In Reforming Lebanon's Economy, Don't Let the Perfect Be the Enemy of the Good

by David Schenker **(/experts/david-schenker)**

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ABOUT THE AUTHORS



David Schenker (/experts/david-schenker)
David Schenker is the Taube Senior Fellow at The Washington Institute and director of the Linda and Tony Rubin Program on Arab Politics. He is the former Assistant Secretary of State for Near Eastern Affairs.

Brief Analysis

Government efforts to meet IMF requirements and secure a loan program have hit multiple snags, so Washington should do more to expedite—and, if necessary, simplify—the process in order to give Beirut a much-needed win.

In the four months since the Trump administration brokered the Trilateral Framework agreement with Israel and Lebanon, the *sine qua non* of dismantling Hezbollah is not the only obligation on which Beirut has fallen short. When they first took office in early 2025, President Joseph Aoun and Prime Minister Nawaf Salam committed to an ambitious program of economic reforms to rescue their country from what the World Bank **described (https://documents.worldbank.org/en/publication/documents-reports/documentdetail/394741622469174252)** as one of the worst depressions since the 1850s. Nearly two years later, however, Beirut has made only incremental progress toward this goal.

Economic reform is dependent on Lebanon passing several pieces of legislation that, if approved by the IMF, would give Beirut access to a $3-4 billion international loan program and additional financing of up to $10 billion. Lebanese officials claim the government is making headway in negotiations with the IMF, but it has had difficulty passing the requisite laws. Although an IMF program would not solve the country's financial problems, it would constitute a rare achievement for an increasingly embattled government. And now that Hezbollah disarmament efforts **may be stalled indefinitely (https://www.washingtoninstitute.org/policy-analysis/lebanons-explosives-case-highlights-judicial-obstacles-disarming-hezbollah)** , Washington can look to economic reforms as an increasingly important tool for weakening the group. Yet in a country where any further delays may prove fatal to substantive change, are some of the reforms themselves becoming part of the problem?

Early Progress, Then Complications

From the very start of its tenure, the new government sought to advance three key IMF-backed reforms. In April 2025, it presided over parliament's passage of a law lifting banking secrecy, which gave the Central Bank and one of its subsidiary agencies, the Banking Control Commission of Lebanon (BCCL), access to a wide swath of data dating back a decade. It also required domestic commercial banks to fulfill any government requests for personal account information, enabling authorities to prevent or prosecute illicit financial transactions, money laundering, and ubiquitous tax evasion.

After this early success, however, progress stalled. In August 2025, parliament passed what seemed like the second critical reform: the Law on Reforming and Reorganizing Banks in Lebanon, aka the "Bank Resolution Law" (BRL). Yet criticisms of this legislation led to a long series of debates, delays, amendments, and, ultimately, a de facto presidential veto.

The original BRL's **stated goal (https://www.bdl.gov.lb/CB%20Com/Laws%20And%20Regulations/Laws/Law_23_AR%C2%A711270_1.pdf)** was to "strengthen the stability of the financial system, address instances of financial distress, protect deposits during liquidation and restructuring processes, and limit the use of public funds in restructuring of any distressed bank." Among other things, this entailed establishing procedures to evaluate the financial health of the country's fifty-seven commercial and investment banks, determine which were viable, and liquidate those that were insolvent. These various tasks—typically lumped together under the broad industry term "resolution"—were to be overseen by the existing BCCL and a new organization called the Higher Banking Authority, chaired by the Central Bank governor.

Several aspects of the law drew fire, however. Lebanese critics argued that it would diminish the BCCL's oversight responsibility; they also questioned the central role apportioned to the Higher Banking Authority, whose members were likely to be "**heavily influenced by banking interests (https://timep.org/2025/12/23/lebanons-bank-resolution-law-a-missed-opportunity-for-accountability-and-reform/)** " given the manner of their selection. Foreign critics, including in the IMF, questioned the idea of giving a pivotal role in the resolution process to the Central Bank governor, a post traditionally concerned with monetary policy, interest rates, and bank regulation. The IMF also opposed giving bank shareholders and creditors the right to appeal Higher Banking Authority decisions, fearing this aspect of the law would result in lengthy legal disputes and delay resolution.

After another year of wrangling, an amended BRL incorporating some of the IMF's concerns passed this August. Just days later, however, President Aoun essentially vetoed it by referring it to the Constitutional Council, where it was invalidated on October 20 on procedural grounds. Apparently, Aoun was attempting to reaffirm that the Central Bank—not the Higher Banking Authority—would retain the preeminent role in the resolution process. The amended BRL had sought to address that issue, but the relevant clause did not receive a majority vote in parliament when the overall legislation passed. The successful constitutional appeal sends legislators back to the drawing board.

Even if parliament can find its way to re-amending the BRL, lawmakers will still have to grapple with the third and most contentious reform bill: the Financial Regularization and Recovery Law, aka the "Gap Law." This law would determine how losses suffered during the financial crisis will be divided and shouldered by the state, depositors, and commercial banks. In the **initial draft (http://www.pcm.gov.lb/Library/Files/%D9%85%D8%B4%D8%B1%D9%88%D8%B9%20%D9%82%D8%A7%D9%86%D9%88%D9%86%20%D8%A7%D8%B3%D8%AA%D8%B1%D8%** approved by the cabinet last December, deposits were protected up to $100,000, with the Central Bank covering 60 percent and commercial banks 40 percent. For larger deposits, the Central Bank would issue asset-backed securities. If commercial banks cannot meet their obligations, the Central Bank would assume control of these institutions, divest their assets, and issue payments. At the end of the day, compensating these depositors would cost more than $20 billion over four years.

Passing this bill will be a complicated legislative process. Parliament has yet to begin debating the law because of disagreements between the government and the Central Bank. Specifically, the bank is pushing to extend the deposit return period to seven years; lower the amount of cash claims to $60,000; prioritize claims related to capital that certain shareholders injected into banks after the financial crisis hit in October 2019; and press the state to make good on the $16.5 billion it has borrowed from the Central Bank and never repaid. Meanwhile, the IMF has weighed in with concerns about the hierarchy of claims, arguing that banks and shareholders should absorb losses first, noting that carve-outs for post-2019 deposits could muddy the process, and expressing reservations about the state absorbing its debts to the Central Bank by moving them onto the government's books. Although these points are legitimate, continued inordinate delays in passing even imperfect legislation will have consequences for the Lebanese people and, potentially, for the tenure of the current political leaders who are pushing for reform.

Next Steps

In October, IMF Managing Director Kristalina Georgieva stated that negotiations with Beirut had made "significant progress" toward agreement on a program. Soon thereafter, however, the BRL was stymied, and Central Bank Governor Karim Souaid is **now saying (https://today.lorientlejour.com/article/1547001/financial-gap-law-wont-be-adopted-for-another-6-to-8-months-says-souhaid.html)** that he does not expect the Gap Law to pass until late spring 2027.

The Salam government has demonstrated that it is serious about economic reform, and the Central Bank took a brave step in October by revoking the license of Iran's Bank Saderat, a chief financier of Hezbollah. But time is of the essence. In 2028, the country will go to elections again, and unless the government is able to implement meaningful economic reforms or make progress on disarming Hezbollah, the current leadership may be replaced with decisionmakers less inclined to push on these issues. Hence, while critics are correct to note deficits in the proposed new laws, the country is now seven years into this financial crisis, so the perfect is becoming the enemy of the good.

According to Lebanon's Code of Money and Credit, which governs financial, monetary, and banking issues, the state is obligated to cover the Central Bank's deficit. Thanks to a 98 percent currency devaluation and the government defaulting on $1.2 billion in Eurobonds in 2020, the state's current debt is negligible, so it is unclear why Beirut is refusing to reimburse the Central Bank for the $16.5 billion it borrowed. Likewise, Lebanon has inexplicably failed to audit its commercial banks, and the resultant lack of hard data could render all of the hard-fought reform legislation irrelevant. It is also difficult to see how slowing the pace of reimbursement to depositors will help reestablish confidence in a failed banking system—the top prerequisite for ending the cash economy that enables Hezbollah to thrive.

Although Lebanon appears increasingly unlikely to capitalize on the Trilateral Framework and move forward on establishing government sovereignty in the south, the United States still has a deep interest in seeing Salam and Souaid succeed on economic reform. Treasury Secretary Scott Bessent met with Salam in October, and Ambassador Michel Issa has advocated for the new banking laws in Beirut, linking implementation of these reforms to Lebanon's removal from the Financial Action Task Force (FATF) "grey list." Otherwise, however, Trump administration officials have not said much about this issue publicly.

Much like dismantling Hezbollah, reforming the economy should be a top priority for U.S. policy in Lebanon. The entirety of the Trump administration, including senior officials in Washington, should be continuously pressing Beirut to accelerate this effort. This includes direct messaging to President Aoun, the Central Bank, and Speaker of Parliament Nabih Berri, who until recently was not so amenable to an IMF program. If any individuals are deliberately obstructing the legislative process, the Treasury Department should designate them and freeze their assets under Executive Order 13441. The administration should also expand on Issa's mentions of the FATF grey list, making economic reforms a precondition for any U.S. reconstruction assistance or other nonmilitary funding to Lebanon.

With Hezbollah disarmament in limbo, it is even more important for the government to chalk up at least one major win. If Beirut succeeds on economic change, it will bolster the government's popularity, further undermine Hezbollah's waning support, and hopefully provide the impetus for Aoun and Salam to recommit to implementing the Trilateral Framework.

David Schenker is the Taube Senior Fellow at The Washington Institute and director of its Rubin Program on Arab Politics. ❖

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