

From Lollars to Dollars: How Will Beirut Stock Exchange Stocks Be Priced Next?



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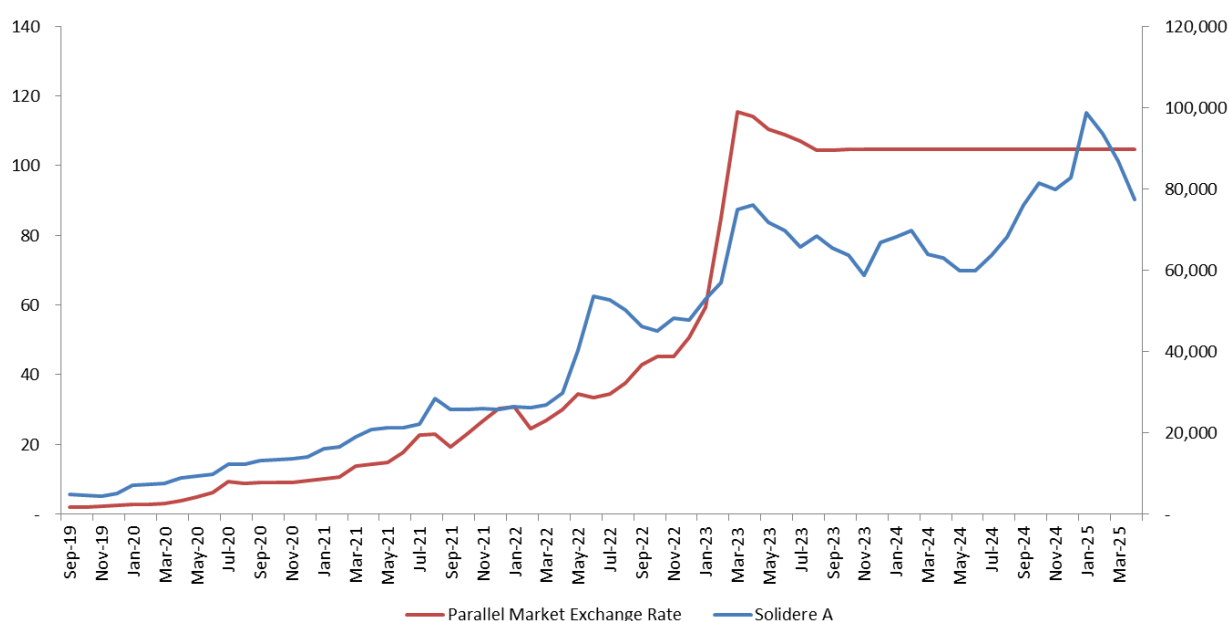
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For several years, Lebanon has faced a severe and multifaceted economic crisis, marked by the dramatic devaluation of the Lebanese pound (LBP) and the imposition of informal capital controls. Since 2019, the LBP has lost over 98% of its value, plummeting from 1,500 LBP per U.S. Dollar to approximately 89,500 LBP per U.S. Dollar, while inflation rates have soared into triple digits. The crisis has been exacerbated by a Dollar liquidity shortage, leading to the widespread adoption of the so-called "Lollar" system, where U.S. Dollar deposits in Lebanese banks are subject to restrictions and accessible in LBP at rates that diverge from the parallel market.

During this period, stocks on the Beirut Stock Exchange (BSE) shifted to Lollar-based pricing. As Lebanon contemplates economic reforms, including a potential International Monetary Fund (IMF) agreement that would unify exchange rates, a critical question emerges: **How will BSE stocks be priced in a post-Lollar era?**

This report analyzes possible pricing mechanisms for BSE stocks after the Lollar system's abolition and draws lessons from countries that have undergone currency reforms or full dollarization, with a focus on the implications for their stock markets.

Before the onset of Lebanon's financial crisis, shares of SOLIDERE A and B, the country's only traded real estate companies, traded at around \$6 per share. Ever since, their value has soared to a maximum of 126 and 129 Lollars and then eased to around 85 Lollars per share; a remarkable surge that sharply contrasts with the broader economic collapse.



This price increase suggests that investors are less influenced by usual factors like company earnings or future growth. This change is mainly driven by depositors with significant Lollar balances in banks, who, amid restrictions on Dollar withdrawals and concerns about the stability of bank deposits, have sought alternative stores of value. The data also reveals a noticeable surge in Solidere A's monthly average price within a three-month period:

The first sharp increase happened in the last week of May 2022 where average share price increased from \$46.94 in May 2022 to \$62.41 in June 2022. This increase might be attributed to the parliamentary elections at that time and the optimism it spread regarding a new era.

The second sharp increase occurred in March 16th, 2023 in which the share price increased by around \$12 on that single day. This significant increase happened a couple of days after the USD/LBP exchange rate reached a 6-digit figure and a few days before it reached around LBP 140,000.

The third significant increase occurred in the last days of 2024. This increase is credited to the optimism concerning the possibility of electing a new president, which will usher a new era for Lebanon.

SOLIDERE shares, underpinned by tangible real estate assets, have emerged as a relatively safer haven compared to rapidly depreciating Lollar-denominated deposits. As Lebanon considers the eventual abolition of the Lollar system, a crucial question arises: **How will stocks on the Beirut Stock Exchange be priced in the future?** Several potential mechanisms could be adopted, each with its own implications.

Bank Deposit Conversion Model

One likely scenario is that Lollar-denominated stocks would be treated similarly to Lollar deposits: when investors sell their shares and seek to convert proceeds into U.S. Dollars, a fixed conversion rate would apply. This rate could be calculated by dividing the official Lollar conversion rate (currently 15,000 LBP per USD) by the parallel market LBP/USD exchange rate (approximately 89,500 LBP per USD). The formula for this conversion is:

$$\text{USD} = \frac{\text{Lollar amount} \times 15,000}{89,500}$$

The conversion formula simplifies to $\text{USD} = \text{Lollar amount} \times 16.76\%$.

For instance, a stock priced at 85 Lollars would be valued at \$14.25 after conversion. However, this approach is hampered by existing restrictions on withdrawal amounts, which limit liquidity and may deter investors.

The official Lollar conversion rate has been adjusted multiple times by the central bank, moving from an initial rate of LBP 1,500 to LBP 3,900, then LBP 8,000, and subsequently to LBP 15,000 per U.S. Dollar. Despite these adjustments, the official Lollar exchange rate has always lagged considerably behind the market exchange rate of the Lebanese Lira against the U.S. Dollar. While the potential for this rate to change exists, we will use the latest rate of 15,000 for now.

Lollar Check Model

Another possible mechanism is to treat Lollar-denominated stocks like Lollar checks, which are traded in the market at a conversion rate of around 15%, though it varies depending on the amount of the check. While this mechanism offers the advantage of allowing greater withdrawal amounts, the corresponding conversion rate tends to be less favorable than those applied to deposit withdrawals. It is also worth noting that parallel market exchange offices set the conversion rates.

Historical Precedent Model

Ecuador's experience with dollarization in 2000 offers a compelling case study for understanding the repricing of financial assets-including stocks-during a currency regime change.

In the late 1990s, Ecuador endured a devastating economic crisis marked by a collapsing Sucre (Ecuador national currency), hyperinflation, widespread bank failures, and a deep recession. In response to the national currency's tremendous value loss, the government announced a full switch to the U.S. Dollar, aiming to halt hyperinflation and restore confidence in the financial system.

The transition to dollarization was rapid and comprehensive. The government fixed the conversion rate at 25,000 Sucres per U.S. Dollar. [All monetary assets and liabilities](#), such as bank deposits and stock market prices, were converted at this official rate. This process ended the unstable dual-currency system and provided clarity for investors and businesses.

The aftermath of dollarization saw significant macroeconomic improvements. Inflation eased, economic growth resumed, and the country became more attractive to foreign investors due to increased stability and the elimination of currency risk. However, Ecuador also lost the ability to conduct independent monetary policy, which limited its options for responding to external shocks. On the stock market, the clarity and stability provided by the fixed conversion rate helped restore investor confidence, even as some shareholders absorbed losses from the forced conversion.

Similar processes unfolded in El Salvador in 2001, where the Colón was replaced by the U.S. Dollar at a fixed rate of 8.75 Colóns per Dollar. [All financial assets](#), including stocks, were converted at this official rate, ensuring a transparent and orderly transition.

In both countries, the use of a government-mandated conversion rate was crucial to stabilizing markets and providing a clear framework for asset repricing. It is to be noted that the conversion rate of both Ecuadorean Sucre and Salvador's Colón closely aligned with parallel market rates at the time, similar to the 89,500 Lebanese Pound to U.S. Dollar rate used by Lebanese authorities today.

In contrast, Zimbabwe's partial dollarization in 2009 highlighted the risks of using unfavorable official rates. When the Zimbabwe Stock Exchange resumed trading in [February 2009](#), three months after its last trade in [November 2008](#), stock valuations were converted from Zimbabwean Dollar to U.S. Dollars at rates [far less favorable](#) than those available on the black market, rendering many assets nearly worthless to shareholders. This episode underscored the importance of aligning conversion rates with market realities to avoid deepening investor losses and further eroding confidence. The initial Dollars valuations represented a significant drop from pre-dollarization levels, but over time, the markets adjusted to better reflect the true value of the stocks.

These international examples demonstrate that while official, fixed conversion rates can provide stability and clarity during currency reforms, the chosen rates and the transparency of the process are critical. Aligning conversion mechanisms with market conditions is essential to minimize losses and restore trust in financial markets during periods of profound economic transition.

In conclusion, repricing stocks after unifying exchange rates, which is inevitably coming in the near future, will initially pose challenges. However, prices will eventually adjust to reflect the true fair value of the stocks. In particular, stocks of the real estate companies (SOLIDERE A and SOLIDERE B) and industrial companies (HOLCIM and Ciments Blancs), which saw significant price increases after becoming Lollar-denominated, are likely to be adjusted to reflect their real dollar value based on their assets and profitability. We hope in the near future to publish a new spotlight valuing the fair value of SOLIDERE shares once its financial statements are published. Stay tuned!

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