

Closing the \$80 Billion Gap: A Critical Review of the IIF's Deposit Settlement Plan



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Contact Information

Mira Said

Senior Research Analyst

mira.said@blominvestbank.com

Numerous proposals have emerged to address Lebanon's \$80 billion financial gap. Among them, the Institute of International Finance (IIF) has outlined a structured five-year plan titled *Roadmap for Deposit Settlement and Financial Restoration*. *What sets this plan apart is its bold reliance on monetizing gold—through both sales and leasing—and introducing a reformed national currency.*

The plan is currently in draft form and is set to be published in the coming weeks. Its goal is to restore liquidity, rebuild trust in the banking system, and stimulate economic activity, all without triggering Inflation or depleting foreign reserves. The IIF emphasizes that success depends on clarity, coordination, and alignment with a broader economic reform agenda, ideally under IMF guidance.

The proposal hinges on seven interdependent reforms:

- Selling some gold holdings
- Leasing some gold holdings
- Launching a new reformed national currency and lirafying \$30 billion in deposits over five years
- Tracing and reclaiming crisis-era transfers via legal and cross-border channels
- Unlocking value from underutilized public assets
- Encouraging diaspora investment via targeted instruments
- Generating fiscal surpluses

This analysis critically examines the IIF's proposal and suggests key adjustments to reinforce its credibility, addresses key vulnerabilities, and better aligns it with Lebanon's institutional and political realities.

The report proposes *using a portion of Lebanon's gold reserves to compensate banks—and by extension, depositors*. Why gold? As the IIF notes, gold offers several strategic advantages: it can generate liquidity without increasing debt, act as a counter-cyclical buffer during crises, and help rebuild trust without fueling inflation. Moreover, Lebanon's gold reserves are valued at approximately 110% of GDP—the highest gold-to-GDP ratio in the world—highlighting a rare and valuable opportunity. In April, then-acting central bank governor Wassim Mansouri revealed that Lebanon had declined an offer from American banks to invest a third of its gold holdings stored in the United States. With gold trading near historic highs, delaying action could mean missing a critical window.

The plan proposes selling one-third of Lebanon's gold reserves (around \$12 billion) and leasing an additional \$16 billion of gold reserves to generate a recurring 5% return to meet future obligations. This approach enables partial repayment to depositors while preserving two-thirds of the gold reserves.

Gold leasing involves the central bank lending gold to a market participant—typically a bank or trader—in exchange for a fee. The lessee may use the gold for various financial strategies. For instance, if they anticipate a decline in gold prices, they might sell the leased gold on the market and aim to repurchase it later at a lower price. The gold is then returned to the central bank along with the agreed-upon return. This short-selling strategy reflects a bearish outlook on gold.

As previously discussed in [*Lebanon's Gold Reserves: To Lock or to Unlock?*](#), leasing part of the gold reserves transforms idle reserves into productive assets—generating returns rather than incurring storage costs. The remaining \$8.6 billion would remain untouched, preserving the integrity of official reserves.

That said, while leasing gold reserves offers potential benefits, it also introduces significant risks that the central bank must carefully assess. The most pressing concern is the risk of corruption in the management of these transactions. Another key risk is counterparty default—the possibility that the lessee fails to return the gold or honor the agreed interest. In gold leasing arrangements, the leased gold becomes part of the lessee's balance sheet. If the institution were to collapse, the gold could be at risk of seizure. While some reputable banks offer guarantees to mitigate this exposure, the BDL must exercise extreme caution in selecting counterparties, supported by rigorous due diligence and risk management protocols.

It is also worth noting that while the IIF rightly introduces this once-taboo measure, the proposed 5% return on gold collateral appears too optimistic relative to market norms. Historically, the gold lease rate (GLR) was calculated as the spread between the London Interbank Offered Rate (LIBOR) and the Gold Forward Offered Rate (GOFO). With LIBOR retired in 2024, the Secured Overnight Financing Rate (SOFR) has become the new benchmark in U.S. markets. According to [CME SOFR Analytics](#), the 1-year SOFR stood at 3.48% on 24 October 2025, while GOFO reached the same level—3.48%—on 28 October, per LSEG data, resulting in a GLR of 0%.

In previous years, SOFR delivered higher returns while GOFO remained relatively stable, producing a more favorable GLR. For example, [Chatham Financial](#) reported that on 25 October 2024, the 1-year SOFR was 4.17%, while GOFO held at 3.48% (LSEG), yielding a GLR of 0.69%—still well below the proposed 5%. This decline in GLR reflects the sharp rise in gold prices over the past year. As the yellow metal continues to appreciate, the GLR is expected to remain subdued. And as always, higher promised returns often signal higher risk—investments that may be best avoided.

Another indication that a 5% return on gold-yielding instruments may be overly ambitious is the benchmark comparison: as of October 24, 2025, the one-year yield on U.S. Treasury notes stood at approximately 3.6%. Given that Treasuries are considered among the safest assets globally, offering a higher return on gold implies unrealistic pricing assumptions.

Figure 1: The Impact of Gold Sales on Lebanon's Reserve Profile (September 2025)

Country	Gold in mn ounces	FX Reserves in USD bn	Gold Reserves in USD bn	Total Reserves in USD bn	GDP in 2025 in USD bn	Gold % of GDP	Total Official Reserves % GDP
Lebanon	9.22	11.8	36.6	48.5	37	102	134
Lebanon (after gold sale)	6.10	11.8	24.3	36.1	37	67	100

Source: Garbis Iradian, Chief Economist, Institute of International Finance, Washington DC.

Graphic: Graphic adapted from IIF, with modifications by BLOMINVEST Bank

The next proposed reform centers on *currency reform* as part of Lebanon's broader financial recovery plan. It *includes the lira-fication of \$6 billion annually in frozen deposits, converting them into New Lebanese Pounds (NLBP) at a rate of 1 NLBP to 100,000 old LBP*. This new currency will be backed by Lebanon's gold reserves and a strengthened balance of payments— thanks to smaller trade deficits and rising foreign capital inflows through FDI and concessional aid. This setup means new money will be printed but not in the reckless, inflationary sense. It is worth noting that the current exchange rate of 89,500 LBP/USD reflects a restrictive-currency-board exchange rate regime (see: [Has BDL Followed a Currency-Board Exchange Rate Regime in the Last Two Years?](#)). Despite a substantial increase in gold and foreign reserves over the past year, the money supply has remained largely unchanged— pointing to a cautious monetary stance, reinforced by stronger reserve levels. If BDL's gold and foreign reserves continue to rise, this could support a proportional annual expansion of the money supply. In this sense, it is as though the deposits are being repaid through foreign reserves and gold.

Currency reform also has a psychological side. It must be tied to an IMF-supported program that includes fiscal discipline, central bank restructuring, inflation control, and legal safeguards. The NLBP's exchange rate would be clearly defined, and its launch will be accompanied by public education to support adoption. Importantly, the currency would be introduced gradually, allowing time for public adjustment and confidence-building.

Will the NLBP replace the old Lebanese pound? Not immediately. The plan envisions a parallel phase in which both currencies coexist. Over time, the NLBP could become the dominant—if not the only—unit of account, provided it earns public trust and demonstrates stability.

Figure 2: Menu of Options to Settle all Frozen Deposits within Five-Years (in USD billion)

Year	Sale of Gold \$12 bn	The 5% Return from yielding \$16 bn of Gold	Paying in NLBP	Recovering crisis-era transferred deposits	Sale of state- owned assets	Issuance of Diaspora Eurobonds	Fiscal Surpluses	Grand Total
2026	12.0	0.8	6.0	1.5	2.0	0.5	0.5	23.2
2027	0.0	0.8	6.0	2.0	2.0	1.0	1.0	12.8
2028	0.0	0.8	6.0	2.6	1.5	2.0	1.5	14.4
2029	0.0	0.8	6.0	2.0	1.5	3.0	2.0	15.3
2030	0.0	0.8	6.0	1.0	1.0	3.0	2.5	14.3
Total	12.0	4.0	30.0	9.0	8.0	9.5	7.5	80.0

Source: Garbis Iradian, Chief Economist, Institute of International Finance, Washington DC

Graphic: Graphic adapted from IIF, with modifications by BLOMINVEST Bank

Historical precedents help guide Lebanon's recovery path. Countries that faced monetary collapse and deposit freezes have restored stability through sequenced reforms, external support, and credible currency resets. Notable examples include:

Figure 3: Historical Precedents from Past Monetary Crises

Country	Year	Key Measures	Outcomes
Germany	1948	Replaced the hyperinflated Reichsmark with Deutsche Mark; broad economic reform; broad reconstruction initiatives backed by international support and governance reform	Restored price stability; rebuilt trust in banks
France	1945	Introduced new franc; asset revaluation; gradual access to savings; broad reconstruction initiatives backed by international support and governance reform	Curbed inflation; deposit recovery over time
Iraq	2003	Launched new dinar backed by U.S. and IMF	Regained depositor access to FX accounts

Sources: IIF, BLOMINVEST Bank

Like these precedents, Lebanon faces a collapsed monetary framework, frozen deposits, and a lack of credibility issue. A multi-staged reform—benefitting from gold reserves, IMF support, and fiscal reforms—could enable full deposit recovery over a five-year horizon.

The fourth measure suggests *recovering an estimated \$9 billion in crisis-era transfers abroad since 2018*, many of which are believed to involve politically connected individuals. Success will depend on international cooperation, robust asset-tracing mechanisms, legal enforcement, and transparent auditing. While legally complex, similar efforts have succeeded elsewhere with multilateral backing and technical support. More importantly, it shows that recovery is not just about money—it's about rebuilding institutions and public trust.

This step also helps make the repayment of deposits fairer, and it gives the government more time by adding recovered money to the public budget. But there's a catch: this money still belongs to depositors. Even if it's used now, it must be paid back later—maybe not all at once, not fully, or not in cash, but in some form. Unless the financial gap is revised downward from the current \$80 billion estimate—as some institutions suggest—and the recovered funds are already embedded in that calculation, the obligation remains. It may be deferred, but it cannot be dismissed. It's also worth noting that these transfers occurred in a legal grey area, given the absence of an official capital control law at the time.

Lebanon's fifth reform measure *targets the country's underused public assets*. Through partial privatization, long-term concessions, and strategic partnerships, the government could raise \$8 billion over five years. These funds would be exclusively allocated to deposit recovery, not political spending.

Key assets include:

Figure 4: Breakdown of Receipts Raised from Privatization of State-Owned Assets

Asset/Entity	Receipt in USD bn	Comments
Ogero Telecom	1.0	Partial privatization or outsourcing upfront capital injections, while improving service quality and broadband penetration.
Middle East Airlines (MEA)	0.4	Minority stake sale + Strategic partnership; not recurring
Electricité du Liban (EdL)	2.3	From concessions in generation/distribution; phased over years. Eliminates subsidies and improves reliability.
Ports of Beirut & Tripoli	2.0	Long-term lease + infrastructure upgrades; frontloaded
Casino du Liban	0.3	Partial stake sale + modernization; single transaction
Government Real Estate	2.0	Including government-owned land, buildings, and tourism assets. Transparent auctions and development partnership.

Source: Garbis Iradian, Chief Economist, Institute of International Finance, Washington DC.

Most of these receipts are non-recurring and depend heavily on deal structure and investor appetite. However, certain assets—such as ports and *Electricité du Liban (EdL)*—could generate ongoing lease or royalty income beyond the initial proceeds.

Foreign participation, especially in management, is key to unlocking value and improving service delivery. Interest has already been expressed by Gulf investors, diaspora entrepreneurs, and European firms, if there are transparency and legal protection.

Importantly, this pillar goes beyond fiscal gains. It strengthens governance, disrupts clientelist networks, and reinforces the credibility of Lebanon's deposit recovery strategy. Public-private partnerships (PPPs) and performance-based contracts allow for reform without selling off state assets entirely.

Notably, certain privatization efforts can also enhance market competition, improving outcomes for consumers and businesses while strengthening overall economic competitiveness. For example, partial privatization of *Middle East Airlines (MEA)* would phase out its privileges, foster competition, and enhance Lebanon's appeal as a travel destination through lower fares—benefiting the broader economy. Similarly, the case of *Electricité De Zahlé (EDZ)* demonstrates that private-sector models can deliver reliable electricity and financial sustainability—outcomes *EdL* has consistently failed to achieve.

Still, privatization must be approached strategically. Assets with limited competition could become monopolistic, driving up prices and undermining the very reforms meant to serve the public.

Lebanon's ongoing financial and economic crisis also makes privatization particularly risky at this stage. With investor confidence low, public assets would likely be sold below their fair market value. In particular, a large-scale sale of government-owned real estate could flood the market, depress property values, and further strain an already fragile sector. *With banks no longer extending credit as they once did, the real estate market has suffered a sharp contraction in both demand and liquidity.*

In parallel, entering long-term partnerships with the private sector under current conditions may lock the state into unfavorable terms. To attract investors in a distressed environment, Lebanon would likely need to generous terms—such as tax breaks or regulatory exemptions—undermining potential returns and limiting future policy flexibility.

There appears to be a lack of clarity in the valuation methodology used to estimate potential revenues from public assets. The report does not clarify how the \$8 billion figure was calculated, what assumptions were made, or which entity conducted the assessment. Without this transparency, it is difficult to evaluate the credibility and feasibility of the projections.

Notably, Albert Kostanian's February 2021 paper, [*Privatization of Lebanon's Public Assets: No Miracle Solution to the Crisis*](#), offers one of the few publicly available valuation frameworks for state assets. Both MEA and Casino du Liban (CDL) are listed as candidates for full or partial privatization, yet the paper does not specify the percentage of ownership to be divested. This lack of detail limits the interpretability of the figures and complicates cross-source comparisons—particularly with the IIF report, which similarly references “minority stakes” without quantifying them. The absence of ownership thresholds introduces ambiguity around the scope and scale of privatization. For example, MEA is valued at \$670 million in Kostanian's estimate, compared to \$400 million in Irian's. CDL is valued at \$370 million versus Irian's \$300 million. These discrepancies likely reflect differing assumptions about stake size, asset valuation methodology, strategic investor interest, and whether the scenario is based on a conservative or optimistic outlook.

Figure 5: Estimation of Gross Revenues for the State from Privatizations

Realistic privatization program		Bullish privatization program	
Assets	Value (million USD)	Assets	Value (million USD)
MEA	670	MEA	670
CDL	370	CDL	370
Telecom (50% of assets)	1,615	Telecom (100% of assets)	3,230
Real estate (30% of assets)	3225	Real estate (70% of assets)	7525
		RLTT	1,570
TOTAL	5,880	TOTAL	13,365

Average between conservative and optimistic valuations.

Source: Albert Kostanian, *Privatization of Lebanon's Public Assets: No Miracle Solution to the Crisis*, February 2021

The sixth measure aims to *raise \$9.5 billion through Diaspora Eurobonds* between 2027 and 2030 to attract long-term capital from Lebanese abroad. These bonds would offer competitive returns and help rebuild foreign reserves, supporting external stability.

The plan highlights that this measure is primarily designed for members of the diaspora who genuinely wish to support their country. As such, it assumes they may be willing to purchase new Eurobonds even before the restructuring of the defaulted ones—provided there is a credible expectation that the defaulted Eurobond issue will be resolved in the near future.

However, this stance might be too optimistic. Under a baseline scenario, regaining access to capital markets and restoring investor confidence requires Lebanon to first secure an IMF-supported program to guide and implement a credible debt restructuring process. Only after resolving its default can the country credibly reissue new Eurobonds.

Therefore, the sequencing presents a clear challenge. The sixth measure is part of the \$80 billion gap plan, which itself is a prerequisite for IMF support. Without a clear restructuring framework, any new issuance may be met with steep discounts, unfavorable terms, and limited investor interest.

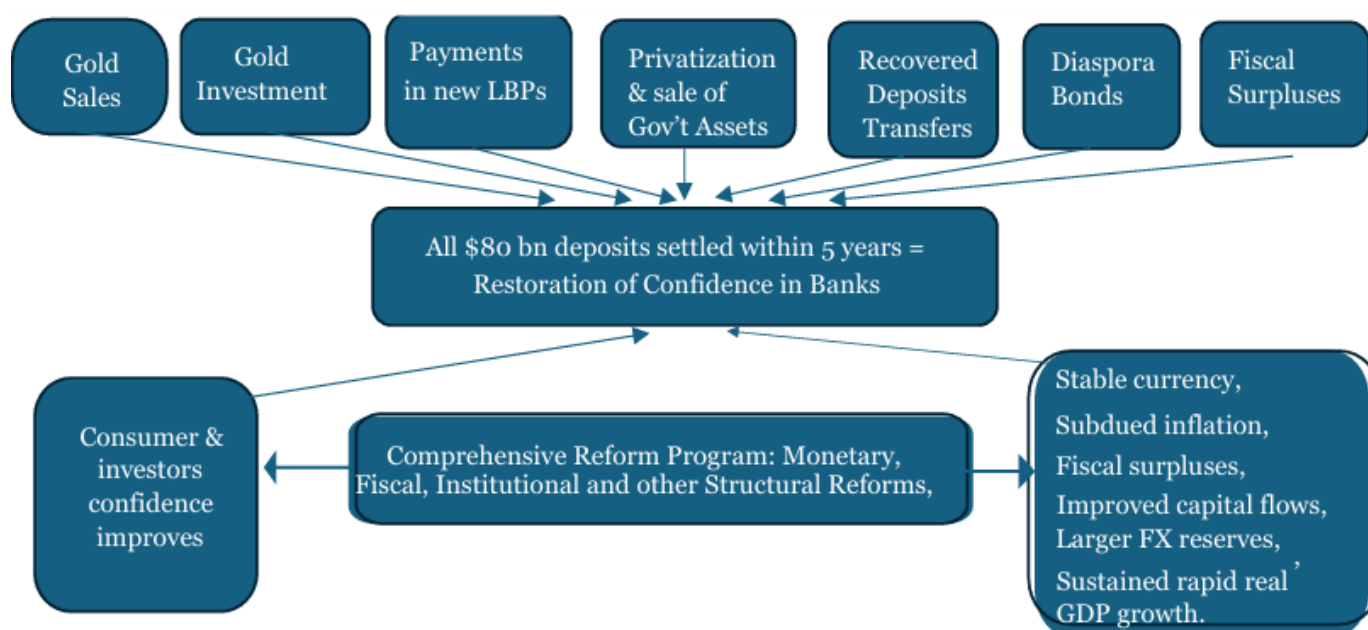
Moreover, while Diaspora Eurobonds may offer short-term liquidity, they also create long-term repayment obligations with interest. This adds to an already strained debt burden, especially with the issuance of liraification outlined in the third measure. Without a clear debt resolution framework, such instruments risk deepening Lebanon's financial pressures rather than easing them—and make debt sustainability even harder to achieve.

The seventh measure focuses on *achieving consistent fiscal surpluses* via improved tax collection and control. Lebanon's tax system suffers from weak enforcement and chronic under-collection, but reforms in administration, digital compliance, and auditing could significantly boost revenues. This approach allows for increased spending on essential services while gradually building fiscal surpluses—from \$0.5 billion in 2026 to \$2.5 billion by 2030.

These surpluses would support debt reduction, deposit recovery, and reserve accumulation, forming part of a broader reform strategy—alongside other measures—aimed at restoring trust, liquidity, and long-term economic stability.

In fact, as previously discussed in [Lebanese Customs Revenue: Some Welcome but Surprising Results!](#), customs collections in early 2025 surged by 165% compared to 2024, despite only modest growth in imports and no change in tariff rates. This sharp increase clearly demonstrates that customs collection is already improving, with corruption and smuggling visibly declining.

Figure 6: Aligning Deposit Resolution with Urgently Needed Comprehensive Reforms



Source: Garbis Iradian, Chief Economist, MENA, Institute of International Finance.

On a final thought, the IIF paper proposes allocating Lebanon's estimated \$80 billion financial gap between the government and the central bank, notably excluding commercial banks from the equation. This approach diverges from widely discussed frameworks—endorsed by institutions such as the Ministry of Finance, Banque du Liban, and even some of the banks themselves. *For the plan to be realistic, we believe that losses should be fairly distributed among all stakeholders.* In cases where some banks are unable to compensate depositors directly, alternative mechanisms such as bail-ins should be considered within a transparent and fair framework.

Moreover, the IIF paper overlooks the fact that BDL's latest estimates have reduced the financial gap to \$53 billion. This follows haircuts on excessive interest made over the 3 years prior to the crisis, doubtful or 'illegal' deposits, and deposits converted from LBP to USD starting October 2019. As the gap narrows and the burden is more fairly shared across institutions, the feasibility of a deposit settlement plan improves significantly. While a partial recovery would understandably hurt confidence in the banking sector, the alternative proposed is simply not workable. There's no value in debating a plan that can't be implemented. It's better to return funds quickly—even at a discount—than to prolong the current situation, where deposits continue to lose value due to inflation. A realistic solution must reflect updated figures and a fair distribution of responsibility.

If the narrowed gap estimate is adopted, certain measures outlined in the plan may no longer be necessary and could be reallocated toward more productive, long-term uses. For example, rather than selling publicly owned institutions, Lebanon could establish an independent public asset company—operating under strong governance—that would offer a more sustainable alternative to privatization. This model would allow state assets to generate recurring returns that strengthen the national budget and improve social service delivery.

It is important to acknowledge the political assumptions embedded in the IIF framework. As noted by Philippe Hage Boutros in his article [*Monétisation de l'or, nouvelle monnaie : les pistes de l'IFI pour restituer les dépôts bancaires*](#), published by *L'Orient-Le Jour* (OLJ) (November 4), citing an interview with Iradian, the plan appears to assume that Hezbollah's disarmament and lasting peace with Israel have already been achieved. While aspirational, this premise raises questions about the plan's timeline.

Finally, with refinements—particularly around updated gap estimates and inclusive burden-sharing—the IIF paper could evolve into a credible roadmap for recovery. It is one of the few proposals to explore strategic tools like monetizing gold, which, if carefully implemented, could help restore liquidity and rebuild trust. *If institutions and the public are on board, the plan has a real potential.*

Figure 7: Lebanon's Key Economic and Financial Indicators

Indicator	2019	2020	2021	2022	2023	2024	2025	2026 (Limited Reforms)	2026 (Deep Reforms)
Nominal GDP (LBP trillion)	80.3	96.9	245.6	666	2,163	2,878	3,304	3,629	3,718
Nominal GDP (\$ billion)	53.2	25	19.8	24.6	25.2	32.1	36.8	40.5	41.5
Average Exchange Rate (LBP/\$)	1,576	4,203	12,446	27,087	85,805	89,700	89,700	89,700	89,700
Real GDP Growth (%)	-6.8	-24.6	2	1.8	1.1	-6.9	3.2	3.6	5.8
CPI Inflation (% avg)	2.9	84.9	154.8	171.2	221.3	45.2	13.7	4.6	4.8
Trade Balance (\$ bn)	-13.4	-6.5	-8.8	-13.6	-12.7	-12.3	-13.7	-15.2	-15.2
Services Balance (\$ bn)	0.4	0.1	0.8	1.5	1.3	0.7	1.1	1.9	2.4
Current Account Balance (\$ bn)	-11.1	-2.8	-4.6	-7.4	-5.9	-5.6	-6.1	-6.1	-5.4

Source: IIF, October 2025

For your Queries:
BLOMINVEST BANK s.a.l.

Research Department

Zaituna Bay

POBOX 11-1540 Riad El Soloh

Beirut 1107 2080 Lebanon

Mira Said

mira.said@blominvestbank.com

Research Department

Tel: +961 1 991 784

research@blominvestbank.com

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