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SYSTEMATIC SCOPING LITERATURE REVIEW TO STUDY THE IMPACT OF LEABNESE FINANCIAL CRISIS 2019-2020 ON THE BANKING SECTOR

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Systematic literature review, Lebanese Financial Crisis, Lebanese Banking Sector, Financial Engineering

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Abstract

Over the last thirty years, blunders have been committed in the Lebanese financial sector. Besides, mistakes made with good faith, and the financial and economic crisis of years 2019 and 2020, on the other hand, has resulted in much greater deficiencies of trust and rises in the emotional distance between Lebanese people and their banks than the previous crisis. One collateral effect of the crisis and the, at times, scorching antagonisms that have afflicted banks and their customers has been an unfathomable reluctance on the part of banks to interact with their consumers. Therefore, this research spots the light on "Financial crisis of 2019-2020" alongside with the impact of this crisis with prominence on the Lebanese banking sector. Thus, in this research, researcher present systematic scoping literature review that discuss in depth fundamental studies published about financial crisis and Lebanese banking sector performance, in addition to gathering data from secondary data sources to present credible and accredited data that was introduced by Lebanese banks, BDL and MOF until year 2020. Research limitations and future recommendations are provided at the end of this paper.

Keywords

Systematic literature review, Lebanese Financial Crisis, Lebanese Banking Sector, Financial Engineering

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1. INTRODUCTION

Over the years, the banking sector at the Lebanese market has shown substantial growth, development, and springiness. Even when the banking sector was facing a crisis internationally, the banking sector at the Lebanese market was revealing a steadiness model that resisted inconvenient political and economic challenges (Abdullah, 2019). Due to that, the Lebanese banking sector succeeded in attracting provisional financial inflows. Nevertheless, these inflows are accompanied by international stress and pressure for abiding and applying the international stated laws, rules, and regulations. However, in the years 2019 and 2020 this reality changed, the Lebanese banking sector witnessed fast and massive changes due to the Lebanese financial crisis. Many economic indices have plummeted, placing Lebanon on the verge of a major economic catastrophe, and Lebanese banks at risk of entering a recession.

Besides, Lebanon's financial and economic downturn is likely to be rated among the world's top 10, if not the three largest, most devastating crises occurrences ever since the mid-nineteenth century. This is the result of the report from World Bank Lebanon’s Economic Monitor (LEM), that compares the Lebanese crisis to one of the most severe international financial and economic shocking occurrences observed by Reinhart and Rogoff (2014) from 1857 and till 2013 (LEM: Lebanon Sinking to the Top 3, 2021). Indeed, the GDP of Lebanon decreased from close to 55 billion U.S. dollars in 2018 to 33 billion U.S. dollars in 2020, with a roughly 40% decline in USD GDP per capita. This sort of severe and quick contraction is commonly related to conflicts, wars, and disasters. Even before then, the World Bank designated Lebanon as a "Fragility, Conflict, and Violence (FCV) State", implying that Lebanon's weak socioeconomic circumstances threaten systemic governmental failures with regional and probably global repercussions. The above demonstrates the depth of the country's financial and economic downturn, which unfortunately has no apparent end in sight, given the country's disastrous purposeful policy passivity (LEM: Lebanon Sinking to the Top 3, 2021).

Moreover, the financial situation of Lebanon was dubbed "The Deliberate Depression" in the LEM for the fall 2020 semester. The Lebanese government has been responding to an array of compound crises for more than a year, responding to the country's biggest peace-time economic and financial crisis, COVID-19, and the blast at the Port of Beirut with intentionally insufficient policy measures. More than just an absence of knowledge or poor advice, the lack of adequacy is the result of a combination of a lack of political consensus over effective policy initiatives; and ideological general agreement in the defensive strategy of a bankrupt economic model that has benefitted a small quantity of people over a long period of time. Given these difficulties, Lebanon needs an executive authority capable of carrying out its constitutional responsibilities. By electing its third government in a little over a year Lebanese citizens hoped things get better and improve toward finding solutions to the problems mentioned previously. Accordingly, the researcher considered the necessity of exploring literature, both theoretical and empirical background of the Lebanese financial crisis and banking sector in the following sections.

2. METHODOLOGY

This paper uses scoping literature review; thus, this review focuses on offering an initial idea of the possible quantity and breadth of the existent research literature (Arksey & O'Malley, 2005). This kind of methodology may be undertaken to assess the kind and breadth of research evidence, including current research, with a view to establishing the worth of doing a complete systematic review. To accomplish this review, the researcher will analyze current literature from high-quality reports and papers that are presented using analytic frameworks or theme construction, together with a numerical analysis of the size, character, and distribution of the research included in the review. Thus, this method depends on collecting and analyzing qualitative and quantitative data using secondary sources of information.

In this respect, information will be gathered via a study of the literature, and reports on the financial situation in Lebanon that have been provided by credible organizations and government bodies will be used. In this paper, the researcher will concentrate on available material in order to determine the origins of the 2019-2020 financial crisis and the consequences of that crisis on the Lebanese Banking Sector. The information for this research will be gathered via the use of reliable materials from the Central Bank of Lebanon, books, journal articles, and other internet resources. Secondary data collection is essential since it may be completed in a short period of time and at a low cost. In a similar vein, secondary sources are not influenced by prejudice and will offer results with a high degree of accuracy (Saunders et al., 2007).

To know and understand the relationship and impact of the Lebanese financial crisis on the banking sector, the researcher reviewed prior top studies, reports, and articles from the 1900s to 2021. The researcher mainly depended on credible academic search engines and official reports from banks in Lebanon and ministries. Reports and articles were revised to provide a review of the reasons for the financial crisis and the recent situation of the Lebanese banking sector. Furthermore, the researcher used official and organizational web sources as Banque Du Liban (BDL), International Monetary Fund (IMF), and World Bank. See table 1 in appendix, it illustrates the timeline and number of the reports and articles selected by the researcher to accomplish the scoping literature review paper.

The selection process of studies, papers, and reports have been depending on a collection of official, reputable, and credible sources such as scientific journals that are highly ranked and from official websites. These sources included official reports such as Banque Du Liban (BDL), World Bank (WB), International Monetary Fund (IMF), and Banks operating at the Lebanese marketplace, and ESCWA. All of the mentioned above are listed in table 2 in appendix that represents the number of studies, articles, and reports used by sources (see table 2 in appendix).

3. LITERATURE REVIEW OF FINANCIAL CRISIS AND BANKING SECTOR

The main purpose and aim of this section is to deeply review the literature on both the financial crisis and the banking industry. Besides, this section will focus and concentrate on earlier and recent studies and reviews done by international and Lebanese expert researchers and academics. For example, the issue of the financial crisis was globally explored but now this section will also concentrate specifically on the Lebanese case.

3.1 Theoretical Background of Financial Crisis

Financial and monetary policies are developed in every nation only for the aim of increasing efficiency and ensuring fair resource allocation and distribution. The correlation between financial development and economic growth and efficiency has been demonstrated (Rajan and Zingales, 1998). However, the occurrence of a financial crisis in a specific nation is enough to produce major disturbance to the same intended functions and services of the country's established financial and monetary policies. This is a frequent occurrence that has occurred throughout the history of the globe; besides, it has had a significant impact on many banking systems. In the past ten years, according to Malaeb (2018), the globe has seen the collapse of many great financial institutes worldwide, including financial institutions all over the United States of American and across Europe. As a result, they have seen a significant decrease in lending and commercial activity, which has caused considerable worry within the European Monetary Union.

In many countries, identifying the causes of financial crises, developing policy suggestions for legislators, and resolving economic crises have risen to the top of the priority list (Malaeb, 2018). The recent economic difficulties that have occurred across the globe have provided a fresh foundation for determining the causes of financial crises. In this respect, policymakers must be familiar with financial crisis theories so that they may use them to lead them through the examination of a specific case study in the future. This I critical information in order to solve present problems and provide better advice on how to build a more dependable financial system for the future. Several key variables such as panic in the banking industry, credit friction, market freeze, and currency depletion have been identified as potential triggers of a financial crisis according to Goldstein and Razin (2012). Through the following subsections, the researcher will illustrate these variables.

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a. Account Panic in the Banking Industry

The prominent experts in the field of banking panics and their role in the emergence of a financial crisis are Diamond and Dybvig (2000). According to them, banks, of course, have a duty to provide financing for long-term assets by enabling short-term deposits to be made. In this case, they have the benefit of sharing the risks with investors in the event of specific difficulties with early liquidity needs. Instead, taking on such a duty disclosures the bank to the danger of a bank run, in which a large number of creditors choose to withdraw money from the bank ahead of schedule, in violation of a previous agreement. To put it simply, this leads to a breakdown of synchronization, which puts the whole financial system at the peak of its vulnerability. For example, in the event that depositors remove all of their funds from commercial banks, it is very likely that the bank would go bankrupt. As a result, additional depositors are prompted to withdraw their funds as well.

For several years, the issue of banking crises has been a frequent source of concern (Calomiris & Gorton, 1991). Procedure and policy recommendations introduced at the beginning of the twentieth century required banks to purchase bank assurance, thus reducing the likelihood of similar issues happening in the future. Despite the fact that these regulations have provided a more stable foundation, bank runs continue to be a significant contributing factor to financial crises throughout the globe, particularly in countries where insurance is inadequate or non-existent. Several countries in East Asia and Latin America have been recognized as having bank run issues. The Northern Rock Bank, which recently went into administration, is a clear example of a commercial bank in the United Kingdom that shows how this country, and because of bank runs, suffered from a financial crisis (Adrian & Shin, 2009). In this specific instance, investors flocked to the bank in vast numbers to withdraw their whole investments. The repossession market is yet another example of a bank run that occurred as a result of the financial crisis, which made it impossible for investment banks to acquire funding for financing short-term operations of their clients (Gorton & Metrick, 2012). In the end, financial firms such as Bear Stearns and Lehman Brothers were forced to close their doors. Bank runs are also common in money-market funds, even though their assets are primarily insured by the paper market (Schroth, Suarez., & Taylor, L. A, 2012). (Schroth, Suarez., & Taylor, L. A, 2012). In the opinion of Chen et al. (2010), the degree of vulnerability induced by insufficient coordination is a public issue that impacts open-end common funds in general.

The lack of cooperation between banks, according to academics, is the root cause of bank run issues in general. As a result, it is critical to explore potential solutions to synchronization failures and bank runs in order to ensure that a country's financial institution remains operational. As previously said, insurance is a tool that may be utilized to address this issue; nevertheless, it has serious consequences for the management of moral hazard. As a result, and as stated by Goldstein & Page 19 of 51 Pauzner (2005), every nation should perform a thorough review of its deposit insurance regulations. Based on economic theory and the worldwide model, it is feasible to examine the importance of coverage in effectively managing bank runs, as well as the impact of moral hazard on the outcome of bank runs.

b. Credit friction and market freezing

Credit friction and market freezing are common occurrences in many markets, and these events signal the onset of a financial crisis. At various points in time in the economic market and financial environment, the conduct of depositors or creditors determines how much money is available for lending. The balance sheet is the environment in which the vast majority of issues in the financial market developed. The loan quality provided by banks is affected by the condition of equilibrium and the possibility of friction, which forces commercial banks to reduce lending to prevent the possibility of negative consequences. They provided fundamental reasoning that may be utilized to explain the presence of credit restriction in the commercial sector, according to Stiglitz and Weiss (1981). According to the fundamental theory of economics, an equilibrium requires financial institutions to modify their pricing to be able to fulfill both demand and supply to prevent the potential of scarcity in the market. Most of the time, it's been shown that this scenario will not arise in the banking credit system due to an exogenous variable indicated by the value and quality of a loan. In this sense, two particular types of friction become crucial in influencing the degree of rationing: moral hazard and antagonistic classification.

The effect of credit frictions on lending levels and moral hazard has garnered considerable attention in the literature. Researchers as Holmstrom and Tirole (1997) proposed the canonical representation model, whereby borrowers have the power of moving resources on behalf of their creditors to prevent default. Therefore, in this case, the proposed model indicates that the creditor will be cautious while providing the money to the borrower because of the risk involved. Therefore, it is essential that the borrower has a sufficient amount of money at risk to make sure the project is successful, by this means they guarantee a smooth flow of credit. To do this, the borrower must guarantee that he has a restricted number of incentives to redistribute resources. It will ultimately result in credit levels being restricted, but this will be exacerbated by a deteriorating economic position in the market, which may eventually lead to a catastrophic catastrophe of epic proportions.

In the market worldwide, the credit-freezing forces have grown more, and particularly in the context of the global economic crisis that began in 2008. Essentially, these are expressions that occur as a consequence of prolonged economic shocks that are exacerbated by friction in the way credit is distributed in the market. Many attempts have been made to establish a connection between credit frictions and the presence of issues in macroeconomic models. They discovered that credit frictions are used to prolong and amplify the effect of economic shocks in a certain market, according to Bernanke and Gertler (1989). According to recent research, the establishment of a financial-intermediary sector that is consistent with macroeconomic models is critical for developing measures to alleviate the effects of the current economic recession (Rampini & Viswanathan, 2011, and Gertler & Kiyotaki, 2015).

c. Currency Crises

The government's inputs, which trigger the collapse of its own policies, are a significant factor in the emergence of a financial crisis. This may be accomplished via the use of a tax system or the use of an exchange-rate agreement. In the 1970's, the "Bretton Woods" currency crisis is one of the significant examples of financial collapse that occurred at that time. This crisis arose from a systematic desire on the part of the government to maintain a stable currency, despite the fact that this was counterproductive to the government's own policy goals. As a consequence, the political regime came crashing down all of a sudden (Goldstein and Razin, 2012; Krugman, 1979; Food and Garber, 1984). According to the theory of currency crises, a nation has three policy options: unfettered oversight of capital flows, monetary autonomy, and exchange rate stabilization. European nations have concentrated their efforts on attaining the first and third objectives, but they have paid little attention to accomplishing the second aim. This has resulted in these nations having a restricted capacity to cope with economic shocks that are necessary to sustain a national debt, which would ultimately result in the triggering of a financial crisis. Because of the coordination issues caused by investors and speculators, financial crises would worsen and become more widespread, which explains why some nations choose to leave the Eurozone and join the European Monetary Union.

Many researches on currency crises have focused only on the role played by governments in causing a financial crisis, which is a flawed approach. Consider the third-generation models: it is obvious that a bank crisis and credit frictions would result in a

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financial crisis without any further action on the part of policymakers (Chang & Velasco, 2001; Goldstein, 2005). This is a common worry about the financial condition that existed in East Asia throughout the 1990s. Both the exchange-rate regime and the banking sector collapse at the same time in this case. This is a clear sign that the government and financial institutions are ready to impose a high degree of fragility on an existing financial system, which is already in place.

d. The Financial and Economic Situation in Lebanon

1. **The External Debt**

As a result of the civil war's conclusion and in order to fund the enormous rebuilding effort, the Lebanese government embarked on a major financing plan. While this was happening, the annual growth rates of gross debt between 1993 and 1995, as well as between 1995 and 2000, were 123 percent and 177 percent, respectively. With the exception of 2009, the GDP grew at a single-digit pace from 2005 to 2018, while the annual growth rate of debt increased by 22 percent over the same period (Chbeir, 2019). Because of the high levels of debt, the Lebanese economy has suffered from a drop in income and a rise in debt service costs, with close to 45 percent of the country's earnings being spent by the government on interest payments. By the beginning of 2020, Lebanon's debt-to-GDP ratio was close to 178 percent, making it one of the most indebted countries in the world, ranking with Japan and Greece. The Lebanese government's greatest mistake was defaulting on a $1.2 billion Eurobond in early 2020, which was the worst move they could have made (Salti, 2020).

2. **The Crisis of Currency Exchange Rate**

While the official exchange rate of the dollar to the country's currency of Lebanon, the lira, is officially set at 1507 to 1 USD, the market trading of the currency has been unstable due to the devaluation in the value of the currency on the black market (Suleiman, 2020), causing the country's currency to be traded in a destabilizing manner. According to the most recent sources, the Lira was circulating on the black market at a rate of LBP 8,100 to one US dollar in 2020. This devaluation was mostly attributed to the economy's reliance on imports for its survival (Bloomberg, 2020).

3. **Instable Political Situation and Corruption**

Unstable corruption and political instability are two of the most serious problems facing the world today. As a result of the deterioration of the economic situation in Lebanon, demonstrations erupted in several Lebanese areas beginning in October 2020. The protestors called for the resignation of the administration and political leaders, as well as the eradication of corruption in the country. In 2020, a freshly constituted administration (which subsequently resigned) was installed in power, although it was still subjected to the same allegations of corruption (BBC, 2020). Two years earlier, in 2019, and specifically in November, the central bank of Lebanon was accused of operating a Ponzi scheme since it depended on new borrowing to pay its existing debt obligations. The bank disputed the accusations, claiming that its actions were in accordance with the 1963 Code of Money and Credit (CMC) (Alison, 2019). As reported by media, the epidemic had temporarily put an end to the demonstrations, but an explosion at Beirut's port roused the crowds who had lost confidence in the country's political establishment (abc, 2020). According to some estimates, half of Lebanon's population lives at or below the poverty line, and thousands of people have lost their employment as a result of the financial and economic crisis. "There have been continuous power outages, with some people claiming that the blackouts are worse than those experienced during the 1975–1990 civil war," according to DuBoff et al., (2019).

3.2 Theoretical Background of Banking Sector

A financial crisis is a scenario in which a country's overall supply of money is insufficient to satisfy the demand for money from its people. When a financial crisis strikes, banks bear the brunt of the consequences since people will tend to withdraw all accessible sums of money, forcing banks to either sell their assets or shut their doors altogether. Most of the time, the financial crisis causes the value of assets to plummet, while it negatively impacts the capacity of businesses and individuals to pay their obligations (Heather, 2019). As previously said, a financial crisis is confined to banks, but it has the potential to extend to the whole financial and economic situation, including the entire nation or area. A lack of effective measures to mitigate the effects of a financial crisis may result in a deep recession, which will be accompanied by massive protests from people. Lebanon is a typical nation in the Middle East that is facing a financial crisis, which is endangering not just the financial and economic future of Lebanon but the whole region as a whole as well (Heather, 2019). The Lebanese have gone to the streets in protest over the deteriorating financial and economic conditions, which has reached a point where the future is unclear. The banking industry's performance may be negatively affected by a financial and economic crisis, according to Athanasoglou et al. (2008), and this is due to a variety of reasons. Through the following subsections, the researcher will illustrate these reasons.

a. Inflation

Inflation may be defined as a decrease in the value of money, or even as a continual rise in the price of commodities in general, as opposed to deflation. Some economists interpret this occurrence as the circulation of a greater quantity of money in the inflated region, which is a valid interpretation. It has been found that the relationship between the growth rate of money and the rate of inflation was positive (Berger and Ponce, 2010). When the rate of growth in the availability of the volume of purchasable products exceeds the rate of increase in the total buying power in an economy, according to Dietrich and Wanzenried (2011), the primary component that causes inflation volatility is present. According to the scholarly findings made by Durden, the primary factors that may have a direct impact on inflation in the United States are energy costs, budget deficits, wage rates, and money supply (2011). Observations have been made that the exchange rate of the currency in certain nations is a significant influence in the rise or fall of inflation rates in such countries (Paul, 1997). According to Elsas et al. (2010), the inflation phenomenon in the short run may be caused by a demand for commodities that exceeds the supply of such items. While on the other hand, it is the money supply that has the most influence on the rise in the prices of those goods in the long run. Besides, Saini (1982) discovered that the increase of the money stock was not, in reality, the primary source of inflation in nations in Asia when he conducted his research on the phenomena of inflation in those countries.

b. Shortage in Currency

The concept of foreign currency exposure in the context of banks has been extensively researched in academic circles several times. Taking currency fluctuations as an example, according to Bracker's (2009) research, one of the most significant variables contributing to bank risks is the volatility in the value of the United States Dollar (USD). This research has also looked at the many risk concerns that may arise as a result of the susceptibility of bank stocks to market fluctuations. Although the findings were not consistent, there were some relationships between exchange rates and bank holding corporations that were both negative and positive in nature. Despite this, the exchange rate of a foreign currency was not identified as a significant risk in the research that was performed

c. The Public Debt

Gurley and Shaw were responsible for developing the theoretical foundation for governmental debt (1973). According to their viewpoint, the only approach for an economy to achieve really significant development is via the establishment of a stable financial system in which this kind of debt is essential and highly required. According to Rapu, the following variables may contribute to a rise in the national debt: poor production growth, high budget deficits, relatively limited revenue (as witnessed in the 1980s), high inflation rate, and significant public spending growth (2003). According to Ola and Adeyemo (1998), the following causes for the growing public debt were identified in their study on the subject. The government incurs debt in order to:

1. Focus on providing financial protection in the event of an economic downturn or even any kind of natural catastrophe.
2. Construction of river basins, agricultural projects, and dams on waterways are all examples of development plans that need significant money.
3. Provide current initiatives with the goal of generating a significant amount of income.

3.3 Empirical Review of Financial Crisis and Banking Sector

The relationship between financial markets and economic development is much too apparent to need further consideration as declared and stated by Miller (1998) and other academics such as Kunt and Levine (2008). Therefore, it is necessary to have an ongoing debate because risk management must prioritize the implementation of appropriate financial sector policies, regulations, and reformations in order to ensure a healthy and strong sector. By doing so, the financial sector will be secured enough, and this will inspire confidence and improve the economic situation. However, the Lebanese market is currently experiencing a severe financial crisis, which has its origins in choices taken since the civil war ended in 1990. (Baumann 2019). By the end of 2019, the severe ramifications of those choices would have become apparent. The figure below depicts the transformation of the banking industry from one that was profitable to one that is experiencing the worst losses in its history. According to data form 2021 as shown in figure 1, losses are considerably greater in the event of a crisis and widespread worsening of the banking, political and economic situation. In 2008 it was stated by Kunt and Levine that nations that are backed by a sophisticated financial system expand at a quicker rate than those that are not. They also came to the conclusion that the banking system size and stock market liquidity were both shown to be positively correlated with economic success. And their third conclusion is that a financial system has the potential to back up external funding, thus assisting the development of local industries that are experiencing difficulties in their operations.

(USD Million)	2020	2021	Var 21/20
Macro economy			
Real GDP growth (%)	-25.0%	-11.0%	14.0%
Monetary sector			
Var M3	-1,844	682	-136.9%
Velocity	0.36	0.27	-25%
Cleared checks	53,818	36,418	-32.3%
CPI inflation (end-period %)	111%	283%	172%
Public sector			
Gross domestic debt	59,544	61,861	3.9%
Foreign debt	36,050	38,515	6.8%
Total gross debt	95,594	100,377	5.0%
Public revenues(*)	7,008	9,221	31.6%
Public expenditures(*)	9,624	8,919	-7.3%
Fiscal deficit(*)	-2,616	302	-111.5%
External sector			
Imports	11,311	13,641	20.6%
Exports	3,547	3,887	9.6%
Trade deficit	7,764	9,754	25.6%
Balance of payments	-10,551	-1,976	-81.3%
Banking sector			
Var: Total assets	-28,739	-13,105	-54.4%
% change in assets	-13.3%	-7.0%	6.3%
Var: Total deposits	-19,723	-9,671	-50.9%
% change in deposits	-12.4%	-7.0%	5.4%
Var: Total credits	-13,601	-8,456	-37.8%
% change in credits	-27.3%	-23.4%	3.9%

Fig.1: Lebanese Economic Indicators from 2020 till 2021
Sources: BDL, Annual Report of Lebanese Ministry of Finance, 2021

Furthermore, findings from another research show that there is a statistically significant and strong positive relationship between the degree to which loans are channeled to the private sector and the real GDP per capita of a country (Olowofeso, Emmanuel, and colleagues, 2015). The actions carried out by the Central Bank of Lebanon (BDL) were aimed at preventing banks from playing an effective role in the development of the economy as well as helping the private sector and SMEs. Because the BDL has been draining commercial banks' foreign currency reserves since the 1990s to maintain the peg of the currency, and finance the government's budgetary deficits and expenditures, the BDL has been draining commercial banks' foreign currency reserves since the 1990s (FC). The interest rates provided to commercial banks were sufficiently high, and in some instances were paid in advance, thus reducing the number of loans that might be made to the private sector and assisting in the development of the economy. According to the annual report published by the Lebanese Ministry of Finance and BDL in 2021, banking activity contracted by 23% over the previous two years, from USD 168.4 billion at the end of October 2019 to USD 129.4 billion at the end of December 2021. The loan portfolio shrank by 48%, from USD 54.2 billion to USD 27.7 billion. As of the end of December 2021, the deposit dollarization rate stood at 79.4%, while the loan dollarization rate stood at a record low of 56.3%. In terms of interest rates, the average LBP deposit rate fell from 9.03% at the end of October 2019 to 1.09% at the end of December 2021, while the average USD deposit rate fell from 6.61% to 0.19% during the same time period. In December 2021, the spread between the USD deposit rate and the 3-month Libor was close to zero (2 basis points), compared to 4.71% in October 2019. As a result, the banks' liquidity problem predicted by the ESCWA report in 2020 became a reality, resulting in inflation, company closures, and a rise in poverty by more than 50% by 2021.

3.3.1 Financial engineering and Banking Operations

BDL has participated in sovereign bond swaps with banks since 2016, in order to restructure public debt and replenish its foreign currency reserves, a process that began in 2015. Banks gave high-interest rates on new dollar deposits in order to attract new deposits, which they then reprocessed at the BDL. As a result, "financial engineering" was employed, resulting in losses for the BDL, as indicated by Azar et al. (2020), the accumulation of dollar bank resources, and an increase in bank exposures to sovereign risk. In the process, two swaps were used. The initial transaction involved BDL exchanging Treasury Bills denominated in Lebanese pounds (LBP) for Eurobonds issued by the Ministry of Finance (MoF) (MOF). In the second exchange, BDL sold newly acquired Eurobonds to commercial banks by issuing certificates of deposit (CDs) in US dollars. This contrasted with the FC inflows made by banks on behalf of depositors' funds (BDL, 2016). The interconnectedness of MOF, BDL, and commercial banks was sufficient to cause balance sheets to expand. The IMF (2019) discovered a huge increase in BDL's obligations to domestic banks, while commercial banks' balance sheets revealed significant growth in assets stored at BDL. Figure 2 depicts these steps:

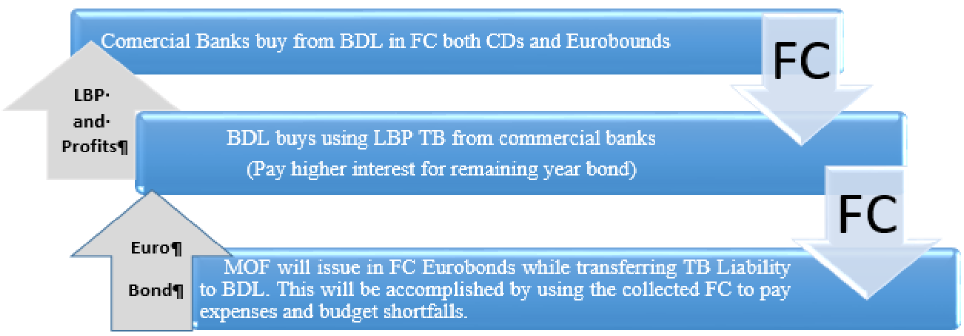

Fig.2: Lebanese Financial engineering scheme
Source: Researcher Illustration

From the above figure, one could indicate that the BDL incurs a negative carry on its FC borrowing from banks, due to the maturity mismatch on its FC portfolio. During the period that the inflow of FC was high enough, the system was covered, once the inflows decreased the system broke, and the FC deposits of customers were already consumed. Financial engineering was transferring a high percentage of its capital from commercial banks to BDL and MOF. This is considered a Crowding out effect, which by definition is the phenomenon of government intervention to fund its spending by high-interest rates, which in its turn decreases private investment spending (Broner et al, 2013). Based on the report published in 2022 by Lebanon Opportunities “IMF’s Crystal Ball: A Report by Lebanon Opportunities”, it was stated that BDL's well-known financial engineering operations prior to the financial crisis were one of the causes of Lebanon's economic collapse. The BDL was literally inventing foreign exchange reserves backed by absurdly high interest rates in order to attract foreign depositors and finance government expenses while maintaining the peg. While the IMF stated in 2016 that "the financial engineering operation has successfully bolstered its foreign exchange reserves, borrowing costs, and provided liquidity for domestic lending," the IMF stated in 2019 that these operations are not sustainable.

3.3.2 Foreign Exchange Rate and Dollar Rate

‘Foreign exchange rate’ and ‘dollar rate’ are two phrases that mean the same thing. Refereeing to De jure, the exchange rate is viewed as free-floating, although de facto agreements regard it as stable. However, to stabilize the exchange rate of the Lebanese currency at 1507.5, the BDL intervened through financial transactions to promote capital inflows and foreign currency holdings. Those activities became much too big, as shown by the BDL's receipt of more than USD 24 billion in deposits and CD sales from banks between 2017 and February 2019, as well as its sales of CDs (IMF, 2019). Since the early 1990s, Lebanon has been one of the most severely dollarized countries in the world (De Nicolo et al., 2005), reflecting the public's lack of trust in the local currency and institutions (Catao and Terones, 2016). Several studies have indicated that this propensity for holding cash and depositing foreign currencies rather than local currencies leads to a series of economic disasters (Durdu et al, 2009; Calvo et al, 2008). By the end of 2019, the deposit dollarization ratio had increased to 76 percent, an increase from the previous year's 70.6 percent, which was the highest ratio in 12 years (BDL, 2019). Despite the fact that the vast majority of bank accounts are in USD, the only option for clients to withdraw their money since March 2020 has been in LBP at a rate of 3900 LBP/USD (although the market price has hit its maximum point of 25000 LBP/USD). Furthermore, the official exchange rate remains at 1507.5.

3.3.3 Rate of Interest

The interest rate has changed in a variety of ways since 2016, as indicated in the graph below. The rise was considerable while banks were striving to attract capital and liquidity to the industry, and it stayed high until the breakdown of trust happened in the fourth quarter of 2019. Furthermore, the cost of lending has risen as a result of the high rates of deposit savings. In terms of interest rates, the average rate on deposits in LBP and USD at commercial banks fell from 3.14% and 1.04% in October 2020 to 2.91% and 0.97% in November 2020, respectively. The average LBP lending rate increased from 7.61% in October 2020 to 7.92% in November 2020, while the average USD lending rate decreased from 7.46% in October 2020 to 6.63% in November 2020.

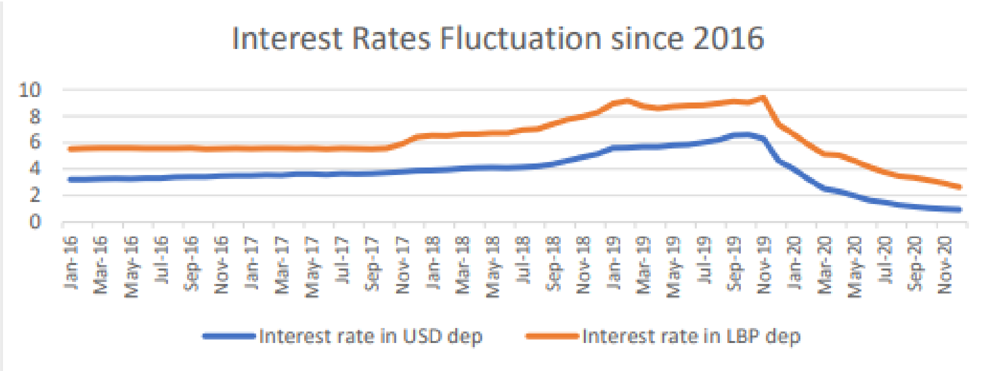

Fig.3: Fluctuation of Interest rate from 2016 till 2020
Source: BDL, BlomInvest Bank Report, 2021.

3.3.4 Performance of Banking Sector 2019-2020

As a consequence of the revolt in October, a number of banking and financial actions were required. First and foremost, owing to the intensity of the shock (material Clause), major listed banks have decided, with the permission of BDL, to postpone releasing their financial results until the first quarter of 2019. Second, in order to preserve their liquidity, particularly in United States dollar, banks were forced to impose restrictions on withdrawals and foreign transfers. In a third measure, the BDL directed banks not to share profits in 2019 and to raise their capital by 20 percent by June 2020 as part of its efforts to strengthen bank capital. Fourth, in order to decrease financing costs for banks, the BDL ordered banks in December to establish maximum interest rates on deposits at 8.5 percent for deposits in LBP and 5 percent for deposits in USD, with the highest rate being 8.5 percent for deposits in LBP. In the case of commercial banks, their balance sheet saw a 13.1 percent decrease in assets compared to the previous year, bringing their total assets to $216.8 billion at the end of 2019.

As of December 2019, banks had offset their loans received from BDL in LBP with their equal placements at BDL in LBP with identical maturities, resulting in the erasure of assets worth around 37.5 billion in equivalent USD. Loans to the private sector dropped to $49.8 billion, a 16.2 percent decline from the previous year. However, a portion of this decline in loans was due to real estate developers repaying their loans as a result of brisk home sales to individuals who decided to exchange their frozen deposits for fixed assets rather than cash. Furthermore, due to the economic crisis, it is predicted that non-performing loans (NPLs) for the sector will have more than quadrupled to more than 10% by the end of 2019; however, this figure must take into account loan reductions, which tend to inflate the Non-Performing Loans (NPLs) ratio.

Deposits from private customers fell 8.8 percent to $158.9 billion, setting a new record low. The largest monthly loss in total private deposits was 3.43 percent in November, with USD and LBP deposits both declining by 1.78 percent and 7.98 percent, respectively, to reach $121.44 billion and $41.16 billion in the month. Deposits from resident clients (78.70% of total private deposits) totaled $112.51 billion in December 2019, a 7.7% decline from the previous month. Details show that LBP deposits fell by 25.82 percent to $34.47 billion, while USD deposits increased by 1.77 percent to $90.55 billion, showing a significant market change. Non-resident deposits from customers (20.43 percent of total private deposits) totaled $32.45 billion at the end of 2019, a 13.98 percent reduction from the previous year. Deposits in local currency fell by 27.19 percent and deposits in foreign currency fell by 12.27 percent, respectively, to $3.14 billion and 29.31 billion in this category. The dollarization rate for total private deposits increased from around 70% to 75.6 percent at the end of 2019, as expected.

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While shareholders' equity increased somewhat in 2019, from \$20.1 billion to \$20.7 billion, this could have been an early indication that the sector generated little money in 2019, especially given the BDL's decision not to distribute the year's earnings. Finally, banks owed \$17.4 billion in LBP and \$16.1 billion in USD in 2018, accounting for 33.6 percent of total LBP debt and 47.9 percent of total USD debt, respectively. Banks' exposure to government debt, on the other hand, decreased in 2019, with their holdings of LBP debt falling to \$14.6 billion and their holdings of USD debt declining to \$13.8 billion, representing 25.2 percent and 40.9 percent of the total, respectively. Banks had 39.1 percent of overall debt of \$85.2 billion in 2018, but just 31 percent of total debt of \$91.7 billion in 2019.

The other key component of the banking system at BDL, recorded a 0.6 percent growth in assets at the end of 2019 to \$141.4 billion. It is worth noting that, according to the assets side of its balance sheet, BDL has remedied loans with corresponding deposits in LBP originated simultaneously with banks and carrying the same maturities in the amount of \$21.4 billion since 15 March 2019 (in accordance with the offsetting eligibility requirements in IAS 32 "Financial Instruments: Presentation"). The value of gold increased by 22% to \$13.9 billion due to higher gold prices; the value of the securities portfolio increased by 20.2 percent to \$45.7 billion (of which \$5.7 billion was in Lebanese Eurobonds), owing to the purchase of more LBP TBs; and the value of foreign currencies decreased by 9.1% to \$29.6 billion due to financing for essential import costs.

Obviously, as a result of the crisis, BDL has decided to suspend support for the exchange rate peg in October 2019, with the exception of banking operations and the purchase of necessary goods. Regarding the liabilities side of the balance sheet, currency in circulation increased by 80.2 percent to \$7 billion at the end of 2019, owing to people's preference for the safety of cash beginning in late October; bank deposits fell 8 percent to \$107.6 billion, with the nominal effect of the aforementioned offsetting adjustment; and public deposits increased by 7.9 percent to \$5.4 billion, possibly due to lower discretionary spending in late 2019 as a result of the upturn.

4. FINDINGS

An extensive investigation and review of Lebanon's recent financial history revealed that there were warning signs of the trouble or what is referred to as the Lebanese financial crises, since previous years and especially since year 2011 that marked the beginning (see figure 4). It was determined that uncertainty and instability of political situation have reduced trust, resulting in negative structural issues. As a result, economic growth, which had been stagnant at 1.4 percent before the Syrian crisis, has slowed to 0.3 percent in 2018, which is even lower than the rate recorded in 2011 before the Syrian conflict (Malaeb, 2018). Researcher indicated that the slowing economic development in Lebanon was caused by a political vacuum that occurred between May 2018 and January 2019, which resulted in a decrease in corporate confidence. Besides, the researcher also discovered that, even though the new government has suggested several changes, the level of investor confidence has remained in the contractionary area. A significant development is that the national debt reached 150 percent of GDP in 2018, with the account deficit accounting for 2 percent of GDP. Due to decreased funding in 2019, deposit inflows have slowed to the point that they have even become negative in certain cases.

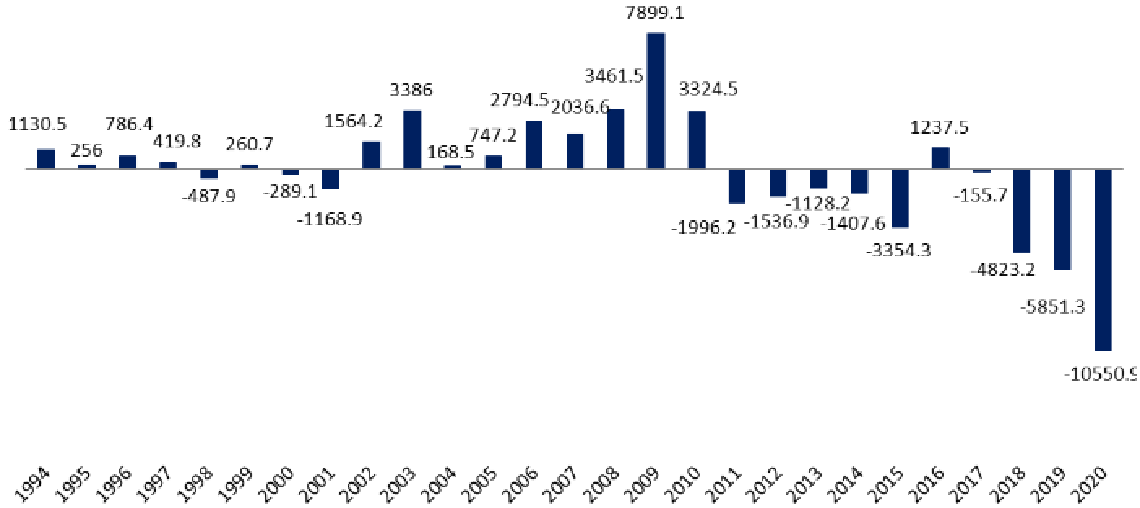

Fig.4: Net Foreign Reserves Trend of the Central Bank
Source: BDL,BlomInvest Bank Report, 2021.

In more detail, the balance of payments recorded its first deficit in a decade, totaling $1.99 billion in December 2011. This pattern continued until the end of 2015, when the BoP fell by $3.35 billion. The country's external position has deteriorated as a result of lower capital inflows following the unrest in neighboring Syria and local turmoil. In 2016, the BoP increased due to BDL's financial engineering and ended the year with a $1.23B surplus. However, this trend did not last long as it returned to recording an accumulated deficit until today (BlomInvest,2021).

An alternative problem that has been brought up in the literature is the fact that public debt is unsustainable. Over the last year, the large and rapidly rising public debt that triggered the Lebanese economic crisis, particularly the wage and rank increases of 2017-2018. Lebanon's debt-to-GDP ratio has risen to more than 150 percent, making it one of the world's most indebted countries (IMF, 2018). As stated by Lebanon's finance minister, the country's debt restructuring plan was developed; nevertheless, it is thought that this was the primary cause for the initiation of credit default exchanges and other debt restructuring measures. For example, as a result of this decision, Qatar purchased USD 500 million in government bonds from the pool of funds available (IMF, 2018). As a result of a quick signal from Saudi Arabia, the markets were brought back into balance. In the end, it only served a short purpose, but it dealt significant damage to the state finances of Lebanon.

The dollar peg of the Lebanese currency is a significant element in the stability of the country's economy. According to the results, the Lebanese pound has been linked to the United States dollar for a long time. It is claimed by the BDL that pegging its pound to the US dollar has resulted in economic stability since it has improved credibility in international markets (Bassem, 2019). The actual exchange rate will be altered in light of the present circumstances, and this will most likely result in increased pressure on foreign currency reserves. Lebanon's gross foreign reserves have decreased to about USD 39.7 billion in 2018, and the number of currency conversions has decreased as a result of political uncertainty (IMF, 2018). Furthermore, the international investment in Lebanon has been projected to represent 130 percent of its GDP, owing to the country's foreign direct investment (IMF, 2018). Thus, the prolonged current account deficit has shown that the Lebanese market is non-competitive in the global marketplace. The decrease in exports and imports would undoubtedly have an impact on big products because of the country's current account imbalance, which accounts for 27 percent of its GDP.

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4.1 Discussion of Findings

For a significant amount of time, banks in Lebanon have maintained a comparatively steady and robust position in the face of the global financial crisis. The economy's assets were worth 440 percent of its GDP, suggesting that the banking industry was significant (Bassem, 2019). For the most part, the financial system in Lebanon is composed of banks with adequate capital bases, with the capital adequacy ratio estimated to be 17 percent. This indicates that banks have been profitable for a significant amount of time. Although banks in Lebanon have earned a favorable image among international investors as a result of sound policy rules, they nevertheless confront many challenges. They are vulnerable to the risks associated with public sector and central bank policies, which include maturity mismatches and dollarization of deposits, among other things. Thus, the quality of assets held by individuals and corporations in the private sector has declined in Lebanon. It is evident that the present macroeconomic scenario seen in the real estate market is indicative of a decline in the asset quality of the market. As an example, the proportion of non-performing loans to the total amount of gross loans granted in Lebanon in 2017 rose to 5.7 percent of total gross loans granted (Bassem, 2019). Although the paper was unable to collect adequate data on property prices, it is evident that non-performing loans (NPLs) are backed by loans. Consequently, it is necessary to guarantee capital restoration to reduce the negative effect on growth, interest rates, and the rising value of real estate assets (IMF, 2017). Based on the Basel Accord, which mandates banks to follow best practices and encourage sustainable restructuring in order to reduce autonomous risks, this approach is compatible with those requirements.

The present financial crisis in Lebanon has raised worries about the country's political, socioeconomic, and civil rights situations. However, given the present stalemate in reaching an agreement on a new government composition, the situation is likely to deteriorate much more (Bassem, 2019). Lebanon would probably be subjected to significant changes, which will have negative consequences for both political leaders and financial organizations. The protesters are calling for a technocratic government, as opposed to an inclusive government that includes representatives from all religious groups. From a political standpoint, a techno-political administration is the best option for the Lebanese country (Bauer, 2017). As for the restrictions, it is predicated on the notion that bringing party-political groups together in order to agree on a prime minister would be a regional problem.

Following the escalation of demonstrations, political issues have emerged as the primary source of concern for the demonstrators. The coming economic catastrophe, on the other hand, is a genuine danger that will have devastating repercussions for the country's economy as well as its people's civil rights. Work Bank (2018) estimated that the Lebanese degree of poverty may rise to more than 50% in the next several years if the issue is not addressed immediately. Even with a new administration in place, there is a pressing necessity to address the debt crisis and adopt other concrete financial and economic measures as soon as possible, regardless of who is in power (Bassem, 2019). To do this, a three-year budget must be established that is focused on decreasing the discrepancy by balancing it out, rather than raising taxes as was the case with WhatsApp. In the same vein, the incoming administration must prioritize reducing waste in government by reducing tax evasion, combating corruption, and allocating resources appropriately (Bauer, 2017). When it comes to the financial industry, the incoming administration will have a tough time punishing the lesser of two evils that comprise its constituents. Since the beginning of the financial crisis, the value of the Lebanese pound has declined, and the degree of trust in the banking sector has plunged, leading to an outflow of money from Lebanon to other jurisdictions. Banks are now contemplating capital restrictions as a solution for the issue, however, this has led to depositors launching bank runs against the institutions. No matter what happens, the government will have no choice but to take serious action.

4.2 Comparison of Lebanese Banking Sector between year 2019 and 2020

According to the report issued by BlomInvest in 2022, **t**he banking sector in Lebanon played an important role at the national and regional levels, outperforming even during periods of economic slowdown and stagnation. However, the current crisis has compelled banks to implement retrenchment strategies, and in some cases, to completely exit foreign markets. As a result, the total number of banks operating in Lebanon has decreased (see figure,5) from 63 in 2019 to 61 in 2021, and the number of commercial banks operating in Lebanon has fallen from 49 in 2018 to 46 by March 2022. Nevertheless, following Bank Audi's similar exit strategy earlier that year, BLOM Bank announced its exit from the Egyptian market in January 2021 by selling its entire share to Bahrain-headquartered Arab Banking Corporation for $420 M. Furthermore, Bankmed, BOB, BEMO, BBAC, BLOM Bank, Credit Libanais, and IBL bank have announced that they will close their Cyprus branches by the end of 2022 (BlomInvest, 2022). This withdrawal from the Cypriot market is the result of the Cyprus Central Bank tightening its conditions regarding deposit guarantees for Lebanese banks. In Iraq, three of the ten banks that were present would continue to operate: BBAC, Byblos Bank, and MEAB. Since late 2020, BLOM Bank, BLF, Audi, Credit libanais, Fransabank, and IBL Bank have been exiting the market. Furthermore, Capital Bank acquired ownership of SGBL in Jordan by February 2022 after completing a transaction in which Bank Audi sold its Iraqi and Jordanian assets to this bank. In the European market, Fransabank announced its intention to withdraw from the Belarusian market, while BLOM Bank renamed its subsidiary in France, Romania, and London. Finally, Credit Libanais's representative office in Montreal has been removed from the list of banks abroad for 2021.

	Dec-18	Dec-19	Dec-20	Dec-21	Mar-22
Banking Sector	65	63	63	61	61
*Commercial Banks	49	47	47	46	46
** Number of Branches in Lebanon*	1,080	1,058	992	893	848
** Lebanese banks' branches abroad*	76	73	73	53	52
* Medium and Long Term Banks	16	16	16	15	15

Fig.5: Structure of the Lebanese Banking sector 2018-2020
Source: ABL, BDL, BLOMINVEST Bank

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On the other hand, a very high level of effectiveness and profitability combined with moderate liquidity used to characterize Lebanon's financial system, which was bolstered by a vital concentration in Lebanese autonomous exposure and settlements at the Central Bank; as a result, approximately 70% of their assets were held by the government and the central bank. When it comes to deposits with the Central Bank, they have decreased by 6.19 percent, standing at $110.43 billion at the end of 2020, with about $77.76 billion denominated in foreign currencies. Furthermore, banks in Lebanon are responsible for 21.8 percent of the country's public debt, which will reach $95.59 billion by December 2020. According to the Bank of Lebanon, the bank's subscription to Treasury bills denominated in the Lebanese Pound stood at $11.45 billion in December 2019, while the bank's subscription to Lebanese sovereign Eurobonds fell sharply from $13.81 billion in December 2019 to $9.39 billion by the end of December 2020. Besides, total customer deposits fell by 7% in 2021, with the deposit dollarization ratio falling from 80.4% at the end of December 2020 to 79.4% at the end of December 2021. Bank loans to the private sector fell by 23% to USD 29.3 billion at the end of December 2021, with the loan dollarization ratio falling to 56.3%. Capitalization figures have shrunk by 11%, reaching USD 17.7 billion at the end of December 2021(BDL,2021).

It is noteworthy to recognize that the Lebanese banks issued Eurobonds that are worth $4.42 billion, these bonds will almost certainly be purchased by venture capital firms. In terms of claims against the non-resident financial industry, they dropped by 30.31 percent each year to reach $4.71 billion by December 2020, while non-resident financial sector liabilities fell by 25.44 percent to reach $6.58 billion over the same time. The ratio of claims against non-resident financial sector liabilities over non-resident financial liabilities shows that banks are in a short position with respect to their international obligations as a result. As well, the loans issued by banks to their clients accounted for 21.86 percent of total bank assets, and in December 2020, these loans fell by 27.60 percent year on year, which means a decrease from $56.76 billion to $41.09 billion. As a result, loans to resident customers decreased by 27.42 percent each year, reaching $32.45 billion by the end of 2020, while loans to non-resident clients decreased by 28.26 percent, reaching $8.85 billion over the same time.

Concerning the side of liabilities, it reflects that the banks in Lebanon finance their balance sheet with a substantial client deposit base, but the general atmosphere of uncertainty has caused deposits to stagnate and capital inflows to halt altogether. Thus, total client deposits will have decreased by 12.63 percent by December 2020, reaching $137.58 billion. A total of $110.89 billion has been deposited in dollars, with a further $26.89 billion deposited in Lebanese pound deposits. Though, as stated by BDL the deposits in LBP declined by 29.05 percent, while deposits in USD declined by 7.48 percent, resulting in an anticipated rise in the dollarization ratio from 76.02 percent to 80.37 percent by December 2020.

Besides, after examining the report of the structure of the Lebanese banking sector 2018-2020 published by ABL, BDL, and BlomInvest in 2022, researcher indicates that the path of Lebanese banks remains unknown, and in deed there is a critical need for formal capital control and restructuring plans, as well as serious implementation of necessary economic and fiscal reforms. As a result, mergers and acquisitions, as well as deposit restructuring, are unavoidable solutions to the banking crisis. Noting that the country would be unable to overcome its current situation without a well-functioning and resilient banking sector that would lay the groundwork for a new era in Lebanese banking.

5. CONCLUSION AND RECOMMENDATIONS

Even when compared to some of the most catastrophic financial crises that have occurred since 1900, Lebanon's financial crisis stands out as a very difficult event. Fair assumptions about the severity and length of the financial crisis in Lebanon were used when calculating the R&R CSI for the crisis. It seems that, based on Reinhart and Rogoff's (2014) observations and analysis of more than a century and a half of worldwide crises, the Lebanon crisis is projected to be in the top 10, perhaps three, most severe global crises episodes as stated by the World Bank (2022). This is also supported when a comparison is done by reviewing a few key macroeconomic indicators for Lebanon with those for R&R's more recent crises, which are both quite recent. As a result, albeit with optimum policy measures in place, it was anticipated that the adjustment process will be more difficult and will take time and effort. However, in the present state of affairs, the lack of a thorough and continuous readjustment plan will only make the entire process much more challenging (Charif, 2022).

Last but not least, the Lebanese economic situation is expected to deteriorate as the demonstrations continue to grow. A financial crisis, which has its origins in a decision made by the government after the Lebanese Civil War, has triggered protests throughout the country (Bauer, 2017). The choices made by the administration produced a complex budgetary climate, which has contributed to the continuation of the crisis. Because the Lebanese balance of trade is mainly dominated by imports, indicating that the Lebanese community and government import products and goods way more than they export, changes in fiscal policy have a larger impact on the country's economic performance (Bauer, 2017). According to the results of this study, the most serious issue confronting the Lebanese economy is the massive debt load that has been accumulated as a result of inefficiency, waste, and corruption in the government. The political unrest in Syria, on the other hand, has exacerbated the financial crisis in Lebanon by restricting capital inflows into the country (Bassem, 2019).

Additionally, results revealed that there is a scarcity of dollars in the exchange market, which is a reason to worry since the Lebanese pound is linked to the United States dollar. This has resulted in a stifling of the exchange of money within the banking system (BlomInvest, 2022). Another point of worry raised by the results is the high-interest rate in the Lebanese market, which has resulted in a reduction in inflows, resulting in a shortage of dollars. As a result, the cost of essential goods has risen, while the people have suffered from inadequate infrastructure and high rates of young unemployment (UNCTAD, 2020). Furthermore, the financial crisis in Lebanon has revealed the "real" value of the Lebanese lira against the dollar to a large extent. In retrospect, the 1,500 LBP/USD rate has proven to be an unrealistic peg, as anecdotal evidence suggests, this rate was maintained in 2017-2018, for example, by BDL's financial engineering operations. As a result, for all intents and purposes, the official rate is no longer in effect.

When assessing a policy, the most significant restriction is determining how to integrate credit frictions into the market economy. Specifically, in Lebanon, the first regime suffered from economic difficulties caused by a lack of coordination, worries about incentives, the presence of asymmetrical information, and a lack of resources from the government. By including these considerations in a macroeconomic model, it is feasible to provide a quantitative output that can be used to determine the optimum combination of financial policies and the appropriate financial policies. In many instances, central banks will employ models to address issues that have arisen as a result of the usage of current macroeconomic models. Financial crises are triggered by a variety of factors, including banking panic, credit friction, and market freeze, and currency depletion, according to empirical research carried out for this research paper.

At the end of this research paper, it can be said that the financial crisis in Lebanon has been brought on by a number of causes, including bank failures, and credit snags, and currency depletion. First and foremost, the fiscal policy of the Banque du Liban (BDL), which encouraged borrowing, has resulted in inflation. Banks in this region have been forced to rely on deposits from wealthy Lebanese, who receive much higher interest rates than the bulk of the population, resulting in economic disparity. In addition, the political abuse of public resources for personal benefit is a significant contributor to the current financial crisis. A method governed by sectarianism, which distributes employment chances based on quotas and religion, is in place in the government of Lebanon. The increased possibilities for theft, foreign meddling, and widespread corruption happened as a result of this form of governance.

The demonstrations in Lebanon pose a danger to the security of both Lebanon and its neighbors, according to experts. The protesters are dissatisfied with the solution proposed by the administration to resolve the situation. As a result, it is necessary to examine these problems in order to identify policies that are responsive to protesters' concerns and will be acceptable by them. Additionally, the financial crisis in Lebanon has had ramifications on the social and economic landscape (Chbeir,2019). As the demonstrations have grown in intensity, more refugees have entered Lebanon, increasing the strain on the provision of social services and the financial well-being of the population. Second, poverty levels in Lebanon have risen as a result of a lack of access to credit and other financial services. Three-fold, the degree of inequality has in terms of political space, employment possibilities, and human rights protections. As a fourth point, Lebanon and its neighbors, such as Syria, are now facing a security danger due to the global financial crisis.

This research paper has shown that the Lebanese financial situation has been very fragile and that critical, serious, creative, and urgent changes are required. Political stability and high-level systems of administration are the most important proposals for the new regime's approach to addressing Lebanon's financial problem, according to analysts. It is critical to adopt changes that will integrate frictions in the currency, banking, and credit markets in order to alleviate the underlying problems that are creating the financial crisis. Because of this, the government should decrease its excessive borrowing so that it can devote more resources to the provision of social services. Besides, hiring workers shouldn’t be done based on their religious beliefs, this should be prohibited in order to increase the degree of openness in political appointments (Bauer, 2017). Third, it is necessary to develop a foreign strategy that will decrease the number of refugees in Lebanon, in order to lessen the strain on social services and infrastructure. The imposition of a "one-time tax" on financial institutions is another measure we propose to guarantee that a better working environment may be established for Lebanon's businessmen and women. As a cost-cutting measure, it is wise for the government to decrease the wages of its highly compensated workers while also attempting to eliminate corruption. Essentially, the ultimate answer to Lebanon's financial problem will be achieved via capital management, job creation, devaluation, and tax rate reduction. Future research should be conducted in a similar manner in order to identify external variables that may have exacerbated the financial crisis in Lebanon. These are a suggestion for future investigations. Besides, one example of a recovery plan would be the following:

1. The main future need rather than being a suggestion, is the emergency toward having a political stability at the Lebanese marketplace. Loosing this condition will make it harder to start getting up from this crisis. Applying the condition of political stability will allow the government to start applying the stated rules and regulations.
2. Monetary policies and this is mainly determined by the central bank referring by that to BDL which can decide the type of policy implemented whether it is going to be expansionary or contractionary. When BDL decides the type of policy implemented by then primarily actions must be taken by BDL, such as controlling the stream of money supply, the ratio of reserves, and rate of interest, and this is done in order to achieve macroeconomic targets that promote economic growth.
3. Stopping the currency rate peg will enhance competitiveness and reduce the difference between the two countries' balances of payments.
4. Consider submitting an application to the currency board. Deposit insurance should be made available for bank accounts in order to restore both trust and confidence in the Lebanese financial system and to encourage the inflow of new deposits.
5. Encouraging the entrepreneurship, since monetary policies assist SMEs in a variety of sectors. With the expansion of such businesses, a reduction in unemployment and a more robust economy that is less reliant on imports are achieved.

6. Improving income, particularly via a strategic shift in the management of infrastructure sources such as EDL, which presently costs the government rather than providing support for its expenditures.
7. This seeks to reduce the public deficit while also trying to generate surpluses that may be used to fund local development initiatives. Even if the stock market's growth entails some risk, the advantages must be weighed against the risks.

Until now, the Lebanese situation seems to be adverse in all respects, but the country's history has shown that it is capable of overcoming the greatest crises and rising to its feet again. There is still hope that the system may be spared from complete collapse if restructures are implemented as soon as they are possible. Future studies should be carried out on a continuous basis in order to identify such indications and take the appropriate safeguards in the future.

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APPENDIX

Table 1: Time line and Distribution of Reviewed Reports and Articles from Selected Databases

Time Line of Selected Reports/Articles	No. of Selected Reports/Articles
1900s-2000	6
2001-2010	9
2011-2021	15

Source: Researcher Illustration

Table 2: List and Distribution of Selected Articles and Reports from Selected Databases

Source of Selected Articles and Reports	No. of Selected Articles and Reports
Banque Du Liban (BDL)	1
World Bank Economic Review	6
Journal of Finance and Accounting	3
SSRN Electronic Journal	3
Journal of Banking and Finance	1
American Economic Review	5
The Quarterly Journal of Economics	1
Blom Invest	1
Bank Audi	1
Journal of International Financial Management & Accounting	1
ESCWA	1
Journal of International Economics	1
IMF	1
Society for Economic Dynamics	1
Press of Prentice Hall	1
Journal of Financial Economics	1
University of Chicago Press	1

Source: Researcher Illustration

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