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"The Economic, Monetary, and Banking Context in Lebanon (2011–2019): A Critical Analysis"

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Abstract:

This paper provides an in-depth analysis of Lebanon's economic, monetary, and banking conditions between 2011 and 2019, a critical period preceding the country's severe financial collapse. Utilizing official data from the Ministry of Finance, the Banque du Liban (BdL), and the Customs Authority, the study highlights key trends in public finances, debt accumulation, monetary policy, and external trade. The analysis reveals persistent fiscal deficits, rising public debt, and an overreliance on financial engineering rather than structural reforms. Despite the apparent monetary stability and fixed exchange rate regime, vulnerabilities in the banking sector and declining foreign reserves signaled growing fragility. The paper also underscores the role of political gridlock, governance failures, and regional instability in exacerbating Lebanon's macroeconomic imbalance. These findings contribute to a better understanding of the root causes of the 2019 financial crisis and offer policy insights for emerging economies facing similar challenges.

Keywords: Lebanon, public finance, monetary policy, public debt, balance of payments, macroeconomic stability, 2011–2019.

Introduction:

Lebanon's macroeconomic trajectory between 2011 and 2019 reflects a paradoxical mix of monetary stability and deep fiscal imbalance. Although the country maintained a fixed exchange rate and relatively stable inflation, its underlying economic structure grew increasingly fragile. Throughout this period, Lebanon experienced stagnating growth, widening fiscal deficits, surging public debt, and rising social discontent. The Lebanese economic model, heavily reliant on remittances, banking inflows, and financial engineering schemes led by the central bank, faced mounting pressure in the absence of genuine structural reforms.

The regional context — notably the Syrian war and broader Middle Eastern instability — amplified Lebanon's vulnerabilities. Simultaneously, domestic political deadlock and endemic corruption undermined fiscal discipline and eroded public trust in institutions. The year 2019 marked a turning point, with a severe banking and currency crisis unfolding, signaling the collapse of a long-unsustainable model.

This paper seeks to examine the main macroeconomic trends in Lebanon between 2011 and 2019, focusing on public finance, debt dynamics, monetary policy, and the role of the banking sector. By analyzing official time-series data, the study aims to identify the factors that contributed to Lebanon's financial breakdown and offer insights into how such crises can be anticipated and potentially mitigated in similar economic settings.

Methodology

This study adopts a descriptive-analytical methodology to explore Lebanon's macroeconomic performance between 2011 and 2019. The research is based on secondary data obtained from official and reputable sources, including:

- The **Ministry of Finance of Lebanon** (for public revenues, expenditures, and debt statistics),
- The **Banque du Liban (BdL)** (for monetary aggregates, interest rates, exchange rate interventions, and financial operations),
- The **Lebanese Customs Authority** (for trade data and balance of payments estimates).

Quantitative data were collected and organized into time-series tables covering key indicators such as the fiscal balance, primary balance, public debt (gross and net), monetary aggregates (M1, M2, M3), credit to the private and public sectors, and external trade flows. These data were analyzed to identify trends, patterns, and turning points in Lebanon's fiscal and monetary trajectory.

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In addition to quantitative analysis, the study applies qualitative evaluation techniques to interpret the institutional, political, and regional factors influencing economic performance. Particular attention is paid to:

- The persistence of budget delays and off-budget spending,
- The mechanisms and consequences of financial engineering operations,
- The impact of external shocks such as the Syrian crisis,
- The interplay between public finance and central bank policy.

The analysis does not employ econometric modeling, as the objective is not causal inference but rather a comprehensive assessment of macro-financial evolution during the pre-crisis decade. Tables and graphs are used extensively to support the narrative and highlight critical points in the buildup to Lebanon's 2019 economic collapse

3. Economic Overview (2011–2019)

Lebanon's economic performance between 2011 and 2019 was marked by stagnation, structural imbalances, and increasing macro-financial vulnerabilities. Despite the country's reputation for monetary stability, particularly its fixed exchange rate regime, the real economy showed signs of fatigue, driven by weak productivity, regional instability, and a lack of coherent fiscal reform. This section outlines the key macroeconomic indicators—GDP growth, inflation, and public sector dynamics—that shaped the economic landscape during this period.

3.1 GDP Growth and Inflation Trends

Lebanon experienced **low and volatile economic growth** throughout the 2011–2019 period. Real GDP growth rates rarely exceeded 2%, and in many years hovered near stagnation. Contributing factors included:

- **Spillover effects from the Syrian civil war**, which disrupted trade routes, reduced tourism, and led to an influx of over 1 million refugees—placing additional pressure on infrastructure and public services.
- **Chronic political instability** and frequent government deadlocks, which delayed reforms and weakened investor confidence.
- **Declining capital inflows**, especially from the Lebanese diaspora, which traditionally supported domestic consumption and investment.

Inflation during this period was **relatively moderate but uneven**, fluctuating in response to global oil prices, exchange rate pressures, and local market distortions. While price stability was maintained through the central bank's interventionist stance, **real purchasing power declined**, especially for fixed-income households.

3.2 Fiscal Policy: Revenues and Expenditures

The public sector continued to operate under **unsustainable fiscal dynamics**. Total expenditures consistently outpaced revenues, resulting in persistent budget deficits that averaged above 8% of GDP. Key characteristics of fiscal performance included:

- **Heavy reliance on current expenditures**, particularly:
    - Public sector wages and pensions (over 30% of the budget),
    - Debt servicing costs (averaging 9–10% of GDP annually),
    - Transfers to the public electricity utility (around 15% of spending).
- **Weak tax collection capacity**, with a narrow tax base and widespread evasion.
- **Delays in budget approval**, leading to ad hoc spending based on the "one-twelfth rule," which limited transparency and planning.

The occasional realization of **primary surpluses** (notably in 2011 and 2017) was insufficient to reverse the long-term trend of rising debt.

3.3 Structural Imbalances and Economic Dependence

Lebanon's economic model during this period remained heavily dependent on:

- **Banking sector inflows** from abroad,
- **Real estate activity fueled by remittances**,
- **Service exports**, such as tourism, education, and finance.

These sectors, while lucrative in good times, were highly sensitive to regional and global shocks. The absence of **productive diversification**, coupled with negligible capital investment in infrastructure and industry, left the economy exposed to cyclical downturns and external funding risks.

4. Public Debt Dynamics

Lebanon's public debt trajectory from 2011 to 2019 reveals a deeply entrenched structural imbalance. Throughout this period, the country maintained one of the highest debt-to-GDP ratios globally, largely driven by persistent fiscal deficits, low economic growth, and an absence of corrective policy measures. Despite some short-lived improvements, the overall trend was one of rapid debt accumulation, particularly in the years leading up to the 2019 financial collapse.

4.1 Total and Net Public Debt Evolution

By the end of 2011, Lebanon's gross public debt stood at LBP 80,857 billion (~USD 53.6 billion), reaching LBP 138,150 billion (~USD 91.6 billion) by the end of 2019. This reflects an increase of more than 70% over nine years. The net public debt—calculated after subtracting public sector deposits with the banking system—followed a similar upward trend, increasing from LBP 69,885 billion in 2011 to LBP 122,473 billion in 2019.

While the debt composition was largely domestic, the **interest burden was substantial**, with debt servicing consuming nearly two-thirds of government revenues. The debt-to-GDP ratio fluctuated between **135% and 150%** from 2011 to 2018, but by 2019, it reached **178.3% of GDP**, second only to Japan globally.

4.2 Debt Composition: Currency and Holders

Lebanon's debt was split between:

- **Local currency debt** (approximately 60–65%),
- **Foreign currency debt** (35–40%), mostly in Eurobonds.

By the end of 2019, LBP-denominated debt stood at LBP 87,279 billion (63.2% of total debt), while foreign-currency debt reached LBP 50,871 billion (36.8%). The majority of this debt was **held domestically**—primarily by:

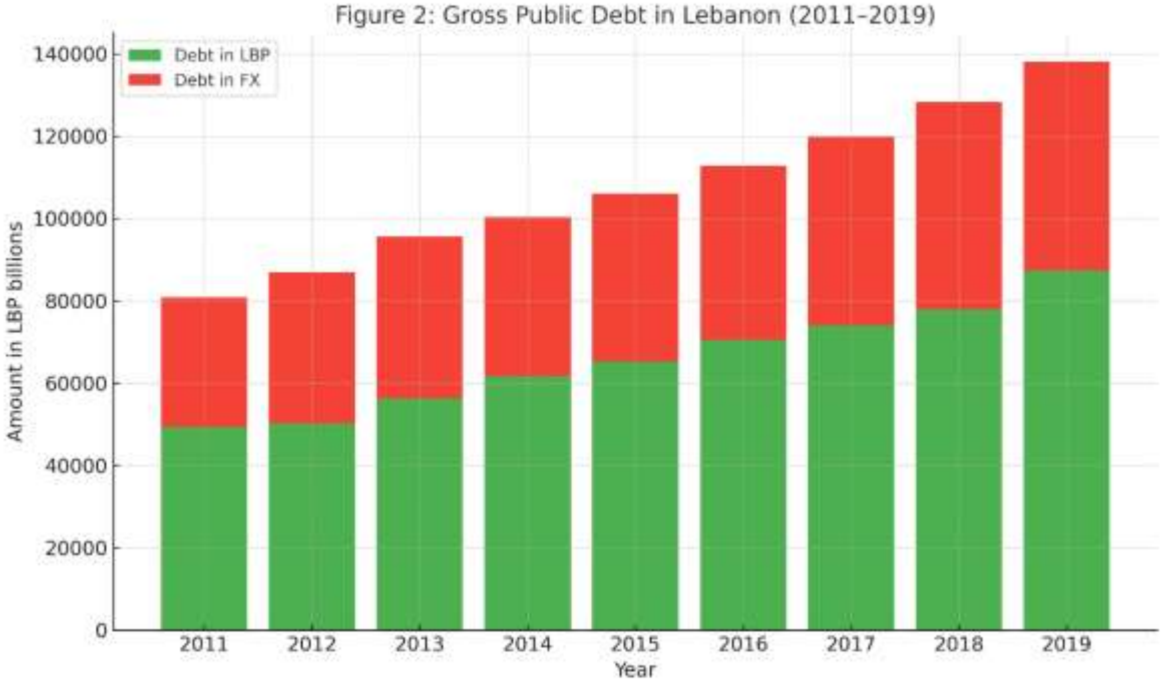
- Lebanese commercial banks,
- Banque du Liban (BdL),
- Public institutions (e.g., National Social Security Fund),
  with only about 10–12% held by non-residents, including bilateral and multilateral creditors.

Table 2: Lebanon's Gross and Net Public Debt (2011–2019)

Source: Banque du Liban (BDL)

Net Debt (LBP bn)	Public Sector Deposits	Debt in FX	Debt in LBP	Gross Debt (LBP bn)	Year
69,885	10,984	31,529	49,340	80,857	2011
74,043	12,916	36,761	50,198	86,959	2012
80,201	15,495	39,384	56,312	95,696	2013
86,391	13,965	38,604	61,752	100,356	2014
92,788	13,227	40,820	65,195	106,015	2015
98,643	14,268	42,383	70,528	112,911	2016
104,233	15,659	45,815	74,077	119,905	2017
114,161	14,151	50,495	77,852	128,347	2018
122,473	15,677	50,871	87,279	138,150	2019

Figure 2: Gross Public Debt in Lebanon (2011-2019)



Source: BDL

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4.3 Key Observations

- The **shift in debt holders** toward BdL after 2016 was driven by financial engineering operations.
- The government increasingly **borrowed domestically**, reducing foreign exposure but increasing systemic risk.
- Debt service costs rose sharply due to elevated interest rates used to attract deposits and maintain currency stability.

5. Monetary Policy (2011–2019)

During the 2011–2019 period, Lebanon's monetary policy was primarily geared toward maintaining exchange rate stability, controlling inflation, and preserving confidence in the banking sector. The Banque du Liban (BdL) pursued a strategy of currency peg management (USD 1 = LBP 1,507.5), supported by high interest rates and substantial foreign currency reserves. However, these measures came at a growing cost, contributing to a distorted financial system and masking deeper macroeconomic imbalances.

5.1 Money Supply and Dollarization

Lebanon's money supply (M3) expanded consistently until 2018, with growth rates ranging from 4% to 7%. However, in 2019, for the first time in recent history, **M3 contracted by 4.8%**, reflecting growing financial stress and capital flight. The composition of money supply shifted significantly, with a steady rise in **dollarization**—a clear sign of declining confidence in the local currency.

By 2019, the dollarization rate of M3 exceeded **68%**, rising further in early 2020 to over 70%, as depositors increasingly converted their LBP holdings into foreign currency. This trend undermined monetary sovereignty and constrained BdL's policy tools.

5.2 Credit Trends and Financial Liquidity

Over the period:

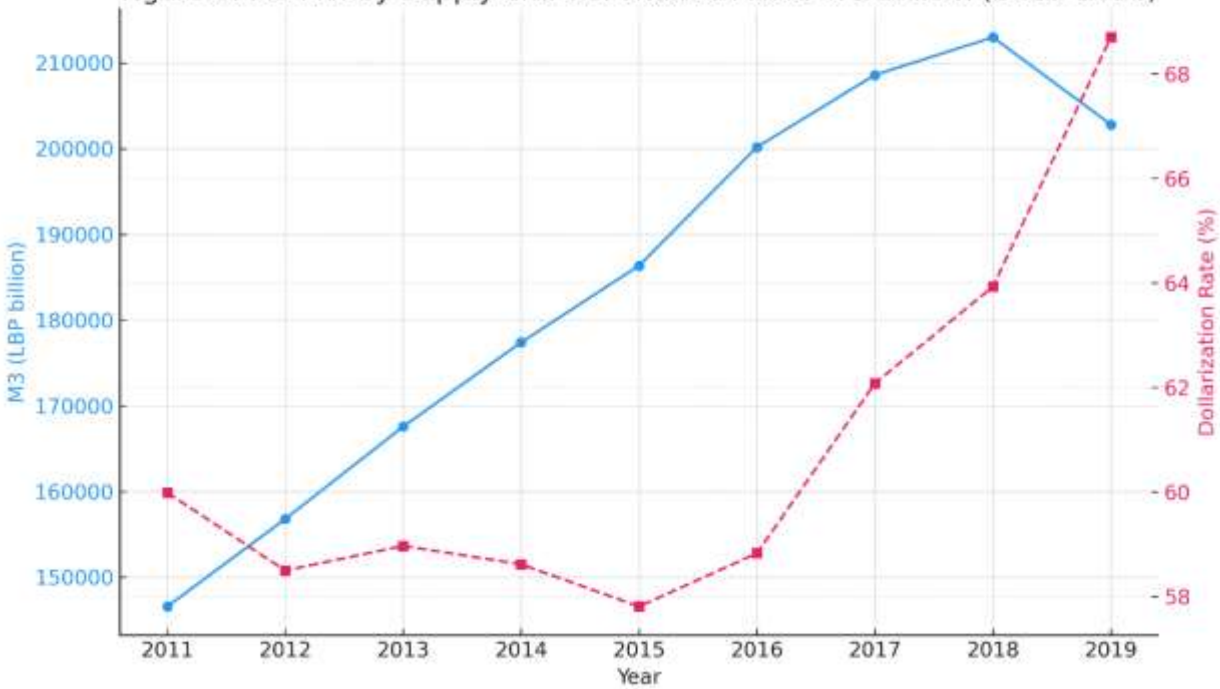
- **Credit to the private sector** increased until 2017, then sharply declined in 2018–2019.
- **Credit to the public sector** continued to rise, as BdL and commercial banks increasingly financed government deficits.
- A significant portion of monetary expansion was driven not by real sector growth, but by **financial engineering**—complex transactions initiated by BdL to attract foreign inflows and reinforce reserves.

Table 3: Evolution of Money Supply and Its Counterparts (2011–2019)

Source: Banque du Liban

Credit to Private Sector	Net Public Sector Credit	Net Foreign Assets (excl. gold)	M3 (LBP & FX, bn)	M2 (LBP bn)	M1 (LBP bn)	Year
54,164	50,909	43,755	146,576	58,643	6,138	2011
59,690	54,596	41,354	156,797	65,077	7,104	2012
65,949	59,568	39,817	167,571	68,749	7,620	2013
71,217	63,226	37,153	177,397	73,400	8,301	2014
75,695	70,688	31,762	186,360	78,620	9,042	2015
80,188	76,778	33,574	200,192	82,428	10,159	2016
85,189	78,246	31,133	208,613	79,113	10,655	2017
83,099	82,439	25,565	212,993	76,828	11,661	2018
70,814	84,150	16,810	202,831	63,484	16,620	2019

Figure 3: M3 Money Supply and Dollarization Rate in Lebanon (2011-2019)



Source: BDL

6. Banking Sector Performance

The Lebanese banking sector played a central role in financing the state and maintaining macro-financial stability during the 2011–2019 period. However, beneath the surface of apparent resilience, the system was increasingly exposed to sovereign risk, liquidity pressures, and external imbalances. By the end of the decade, these vulnerabilities crystallized into a full-blown **banking and financial crisis**, with severe repercussions for depositors, investors, and the broader economy.

6.1 Growth and Concentration of Bank Assets

During most of the period, the Lebanese banking system appeared robust, with:

- Total assets exceeding **3 times the national GDP**,
- A wide branch network and a large deposit base, especially from the Lebanese diaspora.

However, asset growth was increasingly driven by banks' exposure to **sovereign debt** and instruments issued by the Banque du Liban (BdL), rather than by lending to the productive sectors of the economy. As a result, the banking system became **highly concentrated and intertwined with public sector risk**.

6.2 Liquidity Erosion and the Onset of the Crisis

Starting in 2017 and accelerating in 2018–2019, signs of stress began to emerge:

- **Decline in foreign currency inflows**, particularly from remittances and Gulf investments,
- **Growing current account and fiscal deficits** created twin deficits that eroded market confidence,
- Banks became increasingly reliant on **BdL's financial engineering operations** to sustain liquidity.

By mid-2019, several warning signals became apparent:

- **Interest rates on deposits surged**, sometimes exceeding 15% in USD terms—reflecting risk premiums rather than market fundamentals.
- **Conversion restrictions** and informal capital controls began to emerge.
- **Foreign exchange reserves dropped**, despite BdL's intervention to defend the peg.

In October 2019, amid mass protests and political paralysis, banks **shut down for nearly two weeks**, and when they reopened, **severe withdrawal limits** were imposed. A de facto **capital control regime** was established without a formal law, leading to:

- A **dual exchange rate system**, with a growing gap between the official and parallel market rates,
- Massive losses for depositors due to the erosion of real balances,
- A collapse in trust in the banking system and a surge in dollarization outside the formal sector.

6.3 Interdependence with the Central Bank

Lebanese banks held significant portions of their assets in:

- **Government Treasury Bills** (mostly LBP),
- **Eurobonds** (USD-denominated sovereign debt),
- **Certificates of Deposit** issued by BdL, often with long maturities and high yields.

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This interdependence created a vicious cycle:

- The state borrowed heavily from BdL,
- BdL, in turn, issued high-yielding instruments to banks,
- Banks used depositor funds to purchase these instruments,
- But when confidence eroded, **liquidity dried up**, and the system collapsed under its own weight.

By late 2019, BdL had exhausted most of its usable foreign reserves and began imposing **restrictions on USD withdrawals and transfers**, confirming the onset of a systemic banking crisis.

7. External Sector Performance (2011–2019)

Lebanon's external sector during the 2011–2019 period was marked by chronic imbalances. The country maintained a persistent **current account deficit**, driven primarily by a large trade deficit and weak export performance. These imbalances were temporarily masked by capital inflows and remittances from the Lebanese diaspora, but the structural fragility of the external sector became evident as inflows declined in the latter years of the decade.

7.1 Trade Balance Trends

Lebanon's trade deficit remained one of the largest in the region relative to GDP. Key characteristics include:

- **Heavy dependence on imports**, particularly fuel, food, pharmaceuticals, and consumer goods.
- **Limited export capacity**, concentrated in a few sectors such as precious metals (especially gold), agro-food products, and chemicals.
- Persistent deficits ranging between **USD 13 and 17 billion annually** throughout the period.

Despite regional and global economic shifts, Lebanon failed to diversify its export base or enhance competitiveness. The lack of industrial policy, high production costs, and an overvalued fixed exchange rate constrained export growth.

7.2 Current Account Deficit

The trade imbalance translated into a **chronic current account deficit**, averaging between **20% and 25% of GDP** from 2011 to 2019. Key offsetting factors included:

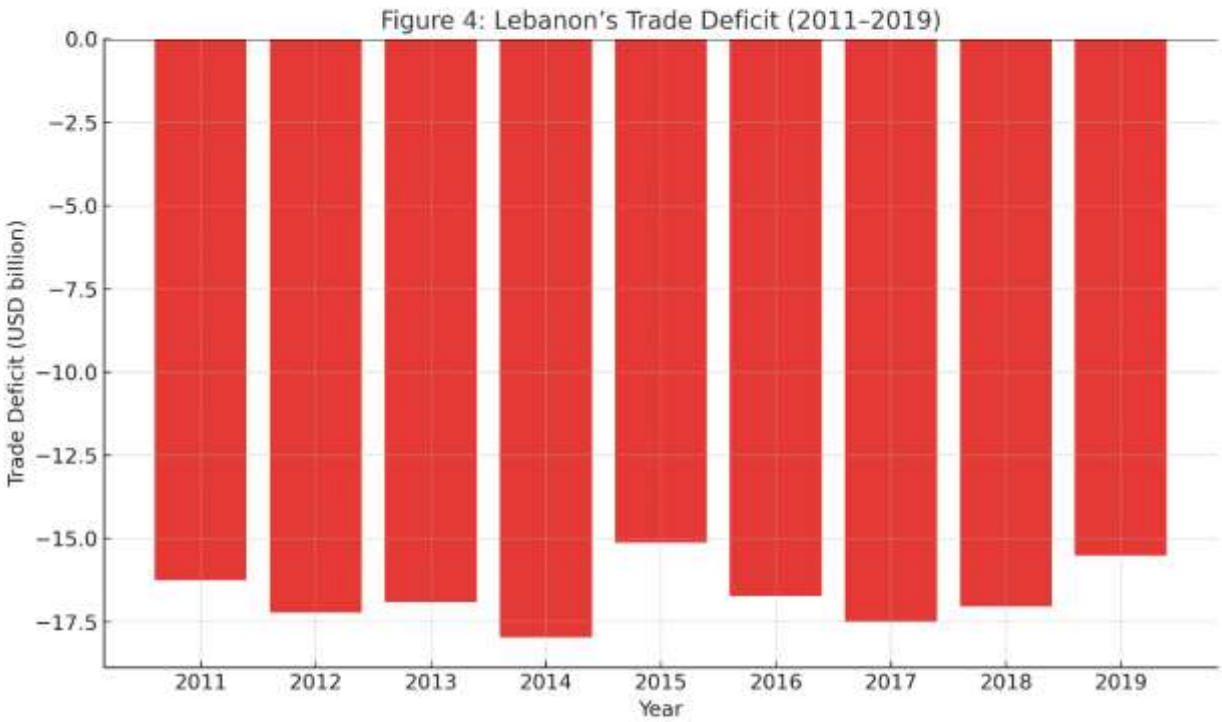
- **Remittances** from expatriate Lebanese, which represented around **12% of GDP**,
- **Services exports**, such as tourism, education, and banking.

However, these inflows gradually declined due to regional instability and weakened trust in the Lebanese financial system. By 2019, the current account deficit was no longer fully financed by net capital inflows, contributing to **a dangerous balance of payments gap**.

Table 4: Lebanon's Trade Balance and Current Account (2011–2019)

Source: Lebanese Customs & Central Bank

Current Account Deficit (% of GDP)	Trade Deficit (USD bn)	Imports (USD bn)	Exports (USD bn)	Year
23.5%-	16.25-	20.52	4.27	2011
24.1%-	17.22-	21.33	4.11	2012
25.5%-	16.91-	21.21	4.30	2013
24.0%-	17.97-	21.28	3.31	2014
21.1%-	15.12-	18.07	2.95	2015
23.6%-	16.73-	19.58	2.85	2016
24.5%-	17.48-	20.28	2.80	2017
25.0%-	17.03-	19.98	2.95	2018
24.8%-	15.51-	19.24	3.73	2019



Source: central bank

7.3 Declining Inflows and Balance of Payments Stress

Lebanon's balance of payments was sustained for years through:

- **Foreign direct investment (FDI)** in real estate and banking,
- **Private transfers**, particularly remittances,
- **Deposits from non-resident Lebanese in local banks**.

However, starting in 2016:

- **FDI declined significantly**, due to regional uncertainty and loss of confidence,
- **Depositor inflows slowed**, especially from the Gulf and Africa,
- **Net capital inflows turned negative in 2019**, as outflows exceeded new deposits.

As a result, the **Banque du Liban drew down its FX reserves**, which fell from over **USD 40 billion in 2016** to under **USD 30 billion by 2019**, despite financial engineering efforts.

8. Structural Challenges and Governance Failures

Lebanon's economic deterioration between 2011 and 2019 cannot be fully understood without analyzing the deep-rooted structural and institutional dysfunctions that underpinned the macroeconomic indicators. While fiscal and monetary metrics revealed growing vulnerabilities, the true crisis lay in the **political economy of governance failure**.

8.1 Political Paralysis and Budgetary Dysfunction

The post-2005 period was marked by frequent **governmental deadlocks**, delays in budget approvals, and reliance on temporary spending mechanisms such as the "one-twelfth rule." This led to:

- **Unpredictable fiscal planning**, limiting capital investment,
- **Off-budget expenditures** and arrears,
- Lack of transparent fiscal reporting and accountability.

Even when budgets were approved, they were rarely accompanied by meaningful **medium-term expenditure frameworks or structural reforms**.

8.2 Corruption and Clientelism

Corruption permeated nearly all levels of public administration, exacerbated by:

- A **sectarian power-sharing system** that incentivized patronage over efficiency,
- Weak oversight institutions (e.g., the Court of Audit, Central Inspection Board),
- Rent-seeking behavior in key sectors such as electricity, customs, and real estate.

International reports consistently ranked Lebanon poorly on transparency and governance indices, discouraging foreign investment and donor support.

8.3 Institutional Degradation of the Central Bank

The Banque du Liban, traditionally viewed as a technocratic institution, became deeply entangled in the financing of the state. Its use of **financial engineering** to attract inflows masked structural weaknesses, but ultimately created:

- Unsustainable liabilities for the banking sector,
- Fragile monetary foundations for the currency peg,
- A loss of policy independence and credibility.

By 2019, BdL was no longer able to support the exchange rate or banking liquidity, leading to **de facto sovereign default and banking collapse**.

9. Conclusion

Between 2011 and 2019, Lebanon exhibited many of the warning signs of a brewing crisis: fiscal indiscipline, rising public debt, monetary overextension, banking sector fragility, and deep governance failures. For years, these issues were obscured by capital inflows and financial engineering operations that provided a veneer of stability. However, the absence of structural reforms and the cumulative effects of political paralysis rendered the economy increasingly vulnerable.

The 2019 collapse was not a surprise—it was the natural result of a broken model. The country's experience offers valuable lessons for other emerging economies: the importance of institutional integrity, transparency in fiscal management, and the risks of using monetary tools to cover fiscal shortcomings. Without a profound transformation of Lebanon's economic and governance structures, sustainable recovery will remain out of reach.

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"السياق الاقتصادي والنقدي والمصرفي في لبنان (2011–2019): تحليل نقدي"

إعداد الباحثة:

بتول خضر نبها

الملخص:

تقدم هذه الورقة تحليلاً معمقاً للأوضاع الاقتصادية والنقدية والمصرفية في لبنان خلال الفترة من 2011 إلى 2019، وهي فترة حرجة تسبق الانهيار المالي الحاد في البلاد. باستخدام بيانات رسمية من وزارة المالية، مصرف لبنان، وهيئة الجمارك، تسلط الدراسة الضوء على الاتجاهات الرئيسية في المالية العامة، تراكم الدين، السياسة النقدية، والتجارة الخارجية. يكشف التحليل عن عجز مالي مستمر، وارتفاع في الدين العام، واعتماد مفرط على الهندسة المالية بدلاً من الإصلاحات الهيكلية. بالرغم من استقرار نقدي ظاهر ونظام سعر صرف ثابت، أظهرت الهشاشة المتزايدة في القطاع المصرفي وتراجع الاحتياطيات الأجنبية تزايداً في ضعف الاقتصاد. كما تؤكد الورقة على دور الجمود السياسي، إخفاقات الحوكمة، وعدم الاستقرار الإقليمي في تفاقم الخلل الاقتصادي الكلي في لبنان. تسهم هذه النتائج في فهم أفضل للأسباب الجذرية لأزمة 2019 المالية وتقدم رؤى سياسية للاقتصادات الناشئة التي تواجه تحديات مماثلة.

الكلمات المفتاحية: لبنان، المالية العامة، السياسة النقدية، الدين العام، ميزان المدفوعات، الاستقرار الاقتصادي الكلي، 2011–2019.