

“Lebanon’s journey to renewal starts now”, Op-ed in Arabian Gulf Business Insight (AGBI), 20 Jan 2025

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Lebanon’s journey to renewal starts now

Hope and optimism follow the arrival of a new prime minister and president

The nomination of Nawaf Salam as Lebanon’s prime minister under President Joseph Aoun, following more than two years of political vacuum, marks a turning point for the country.

This moment has the potential to be as transformative as the 1989 Taif agreement, which ended the civil war and restored political stability.

A major factor behind the developments in Lebanon is the significant shift in regional dynamics. This has been driven by the [war in Gaza](#), the collapse of the Assad regime in Syria,

the severe degradation of Hezbollah's capabilities and the apparent collapse of Iran's "axis of resistance".

Together, these events have created a powerful impetus for change.

For the leading powers in the GCC – Saudi Arabia and the UAE – this moment provides an opportunity to displace Iran from Lebanon, Iraq and Syria while reasserting their own influence. Both regional and international stakeholders share an interest in promoting stability.

Lebanon's political landscape has been historically paralysed by internal fragmentation. Now, at last, the country's political class, plagued by a lack of credibility, incompetence and failure to address Lebanon's many crises or implement long-overdue reforms, is passing on the baton.

But Salam and Aoun inherit a heavy legacy.

Since the Arab Spring in 2011, Lebanon has battled stalled institutional reforms, unsustainable fiscal and monetary policies and overvalued exchange rates. These factors contributed to significant deficits in the government budget and current account, along with massive debt accumulation.

The country's central bank, the Banque du Liban, allegedly ran a Ponzi scheme for many years during the tenure of Riad Salameh, who was its governor for three decades. He has denied all wrongdoing and the notion that the bank was operating a Ponzi scheme.

The bank's activities contributed significantly to Lebanon's economic collapse, depleting international reserves, sparking a 99 percent depreciation of the exchange rate, hyperinflation, a collapse of the banking system and one of the deepest financial crises in the country's history.

Central bank losses exceeded 200 percent of GDP. Lebanon

became a cash – and increasingly dollarised – economy. The polycrisis (economic, monetary and financial, institutional, security, political and governance), along with the Beirut Port explosion and the Israel-Hezbollah war, turned Lebanon from a fragile state into a failed one.

Despite the long road ahead for Aoun and Salam, we have reasons for optimism.

The president's inaugural speech encapsulated much promise for a new Lebanon. There were strong messages on political reform, rebuilding the state and its institutions, focusing on judicial and administrative reform, the rule of law, accountability and fighting endemic corruption.

Institutional and judicial reform will be complemented by a national anti-corruption drive and transparency initiatives while demanding accountability for multiple crises and destruction.

President Aoun's political vision mirrors that of former President Fouad Chehab (1958-1964), who introduced reforms and built state institutions. With extensive military and security experience, President Aoun is adept at establishing domestic and external national security.

A packed agenda starts with forming a reform-centric, cohesive, competent and effective cabinet. The critical portfolios are justice, foreign affairs, defence and internal affairs, as well as finance.

With the Israel-Lebanon ceasefire agreement set to expire on January 26, the immediate need is to negotiate a permanent ceasefire to restore internal security and stability and enable the return of the displaced to the south, Bekaa and other areas.

Macroeconomic stabilisation and growth require fiscal consolidation and tax reform, modernising and digitising all

government functions, administrative reform (over half of director-level posts are vacant), downsizing the bloated public sector, restructuring and effecting good governance of the state-owned enterprises (SOEs) responsible for public services.

An independent National Wealth Fund should be established to professionally manage all SOEs, commercial public assets and future oil and gas revenues.

Credible monetary reform requires a strong, professional and politically independent central bank. Monetary policy should be directed at controlling inflation and accompanied by a flexible exchange rate regime.

Additionally, a comprehensive overhaul of Banque du Liban's governance structure is necessary to implement meaningful change and restore confidence.

To make the BDL accountable, a new governor (and deputy governors by June 2025) and radical changes to governance are required. The Banking Control Commission of Lebanon, the Special Investigation Commission and the Capital Markets Authority should also be independently governed institutions.

Furthermore, an independent Bank Resolution Authority must restructure the banking system based on recapitalisation (starting with existing shareholders), mergers and acquisitions, and bail-ins of large depositors to maximise deposit recovery.

The implementation of political reforms, a comprehensive restructuring agenda, and institutional and structural changes will pave the way for a revised International Monetary Fund programme and renewed engagement with the GCC.

These efforts can support Lebanon's reintegration into the Arab world, facilitate funding for redevelopment and address substantial reconstruction needs, estimated at approximately

\$25 billion.

In essence, this is a historic opportunity for Lebanon, the GCC and the wider region.

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