Prepared for

LEADERSCLUB

by LEBANON OPPORTUNITIES

It’s a systemic crisis!

Most currently proposed remedies for the financial sector rely on liquidation approaches. The systemic nature of the crisis, while acknowledged, remains unaddressed.

This paper reiterates the elements that constitute a systemic crisis, with the aim of serving as a catalyst for confronting it through a comprehensive economic approach.

EXCLUSIVE to members of **LEADERSCLUB**

To obtain the full report please contact **clubmanager@leadersclub.com.lb**

INFOPRO

It's a systemic crisis!

This paper demonstrates that the economic crisis in Lebanon is systemic in nature and that its components extend far beyond the banking sector. By international standards, the financial collapse is systemic in nature. It stems from decade-long unsustainable fiscal, monetary, and trade practices and from the interdependence between the State, BDL, and commercial banks. It was a structural failure of the entire financial model.

The collapse of the financial sector was the result of a systemic economic failure encompassing fiscal, monetary, financial, and trade dimensions. While this is acknowledged, the prevailing approach by successive governments since 2020—and by many in the international community—has been to treat the crisis as a cumulative outcome of parallel failures by individual banks.

The Lebanese crisis exhibits all the hallmarks of a systemic crisis, as defined by international financial institutions such as the International Monetary Fund (IMF), the World Bank, and the Bank for International Settlements (BIS). It represents a structural failure of a financial model that, for decades, depended on unsustainable fiscal and monetary policies—ultimately resulting in a catastrophic collapse. The crisis has impacted all institutions and sectors, leading to a widespread loss of trust in banks, the national currency, and the government's solvency.

Such a severe crisis cannot be left to resolve itself. It demands proactive intervention by the government and international donors, including bailouts, guarantees, and monetary support. Crucially, it also requires deep structural economic and fiscal reforms—far beyond mere financial sector adjustments.

Summary

1) Sector-wide insolvency

- Almost all banks are insolvent, having lost depositor money through exposure to government Eurobonds and BDL's financial engineering).
- Bank capital has been wiped out due to the default on Eurobonds.

2) Loss of confidence

- The population has lost trust in both the banking system and the central bank and **dollarization** and the use of cash have surged.

3) Contagion and structural breakdown

- The collapse has paralyzed the monetary system, public sector services, and economic output.
- Capital controls were applied in an **informal and illegal** way, affecting all sectors.

4) Failure of the central bank and government

- The **Central Bank (BDL)**, a key pillar in any financial system, was itself part of the problem—its accounting, liabilities to banks, and quasi-fiscal operations are deeply compromised.
- There was **no credible state-led resolution**, which worsened the systemic impact.

5) No orderly resolution or restructuring

- Unlike systemic crises elsewhere (Iceland 2008, Cyprus 2013), there was **no proper restructuring of banks or sovereign debt**, making the crisis **persistent and uniquely prolonged**.