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Research Paper

ECONOMIC CRISIS THE GLOBAL ECONOMICS CRISIS AND ITS IMPLICATION OF LEBANESE BANKS

Ghadeer Kaddour || Ph.D Student

الملخص

The current study aims to investigate the influence of the recent global economic crisis on the Performance of Lebanese banks in Lebanon, with a view to identifying problem areas in the banking sector, and offer directions for policy improvements. The study used economics ratio analysis to analyze the Lebanese banks' Performance from 2005 to 2017. This period was divided into three: before the Economic crisis from 2005 to 2010, during the Economic crisis from 2011 to 2014, and after the Economic crisis, 2015 to 2017. Three indicators of Performance economics were used in the current study, namely profitability, liquidity, and solvency. The sample of the current study consists of the top nine banks in Lebanon between 2005 and 2017. In addition, it attempts to determine the impact of the global Economic crisis on the Performance of banking systems (Operation Economic of crisis), in order to explore which is the most efficient system. The study adds to collective knowledge of the effects of Economic crises by adding a case study set in a new context to the existing range of studies. In doing so it broadens the scope of research on the impact of the Economic crises on banks Performance. The results of current study indicated that the Economic crises affected the Lebanese banks Performance during the crises that the three indicators of economics Performance dropped materially during the economic crises period in comparison to the period before and after this period. Moreover, a comparison between the Lebanese banks Performance was conducted during the three periods to determine the bank that was able to overcome the consequences of the economic crises. The study found that in general that the best bank in terms of Performance during the period 2008 -2010 the best is Audi bank and the worst bank is Jamal Trust Bank.

الكلمات المفتاحية

Global economic crisis, Lebanese banks, Performance, Operation

مقدمة

Background of the study

The banking sector plays one of the most important roles in the economic life of a country. It facilitates the production, distribution, exchange and consumption processes in the economic system, thus being an essential part of the country's sustainable development (Davydenko, 2006). Thus, banks play a positive role in the economic development of a country, as they not only accept and deploy large funds in a fiduciary capacity, but also leverage such funds through credit creation.

Before the economic crisis, the world was having one of the most prosperous periods of all time; however, it had all changed by the 15th of September 2008, when the economic crisis was officially declared in the United States. On this day, Lehman Brothers Bank (the 4th largest American global economic services firm) filed for bankruptcy and for bankruptcy protection.

It was obvious that the solvency, liquidity and profitability of banking economic performance would be severely affected by this recession period.

1.2 Problem statement

The global economic crisis was able to cause massive losses to the economy around the world. Economic institutions are very important to the development of the economy and play a crucial role in planning the monetary policy in any state (Pomfert 2009). The research problem could be summarized in the following points.

1. **Banking economic performance** in Lebanon reflected the true situation of the Lebanese economy.
2. **B. The Difficulty of evaluating banks' performance:** It becomes increasingly difficult to evaluate economic entities based on the banking economic performance in Lebanon ;The present study is carried out to evaluate and analyses the economic performance of nine banks situated in Lebanon , and get answer to various issues such as to measure the economic performance of Lebanon banks, to evaluate the different dimensions by using analysis ratios and to understand the degree of relationship in terms of profitability, liquidity and solvency.

Research questions

According to the research objectives, the current research attempts to answer the following questions:

- What is the impact of the global economic crisis on banking profitability in Lebanon?
- What is the impact of the global economic crisis on banking liquidity in Lebanon?
- What is the impact of the global economic crisis on banking solvency in Lebanon?

Research Framework

This chapter discusses the global economic crisis, how it started and what contributed to its spreading and will then discuss the impact of the economic crisis on world economy, especially on the Lebanese economy, in particular on its banking economic performance.

The economic crisis

One of the consequences of economic development is the rising number of the economic crises which, if placed in a longer-term perspective of economic restructuring, may bring superior prosperity. More developed economies will economicly develop faster and hence will be exposed to volatility and instability sources which are never seen in less developed economies. The economic intermediation that granted the opportunity of divergence of desired saving from desired investment, created the business cycles of the preceding two centuries. Modern macroeconomics was the response to this reform. (The Global Economic Crisis, 2009).

The most dramatic incident during the crisis was the collapse of Lehman Brothers. The subprime mortgage brought in huge losses for Lehman, and consequently there was no chance to sell the whole company. Lehman's bankruptcy was announced by the mid-September and resulted in losses for other firms and in turmoil as had never been witnessed. The disruptive failure of this major bank had

As for the Arab World, which is considered an emerging region, its banks' economic performances were affected, in very limited situations, by the global economic crisis. That was due to the strength of their economic positions, the strict supervision by the central banks, in addition to the implementation of the Basel assessments, and the limited cases of corruption etc. (The Global Economic Crisis Report, 2009). Banks in the non-Gulf cooperation council (GCC) countries were less affected in the crisis than the Gulf cooperation council (GCC) banks. For example, Kuwait's central bank moved to guarantee deposits in a step similar to that taken by the United Arab Emirates to restore confidence in the market. The latter also made $19 billion available to local banks during the second week of October 2008, and the government of Qatar decided to buy up to 20 percent of the country's bank shares. Money became harder to borrow from one side and on the other sides, the governments rushed with responses to the global crisis without any coordination between the countries. However, a meeting was held later on between the Gulf countries that assured the public against meltdowns and decided to pump more government funds into banks and regional stock markets. As for the non-Gulf countries, the effect on banking economic performance was greater, due to the decrease in income in these countries; however, Lebanon proved its strong banking economic performance despite its bad economic situation.

Another study conducted by Hidayat & Abduh (2012) to investigate the effect of the global economic crisis on Islamic Banks in Bahrain, the results showed that that total assets, equity, and overhead expenses are significant predictors for Islamic banks' economic performance. In addition, Dumtran is also significantly affecting the economic performance. This shows that the Islamic banking industry is not totally crisis-proof. The economic crisis does give an impact on the Islamic banking economic performance, particularly in Bahrain, but the effects came after the crisis itself.

Methodology

The following sections will analyze and discuss the general research methods and which one will be applied in our study, in addition to the concept of ratio analysis and a sample of the study. A summary will be provided in the final section.

Techniques and Data analysis:

Is calculated by analyzing the data for the entire above ratio from 2005-2017 to examine the influence of profitability on the liquidity and solvency. The above hypotheses are tested using techniques like percentage and growth.

In order to generate answers to the research questions, the study used various variables. In the following lines, the definition of variables will be provided as well as some notes and expected results.

- Profitability ratiio
- ROA , ROE
- Solvency - Capital Structure Ratio
- EQTA , DTA
- Liquidity Ratio
- LTD , LTA

Figures 4.1: Techniques of Data analysis

average for nine banks of Lebanese Banks Based on sixTable 1 : ratios through 2005 to 2017:

several facets: the returns to the carry trade notably dropped and an extraordinary risk aversion and deleveraging turned out. In addition, volatility heightened to astonishing levels that were not comparable to the previous peaks through the crisis. In fact, the Lehman bankruptcy brought about an exclusively new insight of risk, and fear swept throughout the market about who would be the next to fail.

The impact of the economic crisis on bank economic performance in developing countries

Emerging markets or the developing countries are the ones that were trying to restructure their economies along market-oriented ranks and to offer a wealth of opportunities in trade, technology transfers, and foreign direct investment. According to the World Bank(2009), the five biggest emerging markets are China, India, Indonesia, Brazil and Russia. Other countries that are also considered emerging markets include Mexico, Argentina, South Africa, and Turkey. These countries made a serious transition from a developing country to an emerging market. Each of them is important as an individual market and the combined effect of the group as a whole will change the face of global economics and politics.

During the economic crisis, the banking economic performance of the developing countries showed resilience due to their strong economic market. The following studies were conducted in order to analyze the banking economic performance of several developing countries during the crisis, including India, Ukraine and the Arab World.

Bhatt (2007) conducted a study on "Banking in India"; in this study he analyzes banking economic performance during the crisis. During the recession, the banking sector witnessed the arrival of several exchange banks in India for financing the subcontinent's burgeoning foreign trade, which three presidency banks and imperial banks were rigorously excluded from engaging in; the concept of banking underwent a sea change with the advent of the state bank. A distinct shift in interest was evident from security-oriented to need-based lending, from urban to rural banking, from activities that contributed essentially to the bank's commercial objectives to those that largely served a social purpose.

After applying the ROE analysis tool on more than 30 banks around the country, the results were as follows: the Indian banks were not severely affected by the crisis; on the contrary, and thanks to the thriving global economy, expanding technology and a changing approach, banking economic performance is now set to be stable in its solvency.

As for Ukraine, and based on conclusions of Tymoshenko (2010), it is normal to assume a positive relationship between the capitalization level and the profitability of the bank on the Ukrainian banking economic performance level.

Sufian and Habibullah (2009) analyzed the liquidity and solvency of a sample of 10 Thai banks during the economic crisis; important reforms occurred in the banking sector of Thailand. They discussed that there was a rise in the liquidity of Thai banks over the period of the study; small banks were found to be the most efficient, and medium-sized banks were the least efficient among the sector. The study attributed the higher effectiveness of domestic banks in comparison with the foreign banks to the higher level of pure technical efficiency and found that the source of inefficiency had been essentially scale inefficiency rather than pure technical inefficiency. They finally concluded that the global economic crisis had negatively affected the efficiency of the Thai banking industry.

needs for cash or from inadequate liquidity levels, which must be covered by funds, obtained at excessive cost. Table 5.38 shows that the LTD was more consistent in terms of before the crisis (LTD 86.09%), but this ratio declined materially starting from 2017 as it dropped from 87.66% in 2016 to only 5% in 2017. Then this ratio was stable during and after the economic crises, but LTA joined stability overall the study period. Liquidity ratios may mean different things to different parties. Lebanon banks may desire higher liquidity ratios because it shows the Lebanese companies have more assets than debt, and therefore have a better ability to pay debts if regular cash flow falls short. Higher ratios increase a lender's willingness to approve a loan because his risk is lower.

3- Solvency

Solvency paying ability demonstrates how efficiently the bank uses its assets and how efficiently the bank manages its operations.

Solvency, which is measured by DTA and EQTA, reveals capital adequacy and should capture the general safety and soundness of the economic institution. It indicates the ability of a bank to absorb unexpected losses. Tables 5.38 show that the EQTA and DTA was more consistent before the crisis, with EQTA 14.50% and DTA 72.58% in 2006 as compared to 2008 (12.89%EQTA and 70.33% DTA). 2008–2010 was a period of insolvency, which indicates a more serious underlying problem that generally takes longer to work out, and it may necessitate major changes and the radical restructuring of a bank's operations. The management of a company faced with insolvency will have to make tough decisions to reduce debt, such as closing plants, selling off assets and laying off employees. In summary, the economic crisis that started in late 2008 affected the Lebanese banks' solvency, but these banks started to recover from this crisis beginning with 2010.

Lebanon is one of the world's fastest growing banking markets. This study aims to evaluate the economic performance of the top nine banks in Lebanon during the period 2005–2017. In addition, it attempts to determine the impact of the global economic crisis on the economic performance of banking systems in order to explore which is the most efficient system. Our main findings confirm, in terms of economic performance, a negative effect for a sample of Lebanon banks in the period between 2008 and 2010.

The results of the economic performance ratios, ROA, ROE, LTD, EQTA, LTA: DTA indicate that the economic performance of Jamal TrustBank was better than the economic performance of the Riyadh Bank during the period of study

Recommendations for policy makers

It was discovered that the global economic crisis has had negative impacts on the Lebanon banking sector. The emergence of the economic crisis weakened the ability of these banks and it affected the economic performance systems which should have supported a much needed economic growth and development, their analysis ratio shows not a great sign compared to the rest of the banks taken for the study. They also need to consider the income aspect as well.

Therefore, it is recommended to develop asset, liability and liquidity management in Lebanon banks, which would contribute to reducing the impact of the economic crisis on both systems, The Lebanese banks needs to look at their liquid assets. This is because liquidity affects profitability as well.

This study can be a source of help to bank managers to improve their economic performance and to formulate policies that will promote an effective economic system. The study also recommends measures that could be adopted by banks to ensure soundness in their

	After	During	Before	
2008	2007	2006	2005	
1.98	2.74%	4.12%	3.52%	ROA
17.71	21.64%	32.35%	24.66%	ROE
86.88	86.09%	87.66%	92.08%	LTD
12.89	12.87%	14.50%	15.18%	EQTA
61.11	61.64%	63.03%	63.20%	LTA
70.33	71.34%	72.58%	69.54%	DTA

Comments

1- Profitability

Profitability ratios measure the overall earnings economic performance of a bank and its efficiency in utilizing assets, liabilities and equity. Like any economic indicator, ROA is most useful when it is used to compare banks within the same industry, or ideally with the same level of market capitalization, often interpreted as a valuation of net worth. A bank that is capital-intensive will always have a lower ROA relative to other banks that rely on intellectual versus physical capital. As seen in Table 1, before the economic crisis there was an improvement in the Lebanese banks' economic performance, specifically from 2005 to 2008, as ROA and ROE were increasing, but starting from 2017, at the beginning of the economic crisis both ratios dropped dramatically.

2- Liquidity

Liquidity ratios are used to measure the short-term solvency of a bank. The risk of loss to a bank results from its inability to meet its operations.

Moreover, it is recommended for the policy makers to identify the major assets or factors that affect bank economic performance and other economic performance indicators.

Additionally, Lebanese banks should conduct a periodic review of economic risk by activating the risk management role in the banks.

According to the study results, it is recommended for the policy makers in Lebanese banks to develop plans to overcome any expected future crises.

استنتاج

Recommendations for future studies

Future studies might wish to examine a larger sample in comparing the economic performance and efficiency of the two banking systems. Secondly, the quantitative results presented in the current study can only describe the economic performance of the banks.

Further research might address a longer period of time, with a broader selection of capital structure and profitability economic performance measures that may expose new issues. This study can be extended by adding more banks or by conducting a study on a global level, including all banks around the world. A comparative analysis of Islamic banking and conventional banks may be included in further research.

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