Some Preliminary Thoughts Regarding the Impact of the Proposed Gap Law on Banks

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Table 1: Commercial Banks Foreign Assets: October 2025, Million USD

Currency and Deposit in Other CBs	704
Loans	5,224
Claims on Non-Resident Fin. Sector	5,213
Eurobonds (net of provisions)	2,180
Non-Resident Securities Portfolio	1,330
Other Foreign Assets	2,697

Table 2: Commercial Banks Adjusted Foreign Assets: October 2025, Million USD

Currency and Deposit in Other CBs	704
Loans	1,306
Claims on Non-Resident Fin. Sector (net of the non-earmarked Fresh at 2,120)	3,093
Eurobonds	2,092
Non-Resident Securities Portfolio	1,330
Total Adjusted Foreign Assets	**8,525**

Table 3: Commercial Banks Foreign Liabilities, Net Foreign Assets, and Capital: October 2025, Million USD

Non-Resident Fin. Sector Liabilities	2,291
Net Foreign Assets[1]	**6,234**
Capital Accounts (the 90% in USD)	**4,296**

[1]Equal to Adjusted Foreign Assets minus Non-Resident Fin. Sector Liabilities

The proposed Gap Law (latest version) -- tabled on 19/12/2025 and to be discussed by the Council of Ministers on 22/12/2025 -- is characterized by three main features:

1) Anomalous deposits will be eliminated (doubtful deposits, deposits that represent excess interest, and deposits that were converted to USD at 1,507.5 LBP after October 2019), dropping eligible deposits from $83 billion to around $60 billion.

2) Of the $60 billion, all deposits up to $100,000 will be paid over 4 years. All the remaining deposits above $100,000 will get the initial $100,000 over 4 years and the rest will be paid in asset-backed securities (ABS) by BDL as follows: over 5 years for deposits up to $1 million, over 10 years for deposits up to $5 million, and 15 years for deposits above $5 million; and with 2% of the principal paid each year and what is left paid at maturity.

3) All deposits per person in different banks will be amalgamated and treated as one deposit

   It is estimated that the cost of all the $100,000 in deposits will be about $21 billion, paid 40% by banks and 60% by BDL, so the cost to banks will be $8.4 billion[1]. For its part, the government will presumably contribute by paying back BDL $5-6 billion on the $16.5 billion loan that it owes BDL. As to ABS, it is also postulated that banks will be responsible for 20% in terms of both the annual and principal payments.

   What we would like to do next is to evaluate the preliminary impact of the proposed law on banks' balance sheet. Table 1 above shows the consolidated foreign assets (FA) of banks as of October 2025. The table, however, requires adjustments. So in Table 2 we calculate FA after the following adjustments: accounting for NPLs on loans at a rate of 75%[2], calculating Eurobonds at market value, currently 24 cents to the dollar, eliminating Other Foreign Assets (as these represent fenced equity in foreign subsidiaries), and

[1] In reality, however, banks will be paying the whole amount because BDL will be paying its share from banks' required reserves (currently around $12 billion).
[2] NPLs at 75% is actually an upper bound as it could be lower, perhaps much lower; hence, we are erring on the side of caution.

adjusting for non-earmarked Fresh deposits[3]. As such, banks' adjusted FA comes to about $8.5 billion. But to arrive at a proxy for liquidity we need to calculate Net Foreign Assets (NFA), as the difference between Adjusted Foreign Assets and Non-Resident Financial Sector Liabilities (the only foreign liability item in banks' balance sheet), which as can be seen from Table 3 is equal to $6.2 billion. So, **if we abstract form the cost of ABS,** banks will have available only $6.2 billion in liquidity to pay back the $8.4 billion for the $100,000 in deposits. Hence, they will be close to $2.2 billion short – and that is not accounting for the cost of the 20% in ABS![4]. And it seems the implicit answer to this shortfall in the proposed law is that banks will be able to cover it from the income generated from their operating business in 4 years! But how they will be able to do all that under the prevailing economic and political circumstances becomes then the issue.

Not only that, but there are additionally two more issues. The first is that the cost of the $100,000 in deposits will be paid through the re-activated Deposit Insurance Fund. So banks which do not have the money and can't pay will presumably be liquidated, but their payments will be subsidized or covered by banks which can through the Deposit Insurance Fund. So, it is as if banks who were successful in protecting their capital will be penalized for their success!. The second is that the Law might ultimately have to reconcile with IMF demands by requiring banks to relinquish all their equity first and foremost. This means – as we see from Table 3 – to give up close to $4.3 billion right 'off the bat', which actually counts as a punishment for the crisis that wasn't even their own making! In other words, these two issues clearly point to the fact that the proposed law violates both horizontal and vertical equity in the treatment of banks. In fairness, though, the law contends that an Asset Quality Review will be conducted for each bank (and BDL) one month after the enactment of the law, and based on the results the fate of each bank's capital and re-capitalization will be decided. So, let us see!.

[3] In other words, those deposits that are not earmarked to Circulars 158 and 166.
[4] The remaining deposits that will be paid back in ABS are close to $35-40 billion, *so in nominal terms banks will have to pay an additional $8 billion over 5-15 years.*

In sum, the proposed law should take the above considerations in its stride. As we said, banks haven't caused the crisis; and though they have suffered plenty from it, they are still willing to contribute adequately to its solution. What this means is that the law should imply a burden/cost on banks that is consistent with their liquidity and that any losses that they might incur in the process should not exceed their capital or shareholders' equity. This will ensure banks' continuity and their ability to return back deposits to their rightful owners. And this will not only be fair, but also workable and efficient. Perhaps most important, if that requires that the BDL (and the government) liquidate some of their vast assets, then so be it!

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