Policy Pillars for Lebanon's Economic and Financial Recovery

August 13, 2026
Contact Information
Helmi Mrad
Senior Research Specialist
helmi.mrad@blominvestbank.com

In a previous article titled "Lebanon's Banking Crisis: Lessons from Five Decades of Global Crises", we presented the overview and implications of the Lebanese Banking Crisis based on the International Monetary Fund's characteristics of past systemic bank crises and how Lebanon's compare with them. We found that based on this comparison, the Lebanese banking crisis is a systemic one. In this article, we will present, in brief, a framework of a solution for the Lebanese crises. This resolution will be built up on multi pillars as Lebanon's crisis is not trust, liquidity or banking crisis, but a multi-head crisis. It involves the central bank, commercial banks, fiscal sector, exchange rate regime, state-owned enterprises, and institutional governance.

Pillar 1 – Resolution of the Banking Crisis:

Without solving the banking crisis and having a viable banking system, it is really hard to witness a recovery in the financial and economic situation in Lebanon. It is vital to solve the crisis with the fairest way possible but this is a very challenging task.

The Lebanese banking crisis is one of a kind. Although it is a banking sector crisis, the origin of the crises is the outcome of previous Lebanese governments choices taken along with Central Bank's (BDL) decisions. This pillar is comprised of several steps that must be done, as soon as possible, since the losses are increasing as time passes. These steps are full recognition of losses, a loss – allocation hierarchy, classification of banks, and a rebuilding the banking system.

Step 1: Full recognition of Losses:

The first step in solving the crisis is to perform audit on Central Bank, government ministries and related entities to figure out all the reasons of the crisis. Then, a loss amount should be recognized. It is hard to reach recovery without transparency.

Step 2: A Clear Loss – Allocation Hierarchy

While allocating losses to relevant parties, it is also significant to consider the responsibility hierarchy. The first and most responsible party is the State through its previous governments policies that wasted the Lebanese Central Bank (BDL) resources which mostly represented depositors' money. The State is then followed by the Central Bank that provided loans for the State on a persistent basis without sufficient collateral. Lastly, commercial banks and depositors take residual responsibility of this crisis.

In a typical systemic banking crisis, the loss allocation hierarchy starts with shareholders, followed by creditors (subordinated and senior ones), state/public resources, and depositors as last resort. It is important to note that shareholders already lost most of their capital (more than $15 billion) in addition to the new fresh capital (around $4 billion) that they were obliged to inject as per BDL instructions.

However, the crisis originated in the State and BDL, where BDL granted its resources (loans) to the State from commercial banks' deposits. So, if the State returns the amounts it loaned from BDL, and in turn BDL returned the commercial banks' deposits, the deposits' problem will be simplified a lot.

Step 3: Classifying banks as viable, viable but need recapitalization and non-viable banks

Banks that are viable should be restructured and reopen normal credit channels; whereas viable but undercapitalized banks should inject private capital, restructure balance sheets and impose reliable recapitalization plans. As to non-viable banks should be either acquired, merged with other bank or liquidated.

Step 4: Rebuilding Banking System

Returning deposits, although critical, should not be the only objective of banking system rebuilding. It should include also restoring banks' ability to play their main role which is the intermediation role. Banks should be able to grant productive loans to private sector such as to Small and Medium Enterprises, and to corporate and housing financing. These are vital since they generate profits to banks to finance their portion of returning depositors' deposits. In addition, it will improve Lebanese economy and thus allow the State to increase revenues through taxes.

No return of trust in the banking sector without issuance of a fair deposit recovery law, which is being delayed in an unacceptable way, since depositors are losing the real value of their money.

The latest recovery law draft is a good start but should be articulated in a way that respects the loss / responsibility hierarchy.

Pillar 2 – Sovereign Debt and Fiscal Reform

Sovereign debt and fiscal reform should be tackled side-by-side. First, sovereign debt restructuring and negotiations with creditors should have been the first step after defaulting on Eurobonds. However, this was not the case for Lebanon as we are entering the seventh year of the crisis but Eurobond default without restructuring and negotiations. It is very important to consider debt service ability while restructuring debt. Second, fiscal reforms, as they relate to public revenues and expenditures need critical and extensive reform measures.

We will first tackle government revenues. Some reforms have already been implemented and results should start appearing, such as new and developed scanners in sea and land ports. As such, higher customs revenues should start materializing soon. Collection of corporate and property taxes should be more efficient as many companies are not declaring the real business activity. Strict penalties should be imposed on those companies in order to be avoid such false declarations. Lastly, substantial tax administration reforms should be employed.

Additionally, we believe that taxes on tobacco products should be higher, since cheap tobacco products would encourage more consumption, resulting in higher costs of treating health related State expenditures. As for informal economy, restoring confidence in the banking sector and encouraging banking transactions will reduce the portion of informal economic activities.

In terms of governmental expenditures, unproductive and needless expenditures should be restricted. For example, unfunded wages increases should be avoided or even prohibited since a major part of our severe situation was the 2017 wages increases without real funding. Having said that, as revenues increase due to more efficiency in revenue collection, expenditures should be directed to three main areas: social / human protection, infrastructure, and productive investments.

Pillar 3 – Monetary and Exchange Rate Reforms

BDL's independence is a very vital issue since the origin of the crisis was at BDL. Governance and transparency is a major issue. Hence, a forensic audit should be applied in the BDL to figure out the mismanagement that led to such crisis. Such measures are currently being implemented with the Governor Mr. Karim Souaid, so as to figuring out the loans given to the successive governments along with the fraud happened and started filing lawsuits against people suspected of such crimes and actions.

Regarding exchange rate, we believe that a soft peg exchange rate regime in this transitory period is essential to control inflation and promote monetary stability. However, after full stabilization and sustainable growth are restored, a floating exchange rate could be a viable option.

Pillar 4 – Reforming State – Owned Enterprises

Reforming state-owned enterprises is as important as other reforms, and after bitter experience, we conclude that partnering with the private sector is fundamental. Electricity, water, and telecommunication sectors incurred losses and poor management under State's control. Focusing on electricity, Electricity De Zahle (EDZ) is a perfect example that partnering with the private sector is almost a must. Since the Public Private Partnership (PPP) laws were updated by the current government, we believe that conducting tenders for private sector companies to manage the electricity sector by governorate would be a potential solution similar to EDZ. This will help the State avoid incurring more technical and non-technical losses in addition to a more efficient collection as private sector could incorporate renewable energy sources in electricity generation. Such models should be also implemented in all other state-owned enterprises.

Pillar 5 – Enhancing Economic Model – Economic Diversification

Similar to other well-developing countries, Lebanon should diversify its economy since prior experience proved that economic growth cannot rely only on services like tourism and banking sector. Updating the McKenzie study prepared in 2018 is the optimal starting point.

Pillar 6 – Enhancing Governance and Rule of Law

All the above cannot be applied in the absence of justice, rule of law, and judicial independence. No private resident or non-resident investors will invest without rule of law and judicial integrity. Additionally, public sector audit and regulatory agencies should exert more efforts to discover frauds and corruptions. Finally, and most importantly, security is a must needed pre-requisite requirement for any economic and financial recovery.

To close, we believe that planning is very important. As such, a national vision should be set with milestones such as Qatar National Vision 2030 and Saudi Vision 2030. In a future note, we will analyze the sequencing of the policy pillars and time framework involved.

For your Queries:
BLOM BANK s.a.l.

Research Department

Zaituna Bay

POBOX 11-1540 Riad El Soloh

Beirut 1107 2080 Lebanon

Helmi Mrad

helmi.mrad@blominvestbank.com

Research Department

Tel: +961 1 991 784

research@blominvestbank.com