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In his September 2026 editorial titled “Will 550,000 Bank Accounts Worth \$29 Billion Be Sent into Liquidation?” Dr. Fadi Khalaf, Secretary General of the Association of Banks in Lebanon (ABL), examines the potential consequences of Lebanon’s proposed Financial Regularization and Deposit Recovery Law. With the Bank Restructuring Law already enacted, Khalaf argues that attention has shifted toward the legislation that will ultimately determine the fate of depositors’ funds. While the need to reimburse depositors is widely acknowledged, the central challenge lies in identifying who will bear the financial burden, how repayments will be financed, and whether sufficient liquidity exists to fulfill these obligations within the proposed timeframes. The editorial raises concerns that implementing a deposit recovery framework without clearly defined funding sources and practical mechanisms could deepen Lebanon’s financial crisis rather than resolve it.

A central concern highlighted by Khalaf is the possibility that the proposed legislation could lead to the liquidation of a significant number of Lebanese banks. **According to technical studies prepared by international advisers, applying the government’s draft law submitted to Parliament without substantial adjustments to the distribution of financial burdens and funding sources could result in the liquidation of banks holding approximately 550,000 accounts and more than \$29 billion in deposits. Such an outcome would raise serious questions about the protection and repayment of depositors’ funds, particularly in the absence of an institution capable of assuming the financial obligations of liquidated banks.** Khalaf questions

whether the existing framework adequately addresses the consequences of large-scale bank closures, warning that liquidation alone does not guarantee the recovery of deposits.

The editorial further examines the capacity of the National Deposit Insurance Corporation to absorb the financial burden associated with widespread bank liquidations. Khalaf argues that the institution's current financial capabilities would be insufficient to cover deposits of this magnitude. Moreover, relying on the sale of liquidated banks' assets to generate repayment funds presents considerable challenges. Asset liquidation is generally a lengthy and complex process, involving administrative costs, delays, and potentially significant losses in asset value when sales are conducted under financial pressure. Consequently, depositors could face years of uncertainty while ultimately recovering only a limited portion of their funds. This highlights the distinction between the theoretical value of banking assets and the actual liquidity that can be generated from their liquidation.

Beyond the banks potentially facing liquidation, Khalaf emphasizes the importance of safeguarding the financial stability of institutions that remain operational. Even viable banks could struggle to fulfill their responsibilities if their available liquidity is excessively depleted during the initial stages of deposit repayment. These institutions would still need to rebuild their capital, restore lending activities, contribute to economic recovery, and meet their long-term financial obligations. Imposing repayment burdens beyond their financial capacity could undermine their ability to support the economy and attract new investment. **Accordingly, the restructuring process should not focus exclusively on identifying banks for liquidation, but also on establishing the conditions necessary for surviving institutions to regain depositor confidence, secure fresh capital and liquidity, and resume their traditional financial intermediation role.**

Another major issue concerns the credibility of the proposed repayment schedules. Khalaf stresses that establishing repayment deadlines through legislation does not necessarily mean that banks and public institutions will possess the liquidity required to honor them. He references a statement made on June 11, 2026, by Ibrahim Kanaan, Chairman of Parliament's Finance and Budget Committee, who questioned how the funds needed to repay the first \$100,000 of deposits would be secured. Kanaan warned that Lebanon could face another default in the coming years if the necessary financing remained unidentified. Building on this concern, Khalaf argues that repayment commitments must be supported by a comprehensive assessment of the actual liquidity available to

the Lebanese state, Banque du Liban (BDL), and commercial banks. Otherwise, ambitious repayment schedules risk creating expectations that cannot be fulfilled, potentially triggering another financial default instead of restoring confidence.

The editorial also draws attention to the importance of accurately calculating financial losses before distributing them among the parties involved. Khalaf warns against the possibility of counting the same losses twice, particularly when certain deposits remain subject to further examination. These may include accounts associated with unusually high interest rates, cheque-trading transactions, or other operations requiring reassessment. According to Khalaf, these reviews should be completed before determining final losses and banks' capital requirements. **Any financial adjustment should be recorded appropriately rather than being charged once against a depositor's balance and again against the bank's capital. This distinction is essential to ensuring that the restructuring framework distributes losses fairly and avoids imposing overlapping financial burdens.**

Khalaf also questions how Banque du Liban would finance its contribution to the deposit recovery process. Although the Central Bank is expected to participate in addressing financial losses, the editorial emphasizes that the sources of this contribution remain a critical issue. Potential financing mechanisms could include the liquidation of certain assets, funds arising from the state's contribution to covering losses, or the use of mandatory reserves deposited by commercial banks at BDL. However, Khalaf raises concerns about the consequences of relying on these reserves, particularly regarding the remaining resources available to the Central Bank once they are depleted. His argument underscores the need to distinguish between resources that can realistically be mobilized and those whose use could create further vulnerabilities within the financial system.

Equally important is the role of the Lebanese state in addressing the financial crisis. Khalaf argues that the Financial Regularization and Deposit Recovery Law cannot succeed if losses are primarily allocated to banks and depositors while the government's contribution remains unclear or is postponed. He links the origins of the crisis partly to public finances, government borrowing and expenditure policies, and the historical financial relationship between the state and Banque du Liban. **Consequently, he maintains that the government must assume a clearly defined responsibility in the resolution process. Rather than relying on broad commitments, the state should identify tangible financial resources, establish transparent implementation mechanisms, and commit to a realistic timetable for fulfilling its obligations. Without such participation, the burden**

sharing arrangement risks becoming financially unsustainable and failing to restore public confidence.

From a broader economic perspective, the concerns raised in the editorial highlight the interconnected nature of Lebanon's banking restructuring, deposit recovery, and economic rehabilitation. An approach centered primarily on liquidating distressed banks, without adequately securing repayment resources or protecting viable financial institutions, could weaken the banking sector further. Similarly, transferring excessive financial obligations to surviving banks or relying heavily on Central Bank reserves could compromise the system's ability to resume lending and support productive economic activity. The effectiveness of the proposed legislation therefore depends not only on determining how existing losses will be distributed, but also on preserving the financial resources necessary for the banking system to operate sustainably in the future.

In conclusion, Khalaf cautions against adopting legislation that promises deposit repayments without the financial capacity to deliver them. He argues that Lebanon has already suffered considerably from prolonged delays in addressing its banking crisis and should avoid replacing those delays with hasty decisions that could produce additional financial instability. Sustainable deposit recovery requires identifiable liquidity sources, realistic repayment commitments, a functioning banking sector capable of financing economic activity, and clearly established responsibilities among the state, Banque du Liban, and commercial banks.

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