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Banks set to cut interest rates as fears subside

Many Lebanese banks have started reducing interest rates on deposits after the formation of a government eased fears on the Lebanese currency and a run on the lenders. Several leading banks told The Daily Star that they have cut the interest rates on deposits by an average of 2 percentage points while others were in the process of doing the same.Some of the leading banks have offered high interest rates on dollar and Lebanese pound deposits to draw more funds and beef up their balance sheets. “A handful of big banks have offered their special clients lucrative return on their deposits. But these offers were confined to customers who deposited large amount of money and for longer maturity,” one banker said on condition of anonymity.Some of the offers reached up to 15 percent for Lebanese pound deposits and up to 10.25 percent for dollar deposits, depending on the size of the money and maturity period.The banker added that most of the small and medium size banks refrained from offering “illogical” interest rates on deposits.The Association of Banks in Lebanon was reported to have asked the members to review the policy of high interest rates.The formation of the Cabinet headed by Prime Minister Saad Hariri was one of the important factors that induced some of the banks to reconsider their policy of hiking interest rates.The banks also noted that covering the cost of these interest rates had become a burden on the lenders, especially since the margin of profits was extremely low.“The margin of profits has diminished in the cases of high interest rates on deposits. These margins did not exceed 1 percent in some cases,” another banker explained.The spread on Lebanese pound debit and credit accounts at end-2018 was 0.6 percent. It was 1.05 percent at end-2017. Spread on U.S. dollar debit and credit accounts at end-2018 was 1.51 percent while it was 1.91 percent at end-2017.The chairman of a medium-size lender said that at one point the Central Bank made an initiative to help commercial banks to draw more funds to beef up their deposits, in clear reference to the financial engineering in 2016“But this initiative no longer exists. I can’t understand the rationale behind offering very high interest rates. I think some of these banks have decided to gradually reduce the interest rates on deposits after realizing that the margin of profits from these operations was insignificant,” the banker argued.He warned that if the interest rates remained high the economy would sink deeper into recession.“Above all the private sector and merchants will become the first casualties from the high interest rates policy.

Merchants are already struggling to pay their debts to the banks," the banker stressed.He added that banks are unable to provide housing loans at acceptable interest rates and this also applies to the private sector."This was a survival game [high interest rates]. But this game is over and we need to see the interest rates return to their normal levels," the banker said.All bankers assured that the Central Bank had nothing to do with the decision to reduce the interest rates."The fluctuation of interest rates is decided by the market and not BDL. We have a free economy and free transactions. BDL only intervenes to protect the Lebanese pound," a banker said.He added that since the premium risk in Lebanon is still considered high due to several reasons, the interest rates should be 3 percentage points higher than the international markets."We should be 3 to 4 percent above the average international rate. If the LIBOR (London Inter-bank Offered Rate) is 3 percent then the interest rates in Lebanon should be a little bit higher," the banker said.Most bankers emphasized that if the Cabinet succeeded in reducing the fiscal deficit, cut unnecessary spending and improve tax collection, then the premium risk will eventually fall and thus the interest rates will go down.Some bankers did not rule out the possibility that the profits of the lenders will be slightly fall in 2019 as a result of the fluctuation of the interest rates."Some leading banks have seen their profits rise slightly this year while others have reported a drop in net income. I don't think this year we will have the same profit margins as in 2018," a banker said.