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DON'T LET IT BURN:

LEBANON'S LAST CHANCE FOR A PROGRESSIVE DEPOSIT RECOVERY PLAN

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EDITED BY SPENCER OSBERG

A GUIDE FOR RECOVERING THE LIFESAVINGS OF LEBANESE DEPOSITORS

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A guide for recovering the lifesavings of Lebanese depositors

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INTRODUCTION

Lebanon is now four years into one of the worst financial collapses in modern history and efforts to resolve the crisis have stalemated.[1] The principal driver of this deadlock has been the political and financial elite, with their frontman being Riad Salameh, until recently the governor of Banque du Liban (BDL), Lebanon's central bank. The flagrantly illegal policies he enacted after October 2019, when the commercial banks defaulted on their obligations to all but their well-connected clients, shielded those banks from bankruptcy. Moreover, Salameh's multiple exchange rate policy allowed the banking and business elite to continue syphoning off billions of dollars in public funds, even as commercial banks blocked normal customers from accessing their lifesavings.[2]

The boards of directors and shareholders of these zombie banks have never been held to account, neither for the failure of their financial institutions nor their role in the country's economic crisis. Indeed, they have escaped, both legally and financially, responsibility for a calamity they were essential in creating. Unsurprisingly, many of these banking elites and those who would be responsible for holding them to account, Lebanon's political class, are one and the same, or at least eat at the same tables through familial and business relations.[3]

Their veneer of impunity is, however, beginning to show cracks. Salameh, the architect of the regulated Ponzi scheme that brought down Lebanon's financial house of cards, has come under sanction by many western countries and is on the lam from international courts.[4] This has other members of the banking and political elite anxiously eyeing their own foreign bank accounts, their lavish vacation homes on the French Riviera, and penthouse apartments in Western capitals, wondering whether their riches are next to be seized. Indeed, French officials detaining Al Mawarid Bank Chairman Marwan Kheireddine as he changed flights in Paris helped show the banking elite just how exposed they are.[5] If, or hopefully when, more names are added to the international sanctions list, incentive will quickly rise for the rest to strike a deal. Thus, international pressure must continue if we are to end the impasse in Lebanon and begin the long road to financial and economic recovery.

> ***"The longer we delay, the evermore distant the prospect of government recovery will be. Lebanon is already dangerously close to a failed state. We need to pull back from this brink."***

The government and commercial banking sector have each, respectively, put forward plans outlining their vision for how the crisis can be resolved.[6] While they differ in various aspects, a core commonality between them is that the lion's share of bank losses continues to be borne by the general public. The unjustness of this approach should be immediately apparent to all people of conscience, with it also being refuted by the IMF and many other experts. A countervailing vision for deposit recovery must be put forward with legitimacy that holds both domestically and internationally. This means that for the Lebanese public, it must see those who caused and continue to benefit from the crisis held culpable, and those who have unduly borne its hardships receive restitution. For the international stakeholders, whose role will be crucial for the plan to succeed, it must adhere to international standards in banking compliance, governance and regulation. Critically, the plan must take into consideration Lebanon's political and historic realities and what is necessary to compel action from those at the levers of power. It must also recognize that future prosperity requires that the central bank and commercial banking sector regain viability. The progressive deposit recovery plan (PDRP) outlined below fulfils all these criteria.

Policymakers must also approach the plan with heightened urgency, given the staggering cost of inaction: Were the PDRP enacted in 2020, roughly 98 percent of depositors – meaning all those with savings less than $500,000 – would have had access to their funds fully restored immediately. Since then, however, billions of dollars have been bled out Lebanon's financial system, meaning the immediate depositor payout today would likely be less than $100,000, and this number will continue to fall with each day that the banking crisis continues unresolved.

Alongside the IMF Staff Level Agreement (SLA), the PDRP is a necessary first step to begin the process of general economic recovery. The longer we delay both the SLA and this plan, the more entrenched informal business cycles will become, and evermore distant the prospect of government recovery will be. Lebanon is already dangerously close to a failed state. We need to pull back from this brink.

THE PROGRESSIVE DEPOSIT RECOVERY PLAN

PHASE 1: COMPREHENSIVE AUDIT, COMPLIANCE MEASURES, DEPOSITOR PAYOUT, AND INTEREST CLAWBACK

The process of repaying depositors has to start with a detailed assessment of the banking sector, and specifically how much money the banks currently hold and how much they owe. Thus, the prerequisite for Phase I of the PDRP is a comprehensive audit of the commercial banks and the BDL. This will determine, among many other things, the exact size of the "financial gap", meaning the difference between what the banks owe depositors and the funds they have immediately available to pay these customers. Commercial bank liabilities to depositors are currently estimated at some $93 billion, while the banks' liquid assets and their required reserve deposits at BDL are thought to be in the range of $13 billion, entailing a financial gap of $80 billion. The comprehensive audit will settle any ambiguity in this regard.

Following the audit, the financial measures outlined in Phase I of the PDRP can be implemented immediately. This will see small depositors – who make up the vast majority of all account holders – having their savings fully restored, allowing for quick, widespread social relief amid the country's dire humanitarian crisis. Phase II of the plan (discussed below), involving large deposit recovery, requires legal actions and will therefore be a lengthier process that will see the gradual restoration of these savings.

Importantly, all deposit repayments in Phase I and II of the plan will be in the currency of the original deposit, permanently ending the so-called 'lirafication' of depositor savings. This differentiates the PDRP from the previous government plan, which called for deposits to be paid half in the original deposit currency and half in lira.

Determining Near-term Payout Cap

All accounts below the compliance threshold (discussed below) will be eligible for at least a portion of their savings being restored in the near-term pay-out. This will resemble the application of deposit insurance in developed economies, whereby all the accounts concerned will be eligible for reimbursement up to a pre-set amount. As noted, this pay-out cap will be determined by the commercial banks' liquid reserves and available reserves at BDL.

Notably, had this deposit recovery plan been undertaken in 2020, when BDL reserves stood at some $33 billion, the near-term pay cap could have been as much as $500,000 and covered 98 percent of all de-

> ***"Given the large number of very small depositors, most will be able to regain immediate access to their funds under the PDRP if it is implemented in the near term."***

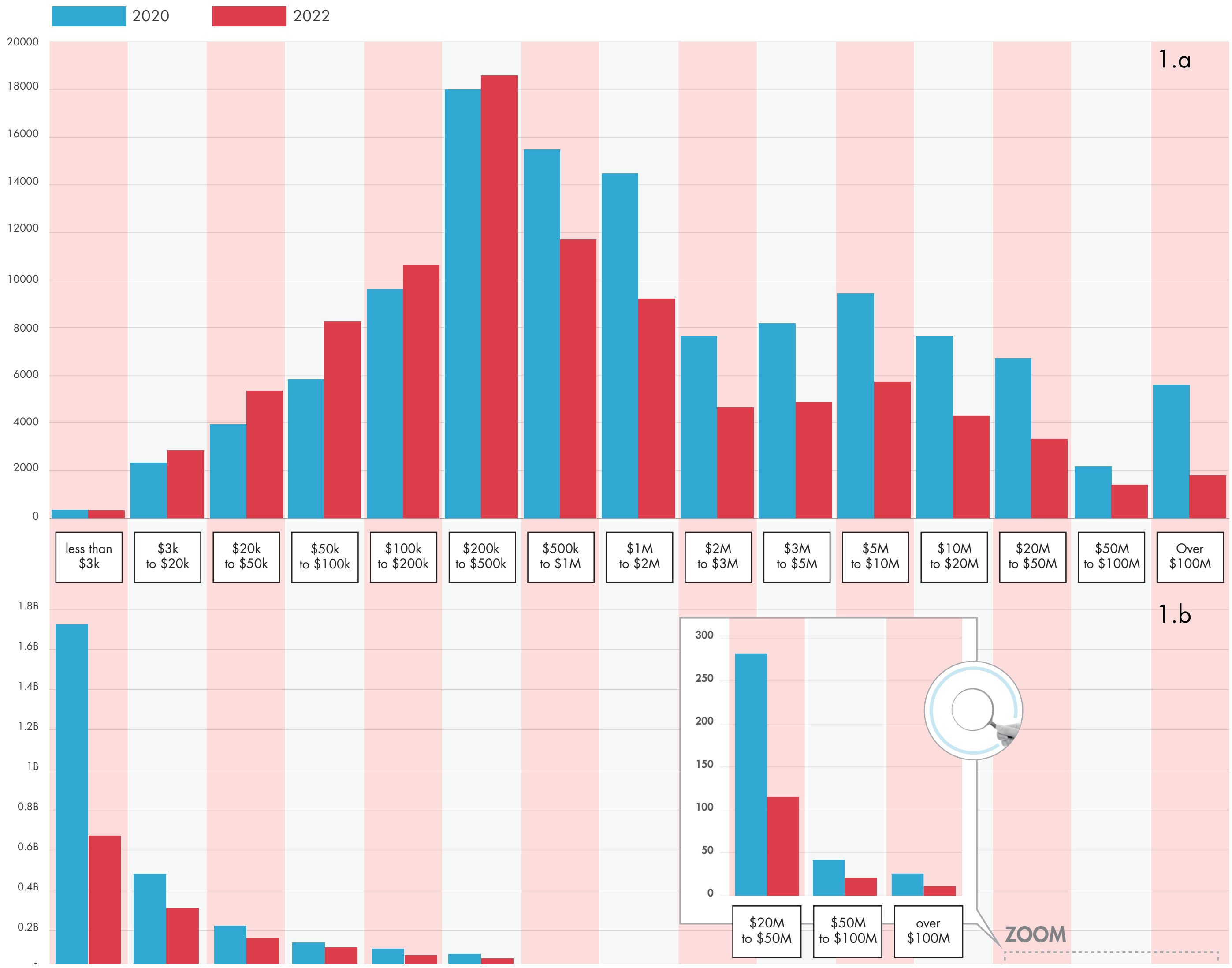


Figure 1 | Change in Account Balances (1.a) and Number of Accounts (1.b), 2020-2022

Source: Association of Banks in Lebanon

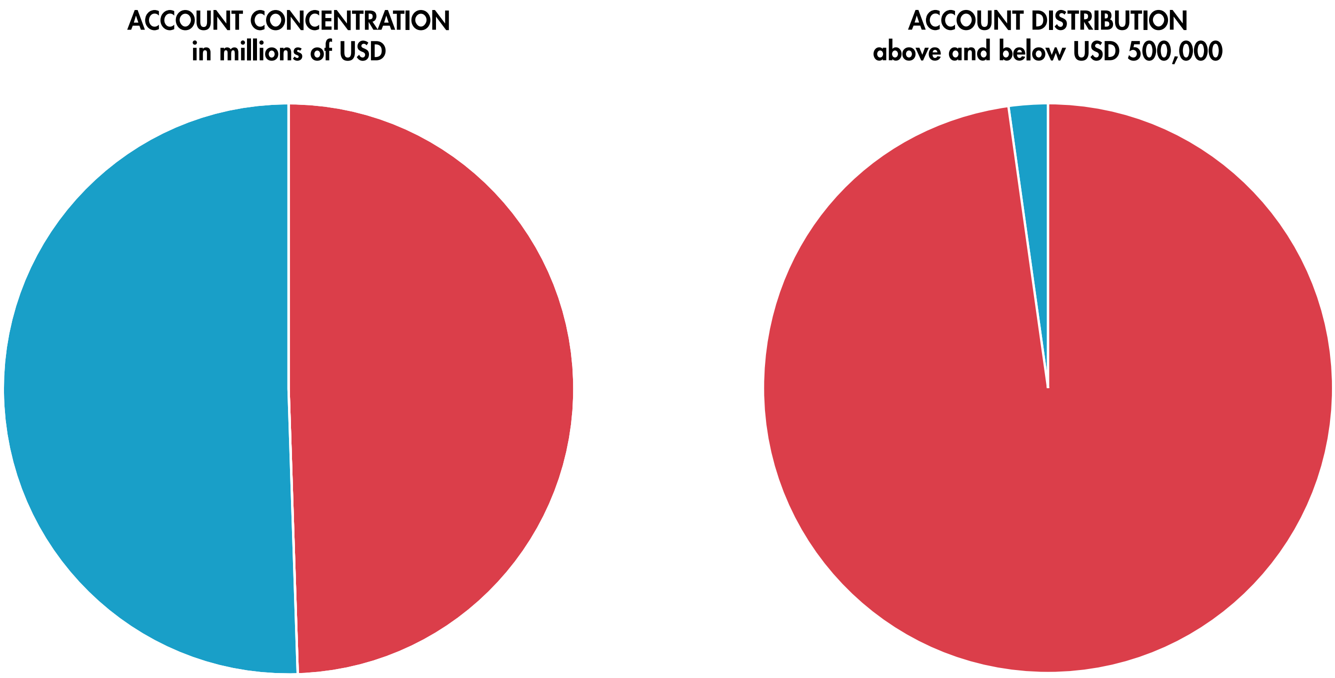
positors. Since then, however, BDL reserves have plummeted to between $8-9 billion today, thanks in large part to Governor Riad Salameh's horrendously costly subsidy program, his massive provision of discounted dollars to banker and elite clientele, among other factors.

Until the comprehensive audit is complete, it is not possible to know what the current payout cap would be, but current estimates suggest that commercial banks' available liquid reserves and available reserves at BDL are not sufficient to cover the $100,000 payout cap suggested by the Lebanese government. What is also clear is that the potential payout cap will continue to fall the longer time passes.

Given the large number of very small depositors, however, most will still be able to regain immediate access to their funds under the PDRP if it is implemented in the near term. Compliance exempt accounts with funds in excess of the near-term payout cap will be restored up to the cap, with the unresolved deposit amounts to be address in the next phase of the deposit recovery plan.

Enforcing Compliance Standards

An important consideration in deposit recovery is that Lebanon's illicit economy – fuelled by endemic corruption, systemic patronage, and arbitrary enforcement of laws and regulations – accounts for a marked portion of overall commerce and gross domestic product.[7] It



Deposit Tranches	Number of Accounts	Balance in Million USD	% of Total Accounts	% of Total Balances
Below USD 500,000	1,393,219.00	USD 46,006.00	98.01%	49.49%
Above USD 500,000	28,293	USD 46,946.00	1.99%	50.51%

Figure 2 | Distribution of Accounts by Number and Value, 2022
Source: Association of Banks in Lebanon

can be assumed then that a material portion of remaining bank deposits are, in part or in whole, proceeds of corruption, money-laundering and tax evasion and should not be eligible for restitution. The time, energy, and complexity of applying compliance measures to all 1.42 million existing accounts would, however, likely render the entire plan unviable. Thus, a threshold will be set, below which accounts are exempt from compliance measures. Given the Paretian distribution of bank deposit sizes, where a large portion of the funds are held by a small fraction of depositors, an appropriate threshold would allow for most of the money to be scrutinized while avoiding an overly cumbersome process.

For instance, 1.3 million account holders (representing almost 94 percent of the total) have less than $200,000 in deposits but make up just 30 percent of all accounts by value (as noted in Figure 1 above). The remaining 70 percent of all deposits (worth $65.54 billion) are held in just 87,000 accounts. Were the threshold set at $500,000, some 98 percent of all accounts would be exempt from compliance measures. The remaining 2 percent of accounts subject to compliance measures, totalling 28,000, would still hold almost $47 billion, more than the entire other 98 percent of accounts combined.[8]

The exact compliance threshold will need to be negotiated and take into consideration the resources available to carry out such measures. Account holders with deposits in excess of the compliance threshold will be given a six-month timeframe to produce documentation proving their funds were sourced legally. Those documents, once produced, will undergo a multi-stage certification, with the commercial banks doing the initial processing, a bespoke committee at BDL doing the secondary approval

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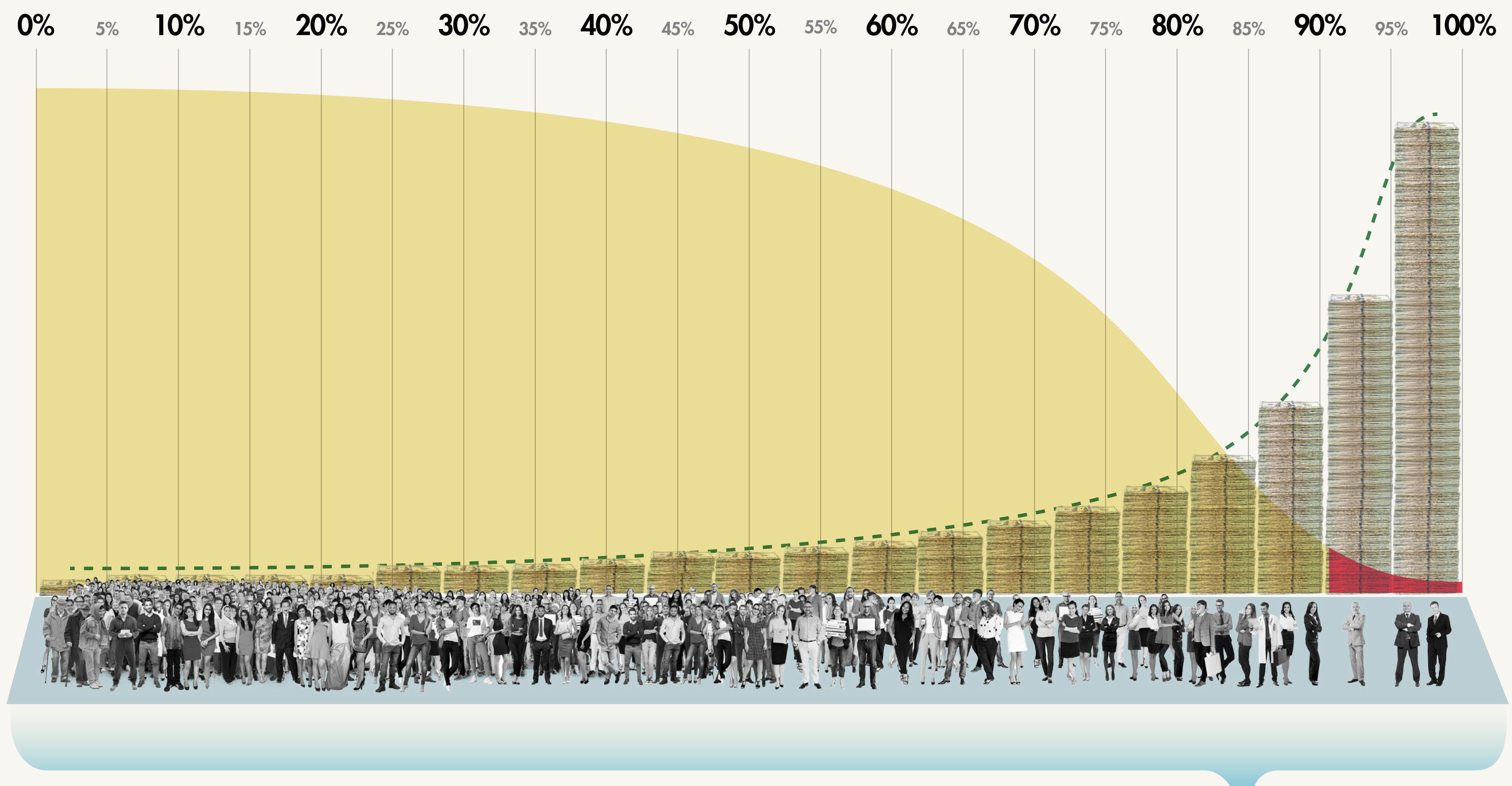
PROGRESSIVE DEPOSIT RECOVERY PLAN

CURRENT REALITY

A large proportion of the funds in Lebanese banks are held by a small number of depositors.



IMPLEMENTATION
PHASE I

Once the comprehensive audit in Phase I of the PDRP is complete, the subsequent steps involve financial measures that can take place relatively quickly, meaning small depositors will be fully repaid in the near term. Importantly, all deposit repayments will be in the same currency as the original deposit.

1 COMPREHENSIVE AUDIT OF COMMERCIAL BANKS AND BDL

BANK EIGHT, BANK SEVEN, BANK SIX, BANK FIVE, BANK FOUR, BANK THREE, BANK ONE, BANK TWO, BANQUE DU LIBAN

2 DETERMINE WHAT BANKS OWE TO ALL DEPOSITORS

3 DETERMINE COMMERCIAL BANK LIQUID ASSETS AND AVAILABLE FUNDS AT BDL

4 DETERMINE FINANCIAL GAP

FINANCIAL GAP

AVAILABLE FUNDS

AUDITS

5 SET A COMPLIANCE THRESHOLD

Large account holders will be subject to compliance measure to eliminate illicit funds from the PDRP.

6 IMMEDIATE NEAR TERM PAYOUT

THE AVAILABLE FUNDS IDENTIFIED IN THE AUDIT WILL DETERMINE THE PAYOUT CAP

ACCOUNT HOLDERS BELOW THE THRESHOLD WILL HAVE ACCESS TO THEIR FUNDS REPAID UP TO THE NEAR-TERM PAYOUT CAP

7 HOLDERS ABOVE THE COMPLIANCE THRESHOLD HAVE TO PROVE THEIR DEPOSITS ARE NOT THE PROCEEDS OF ILLEGAL ACTIVITY.

TAX EVASION

MONEY LAUNDERING

MISUSE OF POWER

CORRUPTION

ILLICIT ENRICHMENT

LARGER ACCOUNTS HAVE LOWER PRIORITY

NEAR-TERM PAYOUT CAP

MAX

SMALL ACCOUNTS HAVE HIGH PRIORITY

FULLY REPAID IMMEDIATE RELIEF

PARTIALLY REPAID IMMEDIATE RELIEF

GRADUAL PAYOUT IN PHASE II

8 REMOVE NON-COMPLIANT ACCOUNTS

DEPOSITORS WHO ARE UNABLE TO PROVE THE LEGALITY OF THEIR FUNDS WITH DOCUMENTATION WILL FORFEIT THEIR RIGHTS TO THEIR FUNDS, WITH THESE AMOUNTS THEN NO LONGER COUNTED AGAINST TOTAL BANK LIABILITIES.

COMPLIANT ACCOUNTS WILL MOVE TO PHASE II OF THE PDRP

EXCESSIVE INTEREST PAID TO DEPOSITORS OVER 2015 TO 2019

%

2015 2016 2017 2018 2019 2020 202

BANK THREE

BANK TWO

BANK ONE

COMMERCIAL BANKS

9 CLAWBACK ON EXCESSIVE INTEREST PAYMENTS FROM 2015 ONWARDS

REMAINING LIABILITIES WILL BE FURTHER REDUCED THROUGH A CLAWBACK ON THE EXCESSIVE INTEREST THE COMMERCIAL BANKS PAID OUT DURING THE BDL'S PONZI-STYLE FINANCIAL ENGINEERING PROGRAM.

FINANCIAL GAP

before the courts hand down a final decision. Should the depositors fail to produce documentation substantiating the legality of their funds, or their documentation fails to pass the certification process, the depositor will forfeit their rights to the account in question and the amount therein will no longer be counted against bank liabilities. The amounts held in those accounts could then be transferred to a dormant account at the BDL, with a provision to be written off after a set period of time.

Clawback on Excessive Interest Payments From 2015 Onwards

Following the near-term payout, two types of deposits remain eligible for recovery: first, those below the compliance threshold but not fully repaid; and second, those that passed compliance measures. Importantly, the exclusion of non-compliant accounts will have reduced total remaining bank liabilities. Remaining liabilities will be further reduced through a clawback on the excessive interest the commercial banks paid out during the BDL's Ponzi-style financial engineering program.[9] Specifically, the interest clawback will apply to interest paid out from 2015 onwards. This year is significant, as it was when the BDL's net foreign currency reserves became negative and thus the interest it was paying commercial banks – who in turn paid a portion to depositors – was essentially imaginary.[10]

The interest commercial banks offered customers to entice both foreign and domestic currency deposits varied by bank, but in general was wildly out of line with international norms. The period from 2015 to 2019 saw commercial banks at times offer interest as high as 25 percent on foreign currency deposits – and even higher on lira deposits – while the going market rate during that time on dollar deposits was in the range of 3 percent.[11] Thus, the PDRP will recalculate interest payments made into the remaining accounts at a rate of 3 percent. This could potentially reduce the outstanding deposit liabilities by approximately $9 billion.

PHASE II: VOLUNTARY CASH-OUT, BANK BAIL-IN, AND THE DEPOSIT RECOVERY FUND

In Phase II of the PDRP, there are three avenues by which remaining deposits at commercial banks will be recovered – a volunteer cash out, a bank bail-in, and a deposit recovery fund – with depositors required to have a mixture of these sources in their deposit recovery schedule. The proportions of that mixture will depend on the amounts available through each of the three avenues, each of which will be financed differently.

The Volunteer Cash Out

The first means by which depositors will be able to recover a portion of their savings is through a volunteer cash out. This involves a depositor receiving a fraction of their funds but at a discounted rate, though this amount cannot exceed 10 percent of their deposit. The latter provision is due to the funding source for this avenue for deposit recovery being limited.

The volunteer cash out will be financed by a clawback on the dividends commercial banks paid out to their shareholders since the start of the BDL's financial engineering program in 2015. From 2009 right up to this year, banks have paid out more than 80 percent of their total profits to shareholders through dividends.

This outrageously high dividend payout ratio, which precluded most reinvestment in core business operations, indicates that the banks acted far more as syphons feeding cash to shareholders than as commercial

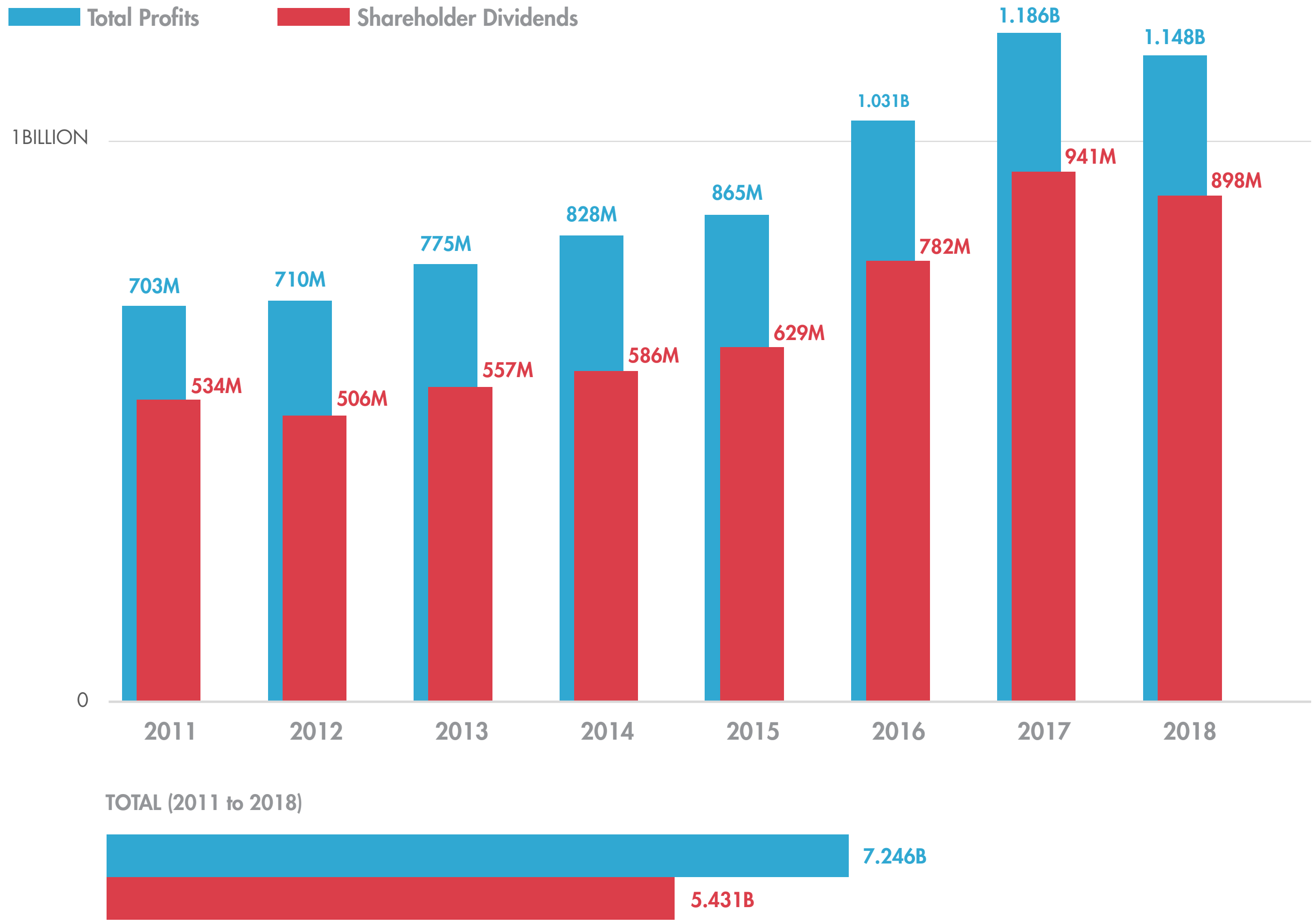


Figure 3 | Commercial Bank Profits and Shareholder Dividends (2011-2018)
Source: Association of Banks in Lebanon

operations. This reckless profiteering directly contributed to the banking sector's insolvency and warrants a clawback on dividend payments. Shareholders who fail to comply with the dividend clawback will face legal asset seizures in Lebanon and, when possible, abroad.

Bank Bail-in

The comprehensive audit of commercial banks will offer an account of all bank assets, both liquid and non-liquid. While the former will be distributed in Phase I of the deposit recovery plan to immediately pay back small depositors, the latter will allow for the determination of a bank's fair market value.

Due to the bank failures, existing shareholders have lost their rights to their equity stakes, which will be forfeited unless the shareholder "bails in", meaning they put in new capital equal to the value of the shares they wish to maintain. For depositors, in lieu of deposit repayment, they can receive forfeited shares in their bank equal in value to the deposits they opt to "bail in", with shares priced relative to the bank's fair market value. Depositors can then sell these shares or choose to hold onto them as the Lebanese banking sector undergoes consolidation and restructuring. Importantly, each bank will, as an institution, maintain some capital for operational purposes.

Deposit Recovery Fund

The remaining outstanding commercial bank liabilities will come under a Deposit Recovery Fund (DRF). The primary difference between this deposit recovery

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IMPLEMENTATION PHASE II

The second phase of the PDRP involves many legal measures and thus deposit recovery will take relatively longer than Phase I, with the largest account holders being the last to be fully repaid.

Remaining deposits from Phase I will be gradually recovered in Phase II by

D3M

D3M (Arabic for "support") is a *Badil* initiative aimed at closing strategy, legal, and advocacy gaps within Lebanon's civil society. In doing so, D3M seeks to bolster the progressive movement in it s pursuit of nationwide policy and political change.

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> ***"Lebanon requires massive banking sector consolidation and restructuring and a blueprint to address longstanding macroeconomic weakness to recover from the financial crisis. But neither can take place before there is a just resolution for what the banking and political elite so blatantly stole from the population."***

plan and that which the Lebanese government proposed in April 2020 is that the latter called for public assets, revenues – and potential oil and gas revenue – to finance deposit recovery, while this plan opposes any public assets or revenues being used to cover commercial bank loses.[12] This aligns with the international standards adopted in the wake of the 2008 Global Financial Crisis. The three financing streams for the DRF will be:

1. Government debt: All government issued Eurobonds held by the commercial banks and central bank will be transferred to the DRF, with the government maintaining responsibility for paying down this liability. This is the government's only financial contribution to the PDRP. A payment schedule for these Eurobonds can only materialize, however, after negotiations with all Eurobond holders – including international debt holders – are held to determine, among other things, the real market value of the bonds.

2. The BDL's acquired assets: Over the course of the Lebanese central bank's existence, various commercial banks in the country have fallen into bankruptcy. Some of the more notable examples have been Intra Bank and Bank Al Mashrek. By law, the BDL has seized control over these banks and all their assets. This is how BDL came to have controlling stakes in commercial enterprises such as Casino du Liban and Middle East Airlines, among others. These "acquired assets" are revenue-generating and their ownership will be transferred to DRF. It is important to emphasize that this does *not* signify privatisation in any way, but rather is a shifting of ownership from one public body to another. The revenue-generating assets of banks declared insolvent through the PDRP process will also be transferred to the DRF. The recurrent revenues these assets provide will be earmarked for the immediate and exclusive use of Lebanon's professional syndicates and the National Social Security Fund to offer healthcare, pensions, and other social protections to their membership until these large deposit holdings are restored.

3. Legal actions: Likely among the most complex, time intensive and politically fraught aspect of the deposit recovery plan will be the legal actions against those who caused, benefited, and continue to benefit from the financial crisis. This step, however, is also the most important for accountability. The legal actions will fall roughly into four main categories:

3.a. Clawbacks on all large-scale transfers out of the Lebanese banking system in the months just prior, and in the years following the commercial banks' default in October 2019: In March 2019, commercial banks began implementing processes that made it increasingly more difficult for most depositors to withdraw savings, and in October that year blocked withdrawals for these depositors almost entirely. In parallel, however, the small number of depositors with more than $100 million in their accounts were able to move more than $5 billion out of the Lebanese banking system between June 2019 and November 2022.[13] The comprehensive audit will allow precise details of these transfers to become available. Politically exposed large depositors who withdrew significant portions of their funds immediately preceding the default will be investigated for having illegally benefited from insider information. Large transfers following the commercial bank default amount to depositor discrimination – letting some people access their funds and not others – and is illegal under Lebanon's Law of Money and Credit. Those found to have illegally transferred funds will be subject to clawback. Depositors who fail to comply with the clawback will face asset seizures in Lebanon and, when possible, abroad. found to have illegally transferred funds will be subject to clawback. Depositors who fail to comply with the clawback will face asset seizures in Lebanon and, when possible, abroad.

3.b. *Financial penalties against those who facilitated illegal transfers and those who benefited from them*: The former category will include senior bank managers, board members and owners of commercial banks, while the latter will include politically exposed people (PEPs) who leveraged their connections and the power of their office to have their funds moved abroad.[14] Financial penalties will be calculated as a percentage of the funds transferred, with the amount dependent on the difference between what was found to be illegally transferred and what is not yet recovered. This arrangement will incentivize cooperation with investigators. Those who cooperate further to aid the investigation can also negotiate clemency. Those who fail to pay the financial penalties will be subject to asset seizures in Lebanon and, when possible, abroad.

3.c. *Seizure of funds generated from illicit activities*: Holders of non-compliant accounts (as outlined in Phase I) will be investigated for corruption and criminal activities, and where appropriate subject to asset seizures. The focus will be on politically exposed people, senior public servants, bankers, and affiliates of all these individuals. The intent is to hold accountable those whose invested authority, or proximity to power, allowed them to benefit from corruption, nepotism, and general pilfering of Lebanese public funds. Where necessary and possible, investigations will extend internationally to track down illicit funds transferred outside of Lebanon.

3.d. *Seeking compensation for commercial loans above $1 million that were settled at local banks after October 2019 at a discounted rate*: The lion's share of commercial loans was concentrated in several dozen borrowers when the crisis began in October 2019. When the US dollars stuck in Lebanese banks – so-called "lollars" – began to fall in market value, a secondary market arose whereby loan holders sought to settle their dues at the banks through purchasing lollars at a discounted rate. [As a theoretical example, Company X would pay $500,000 in cash to Company Y for a cheque written out for $1 million, which Company X would then put against its commercial bank loan.] Over time, the price of the lollar collapsed to just 10 percent, with a $1 million cheque now priced at just $100,000. The commercial borrowers are estimated to have benefited by up to $15 billion from this implicit subsidy.[15] This constituted a wealth transfer from depositors to commercial borrowers, given the depletion of real dollars on the banks' books and the consequent decline in recoverable deposits. Commercial loan holders who benefited in this manner should be incentivized to compensate for it, be taxed accordingly, or have countervailing fees placed upon their business operations in Lebanon. In any case, this money would be put toward the DRF.

The DRF will be a public institution managing large amounts of funds, and thus should be subject to a high degree of monitoring and transparency mechanisms. Potential fund management setups could involve depositors' groups and representatives from the BDL's Banking Control Commission of Lebanon and Special Investigation Commission, the Parliamentary Budget and Finance Committee, the National Institution for the Guarantee of Deposits, with oversight from and reporting to parliament. At a minimum, transparency mechanisms should include an annual report that gives a detailed outline of the fund's initiatives and how close it is to fulfilling its mandate.

In the long term, following full depositor repayment, what happens with the DRF's remaining revenue streams will need to be decided. Potential options would include the creation of a publicly-owned union bank; bringing it under the purview of a sovereign wealth fund, or placing it under a subaccount at the central bank.

Maintaining the BDL and a Viable Commercial Banking Sector

Following the BDL's contribution to the near-term payout – that being the required reserves the commercial banks have deposited at the central bank – all BDL liabilities to the commercial banks will be considered resolved. The DRF envisions a recapitalization of the central bank akin to the government plan to allow the central bank to maintain core monetary policy functions.

To recap, in Phase I of the PDRP, the central bank will contribute the available reserves it holds to the near-term depositor payout. In Phase II of the PDRP, the BDL will then relinquish its acquired assets and Eurobonds to the Deposit Recovery Fund. The central bank will then be left with the gold reserves and other assets intact. A 10 percent reserve requirement for commercial banks that remain in operation (discussed below) will also be held at the BDL. The Lebanese government, as per its own plan, will then recapitalize the BDL by $2.5 billion.

In regard to the commercial banking sector, while the PDRP discusses it in aggregate on the assumption that the sector is generally insolvent, provisions are made for individual banks to continue to operate. To do so, they must pass three successive criteria stages (discussed below) that will remove them from the wider PDRP process by having them repay the liabilities of their specific depositors.

First, the bank must be able to fully repay all their depositors below the threshold for immediate repayment. Next is the "bail-in" stage, where remaining depositors are either transferred the shares of existing shareholders as compensation for their deposits, or if the bank wants to keep its current shareholder structure, it must undergo a recapitalization. This would involve the shareholders injecting fresh funds into the bank, equivalent to the value of the shares maintained, with this money then going to repay depositors.

Should a bank successfully accomplish these two steps, the bank will be transferred back its share of the liability in the DRF, as well as the bank's previously held Eurobonds, thereby maintaining both its liabilities and assets. The bank will then need to raise enough funds to meet a new capital adequacy ratio. For example, if a bank's share of DRF liabilities is $2 billion, and the new capital adequacy ratio is 3:1, then the bank will be required to raise $700 million in fresh capital for its balance sheet. A portion of all future profits will then be earmarked for meeting the banks liabilities to existing depositors until all are repaid.

In spite of the current crisis, Lebanon's commercial banks will be a necessary core of any economic recovery moving forward, and the PDRP process seeks to separate those that are willing and able to continue providing their essential financial services from those that are not.

LOOKING AHEAD

Lebanon's insolvent banking sector will require massive consolidation and restructuring moving forward, a crucial issue that is beyond the scope of this paper. The country will also require a blueprint to address longstanding macroeconomic weakness for successful long-term rehabilitation from the ongoing financial crisis. But neither this, nor banking sector restructuring, can take place before a just solution is found to restore what the banking and political elite so blatantly stole from the population.

The plan outlined here will not be an easy pill for many to swallow. It is imperfect and will be vulnerable to criticism. Economic desperation has already driven more than a million small depositors to withdraw their savings at haircuts that reach up to 90 percent of their original deposits. These were, in many cases, the poorest of depositors who had no other means of recourse, and this plan does not address the losses they were unjustly forced to bear. For those who do see their savings restored, in return they will have to forego any other individual legal claims they may have against the commercial banks, regardless of the merit such claims hold.

And while the plan seeks to recoup funds and impose financially punitive measures on those responsible for and benefiting from the crisis, it also provides them opportunities for leniency in exchange for cooperation. The reasoning for this is that the banking and political elite must be provided with some path forward for themselves that does not leave them destitute and in jail, lest they dig in their heels and prevent the plan from moving forward at all.

Further international sanctions beyond the former BDL governor have the potential to build impetus and align the necessary stakeholders behind a politically viable and socially acceptable solution for Lebanon. The progressive deposit recovery plan offered above is a first step on the country's long road to recovery with many sacrifices.

These are sacrifices that must be made to move the country forward, because as we wait in stalemate the informal economy grows and the chances of the government ever being able to fund itself diminish, which serves no one. Indeed, the longer the status quo continues and the country atrophies, the closer Lebanon comes to true failed statehood where a return to violent civil conflict takes only a spark. The window of opportunity to avoid this outcome is closing; and that's why Lebanon needs a realistic, fair, accountable and progressive deposit recovery plan.

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BADIL
THE ALTERNATIVE

Design and layout by Alexandros Chatzipanagiotou for Badil

ANNEX

USD	Total Deposits in Foreign Currency (Jun. 2019)	No. of ccounts (Jun 19)	Total Deposits in Foreign Currency (Jan. 2020)	No. of Accounts (Jan. 2020)	Total Deposits in Foreign Currency (Dec. 2021)	No. of Accounts (Dec. 2021)	Total Deposits in Foreign Currency (Nov. 2022)	No. of Accounts (Nov. 2022)
Less than $3k			$352	1,725,030	$313	1,324,249	$332	671,058
$3k to $20k			$2,329	481,602	$2,554	450,983	$2,839	310,009
$20k to $50k			$3,939	222,527	$5,079	220,155	$5,341	161,735
$50k to $100k			$5,830	140,684	$7,807	144,051	$8,261	114,448
$100k to $200k			$9,608	108,720	$10,922	101,264	$10,639	76,379
$200k to $500k	$25,021	82,111	$18,011	82,704	$19,661	76,166	$18,594	59,590
$500k to $1M	$20,584	30,496	$15,478	29,470	$13,091	22,692	$11,692	17,015
$1M to $2M	$19,209	14,460	$14,486	13,336	$10,163	8,787	$9,223	6,767
$2M to $3M	$10,170	4,300	$7,653	3,864	$5,120	2,512	$4,642	1,927
$3M to $5M	$10,489	2,836	$8,185	2,582	$5,536	1,722	$4,869	1,281
$5M to $10M	$12,152	1,852	$9,446	1,695	$6,455	1,150	$5,724	842
$10M to $20M	$9,951	777	$7,646	679	$5,157	462	$4,287	314
$20M to $50M	$9,561	333	$6,712	282	$4,364	202	$3,319	115
$50M to $100M	$3,978	61	$2,183	42	$1,512	41	$1,398	21
Over $100M	$6,876	31	$5,605	26	$2,254	20	$1,792	11
Grand Total			$117,461	2,813,243	$99,988	2,354,456	$92,952	1,421,512