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Lebanon's economic collapse extends well beyond the banking sector—it is a systemic crisis. This is the central argument of the 2025 report “*It's a Systemic Crisis!*” published by The Leaders Club at Lebanon Opportunities.

The report traces the roots of the collapse to decades of unsustainable fiscal and monetary policies, flawed trade practices, and a deeply interdependent relationship between the State, the Central Bank, and commercial banks. Lebanon's mounting fiscal and current account deficits went unaddressed, pushing public debt to \$85 billion by end-2018—over 150% of GDP. Meanwhile, a worsening trade deficit and declining financial inflows, due to regional instability and strained ties with Gulf countries, drained the central bank's (BDL) foreign reserves. In response, BDL turned to financial engineering—measures that ultimately worsened systemic losses and triggered the collapse of the lira, the banking sector, and the broader economy. This is the essence of systemic risk: institutional failure that sets off a chain reaction of instability and disruption across the economy.

This article breaks down the report's findings into five critical dimensions: sector-wide insolvency, loss of confidence, contagion and structural breakdown, failure of the central bank and government, and the absence of a credible resolution or restructuring plan.

The report's first critical finding is that Lebanon's entire banking sector is essentially insolvent. This insolvency stems primarily from the banks' excessive exposure to government Eurobonds and the BDL's "financial engineering" schemes. These engineering operations, initiated in 2015, were meant to attract foreign currency inflows by offering high interest rates, but instead trapped banks into holding illiquid and ultimately defaulted instruments. The scale of exposure was staggering: by 2018, banks had deposited over \$130 billion with BDL, accounting for more than 73% of their total assets by the end of 2023 – a figure shockingly high by global standards.

The government's 2020 default on its Eurobond obligations effectively decimated the market value of these bonds, with prices falling by 94% by late 2023. This devastated the banks' balance sheets and rendered them incapable of honoring depositor withdrawals, even while official figures still showed positive account balances – balances that included inaccessible deposits held at the Central Bank. Additionally, banks faced a severe asset-liability mismatch, they had committed short-term deposits from clients into long-term placements with BDL and government bonds, compromising liquidity and creating a systemic vulnerability when those long-term instruments turned worthless.

The banks' equity was almost entirely wiped out. By December 2023, bank equity dropped by 76% from its June 2019 levels, and total assets of commercial banks were cut by more than half. This wasn't just a liquidity crisis – it was a complete collapse in capital adequacy. A stark critique here is the lack of regulatory foresight, thus exposing the failure of Lebanon's financial regulation and the perilous entanglement of its banking sector with sovereign risk.

The second aspect of the systemic crisis is the profound loss of confidence among the Lebanese population. This is not merely psychological fallout – it has had tangible, destabilizing consequences. As trust in both the banking system and the Central Bank evaporated, panic ensued. Bank runs became frequent, and people rushed to convert their savings into U.S. dollars or withdraw physical cash. Informal and arbitrary capital controls, illegal and unlegislated, only exacerbated public anxiety, signaling that depositors were not only at risk of loss but had no legal recourse or protection.

Dollarization surged dramatically, with the ratio of dollar deposits climbing from 72% in 2019 to a staggering 96% by the end of 2023. Simultaneously, the national currency, the lira, collapsed, losing 98% of its value. As the paper outlines, this loss of trust extended far beyond banks to encompass the broader monetary system and the state itself. People turned to cash hoarding and informal markets, leading to what the report estimates is a cash economy that makes up nearly half the country's GDP.

This is a classic indicator of systemic financial collapse, as recognized by international institutions like the IMF and BIS. When money ceases to function as a store of value, a unit of account, or a medium of exchange, as was the case in Lebanon, it signals the near-complete breakdown of the monetary contract between the state and its citizens. This erosion of confidence is arguably the most damaging element, as it severely limits the possibility of organic recovery without sweeping structural reforms and the rebuilding of institutional credibility.

The third element, the contagion effect and structural breakdown, illustrates how the collapse metastasized into other sectors. The crisis paralyzed the public sector and led to a near-halt in economic output. According to World Bank and IMF estimates cited in the report by Lebanon Opportunity, Lebanon's GDP declined by about 40% between 2019 and 2024 – a catastrophic contraction by any international measure. Strikingly, this collapse is said to have even outpaced the decline seen in Syria during its war years.

This paralysis was not limited to statistics. Public institutions became unable to function, facing shortages in basic office supplies, and employees were frequently on strike due to salary erosion. The business sector was similarly paralyzed as credit dried up, investment disappeared, and planning became impossible due to rampant inflation and exchange rate volatility. The report is particularly critical of the BDL's attempts to manage the crisis through tools like the Sayrafa platform, which not only failed to stabilize the currency but actually encouraged speculative behavior, drained foreign reserves, and created multiple chaotic exchange rates.

Furthermore, the application of capital controls without legal backing, and their apparent circumvention by political elites and well-connected individuals, only deepened the public's sense of injustice. While ordinary depositors were blocked from accessing their funds, reports swirled of large capital transfers by insiders. This dual system underscored the collapse of the rule of law and highlighted how deeply the system had been captured by corrupt interests.

The fourth pillar of the systemic crisis is the failure of the Central Bank and Government. The report highlights that Lebanon's financial collapse was exacerbated by both the BDL's major contribution to the crisis and the government's failure to implement credible reforms, worsening systemic instability.

BDL used non-standard accounting methods to hide its growing losses. According to a forensic audit by Alvarez & Marsal (A&M) published in August 2023, the Central Bank shifted costs off its income statement to its balance sheet to avoid showing losses. This allowed it to report profits in all years and continue transferring money of around \$40 million yearly to the Ministry of Finance, masking the true scale of its financial deterioration and avoiding the necessity of a government bailout.

The rising costs of BDL's financial engineering were misrepresented as deferred interest expense and seigniorage, preventing losses from being transparently reported. As per A&M, BDL's balance sheet was prepared using unconventional accounting policies that inflated assets, equity and profits while understating liabilities, granting the Governor unrestricted authority to determine financial estimates. Between 2015 and 2020, the Central Bank's foreign currency position plummeted from a surplus of \$7.2 billion to a deficit of \$50.7 billion, with negative equity reaching \$51.3 billion by 2020.

BDL overstepped its monetary mandate by directly financing the government for three decades—a practice terminated in August 2023. By year-end, sovereign securities accounted for 70% of total bank assets, with 90% held as deposits at BDL and 10% in T-bills and Eurobonds.

To attract foreign currency amid globally low rates, BDL offered high interest rates, discouraging private investment. As an extension of the report's analysis, it is worth noting that banks then faced a dilemma: either match these rates and accept limited investment options, or offer lower returns and risk losing clients. This dynamic deepened their exposure to BDL and the State, creating a dangerous concentration of risk.

BDL's elevated interest rates on bank deposits, unsupported by actual profits, further deepened its financial losses. As a result, it restricted access to these funds, exacerbating liquidity strains. The IMF criticized these operations as unsustainable. Building on the report's findings, it is also important to highlight that BDL required banks to hold a portion of their cash reserves with it—funds it ultimately misused and lost.

Despite the severity of the financial collapse, authorities have failed to implement effective policy interventions since the crisis erupted nearly six years ago. Parliament has yet to pass a capital control law—something other countries like Iceland (2008) and Cyprus (2013) implemented within days, as such laws do not require extensive legislative debate.

The report argues that this prolonged delay has deepened systemic risk, with key financial indicators deteriorating further. For instance, based on our updated calculations, commercial banks' equity fell to \$4.3 billion [by April 2025](#), down from \$5.1 billion at end-2023. Over the same period, total assets declined [from \\$115.25 billion](#) to \$102.7 billion.

While these indicators worsened, it is important to contextualize the decline: in late 2023, the official exchange rate stood at 15,000 LBP/USD—far below the parallel market rate. By 2025, the official rate had adjusted to 89,500 LBP/USD, making the drop in reported asset values a predictable outcome of currency devaluation—an important context the report failed to address.

The last layer of the systemic crisis is the lack of timely resolution or restructuring. More than five years after defaulting on its Eurobonds, Lebanese authorities have yet to present a concrete debt restructuring plan. Only in April 2025 did the Cabinet approve a draft law for bank restructuring, which still awaits parliamentary ratification. This prolonged inaction has deepened financial uncertainty, accelerating capital flight and weakening investor confidence. The absence of clear restructuring signals to markets that uncertainty will persist, making future recovery even more challenging.

The report highlights that the delay also raises questions about whether the crisis results from mere governance failure or intentional obstruction. Embedded interests may be benefiting from the status quo, resisting reform to maintain leverage over financial assets. This aligns with the World Bank's assertion that Lebanon's crisis is not just mismanagement but a deliberate strategy—reflected in its 2020 Lebanon Economic Monitor title, *The Deliberate Depression*.

Nearly six years into its financial meltdown, Lebanon shows little sign of meaningful recovery and decisive actions. The longer the paralysis continues, the deeper the damage: trust in banks has collapsed, foreign reserves have vanished, and the economy has shrunk dramatically. What's missing isn't just policy—it's perspective. This isn't a series of isolated bank failures; it's a systemic crisis rooted in structural dysfunction. Without a fundamental shift in approach, Lebanon risks locking itself into long-term decline.

Still, as the French say, *mieux vaut tard que jamais*—better late than never. There's a narrow window to act, but it calls for bold reforms, real transparency, and a commitment to rebuild trust—locally and globally—through financial support, guarantees, and structural reforms that go beyond banking fixes to tackle deeper institutional and economic failures.

So, the question is: Will Lebanon act—or let the crisis define its future?

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