Saade Chami on the Gap Law: Useful but with Strategic Ambiguity

February 11, 2026

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The former Deputy Prime Minister of Lebanon (2021 -2025), Mr Saade Chami, provided in January 2026 an analysis of the proposed Financial Gap law in an article, **The New Gap Law: A Useful Framework with Strategic Ambiguity**, published by the *Issam Fares Institute for Public Policy & International Affairs (IFI) at the American University of Beirut.* Below we will present a direct, succinct summary of the useful arguments presented in the article – but with a brief critical note at the end.

Mr Chami states that the proposed draft deserves recognition for attempting to impose structure and to move the debate that has been stalled for some time now forward. It also seeks to introduce accountability and to penalize those who benefited from the crisis, although these provisions could be strengthened and clarified. As in the previous government plan, it aims to protect small depositors and to respect the hierarchy of claims – a principle that is central to any credible resolution framework – though this, too, could be stated more explicitly and anchored more clearly. However, the draft law has a few problems.

The issue of the hierarchy of claims brings the first problem with the law, as the Central Bank (BDL) advanced in a statement that bank capital should not be fully depleted before irregular claims are removed and the hierarchy of claims is applied. The apparent objective of BDL statement was to shield banks' capital from the consequences of loss allocation, particularly by limiting the extent to which shareholders would absorb losses. This fragility in institutional consensus is not a secondary issue. It is an early warning: even a well-drafted law will falter if key actors treat it as a negotiating position rather than as a strong commitment to implement, let alone a draft that is so controversial.

A second problem is the absence of numbers. The draft does not state the size of the financial gap, nor does it clarify the distribution of losses across banks, the Central Bank, the State, and depositors. Equally important, it does not quantify the resources available to honor its fundamental commitments, leaving critical questions unanswered.

In addition, the draft further complicates matters by leaving unresolved claims that the Central Bank asserts against the State, amounting to USD 16.5 billion, as well as other contested liabilities, related to subsidies. Deferring this issue creates a major gap in the analysis. If accepted – fully or partially – such claims would weigh heavily on public-debt sustainability and could sharply reduce the prospects of an IMF-supported program.

Another problem is the question of available liquidity. This is a core problem for both small and larger deposits. Paying smaller deposits requires cash, while the long-term securities require both credible asset backing and reliable future cash flows to pay 2% of the remaining deposits each year (after removing irregular accounts), beginning in the fifth year. On both fronts, the draft runs into Lebanon's binding constraint: usable liquidity is insufficient – both currently and, in all likelihood, prospectively – even under the most optimistic scenarios about the pace and success of reform.

There is also the problem of asset backing. For deposits exceeding USD 100,000, the draft places significant emphasis on long-term certificates to be issued by the Central Bank and nominally backed by its assets. Spreading repayment over time is common in similar crises and often reflects political-economy constraints rather than the economically optimal solution. In insolvency cases such as Lebanon's, however, flow-based rescheduling typically implies large net-present-value losses and delays adjustment, increasing the risk of prolonged stagnation and repeated crises.

In this respect, excluding gold materially weakens the economic value of the securities and leaves only a very limited stock of non-gold assets to support the recovery of larger deposits. In practice, little, if anything, would remain to back the certificates themselves, implying a low net present value and limited attractiveness – especially for depositors in urgent need of liquidity, who would likely sell these instruments in the secondary market at steep discounts.

Then there is the problem of bail-ins. The draft law entirely omits a meaningful bail-in mechanism, under which deposits above a defined threshold would be converted into bank equity. This is not a technical detail; it is a fundamental distributional choice with major implications for fairness, liquidity needs, and the speed of recovery. The omission of bail-in appears driven by sectarian sensitivities related to bank ownership. Existing shareholders fear that a bail-in will disrupt the sectarian balance of banks' ownership.

As important is the problem of timing and parliamentary approval. In this respect, the apparent rush to adopt the draft in Cabinet reflects a combination of domestic political considerations and external pressure. While this accelerated timeline helped project momentum and reformist intent at a moment of eroded credibility, it came at the expense of the depth of analytical scrutiny. But the real test, however, lies in Parliament. Electoral dynamics, entrenched sectarian interests, and competing narratives of responsibility could either block the law outright or dilute it through amendments substantial enough to undermine its acceptance by international partners.

Another (minor) problem is that it denies prior plans. While it is true that no major reform has been implemented over the past six years, at least two serious and detailed reform efforts were prepared under the two previous governments and were ultimately blocked by vested interests embedded in the political-financial nexus. The first, commonly referred to as the Lazard Plan, was prepared under Hassan Diab government and approved by the Cabinet, but was subsequently buried in Parliament. The second was developed under the government of Najib Mikati; it contained detailed figures and concrete loss-allocation scenarios, but it was never formally discussed in Cabinet and therefore never transmitted to Parliament. In both cases, political resistance, institutional fragmentation, and shifting incentives prevailed over reform.

In conclusion, the draft law approved by the Cabinet deserves recognition for imposing structure and moving the debate forward. It represents a step in the right direction—but an incomplete one. The strategic ambiguity that runs through the text appears designed to navigate political resistance by postponing difficult choices. This has so far proved ineffective. Yet without clarity on core fundamentals – numbers, liquidity constraints, and State exposure – the framework risks a turbulent path marked by amendments, litigation, and prolonged delay.

Equally important, Parliament now faces a clear choice: to strengthen the law, dilute it, or block it altogether. Deliberations in the relevant parliamentary committees should focus on making the framework credible and operational. At a minimum, this requires: (i) determining a sustainable government contribution to the Central Bank consistent with debt sustainability; (ii) integrating that contribution into the assessment of the Central Bank's balance-sheet gap, initially based on existing data and refined once audits are completed; (iii) addressing the liquidity constraint explicitly, even if this requires extending the repayment horizon; and (iv) defining clearly how central-bank assets will back the long-term securities issued to larger depositors.

To close, the article by Mr Chami is an excellent sober analysis of the draft law. We will register two (very) brief critiques of it. First, it doesn't examine the origins of the crisis – unsustainable fiscal/governance and monetary/exchange rate policies – as it can inform a more poignant critique of the law. Second, it doesn't consider the uniqueness of the crisis in that it originated with BDl not banks, so the IMF's hierarchy of claims approach need not apply.

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