

PROBLEMS IN LEBANON BANKS IN TIME OF COVID

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Abstract: *COVID-19 has taken the world by storm. It has overseen to close down the whole world: social separating and lock downs are now common in all nations; all airspace's have been closed off for commercial travel as well as lock down of all businesses and trade. The economy of Lebanon has been enduring since the starting of 2019 and presently has been pushed to degrees already concealed. This paper will analyze the Covid-19 rise in Lebanon as well as the predominant financial emergencies, reaction to pandemic, anticipated economic impacts to the biggest segments of Lebanon and the choices which the government faces. Lebanon has been ambushed by compounded emergencies particularly, a financial and monetary crisis, followed by Covid-19 and in conclusion the explosion at the Port of Beirut.*

Keywords: *Covid-19, pandemic, Lebanon, crisis economic, banking sector.*

1. INTRODUCTION

The financial emergency is without point of reference within the country's history. Highly moment depend Lebanon has run out of outside cash to pay for what it expends ,whereas the state is printing cash to pay compensations and is incapable to benefit the open obligation. Banks have forced tight capital controls, which have fought

off monetary collapse until presently, but as it were by bringing much of the economy to a halt, showed in taking off unemployment.

Amid the primary quarter of 2020, the socio financial and money related conditions have advance irritated in Lebanon: GDP compression, higher expansion, private segment loss of motion, higher unemployment, more noteworthy destitution, lower imperial evaluations, proceeded monetary deficits, higher open obligation, further pressures on the managing an account framework (central bank and banks), proceeded debasement of the Lebanese pound, seizure of capital inflows, inert capital markets, and shortages within the adjust of installments. The development of the Covid-19 and its spread in Lebanon has driven to a major shutdown, which reflected contrarily on all financial divisions, total financial action and social conditions.

In later a long time, Lebanon, for the primary time since its freedom, has been experiencing a critical adjust of installments shortage and increasing capital outflows, putting increasingly strain on the 22-year-old currency peg in what may be a profoundly dollarized economy. As a result, the current account shortfall stood at an amazing 23.6% of net residential item (GDP) in 2018 and financial shortfall at 11% of GDP. These issues have spiraled strongly since October 2019. Moreover, the Covid-19 widespread has made the viewpoint for Lebanon bleaker, as the country's GDP is set to contract by at slightest 12% in 2020.

The goal of this paper is to analyze the COVID-19 rise in Lebanon as well as the predominant financial emergencies, reaction to pandemic, anticipated economic impacts to the biggest segments of Lebanon and the choices which the government faces.

The consumption of outside trade saves and the disturbing alter in macroeconomic pointers experienced within the nation has driven the government to

look for the back of the Worldwide Financial Support (IMF or Support) through authoritatively asking a financing program to support the government's change plan. During the uprising, banks closed for weeks for the primary time in history and forced casual capital controls, dreading a run on stores. These controls primarily influenced little contributors who are not associated to politicians and financiers. As a result, individuals were not able to get to their stores and firms might not get to proceed imports and support themselves. In a country where the best 10% of the population control 70% of the riches, whereas the bottom 50% control as it were 5% of the riches, 14 such emergencies have an undeniably unbalanced effect on center- and low-income families, broadening an as of now colossal wage and riches disparity gap and driving to weakening financial and social imbalances (James Rickards, 2020)

To create things more regrettable, Lebanese banks, dreading a run on deposits that would crush the banking framework, have restricted the sum that can be pulled back in US dollars (USD), even if investors have accounts within the currency. In October 2019, banks began limiting withdrawals to several hundred USD a month, and this sum has decreased encourage since – as of April 2020, getting to USD through the banks has ended up nearly inconceivable, and exchanging it overseas is troublesome as well. These confinements have been considered a frame of de facto capital control forced by banks, mainly on little investors. Numerous presently fear that their investment funds are at chance, in spite of government confirmations of the opposite.

2. COVID-19 AND LEBANON ECONOMIC CRISIS

It was on the 21st of February 2020, that Lebanon went on to confirm their to begin with ever case of Corona Virus (COVID-19). The patient was a forty five year ancient lady who had recently traveled back from the city of Qom in Iran who went on

to be tested positive for the COVID-19 and was then transferred to Beirut and put into isolate. Later on at 26th of February, another lady, who had too returned from Qom in Iran and came into contact with the first patient, as they both travelled back on the same flight also tested positive. Advance on the 27th of February, a seventy seven year old Iranian national, who had already arrived on the 24th of February moreover tested positive. On the 28th of February, another Syrian lady was tested as positive; and by 29th of February, positive add up to cases had come to a total of 7: all of these 7 patients were set into isolate in the city of Beirut (Human Rights Watch, 2020), (Lebanese Ministry of Health , 2020).

Lebanon has been caught in full scale emergency crises. Lebanon stands up to a devastating obligation emergency: the sovereign borrowings taken are presently producing to about 160% of the total net residential item. Lebanon too faces fiscal crisis; the budget shortages being confronted by the nation is likely to reach up to amazing 15% of GDP. On beat of these two crises, Lebanon too faces the cash emergency. The country has nearly totally drained its dollar save and in an economy which is 70% dollarized. The cash of Lebanon: Lebanese Pound is pegged to dollar rates, but has gone on to lose more than 60% of the entire esteem in the exchange markets. As a result of this dissimilarity, there has been a fuelling of expansion; since Lebanese government imports about of its consumables there's a extending in the current constant account shortages, assist compounding as the few settlements are starting to dry up. This leads to the main cause of the emergency: the banking sector (Mroue & Karam, 2020).

The banking division has been called the best puppy of the economy of Lebanon. The segment has overseen to attract funds from a wide assortment of sources which has overshadowed the population of Lebanon. These stores have been collected

from all over the Center East; making its stores base of the banks of Lebanon to be as a rule 2.5 to 3 times the total size of the Lebanese economy. The central bank called the Banque du Liban has been frequently lauded due to the prudential conservatism it has shown. The Banque du Liban went on to gotten to be the transport belt which financed the state of Lebanon as well as its wiping rulers through the use of neighborhood banks by advertising twofold digits in interest rates. However, even with such high earning opportunities, the local banks are all bankrupt (Knecht & Francis, 2020).

Lebanon’s financial emergency combines different challenges; some examiners characterize it as synchronous obligation, fiscal, banking, and cash crises (figure 1).

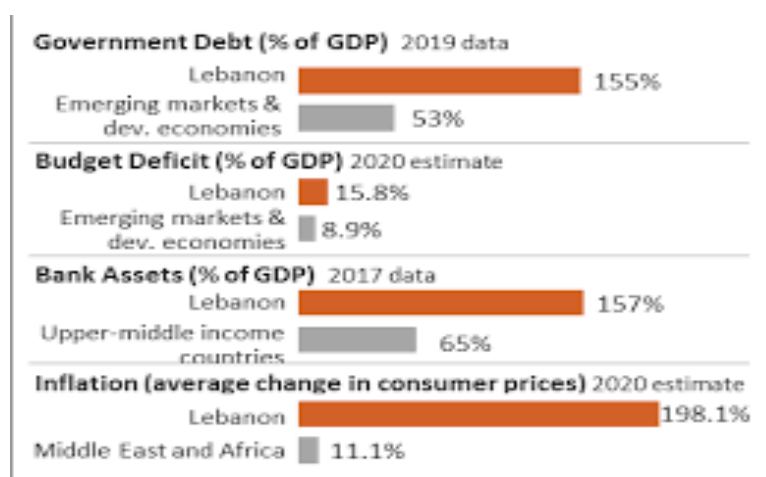


Figure 1 : Lebanon Key economic Pressures

Source: IMF, World Bank, and Economist Intelligence Unit

a) Debit crisis

Taking after Lebanon’s civil war (1975-1990), successive Lebanese governments borrowed intensely to finance remaking, generally from nearby banks,

but too by selling bonds in universal capital markets. The governments, be that as it may, did not continuously channel borrowed funds into profitable ventures, and more than once rolled over the country's obligation (paying off ancient obligations with new borrowing). In this way, Lebanon's obligation burden is one of the highest within the world (generally 155% of GDP in 2019). Investors developed progressively concerned in 2019 around the sustainability of Lebanon's obligation which a future government would look for obligation rebuilding. With outside financial specialists dynamically unwilling to contribute in Lebanon, the government in early 2020 found itself with obliged outside trade and stood up to competing needs: it might utilize its restricted inaccessible exchange to make commitment installments or fund basic food and fuel imports. In March 2020, Lebanon defaulted on its debt for the primary time and declared that it was suspending installments on its foreign-currency debt.

b)Fiscal crisis

The Lebanese government has run large budget shortages for a long time, averaging 8.6% per year between 2011 and 2019. Debt benefit contributed to the fiscal pressures facing the government: generally half of the government's income went to interest installments on the public debt. Past endeavors at closing the budget deficit gap were generally unsuccessful: endeavors to raise income by means of a tax on the prevalent informing framework WhatsApp in October 2019 activated endless across the country challenges against corruption and money related mismanagement, and come about in the resignation of then-Prime Minister, that incapable to access unused financing, Lebanon must presently adjust its budget by expanding income collection and/or cutting government investing.

c) Banking crisis

Lebanese banks were long-lauded as key engines of financial development. Between 2011 and 2019, bank assets had developed by 83% to \$253 billion, break even with to roughly five times the country's GDP. Lebanese banks were able to attract dollar stores from nearby clients and the large Lebanese diaspora overseas by advertising tall intrigued rates (up to 14%) on dollar-denominated accounts. The banks utilized these stores to loan to the Lebanese government at a better intrigued rate, netting measure able benefits. As investor confidence melted away in late 2019, be that as it may, the banks were unable to meet client requests for store withdrawals, because their stores were tied up in longer-term credits to the government. Banks closed for weeks in late 2019 and after reviving, forced week by week limits on cash withdrawals in dollars. Moreover, the banks are major holders of government bonds, and their budgetary circumstance has become trickier since the government defaulted on its debt.

It is clear that Lebanon has as of late entered into a profound financial compression since its development rates are presently negative. Concurring to the Ministry of Finance Statistics, real GDP development rate was -6.9% in 2019 and is anticipated to record about -12% in 2020 (fig 2).

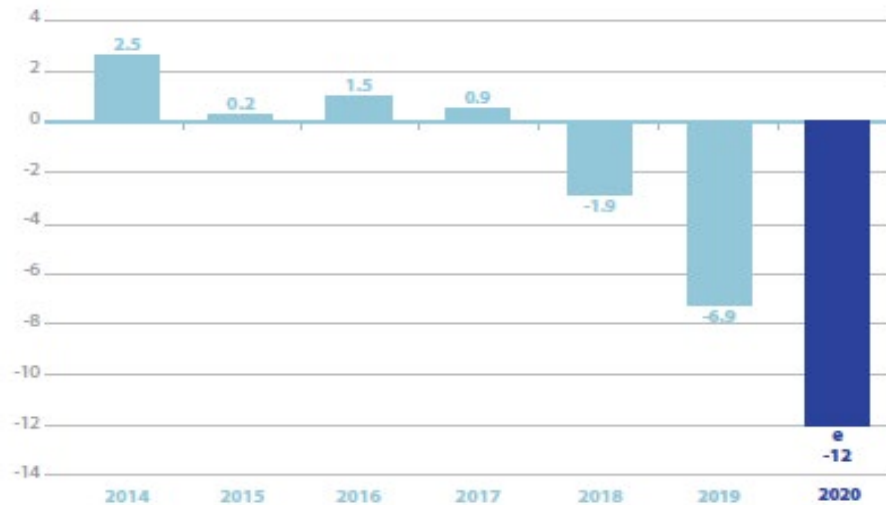


Figure 2 : Real GDP Growth (%). *Source : Ministry of Finance Statistics.*

Appropriately, real GDP is anticipated to drop from USD 53 billion in 2019 to USD 46.6 billion in 2020. Inflation has risen to 25% or indeed over in 2020 and temporarily rise above 2% in the second quarter of 2021, influenced basically by powerless price control, and proceeded weakening within the trade rate of the LBP vis-a vis the USD.

The disintegration within the trade rate is due to the basic level of outside trade saves of the Central Bank which right now stands at USD 29 billion , of which USD 22 billion are liquid and out of which USD 18 billion are obligatory saves held by the Central Bank for administrative considerations (legal save prerequisites on commercial banks (fig.3) . In expansion, this trade rate weakening is caused by the sharp deficiency within the supply of US dollar within the nearby advertise, and uncontrolled dealings by trade managing houses.

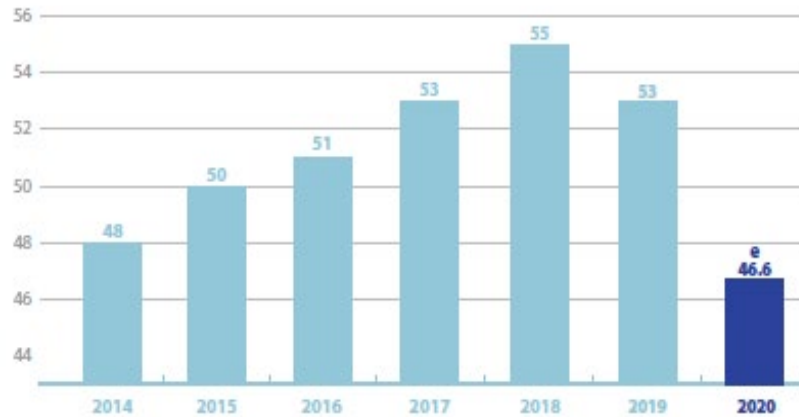


Figure 3 : Nominal GDP (USD,billion). Source :Ministry of Finance Statistics

The proceeded consumption of the Central Bank's remote –exchange saves is caused primarily by the tall shortfall within the country's exchange account (well over 30% of GDP), lower capital inflows, and tall shortfalls within the adjust of installments. Lebanon is confronting extreme financial conditions with proceeded drops in generally incomes and tall levels of in general uses, driving to tall financial – deficit proportions that stood at more than 11-12% of GDP, and tall levels of obligation to GDP proportion that stood at more than 178% in 2019 - (center for economic studies , Fransabank Sal) The obligation adjusting proceeds to assimilate more than 50% of open incomes, with a tall taken a toll of nearly 7%. Lebanon's net open obligation is presently within the overabundance of USD 90 billion dispersed as takes after: Eurobonds USD 31.3 billion, respective / multilateral credits USD 2.1 billion, and T-bills and bonds USD 57.1 billion. The nation should fund USD 4.6 billion of Eurobonds and intrigued this year, other than USD 10.3 billion of T-bills.

Table 1 : Major Macroeconomic indicators.

Source : Estimates of domestic and international institutions, IIF, and Al-Daoliyah Lil-Maaloumat

Indicators	2018	2019	2020 e
GDP (in nominal terms, USD billion)	55.0	53.0	46.6
Real GDP growth (%)	1.5	(6.9)	(12.0)
Inflation rate (%)	6.1	2.9	25.0
Share of population under poverty line (%)	25.0	33.3	50.0
General unemployment (%)	20.0	30.0	40.0
Unemployment among the youth (%)	30.0	40.0	45.0
Immigrated Lebanese	33.841	66.806	n.a.

With respect to the Central Bank's circumstance, its balance sheet expanded by 13.3% on yearly premise to reach USD 153.3 billion at end-September 2020. The Bank's foreign-currency resources dropped by 8.9% on annual premise to reach USD 25.9 billion at end-September 2020. The last mentioned resources come to USD 20.8 billion at end-September 2020, when barring Lebanese Eurobonds. The esteem of the Bank's gold reserves rose by 24.6% on yearly premise to reach USD 17.4 billion at end-September 2020. Stores of the money related division at the central Bank come to USD 107.6 billion at end-September 2020, down by USD 4.4 billion from end-September 2019. The expansion rate was 106.9% within the to begin with nine months of 2020 relative to 1.2% within the same period last year, agreeing to the Investigate and Discussions Established (fig4). The inflation rate was 106.9% within the to begin with nine months of 2020 relative to 1.2% within the same period last year, concurring to the Inquire about and Interviews Established. The inflation rate rose slowly since the end of 2019, due to the sharp deterioration within the esteem of the national money against the US Dollar, which in turn was affected by the extension of the supply of the

Lebanese Pound within the domestic market by an yearly rate of 111% within the to begin with nine months of 2020 to reach USD 13.7 billion. To control this financial development and assimilate abundance liquidity in Lebanese pound within the residential advertise, the Central Bank issued two circulars: the primary to importers inquiring them to put the asked sum in Lebanese Pound at banks which they need to exchange to US dollar by the central Bank at the official exchange rate in the event that they need to advantage from the Bank’s financing component, and the moment is directed to banks where they are subject presently to certain ceilings on withdrawals in Lebanese Pound according to their account sizes.

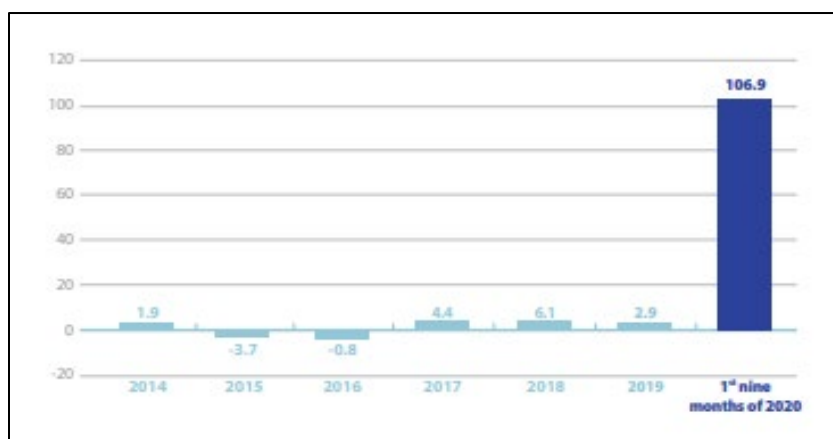


Figure 4 : Evolution of Average Annual Inflation Rate (%)

Source :Ministry of finance statistics

The unsteady banking conditions winning in later months can be followed through the development of the major markers of the keeping money division. The solidified resources of commercial banks decreased by 26.6% on yearly premise to reach USD 192.6 billion at conclusion – September 2020. The advances extended to

the private division declined by 29.2% to reach USD 38.6 billion amid this period. In expansion, the loans expanded to the open segment dropped by 27.4% on yearly premise to reach USD 23 billion during this period. The private division stores declined by 16.5% on yearly premise to reach USD 142.2 billion during the same period. The banks' total capital accounts recorded a yearly drop of 10.8% to reach USD 18.5 billion at conclusion – September 2020.

On the dollarization of the economy front, the dollarization of private division advances was 61.5% at end – September 2020, relative to 70.3% at conclusion – September 2019. On the other hand, the dollarization of private division stores was 80.2% at conclusion – September 2020, whereas it was 73.0% at conclusion – September 2019. In this sense, the dollarization of stores expanded amid the period beneath thought.

Table 2 : Banking indicators in Lebanon ,

Sources: Central Bank of Lebanon and Association of Banks in Lebanon

Indicators	1 st nine months 2019	1 st nine months 2020	% Change
Total Assets (USD, billion)	262.2	192.6	(26.6)
Loans to Private Sector (USD, billion)	54.5	38.6	(29.2)
Loans to Public Sector (USD, billion)	31.7	23.0	(27.4)
Deposits of Private Sector (USD, billion)	170.3	142.2	(16.5)
Total Capital (USD, billion)	20.7	18.5	(10.8)
Loan Dollarization (%)	70.3	61.5	-
Deposit Dollarization (%)	73.0	80.2	-

d) Currency Crisis

The Lebanese pound has been pegged to the dollar since 1997. In any case, as financial specialists begun to pull funds out of Lebanon in 2019, request for the pound fell. Lebanon's central bank sold outside trade saves to back the esteem of the cash, but an casual exchange rate advertise created in which the pound exchanged at increasingly devalued rates and dollars got to be scarce. The pound has misplaced almost 80% of its esteem since 2019 (Carla E.Humud, Rebecca M. Nelson, 2020). Lebanon is exceedingly subordinate on imports, and as the currency deteriorated, the costs of most products rose. In 2020, inflation come to over 50%, crossing the threshold into hyperinflation, draining the esteem of pay rates and savings and driving to deficiencies of customer products. The emergency has been annihilating for both Lebanese and refugees. Generally 2.7 million of Lebanon's 5.5 million residents live below the poverty line (less than \$14 a day). Extreme poverty has tripled within the past 12 months, from 8% to 23% of the population. Unemployment has risen to 30%. Fuel deficiencies have driven to rolling power outages, and the United Nations has cautioned that more than half of the population could face food deficiencies in 2021.

The country seen on August 4, 2020 an enormous blast at the Port of Beirut, which significantly aggravated the country's socio-economic conditions. The explosion's harms are assessed at nearly USD 7 billion, identical to nearly 14% of 2019 GDP. Over 160 individuals were dead, at slightest 5000 people were harmed, and more than 300,000 individuals cleared out their destructed homes. The explosion's harms were direct physical harm at the Port of Beirut and nearly half Beirut, other than indirect harms within the form of financial misfortunes. The Port of Beirut handles about 75% of Lebanon's exchange. A few remaking of the Port's foundation is taking put nowadays, but this needs time and taken a toll. Subsequently, outside financing is

crucial to actuate the Port's operations. Lebanon is presently constrained to depend on two littler ports, the Port of Tripoli and the Port of Sidon.

This explosion at the Beirut Port developed financial compression within the nation about 24- 25% in 2020, relative to a lower compression of 7.3% in 2019 and 1.9% in 2018. With this withdrawal, the country's GDP is diminished from about USD 52 Billion in 2019 to almost USD 33 Billion in 2020 (center for economic studies, Fransabank). The Lebanese pound has experienced a sharp devaluation against the US dollar since final year where it draws closer in July 2020 to the level of LP 9000 per US dollar in the parallel advertise though its official rate is LP 1500 per US dollar. Nowadays, the parallel rate has dropped to within extend of LP 12500-15000 per US dollar. This trade rate deterioration activated a massive rise in inflation since April 2021. The country is as of now encountering hyperinflation with an expansion rate surpassing 100% per month since July 2020.

This double trend of cash devaluation and hyperinflation have disintegrated the acquiring control of real incomes and genuine stores of individuals by more than 80%. Thus, unemployment and destitution rates have surged to uncommon levels of 35% and 50% separately. Other than, the nation has witnessed a bank run and a deficiency of liquidity in US dollars since final year. Banks are challenged by the current unfavorable political, budgetary, and financial conditions.

3. ECONOMIC IMPACTS OF THE COVID -19

Lebanon has been enduring within the later a long time from need in economic developments coupled with high unemployment rates as well as a drop within the cash income inflows. The financial crisis came to a head after across the nation challenges took place over corruption and mismanagement by the political classes.

These challenges in turn driven to the closure of all bank as well as crippling the capital control on cash withdrawals along with cash exchanges; this raised fears around the depositors' whose savings are in Joined together States dollars. The Lebanese Pound has by presently lost 60% of the esteem of the Lebanese Pound on the US dollar within the dark advertise. Earlier in March of 2020 right as the Corona Virus crisis was extending, the Lebanese government announced that it seem now not pay back the remote credits it had taken: this checked the Lebanese individuals to begin with ever default on a credit installment.

The segment which has been the hardest hit by Corona Virus crisis is the nourishment and refreshments division; which was the backbone of the Lebanese economy. From the September to the 1st December of 2019, almost 800 food and beverages teach went to shut down which lead to 25,000 individuals (17% of the laborers within the nourishment and refreshment division) went on to lose their occupations. In the taking after January, extra 200 teach went on to be closed (Baldwin & Mauro, 2020).

Taking after the worldwide designs, the Lebanese government also ordered a mass bolt down within the mid of Walk. The government requested the closing of the as it were international airport in Lebanon as well as closure of all the ports and land crossings for 14 days, subject to expansion reviews. Dissimilar to other nations within the lock down, where all banks have remained open, Lebanese keeping money association decided to resist direct government orders. The banking industry closed off for two weeks: this was an apparent effort in arrange to protect their liquidity saves. Further with everything closed down, the government will not be able to go ahead and collect charges, which can encourage increment the budgetary shortfall (Vohra, 2020).

Lebanon's financial viewpoint is distressing. The Coronavirus Disease 2019 (COVID-19) widespread has discouraged tourism, a key industry. Declining worldwide oil costs have significantly decreased settlements from Lebanese utilized within the Persian Gulf, which ordinarily account for 12% of GDP. The Financial specialist Insights Unit figures that Lebanon's economy will contract by 20.7% in 2020 (compared to a contraction of 5.6% in 2019), which inflation will reach 490% by the conclusion of the year (compared to 6.9% at end-2019) (fig.4). Over the long term, Lebanon will likely get to broaden its economy absent from back and towards other sectors such as planning its multilingual and generally well taught workforce for tech businesses and high-end manufacturing, a long prepare that would likely entail significant foundation investment.

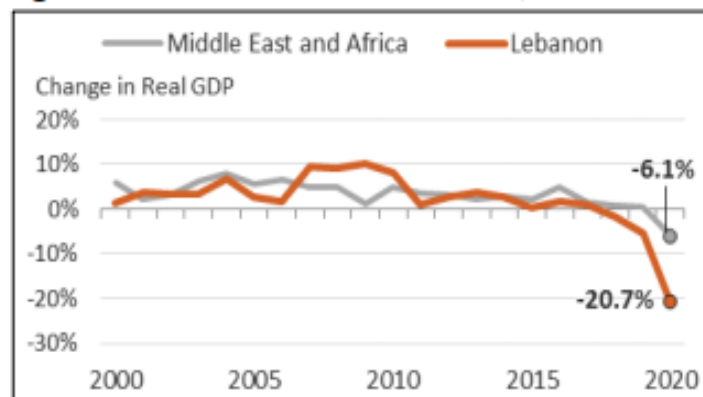


Figure 4 : Economics Growth in Lebanon, 2000-2020 ,
Source: Economist Intelligence Unit, Forecasted data for 2020

COVID-19 is no place close vanishing as the world is still attempting to figure out its degree of danger, causing indeed encourage disturbances by the diminutive on all day to day operations and businesses, one of which incorporates our funds and the

managing an account industry. Yet Lebanon has been going through major economic downfalls, Covid-19's appearance has not made it simpler, or maybe indeed more challenging. With the coronavirus contributing to the country's retreat, in this part will center on examining the challenges that COVID-19 has forced on the Lebanese financial sector as well as suggestions that should be taken into consideration.

To summarize some cases on how COVID-19 has affected the Lebanese banking sector:

- 1) Lower salary as trade and customer exchanges decrease;
- 2) As stock costs diminish, monetary sector's both benefits and steadiness gotten to be critical;
- 3) A negative liquidity affect since governments will be confronted with budgetary shortages, in this way less liquidity;
- 4) As individuals fear going to the bank, utilization of a few bank branches will drop driving in less exchanges as well;
- 5) Job losses with all incomes being affected;
- 6) The need to change over to cash protect capital;
- 7) Delayed installments shape clients as all sectors are influenced, diminishing demand;
- 8) Mortgage plans impacted;
- 9) Less cash went through on cards and individual loans;
- 10) Central Banks lower interest rate which influence interest margins.

5. CONCLUSION

To constrain the financial effect of the pandemic on Lebanon as much as conceivable, here could be a list of financial measures that the Lebanese government

have reported to border its implications: The Lebanese government has built up a support within the name of 'national solidarity'. The purpose of this support is to get any budgetary commitments within the shape of donations. The Service of Fund has pronounced that all due dates connected to the installment of expenses and/or charges might be extended. In collaboration with the taking after Services: finance, economy, defense, data, agriculture, labor and interior, the Service of social undertakings has started the sanctioning of arrange to financially help families in Lebanon who have been profoundly influenced by the spread of the coronavirus. With regard to money related and macro-financial issues, the Central Bank of Lebanon (BDL) has issued controls as well such as:

Circular 547 has been issued by the Central Bank of Lebanon stipulates that those who as of now envelop credit offices but unable of assembly their commitments such as costs due within the months of Walk, April and May of 2020 (which are the months the foremost affected by Covid-19) were allowed an expansion of five-year zero percent intrigued rate advances. In other words, Lebanese banks should re-engineering their advances to encourage installment going forward and increment advance period without expanding interest. The Lebanese Central Bank might cover the bank's introduction to the misfortune of income from interest and for uncovering themselves to extra credit risk.

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