

Restoring Liquidity and Confidence in Lebanon's Financial System: A Market-Led Approach



November 18, 2025

Contact Information

Jana Boumatar

jana.boumatar@blominvestbank.com

The article *“Revitalizing the Financial System: A pragmatic approach to market-based solution beyond politics,”* published in Lebanon Opportunities and authored by Riad Obegi and Claude Khayat of Banque Bemo, confronts Lebanon’s severe and prolonged financial collapse by outlining both the roots of the crisis and a concrete, market-driven proposal to address it. The authors argue that the status quo – marked by frozen deposits, structural imbalances, and the near-absence of credit – is not only unsustainable but also economically destructive. They emphasize that depositor confidence has collapsed, banks can no longer support economic activity, and an overwhelming shift to the cash economy has further weakened the formal financial sector. Despite years of discussion, political debates, and temporary mechanisms, no practical solution has emerged to restore bank functionality or revive liquidity. As a result, the authors insist that Lebanon cannot wait for a political consensus or for external institutions to provide an all-encompassing solution.

A central problem identified is that roughly \$80 billion of banks’ deposits at the Central Bank (BDL) have remained frozen and unusable for more than five years. These immobilized funds generate either minimal or no return and cannot be deployed in the real economy. Banks, holding large sums trapped at BDL, are unable to meet depositor needs or invest in productive activity. This “paradox of excessive liquidity” – liquidity that exists but cannot move – has created deeper systemic inefficiencies and pushed Lebanon into a severe credit crunch. The authors assert that without a mechanism to reactivate these frozen balances, the

banking sector cannot recover, and the economy will continue to suffer from stagnation and instability.

To break this impasse, Obegi and Khayat propose a practical and apolitical financial mechanism: transforming BDL deposits into tradable financial instruments – specifically, Certificates of Deposit (CDs) – that would be interest-bearing, have scaled maturities, and be listed and traded on the local stock exchange. These CDs would be issued by BDL against the commercial banks' deposits and would be fully tradable in the secondary market. Banks would receive allocations proportional to their existing deposit levels at the Central Bank. Importantly, the CDs would carry an interest rate that reflects market conditions, stimulating greater financial activity. The authors argue that allowing banks to trade, pledge, or use these instruments as collateral would “unlock” long-stagnant liquidity and enable market-based financing. Additionally, this mechanism could deepen the local capital market, attract investor participation, support monetary transmission, and ultimately help restore confidence in the broader economy.

The article highlights several key advantages. First, **liquidity activation**: dormant funds would become usable again, strengthening bank balance sheets without requiring money creation. Second, **no political roadblocks**: because the mechanism relies entirely on market transactions and BDL's existing liabilities, it bypasses the political deadlock that has stalled reform efforts. Third, **greater transparency and discipline**: by listing CDs publicly, pricing and interest rates would emerge from actual supply and demand, thereby promoting transparency and improving market confidence. Fourth, **investment vehicles**: institutional and retail investors would gain access to transparent, low-risk, interest-bearing instruments, some of which could be partially guaranteed. This dynamic would also help restore trust in BDL while reinforcing stronger financial discipline.

The authors also outline a clear implementation framework. BDL would first assess each bank's deposit levels and potentially organize a competitive bidding process to refine terms and conditions. Then, CDs would be issued in standardized maturities – such as one, two, five, and ten years. After issuance, the CDs would be listed and traded on the national stock exchange, where a secondary market would support pricing and liquidity. This

straightforward process relies entirely on current infrastructure and avoids complicated new legislation or politically entangled negotiations.

In its concluding section, the article stresses that Lebanon's monetary crisis demands urgent, innovative, and non-political solutions. Converting idle Central Bank deposits into tradable, interest-bearing instruments is not a substitute for broader reforms or for holding responsible actors accountable. However, it is presented as a practical first step – one that reduces system inefficiencies, helps revive market confidence, and supports economic recovery. The authors argue that inaction is no longer an option, and hasty, destabilizing measures would be equally harmful. Instead, this proposed mechanism could act as a catalyst for a more functional and resilient financial ecosystem that aligns with the needs of the Lebanese economy while preserving banking stability.

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

Research Department

Zaituna Bay

POBOX 11-1540 Riad El Soloh

Beirut 1107 2080 Lebanon

Jana Boumatar

jana.boumatar@blominvestbank.com

Research Department

Tel: +961 1 991 784

research@blominvestbank.com

Disclaimer

This report is published for information purposes only. The information herein has been compiled from, or based upon sources we believe to be reliable, but we do not guarantee or accept responsibility for its completeness or accuracy. This document should not be construed as a solicitation to take part in any investment, or as constituting any representation or warranty on our part. The consequences of any action taken on the basis of information contained herein are solely the responsibility of the recipient.