

Decoding the IMF: Between the Lines of the September 2026 Mission to Beirut

A critical analysis of diplomatic phrasing, the battle over bank restructuring, and why Lebanon's economic recovery remains stall-locked.

1. Reading Between the Lines: What the Statement Really Means

Official IMF press releases are drafted in diplomatic language. To understand their true policy implications, one must translate the technical phrases into political and financial reality:

"Preserving a Measure of Stability"

- **The Diplomatic Phrasing:** *"The mission commends the authorities for preserving a measure of stability, including by maintaining cautious fiscal and monetary policies."*
- **The Reality:** The phrase "a measure of stability" is faint praise. Rather than proactive economic governance, the government is operating on cash-basis survival accounting: spending only what it immediately collects in tax revenue because it can no longer borrow from capital markets or print unbacked currency without triggering hyperinflation.

"Respecting the Hierarchy of Claims"

- **The Diplomatic Phrasing:** *"...staff reiterated the importance of ensuring that the hierarchy of claims is respected and no depositors absorb losses before shareholders and junior creditors..."*
- **The Reality:** This is a direct warning to the political and banking elite. The IMF observes that proposed draft laws are structured to protect commercial bank equity holders, large shareholders, and well-connected insiders at the expense of retail depositors. The IMF is explicitly stating that bank equity and capital must be completely wiped out first before any remaining depositor funds are touched or converted into long-term debt instruments.

"Unimplemented Fiscal Measures"

- **The Diplomatic Phrasing:** *"However, the cabinet-approved VAT rate increase to 12 percent, originally envisaged to finance the public wage and pension increase approved in February 2026, has yet to be implemented..."*
- **The Reality:** The IMF is pointing out a fundamental fiscal policy failure: the government approved popular public sector wage and pension hikes to appease strikes and domestic political pressure, but failed to enact the tax increase (raising VAT to 12%) required to fund them.

"Ad-Hoc Adjustments"

- **The Diplomatic Phrasing:** *"Staff cautioned against further ad-hoc salary and pension adjustments without compensating revenue measures..."*
- **The Reality:** Stop issuing unbacked spending measures to placate political constituencies. Without offsetting revenues, these pay raises risk driving fiscal deficits up and destabilizing the local currency.

2. Is This a Complete Strategy and Roadmap?

No. The statement outlines a set of legal and fiscal prerequisites, not an active or comprehensive economic strategy.

- **Prerequisites vs. Action Plan:** The IMF focuses on passing legislative frameworks—specifically amendments to the Bank Resolution Law (BRL), the Financial Stabilization and Deposits Recovery Law (FSDR), and formalizing the Medium-Term Fiscal Framework (MTFF). These are regulatory prerequisites required to negotiate a formal IMF program, not an active economic strategy.
- **Missing Structural Pillars:**
 - **Reconstruction Mechanism:** Despite acknowledging severe infrastructure damage, large-scale displacement, and rising energy costs, the statement provides no quantitative framework or operational mechanism for financing post-conflict reconstruction.
 - **Exchange Rate & Monetary Policy Integration:** The statement touches on cash-tight execution but omits a detailed plan for full monetary unification, foreign exchange reserve management, or central bank balance sheet restructuring.
 - **Governance & Structural Reforms:** Broader governance issues—such as state-owned enterprise (SOE) reform, electricity sector restructuring, judicial independence, and forensic auditing—are largely absent from this specific assessment.

3. Does the Statement Reflect Satisfaction with the Government?

No. It demonstrates conditional tolerance for minimum accounting controls alongside critique of fundamental policy delays.

Area of Praise:	Area of Concern & Critique:
Approval of amendments to the Bank Resolution Law (BRL) .	Failure to enact the 12% VAT rate increase to balance public spending.
Tight budget execution enforced by strict financing constraints.	Resistance to establishing a strict hierarchy of claims in bank loss distribution.
Progress on drafting the Medium-Term Fiscal Framework (MTFF) .	Ad-hoc public salary increases passed without revenue backing.
Targeting a balanced budget position for 2027 .	Failure to comprehensively record foreign-financed spending in national budgets.

The concluding phrase—stating that the Fund remains committed to supporting an agenda that *"could be supported by an IMF arrangement"*—serves as a reminder: no Extended Fund Facility (EFF) or international financial package will be unlocked until these laws are passed, fully aligned with international standards, and executed in practice.

4. Deep Dive: The Bank Loss Allocation Dispute

The core point of friction between the IMF, the Lebanese government, the Central Bank (BDL), and the Association of Banks in Lebanon (ABL) revolves around **who absorbs the estimated \$70+ billion financial hole** in the banking sector.

STRICT HIERARCHY OF CLAIMS (IMF Model)

=====

- | | | |
|--|---|---------------------|
| 1. Bank Capital & Equity | ➡ | Wiped out first |
| 2. Shareholders & Junior Debt | ➡ | Wiped out second |
| 3. Large/Unlawful Interest | ➡ | Clawed back |
| 4. Depositor Restructuring | ➡ | Only as last resort |

The Standard Hierarchy of Claims (The IMF Model)

Under international bank resolution principles (e.g., FSB guidelines), when a financial system faces insolvency, losses must strictly follow the legal capital stack:

- Existing Bank Shareholders & Equity:** Equity capital must absorb losses first until completely wiped out.

2. **Subordinated & Junior Debt Holders:** Secondary capital absorbs remaining losses.
3. **Large Depositors / Unsecured Creditors:** Absorbed only after shareholder equity and junior debt are completely exhausted, typically through bail-ins or structured recovery funds.
4. **Public Funds / Taxpayers:** Public debt or taxpayer bailouts must **not** be used to absorb losses that belong to private bank owners.

The Lebanese Elite Counter-Proposal

In contrast, local proposals for the FSDR law have repeatedly attempted to shift the burden away from bank owners through mechanisms such as:

- **Government Bailouts via State Assets:** Proposing that state-owned assets, land, or future national revenues be transferred to a "Depositor Recovery Fund." The IMF opposes this because it forces general taxpayers (and future generations) to fund the recapitalization of private banks.
- **Loss Distribution via Inflation (Lirafication):** Forcing depositors to withdraw foreign-currency deposits (USD) in local currency (LBP) at haircuts or below-market exchange rates, effectively eroding deposit values over time through inflation.
- **Protecting Bank Capital:** Avoiding the full cancellation of existing shares, thereby allowing current bank owners to retain equity control while depositors wait decades for speculative asset funds to pay them back.

The IMF's Stance

The IMF's position in this statement remains clear: **Lebanon cannot achieve public debt or fiscal sustainability if state revenues or public debt are used to bail out the financial sector.** Commercial bank balance sheets must be restructured transparently, with shareholders taking the initial loss, to build a viable, rightsized banking sector capable of supporting economic recovery.