


THE CHALLENGING PATH OF REFORMS IN LEBANON

**THE BANK RESTRUCTURING LAW: NO POLITICAL
WILL TO ENACT IT DESPITE INTERNATIONAL
EFFORTS**





This report is part of a series of reports produced by Maharat Foundation to track the progress of reforms highlighted in the Lebanon [Reform, Recovery and Reconstruction Framework \(3RF\)](#) which is part of a comprehensive response to the massive explosion on the Port of Beirut on August 4, 2020, launched by the European Union (EU), the United Nations (UN) and the World Bank Group (WBG)

1- THE ENACTMENT OF A BANK RESTRUCTURING LAW: A KEY REFORM TO PUT LEBANON BACK ON THE PATH OF ECONOMIC RECOVERY


Amid Lebanon's ongoing economic and financial collapse, caused by unsustainable fiscal policies, financial mismanagement and systemic corruption, and with no solution in sight for depositors' funds, it has become critical to implement the comprehensive package of reforms, including the bank restructuring law, outlined in the [staff-level agreement](#) reached between the International Monetary Fund (IMF) and Lebanon on April 7, 2022.

This comprehensive economic reform program formulated by the Lebanese authorities with the support of the IMF is based on five pillars, as stipulated in the agreement. The first of these is the restructuring of the financial sector so that banks can regain their viability and ability to efficiently allocate resources to support recovery.

This staff-level agreement could be supported by a 46-month Extended Fund Arrangement (EFF) with requested access of SDR 2,173.9 million (equivalent to about US\$3 billion). However, as mentioned in the IMF [press release](#), this agreement is subject to approval by IMF management and the Executive Board, after the timely implementation of all prior actions and confirmation of international partners' financial support.

These prior actions include the cabinet's approval of the appropriate bank restructuring strategy that recognizes and addresses upfront the large losses in the sector, while protecting small depositors and limiting recourse to public resources.

In this context, the [Macroeconomic, Financial and Fiscal Working Group](#) within the 3RF (Reform, Recovery, and Reconstruction Framework) has prioritized advocating for the implementation of the Government's economic reform plan and the prior actions specified in the International Monetary Fund's staff-level agreement with Lebanon. This unique and inclusive Working Group includes representatives from the Government, Parliament, academics, experts, and representatives from the donors' community. It is worth noting that the Working Group was supposed to convene in February 2024. However, the meeting had to be delayed due to the war in the South of Lebanon.



More than two years have passed since Lebanon reached the staff-level agreement with the IMF. However, to this day, little progress has been made regarding the implementation of agreed key reforms, including the adoption of the bank restructuring law, due to numerous challenges and political disputes.


2- OVERVIEW OF DEVELOPMENTS RELATED TO THE BANK RESTRUCTURING LAW

On April 5, 2024, the European Union Delegation to Lebanon issued a [statement](#) regarding the staff-level agreement reached between the Lebanese authorities and the International Monetary Fund (IMF). The implementation of this agreement would have unlocked more than \$3 billion in aid and additional donor support, putting Lebanon back on the path to economic recovery and restoring its international credibility.

The statement noted that since then, only limited progress has been made and that Lebanon's dire situation should serve as a driver for change. Despite the crucial importance of electing a president and forming a fully functioning Government, delays should not hinder the implementation of the key agreed-upon reforms to restore the confidence of international actors and Lebanese citizens in the financial system.

The statement added that "structural reforms are necessary to avoid Lebanon being trapped in a perpetual cycle of crises. Decisive leadership is needed. The answers to Lebanon's economic crisis can only come from within Lebanon."

This implies that the solution lies in the internal political will to put Lebanon on the path to comprehensive economic reform, especially with the delegation noting that "the adoption of the 2024 budget within constitutional deadlines, the reforming of the bank secrecy law and the stabilization of the exchange rate, have shown that where there is a will, there is a way".



As mentioned above, the International Monetary Fund stipulated in the [staff-level agreement](#) that the financing of the program was made conditional on the implementation of several prior actions, including those related to bank restructuring through:

- Cabinet approval of the appropriate bank restructuring strategy that recognizes and addresses upfront the large losses in the sector, while protecting small depositors and limiting recourse to public resources;
- Parliamentary adoption of the emergency bank resolution legislation to be able to implement the bank restructuring strategy;


However the internal scene is dominated by blame-shifting and political disputes over the rehabilitation of the financial sector, particularly regarding the bank restructuring law, despite international efforts. Although the Government has approved a strategy for restructuring the financial sector, discussions on the bank restructuring law remain stalled within the Government. Similarly, the emergency bank resolution legislation has not yet been approved by the Parliament.

Regarding bank restructuring, a draft law was formulated by the executive branch, with support from the Banking Control Commission and the Banque du Liban (BDL). This proposal combines two projects that were initially supposed to be presented separately: the first concerns the restructuring of banks, and the second addresses Lebanon's financial losses which exceed \$70 billion. This draft law is a development of earlier drafts started as early as 2022 under the current Government, incorporating many adjustments over time.

Deputy Prime Minister Saade Chami viewed this proposal as the "best possible" outcome under the country's difficult circumstances, and stated that its goals include "protecting legitimate deposits," "strengthening financial stability," and "rehabilitating the banking sector to enable it to fulfill its role in financing the private sector and citizens."

On the other hand, Jean Riachi, CEO of I&C Bank, expressed his opinion on the proposal, stating that the content of the text was "fairly satisfactory in terms of the technical aspects of restructuring, but less clear regarding how losses will be distributed."

Another bank executive stated that the plan unfairly burdens the banking sector and does not adequately involve the state or BDL.




The proposal was supposed to be discussed in the Cabinet session on February 23, 2024, but the session was postponed. In the subsequent session on February 28, 2024, the discussion on restructuring the banking sector was [postponed](#) again due to pressures and objections from the Association of Banks in Lebanon (ABL) regarding the draft law.

In objection to this proposal, the Association of Banks in Lebanon (ABL) circulated a 14-point [document](#) commenting on this draft law. The document stated that there is a conflict of interest, as it is in the interest of the Central Bank of Lebanon and the Lebanese state to place the maximum burden of losses first on depositors and then on the banks. It argued that the current proposal imposes all the costs on the banks without imposing any real cost on the state or the Central Bank of Lebanon. This contradicts statements made by key state officials and international institutions regarding the responsibilities of each party. Therefore, the banks requested the formation of a committee consisting of representatives from the Lebanese state, the Central Bank, the banks, and economic bodies to develop more balanced, realistic, and implementable solutions. The aim, according to the document, is for the proposed solutions to be acceptable to all parties and to avoid conflicts of interest.

Regarding the depositors' funds, the Association of Banks in Lebanon stated in point 7 of the 14-point document its reservation about repaying deposits in cash dollars, including deposits that were converted after October 17, 2019.

[Media outlets](#) reported that the Association of Banks in Lebanon succeeded in derailing the discussion on the bank restructuring law through the banking lobby, and that the banks reject any text that holds them accountable without also assigning responsibility to the state for the financial gap.

Meanwhile, [other media outlets](#) cited ministerial sources indicating that the bank restructuring law would not pass because it leads to the wiping out of depositors' funds, adding that the majority of ministers, along with the Acting Governor of the Central Bank of Lebanon, Wassim Mansouri, depositors' associations, ABL, and economic bodies, oppose it.



Amid these tensions between the banks and the Lebanese state, the financial crisis is worsening without any notable reforms. Prime Minister Najib Mikati acknowledged in the Cabinet session on March 19, 2024, that "the bank restructuring issue is practically easy, but its difficulty lies in politics," meaning that depositors' funds, the internationally required reforms, and Lebanon's path to economic recovery remain hostage to internal political conflicts as well as disputes between the Government and the banks over who will bear the responsibility for the financial loss estimated at \$70 billion that led to the economic collapse.

Following delays in implementing reforms, [concerns](#) about Lebanon's potential placement on the gray list by the Financial Action Task Force (FATF) emerged. Wassim Manssouri, the Acting central bank governor, is currently trying to obtain a [new reprieve](#) for Lebanon, which risks being placed back on the gray list next autumn.

One of the various [reasons](#) explaining the potential placement of Lebanon on the gray list is the proliferation of the "cash economy" which poses significant risks including money laundering, tax evasion, and other financial crimes. It is worth mentioning that this proliferation is largely attributed to delays in bank restructuring efforts.

The lack of action on necessary economic reforms and risks associated with the absence of a credible and financially viable strategy for the banking system were pointed out during a visit of an International Monetary Fund (IMF) team to Lebanon, from May 20 to 23, 2024, to discuss recent economic developments and progress on key reform. Mr. Ramirez Rigo, who led the IMF team, made a [statement](#), indicating that the policy measures taken till date fall short of what is required to enable a recovery from the crisis. He noted that bank deposits remain frozen, and the banking sector is unable to provide credit to the economy, as the Government and Parliament have been unable to find a solution to the banking crisis.

In his statement, he also highlighted regulatory and supervisory risks, stating that "addressing the banks' losses while protecting depositors to the maximum extent possible and limiting recourse to scarce public resources in a credible and financially viable manner is indispensable to lay the foundation for economic recovery. Without progress, the cash and informal economy will continue to grow, raising significant regulatory and supervisory concerns".

3- CHALLENGES FACING THE BANK RESTRUCTURING LAW

The bank restructuring law faces numerous challenges, all revolving around one main theme: prioritizing political and personal interests over the public interest and the interests of depositors.

- **Government inaction:** Since the staff-level agreement between Lebanese authorities and the International Monetary Fund (IMF) in 2022, Lebanon agreed to implement several measures. Although the Government has approved a strategy for restructuring the financial sector, discussions on the bank restructuring law remain stalled within the Government.
- **Legislative Delays:** The Lebanese Parliament continues to delay legislative actions necessary to implement the bank restructuring strategy and kickstart the process of restoring the financial sector to health, including the emergency bank resolution legislation. Furthermore, a [bank-by-bank assessment](#) is needed to effectively implement this strategy. For this assessment to be completed, the shortcomings in the new Banking Secrecy Law adopted by Parliament in October 2022, should be remedied. In particular, the Law should allow the relevant institutions and third parties involved in the bank-by-bank assessments to access data on individuals' transactions and deposits at the client level.
- **Prioritizing Political and Personal Interests Over the Public Good:** The politicization of the bank restructuring issue poses a significant challenge to the adoption of the bank restructuring law, ultimately undermining depositors' rights. The recent IMF meetings have once again [highlighted](#) the deep disagreements in Lebanon over the necessary reforms and their implementation methods, especially regarding the allocation of losses among banks, depositors, and the Government. Moreover, time is running out as Lebanon faces potential inclusion on the gray list of the FATF.
- **Delays in Electing a President and forming a fully-functioning Government:** The European Union delegation to Lebanon declared in a statement that these delays should not hinder the implementation of agreed key reforms. However, institutional paralysis remains one of the main challenges to all reforms and actions, including restructuring the banking sector.