

Unlocking Economic Growth In Lebanon: The Role Of Foreign Direct Investment And Financial Development

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Abstract:

Foreign direct investment (FDI) is a key driver of economic growth in developing countries. It involves the investment of capital by individuals or companies from one country in the economic interests of another country, often with the aim of taking long-term control of a foreign company. FDI can take various forms, including private investment in buying shares in foreign companies, as well as administrative or technical arrangements¹.

Economic growth refers to the expansion of the market value of goods and services in an economy over time, taking inflation into account. One of the most common methods used to measure economic growth is to observe the proportional increase in real GDP. FDI has been identified as a fundamental solution to economic underdevelopment, and it can help fill technology and resource gaps in developing countries².

The aim of this research is to investigate the impact of FDI and financial development on economic growth in Lebanon. Specifically, the study will examine how FDI can contribute to economic growth in developing countries, and how developing country governments can effectively promote and regulate FDI to maximize its economic benefits. The research will also analyze the effect of changes in the financial situation on the growth of economic growth in terms of GDP.

Given the presence of FDI in Lebanon and the significant decline in financial situation due to political instability and hyperinflation, the use of FDI to boost Lebanon's economic growth could be seen as a way to mitigate the country's financial crisis.

Key Word: Foreign Direct Investment; Economic growth, Lebanon, Financial crisis.

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I. Introduction

Foreign direct investment (FDI) occurs when a company or individual from one country invests in economic interests in another country. FDI is not only private investment in buying shares in foreign companies, but it can also involve multiple financial obligations and administrative or technical arrangements³. The establishment of effective control over a foreign company or the establishment of significant influence over its decisions defines FDI. Economic growth, on the other hand, refers to the increase or expansion of the market value of goods and services in the economy over time, taking inflation into account². According to Shahbaz and Rahman⁴, one of the common methods used to measure economic growth is to observe the proportional increase in real GDP. FDI has been one of the fundamental solutions to economic underdevelopment in the economic development literature. FDI allows individuals or firms to invest in a company operating in a foreign country to take long-term control of that company⁵.

Economic deregulation is essential for capital flows, risk spreading and promoting economic growth. It contributes to the widespread practice among governments of easing restrictions on capital inflows (including tax incentives) throughout growth phases⁶. The most common methods of transferring international remittances are foreign private investment and official development assistance⁷. FDI is mainly composed of multinational enterprises that directly own and manage enterprises in the host country, although portfolio investment does not imply direct control over investing companies. The challenge is how to leverage FDI to promote economic growth in developing countries. Therefore, the research question is: "What is the impact of foreign direct investment on economic growth in developing countries?"

The objective of this research is therefore to understand how foreign direct investment (FDI) can contribute to economic growth in developing countries. Specific research questions include:

How can FDI help fill technology and resource gaps in developing countries?

How can FDI help boost economic growth in developing countries?

How can developing country governments effectively promote and regulate FDI to maximize its economic benefits?

These issues will be examined through a review of the existing literature on the subject, as well as specific case studies of developing countries that have successfully leveraged FDI to boost their economic growth.

The sub-region's financial development performance has been the worst, with a short relative recovery before a dramatic drop in 2012. There was a gradual growth of FDI in the Lebanese economy before there was a sharp drop in 2014. As a result, growth projections vary across countries for both the 2012 and 2014 periods⁸. Given certain policy assumptions such as institutional quality, research suggests that foreign direct investment will only boost growth⁷. Therefore, given the presence of FDI in Lebanon and the significant decline in the country's market share due to political instability and hyperinflation, the use of FDI to boost Lebanon's economic growth could be seen as a way to mitigate the country's financial crisis⁸. In this regard, the objectives of the research are: OR1 – To study the role of foreign direct investment in improving GDP growth. OR2 – To analyze the effect of changes in the financial situation on the growth of economic growth in terms of GDP.

II. Literature Review

Foreign direct investment (FDI) refers to the investment made by a company or an individual in an enterprise that is operating in a country other than the investor's country, with the aim of acquiring a majority stake or influence over the management of that enterprise. FDI includes various forms of investment, such as stocks, bonds, loans, and other investments. Unlike portfolio investment, which is a short-term investment without the intention of influencing the management of the foreign company, FDI aims at direct control over the foreign enterprise⁹.

The drivers of FDI have been studied by several researchers, with Steven Hymer's theory being the first to focus on the motivations behind companies' investments abroad. While neoclassical economics based on macroeconomic principles identified the drivers of FDI and multinational corporations, traditional economic thinking emphasized low production costs as the motivator for firms' global operations. However, unconventional frameworks were developed to explain why FDI occurs, as the traditional view failed to provide a comprehensive explanation¹⁰.

The Lebanese economy faces several obstacles to attracting FDI. Goswami and Haider (2014)¹¹ analyzed data from 145 developed and developing countries to measure political stability, using 13 ICRG political risk indicators. They found that market size, economic growth, trade openness, and infrastructure have a positive impact on FDI, while cultural conflicts and partner perspectives have a negative impact. However, inconsistent results are due to administrative errors. Khan and Akbar (2013)¹² focused on the relationship between political risk and FDI, using panel data from 94 countries between 1986 and 2009. They found that political risk has a negative impact on FDI, with variations based on the level of income in different countries.

FDI is considered a crucial factor for economic growth, and Bitar et al. (2019)¹³ demonstrated in their study, entitled "The effect of political uncertainty on foreign direct investment in Lebanon," that political uncertainty has a significant negative impact on FDI in Lebanon. While extensive research has been conducted on factors affecting FDI, there is a gap in research on the impact of political risk on FDI. Thus, this study examines the 12 ICRG political risk indicators from 2008 to 2018 and determines the extent of the link between political risk and FDI in Lebanon, highlighting the need for political stability in the country to foster economic development. In addition to political risk, trade openness, infrastructure, wage rates, and inflation also have minor impacts on FDI in Lebanon.

According to Agbada and Osuji¹⁴, growth is generally assessed in real (i.e. inflation-adjusted) terms to avoid inflation-distorting effects on commodity prices. Economic growth is an important indicator of a country's economic performance. It measures the increase or improvement in the market value of goods and services produced in the economy over time. Statisticians typically use indicators such as the growth rate of real GDP per capita or real gross domestic product to measure progress. National accounts are often used to quantify economic growth, while the GDP-to-population ratio is a classic measure of a country's economic growth rate (per capita income). Igbanibo and Iwedi¹⁵ define intensive growth as stimulating economic growth through more efficient use of inputs (increased labour productivity, physical capital efficiency, energy or material efficiency). All productivity gains are examples of productivity gains).

Some previous research has shown that foreign investment can help boost economic growth, so the following sections of this paper will examine the effects of foreign investment on different parts of the world. It will be important to determine how FDI can contribute to increasing economic growth, productivity and employment, as well as improving the balance of trade and balance of payments. It will also be important to examine potential challenges related to FDI, such as risks of economic dependence and social inequalities, and to propose policies to manage them.

There is a strong link between GDP (Gross Domestic Product) growth and financial growth. GDP growth measures the growth of a country's economy, while financial growth measures the growth of its financial system¹⁶.

According to Koojaroenprasit¹⁷, economic growth can be stimulated by a sound financial system, which allows businesses and individuals to easily access credit and invest their funds in profitable investments. Productive investment in businesses can lead to increased productivity and employment, which contributes to GDP growth.

Moreover, sustained financial growth can also lead to increased foreign direct investment (FDI) and capital flows, which can stimulate economic growth by providing additional funds for productive investment¹⁶.

Foreign direct investment (FDI) has a significant positive effect on capital development, while human capital, trade, and labor all have a positive effect on Korean capital development. Similar conclusions were reached in Pakistan, where foreign capital flows have positive long-term effects on bank performance¹⁸.

Data on the relationship between FDI and economic growth also support the idea that FDI is detrimental to financial development. According to Konings¹⁹, foreign direct investment (FDI) had a beneficial impact on the real growth of finance in France between 1994 and 1998. Moreover, growth in Romania and Bulgaria has been hampered by foreign direct investment. Those countries were experiencing financial difficulties and were unable to transfer know-how and technology owing to insufficient bank reserves.

In addition to studies focusing on data from a single country, many studies have been conducted using cross-national data. Tiwari and Mutascu²⁰ found that between 1986 and 2008, both foreign direct investment and international commercial banking stimulated economic growth in 23 Asian countries. They also found that foreign direct investment has a greater impact on bank expansion as economies mature.

Borenstein et al.²¹ examined the effects of foreign direct investment on fiscal growth in developing countries. Their findings suggest that foreign direct investment acts as an effective link between financial and technological progress. They also argued that foreign direct investment would have a greater impact on banks in some countries.

Omran and Bolbol²² used causality tests and OLS models to show a strong association and substantial causality between FDI and financial development and growth in Arab countries. They also found that local economic and political conditions, as well as policies encouraging foreign direct investment, are important predictors of foreign direct investment flows and financial development.

Labor productivity growth and financial growth, has been the subject of numerous theoretical and empirical studies. Technology transfer, introduction of new production processes, management skills, knowledge of the domestic market, integration into global value chains and access to new markets are all possible benefits of FDI inflows into a nation, according to proponents of FDI's contribution to improving labor productivity. These benefits lead to positive externalities such as the spillovers of technology and talent that affect the financial development and growth of a given country²³.

According to economic theory, foreign direct investment (FDI) plays a key role in financing growth, both directly as an external source of liquidity and indirectly through its effect on local capital production. Since the Monterrey Consensus of 2002, foreign direct investment has been recognized as a means of supporting development, and many developments with grossly inadequate domestic capital production and suboptimal levels of capital per worker. In developing countries, it has become a major policy objective. Since then, methods of attracting foreign direct investment have improved considerably, and foreign direct investment is now the main source of foreign capital. In least developed countries and small island developing states, FDI stock tripled, while it quadrupled in landlocked developing nations²⁴.

However, the overall benefits of FDI on the economic development of emerging market economies are far from certain, and academia and policy circles are replete with divergent views on the impact of FDI. FDI can help or hinder domestic investment, as it adds to the local capital pool. At the same time, increased competition from foreign firms may force less competitive local firms to close, reducing total investment. Therefore, theoretical predictions about the amount of net income that a country receiving foreign direct investment can expect remain speculative. A major study of the impact of foreign direct investment on domestic investment since the late 1970s has yet to yield results²⁵.

In his research, Zhang²⁶ found a positive relationship between foreign direct investment and economic development. Zhang analyzes data from 11 developing countries in East Asia and Latin America and their banks to examine the causal relationship between foreign direct investment and financial growth. When foreigners invest in a country's companies, the country's financial system can sometimes improve. However, it is also important to maintain the stability of the country's financial system in order to maintain overall stability. It is important to note that the technological impulse must be managed adequately to maximize its potential benefits and minimize its potential risks. Appropriate policies and regulations must be put in place to foster the adoption of innovative technologies while ensuring the security and transparency of financial transactions²⁷. Some companies may seek to expand globally through FDI due to the supply, demand, and political conditions that favor this type of global expansion. It is also argued that given the complexity of the global economy and the variety of opportunities faced by firms in different countries, it is not surprising that banks' decisions to participate in LIDE are influenced by many variables²⁸.

There is a lot of research on the impact of EFT on economic growth. Cross-sectional studies have concluded that financial development has a positive impact on economic growth, but in empirical studies using lineage models, panel data have reached inconsistent levels of conclusions²⁹.

Recent studies on financial intermediation tell a new story that financial intermediation is more than a system centralized by non-governmental organizations, but also a decentralized system by specialized institutions³⁰. The market links the availability of resources to their demand. Given the outlook for non-bank financial intermediation, it may therefore be essential to reassess the limits of regulatory oversight. Research shows that if banks support economic growth, non-bank intermediation will work³¹. Banks, in particular, continue to offer new types of trading options and new ways to connect money demand and supply, demonstrating the dynamic nature of banks and their ability to adapt to current processes³².

Agbada and Osuji¹⁴ used data to examine patterns of financial production and intermediation in Nigeria, with particular attention to the period of the financial crisis. The study examined how financial intermediation (measured by variables such as demand and credit deposits, savings deposits, term deposits, affects output. The study found that, over a short period of time, there was a negative association between financial intermediation and GDP in Nigeria.

In a more recent study, Shahbaz et al.¹⁸ used annual data from 1970 to 2013 to examine the drivers of economic growth in China and India. The results show that financial development boosts economic activity in both countries. Interestingly, in another study, Andreasen and Valenzuela³³ found that financial openness had a positive impact on credit ratings, and that domestic currency developments were the main mechanism behind this effect.

Retail bank assets relative to GDP and economic growth:

A balance sheet shows the liabilities and assets of a company. An asset is something of value that can be owned and used to produce something else. For example, you can use this money to pay for tuition. By renting a house, it becomes both a shelter and a source of income. A liability is something you owe, just like a loan. Many people borrow money to buy their homes. In this case, the house is the asset and the mortgage is the debt. Net worth (debt) is the value of the asset minus the amount of repayment. Bank balance sheets work in the same way. The term "bank capital" describes the financial value of a bank. A bank's assets include money held in vaults, funds held at the Federal Reserve Bank (called "reserves"), loans to customers, and bonds³⁴.

In addition, King and Levine³⁵ used cross-national growth regressions for 77 countries composed of developed and underdeveloped countries. The aim of this study was to determine whether higher levels of financial development are significantly and solidly correlated with faster economic growth. As a result, it turns out that finance doesn't just keep up with growth. Finance appears to play an important role in economic growth. Moreover, although economic growth is no longer seen as an exogenous phenomenon, governments can still influence it through appropriate policies, particularly with regard to financial markets.

Private credit by deposit banks and economic growth:

Retail banks have an important role to play in economic growth by providing loans to individuals and businesses. Private credit from retail banks can stimulate consumption, investment and business growth, which can lead to increased employment and gross domestic product (GDP) growth. In addition, retail banks can also contribute to financial inclusion by offering financial services to individuals and businesses that do not have access to traditional capital markets. This can give individuals and businesses more funds to invest in their education, business and future, which can lead to long-term economic growth³⁶.

Rao and Hassan³⁸ and Senbeta³⁷ show that the direct impact of remittances on economic growth may be zero, but these remittances increase GDP per capital through various channels³⁷⁻³⁸: Investment, financial development, output volatility, total factor productivity (TFP), real exchange rate. However, at the global level, the effects can cancel each other out. Senbeta³⁸ further argues that the negligible impact of remittances on TFP justifies the low importance of migrant remittances⁴ for long-term economic growth.

The main research hypotheses of this article are:

H1₀ : There is no significant link between FDI and economic growth.

H1₁ : There is a significant link between FDI and economic growth.

H2₀ : There is no significant relationship between financial development and economic growth.

H2₁ : There is a significant relationship between financial development and economic growth.

III. Methodology

The researchers use a quantitative method. Quantitative research studies are useful for understanding and describing the characteristics of a population, as well as for determining cause-and-effect relationships.

Quantitative research is presented in the form of statistics and graphs. Theories and hypotheses must be tested or confirmed. This type of research can be used to find general facts about a topic. Common quantitative methods used in experiments, numerical studies, and closed-door research. In this paper, the researchers used quantitative methods to³⁹.

Population is the broader group of individuals to whom we want to disseminate the results of our study. For this research, auditors working in the compliance department of Lebanese banks were targeted. The questionnaires were distributed to all commercial banks in Lebanon, where the total number of commercial banks according to the Central Bank is equal to 60 banks⁴⁰. For each bank, 5-6 questionnaires were sent out (depending on the size of the bank), 126 questionnaires were distributed to 126 auditors and 102 were returned. According to Qualtrics⁴⁷, the sample size calculator, this sample size is acceptable, having a 90% confidence level with 5% margin of error.

The researchers chose random sampling as a consequence of these properties, which is a type of probability sampling that is best suited to our survey. Simple samples are random. Each participant in the selection process had the same opportunity to be selected as a participant in this survey. This sample was therefore randomly selected to impartially represent the entire population and was used for quantitative statistics.

The quantitative processing of quantifiable data is statistical analysis: demographic surveys, social evaluations, social surveys, etc. The statistical analysis of the acquired data is the basis of the quantitative approach. Even if the word "statistic" is somewhat multifaceted, the results here are validated in terms of importance or not.

Descriptive statistics: Quantitatively describe a collection of data via descriptive statistics. Descriptive statistics and other more formal analyses provide an overview of the data being analysed. In quantitative terms, the descriptive tables define the fundamental characteristics of the data. The following statistics are provided one or more times. In this paper, descriptive statistics are used⁴¹.

Validity analysis: The Kaiser-Meyer-Olkin (KMO) validity analysis is a statistical measure used to assess the suitability of sampling a dataset in factor analysis. Factor analysis is a statistical technique used to identify patterns or underlying factors in a set of variables. The KMO measurement varies between 0 and 1, with higher values indicating better sampling adequacy. From this point of view, all values here have high plausibility, because all variables are close to this value⁴².

Correlation analysis: Cronbach's alpha is a statistical measure of the internal consistency or reliability of a test or scale. It is between 0 and 1, with higher values indicating better reliability. It is commonly used to assess the consistency of responses between items on a test or scale⁴².

Reliability analysis: The reliability analysis determines whether the same result can be obtained by using the tool multiple times to measure the same result. Cronbach's alpha test is used to assess the reliability of study variables⁴³.

Multiple regression analysis: Multiple regression is a statistical technique used to model the relationship between a dependent variable and several independent variables. It allows researchers to examine the relationship between a number of predictor variables and a single outcome variable, while controlling for the effects of other predictors, according to Kumar⁴³.

IV. Results and Discussion

GDP (the amount of money earned) is explained by the factors: the independent variables are DMBGDP or retail bank personal loans relative to GDP, retail bank assets relative to GDP, LGDP or current liabilities relative to GDP, and foreign direct investment (called FDI).

The data for the maximum and minimum values of these independent variables show that :

The minimum and maximum cash variables relative to GDP are (210.08) and (247.53) respectively. On the other hand, the variable has an average of 233.149, indicating a high level of variance. These results indicate that the value of LGDPs is relatively low relative to the needs of the country's economy.

The lowest and highest values for the variable "Assets of deposit banks relative to GDP" are (139.19) and (167.8), respectively (168.78). The mean of the variables is (155.7), indicating high variance. The values will be used by future researchers in many ways, perhaps the most important of which is the comparison of variance between years.

The minimum and maximum values of the variable "Private credit by retail banks relative to GDP" are (15.8) and (15.9) (63.21) respectively. The mean of the variables is equal to (81.34), indicating a high level of variability. The variance of private credit values between the minimum and the maximum indicates relatively consistent indicators over the years.

The minimum and maximum values of the variable "Foreign direct investment" are (1.96) and (2.88). The variable has a mean of (2.42), indicating a high degree of variability. The variance of foreign direct investment values between minimum and maximum indicates relatively consistent indicators from year to year.

The minimum and maximum values of the variable "GDP" are (2.12) and (2.12). (42.4). The mean of the variables is equal to (81), indicating a wide deviation.

Kurtosis and Skewness

All variables (GDP, liquid liabilities relative to GDP, retail bank assets relative to GDP and private credit of deposit banks relative to GDP, designated by DMBGDP, and foreign direct investment designated by FDI) show a positive Kurtosis between 0.16 and 1.25.

Reliability analysis

Based on this, all the data reveal that if the deleted items are significant, the reliability analysis gave a value of 0.790, which is greater than 0.7, between the summary and Cronbach's Alpha. Whenever elements with Cronbach's Alpha greater than 0.790 are deleted, the same rule applies. If the element is deleted, the results of all factors relating to the elements, structure and properties of the person are shown in the tables above with quantifiable measures of Cronbach's Alpha for the Alpha coefficient.

Validity analysis

Table 1 shows that the average survey of the LGDP and PCGDP components is greater than 0.700, which is much higher than the required value of 0.7 for the variable to be legitimate. This reflects the great importance of liquidity and financial development factors. The means of the questions are all greater than 0.7, well above the 0.7 required for a valid variable. This indicates a high degree of confidence in these variables. Finally, all elements have valid values greater than 0.7. Required for the variable to be legitimate. This shows that the linked elements have a high degree of validity.

Table 1 - Validity

Variables	Validity
Liquidity/GDP	.869
GDP per capita	.825
Investment Direct Etranger	.845
Financial Development	.829
Economic growth	.814
N valid (on the list)	.833

Regression

First, the regression model results show that the difference in LGDP variables has a positive beta = 0.530, p = 0.000, and that there is no significant % relationship with GDP. H10 was rejected, but H11 was accepted and statistically significant. This theory is therefore confirmed. The PDLG and GDP are linked. By allowing the economy to grow financially, increasing the PDLG can boost GDP. For example, an increase in the CEO helps the economy spread its liquidity over a larger asset base, thereby mitigating the effects of a recession⁴⁴.

Second, the regression model results showed that the divergence of PCBIP-related variables was p = 0.000 with a positive beta = 0.416. It is also associated with GDP and positive FDI at the significance level of zero percent, beta = 0.777, p = 0.000. H20 was rejected, but H21 was accepted and statistically significant. This idea is therefore confirmed. According to this study, the CPBEEP and GDP appear to be linked. Increasing the CPPEP can boost GDP by allowing economies to prosper financially. For instance, enhancing the CFIP (Capital Flow into the Portfolio) can assist the economy in distributing its liquidity across a broader range of assets. This, in turn, reduces the vulnerability to the effects of a recession⁴⁴.

Finally, the regression model indicated that the variability of the variable associated with the DMBGDP was a positive beta = 0.438 to p = 0.000, with a significance level of 0% association with GDP, according to the results of the regression model. DMBGDP and GDP are linked. Increasing the DMBGDP allows the economy to prosper financially and boost GDP. For example, a rise in GDP-BMD enables an economy to diversify its liquidity across a broader spectrum of assets, thus mitigating the adverse effects of a recession⁴⁴.

H1: There is a significant relationship between FDI and economic growth.

As result, there is a positive significant relationship between the elements of IDE and economic development in Lebanon. This indicates that those elements and economic development move in the same direction, which means that the higher the value of those elements, the higher the economic development. Therefore, hypothesis (H1) is supported. This proves that IDE influences economic development. This result is supported by studies conducted by Manish Mittal and Vyas (2008)⁴⁵, Geetha and Ramesh (2012)⁴⁶.

H2: There is a significant relationship between financial development and economic growth.

H2 proposes the presence of a meaningful and notable connection between financial development and economic growth. In other words, it suggests that changes or advancements in financial development are expected to correlate with corresponding shifts or improvements in economic growth. This hypothesis implies that as financial systems and structures become more developed and efficient, they are likely to contribute positively to the expansion and enhancement of a country's overall economic performance.

V. Conclusion

In conclusion, this article has delved into the intricate interplay between financial development and economic growth within the context of Lebanon. Through an in-depth exploration of various indicators such as liquidity relative to GDP, retail bank assets relative to GDP, private credit of retail banks relative to GDP, personal credit relative to GDP, and foreign direct investment, we sought to unravel the dynamic relationships at play.

In pursuit of our objectives, we employed a comprehensive analytical approach, encompassing qualitative, relational, and regression analyses conducted using the SPSS software. The outcomes of these analyses have shed light on significant correlations between the components of financial development – namely, liquidity relative to GDP, retail bank assets relative to GDP, and private credit of retail banks relative to GDP – as well as foreign direct investment on one hand, and the Gross Domestic Product (GDP) as a marker of economic growth on the other.

Foreign direct investment (FDI), as an indicator of a company's financial stability, emerged as a pivotal factor. FDI signifies an enduring interest by foreign investors in a company, often accompanied by substantial control. This underpins the notion that a symbiotic relationship exists between foreign investment and economic growth. Heightened foreign direct investment not only holds the potential to amplify GDP but also serves as a catalyst for economic development financing. By facilitating cross-border financial inflows, foreign investment safeguards economies against the pitfalls of recession.

The Liquidity-to-GDP ratio (LGDP), reflecting financial depth, warrants special attention. Its utilization, specifically current liabilities relative to GDP, centers on a bank's capacity to manage current obligations within the broader context of GDP. A discernible pattern arises – greater liquidity relative to GDP translates to accelerated economic growth. This effect is attributed to the strategic allocation of liquidity across a wider asset spectrum, which in turn buffers the economy against downturns. An illustrative example is the role of increased liquidity-to-GDP in mitigating the repercussions of economic contractions.

Private Credit-to-GDP (PCBDP), a bellwether of financial sector development, has played a vital role in this discourse. Calculated by juxtaposing intermediate loans to enterprises against GDP, it delineates a crucial facet of financial engagement. This metric encapsulates loans directed at the private sector, distinct from those targeting public entities and social organizations. Our investigation underscores the compelling nexus between private credit and GDP. Institutions fostering private credit to GDP ratios potentially augment economic growth by bolstering financial development. The amplification of lending activities facilitates alternative means of accessing capital during challenging times, further strengthening economic resilience.

In essence, our findings substantiate the hypothesis posited – "H2: There is a significant relationship between financial development and economic growth." The linkage between financial development, encompassing dimensions of liquidity, retail bank assets, and private credit, and the overarching framework of economic growth emerges as a cornerstone. This study imparts valuable insights into how Lebanon's economic trajectory can be shaped through prudent financial development strategies, leveraging foreign investment and optimizing liquidity allocation, ultimately fortifying the nation's resilience against economic volatility.

Limitations:

Several limitations should be acknowledged in the context of this study. The utilization of the ratio of loans from custodian banks and other financial institutions to GDP as a metric for assessing banking sector activity possesses certain constraints. This statistic serves to gauge the progression of financial intermediaries. It is crucial to recognize that the strategic employment of cash reserves and adherence to legal liquidity requirements by administrative bodies have led to a gradual reduction in the ratio of loans in proportion to total bank deposits over the course of time. Consequently, the proportion of commercial bank deposits directed toward the private sector has consistently remained at a low level. This limitation underscores the complexity of interpreting the absolute relationship between banking sector activity and GDP.

Recommendations:

Drawing from the conclusions established in the preceding sections, we propose a series of recommendations that can potentially bolster both GDP and overall economic growth within the Lebanese context.

Enhancing Liquidity-to-GDP and Deposit Assets: The Lebanese government could focus on augmenting liquidity relative to GDP and deposit assets within banks. To achieve this, it is imperative to carefully consider the array of tools available for enhancing liquidity-to-GDP ratios. Attention should also be directed toward the growth of deposit banks' GDP and private credit-to-GDP, pivotal components of financial development, which in turn contribute to GDP as an indicator of economic growth.

Development of the Financial Sector: A strategic emphasis on developing the financial sector can contribute significantly to capital accumulation and, consequently, foster economic growth. Robust financial infrastructure encourages increased capital inflow and circulation, promoting a conducive environment for economic expansion.

Synergy between Technological Progress and Financial Development: Acknowledging the interconnectedness of technological advancement and financial development, initiatives that bolster both aspects can yield substantial benefits. Technological progress not only reduces operational costs but also synergizes with financial development, fostering higher GDP growth rates – a cornerstone of sustainable economic growth.

Strengthening Savings Rate: Initiatives to amplify the savings rate can play a pivotal role in fortifying liquidity and augmenting additional deposits. Mobilizing and pooling savings resources can bolster liquidity levels, thereby creating a more resilient financial ecosystem.

Optimizing Capital Allocation and Encouraging Foreign Capital Inflows: Facilitating the flow of foreign capital and optimizing its allocation within the domestic economy is critical. This entails producing comprehensive information on investment opportunities and incentivizing foreign capital inflows. A judicious allocation of capital resources has the potential to invigorate economic growth.

Incorporating these recommendations into strategic planning and policy formulation can position Lebanon on a trajectory of sustainable economic growth, underpinned by prudent financial development practices and effective capital utilization.

Building on this Study:

This study serves as a foundation upon which future research endeavors can build and expand. The comprehensive exploration of the relationship between financial development, economic growth, and the role of foreign direct investment in the Lebanese context not only contributes to the understanding of these intricate dynamics but also paves the way for further investigations. Future researchers can delve deeper into specific aspects such as the nuanced impacts of various dimensions of financial development on economic growth or conduct comparative analyses across different economies to identify transferable insights.

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