“Lebanon at a crossroads: Reform or decay ahead?”, Oped in The National, 9 Apr 2025

The article titled “Lebanon at a crossroads: Reform or decay ahead?” appeared in the print edition of The National on 9th April 2025 and is posted below.

“Lebanon at a crossroads: Reform or decay ahead?”, Oped in The National

Nasser Saidi

Lebanon is in its sixth year of a protracted financial and liquidity crisis, facing security challenges on its borders with Israel and Syria, but appears to be on the cusp of recovery.

The country is battling several economic challenges – a plunge in gross domestic product per capita by about 40 per cent, a zombie banking sector, a highly dollarised, increasingly informal, cash-based economy, high multidimensional poverty and unemployment levels, increased inequality, plunge in its currency’s value by 97 per cent, high inflationary pressures (an average of 127 per cent over the past five years) and a collapse of public finances.

The new pro-reform president and prime minister along with a cabinet that has parliament’s backing inspires confidence and appears committed to long-delayed economic reforms. Stability and recovery will require political and judicial reforms, along with institutional and structural reforms to ensure the rule of law and accountability, allowing the country to emerge from the heavy legacy of failed policies. Whether the incumbent parliament will enable the deep reforms given municipal and parliamentary elections in 2025 and 2026 respectively, adds uncertainty.

A new governor of the central bank has been appointed. Reforms are required to re-establish trust in the banking and financial sector and convince the world to risk investing in its recovery and reconstruction.

The first step should be to restructure the Banque du Liban (BDL) and its governance, appoint a new team of vice governors, restrict the powers of the governor to prevent past abuses, ensure public reporting, monitoring and accountability.

This is a unique opportunity to have a new reform-minded, effective BDL for the next six years. Given the severe monetary and real shocks Lebanon faces and the legacy of failed policies, the policy agenda should include:

- Reset monetary policy to target inflation, with a unified, floating exchange rate, shifting away from the "financial engineering" that supported a disastrous fixed rate policy.
- Institutional reform requires that the Banking Control Commission (BCC), Capital Market Authority and Special investigations Committee (SIC) be legally independent from the BDL, given their distinct mandates and responsibilities, along with the appointment of new boards.
- The BDL should not provide any fiscal or quasi-fiscal (such as subsidies) financing. Public debt management should be the responsibility of an independent public debt management office to ensure transparency, disclosure of all public liabilities and debt sustainability.
- The new governors must undertake a comprehensive forensic audit of the BDL, in an effort to

underscore accountability for the banking collapse.

- An independent Bank Resolution Authority (BRA) should be established – similar to what many countries set up following the 2008 global financial crisis – with a mandate to recapitalise and restructure the banking system. Bank restructuring should not reside with the BDL and BCC whose irresponsible governance led to the collapse of the banking system. The BRA should arrange for a forensic audit of the banks, while also imposing a recapitalisation – some $10 billion to $15 billion is required – a mergers and acquisitions (M&A) programme and a partial bail-in of large depositors, as part of the restructuring process. Banks have more than $86 billion in frozen deposits, largely inaccessible since 2019. Depositors with less than $200,000 represent 94 per cent of accounts and 30 per cent of the value of frozen deposits, while 70 per cent of deposits, valued at $65.5 billion, are concentrated in 87,000 accounts.
- BDL assets, which include Middle East Airlines, Casino and Intra, should be audited and divested into a new, independent National Wealth Fund (NWF) – managed like Temsek in Singapore. The BDL could receive participation shares in the NWF. The NWF would restructure and manage public commercial assets for the national benefit and also manage any future oil and gas revenue.
- Lebanon’s Parliament should vote to abolish its banking secrecy law or or adopt a Swiss-style system. This along with an effective SIC to enforce international anti-money laundering and counter-terrorism financing standards and an effective anti-corruption drive are critical to remove Lebanon from the Financial Action Task

Force (FATF) grey list. This should be complemented by a Stolen Asset Recovery (STAR) programme to help address anti-corruption, money laundering and recover stolen assets.
- Lebanon requires huge amounts – some $15 billion to $20 billion – for reconstruction and it does not have the resources. It should set up an independent reconstruction fund, with full transparency, disclosure, auditing and reporting, to ensure Lebanon is accountable for the funding of reconstruction. Donors and aid givers should be allowed to undertake reconstruction projects within an agreed plan.
- Lebanon should rapidly negotiate and implement a new agreement with the International Monetary Fund based on comprehensive economic and financial reforms under five pillars – restructuring the financial sector; fiscal reforms; reforms of state-owned enterprises; strengthening governance; a credible, transparent monetary and exchange rate system. The IMF agreement and international support, mainly from the GCC, are imperative but will be conditional on undertaking a comprehensive set of deep governance, economic, monetary, fiscal and structural reforms.

This is a moment of opportunity to undertake multipronged reforms to revive confidence and economic activity, attract back human capital, improve long-term growth prospects, and strengthen and restore linkages with the GCC. Lebanon faces reform or continued decay.

Nasser Saidi is a former economy minister and deputy governor of Lebanon’s central bank