A Preliminary Look at Banks' Balance Sheet Post Gap Law and Restructuring

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Table 1:

%	Dec. 2018
BDL-Deposits/Assets	76.7
Deposits/Assets	83.9
Capital/Assets	8.2

Table 2:

Estimates ala Gap Law:	USD Billion
Customers' Deposits After Anomalies	60
Customers' Total $100,000 Deposits	20
Customers' ABS Deposits	40

Table 3:

USD Billion	Dec. 2025
BDL's NFA	9
Banks' Capital	4.3
Banks' NFA	6.3

Table 4:

Estimates ala Gap Law:	USD Billion
Banks' Share of $100,000 Deposits	4.3
Banks' Share of ABs Deposits	8
PV of Banks' Share of ABS Deposits	4.5

Table 5:

Banks' BS Post Gap Law: USD Billion	
Assets	**Liabilities**
NFA: 2	PV of ABS Deposits: 4.5
PV of Banks' Future ABS-based FA: 2.5 + 0.370	Capital: 0.370
Total: 4.870	Total: 4.870

Source: BDL and author's estimates

It should be widely understood by now that the Lebanese financial crisis started at BDL as it couldn't repay banks their deposits, **which constituted more than 76% of banks' assets and 90% of banks' customers' deposits (see Table 1).** Viewed as such, it is primarily the responsibility of BDL and the government to pay back depositors, not the banks!.

But the new Gap Law, that was approved by the Council of Ministers at end December 2025 and passed on for ratification by Parliament, was very shy at holding the government responsible for closing the gap and returning back deposits, and shifted instead the responsibility onto banks and BDL. What we want to do in this note is to provide a preliminary, tentative, and 'sort of back of the envelope' looks at banks' balance sheet, post the proposed Gap Law and the underlying restructuring.

To start with, the Gap Law stipulates *explicitly* two important propositions:

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 10 years for deposits up to $1 million, over 15 years for deposits up to $5 million, and over 20 years for deposits above $5 million; and, for all 3 categories, 2% of the principal will be paid after the 5th year and what is left will be paid at maturity. It is estimated that **the cost of the total $100,000 deposits will be**

around $20 billion, and consequently the cost of the ABS will be $40 billion (see Table 2).

However, we believe that the Law could have two important *implicit* stipulations, as well. These are:

1) BDL's Net Foreign Assets (NFA), which stand at $9 billion (and which, in fact, constitute banks' reserves), could be utilized in full to pay part of the total $100,000 of $20 billion. The remaining $11 billion will be paid by splitting the cost into 60% by BDL and 40% by banks**. As a result, the estimated share of the banks' cost will be around $4.3 billion (see Tables 3 and 4). As to the cost of ABS, banks will be responsible for 20% whereas BDL will be responsible for the remaining 80%. In other words, banks will be responsible for $8 billion of the ABS cost.**

2) Although the proposed Law talks extensively about a prior Asser Quality Review (AQR), there is a strong feeling among banks that their USD capital of $4.3 billion will be zeroed-out initially, in agreement with IMF demands. **What is interesting is that banks' zeroed out capital will be just enough to pay banks' share of $4.3 billion of the total $100,000 deposits (see Tables 3 and 4)**. Perhaps, this is not merely a coincidence!

We can additionally derive two very important propositions based on the above discussion:

1) If banks' are disposed of initially of their entire capital**, their remaining NFA will be around $2 billion ($6.3 – $4.3 billion; see Table 3).** As such, and in restructuring terms, it is no exaggeration that few banks will be able to carry on post the Gap law.

2) If we discount banks' cost of $8 billion in the ABS scheme at 4% (approximately, the relevant US TB rate), and apply an average of 15 years for the principal payments and an average of 10 years for the 2% chunky payments, **the estimated cost of the Present Value (PV) of the ABS scheme for the remaining post-restructuring banks will be around $4.5 billion (see Table 4).**

That said, what would be the resulting Balance Sheet (BS) of the banks, post the Gap law and restructuring? On the liability side, banks' ABS cost will be around $4.5 billion as shown above, whereas on the asset side their NFA will be $2 billion only. Hence, **they will need to generate in PV terms an additional $2.5 billion of future profits to meet the ABS cost (see Table 5). In other words, over an average of 15 years and at an interest of 4%,**

banks will have to generate on average around $300 million annually in profits!. **But that is not all. If we assume a capital to assets ratio of 8.2%, as it was prevalent in 2018, then banks will have to inject also around $370 million in new equity to start with (see Table 5)**

Lebanese banks are, no doubt, in need of a Gap law after more than 6 years of paralysis. Clearly, however, the proposed Gap Law imposes a heavy burden on banks. Not only a handful of banks will survive (perhaps no more than 6-8 banks), but the remaining banks will have to undertake a decent new capital injection and to generate an ambitious revenue stream. There are three things that can mitigate this burden:

1) An environment of reform-based political stability and economic growth. This will ensure the prospects for higher revenue and profits, especially if undertaken within a climate of relatively high interest margins.

2) A level playing field, where the remaining existing banks will be allowed to catch up (a leg up) by competing among themselves in the revitalized domestic market, but not against the more advantageous foreign banks. In other words, a moratorium should be imposed on the entry of foreign banks for at least 5 -10 years.

3) Most important, the burden could be reduced, indeed very notably, if the government assumes responsibility for returning deposits, besides banks and BDL. At the very least, it could start by acknowledging its $16.5 billion debt to BDL, and by accepting that selling or mortgaging a part of the gold is a viable -- not a world shattering – option!

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