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This article serves as the editorial of the January 2026 monthly report issued by the Association of Banks in Lebanon, written by its Secretary General, Dr. Fadi Khalaf. It focuses on the proposed Financial Regularization Law (Gap Law) and argues that liquidity is the decisive factor determining whether the law can restore financial order or instead deepen the crisis. The author stresses that the law's success cannot be measured by intentions or political declarations, but solely by the availability of real, executable liquidity. Without clearly identified funding sources, realistic timelines, and credible implementation capacity, the law risks transforming from a solution into a new crisis of confidence.

The article first examines the current reality. It estimates that the liquidity required during the first four years of implementation – to repay up to \$100,000 per depositor – could exceed \$20 billion, a burden expected to be shared between commercial banks and the central bank. If Banque du Liban were to finance its share through mandatory placements of banks' deposited funds, only a limited number of banks would have sufficient liquidity to meet these requirements. The most serious risk identified is the inability to honor promised payments after the first year or two of implementation, especially in the absence of a clear contingency plan to address the situation of banks that become unable to continue operating. This uncertainty threatens to undermine depositor confidence rather than restore it.

The article then moves to proposed remedies, beginning with the need to test liquidity before making promises. It warns against confusing “theoretical promises” with “actual financial capacity,” arguing that early liquidity stress testing is essential before deciding on payment ceilings or timelines. Granting the depositors commitments that cannot be fulfilled would place the entire resolution framework at risk from the outset. Ignoring this step could lead to a collapse of the plan midway through execution, as honoring commitments is presented as the core condition for credibility and success.

Dr. Khalaf also addresses the scenario of bank failure during the repayment period. He warns that if some banks are forced to stop payments, the entire process could unravel. This reinforces the argument that liquidity testing is not a technical luxury but a fundamental prerequisite. Without it, the law could fail internally before reaching its intended objectives, damaging trust even further.

The article then discusses the role of the state in financing. If the Lebanese state settles its obligations toward Banque du Liban, this would significantly improve the central bank’s liquidity position and enhance its ability to support a viable repayment schedule. However, if the state fails to do so, the process becomes largely hypothetical rather than operational, weakening its realism and effectiveness.

A further key issue raised is the sustainability of the banking sector. The article argues that shrinking banks’ capital and imposing future burdens on shareholders removes any incentive for recapitalization. True banking sector rehabilitation requires a careful balance between restoring depositors’ rights and preserving the sector’s role as a core financing channel and partner in economic growth. Weakening or dismantling the banking sector would not serve depositors, as it would leave the system unable to generate the liquidity needed for repayment.

In conclusion, the article warns that unless liquidity considerations and the proposed remedies are taken seriously, the Financial Regularization Law will result in a renewed freeze on payments rather than a genuine framework for restoring rights.

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