01

PART I
GENERAL ECONOMIC DEVELOPMENTS

I. WORLD ECONOMY

1-1 Based on the information provided in the IMF- World Economic Outlook of April 2017, the world average growth rate decreased to 3.1% in 2016 compared to 3.4% in 2015, with the growth rate in the group of advanced economies declining to 1.7% from 2.1% and the growth rate in emerging and developing economies slightly decreasing as a group to 4.1% from 4.2% for the mentioned periods respectively. The decline in the US economic growth rate (to 1.6% from 2.6%) due to the weak investments and the decline in the inventories level had the largest impact on the performance of the developed economies as a group and thus on the performance of the world economy in 2016, as the rate of growth in the euro zone declined less severely and in a balanced manner (to 1.7% in the mentioned year from 2.0% in the previous year), and Japan (to 1.0% from 1.2%), and the United kingdom (to 1.8% from 2.2%) for the mentioned years respectively, whereas an improvement in the performance of the Canadian economy and other advanced economies was recorded.

1-2 The slight decrease in the growth of the emerging and developing economies as a group was principally tied to the small decline in the Chinese economic growth to 6.7% in 2016 compared to 6.9% in the previous year in light with the adopted policies of subsidies that prevented, to a great extent, the deterioration of the economic activity in the country represented by a strong growth of credit and the reliance on public investment to achieve the desired goals of growth. The growth in the Indian economy was reduced tangibly to 6.8% in 2016 from 7.9% in 2015 affected by a negative shock to consumption resulting from a shortage of money and disorder in the payments systems due to the government initiative preventing the usage of the five-hundred and one thousand Indian rupees in the department stores which represent 86% of currency in circulation. In comparison, the degree of contraction and stagnation declined in each of the Russian economy (-0.2% compared to -2.8%) and the Brazilian economy (-3.6% compared to -3.8%) thus constituting a type of a balance.

1-3 It is expected according to the same source that the next period will witness a revival in the financial markets and a recovery in the investment, commerce and the manufacturing industry causing the world economic growth rate to increase with the increase in overall demand to 3.5% and 3.6% in the years 2017 and 2018 respectively. This performance will result from the improvement in the growth rate of the advanced economies as a group to 2% and the increase in the average growth rate of emerging and developing economies as a group to 4.5% and 4.8% for the two mentioned years respectively. The driving force for the improvement of the first group will be the increase in the growth rate of the US economy to 2.3%

and 2.5% in the years 2017 and 2018 respectively as a reflection to the improvement in the confidence level especially after the US presidential election in November 2016 and the return to building-up inventories and the strong growth in consumption and the fiscal policy easing, which will lead to reinforcing the momentum of the business cycle. It is expected that the manufacturing industries and the commerce will recover in Europe in general and Japan.

It is to mention that expectations for years 2017 and 2018 kept stable growth rates for the Eurozone of 1.7% and 1.6% respectively depending on supportive conditions or circumstances such as adopting a moderate expansionary fiscal policy, accommodating fiscal conditions, weak Euro, and the prospects of positive repercussions due to US possible financial incentives. What prevents a stronger economic growth in the Eurozone is the situation of political instability related to the presidential or legislative elections in many European countries and the uncertainty surrounding the future relationship between the European Union and Britain after BREXIT. It is to mention in this framework that there are real concerns that some advanced economies may move towards protectionism and the application of closed policies which will negatively affect international trade, and cross border foreign direct investments and thus world growth. The final effect of the exit of the United Kingdom from the European Union remains unclear until the preparation of this report, as its full and final implications on the financial and commercial flows among both parties and other parties may take several years.

1-4 Concerning the increase in growth in the second group, or the emerging and developing economies, it will coincide with the gradual improvement in the conditions of countries exporting primary products with the gradual recovery of the price of these goods. This increase in growth will go hand in hand with the recovery of the Russian economic performance backed by the relative expected increase in oil prices and after the end of the existing business cycle. The improvement in growth will coincide with the revival of each of the Indian economy with the implementation of the principal reforms, reducing the supply bottlenecks and following the appropriate fiscal and monetary policies, and the Brazilian economy as the gradual improvement will be backed by each of the decline in the level of political uncertainty, expansionary monetary policy, and continuing the achievement of progress in the reform agenda. The growth in China will as well remain strong despite reducing growth expectations of the Chinese economy to 6.6% for 2017 and 6.2% in 2018.

World Economic Output growth rate (real GDP) in 2014 and 2015, Estimates for 2016 and 2017 and 2018

	Realized		Estimated	Expected	
	2014	2015	2016	2017	2018
World economy	**3.4**	**3.4**	**3.1**	**3.5**	**3.6**
Developed countries, o/w:	**1.8**	**2.1**	**1.7**	**2.0**	**2.0**
the US	2.4	2.6	1.6	2.3	2.5
The Euro area	0.9	2.0	1.7	1.7	1.6
Japan	0.0	1.2	1.0	1.2	0.6
Canada	2.5	0.9	1.4	1.9	2.0
United Kingdom	2.9	2.2	1.8	2.0	1.5
Emerging and developing countries, o/w:	**4.6**	**4.2**	**4.1**	**4.5**	**4.8**
Africa	5.1	3.4	1.4	2.6	3.5
East and Central Europe	2.8	4.7	3.0	3.0	3.3
Commonwealth of independent states CIS, including Russia	1.1	-2.2	0.3	1.7	2.1
Russia	0.7	-2.8	-0.2	1.4	1.4
Brazil	0.1	-3.8	-3.6	0.2	1.7
Developing Asian countries, o/w:	**6.8**	**6.7**	**6.4**	**6.4**	**6.4**
China	7.3	6.9	6.7	6.6	6.2
India	7.2	7.9	6.8	7.2	7.7
Middle East and North Africa	2.7	2.6	3.8	2.3	3.2
Central and South America and the Caribbean	1.3	0.1	-1.0	1.1	2.0

Source: WEO report / IMF

The Middle-East and North Africa (MENA) Region

1-5 Contrary to the growth in the world economy, the growth rate in the MENA region increased to 3.8% in 2016 compared to 2.6% in the previous year but is expected to decrease back to 2.3% in 2017. These results hide the difference and the directions frequented by oil exporting and importing countries in the region. Concerning the first group, the rate of economic growth in 2016 declined in Algeria and the six Gulf Cooperation Countries except Kuwait whereas the growth improved in Libya, Iraq and Iran as the rate of growth for the latter country increased from 0.4% in 2015 to 6.5% in 2016 after it quickly increased its oil production following the lifting of international sanctions. As far as the second group or the oil-importing countries are concerned, the growth rates declined in most of the countries of this group (Egypt, Sudan, Jordan, Morocco, ….) whereas they increased in Tunisia and Mauritania. It seems that most of the countries in this group did not benefit as they are supposed to from the reduction in oil prices, but were possibly influenced more by the decline in the remittances received from the workers in oil-exporting countries, the foreign direct investments, capital flows from these countries, and naturally of the events occurring in the region. Thus, it is shown that the increase in economic growth in the MENA region in 2016 resulted from a push in the noticeable increase in growth in Iran, and Iraq that came-out of economic stagnation and negative growth to register a growth rate exceeding on average 10%.

1-6 As far as **oil-exporting countries** are concerned, the growth rate slightly declined in the Gulf Cooperation Council Countries (GCC) to 2.0% in 2016 compared to 3.8% in 2015 and is expected to continue declining to 0.9% in 2017. The negative current account of these countries improved to -2% of GDP after being –2.6% and is expected to become positive reaching 1.8% of GDP for the mentioned years respectively. The overall budget deficit deteriorated to -12 % of GDP in 2016 compared to -9.4% of GDP in 2015 and are expected to improve to -6.5% in 2017. The slow-down in economic activity in 2016 reflects the restraining fiscal measures or the control of public finances (including reducing expenditure) and the lack of liquidity in the financial sector accompanied by the continuing low level of oil prices which affects negatively the oil revenues from exports and economic activity and weakens the general budget and external accounts. The economic activity was also affected by the regional struggles which cause a weakening of the confidence and a reduction in total demand.

II. THE LEBANESE ECONOMY

2-1 The economic scene in Lebanon in 2016 did not differ much from what it was like in the last years despite the political developments that occurred at the end of the mentioned year. The continuing repercussions from the conflict in Syria still weigh heavily on Lebanon and thus restrain the economic activity and the real growth that remained semi stable in the region of 1% in the years 2016 and 2015 compared to 2.0% in 2014 according to the IMF, given that the BDL and the World Bank estimate that the growth rate approached 2.0% in 2016. This weak growth rate was accompanied by a decline in the price index in general as presented in the schedule below. It does not come as a surprise that these weak growth rates are not enough to absorb the new employment joining the labor market as well as the existing one, which encourages the youth migration abroad. The year 2016 witnessed again the fallbacks of the Syrian situation and the number of Syrian refugees exceeding a quarter of the population of Lebanon as they represent a burden on public expenditure, infrastructure, and job opportunities in an economy characterized initially by a deterioration in the financial conditions and a deficient infrastructure, in addition to a mismatch between the external assistance and donations with the needs. Following the economic slow-down for the sixth year in a row, as a result of the local political maneuvering and the regional disturbances, the political settlement occurred leading to the election of a President of the republic after a void lasting since May 2014 and the formation of a government that is still working on getting the economy out of this cycle. It is hoped that the measures and plans that will be developed will contribute to reinforcing the confidence of the consumers and investors and, thus, the activation of GDP components especially consumption and investment.

2-2 It is to mention in this framework that the rate of growth in Lebanon in 2016 came lower than the rate of growth of the world economy that reached 3.1%, whereas it was not very far from the average growth rate registered by the GCC countries that approximated 2.0%, knowing that the Lebanese economy is closely tied to the economies of these countries in terms of the tourist activity, remittances, foreign investments, and exports. It is not difficult though to have an acceleration in the growth rate of GDP in the next period if there is a serious effort to pass the necessary legislations and proceed with the structural reforms aimed at moving the economy out of the recession and deterioration, and reinforce growth, and in case there is an abatement in the severity of the regional struggles and the conflict prevailing in Syria. In the middle of these atmospheres, the IMF expects in its report on World Economic Outlook of April 2017 the growth rate in Lebanon to be 2.0% and 2.5% in 2017 and 2018 respectively, thus keeping its previous estimates issued in October 2016. Concerning the average inflation rates, the IMF expects 2.6% and 2.0% in the years 2017 and 2018, respectively.

GDP, current account, growth & inflation rates

	2014	2015	2016
Real Growth rate (%)	2.0	0.8	1.0
Change of the average consumer price Index (%)	1.9	-3.75	-0.82
GDP Deflator (%)	1.9	2.6	1.33
GDP (LBP billion)	72,109	74,560	76,300
GDP (USD billion)	47.8	49.5	50.6

Sources: Central Administration of Statistics (CAS) – IMF for real growth rate and GDP deflator in year 2016.

2-3 In 2016, most of the available real economic indicators registered some growth in comparison to the preceding year, whereas some of them declined thus reflecting the continuation of the weak economic activity. We cite from these following indicators:

- An improvement in the BDL coincident indicator by 3.8% in 2016 compared to 2.0% in 2015.
- The decrease in cleared checks value by 2.2% usually reflecting a decline in spending size or aggregate demand.
- The increase in imports of goods quantities by 10.7% in 2016 and an increase in their value by 3.5%, which reflects the continuous increase in household consumption activities and the production of goods and services.
- A decrease in the exports of goods by 14.5% given that their value increased by 0.8% in 2016. There was a decline in the values of industrial exports by 14.5 % and the agricultural exports by 6.0%. The agricultural sector is still suffering from the complications of the closure of the Nassib crossing on the Syrian-Jordanian border, which reflects negatively on land commerce. The industrial sector was affected by the increase in the transportation cost of Lebanese commodities as well as the increase in shipping and insurance costs which caused the weakening of the competitive edge of these commodities due to the war in Syria which also influenced demand in addition to the absence of measures supporting these two sectors.

- An increase in the number of KAFALAT loans granted to small and medium enterprises especially those operating in the agricultural and touristic sectors by 5.2% in 2016, given that their value decreased by 0.4% in the same year.

- A moderate decrease in the construction area permits, which are considered as an indicator of the current and future construction activities by 0.9% in 2016, whereas each of the values of real estate fees increased by 3.4% and the quantities of cement delivery by 4.1%, knowing that they represent an indicator to the existing construction activity. The number of real estate sales operations increased by 1.4%

- An increase in the number of incoming passengers via the airport by 7.5% and the outgoing ones by 3.6% and the increase in the number of tourists arriving to Lebanon by 11.2% in 2016, mostly from the European countries whereas the number of tourists from the Arab countries approached one third. Additionally, hotel occupancy rates in Beirut reached 59% in 2016 as was approximately the case in the previous year (58%) in comparison to an average of 60.9% in 14 Arab markets included in a study prepared by Ernest and Young.

The Central Administration of Statistics issued lately the National Accounts of Lebanon 2004-2015 that included estimates for the two years 2015 and 2014 and a revision for years 2013 and 2012, based on the same approaches adopted in preparing the accounts of 2008. The results showed a decline in the GDP growth rate to 0.8% in 2015 from 2.0% in 2014 and 2.6% in 2013 accompanied with low inflation rates in the local economy measured by the GDP deflator reaching 2.6%, 1.9%, and 2.2% for the stated years respectively. The value of GDP in current prices reached LBP 74,560 billion, which is close to USD 49.5 billion in 2015 as the final consumption represented around 98.9% of GDP distributed among 86.3% for household consumption and 12.6% for public sector consumption. Investment represented around 20.9% distributed between private investment (19.6%) and public investment (1.2%).
Concerning the distribution of GDP by sectors in 2015, the real estate sector appeared in the lead with its share approaching 14% of GDP, as well as nearly the same share for trade, followed by the education sector, health, and other services (11.5%), industry (11%), then public administration (around 9.3%), transportation, communication and information (8.8%), financial services (7.8%), and other sectors down to the lowest share at 3.5% for agriculture, while mentioning that these shares did not register any significant change compared to 2014.

2-4 Contrary to the previous year, the performance of public finances concerning the size of government expenditure or public consumption was helpful in lowering the existing economic slow-down as the primary expenditure outside debt service decreased by around 11.9% in 2016 compared to 2015 in light of the costs reduction tied to the Electricite Du Liban (EDL). The monetary policy continued as well to support economic activity and incentivize growth through the existing incentive packages and lending programs, which on their part aim at reducing the cost of credit on the private sector, provide its necessary financing and create new job opportunities in the economy. Banks on their part contributed to preserve the functioning of the business cycle through loans provided to the resident private sector, which increased by 6.2%, as the financing of the public and private sectors approached 181.6% of GDP. Concerning the performance of the external sector, it was negative on economic activity and growth with the decline in the net value of exports of goods and services (exports minus imports) according to the primary available statistics.

The Syrian Refugee Crisis

In the London conference on Supporting Syria held in February 2016, a new plan was presented to remedy the costs of the crisis that includes the need of Lebanon for financial support of around USD 11 billion for the period 2016-2020 distributed among grants amounting to USD 5 billion, and loans of USD 6 billion provided by the international community to countries hosting Syrian refugees. In the Brussels conference on refugees in February 2017, a coordination took place among the Lebanese government and local and international partners to launch "Lebanon's plan to respond to the crisis 2017-2020" for the purpose of ensuring around USD 2.8 billion for 2017 to help the weakest of individuals and refugees and provide the necessary services, in addition to the investment in the deteriorating infrastructure and other projects. It was emphasized on the need of Lebanon for a range of USD 8-10 billion due to the fact that the foreign international assistance and donations, from countries and governmental and non-governmental organizations to help the refugees and the Lebanese state that hosts them, are still meager and insufficient compared to the needs.

2-5 Coinciding with that, the credit rating agencies resorted to changing the rating of Lebanon. In July 2016, the American agency Fitch lowered the sovereign rating of Lebanon, specifically the long-term rating of debt in LBP and foreign currencies to (B-) due to the continuing political risks resulting from the war in the region placing mounting pressure on the sovereign credit worthiness. However, it changed the outlook from "negative" to "stable" especially in its reliance on the ability of the Lebanese banking sector to attract deposits to secure the financing needs of the Lebanese state. In December 2016, the agency kept its rating after the election of the President of the Republic, the appointment of a Prime Minister, and the formation of the government in 2016 constituted a positive point that could cause a transformation of the Lebanese scene despite the relatively difficult internal and external atmosphere. Standard & Poor's kept as well in its report published at the beginning of 2017 the rating of the non-guaranteed debt securities issued in foreign currencies and the sovereign ceiling at B-, and the short-term credit rating in LBP and foreign currencies at B reflecting the repercussions of the war in Syria on the Lebanese scene, in addition to the weak public finances and the economic slow-down in the country, while reconsidering the future outlook from negative to stable.

2-6 The hopes remain that the government that will be formed after the anticipated parliamentary elections based on a modern law guaranteeing the proper and balanced representation, as most Lebanese hope, will develop a comprehensive economic and social vision defining priorities, costs, and implications, and reflects seriousness and realism in the implementation and follow-up. It could also be the proper take-off in emphasizing the investment and development of infrastructure especially in the sectors of electricity, communications and transportation and the reliance on the partnership between the public and private sectors to help the government carry the related burdens. This vision is an entry to activate economic sectors and encourage investments in them and create job opportunities and enhance innovation and contribute to incentivizing economic growth. The other priorities are also many with some concerning developing the health and education sectors and some concerning the clean environment and the control of pollution in land and sea. There is also a need to pay the necessary attention to social security issues, which will create a better quality of life for the Lebanese and reduce the costs on public finances and the economy, along with securing sustainable growth. There is also a pressing need to conduct a serious administrative reform by filling the vacancies with educational and professional qualifications characterized by effectiveness and honesty instead of enlarging and loosening the employment in the public sector to please the patrons on the basis of clientelism and costly quotas which causes many abilities to immigrate out of the country towards labor markets that meet their aspirations and appreciate their qualifications. In parallel, there is a need to move ahead with the mechanisms of fighting corruption in the administration and public deals and activate the judiciary to call into account the corrupt and bribed, and improve the business environment.

III. PUBLIC FINANCES AND PUBLIC DEBT

3-1 After the exceptional results realized in 2014, the public finances situation deteriorated in 2015 and worsened in 2016, as public deficit recorded LBP 7,453 billion or 9.8% of GDP compared to deficit of LBP 5,958 (8.0% of GDP) in 2015. The realized primary surplus declined in 2016 to LBP 31 billion only (0.1% of GDP) from LBP 1,092 billion (1.5% of GDP) in 2015. These results are due to the expansion in public expenditures, despite the absence of a general budget and spending based on the 12 months rule, that average growth has reached three times the average growth of the total revenues that were affected by the slowdown of economic activity and the deterioration in the performance of public institutions in light of the prevailing political and security conditions. This necessitates controlling the public finances again by stopping the waste and corruption in many of the public institutions, administrations and public utilities, as well as rationalizing spending and other recommendations detailed below.

Public Finances 2014 – 2016 (LBP Billion)

	2014	2015	2016	Change 2015/2014 (%)	Change 2016/2015 (%)
Total Revenues (Budget +Treasury)	16,400	14,435	14,959	-12	3.6
Total Expenditures (Budget + Treasury)	21,032	20,393	22,412	-0.3	9.9
Overall Deficit	4,632	5,958	7,453	28.6	25.1
Primary Surplus	1,970	1,092	31		
Overall Deficit / GDP %	6.4	8.0	9.8		
Primary Balance / GDP %	2.7	1.5	0.1		

Source: Ministry of Finance

3-2 As for total revenues, they have increased to LBP 14,959 billion in 2016 from LBP 14,435 billion in 2015 or by LBP 524 billion and 3.6%, and remained quasi stable as percent of GDP (19.6% in 2016 and 19.4% in 2015). This proportion is considered low in Lebanon compared to many high-income countries and upper group of middle-income countries, including Lebanon, irrespective of the quantity and quality of public services due to the existing tax structure, tax evasion, and the weakness in collection.

3-3 In 2016, each of tax revenues and non-tax revenues increased by 2.6% and the treasury receipts by 21.3%. The share of each out of total revenues constituted 70.8%, 22.7% and 6.5% respectively. The increase in tax revenues resulted from the improvement in most of their components even in differing degrees as shown in the table below. Knowing that the revenues from the value added tax, reflecting largely consumption, still constitute the primary revenue source for the treasury, increased only by 2.4% representing 21.6% of total realized revenues in 2016 and 30.5% of tax revenues. This was followed by the taxes on income, profit and capital gains (20.1% of total revenues) which increased by 4.4% during the mentioned year, given that the tax on interest income represented 27.2% of them.

Total Revenues (LBP Billion)

	2014	Share %	2015	Share (%)	2016	Share (%)
Taxes on income, profits and Capital gains	2,795	17.0	2,887	20.0	3,015	20.1
o/w: Tax on interest income	711	4.3	767	5.3	819	5.5
Taxes on Property	1,245	7.6	1,179	8.2	1,224	8.2
Domestic Taxes on Goods and Services	3,811	23.2	3,717	25.7	3,773	25.2
o/w: VAT	3,302	20.1	3,159	21.9	3,234	21.6
Taxes on International Trade	2,042	12.5	2,064	14.3	2,117	14.2
o/w : Customs	766	4.7	713	4.9	706	4.7
Gasoline	512	3.1	629	4.4	680	4.5
Other Tax Revenues	495	3.0	483	3.3	468	3.1
Tax Revenues	10,388	63.3	10,330	71.6	10,597	70.8
Income from public institutions and Government properties	3,498	21.3	2,313	16.5	2,377	15.9
o/w : Transfer from the telecom surplus	3,034	18.5	1,860	12.9	1,907	12.7
Other non-tax revenues	856	5.2	992	6.9	1,015	6.8
Non-tax revenues	4,354	26.6	3,305	22.9	3,392	22.7
Treasury receipts	1,658	10.1	800	5.5	970	6.5
Total Revenues	16,400	100.0	14,435	100.0	14,959	100.0

Source: Ministry of Finance

3-4 Total expenditure increased by 9.9% in 2016 or by a higher rate (2.75 times) than the increase in revenues reaching LBP 22,412 billion at the end of the stated year compared to LBP 20,393 billion in 2015 and representing 29.4% of GDP in 2016 in comparison to 27.4% in 2015. It is shown thus that the degree of benefitting from the relatively low oil prices was limited viewing the structure of actual expenditure and its lack of flexibility.

Thus, debt service increased in parallel with the increase in public debt, as well as the primary expenditures, whereas the share of capital expenditure out of GDP remained low and below its level in similar countries, as it reached 1.4% in 2016 in Lebanon compared to 5% in emerging markets. The social expenditure remains inadequate in covering the needs of various segments of the Lebanese society.

3-5 Primary expenditures, excluding the debt service, increased to LBP 14,928 billion in 2016 from LBP 13,343 billion in 2015 or by 11.9%. This resulted from an increase in the allowances and salaries of public sector employees by 3.6% between 2015 and 2016, with an increase in each of basic salaries and benefits, retirement and end of service indemnities, and transfers to public institutions to cover the salaries. The salaries and allowances in the public sector represented 9.6 percent of GDP in 2016. Capital expenditures increased by 21.5% given that their size is still low standing at LBP 1,079 billion in 2016 representing 4.8% of total expenditure and 1.4% only of GDP in 2016. It is to note that Lebanon suffers also from the erosion in private investment spending as the political atmosphere does not encourage on investing funds in new projects which causes a reduction in productivity and the failure of establishments to create job opportunities. As for transfers to the Electricity of Lebanon Company (EDL), they decreased by an amount of LBP 314 billion in 2016 (after they dropped by LBP 1,446 billion in 2015). Thus, the cost of subsidizing electricity declined to 1.8% of GDP in 2016 compared to 2.3% in 2015.

3-6 An increase in debt service was recorded, resulting mostly from interest payments on domestic debt, and reaching LBP 7,484 billion in 2016 compared to LBP 7,050 billion in 2015 (i.e an increase of 6.2%). The debt service constituted 33.4% of total expenditure and 50% of total revenue in 2016 compared to 34.6% and 48.8% for these shares respectively in 2015. Debt service remained, as percent of average gross debt quasi stable at 6.8% in 2016 as in the previous year (6.6% in 2013) which is an indication on the efforts conducted by the Lebanese banking system to prevent the rise in debt service and even lower it.

3-7 3.7 It is to mention that interest rates in Lebanon are determined for the medium and long-terms by the evolution in risk premium, the pace of economic activity, the developments in public finances and in the US interest rates, which explains the relatively high interest rates on long-term Treasury bills adequate with long maturities and the type of risks. It is worth being aware of the increase in US interest rates which may affect negatively the cost of financing and debt service. It is to be indicated that the ability of the public sector to finance debt service remains linked to the robustness of the bank deposits base and the will of the financial sector in continuing to purchase sovereign bonds, knowing that this connectedness represents a structural weakness and is partly the result of the lack of development of financial markets in the desired form.

Total Expenditures (LBP Billion)

	2014	Share %	2015	Share (%)	2016	Share (%)
Debt Service	6,602	31.4	7,050	34.6	7,484	33.4
Primary Expenditures	14,430	68.7	13,343	65.4	14,928	66.6
o/w salaries, wages and other benefits (art. 13)	6,727	32.0	7,080	34.7	7,335	32.7
transfers to EDL institution	3,157	15.0	1,711	8.4	1,397	6.2
Capital expenditures	883	4.2	888	4.4	1,079	4.8
Transfers to municipalities	710	3.4	936	4.6	1,554	6.9
Total Expenditures	21,032	100.0	20,393	100.0	23,412	100.0

Source: Ministry of Finance

3-8 Concerning the proposed budget of 2017, the draft which was first presented to the Council of Ministers included more than 50 tax amendments causing additional financial burdens on individuals, households and corporations, in all their types, given that they already suffer from weak revenues and slow economic growth. These amendments also abolish tax principles put in place by the legislator to protect the taxpayers from any abuse or possible bad intention by the authority. Some of the tax items open as well a large room for the discretion of the tax collectors and additional doors for corruption, encourage smuggling and hurt tax equity. The tax measures affected the banking sector weighing on bank profits by new tax burdens and creating in calculation a distinction between banks themselves and between banks and other institutions making investing in the banking sector unattractive and raising the cost of bank sources of funds, and thus the cost of financing the economy and would limit growth. Despite the fact that raising taxes is usually a tool to reduce public deficit or restrain the boiling economy, the proposal presented to the Council of Ministers came at a time when the economy, and since 2011, has been suffering from a strong economic weakness which may deepen economic deterioration. It also includes a high deficit exceeding what has been realized in 2016 and 2015. The proposal thus includes risks and possible negative repercussions on monetary and fiscal policies and on the reputation of the country towards the international organizations and the foreign investors. For these reasons combined, this draft budget reignited complaints from large numbers of instances, associations, economic sectors and the civil society in general which caused it to be reconsidered by introducing many amendments to the 2017 budget proposal as presented to the parliament by removing many new taxes or proposed raises, and after separating the salary scale, its costs and sources of funds from the budget.

3-9 However, we indicate from another side that there is a consensus on the necessity to approve the proposed budget of 2017 after 11 years of spending and disbursing based on the 12 months rule and from approbations outside the budget. Work is also in place on finding a constitutional and legal solution to the closure of accounts for the previous years. The final figures of the proposed budget for 2017 presented to the parliament at the time of writing this report show revenues of LBP 16,384 billion compared to LBP 23,673 billion expenditures distributed between LBP 21,319 billion for current expenditure and LBP 2,354 billion for capital expenditure. Debt service is estimated at LBP 7,152 billion. Thus, public deficit is estimated to reach LBP 7,289 billion and the primary deficit LBP 137 billion, so it is expected to have a slight improvement in public finances compared to what was achieved in 2016. This project includes several reforms out of which we mention the inclusion of the center for real estate assessment, the adoption of the audited balance-sheets for companies in the section on tax reform, combatting tax evasion, activating the revenues from customs and improving their collections, imposing an advanced control on the spending of funds from grants and loans, and placing a ceiling for borrowing that is limited to the estimated deficit in the budget only.

3-10 It is demanded in the short-term to speed the reforms that address fighting corruption and combatting tax evasion, intensifying the collection especially bills due but uncollected, increasing transparency in public tenders, and treating the chronic problem of the electricity sector from the standpoints of the bad power and financial waste. Reforms over the long-term ought to be given priority in the work of the government to develop a comprehensive socio-economic vision that allows incentivizing economic growth by encouraging investments and establishing promising sectors that will form the foundations for growth. It is obvious for the banks to show every readiness to participate in the upcoming investments in the framework of partnership between the public and private sectors and for the Lebanese diaspora to have a greater and more efficient role in this process. Wishes remain for the next period for the activation of the governmental work through the current government and the one that will be formed after the parliamentary elections that is hoped to take place soon. We also hope for the constitutional and regulatory institutions to presume playing their constructive role fully and to rehabilitate and develop the infrastructure to reinforce the business environment and the competitive capabilities of our national productive sectors.

PUBLIC DEBT

3-11 Public debt reached LBP 112,911 billion in 2016 (the equivalent of USD 74.9 billion) compared to LBP 106,015 billion (USD 70.3 billion) at the end of 2015, thus increasing by 6.5% in comparison to a lower increase of 5.6% in 2015. Knowing that the Treasury accumulates, through its borrowing to cover public deficit, amounts in its accounts at the banking system that exceed its current financial needs to secure its longer-term financial ones in case the conditions worsened and got more complicated. This matter contributes, of course, to absorbing LBP liquidity and thus to enhance financial stability.

3-12 The increase in public debt in 2016 was due to the increase in each of the public debt in LBP by LBP 5,333 billion and public debt in foreign currency by LBP 1,563 billion (the equivalent of USD 1,037 million). And since the growth rate of public debt exceeded the growth rate in nominal GDP, the ratio of debt to GDP increased from 142.2% at the end of 2015 to around 148% at the end of 2016. This entails exorbitant costs especially that interest payments on debt exhaust around 71% of tax revenues and the equivalent of 9.8% of GDP. The debt to GDP ratio used to decline on average by 5% yearly during the period 2005-2010 due to the high rates of economic growth, realized primary surpluses and efforts made by the concerned parties. But with the declining growth since 2011 and the increase in economic challenges and political stalemates, this ratio started to increase again. The weak economic growth, along with the increase in public debt at a higher pace, calls for the necessity of correction in order to ensure stability in debt dynamics.

3-13 However, when market debt is computed, i.e. debt excluding the holdings of the BDL, public institutions, bilateral and multilateral debt, and debt of Paris 2 and Paris 3, the debt to GDP ratio could drop to around 90% at the end of 2016 as was the case in the previous year.

3-14 Net public debt computed after deducting the public sector deposits in the banking system reached LBP 98,622 billion (USD 65.4 billion) at the end of December 2016, increasing by 6.3% in 2016 compared to an increase of 7.4% in 2015. Public sector deposits at the BDL increased from LBP 8,153 billion at the end of 2015 to LBP 8,312 billion at the end of 2016 or by an amount of LBP 159 billion after having decreased by LBP 970 billion in the previous year. The balance of the state account at the BDL remains positive, which allows the financing of future deficits in case capital inflows from abroad, in the form of bank deposits and others, slowed down or were reduced.

3-15 At the end of 2016, local currency public debt reached LBP 70,528 billion constituting around 62.5% of total public debt compared to around LBP 42,383 billion of foreign currency public debt or 37.5% of total public debt. The factor that reduces the risks of public debt is its distribution and concentration with resident subscribers (92%) as they are accustomed to the country's political, economic and security conditions more than others. Given that a change has appeared in the distribution of shares among residents, as the share of banks out of total public debt witnessed a decline from 53.3% at the end of 2015 to 46.7% at the end of 2016, compared to the increase in the share of the BDL from 25.4% to 34.3% in the two dates respectively. This is due principally to the financial engineering adopted by the BDL in cooperation with banks, as the first discounted Treasury bills in LBP to the second from its portfolio to subscribe in USD Certificates of deposits on condition that banks provide transfers from abroad to their accounts at the BDL.

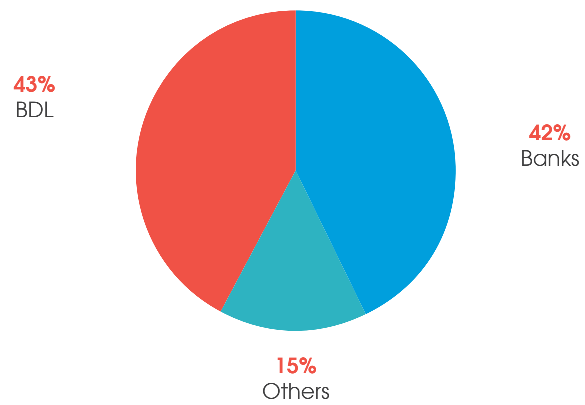
Public debt 2014-2016
(End of period – LBP billion)

	2014	2015	2016	Change 2015/2014 (%)	Change 2016/2015 (%)
Gross Public Debt	**100,356**	**106,015**	**112,911**	**5.6**	**6.5**
Distribution of total public debt:					
Debt in LBP	61,752	65,195	70,528	5.6	8.2
Debt in Foreign Currencies	38,604	40,820	42,383	5.7	3.8
Public Sector Deposits at the Banking System	13,965	13,227	14,268	-5.3	7.9
Net Public Debt	**86,391**	**92,788**	**98,643**	**7.4**	**6.3**
Gross Public Debt Financing: estimates (%)					
Banks in Lebanon	55.9	53.3	46.7		
Central Bank (BDL) & Public Entities	28.5	33.5	42.0		
Others (resident)	5.1	4.4	3.5		
Non-residents	10.5	8.8	7.8		
o/w : bilateral & multilateral loans	4.4	3.3	2.7		
Others	6.1	5.5	5.1		

Source: BDL

3-16 As far as financing local currency public debt, the share of banks decreased to 41.9% at the end of 2016 from 45.8% at the end of 2015 and the share of the non-banking sector to 15.3% from 16.9% respectively, meanwhile BDL's share increased to 42.7% from 37.3% for the two mentioned periods. Mid-year 2016, the banks' LBP Treasury bills portfolio declined in line with the financial engineering as we mentioned earlier, to increase again gradually from July until the end of 2016 as banks subscribe to Treasury-bills of 5 years category at an exceptional return of 5% in the framework of the financial measures to absorb part of their excess liquidity in LBP at the BDL. In general, the new subscriptions were less than maturing securities and concentrated on long-term categories (7 years and above) with relatively high return. The BDL was compensating for the shortage when needed by intervening buying the excess of offered bills to secure market balance.

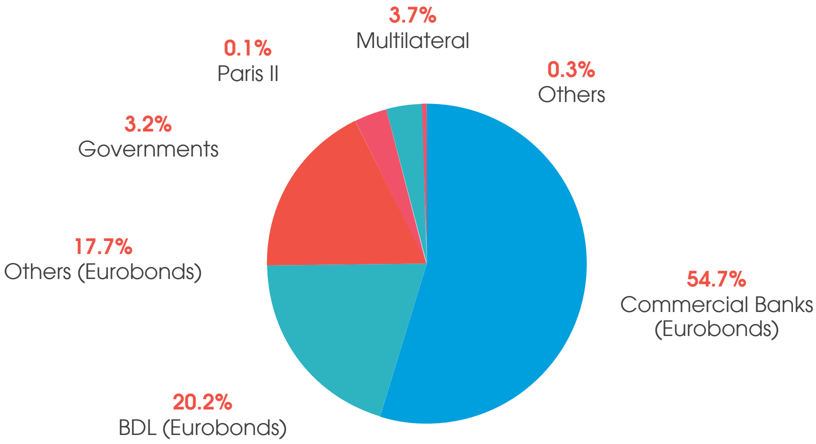
Sources of financing local currency debt End 2016



Source: BDL

3-17 As far as financing foreign currency public debt, the portfolio of banks in Eurobonds declined by the equivalent of USD 2,261 million in 2016 after increasing by an amount of USD 1,335 million in 2015 as some banks resorted to selling Eurobonds from their portfolio mostly to foreign investors as part of managing foreign currency liquidity and participating in financial engineering, knowing that this portfolio witnessed variations during 2016, reaching an amount of USD 15,383 million at the end of 2016 compared to USD 17,645 million at the end of the previous year. Thus, the share of commercial banks in Eurobonds portfolio declined to 59.1% from 70.8% at the end of the two periods respectively.

Sources of financing foreign currency debt
End 2016



Source: BDL

Eurobonds Market in 2016

In January, the Lebanese Republic issued USD 432 million Eurobonds in the context of a purchase agreement between the Ministry of Finance (MOF) and the BDL. This issuance was distributed over two tranches, the first in the amount of USD 38.5 million added to the bonds maturing in November 2024 at 6.25% coupon rate and the second in the amount of USD 393.2 million added to the bonds maturing in November 2028 at 6.65% coupon rate.

In April, Eurobonds in the amount of USD 600 million matured at an interest rate of 4.50% and new Eurobonds were issued in the amount of USD 1 billion distributed over USD 700 million at 6.65% coupon rate maturing in April 2024 and USD 300 million at 7% coupon rate maturing in April 2031.

In May, the Ministry of Finance executed, as part of the available laws and in the framework of the joint cooperation between the Ministry of Finance and the BDL, a swap operation of Treasury bills in LBP with Eurobonds in the amount of USD 2 billion to the benefit of the BDL. The new issued bonds were distributed as follows: USD 500 million maturing in 2022 at 6.25% yield, USD 500 million maturing in 2023 at a 6.4% yield, and USD 1 billion maturing in 2029 at a 6.85% yield.

In November, Eurobonds in the amount of USD 500 million at 4.75% coupon rate matured.

In March 2017, the Ministry of Finance issued, in the framework of Law no. 72 (official gazette 52 dated 3/11/2016), Eurobonds in the amount of USD 3 billion, distributed over three tranches: The first in the amount of USD 1,250 million at 6.85% coupon rate maturing in 2027. The amount of the second tranche stood at USD 1,000 million at 7% coupon rate maturing in 2032. The third of an amount of USD 750 million at 7.25% coupon rate maturing in 2037.

3-18 The weighted average interest rate on Treasury bills in LBP stood almost stable during 2016 compared to the previous year except for the 5 years category where the return on them in the last issuance (in light with the exceptional measures) reached 5% compared to the regular return of 6.74%. The effective interest rates for the last issuance of the year registered the following rates: 4.44% for the 3 month-category, 4.99% for the 6 month- category, 5.35% for the 12 month-category, 5.84% for the 24 month-category, 6.50% for the 36 month-category, 7.08% for the 84-month-category, and 7.46% for the 120 month-category. The yield on bills of the 15-years category issued in March 2016 for only once, stood at 7.90%.

3-19 Due to the developments in the Treasury bills market, the weighted average interest rate on the total portfolio of Treasury bills in LBP slightly declined to 6.92% at the end of 2016 from 6.94% at the end of 2015, whereas the weighted average life of the portfolio increased to 1,269 days (3.5 years) from 1,222 days (3.4 years). Whereas in the Eurobonds market, the weighted average interest rate on this portfolio increased to 6.46% from 6.44%. The weighted average life on this portfolio increased to 6.19 years from 6.09 years in the two consecutive dates.

IV. MONETARY POLICY DEVELOPMENTS

4-1 The monetary policy adopted in Lebanon remains specifically directed to support tying the exchange rate of the LBP to the USD, which helped and still is on securing confidence as well as financial, economic and social stability. Thus, the main priority of the BDL is to preserve an appropriate level of foreign currency reserves. In addition to the efforts spent to preserve the reliability of the peg, the BDL worked in a parallel and increasing manner at providing support for the government and the economy. It provided in the last years specifically since 2013 a stimulating package to the private sector approaching USD 4.5 billion[1] represented specifically in pumping liquidity at low interest rates (1%) to banks to be relent to households and companies at a time when the economy registers low economic growth rates, in addition to the available mechanisms that provide incentives to banks by allowing them to use required reserves. Thus, the BDL has been practicing a non-conventional monetary

[1] Added to this amount is the equivalent of USD 1 billion for 2017.

policy aiming clearly at supporting economic growth and creating employment opportunities. Added to the non-conventional monetary policy are the multi-objectives financial operations that the BDL has implemented since May 2016, which we will address in the next sections.

4-2 The monetary situation recorded a stable performance in 2016 as the monetary authorities were once again in cooperation with the Ministry of Finance and the banks able to achieve monetary stability including the stability of interest and exchange rates. The financial engineering practiced by the BDL in the given year contributed to this stability. BDL's foreign assets increased to new record levels during 2016. The currency markets remained generally stable due to the balance between demand and supply backed especially by an adequate level of BDL's foreign currency reserves. The interbank rate remained at a low level reaching 3% for the most with a significant increase in LBP liquidity due largely to the financial engineering measures. At another level, the average interest rates remained stable on all Treasury bills categories. The Ministry of Finance issued 5 year Treasury bills at exceptional low rates reaching 5% (instead of 6.74%) during December 2016 and January 2017 to benefit from and absorb the LBP liquidity. The average interest rates on the issuance of Eurobonds that occurred in 2016 until March 2017 were good even low compared to the issuances of countries comparable to Lebanon in terms of country risk classification.

4-3 The latest financial engineering of the BDL: mechanisms, objectives and impacts

The BDL implemented exceptional financial operations in cooperation with the banks and the Ministry of Finance that started in May 2016 and lasted until the end of the stated year. The purpose of these operations among other things was to consolidate the BDL's foreign currency assets from the perspective that securing a strong balance-sheet guarantees the stability of the exchange and interest rates. This came at a time when the BDL's foreign currency assets recorded a decline in 2015 and the first one-third of 2016[2] in light of the slow-down of capital flows to Lebanon – with the possibility of this trend remaining or strengthening- and the continuous large needs of the economy for foreign currency, in addition to the presidential void that lasted for two years and its impact on the political conditions of the country.

One of the objectives of this engineering is also to strengthen the capital base of banks to comply with the relevant new international standards and be able to continue financing the economy and support the BDL's reserves and thus support the policy of currency stability. For this reason, the BDL asked banks to allocate profits or revenues resulting from these operations to Tier II capital which allows banks to comply with IFRS 9 at the beginning of 2018 and reach the capital ratio of 15% required by the BDL at the end of 2018. Some of its other implications was the improvement of the

[2] The foreign assets of the BDL declined by %10.2 between the end of May 2015 and the end of May 2016.

balance of payments as the net foreign assets of the financial system recorded a surplus in 2016 of an amount exceeding USD 1.2 billion after consecutive deficits for the years 2011-2015 accumulating to more than USD 9.4 billion, in addition to the reduction in the cost of public debt, the improvement of Lebanon's outlook, the increase in the liquidity in the national currency to finance the economy in the best terms, and the large success of the Eurobond issuance in March 2017 in terms of its amount, conditions, and large demand. It also had a large influence on the growth and composition of the assets and liabilities of the balance-sheets of banks and on the BDL's balance-sheet in terms of the large increase in its foreign currency obligations and costs and the increase in its LBP Treasury bills portfolio in addition to the increase in its foreign currency assets. Before delving into the details of some of these implications, (some implications of the engineering on the monetary situation) we will address the mechanisms of the latest financial engineering of the BDL.

Concerning the mechanism of financial engineering, it was represented first by a swap operation of the equivalent of USD 2 billion of LBP Treasury bills held in the portfolio of the BDL with Eurobonds in an agreement with the Ministry of Finance. Second, by the BDL selling the acquired Eurobonds (USD 2 billion) to banks and issuing USD Certificates of Deposits (by an amount exceeding USD 11 billion) against foreign currency inflows provided by banks from abroad and third, by having the BDL grant incentives to banks through discounting at 0% LBP Treasury bills (and Certificates of Deposits) from the portfolio of banks in an amount equal to the subscription in Eurobonds and USD Certificates of Deposits involved in the second phase of the operation, with the BDL paying banks immediately and in local currency half the value of interest payments[3] that the banks would have received had they kept the financial instruments until maturity.

In line with the provided incentives, banks arduously provided the liquidity to subscribe in the foreign currency financial instruments. They succeeded in doing so by attracting external deposits (by an amount exceeding USD 5 billion or 40% of the subscriptions), selling part of the Eurobonds in their portfolio (around USD 5 billion or 40% of the subscriptions) and withdrawing some of their deposits at correspondent banks (in the region of USD 2 billion, or less than 20% of the subscriptions).

- The BDL was able through the latest financial engineering to strengthen its gross foreign currency reserves that increased to USD 34 billion at the end of 2016 compared to around USD 30.6 billion at the end of 2015 excluding its placements in international securities that have increased according to available data to USD 5.6 billion at the end of 2016 in comparison to USD 5.3 billion at the end of 2015. Its gross foreign assets reached USD 40.7 billion at the end of 2016 compared to USD 37.1 billion at the end of 2015. We also note that the BDL owns a portfolio of Lebanese

[3] Estimated at around USD 5 billion (%50 of around USD 10 billion).

Eurobonds that has also witnessed an increase according to our estimates. We also mention in this framework that the BDL holds a large amount of gold reserves ranking it as 18th internationally and as 2nd in the MENA region in terms of country reserves according to the list published by the "World Gold Council" in March 2017, knowing that the value of the gold reserves of Lebanon increased to around USD 10.7 billion at the end of 2016 in comparison to around USD 9.8 billion at the end of 2015 with the increase in the price of gold internationally over the two mentioned dates due to the increase in investment demand (especially due to the cloudiness surrounding the US elections and the exit of Britain from the European Union). As it is known, foreign currency and gold reserves are some of the most important elements supporting confidence in the national currency. The foreign currency reserves held by the BDL are considered adequate to defend the value of the LBP against the USD and face any crisis that may occur, based on the acknowledgement of the most important international financial institutions including the IMF.

- Bank deposits in foreign currencies at the BDL increased significantly in 2016 by an amount exceeding USD 13 billion according to our estimates, contributing to a great extent at reinforcing the BDL's foreign reserves, and thus strengthening currency stability. This came especially as a result of the BDL's issuance of Certificates of Deposits in USD in an extensive manner since May 2016 in light of the financial engineering operations. The portfolio of these Certificates increased significantly from USD 9.1 billion at the end of 2015 to USD 21.9 billion at the end of 2016. The new issuances in 2016 concentrated specifically on the 6 years category at 6.25% interest rates, the 7 years category at 6.4% interest rates, the 10 years category at 6.63% interest rates, and the 13 years category at 6.85% interest rates, in addition to limited issuances of Certificates of the 30 years category[4] at 7.4% interest rates.

- Some of the results of the swap operations with the BDL were also the increase of its portfolio of LBP Treasury bills resulting from the discount operations. In reality, the BDL's portfolio of LBP Treasury bills recorded a significant and unprecedented increase in the absolute amount in 2016 reaching LBP 30,150 billion at its end compared to LBP 23,907 billion at the end of 2015, to have the share of the BDL increase significantly to 42.9% at the end of 2016[5]. It is to note that its increase in the first one-third of the year when it reached LBP 26,359 billion at the end of April 2016 came as a result of the BDL's intervention buying Treasury bills in the primary market. This share declined to LBP 24,036 billion at the end of May 2016 as a result of the swap of Treasury bills in LBP from the BDL's portfolio with Eurobonds in the mentioned month.

- The liquidity generated from discounting financial instruments in local currency in the framework of the latest financial engineering played a primary role in the stability of interest rates in LBP in 2016[6], in addition to the Ministry of Finance continuing to

[4] We mention that the BDL issued in 2015 for the first time Certificates of Deposits for 15 ,20, and 30 years acquiring adequate demand.
[5] 45% at the end of August 2016 which is the highest level historically.
[6] The intervention of the BDL buying LBP Treasury bills in the primary market and the issuance of the Ministry of Finance of long-term Treasury bills at relatively high yields had a great contribution in insuring the stability of LBP interest rates including the rates on short and medium term Treasury bills in the preceding years.

issue long-term Treasury bills, and the intervention of the BDL when necessary in the primary market of Treasury bills concentrated in the first one-third of 2016. The Ministry of Finance proceeded in December 2016 and January 2017 to issue Treasury bills of the 5 years category at an exceptionally low interest rate reaching 5% (instead of 6.74%) to benefit from the excess liquidity.

- In the framework of controlling liquidity in LBP, we mention that the BDL allowed banks to deposit their excess liquidity resulting from the swap operations in the form of term deposits at the BDL, given that some of this liquidity was placed again in Treasury bills after the Ministry of Finance issued the amount of LBP 3,300 billion of Treasury bills of the 5 years category at an exceptional interest rate reaching 5%.

  From its side, the portfolio of Certificates of Deposits in LBP issued by the BDL declined to LBP 34,631 billion at the end of 2016 compared to LBP 34,697 billion at the end of 2015, or by a small amount of LBP 66 billion after registering a large increase exceeding LBP 5,000 billion in the previous year. This came about as a result of the issuance of Certificates of Deposits of around LBP 3,000 billion (with an intensity less than the issuances of 2015) concentrated specifically in the first one-third of 2016, in comparison to a maturing amount in the last month of 2016 approaching also LBP 3,000 billion of Certificates of the 7 years category issued in 2009, which explains the quasi-stability of this portfolio in 2016 after its large increase in 2015 resulting from issuances in the amount of LBP 5,000 billion approximately and the near absence of maturing Certificates.

  The new issuances in 2016 concentrated on long-term maturities of the 7 years category and above, especially on the 12 years, 20 years and 30 years[7] in addition to sizes relatively limited of the 45 and 60 days category. The issuances concentrated in the first one-third of 2016 as we previously mentioned to nearly be absent later on, as the BDL aimed primarily at directing some of this liquidity to the private sector while respecting the safe lending practices and guidelines as well as allowing the Ministry of Finance to benefit from it which is what actually happened.

- On another level, the monetary and fiscal authorities have been taking precautionary or preventive measures for many years among which are operations consisting of extending maturities that reduce the amounts that mature in relatively short periods[8] and provide in advance the necessary financing for close entitlements. The measures aim among other things at alleviating the pressure on the foreign reserves of the BDL and the management of market liquidity. These measures continued lately as the Ministry of Finance resorted in November 2015 to issue Eurobonds that allowed it partly to replace some of the maturing securities of 2016 (around USD 318 million).

[7] The BDL started since March 2015 issuing 20-year CDs in LBP at an interest of %8.32 and 30-year CDs in LBP at an interest of %9. The purpose of such long-term issuances is to manage liquidity better, to complete the concept of the yield curve, and to develop financial markets. The monetary authorities see that issuing long-term CDs is considered the first principal step to prolong the yield curve and would help promote the issuance of long-term Treasury bills by the Treasury.

[8] In LBP or foreign currencies

Included also in this framework is the issuance of the Ministry of Finance lately in March 2017 Eurobonds in the amount of USD 3 billion[9], representing historically the largest issuance ever aiming at financing a large part of the government's entitlements in foreign currencies during the remaining period of this year. The BDL allowed banks to discount Certificate of Deposits it had previously issued for the purpose of subscribing in bills issued in 2017, which prevents affecting or pressuring bank liquidity in foreign currencies in addition to reducing the cost of Certificates of Deposits on the BDL.

It is possible to include the latest financial engineering of the BDL in this framework, as it has secured in advance the financing needs of the Lebanese economy for a period of time. The operation of swapping the Treasury bills in LBP with Eurobonds allowed the maturity extension of the swapped bills and relieved the market from some soon to mature bills[10]. The financial engineering played also a positive role in the success of the issuance of March 2017 concerning its record amount and the size of the internal and external demand for subscribing that reached around sixth fold the amount issued[11]. The engineering resulted in the increase in the external demand for the Lebanese bills, and with the permission of the BDL to banks to discount the Certificates of Deposits to subscribe in the issuance of March 2017, it is possible to say that it has guaranteed in advance through the financial engineering the foreign currencies needed by the government[12] in a future period.

4-4 The biggest challenge for the monetary situation in the next period may be the continuing trend of the slow-down in deposits inflows to the levels prevailing in 2015 and the first half of 2016 (or possibly less) which is less than the financing needs of Lebanon for the medium term. This is attributed to many factors pressuring in this direction and toward the increase in the cost of financing, among which: Competition among the regional markets to attract capital, the decline in liquidity conditions/levels in the Gulf countries and their impact on investments flowing from these states to Lebanon, the increase in the interest rates on the USD and expectations of a further increase in 2017, the contractionary impact of the slow-down in economic growth in the Gulf countries and in other oil-exporting states where Lebanese work on the size of remittances to Lebanon after the large decline in oil prices, the continuation of regional disturbances, the delinquency in the governmental performance in managing the economic and social affairs of the country in addition to not conducting the necessary reforms in public finances. All these factors are conducive to the decline in the willingness of investors to be exposed to the risks of Lebanon. Adding to this is the possibility that keeping or renewing the new deposits flowing to Lebanon in the framework of the latest engineering is not assured at least partly. Despite this, the monetary situation remains immune to a great extent due to the high liquidity of the banking system which should be preserved as a major factor of immunity and as a sign of commitment to the macro-financial stability.

[9] After the Parliament passed in November 2016 Law number 72 which allowed the government to issue Treasury bills in foreign currencies in an amount not to exceed USD 3 billion, and this law reduces the reliance on the BDL to secure foreign currencies.

[10] Around 400 billion of Treasury bills in LBP that would have matured in 2017.

[11] Or around USD 17.8 billion, out of which around USD 1.25 billion from foreign banks and institutions.

[12] An amount of around USD 700 million of these bills was subscribed in through Certificates of Deposits in USD.

4-5 Monetary Aggregates

The M3 monetary aggregate recorded an increase of 7.4% in 2016 compared to 5.1% in 2015 which is the lowest recorded growth rate since 2006. This improvement was tied to the financial operations implemented by the BDL in 2016.

M3 reached LBP 200,192 billion at the end of 2016 with its dollarization rate increasing slightly to 58.83% at the end of the mentioned year from 57.81% at the end of 2015 or by 100 basis points and this is natural due to the increase in foreign currency deposits at a pace faster than the ones in LBP. It is possible to summarize the major components that have contributed to the increase of M3 by LBP 13,832 billion in 2016 as follows:

Evolution of money supply and its counterparts (End of period – billion LBP)

	2014	2015	Change 2015/2014 (%)	2016	Change 2016/2015 (%)
Money in LBP (M1)	8,301	9,042	+741	10,159	+1,117
Money and quasi-money in LBP (M2)	73,400	78,620	+5,220	82,428	+3,808
Money and quasi-money in LBP & FC (M3)	**177,397**	**186,360**	**+8,964**	**200,192**	**+13,832**
Counterparts					
Net foreign assets	53,661	46,608	-7,053	49,712	+3,104
o/w : gold	16,509	14,846	-1,662	16,138	+1,292
foreign currencies	37,153	31,762	-5,391	33,574	+1,812
Net claims on public sector	63,226	70,688	+7,462	76,778	+6,090
Valuation adjustment	-8,146	-6,401	+1,745	-7,707	-1,306
Claims on private sector	71,217	75,695	+4,478	80,188	+4,493
Other items (net)	-2,561	-229	+2,332	1,222	-1,451

Source: BDL

Net claims on public sector increased in the amount of LBP 6,090 billion or by less than the increase in the previous year and were for the second consecutive year the largest contributor to the growth of M3. In parallel, claims on resident private sector increased by LBP 4,493 billion and approximately equal to the increase in the previous year to become as in 2015 the second major contributor to the growth of M3 after being the most important money creator in the previous years.

The most important and positive development in 2016 and the major cause of the increase in M3 growth was the contribution of the net foreign assets of the banking system (excluding gold) positively in money creation, as these assets increased by USD 1.2 billion after they had a contractionary impact on M3 in the five years 2011-2015 with their continuous decline which was the highest in 2015 exceeding USD 3.5 billion. In their turn, the other net items on the balance-sheet of the banking system increased by an amount of LBP 1,451 billion representing monetizing financial obligations positively contributing to money creation.

4-6 Inflation

According to the Central Administration of Statistics, the inflation rate was -0.82% in 2016, to be negative for the second consecutive time in the last ten years after a decrease of 3.75% in 2015.

The decline in prices in 2016 which was at a slower pace than 2015 came in light of the weak growth in domestic demand in general (compared to the potential output), the continuous decline in world oil prices (- 15.7%), and the prices of food products (-1.5%), even at a lower pace than their decline in 2015 (-45.7% and -18.7% respectively), in addition to the continuous decline, even slight, in the average exchange rate of the euro in comparison to the USD. In its part, the BDL works continuously at monitoring and sterilizing liquidity in order to contain the inflationary pressures that could result from it.

It is expected that year 2017 will witness some inflationary pressures caused by external factors, with the anticipation of an increase in the average prices of oil, food products and metals in 2017 in comparison to 2016, or due to internal factors related to passing the salary scale and the tax measures of financing it. Therefore, and in parallel to the weak expected economic growth in Lebanon, and with the commitment of the BDL to contain inflation, the inflation rate will probably remain moderate in 2017 as the IMF expected in its latest report on the World Economic Outlook for the CPI in Lebanon to increase by 2.6% in the stated year.

V. EXTERNAL PAYMENTS

Current Account and Balance of Payments

5-1 According to the latest available information provided by the BDL, the estimated current account deficit in Lebanon increased to around USD 9.8 billion in 2016 compared to USD 8.1 billion in 2015 as the trade of goods deficit (FOB)[13] increased to around USD 13.6 billion from USD 13.1 billion over the two respective years, whereas the estimated surplus in the balances of services, current transfers and income decreased to around USD 3.8 billion from around USD 5.0 billion. Thus, based on that, the current account deficit to GDP increased according to the estimates to reach 19.4% in 2016 compared to 16.4% in 2015. The increase in the goods trade deficit in 2016 came in light of the sharp increase in the value of imports of precious metals and the imported quantities in general and despite the continuing decrease in the prices of oil and other primary commodities and the quasi-stability of the value of goods exports.

Given that the latest estimates of the IMF concerning the current account deficit which are ones that mostly differ from those provided by the BDL, pointed-out to the decline in the current account deficit to around USD 8.3 billion in 2016 compared to USD 9.3 billion in 2015, and the decline in this deficit to GDP ratio to 16.0% compared to 18.4% for the two mentioned years respectively.

5-2 As for services balance, we mention that the tourism activity recorded some improvement in 2016 for the third year in a row after its sharp decline in the preceding three years (2011-2013). The number of tourists visiting Lebanon increased at a rate of 11.2% in 2016 to reach 1,688,357 tourists according to the statistics of the Ministry of Tourism, but this figure stays below the record level of 2010 standing at 2.2 million tourists. The largest increase in the number of tourists in 2016 like the preceding year came from Europe. The occupancy rate of Beirut 4 and 5 stars hotels nearly stabilized according to Ernst and Young on 59.0% in 2016 compared to 58.0% in 2015 (67% in 2010) possibly due to the change in the nature of tourism. It is expected for the tourist activity to record an increase in 2017 with the easing in the political situation and the improvement in the relations with the Gulf countries.

[13] The deficit in merchandize trade recorded in the balance of payments differs from the one published by the Lebanese Customs that adds the following: re-exported goods, goods for processing, and repairs on goods.

5-3 The expatriates' remittances to Lebanon decreased by 2.3% in 2016 to reach USD 7.3 billion based on the latest estimates of the World Bank compared to USD 7.5 billion in 2015 given that they sometimes differ from the figures of the IMF and BDL. The net current transfers decreased by 12.9% in 2016 to USD 2.9 billion compared to USD 3.4 billion in 2015 according to BDL.

The World Bank attributed the decrease in the remittances basically to the decline in oil prices and the slow-down in economic growth in the Gulf countries and some African and other countries where Lebanese are working. The remittances to Lebanon constituted, according to the World Bank, over 14% of the GDP in 2016 which is the highest ratio in the region and one of the high ratios in the world, compared to 15% in 2015. Lebanon occupied in 2016 the 17th position in the world in terms of the amount of remittances, and the second highest position in the region behind Egypt. The systematic and level of these remittances reflect the size of the Lebanese Diaspora in all parts of the world, its high quality in all respects and its continuous economic ties to its country and people.

5-4 The high current account deficit in Lebanon, which is determined largely by the trade of goods deficit, is financed by the surplus in the capital and financial accounts, i.e. through the net capital inflows in various forms from direct investments, portfolio investments, deposits at banks, net loans from abroad to the public and private sectors, and others. Based on the levels of current account deficit stated above, which are estimates always subject to adjustment, and the balance of payments figures provided by the BDL for 2016, the net capital inflows to Lebanon would have obviously increased in 2016 to over USD 11 billion after the financial operations implemented by the BDL with banks since May 2016, whereas it did not exceed according to the estimates USD 5 billion in 2015.

5-5 Concerning the foreign direct investments whose size is estimated differently by various sources, several reports entirely agreed on their decline to Lebanon in the last years due to the internal and regional pressures.

The latest available information provided by BDL pointed-out that net foreign direct investments flowing to Lebanon increased a little to USD 2.0 billion (4% of GDP) compared to USD 1.7 billion in 2015 and 2014 (3.5% of GDP), knowing that the average for the three years 2008-2010 witnessed for comparison purposes net foreign direct investments approaching USD 3.2 billion annually. Foreign direct investments flowing to Lebanon amounted to USD 2.6 billion in 2016 (5.1% of GDP) in comparison with USD 2.4 billion in 2015 (4.8% of GDP) and USD 2.9 billion in 2014 according to BDL and UNCTAD's latest report, knowing that the average for the years 2008-2010 had exceeded USD 4 billion annually. It is to mention that foreign direct investments usually finance a large part of the current account deficits and are largely concentrated in the real estate sector differing from the nature of foreign direct investments in many emerging countries where they are diverse affecting several economic sectors.

5-6 In conclusion and for the first time in six years, net capital inflows in 2016 were able to cover the current account deficit. Despite the fact that early estimates point-out to an increase in the current account deficit tied directly to the increase in the import bill, net capital flew in large amounts exceeding the deficit in current account and even realizing a surplus in the balance of payments standing at USD 1.2 billion in 2016, after continuous deficits during the period 2011-2015 accumulating to over USD 9.4 billion.

The increase in the capital inflows to Lebanon in 2016 was caused by the exceptional financial operations the BDL resorted to since May of the stated year, taking especially the form of bank deposits and portfolio investments. The decline in financial flows in their many forms in the previous years comes as a reaction to the uncertain environment and the deterioration in the political and economic conditions in the country and the aggravation of the situation in Syria.

Despite the fact that Lebanon still enjoys a high level liquid assets in foreign currency accumulated over the last years which have been reinforced in 2016, this does not excuse the concerned authorities from acting swiftly to avoid weakening or depleting foreign currency reserves and thus weakening the immunity of the monetary situation and the need to increase the interest rates especially in the presence of several factors related to the situation in the Arab region that may pressure toward a decline in the inflow of deposits and an increase in the cost of borrowing. To cite an example, in addition to the necessity to improve the political conditions, it is possible to take measures aimed at improving productivity, fighting corruption and reducing the cost of doing business. After the success of the government lately in passing the decrees related to the oil wealth and partnership between the public and private sectors, it is hoped that they will both affect positively international investors which will probably raise the inflow of capital in general and foreign direct investments in particular.

Foreign Trade

5-7 According to Customs Higher Council, the value of imported goods increased to USD 18.7 billion in 2016 compared to USD 18.1 billion in 2015 or by an amount of USD 636 million or 3.5%. This percentage was affected by the increase in quantities imported, which we will address in the next paragraph, faced with the continuation of decline in the world prices of imported products from oil, food products and others, though at a slower pace than before in addition to the slight decline in the average price of the Euro against the USD. To give an example, there was a large increase of 16.3% in 2016 in the imported quantities of mineral products which are constituted for the most of petroleum derivatives whereas the value of these imports increased only by 8.9% due to the decrease in the average price of petroleum derivatives. It was also affected by the remarkable increase in the value[14] of imports of precious and semi-precious stones and precious metals (+ USD 433 million). This value is tied to a great extent to its export activity which also largely increased.

The imported quantities registered a large increase of 10.7% to reach 17,372 thousand tons in 2016 compared to 15,699 thousand tons in the preceding year with the increase in the quantities imported of most commodities out of which the ones considered as essential necessities namely vegetable products, industrial food products, and petroleum products - due to the additional consumption needs in the country resulting from the enormous numbers of Syrian refugees -, and also the ones tied to the construction sector and some industries partly resulting from their export activities. However, after careful examination of the change in the type of quantities imported or after excluding some commodities that weigh heavily or that were exceptional during the period of the study, we find that the quantities imported witnessed, in general, a good increase in 2016 but more moderate than the first impression. For the sake of an example, after excluding the mineral products that weigh heavily and witnessed a large increase in 2016, the increase thereafter of the imported quantities of other goods increased by 5.5% in 2016[15].

Thus, the price effect was contractionary on the value of imported products in 2016 as well as 2015. In other words, had it not been for the decline in world prices in general in 2016, with the average to good increase of the quantities imported and the increase in the value of imported precious metals, the import bill would have probably been higher.

Imports of goods

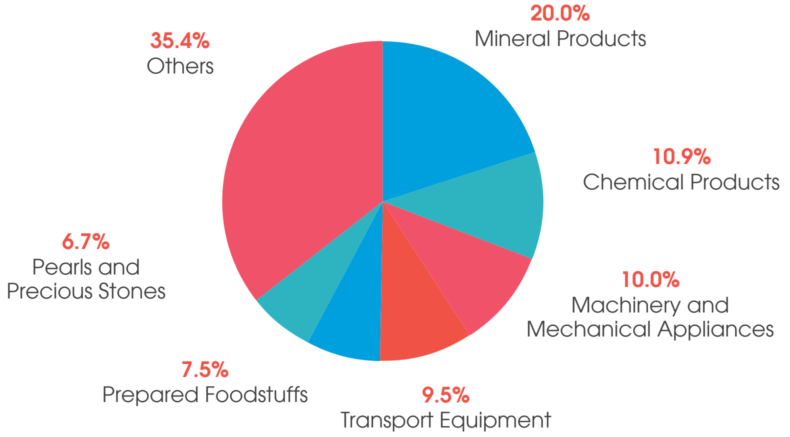
	2014	2015	2016
Value – USD million	20,494	18,069	18,705
Change (%)	-3.5	-11.8	+3.5
Quantities – Thousand tons	15,452	15,699	17,372
Change (%)	-2.6	+1.6	+10.7

Source: Customs Higher Council.

[14]due to the increase in quantities imported and prices.
[15]After excluding the base metals and articles of base metal whose quantities imported registered a high increase, the equipment and the electric machines whose imported quantities showed an exceptional decrease after their exceptional increase in 2015 affected by the imports of an electric transformer, the imported quantities of all other goods would have registered an increase by %4.5 in 2016.

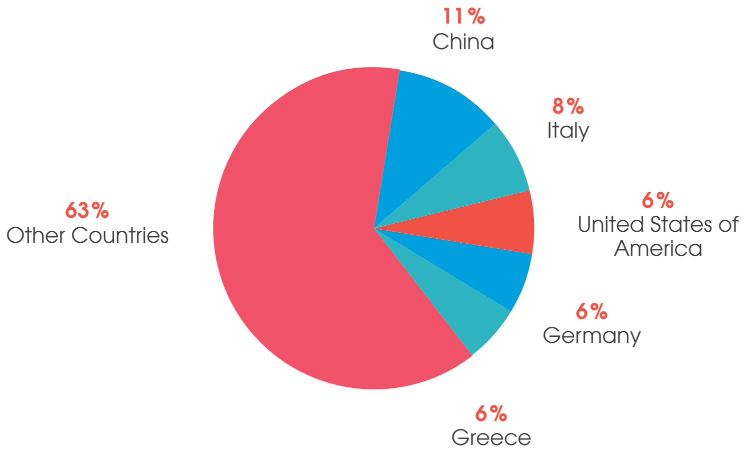
The two graphs below summarize the distribution of imported goods by type and country of origin in 2016.

Main imported products in % of total in 2016



Source: Customs Higher Coucil

Import by countries of origin in % of total in 2016



Source: Customs Higher Coucil

5-8 | In another context, the value of exported goods slightly increased to USD 2,977 million in 2016 compared to USD 2,952 million in 2015, or by an amount of USD 25 million and by 0.8%. This outcome was obviously affected by the increase in the exports of precious and semi-precious stones and precious metals by USD 394 million and by more than 90% for the given year. After excluding them, the value of exported commodities would have registered a large decrease of 14.7% and an amount of USD 369 million in 2016, due to the quantity factor and price factor in general. The value of exports of most commodities declined with differences between items, with chemical products registering the largest decrease in both value and quantity of exports. It is to mention that the closure of the crossing of Nassib had a great impact on exports to the Arab countries that continued their decline in 2016[16].

In its turn, the quantity of exports largely declined in 2016 by 14.5% reaching 1,659 thousand tons. In detail, the customs items for the most witnessed a decline in the quantities of their exports with a difference among items, with the most prominent being the item of "chemical products" that represented 60% of the decline in the total exported quantities. Getting into the details and isolating some items, we find that the decline in quantities exported was less severe than the first impression as the total was affected by some commodities that weigh heavy. For example, after excluding the products of the chemical industry, the quantity exported of other products would have declined by 7.5%. And if we also exclude as an example the prepared foodstuffs and beverages, the quantities exported of all other commodities would have declined by 4.3%

In conclusion, exports of goods recorded in 2016 quasi-stability in terms of value under the influence of the witnessed improvement in the value of precious metals exports. This stability turns into a large decline (-14.7%) if we exclude precious metals. This decline is due in its turn to the decline in goods prices in general and the decline in the quantities exported, however in a more moderate way than it is given by the first impression.

Exports of goods

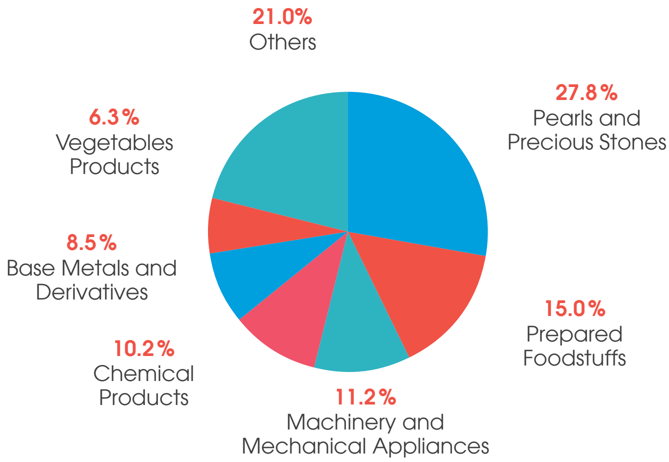
	2014	2015	2016
Value – USD million	3,313	2,952	2,977
Change (%)	-15.8	-10.9	+0.8
Quantities – Thousand tons	2,236	1,659	1,941
Change (%)	-19.5	-13.2	-14.5

Source: Customs Higher Council.

[16] Exports to the Arab countries declined by %18.7 in 2016 after declining by %8.0 in 2015. The quantities exported to these countries declined by %17.9 in each of the mentioned years.

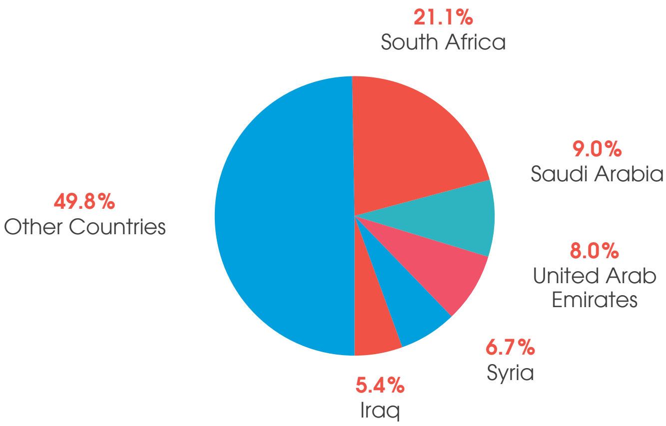
The two graphs below highlight the most important Lebanese exported goods and the most important countries that Lebanon exported to in 2016.

Main exported products in % of total in 2016



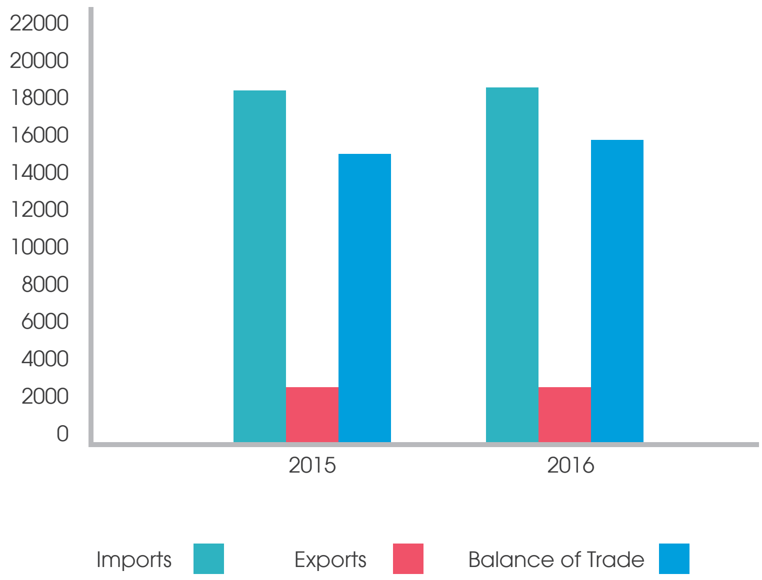
Source: Customs Higher Coucil

Export by countries of destination in % of total in 2016



Source: Customs Higher Coucil

Lebanon foreign trade
million USD



Source: Customs Higher Coucil

VI. BANKS AND THE FINANCING OF THE ECONOMY

6-1 The Lebanese banking sector is considered one of the most contributing sectors in activating the economic growth and achieving the social and cultural development in the country through its role in financial intermediation, or attracting deposits and granting loans to the national economy in its private sector with a high efficiency and low cost, and its public sector by securing its financial needs, in addition to the other roles such as providing and managing the payments systems and insurance, consulting and investment services, and helping the state in collecting taxes and fees, and supporting diverse sportive, cultural and social activities and the civil society organizations in general. Thus, and in addition to the local confidence, many reputable international institutions see that the Lebanese banking sector constitutes in its physical and human capacities a support for the monetary, financial and social stability of the country along with its security institutions. Banks in Lebanon contribute in a primary way in reinforcing the monetary stability and thus in preserving the purchasing power of the LBP through their deposits in foreign currencies at the

BDL and their subscriptions in Eurobonds which reinforces the foreign reserves and help the government in settling its commitments and external payments in foreign currencies. Banks also contribute in financing the external trade activity and cover the current deficit account through capital flows into them. The banking sector deals efficiently with sovereign risks related to the internal (public) and external (current) deficits.

6-2 The banking sector has the financing capacity for any governmental plans or projects that place importance on the partnership between the public and private sectors based on transparent foundations to invest the large potentials of the private sector in all facets of development needed by the economy to improve its sectors and activities, which is a principal factor for the success of the economic policies laid-out by the government. At the end of 2016, the total consolidated balance-sheet of commercial banks operating in Lebanon reached USD 204.3 billion, registering an annual increase amounting to USD 18.3 billion or 9.9% compared to an increase of 5.9% in the preceding year. The realized increase in 2016 was distributed over the deposit base (62.7% of resources increase), capital accounts (9.7% from the additional resources), and other resources (27.6% of additional resources), which usually include interbank operations. This last item included exceptional revenues achieved by banks in 2016 through the swap operations with the BDL. At the request of the monetary authorities, banks will be granted priority to direct part of this liquidity in as much as possible to lend the economy within the standards of sound lending, and work on finding a formulation to absorb another part by extending its maturity from short to long-term, so that this formulation takes into consideration the demands in LBP which will be tied to the new financial international standards and their implications on capitalization and general provisions.

6-3 The efforts of banks concentrate yearly on developing the banking institutions through investment in qualified human resources and the techniques and working systems of modern banking, and accompanying the modern professional and changing rules, corporate governance, adopting the international standards on combatting money laundering, risk management and capitalization. Thus, banks represent a model to raise the performance level and develop the activities of other sectors. These efforts are considered a basis for their success in attracting the savings of resident and non-resident Lebanese, and in financing the private and public sectors and supporting the operations of the BDL to ensure monetary stability. Adding to these efforts is the continuous work on strengthening capital through rollover of profits or through attracting new investors to expand their operations and activities, service their clients, and fulfill their commitments towards their depositors and owners, and reinforce confidence in their institutions and therefore in the whole banking sector. Continuing to finance the economy, or the private and public sectors and support the reserves of the BDL, requires a continuous strengthening of capital, reserves, and provisions and this is only possible through effective profits and new capital investment attracted by high profits.

6-4 Thus, the deposit base increased by 7.4% in 2016 compared to a lower increase reaching around 5% in the previous year. The largest part of the increase in 2016 is attributed to the exceptional financial measures, mentioned earlier and in many places of this report, that caused attracting new foreign currency deposits. In general, the growth of deposits is considered enough to finance the needs of the economy and support the foreign reserves of the BDL. It is known that banks, as well as monetary authorities, take great importance on attracting deposits due to what they reflect in confidence and growing role in incentivizing the economy.

6-5 The capital base also increased by 9.4% in 2016 compared to 6% in the previous year. Capital represented 8.9% of total assets and 15% as solvency ratio based on Basel 3 at the end of 2016. This level is considered good by international standards and it complies with the level of various risks banks are exposed to in their work. Part of this increase is attributed to the banks setting aside some realized profits as provisions to be used in the application of IFRS 9 and increasing the capital adequacy ratio in applying the BDL circular in which it asks banks to allocate some of this revenue to recapitalize and constitute the necessary provisions needed to apply the mentioned accounting standard. Banks will continue in 2017 to reinforce their capitalization to conform with the Lebanese and international requests concerning Basel 3 and to constitute provisions and achieve what is demanded as per IFRS 9.

6-6 The Lebanese banking sector remains the main financier of the private sector in light of the continuing weakness of the stock and bond markets, as evidenced by the percent of loans to this sector that constituted around 113% of GDP at the end of 2016, given that the trend of growth of loans to the private sector started declining in the last years. For information, the incentivizing measures and circulars adopted by BDL since 2009, coupled with the facilities concerning the required reserves, contribute to encouraging borrowing in LBP and achieving economic growth. The BDL adopted initiatives to provide the subsidized loans, to support the economy and reinforce financial inclusion.

6-7 Banks, in cooperation with the BDL, place high attention on the issue of financial inclusion as evidenced by basic circular no. 134 issued on 12/2/2015 concerning the principles of carrying out banking and financial operations with clients, and intermediate circular no. 458 issued on 19/4/2017 which includes measures that take into account the rights of customers with special needs to benefit from the banking and financial services. This in addition to the importance of educating the customers, raise their awareness, and explain to them their rights, receive their reviews and address them with speed and effectiveness. It is to mention that similar to the compliance units, and enhancing the principles of transparency, and the spreading of the banking and financial culture, banks established special units for consumer protection. On another level, it is considered that supporting consumer loans is a step towards financial inclusion which is also affected by the projects launched by the banking sector backed by the BDL, out of which the employment in the knowledge economy sector (based on circular no 331), which currently includes 800 companies and USD 400 million allotted by banks to this type of companies. In addition, the role of the banking system in facilitating the payments systems encourages the dealings between the citizens and the banking sector.

6-8 Loans to the public sector declined by 8.1% in 2016 compared to an increase by 1.2% in the previous year. This decline was accompanied by an increase in bank deposits at the BDL. Despite that, banks remain the main financier of the needs of the public sector even if the financing size differs from one period to the next taking into consideration the liquidity, risks and other matters. The share of bank financing to public sector declined to around 17% from the overall balance-sheet and 21% of bank total deposits at the end of 2016 in favor of the increase in the percent of their deposits at the BDL that reached 43.1% and 53.6% respectively at the end of the stated year.

6-9 Given the size of openness, dealings, and the commercial and financial exchange with the outside world denominated largely in the USD, which necessarily implies going through US correspondent banks of Lebanese banks and BDL, the Lebanese banking sector spends continuous and costly efforts in terms of time and money and at all levels to keep the financial transactions and flows between the Lebanese financial system and the world financial system clean, highly credible, and void of any shortcomings and problems that may subject the interests of the Lebanese and the Lebanese economy to non-praising obstacles and consequences. Lebanon has an interest in complying with the sanctions imposed by international groups and some large countries, and with the standards of the international banking industry, in adherence to the public interest and the bank clients, be it depositors, borrowers or investors. Thus, part of solidifying and reinforcing the banking sector passes through preserving a safe and transparent relationship with the US financial markets and other international ones based on respecting the established rules that all international banks abide by and not only Lebanese banks.

6-10 With the external trend to strengthen the Enhanced Due Diligence concerning banking operations, Lebanese banks in their turn multiply the clear and strong commitment to the rules of combatting money laundering, the financing of terrorism and knowing your customers. They work based on some important standards such as: Not to conduct business with the holders of the names included on the OFAC list of the US Treasury, cooperating with the Special Investigation Commission (SIC) at the BDL concerning accounts subject to liquidation and closure, and working on reporting suspicious transactions to the SIC that will in its turn inform the bank back of its decision after performing its task. At another level, a delegation from the Board of Directors of the Association conducts routine visits to the USA to meet with the US banks that are correspondent of Lebanese banks in addition to the Federal Reserve, US Treasury, and members of Congress, the financial and banking services committee and the foreign relations committee. These visits fall into the interests of Lebanon and have protected Lebanese banks from the practices of De Risking that have affected countries with better conditions than Lebanon. Lebanese banks remain in permanent contact with correspondent banks especially with their compliance officers due to their important positions concerning preserving the relationship and avoiding De Risking. It remains of utmost importance to continue nurturing correspondent relationships between Lebanese banks and ones existing in European markets. Within this framework, it is worth mentioning the passing of law no. 75 by the Lebanese parliament on 27/10/2016 on abolishing shares in bearer form and shares to the order, and which imposes that shares carry the holder's name in Lebanon. It is to mention that shares in bearer form are being abolished by many countries in the world for the difficulty in specifying the economic beneficial owners to the bearer, and to prevent them from being used by money launderers.

6-11 Lebanon is also committed to the international standards on the exchange of tax information adopted by OECD to remain involved in the financial globalization and to prevent its inclusion on the list of non-cooperative countries or not signatories on preventing tax evasion. It has entered the period of voluntary exchange of information which will start in September 2018 based on Law no. 55 on tax information exchange appearing in the appendix of the official gazette no. 51 on 27/10/2016. Banks have lately tried and still are through the Association to insist on the legislative and executive branches to undertake the necessary measures to reinforce this exchange and conduct some legislative adjustments to protect the savings of Lebanese immigrants in their homeland and the revenues of the Lebanese abroad from any misuse of the exchange mechanisms and the information exchanged which may subject them to operations of extortion and fraud or legal accusation in the crime of financial non- declaration and tax evasion.