مصرف لبنان
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Overview of the Recent Monetary, Banking, and Financial Developments in Lebanon

2019

Unstable political circumstances in the country, along with regional unrest and the burdens of the Syrian crisis, have impaired the Lebanese economy for several years now. The outbreak of nationwide civic protests in October 2019 has further exacerbated the economic environment, cutting deeper into Lebanon's main economic indicators such as foreign investment, consumption, tourism, and real estate.

Over the years, Lebanon has shown extreme resilience and a unique ability to prevail under exceptionally arduous external and domestic challenges that would have shaken many other countries. Yet economic imbalances have intensified in 2019 and vulnerabilities have continued growing, thus giving rise to severe financial challenges.

The Lebanese economy has moved into a state of recession in 2019 with GDP growth touching the negative territory. The International Monetary Fund projected Lebanon's real GDP to shrink by 12% in 2020, a new double-digit contraction not seen in more than 30 years. In comparison, the IMF forecasted real GDP to contract by 3.3% in the MENA region and by 3% globally in 2020. Inflation in Lebanon recorded 2.9% in 2019, and it is expected to reach 17% in 2020, according to the IMF.

At the monetary level, the year was marked by noticeable net conversions in favor of foreign currencies, a decline in deposit inflows, a shortage of US dollars and a lack of local currency liquidity. As a result, BDL's assets in foreign currencies witnessed a contraction of 6% to reach $37.3 billion at end December 2019.

In the midst of these challenging circumstances, BDL has been deploying all measures to help the economy survive, protect depositors' money at Lebanese banks, and support small and medium businesses.

Since September 2019, BDL has been creating mechanisms through Lebanese banks to allow the smooth import of fuel, medication and wheat, after importers of these vital supplies complained about dollar shortages. Another mechanism has been added in November to supply banks with the needed foreign currency to finance the imports of pharmaceuticals, medical supplies, as well as raw materials that are used in the manufacturing of medicine in Lebanon.

BDL has also asked banks to refrain from distributing dividends for financial year 2019 and to increase their capital by 20% by the end of June 2020.

Concerning interest rates, BDL has issued a circular in December reducing rates on bank deposits in Lebanese pounds and US dollars and asking banks to reflect the decline on the Beirut Reference Rate (BRR) for lending.

It is worth mentioning that in the last quarter of 2019, the Lebanese pound has plunged on a parallel market by nearly 50% versus an official rate of 1507.5 pounds to the dollar. The Central Bank is still maintaining the official peg in bank transactions and for critical imports such as medicine, fuel and wheat.

As for the banking sector, the year 2019 had witnessed tough operating conditions especially after the banks two-week closure amid street protests in October 2019.

Banks had to impose tight controls on withdrawals and transfers of foreign currency in order to preserve liquidity and protect the system. Total deposits registered a contraction of 8% in 2019, most of it in the last quarter of the year. The deposit dollarization ratio reached a new 12-year high of 76% at end December 2019, as compared to 70.6% at end December 2018. In parallel, bank loans to the private sector dropped by 15% to reach US$ 51.9 billion at end December 2019, with the loan dollarization ratio witnessing a slight decline to stand at 68.7%.

In terms of capitalization, banks' equity increased by 2.8% to reach US$ 20.7 billion at end December 2019. In fact, banks are in the process of increasing their capital by 20% until June 2020 as per BDL circular issued November 2019.

As for capital markets, both equity and bond markets were hit hard in 2019, showing significant price contractions. The Lebanese Eurobond market had witnessed its worst performance in the last quarter of the year amid low confidence and high domestic uncertainties coupled with nationwide anti-government protests. Lebanon's credit rating has been downgraded by all three international rating agencies.

Looking forward, Lebanon needs to strengthen confidence in its future. It has shown resilience in the face of adversity and negative campaigns, but now is the time to lay a vision for the future.

Lebanon's main problem is that the public sector grew to an extent that it became a liability for the economy, competing on its financial resources and impeding growth. Now it's time for the public sector to reinvigorate and support the private sector.

The Lebanese government needs to move forward on implementing the necessary fiscal and structural reforms. This will be the needed catalyst for the International community to pledge financial support, paving the way for the Lebanese economy to regain momentum and achieve its full potential.