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In the introductory editorial of the October 2025 monthly report of the Association of Banks in Lebanon, titled “*Bank Restructuring ...What About the Public Sector?*” Dr. Fadi Khalaf presents a firm and systemic argument on the necessity of restructuring Lebanon’s banking sector within a broader framework of public-sector reform. He emphasizes from the outset that restructuring the financial sector is no longer optional but rather an unavoidable necessity, as it constitutes the backbone of any serious reform path capable of restoring order to public finances, rebuilding trust in the banking system, and enabling a gradual transition from a cash-based economy toward a regulated and growth-oriented economic model.

However, Khalaf clearly rejects the idea that banking sector restructuring can be carried out in isolation. Given the systemic nature of Lebanon’s crisis, he argues that limiting reform to the banking sector alone would be fundamentally flawed. He raises a critical question regarding whether it is even possible to address the consequences of the financial collapse without directly confronting its root causes. The financial gap, he stresses, is not merely a banking failure but the cumulative outcome of decades of unsustainable public spending and fiscal policies that lacked long-term viability. From this perspective, any partial solution that isolates banks while overlooking structural state reform risks becoming a symbolic gesture rather than a genuine remedy.

Khalaf further underlines the imbalance in how the burden of the crisis is currently being approached. While the banking sector continues to bear the heaviest share of the losses, the state, identified as the primary actor responsible for the collapse, limits its role to fragmented contributions that often appear more cosmetic than substantive. This imbalance, he argues, reflects a deeper resistance to undertaking the necessary restructuring of the public sector itself, despite its central role in any sustainable recovery. Without structural reform of state institutions, any attempt to recapitalize or restructure banks would remain exposed to collapse once again within a few years, simply reproducing the same crisis dynamics.

Within this context, Khalaf refers to the ongoing legislative efforts aimed at preparing a law to address the financial gap. While he acknowledges that this step is necessary, he stresses that its success depends entirely on being integrated within a comprehensive and transparent framework. This framework must clearly define the actual responsibilities borne by each party, particularly the state and the central bank, and must fully safeguard depositors' rights, which he describes as non-negotiable. He also warns against the political temptation to assign blame to a single actor, noting that such an approach neither produces solutions nor restores confidence, but instead deepens institutional paralysis and prolongs the crisis.

The article also highlights the stance of the Association of Banks in Lebanon as expressed during the recent conference of the Arab Banks Union. According to Khalaf, the banking sector has demonstrated a willingness to engage positively in rebuilding the financial system through a new capital structure, enhanced transparency, and the modernization of banking tools in line with the growing digital economy. Yet, he firmly asserts that these initiatives, while necessary, remain insufficient on their own. Real reform, he concludes, cannot be measured by the number of laws passed, but by the state's genuine commitment to implementing a full national recovery plan based on realism, fairness, and shared responsibility between public authorities and the private sector.

The article ultimately poses a direct and decisive question: does Lebanon truly seek to restore sustainable confidence in its financial system? Khalaf's answer is clear – no strong banking sector can exist on the foundation of a weak public finance structure, and no economic growth can be achieved without a decisive and simultaneous intersection between public-sector reform and banking-sector restructuring.

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