponentially.

The introduction of equity financing has undoubtedly expanded the Lebanese financial market. Yet, to mitigate any risks, the Central Bank has guaranteed, itself, any capital participation in startups. This fact has strengthened financial stability in Lebanon, eliminating any room for uncertainties or systemic risks. Additionally, the launching this initiative has created a positive snowball effect, paving the way for further developments in the Lebanese capital markets, with the launching of an SME stock market in the very near future.

Last but not least, the global financial environment is constantly changing, creating new risks and challenges both regionally and locally. BDL's success lies in its ability to quickly adapt to shifting trends. As such, the Central Bank recently introduced a new financial engineering scheme that was able to minimize risks and increase the availability of foreign reserves – its main buffer. BDL was thus able to attract billions of dollars to Lebanon, increasing

foreign assets to a record high of USD 41 Billion. Such an initiative had a direct impact on the main economic indicators:

- A positive balance of payment (turning a cumulative deficit of USD 1.7 billion in May 2016 into a surplus of USD 555 million in September 2016);
- An improvement in government debt profile by reducing the cost of borrowing: a decrease in interest rates for the 5-year TBs from 6.74% to 5%. BDL has also lowered the interest rate on its long-term LBP denominated CDs and time deposits from 9% to 8.4%. Furthermore, and as a sign for improving the government debt profile, it was noted that international financial institutions have encouraged their customers (pension funds and asset managers) to invest in Lebanese Eurobonds;
- An increase in the growth rate of deposits (5% annually after the financial engineering scheme as opposed to 2% ex ante);
- An expansion of banks' credit portfolios in Lebanese Pounds which, in turn, increases the money multiplier effect, fostering economic activity; and
- An improvement of the country's rating and outlook: In September 2016 and despite the political deadlock in the country, Standard & Poor's revised Lebanon's outlook, from negative to stable.

The link between finance and economy has never been a simple one. Yet the experience of BDL has proven that the right financial policies, when designed with clear and targeted economic objectives, can create boundless synergies. And as long as the Lebanese financial and banking models remain resilient, inclusive and strong, so will our economy.

Thank you.