POSITION PAPER

ADVOCATING THE PRESERVATION
OF DEPOSITS AS PRECONDITION
FOR ECONOMIC RECOVERY WITH INTEGRITY

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ON THE QUESTION OF DEPOSIT PROTECTION IN ANY REFORM PROGRAM:

Lebanon's financial crisis is the result of governance failure, not national bankruptcy. This position paper presents a recovery strategy rooted in constitutional law, depositor protection, and economic integrity. It rejects the unlawful deletion of deposits and instead proposes a roadmap built on restoring liquidity, restricting liabilities, holding all actors accountable, and rebuilding trust between the state, its citizens, and the financial system. Recovery depends on shared responsibility: the government must lead reform transparently, citizens must recommit to a renewed social contract, and bank owners must recapitalize and account for past misconduct. Any external assistance, including from IMF, must be conditioned on safeguarding depositors and implementing a free exchange rate.

Key recommendations

• Protect depositors: No deletion of deposits; deposits must be preserved as bank liabilities.
• Unify the exchange rate: abolish multiple exchange rates and implement a market-determined, single rate to restore currency stability and trust.
• Infuse liquidity: Reduce required reserve ratios and mobilize excess gold and foreign reserves to reactivate frozen deposits and restore bank operations.
• Restructure liabilities: Reschedule public and private debts, both foreign and domestic, allowing time-bound repayment frameworks.
• Fiscal reform and tax compliance: Ensure a balanced budget: modernize tax collection to foster equity and strengthen the state's financial base, and rationalize spending.
• Bank recapitalization and accountability: Require bank owners/shareholders to recapitalize their institutions as needed and face accountability for financial mismanagement and cronyism.
• Reform central bank: Overhaul BDL governance
• Corporatize state-owned enterprises to improve efficiency, transparency, and economic productivity.
• Reform the National Social Security Fund (NSSF) based on a cash basis scheme.
• Renew the social contract: Citizens must contribute through tax compliance and civic responsibility, while the state upholds rights and restores institutional legitimacy.
• IMF Engagement on clear terms: Any deal must guarantee full deposit protection at banks and enforce immediate currency reform.

1. LEBANON, THE RAREST CHANCE

The opportunity opening up in this spring of 2025, is historic. Both private and public decision makers in Lebanon are looking at a once-in-a-generation chance of launching new development trajectories. Apart from the opening of new political horizons including the establishment of state authority in the country and revising banking secrecy laws towards a banking governance framework, they now have a unique opportunity of reviewing needed economic and financial reforms including reforms in the banking system, devising new social contracts, and deepening the seeds of national belonging. This fortuitous opportunity is remarkable against the backdrop of a world order mired in uncertainty and crises not seen in 70 years.

Since 2019, numerous development and recovery plans have been presented to the Lebanese people and the international community. In 2020, plans of national salvation by all types of Lebanese stakeholders were all the rage, but none took into account political security and its impact on attracting new liquidity. The failure to address this issue exasperated an already dysfunctional and deeply corrupt state.

Democracy is not about having a perfect plan, neither a top-down one or a bottom-up one. It is about finding a working plan and best-possible amalgamation of competing ideas that reflect the interests of diverse stakeholders in the Lebanese polity. One of these plans, a rather elaborate and long-standing one, is the Executive Economic Roadmap, compiled and regularly updated by Executive Magazine over more than 10 years.

But while there are many paths that can lead to a better and more prosperous and equitable Lebanon, and while the Executive Roadmap is a consultative plan that embraces many perspectives of our domestic and diaspora-based private sector and civil society stakeholders, there is only one viable path of rebuilding the trust that is needed. This path is the straight and narrow path of constitutionality, of honoring contracts – both between Lebanese banks and their clients and between the state, the central bank, international financial institutions, and the private sector financial intermediaries – and of macro-financial sanity.

We are honored to present a position paper grounded in five years of cumulative work by the Lebanese Economic Association in partnership with Executive Magazine, the Union of Arab Banks and with reviews by Dr. Samir Makdesi and other experts. We propose a comprehensive, rights-based recovery strategy that places depositors at the center of reform. It rejects the flawed narrative that Lebanon's financial collapse is a bankruptcy to be settled at the expense of its citizens. Instead, it identifies the crisis as a solvable liquidity and governance failure that must be addressed through lawful, sequenced, and economically sound measures.

Executive Editors

2. MANY VOIDED PLANS

The plans that were initiated since mid-2020 by the governments of Prime Ministers Hassan Diab and Najib Mikati, respectively, focused on writing off most deposits (presumed losses) and aimed to dilute the remainder rather than on reviving the economy. They presumed the crisis to constitute a bankruptcy rather than an insolvency/liquidity case. Their plans, endorsed by the IMF, assumed losses equivalent to over 90 percent of deposits and concluded that the burden of loss should be borne by the depositors as banks and the government are both bankrupt – a false claim.

It is paramount to instead acknowledge that the burden of the crisis has over five years been borne by the people. In absence of clear government responsibility and immediate legal measures, such as the adoption of a capital controls law that was debated from 2020 onwards without having been adopted until the election of a new president in 2025, residents and non-residents alike have already assumed large losses from restricted and undervalued dollar withdrawals.

In January and February of 2025, the election of President Joseph Aoun, the agreement on Prime Minister Nawaf Salam, the filling of positions in the Council of Ministers, and the adoption of a cabinet statement with approval of Parliament were highly proactive steps taken in record time. These steps must be followed by implementation of development plans along with administrative and structural reforms.

In the crisis years of 2020 to 2024, various proposed plans for fixing the banking and fiscal systems ultimately undermined the foundations of the Lebanese financial system based on a free exchange rate, free capital movement, and a solid and viable banking system. Make no mistake, the restoration of trust, legality, and capacities in the financial sector of Lebanon is, in our view, the condition-sine-qua-non, or absolute precondition, for any future economic and social prosperity.

3. THE FIRST IMF SCHEME

The negotiations with the International Monetary Fund throughout the past five years were highly burdened with political and ideological positions of a very small political elite of Lebanese stakeholders. The positions of the IMF in turn were often misunderstood or even willfully misinterpreted by partisan Lebanese parties.

In the impending negotiations with the IMF, the Lebanese government should insist on its position that to preserve the rights of depositors to their frozen deposits would help create sustainable relationships with the international community, foreign financial institutions, and private investors. Lebanese negotiators should be guided by constant cognizance and awareness that the IMF is constrained with debt sustainability.

However, reaching an agreement with the IMF on a rescue plan may be difficult under the current IMF stance, which seems to insist that the crisis is a bankruptcy case whereby banks and citizens would carry the burden of all the unfolding costs.

IMF staff estimates stipulate (incorrectly) the current debt/GDP (debt/gross national income) ratio for Lebanon at 510 percent. Based on its principles of operation and these estimates on Lebanon's debt, the IMF can lend to Lebanon only if its debt ratio is reduced by a massive amount to a sustainable level of 110 percent of GDP. The Board of Executive Directors of the IMF can then sanction a 4-year $3 billion Extended Facility Fund (EFF) to Lebanon. The hidden prerequisite for this EFF is a radical reduction in the debt ratio. This reduction is presumed to be realized from a massive cut in dollar deposits held in resident and non-resident accounts, and the corresponding accounts of banks at BDL, which has been fiercely rejected so far by major political blocks.

4. 2025 SITUATION UPDATE

After suffering through the war of fall 2024, the Lebanese economic situation has become more dire. Per March 2025 World Bank estimates, the country will require about $11 billion in reconstruction and economic recovery funds. A significant portion of these funds ($8.6 billion) will be required in the years 2025 to 2027.

The need to deploy $11 billion between today and 2030 is not integrated into a costed plan of restoring Lebanon to an upper-middle-income economy with digitized and trustworthy government and private sector institutions. Such an extensive and comprehensive economic salvation project will not only hinge upon long overdue administrative and systemic reforms but also require the creation of a new social contract under affirmation of Lebanese sovereignty. In its reliance on private-public collaboration and investments from the Lebanese global diaspora as well as true “friends of Lebanon”, this project appears to mirror the reconstruction and development vision of the early nineties.

This implies that the following eight issues are vital to exit the crisis: **building trust, protection of deposits, well prepared constructive negotiations with the International Monetary Fund, full respect of our constitution and economic principles and rights, sound implementation of national fund solutions, understanding and transparency of liquidity needs and currency management mechanisms towards economic democracy and exit from the crisis**, are vital. We offer in the following segment the main guidelines based on priorities and principles of economic and political behavior that, in the view of Executive and the Lebanese Economic Association, are fundamental in the process of achieving a recovery based on a solid constitutional and societal bedrock.

5. AN ALTERNATIVE FINANCIAL REFORM PLAN

It is, therefore, imperative to devise an alternative plan that safeguards the trust between the state and its citizens, adheres to the constitution and preserves depositors’ legitimate financial savings. Furthermore, any measure that infringes on the rights of depositors can neither be proposed nor undertaken without the full acquiescence of the individual depositor. Unlike bond holders, depositors are not subject to any “collective action clauses” that are frequently stipulated in bond statutory laws which legally assume a single aggregated vote of consent. A massive bail-in, as the one proposed by IMF staff engaged in negotiations with the Lebanese government in 2023, is an aberration and departs from good practices as noted by members of the IMF Executive Board (see page 18, section 21).

THIS PROPOSAL IS BASED ON SUCCESSFUL PRACTICES IN RESOLVING CRISES CAUSED BY GOVERNMENT DEFAULT. TREATING LIABILITIES AS LOSSES COULD RESULT IN GRAVE CONSEQUENCES AND MAY RESULT IN DEEPENING THE RECESSION LEADING TO CONTINUOUS CURRENCY DECLINE AND RISING UNEMPLOYMENT. THE GOVERNMENT AND THE IMF STAFF SEEM UNAWARE OF THE URGENCY TO START A GENUINE CONSTRUCTIVE AND SEQUENTIAL REFORM. A “WAIT AND SEE” GAME, HOPING THAT THE PUBLIC WILL EVENTUALLY ACCEPT THEIR PLAN (WRITING OFF DEPOSITS) WILL AGGRAVATE THE CRISIS, AND REINFORCE PUBLIC DISTRUST.

The current crisis represents a state debt obligation default to BDL and banks, correspondingly, to the private depositors, and cannot legally or ethically be deleted or resolved unitarily by the state at the expense of the depositors.

DEPOSITS OF BANKS AT BDL, AND DEPOSITS OF CLIENTS AT BANKS ARE LIABILITIES AND SHOULD NOT BE CLASSIFIED AS LOSSES UNDER ANY CIRCUMSTANCE. THE BANK FOR INTERNATIONAL SETTLEMENTS DOES NOT ENDORSE DELETION OF CENTRAL BANK LOSSES OR PARI-PASSU, DELETION OF DEPOSITS OF BANKS AND CLIENTS. THE BIS ENDORSES THE VIEW THAT LOSSES AND NEGATIVE EQUITY DO NOT DIRECTLY AFFECT THE ABILITY OF CENTRAL BANKS TO OPERATE EFFECTIVELY (BIS BULLETIN 68 OF FEBRUARY 7, 2023).

The solution is neither to delete nor to refund all deposits at once; to the contrary, creating trust and liquidity are the indispensable elements of resolving banking crises. Creating conditions to enable the government and the BDL to service their respective debt, and not deleting these obligations, is the appropriate solution. Servicing public or private sector debt can be enabled by well-designed and feasible rescheduling plans.

To achieve these goals, it is essential to implement the following:

a. **Preserve and protect all deposits in banks accounts to regain trust in the banking system:** Assure that deposits are maintained as banks’ liabilities. Any losses incurred from liquidated banks should be dealt with through the proper legal liquidation channels (liquidation procedures prescribed by the “Reform of the Banking sector” law 110 of 1991) and not through ad-hoc discretionary decisions. The government should declare adherence to the constitution, safeguarding all financial and real assets including personal (national and foreign) and institutional savings, and accordingly obviating the necessity of deleting them and the corresponding banks’ assets and liabilities (client deposits).

b. **Adopt a free and unified, market-determined exchange rate:** Unify and free the exchange rate for all official and private real and financial transactions and remove all restrictions on banks transactions in foreign exchange (FX). The BDL may intervene in the FX market as part of its stabilization monetary policy to avert unexpected market turbulence. The unlawful distinction between “old” dollars and “fresh” dollars should be terminated.
A free FX market creates trust in banks as it allows depositors and banks to freely make transactions in

their FX accounts in either LBP or dollars at the market rate. With a single, market-determined exchange rate, depositors will equally accept reimbursement of their accounts in either LBP or dollars, as both will hold equal value. The virtual and digital role of money can be resumed with the use of checks and credit cards and other digital schemes -- such as PayPal and e-wallets. With all banks accessing the FX market, the market will become larger and more competitive and will limit its manipulation by few FX traders.

A free rate has an equilibrating impact on the financial markets and the balance of payments by promoting production of import substitutes and exports of goods and service, restores the real value of financial assets and liabilities (including FX bank accounts values), promotes saving and investment, attracts foreign investments, and promotes growth.

A DISCRETIONARY FIXING OF THE EXCHANGE RATE IS NOT SUSTAINABLE AND DOES NOT INSTILL TRUST IN THE MONETARY SYSTEM. RAISING REVENUES AS WELL AS DISPERSING WAGES IN FX HAS A NEUTRAL ROLE IN BRINGING STABILITY TO THE MARKET.

A free exchange rate system does not create inflation. Inflation is induced by inappropriate fiscal and monetary policies that result in injection of domestic currency liquidity beyond the absorptive capacity of the economy.

c. **Provide liquidity by replenishing deposits with fresh dollars in the banking system through reducing the required reserve ratio and liquidating excess gold reserves**--a step that would need to be assessed in light of exiting monetary conditions: Create fresh foreign currency liquidity at banks for depositors by reducing/removing the required reserve (RR) ratios on foreign currency deposits. A free FX market will diminish the need and the role of the BDL in hoarding significant amounts of reserves. Eliminating or reducing RR ratios can generate FX liquidity in the banking sector. It will also eliminate the potential of abusing the use of such reserves by the government. The injection of liquidity will be deposited directly to the accounts of each client at a unified ratio of client's deposits. Nearly $9 billion of banks' required reserves at BDL could become disposable to depositors and provide liquidity that would allow the resumption of normal banking operations. Liquidity can be further nourished by using a significant portion of the gold stock valued at $ 28 billion as of end of March 2025, which reflects gold price appreciation by 100 percent since 2019. The central bank has been holding a steady amount of 9.2 million ounces of gold since the mid- seventies. A significant portion of the gold can be credited directly to the accounts of depositors' frozen deposits and/or can be used, as well, as collateral to placate those who, wrongly, think that gold is different from other assets. Gold is not property of the central bank as some think but property of the government as per articles 15 and 113 of the Code of Money and Credit. Central bank independence does not mean that BDL owns itself. The government is indebted to depositors and should reimburse them from any source of assets it has, same as it is committed to holders of eurobonds under New York state law. Assets reflect accumulation of revenues overtime. Legally, both assets and revenues can be used to service public debt. The IMF suggestion that recourse to public resources should be limited is certainly an anomaly. Legally, debt service has to be respected from any public resources, a primary fiscal surplus (revenues), or existing assets.

LEBANON RETAINS ONE THE HIGHEST RESERVE RATIOS TO GDP COMPOSED OF $10.5 BILLION IN CASH AND $28 BILLION IN GOLD AS OF THE END OF THE FIRST QUARTER OF 2025. THIS RATIO EXCEEDS 100 PERCENT OF GDP WHILE MOST OTHER COUNTRIES RETAIN A RATIO OF 10 TO 20 PERCENT OF GDP. THE GOLD RESERVES CONSTITUTE AN ASSET ACCUMULATED THROUGH DEPOSITOR CONTRIBUTION OF FOREIGN EXCHANGE TO THE CENTRAL BANK. THE BDL DOES NOT NEED MORE THAN, AT THE MOST, $7 BILLION OF COMBINED GOLD AND FOREIGN CASH ASSETS TO HAVE ADEQUATE FOREIGN RESERVES. ONE SUGGESTED STRATEGY, THEN, IS THAT DEPOSITORS CAN BE PROVIDED WITH FRESH DOLLAR CASH (EQUIVALENT TO 35 PERCENT OF THEIR DEPOSITS) AS FULLY ACCESSIBLE FRESH DOLLAR DEPOSITS. THE SAME PERCENTAGE SHOULD APPLY TO ALL DEPOSITORS AND THERE SHOULD NOT BE ANY DISCRIMINATION IN FAVOR OF SMALL DEPOSITORS AS IT IS UNLAWFUL TO DISTINGUISH BETWEEN DEPOSITORS ON THE BASIS OF DEPOSIT SIZE. THIS WILL RESTORE CONFIDENCE IN THE BANKING SYSTEM AND WILL ALLOW BANKS TO RESUME NORMAL OPERATIONS. THE REMAINDER OF DEPOSITS CAN BE CONSIDERED AS SAVING DEPOSITS SCHEDULED OVER A FOUR TO FIVE YEAR PERIOD. HOARDING RESERVES AT BDL DIDN'T PREVENT THE CRISIS BUT PROJECTED AN UNDERHANDED MANNER. LAW 42/86 OF 1986 PROHIBITING OF ANY USE OF GOLD RESERVES SHOULD BE AMENDED. THE INJECTION OF LIQUIDITY CAN BE GRADUAL OVER A PERIOD OF 12 MONTHS WHILE OBSERVING CLOSELY THE REACTION AND THE IMPACT OF INFUSED NEW LIQUIDITY ON THE ECONOMY.

THE INSTITUTE OF INTERNATIONAL FINANCE (IIF) HAS RECOMMENDED ON SEVERAL OCCASIONS THAT A PART OF GOLD CAN BE LIQUIDATED OR INVESTED IN ORDER TO FINANCE DEPOSITS. THE ADDITIONAL LIQUIDITY CAN AID IN RECONSTRUCTIONS OF WAR DAMAGED ZONES.

d. **Reschedule all bank and non-bank financial assets and liabilities (including public debt):** Rescheduling all public and private financial assets and liabilities in FX and LBP (including remaining saving deposits and public debt) accounts for short, medium, and longer-term period. Term deposits maturity can range from short to medium-term periods.

   Public debt can be rescheduled along the pre-crisis timeframe period. It can be designed to ease the initial strain the banking system may face when a free/floating exchange rate is adopted. Such rescheduling is prudent to implement in a manner that would quell a burst of speculation. Impose an interest and debt service moratorium until a fiscal primary surplus (fiscal surplus without debt service cost) is realized. When combined with a full or partial moratorium on servicing public debt, it is feasible that a primary surplus can be achieved within the first year of adopting a genuine reform program. A primary surplus will be allocated to servicing the rescheduled eurobond and local currency debt as well as banks' dollar deposits at BDL (i.e. government obligations regarding BDL liabilities to banks). Foreign currency debt consisting of $33 billion, composed mostly of eurobonds, is being held by international financial institutions (IFIs) and private holders (approximately 50 percent), Lebanese commercial banks (7 percent), the BDL (15 percent), and bilateral and multilateral obligations (3 percent), with the remainder being held by Lebanese banks and private holders. A large part of the portion held by IFIs was acquired at a discounted price during the crisis. Netting out – by subtracting one from the other – the BDL-held eurobond debt and the discounted value of the eurobond debt held by IFIs, could

entail a reduction in foreign currency debt of nearly 20 to 25 percent. With an alleviated debt level (including LBP debt), the government, with the consent of creditors, will be able to reschedule its dollar debt on terms consistent with debt sustainability.
Sovereign public debt in LBP, mostly held by BDL and banks, has diminished in dollar value by 90 percent (the exchange depreciation rate) and it now constitutes a marginal debt burden.

e. **Fiscal reform:** Achieve a balanced budget with revenues at par with expenditure. A budget comprised of a sufficient allocation for rescheduled debt service cost (i.e., a budget with a primary surplus), in addition to current and capital spending, is a key ingredient in generating stability in the FX market and improving the external transactions outlook as well as serving sovereign debt. A free rate enhances government revenues from customs excise taxes, VAT and income taxes. It would allow the government to adjust its expenditure including wages, investment spending, and debt service cost, while adhering to a balanced budget target. A balanced budget will eliminate fiscal injection of liquidity into the market, thus preventing recurring depreciation of the Lira. The primary surplus will service sovereign debt in both LBP and dollar currencies. The BDL can determine the liquidity needs of the economy guided by its growth potential and inflation target.
A balanced budget with a primary surplus sufficient to compensate rescheduled debt service, will allow the government to service its eurobond, institutional, and bilateral debt and gradually recapitalize BDL and reach a sustainable debt level.
In addition to the impact of adopting a free, market-determined rate, several additional fiscal measures to improve fiscal performance should be considered. These include enhancing revenue collection and adopting an appropriate tax structure combined with efficient spending programs. Lebanon cannot recover without a fair and efficient tax collection system. Improved tax collection ensures that everyone contributes — not just wage earners and the vulnerable, but also the wealthy and politically connected. A just tax system funds essential services, reduces inequality, and restores public trust in the state.

f. **Bank reform:** Reform of the banking sector should be undertaken in a sequential and efficient manner. Banks' troubles stem from systemic risk that led to the default of both the BDL and the government in servicing their obligations. Their non-performing assets can be resolved as part of rescheduling BDL liabilities and bank deposits as noted in item 3. Banks' reform can be supervised by the relevant reformed financial agency at the BDL in collaboration with relevant stakeholders in the banking industry. Exchange rate reform should precede any resolution or liquidation of banks. Commercial bank losses to the private sector could be limited as most of these bank assets are collateralized. Their actual losses stem mostly from currency mismatch and BDL deleveraging policy (repayment of foreign currency credit at an artificially low exchange rate).
The BDL recapitalization can be replenished gradually from government sources, as Article 113 of the Code of Money and Banking stipulates that BDL losses have to be borne by the government. The rescheduling of BDL assets and liabilities combined with freeing the currency market could be sufficient to allow the BDL to resume its normal operations. The BDL can operate normally with negative equity. It is not essential or mandatory that deposits of banks at BDL be deleted to restore BDL viability.

The BDL, however, must start servicing bank's liabilities following an agreement on a debt service moratorium. Nevertheless, the BDL is in dire need of implementing central bank governance reform that embeds checks and balances, and administrative restructuring to reduce the centralization of power of its current structure, improve its performance, granting independence to its supervision function and enforcement of prudential regulations.

g. **Corporatize state owned enterprises (SOEs):** The public enterprise sector has been a major burden and drain on state finances with most of the dollar debt burden emerging from financing public sector enterprises' financial gaps, prominently the long-accumulating losses involving electricity generation. The electricity sector alone received a transfer support of $50 billion over the past two decades (including interest cost estimated at $26 billion).

A SUGGESTED PRACTICAL SOLUTION FOR THE SOE SECTOR COULD ADOPT THE FOLLOWING STRATEGY:
FIRST, IMPROVE THE GOVERNANCE OF THE PUBLIC ENTERPRISE SECTOR THROUGH PRIVATIZATION OF ITS MANAGEMENT ON A CASE BY CASE BASIS, STARTING WITH KEY ENTERPRISES: THE MOBILE PHONE OPERATORS, THE ELECTRICITY MONOPOLY PROVIDER, THE FLAG CARRIER MEA, THE OPERATORS OF PORT SERVICES, THE AIRPORT, AND THE CASINO DU LIBAN. AN ENTIRELY NEW OPPORTUNITY FOR SUSTAINABLE REVENUE GENERATION LIES IN THE NASCENT OFFSHORE GAS INDUSTRY, BEGINNING WITH THE LEASING OF OIL AND GAS EXPLORATION BLOCKS AND EXTRACTION AGREEMENTS.
THE PRIVATIZATION OF MANAGEMENT SHOULD FOLLOW INTERNATIONAL PROCUREMENT STANDARDS THROUGH OPEN BIDS OFFERED BY DOMESTIC AND INTERNATIONAL PREQUALIFIED SPECIALIZED AGENCIES IN EACH SECTOR. THE MANDATE (TERMS OF REFERENCE) SHOULD FOCUS ON ASSURING THE RETURN OF THESE ENTERPRISES TO A STATE OF PROFITABILITY WITHIN A SPECIFIED PERIOD OF ONE TO TWO YEARS.
SECOND, FOLLOWING THIS PRELIMINARY STAGE, CONDITIONS SHOULD ALLOW FOR FULL OR PARTIAL CORPORATIZATION OF SOEs AND THEIR LISTINGS ON THE BEIRUT STOCK EXCHANGE. LIMITS WILL BE SET ON INDIVIDUAL HOLDINGS (NOT TO EXCEED 0.5 PERCENT OF TOTAL EQUITY) TO PREVENT MONOPOLIZATION OF STATE ENTERPRISES AND TO ADHERE TO COMPETITIVENESS/ ANTI-TRUST MANDATES. THE REPEATED ARGUMENT THAT SOEs ARE FOR ALL CITIZENS AND SHOULD NOT BE DISPOSED OF IS A VOID ARGUMENT, AS THEY HAVE BEEN A MAJOR CAUSE OF THE CRISIS AND IMPOVERISHMENT OF A LARGE SEGMENT OF THE POPULATION. RECOVERING SOEs' PROFITABILITY IS EXPECTED TO HAVE A SIGNIFICANT IMPACT ON GROWTH, EMPLOYMENT, AND COMPETITIVENESS OF THE ECONOMY THAT WILL BENEFIT ALL LEBANESE. HOLDERS OF NON-PERFORMING DEPOSITS CAN INITIALLY BE GRANTED PREEMPTIVE RIGHTS IN ACQUIRING NEWLY ISSUED SOE EQUITY SHARES FOR A LIMITED PERIOD.
THE GOVERNMENT CAN RETAIN A CERTAIN PERCENTAGE OF THE ISSUED EQUITY (SUCH AS 30 PERCENT) AND A PART OF ITS EARNINGS CAN BE EARMARKED FOR THE SOCIAL SAFETY NET SO THAT THE LOW-INCOME SEGMENT OF THE POPULATION CAN BENEFIT DIRECTLY FROM PRIVATIZATION. GOVERNMENT REVENUES WILL BE BOOSTED FROM THE ONE-TIME SALE OF SHARE EQUITY, STREAM OF INCOME TAXES FROM SHAREHOLDERS DIVIDENDS, AND THE DIVIDENDS OBTAINED ON ITS OWN EQUITY SHARES.

Corporatization of SOEs will create an opportunity for depositors and foreigners to invest in the private sector and reduce the liabilities of banks. The emergence of a new corporate class will be a fertile ground for allowing banks to play their proper intermediation role and grow again instead of relying on the state for their livelihood.

h. **Compensate losses** of National Social Security Fund (NSSF), syndicate funds, and government LBP treasury bills and deposits in LBP held by residents and non-residents. The NSSF, and similar private syndicate plans, have lost most of their deposits and savings value due to the massive currency depreciation. The equivalent of $60 billion of USD in claims by Lebanese citizens to the state were depreciated to 99 percent. A "Pay-As-You-Go" retirement and health compensation scheme financed by a social security tax could provide a solution designed to provide a monthly pension and a capped medical coverage. It functions by raising enough social security revenue to fulfill the targeted services intended for subscribers.
For losses emanating from holding LBP deposits and domestic treasury bills, the vulnerable holders can be covered as part of a national social safety net. Consideration could also be given to compensate depositors at a discounted conversion dollar exchange rate.

6. A DEPOSIT RECOVERY SCHEME OPTION

Numerous vehicles, sovereign funds solutions, or other recovery mechanisms have been presented for the purpose of restoring solvency and trust over time. It is the view of this paper that the pertinent approach will be avoidance of complicated special vehicles and instead the creation of multiple dollar and LBP accounts at banks, in form of the following package:

a. Revolving dollar and LBP current accounts from the freed dollar (and gold) reserves and LBP accounts can become accessible through virtual and digital transactions such as credit cards, e- wallets, and multi- tier 1 checks. Once virtual use of accounts is regained, use of cash will certainly become massively reduced, as both consumers and retailers will realize the inefficiency of cash use. The access limit on credit and debit cards can be updated on monthly basis.
b. Savings (one-year to four-year saving contracts) accounts with staggered maturity can be guided by the structure of pre-crisis time deposits' structure and may be used as collateral for short and medium-term loans and could as well be discounted in the parallel market through issuance of tier 2-tier 5 checks reflecting the timeframe of savings deposits.
c. Thus, availability of accounts extends from same year availability to four years and could be longer depending on overall liquidity. Banks are free to provide longer-term products. The term structure can be reviewed on quarterly basis and adapted to changes in the financial markets.
d. The BDL, in collaboration with relevant stakeholders in the banking industry, could supervise the process of restructuring all financial assets and liabilities to ensure its adequacy according to the prevailing liquidity conditions in banks.

It is, from the perspective of the protection of people's economic rights, highly worth emphasizing once again that the government of Lebanon cannot devise a plan that deletes any part of deposits and savings accounts without an acceptable compensation agreeable to depositors and implemented in a very transparent and legal manner. Moreover, it is crucial to recognize that the working people and taxpayers of Lebanon have in some cases already incurred losses of not only portions of their Lira-denominated savings in banks but also of Lira-denominated retirement payouts that were transferred to their bank accounts in years before the depreciation of the Lebanese currency.

DELETING DEPOSITS, AS THE GOVERNMENT PROPOSES IN EXCHANGE FOR VALUELESS WARRANTS (PLACED IN A DEPOSIT RECOVERY FUND), GOVERNMENT CERTIFICATES, AND ZERO-RATE PERPETUAL BONDS THAT VIOLATE THE CONSTITUTION WILL VERY LIKELY WIPE OFF TRUST IN THE BANKING SYSTEM.

7. CONCLUDING REMARKS

Additional longer-term structural measures covering the legal sector, the real and financial sectors, and government institutions are needed to set the Lebanese economy on a solid economic recovery path. What is proposed in this document describes key broad measures that need to be addressed immediately to revive the economy. Reform should not be delayed until a full plan is ready, or a program with the IMF is agreed upon. In almost all cases, reform takes a sequential path with prioritizing reforms that are more doable at first, and work through time on demanding longer-term reforms.

Of utmost importance is that the government should revise its reform strategy and negotiate effectively with the IMF, other donors, depositors, and creditors for a sound and viable program. Based on the government plans we've seen since 2020, an agreement on an IMF program is most unlikely. The IMF should also be very transparent with the public and should not camouflage its proposed policies that effectively would delete most deposits while protecting small depositors and limiting recourse to public resources. Deleting bank deposits, as the IMF approach stipulates, cannot provide a viable solution. To the contrary, trust and confidence in the system and government would vanish, preventing economic recovery. Making the public believe, with repeated current public statements, that reform cannot be achieved without an agreement with the IMF is a void argument that has delayed and blocked reform efforts. Any country can implement reform with or without the IMF.

An IMF program should meet two Lebanese requirements. Firstly, it must safeguard and preserve all deposits instead of assuming them as losses. Secondly, it shall include completely and immediately freeing the exchange rate for all transactions. This is mandatory to rebuild trust in the banking system and the government.

In the absence of a plausible reform plan along the above path that preserves property and rights of depositors and creditors, legal action against all responsible for the crisis may become the only course involving the central bank, banks, and the government as defendants for committing a tragic financial crime against Lebanese and foreign depositors. It will be, very likely, a process of long duration involving bankruptcy procedures at the highest level in Lebanese and international courts.