

June 2, 2026

Contact Information

Jana Boumatar

jana.boumatar@blominvestbank.com

In his opening editorial for the Association of Banks in Lebanon's May 2026 Monthly Bulletin report, Dr. Fadi Khalaf argues that the Lebanese financial collapse should no longer be viewed merely as a banking crisis. Rather, he contends that the crisis is fundamentally a systemic crisis that encompasses the entire economic, financial, monetary, and institutional framework of the country. According to the article, the widespread characterization of the events that began in 2019 as a "banking crisis" oversimplifies a far more complex reality. Drawing on recent international studies and the May 2026 IMF report, which classified Lebanon among countries that experienced systemic crises between 1970 and 2025, the author emphasizes that the collapse affected the state, the central bank, public finances, sovereign debt, monetary policy, exchange rate stability, and ultimately the banking sector itself.

A central argument of the article is that the banking sector should not be treated as the sole cause of the crisis. Khalaf highlights that many systemic banking crises around the world originate outside the banking sector and are instead triggered by severe shocks stemming

from fiscal, monetary, or economic imbalances. In Lebanon's case, the deterioration of public finances, the unsustainable sovereign debt burden, flawed monetary policies, and the inability of the state to continue financing its long-standing economic model collectively contributed to the collapse. The article therefore reframes the banking sector as part of a broader system that was affected by structural failures rather than as the exclusive source of those failures.

Building on this perspective, the author argues that recognizing the systemic nature of the crisis has important implications for any future reform strategy. If the crisis is systemic, then responsibility for losses cannot be assigned solely to banks while other components of the system remain untouched. Khalaf maintains that proposals focused primarily on imposing losses on banks or treating the situation as a conventional banking insolvency fail to address the deeper causes of the collapse. He further warns that any recovery plan that effectively destroys most of the banking sector would not constitute genuine reform but would instead deepen economic contraction, delay the return of deposits, and undermine future prospects for financing growth and rebuilding confidence.

The article also stresses the importance of protecting depositors' rights, describing this objective as a national priority. However, it argues that safeguarding depositors cannot be achieved through dismantling a sector that is expected to play a crucial role in restoring trust, mobilizing savings, and supporting economic recovery. Drawing on international experiences in managing systemic crises, Khalaf suggests that successful solutions generally require a fair distribution of losses, meaningful state participation in bearing responsibility, gradual and viable restructuring measures, and the preservation of a functioning banking system capable of supporting future economic activity.

In conclusion, the article presents a clear call for policymakers to adopt a more comprehensive understanding of Lebanon's collapse. According to Khalaf, acknowledging the crisis as systemic is not an attempt to evade accountability but rather a prerequisite for designing a realistic, equitable, and sustainable recovery strategy. The piece ultimately argues that meaningful reform must address the interconnected failures of the state, public finances, monetary policies, and the banking sector together, rather than placing the burden of adjustment on a single institution or sector. More important, such a recognition of the crisis should influence accordingly the Gap Law under formulation.

**For your Queries:
BLOMINVEST BANK s.a.l.**

Research Department

Zaituna Bay

POBOX 11-1540 Riad El Soloh

Beirut 1107 2080 Lebanon

Jana Boumatar

jana.boumatar@blominvestbank.com

Research Department

Tel: +961 1 991 784

research@blominvestbank.com

Disclaimer

This report is published for information purposes only. The information herein has been compiled from, or based upon sources we believe to be reliable, but we do not guarantee or accept responsibility for its completeness or accuracy. This document should not be construed as a solicitation to take part in any investment, or as constituting any representation or warranty on our part. The consequences of any action taken on the basis of information contained herein are solely the responsibility of the recipient.