# The Lebanese Banking Sector in 2020: An End of an Era!

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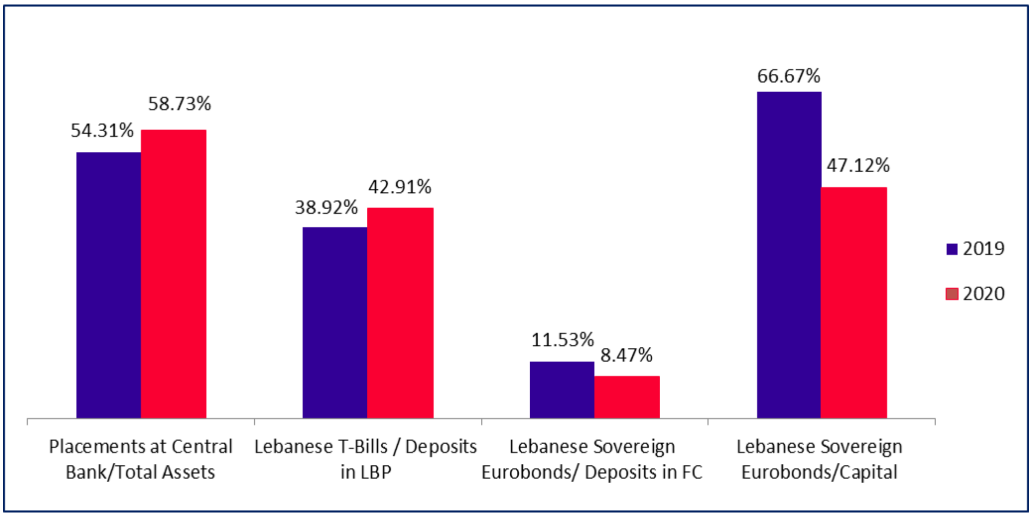
For years, the Lebanese banking industry maintained financial stability. It played a vital role in the country's economy and was the major provider of credit for individuals and businesses in a market characterized by some competitive forces. However, the current crisis pushed banks into being bombarded, rather excessively, by systematic and critical attacks from economists, journalists, rating institutions and others showed despair regarding the situation of banks, though banks are not to be directly blamed for the crisis. Not to mention, the default of the government on the payment of Lebanese Eurobonds that affected negatively the banking sector as a whole. Besides, pressure intensified on the Lebanese pound and overall balance of payments in addition to the spread of the Coronavirus, all made deposits and loans at commercial banks to recoil rapidly and interest rates on savings to decline noticeably.

In this note, we address the extent of banks' placements in the sovereign exposure, and analyze the main aspects of the banks' balance sheet.

Firstly, total number of commercial banks operating in Lebanon remained 47 banks for the year of 2020. Similarly, the medium and long term banks are still 16 banks till the end of 2020. In details, banks branch network decreased by 26 branches to reach 1,032 branches in Lebanon by end of September 2020, while the number of branches abroad remained the same with 73 branches. However, they are expected to fall by mid-2021 due to the sale of foreign subsidiaries. In addition, banks experienced a contraction of about 2,000 employees, according to the latest data available by the ABL, from a high of 24,886 at end of 2019.

On the assets side, the consolidated balance sheet of the commercial banks witnessed an annual drop of 13.26%, similarly to the retraction figured in 2019, and retreated from $216.78B to $188.04B by end of December 2020.

**Sovereign Exposure and placements at Central Bank of Lebanese Banks for 2019-2020**




*Source: BDL, BLOMINVEST*

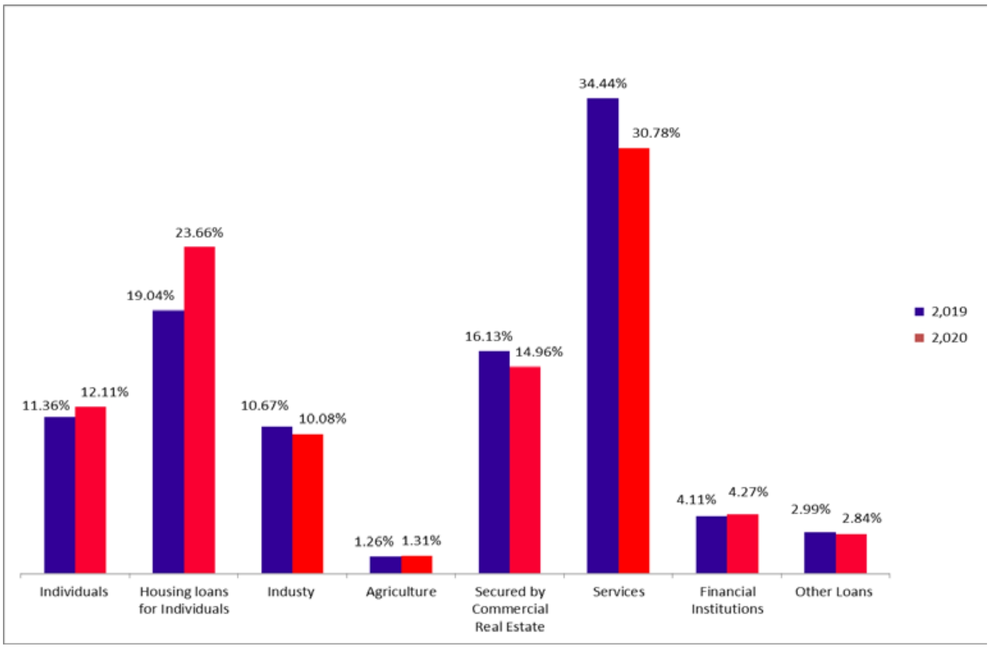
On the whole, Lebanon's financial system used to be based on an equation of a very high level of profitability and moderate liquidity driven by a significant concentration in Lebanese sovereign exposure and placements at the Central Bank; as such about 70% of their assets are with the State and the Central Bank. As to deposits with the Central Bank, they declined by 6.19%, standing at $110.43B at end 2020, out of which about $77.76B were denominated in foreign currency.

Additionally, Lebanese banks are bearing 21.8% of the public debt totaling $95.59B in December 2020. This is revealed by banks' subscription to Treasury bills denominated in Lebanese Pound that stood at $11.45B, while the banks' subscription to Lebanese sovereign Eurobonds fell sharply from $13.81B in December 2019 to reach $9.39B by December 2020. Important to note that the $4.42B of Eurobonds sold by the Lebanese banks are most likely bought by venture funds.

In relation to claims on non-resident financial sector, they fell yearly by 30.31% to reach $4.71B by December 2020 while the non-resident financial sector liabilities similarly slumped by 25.44% to stand at $6.58B at the same period. Accordingly, the ratio of claims of non-resident financial sector over non-resident financial liabilities indicates a short position for banks regarding their foreign liabilities.

Also loans to bank customers that composed 21.86% of banks' total assets slumped by 27.60% (YOY) from $56.76B to $41.09B by December 2020. In fact, loans to resident customers fell by 27.42% yearly to reach $32.45B at end of year 2020, while loans to non-resident customers went down by 28.26% to stand at $8.85B for the same period.

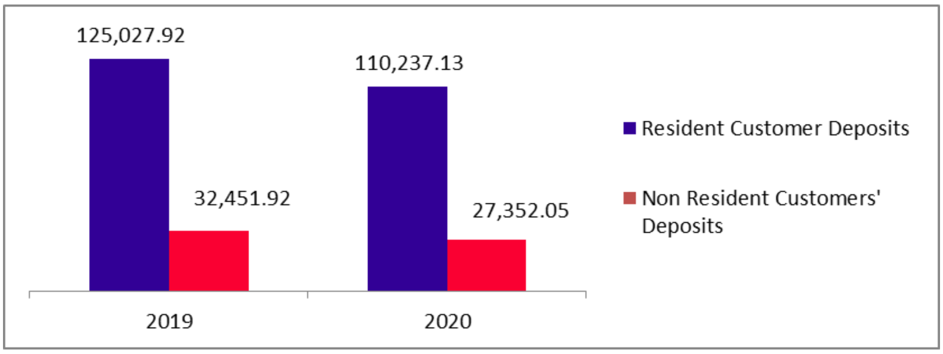
**Breakdown of Loans by sectors as per percentage of total loans 2019-2020**




*Source: BDL, BLOMINVEST*

On the liabilities side, Lebanese banks fund their balance sheet through a large customer deposit base but the overall climate of uncertainty slowed their deposits and put a stop to capital inflows. Consequently, aggregate customer deposits fell by 12.63% to $137.58B by December 2020. The latter is made up of $110.89B in dollar deposits and $26.89B in Lebanese pound deposits. However, Lebanese pound deposits fell by 29.05% whereas dollar deposits retracted by 7.48%, thus increasing expectedly the dollarization ratio from 76.02% to 80.37% at December 2020.

**Banking sector deposits for 2019-2020**




*Source: BDL, BLOMINVEST*

As for the Loans to private deposits ratio, it amounted to 26.09% by December 2020, compared to 31.42% for the same period last year. This ratio was expected to decline in number not only from the freezing economic situation where banks have stopped providing new loans to individuals and businesses, but also due to early settlement of loans that occurred in 2020.

In terms of solvency, banks managed to reinforce their position by mostly complying with the Central Bank circular 154, thus largely increasing by 20% their capital by end February 2021. Their capital has decreased by 3.83% from $20.72B to $19.93B by end of year 2020 as a result of huge provisions taken to cover their losses out of the increased non-performing loans and defaulted Eurobonds. Furthermore, banks have tried to minimize their unnecessary costs outside Lebanon in order to meet the BDL circular. As such, they delisted their global depositary receipt (GDR) from international stock exchanges and continuing to be listed and traded only on the Beirut Stock Exchange.

In conclusion, banks are facing persistently tough conditions characterized by political deadlock and regional tensions. Although it was imperative and inevitable for them to go along with the market and lend to the State, they have under-estimated the risks associated with government debt instruments and over-invested in these securities. Noting, however, that their placements at BDL should not constitute high risk since the Central Bank is the lender of last resort and the banks 'bank. Still, Lebanese banks need to revisit and look long to identify weaknesses and mitigate their risks so that they will remain well placed to overpass this situation.

The urgent need for formal capital control law has been a demand by banks and specialists, along with foreign aid and implementing the needed economic reforms. In turn, mergers and acquisition and restructuring of deposits are possible solutions for the banking crisis. Keeping in mind that Lebanon cannot have a way out of the current situation without a well-functioning and resilient banking sector that will stay as the main pillar for the country's economy and build for a new era in Lebanese banking sector.

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