7 YEARS

LEADERSCLUB

by LEBANON OPPORTUNITIES 27 YEARS

GAPS IN THE GAP LAW

Draft for discussion

www.leadersclub.com.lb

Content

Preamble

Why we are breaking our silence on the distribution of losses – the gap law

The moment bank deposits are mentioned, reason gives way to reflex. The debate over bank deposits rarely advances beyond accusation. Anyone who dares to express an opinion is swiftly accused of being paid by banks, by George Soros, or by foreign powers; of pushing a communist or some other imagined ideological agenda; of plotting to replace the banking sector; of defending the deep state; of participating in an American or Israeli conspiracy to destroy the economy; or of some other nonsense. What rarely occurs is an actual discussion of the opinion itself. Opinions are not weighed; they are branded. Voices are not challenged; they are discredited. What is lost in this noise is the possibility of reasoned disagreement, or even the search for common ground.

Faced with this discouraging atmosphere, we have until now largely stayed on the sidelines of the shouting matches over bank deposits, unwilling to participate in a spectacle that too often resembles a murky quagmire rather than a forum for truth and solutions. Over the past six years, we have focused on the bigger picture, advocating a comprehensive economic approach rather than a piecemeal, deposit-driven restructuring of the banking sector.

Preamble

We speak now because silence no longer serves the public interest. The debate, such as it is, has begun to harden into assumptions that risk becoming policy by default. Misconceptions are repeated often enough to acquire the weight of truth, while practical, legally grounded alternatives remain drowned out.

We speak now because the country has reached a decisive moment in which draft laws, policy proposals, and competing narratives about deposits are moving from abstraction to implementation. Decisions taken—or avoided—in the coming period will shape the financial system for a generation. At such a juncture, disengagement is no longer prudence.

We speak now not to inflame an already charged debate, but to attempt to reset it. The crisis cannot be resolved through slogans, accusations, or moral grandstanding. It requires choices—difficult, imperfect, but unavoidable. At this stage, the absence of informed, structured discussion carries greater risks than participation. Our aim is to contribute analysis, not ideology; solutions, not narratives.

Executive Summary

Context and Purpose

The draft Law on **Financial Restructuring and the Restitution of Deposits** (the '**Gap Law**'), approved by a simple majority in the Council of Ministers, represents the most comprehensive attempt since the onset of the 2019 financial collapse to legally address the banking crisis and the fate of deposits. Its adoption has reignited a long-standing national debate that has persisted for more than six years, engaging political actors, economists, civil society, international institutions, and depositors themselves.

At its core, the law seeks to establish a framework to recognize losses, restructure the banking system, and provide a phased and conditional mechanism for the restitution of foreign-currency deposits. It does so in a context where economic activity has collapsed, confidence in the banking sector has evaporated, and a large share of financial transactions has migrated into a cash-based and largely informal economy.

This report presents a synthesis of the draft law's stated objectives and perceived advantages, alongside the fundamental criticisms, legal challenges, and economic ramifications it entails. It also situates this law within the broader argument that resolving the banking crisis in isolation detached from a comprehensive economic recovery strategy risks producing a legally fragile, socially inequitable, and economically suboptimal outcome.

The Scale of the Crisis

At the outset of the crisis, total bank deposits amounted to approximately $174 billion, of which roughly $124 billion were denominated in foreign currencies and $60 billion in lira. The subsequent collapse of the exchange rate effectively wiped out the real value of lira deposits. Foreign-currency deposits, meanwhile, were transformed into so-called 'lollars'—funds denominated in dollars but trapped within the local banking system and subject to severe withdrawal and transfer restrictions.

Over time, the implicit value of these deposits fell dramatically. The economic reality is that a large portion of depositors' wealth has already been destroyed. While the draft law proposes to reclassify approximately $32 billion of deposits as 'irregular', pending investigation, and to convert the remaining $50 billion into 'fresh' dollars to be repaid over time for up to 20 years for some depositors, and through promissory notes except for the first $100,000. Long repayment horizons for larger balances further reduce the present value of restituted deposits, amounting to a de facto write-off even where nominal repayment is promised.

The Government's Case for the Gap Law

The government and proponents of the Gap Law argue that, in a crisis of this magnitude, the appropriate benchmark is not theoretical fairness or legal purity, but whether a framework can move Lebanon from paralysis toward an orderly, rules-based recovery.

From Paralysis to Action

After nearly six years of inaction, ad hoc measures, and regulatory ambiguity, the Gap Law represents a shift from denial to decision-making. It explicitly acknowledges that losses exist, that liquidity is scarce, and that delay perpetuates inequality, arbitrariness, and uncertainty. In this sense, realism is presented as a virtue: without a legal framework, losses continue to be absorbed in opaque and socially regressive ways.

The Status Quo as Comparator

The law should be assessed against the current reality, not an idealized alternative. Today's status quo is characterized by frozen deposits, zombie banks, arbitrary withdrawal limits, and an economy dominated by cash transactions. Against this backdrop, the law promises:

- Faster and more predictable access to funds for small depositors
- A defined legal pathway for larger depositors to recover balances over time
- A roadmap for bank restructuring that could restore basic intermediation functions.

By reviving the banking sector, the law could help reverse the expansion of the cash economy—a key factor behind Lebanon's financial isolation and its placement on the FATF grey list.

Accountability and Audits

Contrary to claims that the law absolves past misconduct, its proponents argue that accountability is embedded in its architecture. The law mandates international-standard audits, Asset Quality Reviews (AQRs), and scrutiny of financial engineering operations, profits, and capital outflows. Importantly, these measures do not replace or suspend judicial proceedings. Criminal, civil, and administrative accountability remain theoretically intact.

Alignment with International Norms

The loss-allocation hierarchy broadly follows international resolution principles. Shareholders bear losses first, banks contribute within the limits of existing capital, and depositors are treated as senior claimants rather than residual ones. This approach aligns, in principle, with IMF and Financial Stability Board norms and marks a departure from the discretionary and opaque practices that have prevailed since 2019.

Depositor Prioritization

A central feature of the law is the prioritization of depositors:

- Around 85 percent of depositors are expected to recover their balances within four years
- Every depositor is guaranteed repayment of the first $100,000 within that timeframe
- Larger balances would be repaid over time through asset-backed instruments generating annual cash flows.

Supporters argue that this predictability, however imperfect, is preferable to indefinite uncertainty.

Banking Sector Viability and State Responsibility

The law envisions recapitalization plans supervised by the Central Bank, aiming to restore compliance with Basel III standards. It also reaffirms the State's responsibility to contribute through interest-bearing instruments and, if necessary, to recapitalize the Central Bank. This explicit acknowledgment of sovereign responsibility is seen as a meaningful departure from narratives that place the burden solely on depositors.

Fundamental flaws

The draft law faces deep and wide-ranging flaws on legal, economic, and social grounds.

A Piecemeal Approach Detached from Economic Vision

The most fundamental objection is that the law addresses banking resolution and deposit restitution in isolation, without being embedded in a comprehensive economic recovery plan. Banking reform is only one component of a broader restructuring that must include public finance reform, debt restructuring, infrastructure rehabilitation, social policy, investment incentives, legal modernization, and public-sector reform.

Resolving deposits before restoring growth risks crystallizing losses at a time when asset values are depressed and public confidence remains shattered. The banking resolution should be the culmination rather than the starting point of economic recovery.

Exclusion of lira depositors and others. The poorest strata

The law focuses exclusively on foreign-currency deposits, effectively ignoring lira deposits that were destroyed by devaluation. Depositors who trusted the national currency for decades are excluded entirely, as are pensioners whose end-of-service indemnities were denominated in lira, mutual funds, and professional retirement schemes.

Similarly, depositors who already withdrew funds at steep discounts under Circulars 158 and 161, often among the most vulnerable, are left in limbo. The poor, many of whom have little or no bank deposits, are absent from the framework. This selective protection raises serious equity and social justice concerns.

Creation of a de-facto secondary currency

The ‘lollar’ at par with fresh dollars pre-crisis, is effectively a secondary, unofficial currency, prioritized under this law above the national currency. This occurs despite the fact that lollars were a domestic construct, cleared locally, and not backed by external guarantees. Meanwhile, the lira, the sole official national tender, is afforded no comparable protection, further undermining confidence in national monetary sovereignty.

Use of gold and other central bank assets

The law proposes to secure future deposit restitutions with Central Bank assets, primarily gold reserves. This directly conflicts with the Code of Money and Credit, which designates gold as backing for the lira, and with legislation prohibiting the liquidation or encumbrance of gold reserves. In practice, such securitization is largely illusory and risks violating fundamental monetary principles.

Retroactivity and constitutional risks

Perhaps the most serious legal challenge lies in the law’s extensive retroactive provisions. These include the revaluation of past transactions, the clawback of interest, and the imposition of compensations on transfers and loan repayments that were legal at the time they occurred.

Retroactive legislation undermines legal certainty, impairs vested rights, and conflicts with constitutional principles and international norms. The invocation of ‘public interest’ to justify such measures is insufficient under established constitutional jurisprudence, exposing the law to a high risk of judicial invalidation.

Absence of financial projections

The law contains no comprehensive financial forecasts or cash-flow projections for the State, the Central Bank, or commercial banks. Without such data, it is impossible to assess whether promised repayment timelines are feasible or whether the system can absorb the combined burdens of restitution, recapitalization, and regulatory compliance.

The unresolved status of Eurobond liabilities further compounds this uncertainty, raising questions about sovereign and central bank solvency.

Bank sustainability and hidden losses

Banks are expected to contribute to restitution while recapitalizing and meeting Basel III requirements. Yet no bank-by-bank stress tests or capitalization plans have been disclosed. Significant exposures such as losses arising from loans repaid in lira at official rates remain inadequately addressed, threatening the post-restructuring viability of the sector.

Questionable hierarchy of losses

While the law acknowledges that public policies, monetary decisions, and sovereign default contributed to the crisis, it does not clearly translate this hierarchy of responsibility into a transparent allocation of losses. The absence of a comprehensive official account of how the Central Bank's liquidity shortfall arose undermines the credibility of the proposed burden-sharing.

Economic Impact Assessment

The resolution of the banking crisis will have far-reaching economic effects, the magnitude of which depends on multiple variables, including reform credibility, external financing, and the pace of confidence restoration.

Consumer spending, imports, and GDP growth

The restitution of up to $100,000 per depositor over four years could inject a net of $2 billion annually into the economy above those generated by current central bank circulars. This would boost disposable income and pent-up demand, but much of the resulting consumption would leak into imports, widening the trade deficit in the short to medium term. This would translate into a 3.5 percent growth in GDP during its first year of implementation

Balance of Payments and inflation

Higher imports would strain the current account, while improved confidence and bank recapitalization could attract capital inflows over time. However, increased liquidity chasing mostly imported goods is likely to exert inflationary pressure.

Banking and fiscal effects

Absent a credible revival of credit intermediation, multiplier effects may remain limited. Tax revenues (both direct and indirect) would likely increase moderately, particularly through VAT and Customs duties, but informality would constrain revenue capture.

Conclusion

The Gap Law represents a decisive attempt to impose structure on a profoundly disordered financial collapse. Its principal strength lies in replacing uncertainty with a legal framework and acknowledging losses that have long been denied. Yet it also embodies serious legal, economic, and social flaws that risk undermining its legitimacy and durability.

By addressing deposits in isolation, relying heavily on retroactive measures, excluding large segments of society, and proceeding without transparent financial projections, the law risks crystallizing inequities and legal vulnerabilities rather than resolving them.

The choice is being presented as a predicament between a financially flawed and possibly unconstitutional law and stagnating *ad infinitum* in paralysis. But there is a third way besides controversy and doom. We advocate a broader, growth-oriented recovery strategy in which banking resolution is the culmination of reform, not its substitute.

In that sense, the Gap Law is best understood not as a solution in itself, but as a contested foundation whose success or failure will depend on whether it is integrated into a coherent economic vision capable of restoring growth, trust, and social cohesion.

Introduction

The draft law on Financial Restructuring and the Restitution of Deposits (the 'Gap' Law) has been approved by a simple majority in the Council of Ministers. As expected, a broad public debate has begun—or rather, has been reignited. Since the onset of the crisis six years ago, the future of deposits has been the subject of intense and continuous debate, with local and international actors alike weighing in. No mechanism, no matter how carefully designed, will be able to achieve consensus, or even a majority approval, among political parties, experts—serious or otherwise, the media, or public opinion.

We have consistently argued that addressing the issue of deposits, or the banking crisis more broadly, as a stand-alone matter will inevitably lead to disaster and paralysis. This was true six years ago and remains equally valid today. Attempting to resolve the deposit issue in isolation, ahead of restoring the broader economy, is impossible without sacrificing a significant portion of those deposits.

At the beginning of the crisis, total deposits amounted to $174 billion, of which $60 billion were denominated in lira and $124 billion in dollar. The lira deposits were effectively wiped out by the devaluation, and the dollar deposits were transformed into so-called 'lollars', now valued at approximately L$82 billion (L$ = lollar).

The government is now proposing to classify around L$32 billion of the total as "irregular", pending further investigation, and to convert the remaining L$50 billion into $50 billion in 'fresh' dollars to be restituted under a staged repayment scheme. This is coupled with a series of measures aimed at penalizing certain transactions and retroactively restating others, particularly exchange operations. By doing so, the government argues that it has restituted all "legitimate" deposits and that its promise that deposits will not be written off (شطب شطب الودائع) has been honored. In reality, however, its promise has been itself written off: a significant portion of deposits has already been written off over the past six years, while the phased repayment, extending up to 20 years for very large balances, reduces their present value to, or even below, the current lollar-to-dollar exchange rate, amounting to a substantial de facto write-off. Unsurprisingly, this approach of phasing and retroactive measures appears to breach numerous laws, and possibly the Constitution itself.

Since the government has chosen to persist with the approach (inspired from the two governments that preceded it), of addressing deposits before tackling the broader economic collapse, it would have been more candid to state the obvious: that restoring deposits in full is impossible, and that extensive legal contortions—if not outright violations—are being employed to close this chapter and move forward.

This leads to the unavoidable question: which option is more painful? Accepting the law, perhaps with some improvements, despite its many sacrifices and legal transgressions, and then attempting to rebuild the economy? Or continuing an endless cycle of disagreement and delay? This is the core argument advanced by the law's proponents.

Our position is that a third path exists, one we have advocated since the early days of the crisis and which has been endorsed by many economists and business leaders. Unfortunately, it found no receptive ears under the previous two governments, nor under the current one. Nevertheless, we will continue to advocate for it.

The Government's Case

Why it believes it has gotten it right

See Appendix A for the key elements of the draft law

The government and the proponents of the draft law have advocated that the draft law has advantages that merit serious consideration. In a crisis of this magnitude, the relevant benchmark is not theoretical perfection, but whether a framework moves Lebanon from paralysis to an orderly, rules-based recovery. Key government officials are arguing: "If not this law, then what? Are we better with this law, or with additional years of stagnation? Will depositors be better off with the current proposed restitution or by having their funds blocked for many more years?"

1. From Paralysis to Action: A Step Forward

After nearly six years of financial paralysis, the Cabinet's adoption of the Gap Law represents a substantive shift from denial to decision-making. The law does not promise miracles and does not pretend that they exist. Instead, it acknowledges economic reality: losses are already embedded in the system, liquidity is scarce, and delay only deepens inequities and uncertainty.

In this context, realism is a strength. The law recognizes that recovery in a collapsed banking system is necessarily gradual and requires difficult trade-offs. Continued inaction, by contrast, guarantees disorderly outcomes, opaque losses, and further erosion of confidence.

2. The Right Comparator: The Status Quo, Not the Ideal

The Gap Law should not be assessed against an idealized, cost-free resolution, but against the current status quo—where depositors face arbitrary withdrawal limits, banks operate as 'zombies', and the economy has reverted to a largely cash-based system.

Relative to this reality, the law offers tangible improvements:

- **Small depositors** gain faster and larger access to their funds
- **Larger depositors** gain a defined, BDL-backed legal path toward full recovery over time
- Banks are offered an exit from regulatory limbo through a structured recovery and restructuring roadmap.

By restoring a functioning banking intermediary role, the law supports a shift away from cash-based transactions an issue that has contributed directly to Lebanon's placement on the FATF grey list and its broader financial isolation.

3. Accountability as a Core Pillar

Contrary to claims that the law "buries" past misconduct, accountability is embedded in its architecture. The Central Bank and all commercial banks will be subject to:

- International-standard audits
- Asset Quality Reviews (AQRs)
- Scrutiny of past financial engineering operations
- Examination of excessive profits and suspicious capital outflows.

These processes are designed to establish a credible financial baseline. Crucially, they **do not replace, suspend, or limit** existing judicial, civil, or criminal proceedings. Legal accountability remains fully intact and separate from the financial restructuring process.

4. Alignment with International Best Practice

The loss-allocation hierarchy in the draft law broadly follows international resolution principles:

- **Bank capital absorbs losses first**, consistent with the principle that shareholders bear risk
- Banks contribute to liquidity needs within the limits of existing capital
- **Depositors are treated as senior claimants**, not residual ones.

This structure aligns with IMF, World Bank, and Financial Stability Board norms, and represents a departure from the opaque and discretionary loss-shifting that has characterized Lebanon's crisis management since 2019.

5. Clear Depositor Prioritization and Predictability

Depositor protection is central to the framework:

- Approximately **85 percent of depositors are expected to be fully repaid within four years or less**
- **Every depositor**, regardless of size, is guaranteed repayment of their first $100,000 within that period
- Deposits above that threshold will be repaid in full over time through **Asset-Backed Securities**, generating annual cash flows and backed by more than **$50 billion in BDL assets**.

The draft law also allows for accelerated repayment should system liquidity improve, an upside optionality rather than locking depositors into a rigid timeline.

6. Restoring Banking Sector Viability

A functioning economy requires functioning banks. Under the draft law:

- Banks undergo internationally supervised AQRs
- Losses are capped at existing capital, avoiding structurally negative equity
- BDL implements **five-year recapitalization plans** to restore compliance with Basel III standards.

This approach seeks to rehabilitate viable institutions while enabling an orderly exit for non-viable ones rather than perpetuating a sector that exists only on paper.

7. Reaffirmation of State Responsibility

While the precise legal quantification of the State's obligations to the Central Bank remains unresolved, the draft law explicitly reaffirms:

- The State's duty to contribute through interest-bearing instruments
- Its responsibility to recapitalize BDL if required

This is significant: it rejects the notion that losses should be absorbed exclusively by depositors or the banking sector and re-anchors sovereign responsibility within the recovery framework.

8. Team approach

The current team responsible for this draft law comprises the Prime Minister, the Ministers of Finance, the Minister of Economy and Trade, and the Governor of the Central Bank, along with selected staff members. This marks the first occasion since the onset of the crisis in which these key officeholders have collaborated constructively without public disagreement. The team publicly presented the completed draft law in a coordinated manner.

Although the Central Bank subsequently issued a clarifying note to distinguish its position on certain provisions (see Appendix D), the overall coherence of this leadership group represents a notable departure from past patterns of public discord. This level of coordination should be acknowledged as a positive development in the policymaking process.

9. A Foundation, Not a Final Destination

The draft law does not claim to complete the country's recovery. Its principal advantage lies elsewhere: it replaces uncertainty with structure, denial with acknowledgment, and paralysis with a credible forward path.

Concluding thoughts

Economic recovery will be slow, contested, and imperfect. But without a legal and institutional foundation, recovery is impossible. This law provides that foundation. It marks the beginning—not the end—of financial normalization.

Overall Critique of the Draft Law

Before commenting on the specific articles of the draft law, the following general observations are in order:

1) The wrong approach: piecemeal measures detached from an economic vision

We reiterate our position that the banking resolution law as a standalone measure cannot be fairly assessed, or even properly developed, in the absence of a comprehensive view of the overall economic restructuring. It is only one component of a complex puzzle that must include measures relating to:

- Public finance, taxation, public sector wages, and the servicing of current and future debt
- The treatment of the Eurobond default
- Infrastructure rehabilitation and development, including private-sector participation
- Social development policy
- Investment incentives and the removal of barriers hindering the private sector
- Modernization of key legislation (labor, commercial, and related laws) Anti-corruption frameworks
- Reengineering of the public administration

The current approach adopted by this government, and the two preceding ones, **is one of liquidating obligations** at a time when all other aspects of the economy, both public and private, remain ongoing concerns and viable.

Our position is that a successful resolution of bank deposits and the restructuring of the banking sector should come as the culminating component of this comprehensive economic plan, as proof of its success. With a growing economy and sound public-sector governance, asset values will recover, the urgency to withdraw funds from banks will subside, and public anger will gradually ease.

An economic revival plan will take a long time to implement and bear fruit. An economy cannot function without functioning banks, just as reducing the cash economy requires a viable banking system. This is why our proposal calls for a two-phase approach, beginning with a temporary plan, limited in scope and duration. The first phase would include measures allowing banks to repatriate and raise funds to be deployed in the economy, insulated from past liabilities and, in return, subject to higher-than-normal taxation. It would also include a temporary taxation mechanism relying primarily on indirect taxes until the tax system is comprehensively reformed. But the plan is focused primarily on economic growth measures targeting each economic sector. (For the full plan, see **Relaunch 2025**. A 2026 updated edition soon to be published).

2) The wrong priorities: dismissing the poor and the national currency

The draft law, titled the 'Law for Financial Regulation and Deposit Recovery', should more accurately be renamed the 'Law for Financial Regulation and **Partial** Recovery of Deposits in **Foreign** Currencies'.

The law addresses only deposits denominated in foreign currencies. Deposits in Lebanese lira—the national currency—lost through a devaluation that may well have been avoidable have been entirely disregarded from the outset by policymakers, as well as by the army of economists, self-declared experts, pundits, media outlets, and organizations claiming to represent stakeholders. Lira deposits have been dismissed from day one. Instead of being placed at the top of the priority list, depositors who trusted and held the national currency for over thirty years are not included at all—not even at the bottom of the list. Their abandonment constitutes a clear **dereliction of duty** by successive governments responsible for safeguarding the national currency and those who hold it.

Similarly, the law ignores foreign-currency depositors who have already partially or fully withdrawn their deposits at steep discounts under Circular 161 and other mechanisms. These depositors are typically among the most vulnerable segments of the population and should, at a minimum, be treated on par with others, if not prioritized. They are now left in limbo, forced to choose between continuing monthly withdrawals at punitive discounts (LL15,000) under Circular 161 or halting withdrawals altogether and depriving themselves of much-needed liquidity while awaiting legislation that may take years to pass, or may even never be implemented.

Also excluded are social security pensioners who have lost nearly the entire value of their end-of-service indemnities because these are denominated in lira. These pensions are effectively lira deposits. Pensioners, among the most vulnerable segments of society and beyond retirement age, are less able to generate new income than many lira depositors who may still be employed or gaining income from their trade or businesses. Yet they too remain absent from the discussion.

The same applies to mutual funds (teachers, judges, labor unions, etc.) and retirement funds (in lira or lollars) for members of professional orders. The 'Banking Reorganization Law' (Law No. 23/2035) had stipulated measures dealing with these matters, but those provisions were struck out in Parliament.

The poor, whose share of the population has expanded dramatically since the crisis began, appear to lie entirely outside the scope of the debate. Many of them do not have $100,000 or less in bank deposits, or no deposits at all.

See Appendix B for list of all deposits excluded under this law

3) Wrong currency protection: Shoring up a secondary local currency

An argument similar to that made for the lira applies to foreign-currency deposits (more than 85 percent of which are denominated in U.S. dollars) held prior to October 17, 2019, or even generated in 'lollars' post that date.

The government, the Central Bank, and, by extension, the broader economy have consistently distinguished between foreign-currency deposits made before that date and those made afterward. The most recent instance of this distinction appears in the Explanatory Notes (الأسباب الموجبة) of the draft law, where pre-crisis dollars are labeled 'local dollars', commonly referred to popularly and quasi-officially as 'lollars'.

These 'lollars' are effectively treated as a **second local currency**, with quasi-official status, as they:

a) Are cleared locally by the Central Bank
b) Do not enjoy the protection or guarantee of the U.S. Treasury, which was sought and denied in the early 1990s
c) Are partly an artifact and product of domestic economic activity
d) Were subject to restrictions and Central Bank circulars not applicable to post–October 17, 2019 funds, referred to as 'fresh' (or 'real') dollars.

Both before and after October 17, 2019, the 'lollar' was widely used to purchase assets, pay salaries and expenses, and conduct everyday economic activity.

The cumulative deficit in the balance of payments in 2011 through 2019 was $17.5 billion. The cumulative growth in bank deposits in dollar was $57 billion. By combining these figures, the implied increase in money creation can be estimated at about $74.5 billion, a value that is broadly consistent with current estimates of the gap at the Central Bank.

Until October 17, 2019, the exchange rate of the 'lollar' was pegged at par with the 'real' dollar. Following the imposition of withdrawal and transfer restrictions, that peg was abandoned, and the 'lollar' began trading at a discount, eventually falling to roughly 10–15 percent of its face value.

Through this and other legislation, the government is now proposing to re-peg the 'lollar' at par with the fresh dollar, effectively favoring a secondary, unofficial currency over the lira, the country's sole official legal tender.

The lira, which began losing its peg in the parallel market weeks before October 17, 2019 (though not officially) will not receive comparable treatment.

4) Wrong use of gold: securing future dollar deposit restitutions

The government also proposes to secure promissory notes for future deposit restitutions with Central Bank assets, which consist primarily of gold reserves in addition to other assets such as companies, real estate, and other assets. This directly violates the Code of Money and Credit, which designates gold as backing for the lira.

Moreover, a 1986 law prohibits the liquidation of gold reserves or their use for any other purpose, which is recognized by this draft law. As a result, gold exists on the books but functions as if it does not, rendering its proposed securitization largely illusory. The evidence is clear: despite the existence of gold reserves, the lira has lost nearly all its value, with gold having little to no stabilizing effect.

5) Wrong application of 'public interest' to justify retroactivity

The draft law contains multiple provisions with retroactive effect, in violation of fundamental legal principles. The prohibition of retroactive legislation is rooted in constitutional safeguards, the rule of law, and international human rights norms. Where retroactivity breaches these boundaries, courts typically strike it down.

The retroactive components of the proposed bank resolution framework are inconsistent with IMF-supported principles of legal certainty, equitable burden-sharing, and orderly resolution, and risk undermining both constitutional compliance and the credibility of any reform program.

The draft law seeks to justify the retroactive reallocation of losses on the grounds of 'Public Interest'. In this case, however, the retroactive provisions fall outside the constitutional understanding of 'Public Interest' as defined by the Constitutional Council, as they reopen completed transactions and impair vested rights.

See Appendix C for a detailed rebuttal of retroactivity and the invocation of public interest to justify it.

6) Wrong visibility: absence of financial forecasts

The Explanatory Notes (الأسباب الموجبة) contains no financial projections allowing an assessment of the law's implications. The articles of the law themselves include no financial caps or safeguards, making it impossible to determine whether the proposed framework is feasible. How can it be asserted that deposits will be paid in 4 years, 10, 15, or 20, if data is missing about the current and future availability of funds at the central bank, each commercial bank, and the State?

While the law mandates audits of banks and the Central Bank, which is an entirely reasonable requirement, the authorities must already possess indicative estimates of the exposure to be borne by the State, the Central Bank, and the banking sector as a whole. These estimates should be an integral part of the draft law. Without them, its practical applicability cannot be assessed.

Such financial projections would naturally flow from the overarching economic vision outlined in point (1) above.

a) State and Central Bank cash flows

The capacity of the State and the Central Bank to honor their respective obligations remains uncertain. While the framework allows for extensive flexibility in the timing and rescheduling of payments, such discretion inherently weakens the predictability and credibility of these commitments.

No forward-looking projections have been presented regarding the future liquidity position of either the Treasury or the Central Bank, particularly in light of the unresolved status of approximately $31.5 billion in outstanding Eurobonds, excluding accrued and unquantified interest. These liabilities are owed by the State and are held across a broad creditor base, including the Central Bank, domestic commercial banks, and a range of local and international institutional and individual investors.

In the absence of a comprehensive debt restructuring strategy and transparent cash-flow projections, it remains unclear how these obligations will be reconciled with deposit restitution, fiscal financing needs, and reserve preservation. This uncertainty further complicates assessments of sovereign and central bank solvency, undermines confidence, and constrains the feasibility of a durable resolution of the financial crisis.

b) Bank sustainability

Banks are expected to shoulder a significant share of the cost of deposit restitution, while simultaneously undertaking recapitalization and achieving compliance with Basel III capital and liquidity requirements. In practice, this will likely require banks to attract substantial new capital in the early phases in order to restore a sustainable level of lending and financial intermediation.

However, no detailed financial projections have been published to demonstrate whether banks can realistically meet these combined obligations, the magnitude of any resulting capital shortfalls, or the mechanisms through which such shortfalls would be addressed. In the absence of credible, bank-by-bank stress tests and capitalization plans, uncertainty remains as to whether the sector can absorb these requirements without further erosion of balance sheets.

This raises fundamental questions regarding the post-restructuring viability of the banking sector. In particular, it is unclear whether banks will be able to operate on a sustainable basis, generate risk-adjusted returns attractive enough to incentivize existing or new shareholders to inject additional capital, and gradually rebuild depositor confidence.

A notable omission in these laws is the treatment of the funding gap created in banks by the restitution of loans denominated in lira. While the draft legislation provides partial relief for loans exceeding $750,000, it does not address the substantial exposure arising from subsidized loans or consumer loans that, under prior Central Bank decisions and circulars, were permitted to be redeemed at LL1,500 per USD. The absence of provisions to cover these liabilities leaves a significant source of potential losses unaddressed, which could further strain bank balance sheets and complicate efforts to achieve full compliance with recapitalization and Basel III requirements.

Absent clarity on these issues, the 'day-after' configuration of the banking sector remains undefined, including the likely number of surviving institutions, the degree of consolidation, the scale of lending activity, and the role banks will realistically play in supporting economic recovery.

7) The effect of retroactivity on taxes

Even if retroactivity were to survive constitutional and legal challenges, bank financial statements would need to be restated, likely resulting in lower reported profits. The draft law is silent on how taxes already paid on those profits would be refunded.

The same issue applies to companies and individuals whose income tax liabilities would need revision due to retroactively imposed losses, whether arising from the revaluation of lira-to-'lollar' conversions, loan repayments, or restitutions linked to financial engineering operations.

8) Wrong hierarchy of losses

The Explanatory Notes (الأسباب الموجبة) state the origins of the crisis: as public government policies, BDL, lira devaluation, fall in the capacity of BDL to honor its commitments towards banks, the state's default… then banking risks:

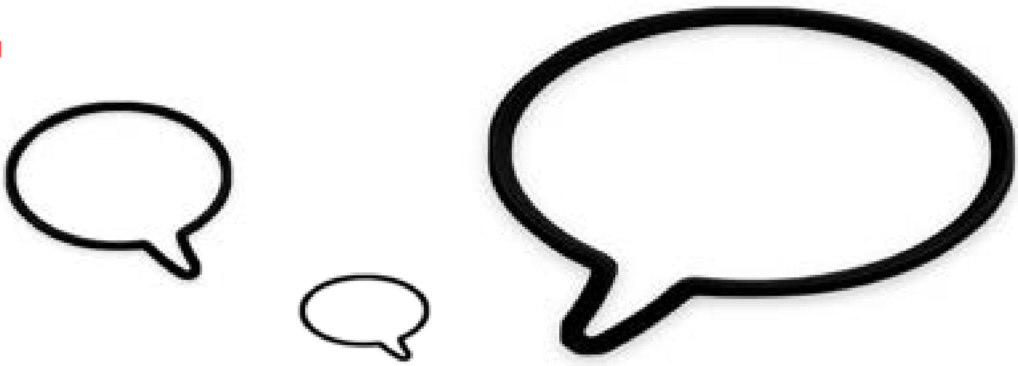
> "The monetary and fiscal policies adopted by successive governments and the Central Bank, coupled with the depreciation of the national currency, have collectively led to a decline in the quality and economic value of the Central Bank's assets. As a result, the Central Bank's ability to cover its obligations has deteriorated, which primarily consist of the deposits of banks operating in Lebanon and their entitlements.
>
> Since late October 2019, Lebanon has entered an unprecedented, multidimensional financial and economic crisis, encompassing financial, monetary, and banking aspects, which has led to the collapse of economic activity and produced significant social repercussions.
>
> In addition to the aforementioned causes, and the subsequent failure of the State to repay its sovereign debts, the ability of the State, the Central Bank, and commercial banks to meet their financial obligations was negatively affected, thereby preventing depositors from accessing or disposing of their deposits. At the level of banks operating in Lebanon, (a) the increased risks of banks' assets with the Central Bank and the provisions required to cover losses on these assets, and (b) the accumulation of claims arising from non-performing assets that emerged during and as a result of this crisis, have, in an automatic and mutually reinforcing manner, eroded the net capital of the affected banks."

The successive governments from 2019 to date have never described how the liquidity shortfall happened at the Central Bank. Beyond general characterizations, as in the above text, there are no financial accounts showing the inflows and outflows of money, their origins and destinations, and their usage. Many articles and spreadsheets have been presented by non-official authors, however we lack the official story. That story should include at least the following:

- Inflows and outflows of US dollars and their net balance from 1993 to date
- How much of these US dollars were the result of conversions from LL
- How much money has been lent to the State by the Central Bank in both currencies and under which laws these were done
- Complete accounting of Eurobond accounts at BDL
- How much of the currencies reserves at the Central Bank were used and to what end (exchange rate, Treasury, subsidies, etc.)
- The former BDL Governor has stated that commercial banks got back their deposits from BDL. How true? What mechanism?
- What would have happened if financial engineering operations had not occurred? Likely scenario(s)
- How were interest rates set on deposits, loans, and t-bill and Eurobond issuances
- …and many more crucial elements

What is therefore the hierarchy of responsibilities and how does it translate into the distribution of losses? The draft law does not seem to be reflective of this hierarchy.

Comments on Certain Articles in the Draft Law



Article 2 section A
"Financial Engineering: The monetary and financial exchange operations carried out between the banks operating in Lebanon and the Central Bank on one hand, and between these banks and their clients on the other hand, which resulted in extraordinary profits without any economic justification or rationale."

Questions arise regarding the criteria for assessing what constitutes "extraordinary" profits and what qualifies as an acceptable "economic justification or rationale."

Financial engineering operations are structured financial products that inherently differ from regular deposits; their yields are naturally higher due to the nature of the structuring and the risks involved, including currency risk and other financial exposures. Given the unique and non-standardized nature of financial engineering transactions, how will they be benchmarked?

How can economic justification or rationale be evaluated in a context where foreign currency reserves were under pressure, experiencing significant outflows, and where certain major players in the financial sector were facing acute stresses?

Benchmarking these operations requires a **risk-adjusted, context-sensitive approach** using market proxies, historical internal performance, and global comparisons. "Extraordinary" profits should be assessed **relative to what a rational**, **risk-adjusted yield would have been** given the unique conditions in Lebanon at the time.

Comments on Certain Articles in the Draft Law

Article 5 section 2 (5.2) and Article 6, section 2 (6.2)

5.2: "All cash withdrawals and bank transfers abroad that took place after October 17, 2019, including those by all persons politically exposed as defined by the Financial Action Task Force (FATF), and whose value exceeds $100,000, without a commercial, professional, educational, health, or any other justification that may be specified in implementing regulations."

6.2: "Regarding the transfers specified in **Articles ...and 5.2:**

> **a.** An exceptional compensation of 30 percent of the total value of these transfers shall be imposed on the portion exceeding $100,000, and shall be transferred to the deposit repayment account at the Central Bank
>
> **b.** If the account holder fails to pay the aforementioned compensation within three months from the effective date of this law, the Ministry of Finance shall issue collection orders for the amount of the imposed compensation in favor of the deposit repayment account at the Central Bank, in accordance with the procedures for collecting taxes and fees specified in Chapter Eleven of the Tax Procedures Law No. 44/2008 and its amendments.
>
> **c.** Payment of the compensation stipulated in this paragraph does not preclude the possibility of claiming the return of the amounts involved in those transfers, in whole or in part, by virtue of a decision issued by the competent court for reasons other than those stipulated in this law
>
> **d.** This compensation does not apply to anyone who complies with Central Bank Circular No. 154
>
> **e.** Cash deposits made by the account holder from their own fresh funds and transferred abroad are not considered bank transfers abroad

Article 5.2 does not apply to transfers between branches of the Lebanese bank."

The following issues arise:

1) Retroactive measure

It constitutes a retroactive edict.

2) Absence of capital controls and depositor liability

No capital control law was in place, nor is one in place today, prohibiting transfers abroad. Accordingly, depositors cannot be held liable for requesting and obtaining transactions that were not legally prohibited. The claim that banks violated their obligation to treat liabilities equally requires judicial determination, as only the courts can decide whether banks should be held responsible for authorizing such transfers. Whatever the outcome of that determination, depositors, having acted within their rights, cannot be required to repatriate the funds they transferred.

3) Possible 'Double Jeopardy' or 'Double Liability'

The proposed clause creates a significant risk of double jeopardy and/or liability. Depositors may be compelled to pay both the statutory compensation and amounts determined by the courts for the same transfers. Legal certainty and fairness would require a clear limitation preventing multiple charges on the same underlying transfer.

Article 5 section 3 (5.3) and Article 6.2

5.3: "Accounts on which their owners have received prepaid interest as a result of financial engineering and/or any interest paid starting from 2016. This applies only to the portion exceeding $100,000 of the outstanding balance, provided that the total interest recovered does not exceed the account balance on the effective date of the law."

6.2: Regarding the accounts specified in **Article 5 Section 3 (5.3)**:
"**a.** The interest paid, as defined in Article 5, shall be deducted from these accounts
b. Banks shall make a reverse entry of this difference in the relevant account, which shall be offset by a corresponding reduction in the banks' accounts at the Central Bank."

The following issues arise:

1) Retroactive measure

This constitutes a retroactive edict.

2) Pre-agreed participation by all parties

The financial engineering operations involved multiple parties, all of whom knowingly and voluntarily entered into these transactions: the Central Bank and the State on one side, and the other side are the ultimate end users: many of the banks and certain depositors, All parties participated with full awareness of the structure and terms of the operations.

3) Taxation of financial engineering proceeds

The proceeds (interest) from financial engineering operations were paid by the Central Bank to banks in lira. These proceeds were not distributed to shareholders; they were taxed, and the taxes were collected by the Treasury. This raises a fundamental question: will those taxes be restituted?

This is a material issue. Banks paid, in lira, the equivalent of approximately $850 million in taxes, while shareholders paid the equivalent of approximately $380 million, for a combined total of roughly $1.23 billion.

4) Misuses of Financial Engineering go unpunished

The declared purpose of the financial engineering operations was to attract fresh funds from abroad. However, the law is silent regarding operations in which local depositors transferred funds abroad from their existing local deposits and then repatriated them as 'fresh' foreign funds, thereby benefiting from a transaction from which they should not have been entitled to benefit.

Comments on Certain Articles in the Draft Law

Articles 6, section 3 (6.3) and 5.4

5.4: "Accounts exceeding $100,000 that saw an increase in their total balances between October 17, 2019, and September 30, 2025, through: (a) Conversion from lira to any foreign currency at a rate lower than the market rate, including the rate between LL1,507 and LL1,515 /USD, or (b) Purchasing or depositing bank checks in local currency or internal interbank transfers in local currency."

6.3: "Regarding the accounts mentioned in Article 5.4, they shall be revalued in USD, on the basis of the following table:

Time Period	Exchange Rate
17/10/2019 to 31/12/2020	LL50,000 per US dollar
During 2021	LL35,000 per US dollar
During 2022	LL30,000 per US dollar
1/1/2023 to the effective date of this law	LL18,000 per US dollar

Based on the prevailing exchange rate of the US dollar on the effective date of this law, regardless of whether the increases in these accounts resulted from a conversion from lira to US dollars or from the purchase of bank checks in local currency after October 17, 2019, the account balance, after revaluation, shall be considered part of the depositor's total account for the purposes of applying the provisions of this law and shall be settled in US dollar according to the mechanism mentioned herein."

The following issues arise:

1) Retroactive measure

This constitutes a retroactive edict.

2) Absence of an official market exchange rate

Legally, there is no official 'market' exchange rate. The closest approximation, but not a legally designated market rate, has been the rate set by the Central Bank, maintained within the LL1,501-1,514 band (with an average of LL1,507.5) until February 1, 2023, when it was raised to LL15,000, and then increased again to LL89,500 per U.S. dollar on February 15, 2024.

It is highly irregular for a government to override the rates set by its own Central Bank in favor of black-market or parallel-market rates.

Moreover, there is no official or recognized reference for a 'parallel market' rate. Exchange rates in the parallel market were negotiated daily between money changers—many of them unregistered—and varied depending on location and transaction size.

3) Improper state intervention in private contracts

The conversion from lira to U.S. dollars is a transaction between the bank and the depositor, at a rate of LL1,500 as mandated by BDL. On what legal basis does the State intervene between two consenting parties, and under which legal principle should a depositor be held responsible for a bank's decision to agree to the terms of such an exchange?

Articles 6, section 4 (6.4) and 5.5

5.5: "Loans and facilities whose balances exceed $750,000, any of which were repaid in lira at a rate lower than the market rate, including the rate between LL1,507 and LL1,515 /USD, between the date of 17/10/2019 and the date of entry into force of this law.

Excluded are loans that are facilitated or subsidized and regulated by the Central Bank's circulars, whether in USD or in the national currency, or facilities of all kinds repaid from bank accounts in local dollars."

6.4: "Regarding the loans mentioned in 5.5:
a. The debtor shall be required to pay exceptional compensation equal to 30 percent of the debt in USD, payable within a period not exceeding five years from the effective date of this law, to the Deposit Restitution Account at the Central Bank.

The following issues arise:

The same arguments made against Article 5.4 apply to this section, whether concerning retroactivity, the exchange rate, or the bilateral transaction between depositors (in this section **borrowers**) and the bank following BDL instructions, or the responsibility of the borrower and/or the bank. Any infraction should not be attributed to the borrower.

Article 8: Foreign banks
Local branches of foreign banks are excluded from the law. An explanation should be provided

Article 15: National Deposit Guarantee Institution (NDGI)
"Amends Article 14 of Law No. 28/1967, as amended by Law No. 110/1991, as follows:

"The purpose of the Institution is to guarantee deposits in Lebanese banks, in both Lebanese and foreign currencies. The guarantee covers, up to the amount of $100,000, both principal and interest, the total deposit accounts belonging to a single depositor at any one bank, with the bank's head office and branches considered as a single entity. These accounts shall not accrue interest as of the date the bank is placed under liquidation. If a depositor has debit accounts or other obligations toward a bank under liquidation, whether in Lebanese currency or foreign currencies, the balances shall be offset accordingly…

… This amendment shall apply to the coverage of new funds deposited after 17/10/2019. It shall not apply to deposits that were frozen prior to 17/10/2019, which shall be addressed in accordance with the provisions of this law."

How will the NDGI be capitalized or obtain the necessary funds to cover the potential claims, especially that its 50 percent of its shareholding are banks, and the other half is the State?

Economic Impact

A resolution of the banking crisis will have wide-ranging economic consequences and ramifications, the magnitude and durability of which depend on several interrelated variables:

a) The capacity of the banking sector to withstand the combined requirements of deposit restitution, balance-sheet restructuring, recapitalization, and compliance with Basel III capital and liquidity ratios, as mandated by the Bank Restructuring Law (Law 23/25) and the draft legislation discussed in this document, as well as the speed at which depositor confidence can be restored and financial intermediation gradually resumes.

b) The extent to which commitments are fulfilled to mobilize long-term concessional financing from international financial institutions and bilateral donors such as Gulf countries and the EU, and the Treasury's ability to service this additional debt without undermining fiscal sustainability.

c) The scope, credibility, and pace of structural reforms implemented by the government, including the effective involvement of the private sector in the rehabilitation and expansion of key infrastructure sectors, notably electricity, telecommunications, and other network industries critical to productivity and growth.

It is therefore premature to assess the full extent of the overall direct and indirect, positive and negative economic impact.

Presented here is an economic analysis of what the draft law would likely imply, especially the first phase that restitutes up to $100,000 per depositor in around $15 billion to $20 billion paid over 48 months, on consumer spending, trade balance, the balance of payments, and tax revenues.

1. Direct Impact on Consumer Spending

a) Boost to Disposable Income

- Immediate Liquidity Increase: With up to $100,000 returned to depositors over four years, households will have new liquid foreign-currency estimated to inject a net of $2 billion annually into the economy in addition to the funds currently slated by Circulars 158 and 161
- Pent-up Demand: Many households have had extremely limited access to their savings since 2019, suppressing consumption. Introduction of these funds would increase consumer spending power, especially among lower- and middle-income households for whom $100,000 is a large sum relative to average income.

b) Likely Patterns

- Essential vs Non-Essential Goods: A good share of initial spending will likely go toward essentials (food, medicine, utilities) before discretionary items, especially where incomes have been depressed.
- Imported Goods Consumption: Because Lebanon imports most consumer goods, more cash typically triggers higher imports (see next section). Unlike in larger, diversified economies, there's less capacity for domestic supply to meet this new demand.

2. Impact on the Trade Balance

a) Tendency to Worsen in the Short Term

- The trade balance measures the difference between imports and exports. Household consumption disproportionately involves imported goods, everything from food staples to electronics, vehicles, medicines, etc.
- An infusion of an additional net $2 billion (after deducting the already slated disbursements of Circulars 158 and 161) a year in new liquidity will likely lead to a surge in imports as people spend on items that cannot be produced locally at scale.

b) Why Imports Rise So Sharply

- Local production capacity in Lebanon is very limited across many sectors (e.g., food processing, consumer durables), so additional spending mostly leaks out through imported goods and services.
- Over time, some spending could shift toward local services (restaurants, local crafts), but goods imports are a large chunk of typical Lebanese consumption patterns.

Net Effect: The trade deficit will widen in the short to medium term

3. Impact on the Balance of Payments

The balance of payments (BoP) comprises the current account (trade in goods/services plus net income from abroad) and the capital/financial account.

a) Current Account Effects

- A wider trade deficit (goods imports increasing) would put downward pressure on the current account
- If the restitution strengthens domestic demand without a corresponding increase in exports or services (like tourism), the current account deficit could widen.

b) Financial Account Considerations

- **Boost inflows.** The draft law, and the one dealing with bank restructuring (23/2025) puts pressure on banks to recapitalize. The funds for recapitalization would most likely come from abroad, resulting in an inflow of $10 billion over five years.
- **Confidence.** The restitution plan might improve confidence in the banking system for the first time in years that could encourage deposit inflows from Lebanese abroad or foreign investment — but this is highly uncertain.
- **Reduce capital flight** if households feel less need to hoard cash abroad.

However, the financial account's improvement would not automatically offset increased import outflows.

4. Indirect and Second-Order Effects

a) Inflation: With more disposable income chasing mostly imported goods, upward pressure on prices (inflation) is likely.

b) Banking Sector Impact: Restitution will inject cash into an economy with still-fragile banking liquidity. Unless the sector is recapitalized and confidence restored, credit channels may remain weak — limiting multiplier effects of restitution. On the flip side, a resolution of the banking crisis, will lead to an increase of fresh dollar deposits, albeit at a very slow pace in the beginning. Confidence will start being restored but will take years. It will accelerate when banks start lending again. If restitution is accompanied by reform (e.g., IMF-backed stabilization, stronger regulations, then Confidence could slowly return to banks, depositors may redeposit funds, boosting bank liquidity and credit, Longer-term investment could grow.

c) Cash economy expansion: Restitution will inject into the economy large volumes of cash liquidity, further complicating efforts to shrink the cash economy which is a key requirement to reinvigorate banks, as well as to combat money laundering and terrorism financing.

5. Impact on tax revenues

a) Direct tax revenue will increase

Personal and corporate income taxes

- **Higher taxable income for individuals.** Cash restitution increases disposable income for many households — especially middle-income savers who have had funds frozen for years. Spending will increase on labor-intensive services and retail businesses which may earn higher revenues, hire, or increase wages — boosting corporate tax and payroll income tax receipts.
- **Tax base constraints.** A large share of the population has limited formal taxable income to begin with. Many businesses operate informally, limiting direct tax capture even if economic activity rises.
- **Net Expected Effect (Direct Taxes):** Moderate increase mostly from increased activity in formal sectors, higher corporate taxes from increased sales/profits, and potential expansion in reported wages.

b) Indirect Tax Revenues

Customs duties, VAT, excises, fees.

- **Customs duties** will increase as a significant portion of household consumption is on imports, but some categories are exempt
- **Value-Added Tax (VAT)** is levied on goods and services at the point of sale. Many essentials goods are VAT-exempt such as basic food and medicine. Spending might generate moderate additional VAT. As disposable income rises beyond essentials, spending on VAT-able goods and services (restaurants, clothing, electronics, travel, entertainment) will increase leading to higher VAT revenues
- **Excise taxes and other levies** will increase. Items like alcohol, tobacco, fuel and vehicles have excise taxes. With more consumer demand, excise revenue rises, especially if spending tilts toward such goods.

6. Impact on GDP

Assumption: all the extra $2 billion freed yearly from banks will be used by immediate consumption or quick investments in machinery and equipment, of which $700 million is imported.

Increases in VAT and Customs, due to increase import, as well as tax on corporate profits, will totally spent by the government, estimated at $200 million.

Direct impact: Contribution to GDP would be $1.5 billion or around 3.5 percent of GDP using the Expenditure Method.

Appendix A
Key Provisions of the Law

The proposed Financial Stability and Deposit Recovery Law aims to address the financial crisis by providing a framework for banking sector reform, loss allocation, and the phased return of deposits. It is a key reform measure required by the International Monetary Fund (IMF) to unlock financial assistance.

Key Objectives

- **Restore Financial Order:** Establish a general framework for financial stability and deposit recovery
- **Recapitalize Banks:** Restore balance and solvency to the banking system, including the Central Bank (BDL)
- **Define State Obligations:** Determine the state's commitments to the BDL and restructure them.
- **Protect Depositors:** Safeguard the rights of depositors while ensuring a fair distribution of losses.

Deposit Repayment

Deposits are categorized by size and repaid using a hybrid approach of cash and long-term financial instruments.

Deposit Category	Threshold	Repayment Mechanism
Small	Under $100,000	Repaid in US dollars in $1,500 monthly installments over a maximum of four years

Deposit Category	Certificate Class	Maturity Period	Annual Repayment Starts (Year 5)
Medium ($100k - $1m)	Class A	10 years	Minimum 2% of nominal value annually
Large ($1m - $5m)	Class B	15 years	Minimum 2% of nominal value annually
Very Large (Over $5m)	Class C	20 years	Minimum 2% of nominal value annually

- **Asset-Backed Certificates:** These certificates, issued by the BDL, mature over 10 to 20 years depending on their class (A, B, or C) and are backed by BDL's assets, such as gold reserves, real estate, and company shares. They are tradable on the Beirut Stock Exchange or secondary markets.
- **Funding:** The initial cash payouts are funded jointly by the BDL and commercial banks, with the BDL covering up to 60 percent.

Irregular Asset Recovery Criteria and Procedures

The law defines 'irregular assets' (Article 5) and outlines a process for their purification (Article 6).

Criteria for Irregular Assets

The law mandates the identification and "purification" of irregular banking operations and accounts that arose after October 17, 2019, or resulted from financial engineering.

The following categories are subject to review:

- **Pre-Crisis Transfers:** Cash withdrawals and bank transfers abroad between April 17, 2019, and October 17, 2019, exceeding $100,000, made by specific high-profile individuals (ministers, BDL officials, large shareholders, bank executives, and their spouses/entities they control).
- **Post-Crisis Transfers:** All transfers and cash withdrawals exceeding $100,000 after October 17, 2019, by politically exposed persons (PEPs), unless a legitimate commercial, professional, educational, or health reason is provided.
- **Prepaid Interest:** Accounts that received prepaid interest from financial engineering operations or any interest paid since 2016 exceeding $100,000 of the remaining balance are subject to reversal.
- **Suspicious Inflows:** Increases in US dollar account balances after October 17, 2019, resulting from buying dollars at official low rates (e.g., 1507-1515 LL/USD) or depositing 'local' dollar checks.
- **Loan Repayments:** Loans over $750,000 repaid in Lira at an official low exchange rate after October 17, 2019.
- **Excessive Bonuses/Dividends:** Any excessive profits or bonuses distributed to major shareholders and senior staff since 2016 that were withdrawn in cash or transferred abroad.
- **Illicit Funds:** Accounts suspected of containing illicit funds or having suspicious beneficial ownership information, in accordance with anti-money laundering laws.

Recovery Procedures

- **Compensation Payments:** For illicit transfers, loans, and excessive bonuses, a 30 percent penalty (compensation) in US dollars is imposed, payable to the deposit recovery account at BDL within a set timeframe. Failure to pay results in collection orders issued by the Ministry of Finance.
- **Account Adjustments:** For prepaid interest and suspicious inflows, banks perform reverse entries to correct account balances. Inflows at the old official rate are revalued at a much higher, phased exchange rate (ranging from 18,000 LL/USD to 50,000 LL/USD depending on the date).
- **Freezing:** Accounts suspected of containing illicit funds are reported to the Special Investigation Commission for potential freezing and ongoing investigation.
- **Accountability:** It targets those who profited from the crisis by converting Lira to dollars at preferential rates or via other non-commercial activities.
- **Audits:** The law requires comprehensive asset quality reviews (AQR) of all banks by an independent international auditor to determine losses and ensure recapitalization.

Appendix B
Excluded Deposits

Among the shortcomings of the law is its failure to address the rights of several categories of deposits whose cases have been entirely neglected by all parties involved. To date, these depositors have received nothing, and their losses have not even been factored into discussions surrounding the deposit recovery process. Discussions of the depositors' crisis typically focus on current accounts, and the proposed law follows the same approach.

52 percent haircut incurred since 2019

Before even starting with this draft law, deposits as a whole have been systematically eroded over the past six years as a result of successive governments' procrastination and their failure to devise a comprehensive solution to the banking crisis. This erosion has been compounded by prolonged delays, the collapse of the national currency, and high bank fees, commissions, and charges. The deposits are also not earning interest.

In July 2019, on the eve of the financial collapse, private sector deposits stood at approximately $172 billion (two third in USD and one third in LL). By September 2025, they had fallen to USD 83 billion, a decline of roughly $89 billion or approximately 52 percent of total deposits.

Deposits not encompassed by the draft law

Several categories of deposits have been entirely overlooked, with no plans for redress, despite having suffered direct and substantial losses since the onset of the crisis. They are absent from the proposed legislation and from the broader set of solutions under consideration. They are not even acknowledged in the daily public discourse surrounding the resolution of the depositors' crisis.

Former Deposits. Deposits that have been fully withdrawn at discount of their original value over the past six years. Savings were incrementally lost throughout the crisis.

Deposits in lira. it lost 98 percent of its value due to the devaluation of the exchange rate. The majority of these are retirees who deposited their pension funds in banks, only to have their accounts frozen and subjected to monthly withdrawal limits. A large portion of these **deposits were blocked** (committed for 3,6,12 months or longer) at the onset of the crisis. These funds were inaccessible, and in some cases banks even required the conversion of lira deposits into dollar accounts, which were then frozen as well for 12 to 18 months. This led to substantial losses that could have been avoided had these deposits been allowed to be withdrawn converted into fresh dollars at the market rate, before the exchange rate surpassed LL2,000 per dollar. This group now faces additional losses, as a portion of their deposits will be deducted due to the forced conversion from lira to dollars. It is important to note that most of these conversions were imposed by banks. As a result, these deposits suffer compounded losses: beyond the initial haircut, the remaining balances are to be converted into long-term bonds that will themselves continue to lose value as the crisis persists.

Deposits in dollar accounts. Some deposits were required to be withdrawn in lira at exchange rates imposed by commercial banks and sanctioned through Central Bank circulars. Withdrawals initially took place at a rate of LL3,900 per dollar, then LL4,200, followed by LL8,000, and finally LL15,000, where the rate eventually stabilized. During this period, the real market exchange rate surged to as high as LL140,000 per dollar before declining and stabilizing at approximately LL 89,500, where it stands today. Over these years, these deposits were steadily depleted by the widening gap between the imposed bank rate and the real exchange rate. These deposits effectively vanished, leaving total loss.

Deposits in 'lollar' liquidated at heavy discounts (from 12 to 75 percent as time advanced) by issuing checks to borrowers to settle bank loans. Some did so out of urgent liquidity needs.

Deposits withdrawn in excess of the official withdrawal limits set by regulations, often at the official exchange rate of LL1,500 per dollar, at a time when the real value of the dollar was rising dramatically and far exceeded that rate.

Insurance policies or participants in what are commonly referred to as 'social programs' or 'bancassurace'. These products were sold by banks to their clients as savings instruments through insurance companies that the banks either owned or contracted with. These funds remain locked in insurance policy accounts, with no proposed solutions other than repayment at the withdrawal exchange rate of LL15,000 per dollar.

Appendix C
Rebutting Retroactivity

Executive Summary

The draft law contains many edicts that apply **retroactively**. This violates a number of legal principals. The prohibition on **retroactive laws** is rooted in several core legal principles found across constitutional and international legal systems. In brief, what prohibits retroactivity is a **combination of constitutional safeguards, rule-of-law principles, and human-rights norms**. What prohibits retroactive laws is the **rule of law itself**, operationalized through constitutional guarantees, human-rights instruments, and judicial oversight. Where retroactive legislation crosses these boundaries, courts typically invalidate it.

The retroactive elements of the proposed bank resolution framework are inconsistent with IMF-supported principles of legal certainty, equitable burden sharing, and orderly resolution, and risk undermining both constitutional compliance and program credibility.

The draft law seeks to justify the retroactive reallocation of financial losses on the basis of public interest. Applied to this draft law, **the retroactive provisions fall outside the constitutional understanding of public interest as articulated by the Constitutional Council, insofar as they seek to reopen completed transactions and impair vested rights**.

1. Principle of Legal Certainty (Rule of Law)

Retroactive legislation undermines **legal certainty**: people must be able to rely on the law as it exists at the time they act. Changing legal consequences after the fact violates predictability and trust in the legal system.

2. Constitutional Protection of Acquired Rights

In civil and economic matters, the constitutions (explicitly or through jurisprudence) protect **Vested and acquired rights, and legitimate expectations.** Retroactive laws that extinguish or materially alter existing rights (contracts, property, claims) are unconstitutional.

3. Separation of Powers

Retroactivity is prohibited because it violates **judicial independence** and the separation between legislative and judicial powers.

4. Protection of Property

Under constitutional and international law (e.g. **Protocol No. 1 to the European Convention on Human Rights**): Retroactive laws that deprive individuals of property or claims may amount to **unlawful expropriation**, unless accompanied by due process and fair compensation.

5. Equality and Non-Arbitrariness

Retroactive laws may target specific groups or past conduct selectively and/or create unequal treatment without objective justification. Courts often strike them down as **arbitrary or discriminatory**.

6. International Treaty Obligations

States bound by international treaties cannot enact retroactive laws that: Contravene treaty obligations, or undermine international guarantees of due process, property, or fair trial.

Inapplicability of Public Interest

The draft Law seeks **to justify the retroactive** reallocation of financial losses **on the basis of public interest**.

Public interest as expressed in the Explanatory Notes (الأسباب الموجبة)
"…This [retroactivity] does not contradict Article 15 of the Lebanese Constitution, which permits the restriction of private property for the public good or the higher interest, and is based on what was confirmed by the Constitutional Council in its Decision No. 16/2025 issued in response to the appeal against Law No. 23/2025."

There is affirmation that retroactivity may be justified by public interest, however it does not indicate that there is actually a case of public interest concerning this law.

Applied to the draft 'Gap Law', **the retroactive provisions fall outside the constitutional understanding of public interest as articulated by the Constitutional Council**, insofar as they seek to reopen completed transactions and impair vested rights.

General Principle

Under Lebanese constitutional law, public interest does not, in itself, justify the retroactive application of legislation. Retroactivity remains an exceptional measure, permissible only under narrowly defined conditions and subject to strict judicial scrutiny.

The invocation of public interest cannot override constitutional guarantees protecting vested rights, legal certainty, and legitimate expectations.

Lebanese jurisprudence has consistently treated public interest as a constrained legal concept, not a discretionary or political determination left solely to the legislature or the executive.

Non-Universality

At the beginning of the crisis, one third of the adult population did not have a bank account. Of those who had a bank account, one third did not have savings. Of those who had savings, those holding $3,000 or less were allowed to withdraw them all at once in fresh dollars. Under Circular 158,

$50,000 was converted to fresh dollar to be withdrawn monthly over five years, initially with a masked haircut of $400 per month paid in lira at the 1,500 rate. This means that almost three quarter of the population does not have deposits in banks. They represent the poor and the lower middle class.

Alignment with Constitutional Council Jurisprudence

Public Interest and the Limits of Retroactivity

Lebanese Constitutional Council jurisprudence consistently holds that **public interest is not an autonomous or self-executing justification for retroactive legislation**. Rather, it is a legally constrained concept whose invocation is subject to substantive judicial review.

Across its decisions, the Council has articulated the following settled principles:

1) **Non-retroactivity is the rule, retroactivity is the exception**
The Constitutional Council has repeatedly affirmed that legislative retroactivity is constitutionally suspect when it affects vested rights. Any departure from the principle of non-retroactivity must be expressly justified by exceptional circumstances and strictly limited in scope.

2) **Public interest cannot override vested rights arising from completed legal acts**
The Council distinguishes between:
    - legal situations that are ongoing or future in nature, and
    - rights that have fully crystallized through lawful acts under prior legislation.

   While the former may be subject to immediate legislative intervention, the latter benefit from constitutional protection that public interest alone cannot displace.

3) **Legal certainty is a constitutional value embedded within public interest**
The Council has treated legal certainty and the protection of legitimate expectations as essential components of constitutional order. Measures that retroactively alter the legal consequences of lawful conduct are presumed to undermine, rather than advance, public interest.

4) **Exceptional circumstances do not suspend constitutional guarantees**
Even in periods of acute economic or financial crisis, the Council has rejected the notion that necessity expands the legal definition of public interest to permit retroactive deprivation of rights. Crisis conditions may justify prospective regulatory reforms, but not the retroactive negation of rights lawfully acquired.

5) **Judicial review extends to the substance of the public interest claim**
The Constitutional Council does not defer to the legislature's characterization of public interest. It examines whether the asserted interest is real, necessary, and proportionate, and whether the means chosen remain within constitutional limits.

Applied to the draft banking law, these principles lead to a clear conclusion: **the retroactive provisions fall outside the constitutional understanding of public interest as articulated by the Constitutional Council**, insofar as they seek to reopen completed transactions and impair vested rights.

Direct Rebuttal to the Government's 'Public Interest' Justification

The government argues that the retroactive application of the draft Law on Bank Resolution and Deposit Recovery is justified by public interest, given the scale of the financial crisis and the need to restore systemic stability. This reasoning is legally flawed under Lebanese constitutional standards. The proposed retroactive measures amount to deprivation rather than regulation, undermine legal certainty, and risk violating constitutional protections of property, equality before public burdens, and legitimate expectations. As such, they expose the draft law to substantial constitutional challenge and weaken its credibility as a sustainable reform instrument.

1) Public interest does not operate as a general derogation from the principle of non-retroactivity. Lebanese constitutional doctrine requires that retroactive measures affecting vested rights remain exceptional, narrowly tailored, and strictly necessary. The Explanatory Notes (الأسباب الموجبة) assert public interest in abstract terms, without demonstrating why retroactivity rather than prospective reform is indispensable.

2) The government's reasoning **fails to distinguish between ongoing legal situations and completed legal acts**. The measures in question target past transactions that were lawful when executed and that produced definitive legal effects. Reopening such acts exceeds the permissible scope of public interest as recognized by Lebanese law.

3) The argument implicitly treats public interest as superior to legal certainty. This approach reverses constitutional logic. **Legal certainty is not subordinate to public interest, it is a core element of it**. A legal framework that retroactively alters the consequences of lawful conduct undermines trust in the legal order and therefore contradicts, rather than serves, public interest.

4) The government does not establish the existence of **exceptional circumstances of a constitutional nature** capable of justifying retroactivity. Financial crisis, however severe, does not suspend constitutional protections, nor does it authorize the legislature to retroactively redefine rights and obligations that have already crystallized.

Finally, the Explanatory Notes (الأسباب الموجبة) overlook the Constitutional Council's settled position that **public interest must be assessed in substance, not declared by assertion**. Absent proof of necessity and proportionality, the invocation of public interest remains legally insufficient.

Under Lebanese constitutional law and Constitutional Council jurisprudence, public interest does not justify the retroactive impairment of vested rights arising from completed legal acts. The government's reliance on public interest to support retroactivity in the draft banking law therefore lacks constitutional grounding and is vulnerable to annulment.

Appendix D
Diverging Views of Key Stakeholders

The 'Gap' law: Competing visions for loss allocation, accountability, and financial recovery

After more than six years of financial paralysis, capital controls by default, and an unresolved banking collapse, the Council of Ministers' approval of the draft Law for Financial Regulation and Deposit Recovery, commonly referred to as the 'Gap' law has triggered policy debates since the onset of the crisis. The law is intended to establish a framework for quantifying the financial gap in the banking system, allocating losses among stakeholders, restructuring banks, and restoring a minimum level of confidence in the financial sector. Yet the reactions to the draft law reveal sharply divergent visions of justice, legality, and economic realism.

At the heart of the debate lies a single, decisive question: who should bear the losses of Lebanon's financial collapse, and in what order? The answers offered by the government, the International Monetary Fund (IMF), the Central Bank governor, and the Association of Banks (ABL) differ not only in technical sequencing, but in their underlying conception of rights, responsibility, and the future shape of Lebanon's financial system.

The Government View: Imperfect but necessary

The government perspective, as articulated by Amer Bisat, the Minister of Economy and Trade, and one the key architects of the law, presents the Gap Law as a long-overdue break with denial. Bisat frames the law not as an ideal solution, but as a pragmatic one. In such a crisis, he argues, perfection is unattainable. The relevant comparison is not between the law and an abstract ideal, but between the law and the destructive status quo.

In this view, the law offers tangible improvements over the current reality. Small depositors would receive faster and more predictable access to their funds. Larger depositors would be offered a structured, Central Bank–backed path to eventual repayment through asset-securitized instruments generating future cash flows. The law also aims to end the 'zombie bank' phenomenon by forcing banks either to restructure credibly or exit, thereby allowing the economy to move away from the cash-based system that has fueled informality and contributed to Lebanon's placement on the FATF grey list.

A core pillar of this approach is accountability. The law mandates international-standard audits and Asset Quality Reviews (AQRs) for both the Central Bank (BDL) and commercial banks. Past financial engineering operations, irregular transactions, excessive profits, and suspicious capital outflows would be subject to scrutiny. These mechanisms are presented not as substitutes for judicial accountability, but as complementary processes that do not preclude ongoing or future criminal and civil proceedings.

Bisat emphasizes that the law broadly aligns with international crisis-resolution principles: shareholders absorb losses first, banks' capital is written down before depositors' claims are impaired, and depositors are treated as senior creditors. According to this reading, approximately 85% of depositors would be fully repaid within a relatively short horizon, while all depositors would recover at least the first $100,000 of their deposits within four years. The State, for its part, remains obligated to contribute to the solution through interest-bearing instruments and, if necessary, recapitalization of the Central Bank.

This camp acknowledges that recovery will be slow and painful—but insists that without a legal framework, there can be no recovery at all.

The Central Bank: Reverse order of loss recognition

Governor Karim Souaid's position, as articulated in his statement released right following the Cabinet session the approved the law, diverges from the IMF's approach. His proposed sequencing reverses the order of loss recognition.

Under this approach, the first step would be to "clean" balance sheets by reducing banks' liabilities to depositors through the exclusion or reclassification of "irregular claims." Only after liabilities are reduced would responsibility be distributed among banks, BDL, and the state, and only then would shareholders absorb losses according to a hierarchy.

The IMF objects strongly to this logic. By reducing depositor liabilities before exhausting shareholder equity, the approach effectively shifts losses onto depositors prematurely. It allows bank shareholders to retain positive capital—or even increase the relative value of their equity—after deposit reductions. From the Fund's perspective, this violates the hierarchy of claims and entrenches moral hazard.

IMF: Hierarchy of claims and international norms

The IMF's stance is technical and norm-driven. For the Fund, the crisis-resolution sequence is non-negotiable and grounded in international best practice.

1) There must be a comprehensive audit of BDL to establish the true size of the financial gap: the accumulated losses that have eroded liquidity and solvency
2) Commercial banks must recognize losses on their placements with BDL, and shareholders must absorb the first tranche of losses, even if this means wiping out their equity entirely. Only after shareholders' capacity to absorb losses has been fully exhausted can depositor claims be restructured or reduced
3) Only at that stage, can the system address deposits deemed 'irregular' under the law, such as funds converted from lira to dollars at the official rate after the crisis, excessive interest payments, or funds transferred abroad under suspicious circumstances. These adjustments are intended to reduce the overall deposit base before imposing losses on remaining depositors.

This sequence reflects a core IMF principle: the hierarchy of claims. Shareholders stand last in line, depositors are senior, and altering this order risks creating a dangerous precedent. Importantly, the IMF's approach is not ideological hostility to capital or banking, but a legal and financial insistence on predictability, fairness, and comparability across crisis cases globally.

Once shareholders' equity is written off, banks may be recapitalized—through new shareholder injections, new investors, or voluntary debt-to-equity swaps involving large depositors. This process embodies genuine burden-sharing and is, in the IMF's view, the only sustainable basis for restoring banking solvency.

The banks: Legal objections and a rejection of loss allocation

The Association of Banks (ABL) has expressed "fundamental reservations" and outright opposition to the draft law. From the banks' perspective, the proposed mechanisms constitute an unjustified infringement on both banks' and depositors' rights, and a departure from established legal and financial principles governing banking resolution.

1) **Methodology.** Any credible approach, they argue, must begin with a precise, transparent determination of the financial gap at BDL, based on audited and consolidated financial statements and realistic asset valuations. Without such a determination, the law risks institutionalizing arbitrary loss allocation. According to the ABL, a proper simulation would demonstrate that the draft law ultimately wipes out banks' capital and then proceeds to affect depositors, contrary to claims that depositors are protected.

2) **Vis à vis depositors.** The banks reject being placed in direct confrontation with depositors. They argue that the State's default on its obligations to BDL, and its refusal to cover the Central Bank's deficits, lies at the root of the crisis. In their view, forcing banks to shoulder losses without first resolving the state's liabilities is both unjust and destabilizing.

3) **BDL's assets.** ABL highlights the Central Bank's assets, which it claims exceed $70 billion. The banks propose liquidating a limited portion of these assets—no more than $10 billion to immediately repay all small depositors in full. Such a step, they contend, would spare both banks and depositors from bearing losses caused by the state and BDL, and would better align with principles of legal accountability.

4) **No retroactivity.** Banks warn that retroactive measures targeting banks and shareholders will destroy any possibility of recapitalization. Without fresh capital, they argue, banks cannot be restructured, depositors' rights cannot be protected, and financial stability will remain elusive. Confidence, in this telling, cannot be rebuilt so long as the state evades its debts and undermines contractual sanctity.

In a follow up statement the ABL said:

The banks operating in Lebanon… support the issuance of this law more than six years after the start of the crisis, and offer the following observations:

1) The draft law was issued without any serious study of the figures required for its implementation. If it were a serious undertaking, the draft law should have been preceded by determining the size of the deficit, how it will affect the Central Bank and the banks, an accurate assessment of non-performing assets, the amount of funds required to repay the various deposit categories, and verification of the availability of the necessary liquidity. The argument that the draft law provides a framework for a solution is invalid, as providing a framework for a solution does not grant depositors guarantees that may not be possible to fulfill.

2) This comes at a time when the State, the primary beneficiary of the waste that led to the deficit, is evading clear recognition of its debts to the Central Bank (BDL), despite the proven existence of these debts and its commitment to repay them. The state is also failing to commit to covering the deficits in the BDL's successive budgets, as stipulated in Article 113 of the Monetary and Credit Law, which would eliminate the deficit for the benefit of depositors. This is in addition to the fact that the State is also the primary beneficiary of the crisis, as the currency devaluation has reduced its public debt from over $92 billion to less than $10 billion in market value – one of the lowest ratios to GDP globally. Despite this, no one is calling on the State to support the BDL and commercial banks, but rather to repay its debts and fulfill its legal obligations to the BDL, thus allowing for the return of depositors' funds.

3) The project adopted a flawed approach by immediately burdening banks with non-performing assets instead of first reducing the size of the gap, as if its primary goal was to deplete bank capital, adopting whatever dictates suited it from the International Monetary Fund, while accounting standards (IFRS 9) and common sense dictate otherwise. Indeed, if this portion of deposits is non-performing and unrecoverable, why burden the banks with it?

4) Furthermore, the draft law, in clear contradiction to its stated objectives, violates every constitutional principle:

a) The ownership of deposits, which, incidentally, includes both depositors' deposits in banks and banks' deposits held at the Central Bank
b) The principle of equality in bearing public burdens by placing a large portion of the deficit caused by the Central Bank and the state on a single segment of society—the banking sector
c) The principle of equality among depositors themselves
d) The principle of non-retroactivity of laws, given its infringement on legal certainty, expired legal situations, acquired rights, and the imposition of fines for previous legal actions under the guise of compensation
e) The principle of separation of powers, as it grants administrators the right to make decisions of a judicial nature arbitrarily and without even respecting the rights of the defense
f) The principle of clarity in legislation, given the ambiguity in the interpretation of some of its provisions.

5) This is in addition to other equally serious legal errors, such as violating the principle of unjust enrichment, whereby both the Central Bank and the State enrich themselves without justification at the expense of the banks. For example, this is done by capitalizing the Central Bank with non-performing assets, and by diverting compensation for non-performing obligations to the Deposit Repayment Fund, from which the Central Bank benefits by 80 percent, instead of allocating the compensation, if it can even be considered as such, to the banks that the project burdened with non-performing assets. Furthermore, the project labels securities not backed by assets but by revenues from assets that everyone knows are far from covering the deposit brackets they are supposed to guarantee. Not to mention the sacrifice of large depositors who are treated at a lower rate than Eurobond holders. Is this the objective of the project?

In short, this project, justified by the necessities of the public interest, is destroying what little remains of it:

- It sacrifices the large depositors upon whom the economy rests, eroding their trust in the banking sector; it wipes out the banks' capital and threatens their relationships with correspondent banks
- It transforms the economy into one whose sole focus for the next twenty years is the recovery of deposits, without attracting any new investments, which will undoubtedly learn from the fate of their predecessors.

Thus, whether intentionally or not, the project has adopted the logic of liquidating the banking sector and destroying the national economy.

In light of the above, the banks operating in Lebanon call upon all citizens, and especially the esteemed Parliament, to take a free and courageous stance that protects depositors first and the banking sector second. Everyone must understand that there can be no economy without this sector, and no one should delude themselves into thinking they can replace it as easily as they imagine.

ABL's position goes further than opposing specific provisions: it effectively challenges the very principle of loss hierarchy when applied to banks and shareholders, and implicitly calls for shielding banking capital through state or Central Bank asset liquidation.

Economic Bodies: Burdening the Banks Alone Undermines Depositors' Rights

In a statement, the Economic Bodies (الهيئات الإقتصادية) declared that the Cabinet has approved the draft law on restoring financial order and recovering deposits, and acknowledges the Prime Minister's determination to address the long-standing stagnation.

However, it objects to a significant number of articles in the approved draft, as they pose grave risks that threaten most depositors' rights and what remains of the banking sector. This draft law further entrenches the State's abdication of its moral, legal, and financial responsibilities, and, most dangerously, will effectively prevent any recovery of the Lebanese economy.

The Economic Bodies emphasized that "the core flaw in the draft lies in the State's insistence on evading its responsibilities, as evidenced by the absence of any explicit acknowledgment of its debt, under the pretext of 'public debt sustainability'. This dangerous precedent aims to absolve the State of its obligations and place the burden solely on depositors and the banking sector. The State is also not clearly fulfilling its legal obligations, particularly those stipulated in Article 113 of the Monetary and Credit Law, which obligates it to cover the deficit in the Central Bank's budget, without any ambiguity or interpretation."

They stressed that "protecting depositors must be an absolute and immediate priority through bold decisions and practical measures. Foremost among these measures is conducting a serious audit of the State, the Central Bank, and the banks, based on which responsibilities will be established and clarified. The State will then assume its outstanding debts to the Central Bank, in addition to covering its budget deficit. Furthermore, a limited portion of the State's and the Central Bank's assets should be liquidated and added to the latter's available liquidity, enabling the realistic repayment of deposits under $100,000, which represent more than 84 percent of depositors, and subsequently the remaining deposits."

The Economic Bodies denounced "the misleading campaigns that attempt to portray the State's contribution as a waste of funds belonging to citizens and future generations." The State and the Central Bank are not providing any grants; rather, they are fulfilling established legal and contractual obligations to the banks, which are returning these funds to their rightful owners.

They warned that "harming or destroying the banking sector will lead to a complete paralysis of the national economy, eliminate any hope of recovery, and open the door wide to the illicit cash economy, exposing Lebanon to the risk of financial isolation and inclusion on the black list. Therefore, any serious reform plan must be based on rehabilitating the banking sector, not liquidating it."

They expressed their objection to "the approach that relies on placing the burden of the financial gap solely on the banks, in addition to repaying a portion of the deposits, while the state knows that the banks cannot bear this, which could jeopardize depositors' rights." They warned against "writing off bank capital, either wholly or partially, before the completion of the audit and before the purging of non-performing assets, and before writing off shareholders' deposits and depriving them of any ability to inject new funds. It is impossible to demand the recapitalization of banks while simultaneously confiscating shareholders' funds and eliminating any incentive they have to invest." These policies will definitively eliminate any possibility of financing the economy or ensuring the continuity of the banking sector.

The statement called on Parliament to "fully assume its responsibilities, thoroughly review this draft law, and redraft it on fair and realistic foundations, based on an equitable distribution of losses, a clear acknowledgment of the state's responsibility, effective protection of depositors' rights, and the preservation of the banking sector as a cornerstone of the national economy."

Labor Unions: **Supportive – as a starting point**

The President of the General Confederation of Labor Unions, Bechara Asmar, welcomed the government's approval of the draft law, considering it the first building block in the structure of a serious and correct approach to addressing the protracted banking crisis.

He said: "This decision is not merely a technical procedure, but rather an official declaration of the start of a process to ensure justice for depositors and return them to the heart of economic priorities."

While noting the "positive aspects included in the draft," he emphasized the following points:

1) The law's coverage of approximately 782,000 accounts (totaling $14.8 billion) with deposits of less than $100,000 represents a victory for social logic and financial justice, as it provides protection for families and the middle class, who were the most affected.

2) This draft law represents the transition from a crisis management phase to a crisis resolution phase through comprehensive national legislation that clearly defines responsibilities.

3) We consider this law a starting point, not the finish line. While we appreciate the fairness shown to account holders with balances below $100,000, we emphasize that work must continue diligently to establish fair and equitable mechanisms for all other depositors, especially pension and mutual aid funds of various unions, to guarantee the restoration of all rights and safeguard the financial security of both Lebanese citizens and investors.

He concluded by affirming that "the commitment to implementing this law seriously and transparently is the true test of the State's credibility in restoring confidence in the financial sector, and it is the essential prerequisite for any genuine and comprehensive economic recovery." He called on Parliament to "engage positively with this project and address any shortcomings, particularly in the mechanisms for implementing oversight and accountability."

Syndicate of Professionals (المهن الحرة): No to the fait-accompli

Doctors, dentists, pharmacists, engineers, lawyers, journalists, the Federation of Trade Unions, private school owners, certified accountants, nurses, teachers, surveyors, hospital owners, physical therapists, nutritionists, and owners of hotels, restaurants, cafes, nightclubs, and patisseries.

The Syndicate of Professionals announced "complete and utter rejection of the draft law on the financial gap. They said: "We are not among those who will be presented with a fait accompli, no matter how high the status of those issuing the orders; we are not among those who will be summoned; we are not among those who will be forced, imposed, or coerced."

In a statement they declared:

"In the name of the Lebanese people, we will not surrender our lives to you, our livelihoods will not be squandered, and we will not be led where you want. Enough of this injustice and double control over depositors, of whom our syndicates are one. First, when you confiscated our funds through your own error, your waste, your enrichment at our expense, and your disregard for the constitution and laws. And second, by legalizing the confiscation and postponing repayment for twenty years. When I say 'you,' we do not mean you personally, but rather the successive and inherited authorities, for the authority is one.

We reject the draft law because it reduces the crime of financial collapse to a mathematical equation, shifting the burden of losses from those responsible to the victims. This effectively legalizes the plundering of savings, including the funds of union funds, which the law compels us to deposit in banks, making us major depositors under the guise of reform. We reject a law that rewards those who smuggled their money out and punishes those who kept it in the bank; a law that holds depositors responsible for the failures of the State, the Central Bank, and the banks; a law that violates the Constitution, which protects private property and equality among citizens. How can we accept bonds that mature in twenty years? How can we accept absolving the State of its responsibility when it is the biggest beneficiary, along with private banks, of the Central Bank's funds?

We demand that Parliament reject this bill in its current form, introduce fundamental amendments, and take decisive measures regarding it, foremost among them:

1) Forming an independent investigative committee and taking measures to trace funds obtained through corruption crimes, as well as recovering funds smuggled abroad through international cooperation and in accordance with banking agreements.
2) We demand full protection of deposits and funds belonging to unions and their members prior to October 2019.
3) We reject any infringement upon the deposits of retired union members and the funds of mutual aid and pension funds.

We will work together to take measures to rectify the situation, including:

- Drafting a memorandum outlining the violations and risks inherent in the draft Financial Regulation and Deposit Recovery Law, proposing alternatives, and circulating it by mail and/or in person to the Minister of Finance, the Minister of Economy and Trade, the Governor of the Central Bank, parliamentary blocs and political parties, the World Bank and the International Monetary Fund, and the Association of Banks.
- Calling on members of Parliament affiliated with the unions to take a stance rejecting the draft law in its current form.
- Releasing the deposits belonging to the unions and funds.

We are dealing with constitutional rights, and the Bar Association and the unions will not compromise on this issue, even resorting to a general strike."

Conclusion: A prolonged struggle

The debate over the Gap Law underscores that the financial crisis is not merely technical, but is fundamentally political and legal. Each position reflects a different answer to who should pay for the collapse, and in what order. The government prioritizes feasibility and alignment with international norms; the IMF insists on hierarchy and precedent; the Central Bank governor seeks flexibility that risks undermining depositor rights; and the banks resist any framework that definitively assigns them losses.

What is clear is that the Gap Law, in its current form, is not the final word. It is an initial framework that will be reshaped by parliamentary amendments, IMF negotiations, and political bargaining. The struggle over loss allocation will likely be long and contentious. But equally clear is that without a binding legal framework, Lebanon will remain trapped in a destructive limbo, one in which losses are borne arbitrarily by depositors alone, without transparency, accountability, or hope of recovery.

In that sense, the 'Gap' law is less a solution than a battleground on which the future of the financial system and the fate of its depositors will be decided.