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## ABL and BDL Governor: A New Beginning!

In the opening editorial of the May 2025 monthly report published by the Association of Banks in Lebanon, Dr. Fadi Khalaf presents a critical reflection on the Lebanese financial crisis and outlines the necessary principles for any viable recovery plan. He emphasizes that a successful economic recovery cannot occur without a responsible partnership among all stakeholders – namely the state, the Central Bank (Banque du Liban), and commercial banks. The editorial moves beyond banking rhetoric, marking a notable shift toward institutional acknowledgment of shared responsibilities.

The editorial underscores the systemic nature of Lebanon's economic collapse, making it clear that such a characterization should not be misconstrued as a deflection of accountability. Rather, understanding the crisis as structural is essential to diagnosing the underlying dysfunctions and avoiding superficial remedies. Dr. Khalaf stresses that blame cannot be isolated to one entity; responsibility must be viewed through a threefold lens encompassing the state, the Central Bank, and the commercial banks. Attempts to assign blame to a single party, he warns, risk reviving the destructive cycle of mistrust and political stagnation that has plagued the country.

A significant issue addressed in the editorial is the financial gap created by years of mismanagement. Dr. Khalaf firmly asserts that this gap cannot be closed by merely reducing liabilities or restructuring banks. Instead, a meaningful resolution requires the state to define its obligations to the Central Bank and for the Central Bank itself to undergo proper regulation. Of particular concern is the suggestion to cancel the Central Bank's debts to commercial banks – and idea Dr. Khalaf dismisses outright, emphasizing that such debts are commercial obligations protected by law and cannot be erased arbitrarily.

Turning to the role of the banking sector, the editorial reiterates several foundational principles. Dr. Khalaf highlights that the state must uphold its own laws – particularly Article 113 of the Code of Money and Credit, which places the responsibility for covering central banking losses squarely on the state. He identifies the primary driver of the current financial collapse as a series of ill-conceived policies, including unsustainable subsidies and ongoing deficit financing, which depleted Lebanon's foreign reserves. Moreover, he challenges the exclusion of banks from recovery planning discussions on the grounds of conflict of interest, calling such reasoning flawed and hypocritical, especially considering the central roles that both the state and the Central Bank played in the erosion of public and private deposits. He clarifies that banks placed depositor funds with the Central Bank under legal obligation and in adherence to binding circulars – contrary to claims that these placements were voluntary.

Dr. Khalaf also issues a warning against the tendency to copy-paste crisis models from other countries. Lebanon's crisis, he notes, is unprecedented in both scale and complexity. Solutions must therefore reflect the country's unique realities rather than attempting to replicate external frameworks that do not align with its institutional, economic, or political structure. Applying foreign models blindly would only exacerbate the disconnection between policy and reality.

Concluding with cautious optimism, Dr. Khalaf views recent official statements as a welcome course correction that could mark the beginning of a more realistic and constructive public debate. He sees in this shift a real opportunity to preserve what remains of Lebanon's financial system. However, he warns that this momentum will be lost unless translated into actionable legislation and policy implementation. The way forward, he emphasizes, must involve clear laws and enforceable frameworks that institutionalize these principles into long-term strategies for national recovery.

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