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ABL's Approach to Lebanon's Economic Crisis

In the April 2025 editorial issued by the Association of Banks in Lebanon, Dr. Fadi Khalaf delivers a deeply analytical reflection on the complexities of Lebanon's ongoing financial crisis and the imperative of adopting a just, pragmatic approach to economic recovery. The piece is framed around the proposed draft law for banking sector restructuring, a law currently under examination by the Council of Ministers and expected to be discussed by Parliament. Khalaf stresses the importance of balancing financial reform with the protection of depositors' rights, an issue that lies at the heart of public trust and economic stability. For Khalaf, the Lebanese crisis is not a temporary or superficial downturn but a deep-rooted and systemic failure that reveals longstanding dysfunction in state financial management and governance structures. The solution, therefore, cannot be confined to surface-level financial adjustments but must involve legal and institutional reforms that acknowledge the crisis's extraordinary nature and long term implications.

A central argument in the editorial is the rejection of efforts to scapegoat Lebanese banks for the entirety of the economic collapse. Khalaf asserts that banks operated under the binding directives of the Central Bank, adhering to its policies even during the most volatile periods of the crisis. Holding them solely accountable for outcomes that stemmed from sovereign decisions, he argues, is legally and ethically flawed. Instead of generalized punitive measures, the editorial advocates for nuanced and fair procedures that differentiate between banks based on their conduct, compliance, and capacity. This includes ensuring that any implemented law includes adaptable mechanisms that take into account the particular realities of each financial institution, thus avoiding treatments that could further destabilize the sector.

Khalaf also turns his attention to the legal framework surrounding the restructuring process. He highlights the need to revise some procedural mechanisms that govern the appeals process for decisions made by the special authority assigned to oversee banks' conditions. According to him, such revisions are essential to achieve a balance between the speed of execution and the assurance of fair trial standards. This concern underscores his broader theme: that justice

and equity must be embedded in every phase of the recovery process, from legislation to implementation.

More broadly, Khalaf lays out a vision for a national recovery plan grounded in realism and social justice. He contends that Lebanon's crisis is "systematic and unique," requiring a new model of intervention that cannot merely replicate strategies used in other countries or past financial failures. His approach begins with a firm commitment to protecting depositors' rights, in accordance with Lebanon's constitution, the rulings for the State Council, and both domestic and international legal standards. This foundational principle, he insists, must be reflected in every stage of the restructuring plan. Moreover, Khalaf advocates for an immediate settlement of small deposits, both as a moral obligation and as a way to restore confidence among a large segment of society most affected by the crisis.

The editorial goes further to propose the establishment of a financial mechanism to compensate depositors gradually, utilizing current and future state revenues as well as contributions for the banking sector. This strategy seeks to balance financial feasibility with ethical responsibility. In addition, Khalaf recommends creating flexible and tradable financial instruments that would allow depositors gradual access to liquidity, while also aiding in the long term stabilization of the financial system. The recapitalization of the banking sector is also deemed essential, not just to ensure the survival of institutions but to enable them to resume their role in the financing of productive sectors of the economy. This, combined with a clear system of accountability that differentiates the roles and failures of the state, the Central Bank, and individual banks, forms the backbone of his reformist agenda.

Perhaps most critically, Khalaf underscores the need to link financial and monetary reform with broader institutional restructuring and the effective investment of state assets. He argues that any successful recovery effort must integrate reforms in public institutions and economic governance, reinforcing that the crisis is not only about numbers but about structure of accountability, transparency, and responsibility.

In discussing the role of the International Monetary Fund (IMF), Khalaf rejects the notion that the IMF program should be viewed as an imposed external condition. Instead, he frames it as a necessary and constructive partnership that could help restore confidence in Lebanon's financial system. The editorial suggests that the IMF program should be leveraged as a catalyst for reform, one that can promote disciplined fiscal and monetary policy while unlocking access to concessional funding. However, Khalaf is quick to caution that Lebanon's unique and complex situation requires exceptional treatment. Standard IMF procedures, in his view, must be adapted to the Lebanese context through innovative and comprehensive strategies that account for the country's distinct challenges.

For Khalaf, economic recovery is not a technical process driven solely by metrics and policy conditions; it is a moral and political undertaking that depends on genuine internal resolves and cooperative external support. He sees the present moment as a decisive opportunity for Lebanon to redefine its economic and financial identity on the basis of justice, professionalism, and long term stability. The proposed partnership between the state, the banking sector, and the IMF is not simply a mechanism to salvage a collapsing system; it is an opportunity to build a model of post-crisis recovery that could serve as an example for other nations. Ultimately, Khalaf insists that any legislative text or reform plan must be guided by the principles of fairness and foresight, recognizing both the depth of the current crisis and the magnitude of future challenges.

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