مصرف لبنان
BANQUE DU LIBAN

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

**2022**

For the third year in a row, the Lebanese economy is facing stressful conditions resulting from the multi-dimensional crisis it has been going through, aggravated by the global and regional economic turbulences. Lebanon's crisis emerged after a decade of regional turmoil on the one hand, particularly with regard to the repercussions and risks of the Syrian crisis, and the difficulties in public finances in terms of budget deficit and the exacerbation of public debt and its service on the other hand. This crisis has been aggravated due to several factors: the inflationary monetary-financial factor that is embodied by foreign-currency liquidity shortage, exchange rate devaluation, and imbalance in the balance of payments, as well as the government's decision to discontinue payments on all its outstanding US dollar-denominated Eurobonds in March 2020; the COVID-19 pandemic consequences and Beirut Port explosion factor; the energy crisis of electricity and fuel and its general economic effects; and the prolonged political paralysis leaving the country with presidential and executive vacuum.

Accordingly, purchasing power in Lebanon declined due to inflation, with all sectors activities being affected. The energy prices soared due to the Russian Ukrainian war and the electricity sector collapsed.

This reality was reflected in the decline recorded by the main economic growth indicators in the fields of foreign trade, tourism, investment, consumption and government spending since end-2019. After registering a real contraction of 33% in 2020 and 2021, Real GDP is back to a positive growth of 2% in 2022, based on BDL estimates. Economic activity has been driven by a strong tourist season and large remittance inflows in 2022, which have supported consumption. The average inflation rate in Lebanese pound for 2022 has been forecasted at 171.2% against an average rate of 154.8% in 2021. The depreciation of the Lebanese pound against the US dollar in the parallel market constitutes the most prominent inflationary factor; the inflation rate in dollar prices is estimated at 9%.

The Lebanese currency has depreciated around 3٤.7% between end-December 2021 and end-December 2022; banks are imposing strict capital controls because they lack the foreign currency to repay their depositors. Moreover, most commercial transactions are carried out in cash rather than via checks, bank transfers, or credit cards. The yearly increase of cash in circulation has reached 195% in December 2020, 48% in December 2021, and 75% in December 2022.

At the beginning of the crisis in September 2019, the government asked BDL to sell dollars at official rate for critical imports. By January 2023, BDL has ended all remaining subsidies on wheat and some medicines and medical supplies, after a complete lifting of subsidies on fuel in October 2022. Foreign assets in December 2022 stood at USD 15 billion (excluding gold), as compared to USD 38 billion in 2019.

As part of the measures to unify the multiple exchange rates prevailing in the Lebanese market, BDL and the Government announced in November 2022 that a new official exchange rate of LBP 15,000 per US Dollar will go into effect on February 1, 2023. This new rate applies to all bank transactions, including withdrawals from foreign currency accounts under BDL circulars 151 and 161, instead of the previous rates of LBP 8,000 and LBP 12,000 respectively.

As for the banking sector, total banking activity registered a yearly decline of 3.3% with the consolidated assets of banks recording USD 169 billion at end-December 2022, down from USD 175 billion at end-December 2021. Total customers' deposits showed a lower contraction of 3% as compared to the 7% registered in 2021, while the deposit dollarization ratio witnessed a remarkable decline from 79.4% at end December 2021 to 76% at end-December 2022. Bank loans to the private sector continued their retreat with 26.6% yearly contraction to reach USD 21.5 billion at end-December 2022, down from USD 52 billion at end- December 2019. The loan dollarization ratio dropped to 50.7%, as compared to 68.7% three years ago. In terms of capitalization, capital accounts figures witnessed a slight growth of 2.8% after 2 years of contraction, with total banks shareholders' equity rising from USD 17.7 billion at end-December 2021 to USD 18.2 billion at end-December 2022.

The Lebanese authorities have recognized the urgent need to initiate a comprehensive and credible medium-term reform program, supported by the IMF and international community, to restore confidence and put the economy on a recovery path.

In this context, a progress has been achieved in April 2022 with Lebanon and the IMF team reaching a staff level agreement for a four-year extended fund facility on comprehensive economic policies to rebuild the economy and bring back confidence. Such agreement would lay the foundations for a full set of reforms necessary to restore financial stability, including strengthening governance, anti-corruption and AML/CFT frameworks to enhance transparency and accountability.

Yet, and despite the severity of the situation, political division has deepened, thus hindering all progress in implementing the comprehensive package of reforms.

Fiscal adjustment and structural reforms are necessary to pave the way for strong and sustainable recovery but this won't be achieved in the absence of political will to secure the election of a president and an acting government who are able to initiate any effective reform.