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The Lebanese banking sector remained in a critical situation in 2024 in the absence of any resolutions to the crisis. Since 2019, the economic and financial sector crises were not tackled seriously. Moreover, political instability continued, and the year 2024 passed without electing a new president, therefore, there was no formation of a new government and no appointment of a new Governor for the Central Bank. As such, Mr. Wassim Mansouri remained an acting Governor, succeeding in keeping the exchange rate stable and increasing foreign reserve assets. In addition, Mr. Mansouri along with the commercial banks, met the requirements requested by the Financial Action Task Force (FATF) related to the banking system to try to evade Lebanon being listed on its Grey List. However, the state and its institutions did not take any action to meet the requirements they were responsible for, resulting in listing Lebanon on the Grey List in October 2024. To add insult to injury, the war with Israel escalated, and Israeli airstrikes covered almost all governorates but mainly concentrated on South Lebanon, Beqaa, and the Southern suburbs of Beirut. As per World Bank's latest report, Lebanon GDP is estimated to have shrunk by 5.7% compared to an estimated growth of 0.9% before war escalation.

In this spotlight, we are going to discuss the effects of putting Lebanon on FATF Grey List, main banking indicators, commercial

banks' balance sheets, balance of payments (BoP), in addition to the main circulars issued by the Central Bank in 2024.

### ***Grey List:***

As per the article written by the Secretary General of the Association of Banks in Lebanon (ABL), Dr. Fadi Khalaf, it is expected that banks will not face the direct impact of the Grey list on their relationship with international correspondent banks as they remain committed to comply with FATF standard. However, several indirect challenges could arise in the long run and need a strategic and suitable response to deal with them effectively. Even with Lebanon' s new Grey list status, Lebanese banks have succeeded to uphold strong relationships with international correspondent banks. These relationships, built over years of cooperation, are not expected to be directly threatened by the FATF' s decision. However, the Grey list involvement may bring indirect consequences. First, correspondent banks may begin applying more rigorous checks on transactions, resulting in delays and higher operational costs for Lebanese banks. This additional assessment could affect the speed of financial transactions and might pose a challenge to maintaining the quality of services. Second, the Grey listing could make Lebanon a less attractive destination for international investments. Investors may view the Grey list status as an increased risk, potentially leading to difficulties in securing capital, and pressuring Lebanese banks to convince foreign shareholders to participate in reinvestment efforts. Third, the Grey list could lead to additional downgrades for Lebanon' s credit ratings, making it more expensive for the country and its businesses to secure loans or engage in international trade.

## ***Reach and Size:***

**Table 1: Number of Banks' Branches and Employees**

	<b>Dec-19</b>	<b>Nov-24</b>	<b>% Change</b>
<b>Number of Branches</b>	1,058	635	-39.98%
<b>Number of Employees</b>	24,704	13,084	-47.04%

In terms of reach, the number of banks' branches in Lebanon decreased from 1,058 in December 2019 to 635 in November 2024, and so did the number of bank employees, which decreased from 24,704 employees in December 2019 to 13,084 employees in November 2024, as can be seen from table 1.

**Table2: Commercial Banks' Balance Sheet**

<i>In USD Millions</i>	<b>Dec-23</b>	<b>Dec-24</b>	<b>% Change</b>
<b>Deposits</b>	<b>94,750</b>	<b>88,646</b>	<b>-6.44%</b>
<i>Resident Customers</i>	72,609	67,032	-7.68%
<i>Non-resident Customers</i>	21,137	20,911	-1.06%
<i>Resident Financial Sector</i>	1,005	702	-30.13%
<i>Dollarization Rate (%)</i>	95.47%	98.39%	
<b>Loans</b>	<b>8,321</b>	<b>5,646</b>	<b>-32.15%</b>
<i>Resident Customers</i>	7,155	4,656	-34.92%
<i>Non-resident Customers</i>	981	871	-11.17%
<i>Resident Financial Sector</i>	186	119	-36.12%
<i>Dollarization Rate (%)</i>	88.76%	95.65%	
<b>Total Assets</b>	<b>115,249</b>	<b>102,760</b>	<b>-10.84%</b>
<b>Shareholder Equity</b>	<b>5,092</b>	<b>4,820</b>	<b>-5.33%</b>

*Source: Banque Du Liban, BLOM Invest Bank*

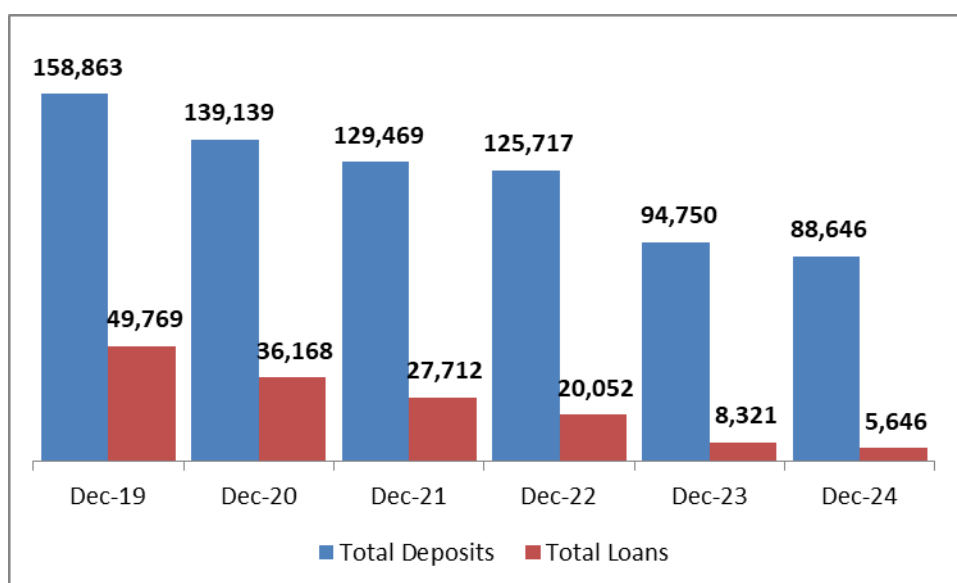
In terms of size, as is shown in table 2 above, total deposits (in LBP and foreign currencies) decreased by 6.44% in 2024 to reach \$88.65 billion in Dec 2024, noting that in September 2019, total deposits were \$170 billion. Similarly, loans decreased by 32.15% in 2024 to record \$5.65 billion in December 2024, compared to \$54.5 billion in

September 2019. Interesting to note, the dollarization rate of deposits and loans reached 99.18% and 97.71%, respectively in 2024.

As for banks' deposits and liabilities at correspondent banks, claims on the non-resident financial sector (banks' deposits at correspondent banks) recorded \$4.69 billion, while non-resident financial sector liabilities (banks' liabilities towards correspondent banks) recorded \$2.51 billion as of December 2024.

Additionally, the commercial banks' balance sheet showed that total assets decreased from \$115.25 billion in December 2023 to \$102.76 billion in December 2024. Similarly, shareholders' account fell by 5.33% to reach \$4.82 billion in December 2024.

**Figure 1: Evolution of deposits and loans since 2019 (in USD millions)**



**Table 3: Balance of Payments (BoP)**

in millions of USD	2023			2024		
	BDL	Banks & Financial Institutions	TOTAL	BDL *	Banks & Financial Institutions	TOTAL
	-812.79	3,049.77	2,236.98	5,713.96	723.03	6,436.99

*\*According to BDL Central Council's Decision Number 37/20/24, BDL NFAs include the Monetary Gold, the Non-Monetary Resident foreign Securities held by BDL, and the Foreign Currencies & Deposits with Correspondent Banks & International Organizations; while excluding the Lebanese Government's Sovereign Bonds and the BDL Loans in FX to Resident Banks and Financial Institutions.*

As for balance of payments (BoP), table 3 reveals that it increased to \$6.44 billion in 2024 as the Central Bank changed the calculation method as detailed above. The change in net foreign assets of BDL surged by \$5.7 billion whereas that of Banks & Financial institutions increased by 723 million in 2024.

## ***Regulations:***

The Central Bank issued several basic and intermediate circulars in 2024. The below are the main circulars issued:

### Basic Circulars:

1. BDL issued Circular 166, replacing Circular 151, in which it asked banks to pay USD account holders a monthly \$150 as part of the process of USD deposits retrieval by clients. Perhaps more important, payment is conditional in the main on the following:
  - ❖ Clients benefiting are those account holders not benefiting from Circular 158
  - ❖ In the case of multiple account holdings, only ONE account will benefit

- ❖ Accounts benefiting are those open by 31/10/2019 and accumulated up to 30/6/2023
  - ❖ However, not benefiting are accounts that:
    - Witnessed checks movement after 31/10/2019;
    - Saw conversions from LBP to USD after 31/10/2019 in the amount of \$300,000 or more, except for sums involving pension fund payments;
    - Involved loan payments in the amount of \$300,000 or more after 31/10/2019.
    - Benefited from the Sayrafa platform in the amount of \$75,000 or more.
2. BDL issued Circular 167 requiring banks and all financial institutions, when preparing their financials, to abide by the international accounting standard IAS21. As important, in converting their monetary assets and liabilities and non-monetary assets denominated in USD to their corresponding value in LBP, to use the new exchange rate announced on BDL' s electronic platform at the time of preparing the financials. The Circular is effective starting 31/1/2024.
3. The Central Bank issued on June 4th, 2024 basic circular #168 that was addressed to banks and all financial institutions and parties. This circular required the above mentioned banks, companies, and institutions to share with BDL legal department by June 30th, 2024 with the full name, date of birth, and the position of the following parties:

- ❖ Shareholders and stockholders that owns more than 5% of shares and stocks in addition to beneficial owners who own and / or exercise effective control over more than 5% of shares and stocks through direct ownership, indirect ownership through a legal person, or through other means.
- ❖ Chairman and members of the Board of Directors in addition to senior executive management members.
- ❖ However, BDL may also request the above mentioned details for shareholders, stock holders or beneficial owners owning less than 5% if the bank, company or institution is not listed on the stock exchange and those owning more than 2% in banks, company or institution listed on the stock exchange.

In case of any change in the sent lists occurred, bank, company or institution shall provide the legal department at BDL with updated listed within one week from the occurrence of the change. In parallel, BDL legal department will continuously verify that the aforementioned names are not designated on any UN, international and national sanction lists.

Banks, companies and institutions must comply with this circular under penalty of revoking their licenses.

As per BDL, this circular is in accordance with:

- ❖ Law 44 of November 24th, 2015 regarding fighting money laundering and terrorist financings
- ❖ Basic decision 12147 of December 22nd, 2015 concerning the implementation of UN Security Council resolutions No

1267 (1999), No 1988 (2011) and No 1989 (2011), in addition to any related successor resolutions

- ❖ Basic decision 12253 of May 3rd, 2016 on dealing with the US Act of December 18th, 2024
- ❖ Financial Action Task Force recommendations

### Intermediate Circulars:

1. On September 20<sup>th</sup>, 2024, the Central Bank issued the intermediate decision 13666 regarding revaluation of banks' fixed assets. The decision allows banks to include in Common Equity Tier 1 75% of the increase in the revaluation of its fixed assets on condition:

- ❖ The Central Bank audits the revaluation and approves it
- ❖ The revaluation must be performed before 31/12/2025

The revaluation should be in fresh US dollars and to be written in banks' books with its counter value in LBP as per the exchange rate set by the Central Bank on its electronic platform as per the date of paying the taxes on the reevaluation profits.

2. On September 25<sup>th</sup>, 2024, the Central Bank issued on intermediate decisions 13668 and 13669 related to BDL circulars 158 and 166 respectively. These decisions allows clients that are already benefitting from the two circulars to receive, exceptionally and for one time only, three payments instead of one payment in October 2024 due to the needs of the clients as a result of the spread of the war. It is to be noted that two payments was paid to customers in November and December 2024.



3. On December 24th, 2024, the Central Bank issued intermediate decisions 13683 and 13684 allowing clients to clients withdraw from their accounts on monthly basis \$500 under basic circular 158 and \$250 under basic circular 166.

**For your Queries:**

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