The Adoption of the Law Is Not the End of the Road... It Is the Beginning

By Dr. Fadi Khalaf
Secretary General
Association of Banks in Lebanon

The Lebanese parliament has adopted the amendments to the law on bank restructuring, bringing to a close a long phase of legislative debate, unless the law is challenged before the Constitutional Council. In any case, however, a more important and more sensitive phase now begins.

Success is not measured by the number of laws adopted, but by their ability to achieve the purpose for which they were enacted. While the adoption of the bank restructuring law was a necessary step, it does not, in itself, resolve the crisis. Rather, it provides the framework upon which the next phase will be built.

The real question now is this: will restructuring lead to a stronger banking sector, capable of serving depositors and the economy, or will it turn into a liquidation process that further weakens what remains of the sector's ability to recover?

Several key facts must therefore be clearly stated.

First, the crisis Lebanon has been facing since 2019 was not the crisis of a single bank. It was a systemic crisis that affected the State, the Central Bank, the banks and the economy as a whole. Restructuring must therefore not become a means of placing on one party alone the consequences of a crisis shaped by multiple factors and policies.

Second, the banks are not asking to be exempted from their responsibilities. They have repeatedly stated that they are prepared to bear their share. But they are asking for a fair reform process, for responsibilities to be clearly defined, and for the party that is partially able to contribute to the solution not to be turned into the one expected to bear the entire burden of the crisis.

Third, depositors are not protected by closing the banks that are still capable of survival. Depositors need banks that are able to repay them. The economy needs banks that are able to finance it. Protecting depositors and preserving viable banks are therefore not conflicting objectives; they are two sides of the same solution.

Fourth, restructuring the banking sector will require recapitalization. Any new investor, Lebanese or foreign, will ask a number of basic questions before placing a single dollar in any bank: are the rules clear? Is ownership protected? Have the losses been identified? Are the limits of risk and responsibility known? Is there any assurance that the legal framework will remain clear and stable, protecting investment from unexpected legislative changes?

Without clear answers to these questions, recapitalization remains a slogan, not an implementable project.

Fifth, the past seven years have shown that the absence of a clear and unified legal framework, together with multiple judicial and enforcement tracks, does not protect depositors as a whole. On the contrary, it gradually erodes the banks' ability to serve them and creates unequal treatment among them. It is now time to move from managing the crisis to resolving it.

Sixth, rebuilding the sector requires, above all, rebuilding trust. Trust cannot be bought. It cannot be imposed by law. Nor can it be restored by speeches. Trust is rebuilt when depositors feel that their rights are protected, when investors feel that their capital is secure, when banks know that the rules are clear, and when the State sees that the financial system is once again able to serve the economy.

Seventh, the banks, which are directly concerned with implementing the core part of the restructuring process, must be present in the discussions that define the operational mechanisms for this process. Public authorities hold the legislative and executive process, the Central Bank exercises its core supervisory and monetary role, and the banks remain directly concerned with the practical implementation of restructuring.

The participation of banks in the discussion does not mean owning or obstructing the decision-making process. It means benefiting from the sector's practical experience in order to avoid mechanisms that appear workable on paper but fail when implementation begins.

In conclusion, the bank restructuring law has been enacted, and the banks have their observations on it. However, even if what is done is done, the debate should no longer revolve around how many banks can be liquidated, but rather around how many sound banks can be recapitalized and returned to the service of the economy. The challenge lies not merely in enacting regulations, but in creating an environment where these measures can foster a return of confidence and financing, thereby paving the way for growth.

The allocation of losses, the sources of liquidity and the mechanisms for recovering deposits will now move to the heart of the debate on the Financial Regularization and Deposit Recovery Law.

After seven years of crisis, Lebanon no longer needs a more orderly management of losses. It needs a genuine beginning of recovery, built on clearly defined responsibilities, real sources of liquidity, viable banks, protected depositor rights and recoverable deposits, not just written promises.

Note: This editorial is part of a series written by the Secretary General of the Association of Banks in Lebanon as part of his introductory articles to a number of periodicals published by ABL. It reflects his personal opinion and analysis of the developments and does not bind ABL.