

Lebanon's Bond With Fintech

The Lebanese economy is in a debilitating condition due to political as well as social instability. Nevertheless, the country's financial system is performing commendably. In the words of Lebanon's central bank governor, Riad Salameh, "the country's economy will not require extensive measures or means from the regulator to withstand instability or the political crisis." That outlook provides an optimistic and positive approach to the issue.

As per the reports stated by credit agency, Moody's, Lebanon's banking system will remain stable in terms of expectations of modest economic growth and inflows of foreign deposits, which are eventually helping the banks to finance the government. Domestic credit will grow slightly at 2-3% over a period of 12 to 18 months as interest rates will rise. The reports said that the country's economy grew 1.9% in 2017 and is likely to see a modest rise in GDP, with a growth of 2.5% in 2018 and 3% in 2019. This forecast is based on expectations of the country running with co-operative economic policy and also the government's resumption of long-delayed public investment projects as scarcity of investment opportunities is a major threat for banks.

The country's banking system has variable liquidity buffers in order to withstand a period of short-term outflows or slower financial inflows that would eventually mitigate the risk of deposit flight of investments. The capital buffers of banks are also modest and the ratio of equity to assets is at around 9% where the lender's heavy exposure to the government policies stands along with a challenging operating system. Surpassing all threats, the Lebanese banking system remains strong and with Lebanon advancing towards financial innovations, it is also the region's second most sought after location for setting up an advanced fintech start-up ecosystem.

Vindicating this, in 2017, 54% of bank account holders adopted the digital banking system, a fair growth from 2016's levels of 38%. Region-wise, Lebanon ranks third in the Adoption of Digital Banking Services and second for people who use mobile banking. With fintech's progressive digital financial services, Lebanon can easily bypass geographical restrictions and be receptive to customers' demands.

Economic analysis of Lebanon shows that medium-term economic prospects will remain sluggish whereas the macrofinancial risks will remain high. With parliamentary elections around the corner, the spending boost will be offset by tightened lending regulations as imposed by the Central Bank. The fiscal side will witness a tax windfall and the persistent rise in interest payments imposed on the public debt will widen the fiscal deficit with a projected 8.3% of GDP. The country has one of the lowest tax rates globally. The Investment Development Authority of Lebanon offers tax breaks for up to 10 years, as well as other incentives to local and foreign companies operating in the ICT sector and meeting specific requirements.

In April 2018, at the CEDRE Investment Conference in Paris, donors from various countries pledged to provide Lebanon with over \$11 billion in the form of soft loans to fund infrastructure projects. The pledges were mostly around the reforms, which include

lowering the fiscal deficit by 1% annually over five years, among other measures.

It is important to understand how Lebanon can produce lucrative results due to its competitive advantages. As Lebanon hosts 14% of the region's fintech start-ups, it is also the fourth most served market by fintech companies, with 27% of MENA fintech startups serving the Lebanese market.

Lebanon's banking system is one of the strongest in the region and ranks 23rd worldwide in terms of soundness of bank rankings. With Lebanese banks adopting financial innovations, vital opportunities are created for cooperation with fintech companies. Fransabank invested \$2.5 million in local fintech startup PinPay, while Bank Audi launched a mobile contactless payment service, Tap2Pay, to optimize cashless payments in Lebanon.

Today, around six venture capital firms have operations in Lebanon in addition to various regional VCs, which have backed a number of local fintech companies. The Central bank of Lebanon issued Circular No. 331 in 2013, through which up to \$400 million was dedicated for Lebanese banks' equity investment into startups, incubators, accelerators and funds operating in the country. There are eight incubators and accelerators that provide training, technical and financial assistance to new and existing fintech companies in Lebanon.

Battling with the precarious situation in the region, the Lebanese banking sector is efficiently maintaining a solid financial position and is displaying the ability to absorb the pressures it faces. It is also acting as a hedge against unexpected crises courtesy of the commitment of Lebanese banks to implement banking legislation, risk management and international standards.

The country is maintaining a continuous effort to combat money laundering and the financing of terrorism, which includes the November 2015 adoption of the Law on Fighting Money Laundering and Terrorist Financing. Lebanon is balancing global pressure to stress the transfer of funds while simultaneously maintaining banking secrecy.

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