



When the Crisis is Recognized for what it is:

A Systemic Crisis

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

Since the outbreak of Lebanon’s financial crisis, it has become common to describe what happened simply as a “banking crisis,” as if the events that unfolded since 2019 were merely the result of isolated banking mistakes or mismanagement within the banking sector. However, recent international developments and studies issued by global financial institutions have helped place matters in their proper analytical framework: what occurred in Lebanon was a **systemic crisis**—a crisis that affected the entire financial, monetary, and economic structure of the state and the Central Bank of Lebanon, with repercussions that inevitably spread to the banking sector.

In this context, the International Monetary Fund’s report of May 2026 is particularly significant, as it formally classified Lebanon among the countries that experienced systemic financial crises between 1970 and 2025.

Yet the importance of this classification goes beyond the label itself. The report offers a crucial explanation of how such crises emerge. It notes that many modern systemic banking crises did not originate within the banking sector. Rather, they were triggered by severe external shocks that weakened banks’ balance sheets and financial positions.

This is the crucial point.

The report does not place responsibility solely on the banks. Instead, it categorizes the Lebanese crisis among those resulting from broader collapses in:

- Public finances,
- Sovereign debt,
- Monetary policies,
- Exchange rate policy,
- And the state’s ability to continue financing its previous economic model.

In other words, Lebanon’s crisis was not the failure of one or two banks. It was the collapse of an entire economic and financial model involving the state and the central bank, which ultimately struck both the banking sector and the national economy as part of a single system that ultimately broke down.

This internationally recognized assessment carries major implications for any reform or restructuring plan.

If the crisis is systemic, then the solution must be systemic as well. Losses and responsibilities cannot be allocated as though a single actor bears the overwhelming burden while the rest of the system is treated as if they played no role in the crisis.

Accordingly, it is neither logical nor equitable to:

- Place the full burden of losses on the banking sector alone;
- Treat the crisis as if it was merely a conventional case of bank insolvency;
- Ignore the role of the state and the fiscal and monetary policies that were fundamentally responsible for bringing the country to its current situation.

Likewise, any restructuring plan that effectively eliminates most of the banking sector cannot reasonably be described as reform. Beyond raising serious concerns about fairness, such an approach would risk deepening the economic downturn and undermining any future prospects for restoring deposits, rebuilding confidence, and reviving economic activity.

Protecting depositors' rights must remain the primary objective around which all stakeholders unite. Yet these rights cannot be safeguarded by dismantling the sector that is expected to help restore confidence, provide financing, and support future growth.

International experience has consistently shown that resolving systemic crises requires:

- A realistic and equitable distribution of losses;
- A meaningful contribution by the state in assuming responsibility for its role in the crisis;
- A viable and gradual recapitalization process;
- And the preservation of a functioning banking sector.

Solutions based solely on wiping out banks' capital without addressing the root causes of the collapse are unlikely to resolve the crisis. They risk prolonging it and making eventual recovery even more difficult.

Recognizing the systemic nature of Lebanon's crisis is not an attempt to evade accountability. Rather, it is the essential starting point for any solution that is realistic, fair, and sustainable.

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.
