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THE SHADOW PLAN

HOW LEBANESE ELITES ARE SABOTAGING
THEIR COUNTRY'S IMF LIFELINE

Sam Heller, Sami Zoughaib

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Lebanon's economy is in shambles. The national currency, the lira, has lost almost 99 percent of its value against the U.S. dollar. [More than half of Lebanese are now living in poverty](#).¹ The country's banks are insolvent and nonfunctional. The World Bank has called the country's collapse [one of the worst economic crises in modern history](#).²

Few countries in recent memory have been in such desperate need of an International Monetary Fund (IMF) program. And the IMF is ready to help, as long as Lebanon commits to basic reforms that would help restore its macroeconomic stability.

Yet Lebanon is on track to get nothing, because ruling elites have effectively sabotaged the IMF negotiating process. What's more, they have misled the Lebanese public about the reality of the country's dire situation. The country's leaders are instead executing a non-IMF "shadow plan" that will crush and immiserate most Lebanese.

Lebanon's ruling class prospered in the country's old rentier economic order, and that class has fiercely resisted attempts to reform. The country's first negotiations for an IMF deal, in 2020, were defeated by a revolt of political and financial elites. In April 2022, a new Lebanese government signed a preliminary "staff-level agreement" with the IMF. But in order to reach a full agreement on an IMF program, Lebanon still needs to implement roughly ten structural reforms. More than a year later, it has achieved almost none.

There are two main reasons why Lebanon's IMF talks have stalled, both related to Lebanese elites' basic antipathy to reform. The first is that the IMF is negotiating with an official Lebanese team that does not represent the country's political class. That broader political class is not invested in the official Lebanese team's recovery plan or motivated to carry out reforms agreed with the IMF—in fact, it has conspired against them.

The second reason is a political discourse filled with bad-faith anti-IMF narratives and general misinformation. Powerful interest groups—including Lebanon's politically influential banks—have saturated the country's political media with falsehoods, among them that the government's recovery plan would somehow erase ordinary bank depositors' savings. The Lebanese public has gotten very limited straight information on where the country's IMF talks really stand.

This joint report by The Policy Initiative and Century International explains why Lebanon's IMF talks have been so troubled, and what might save them. It is based on interviews with more than two dozen current and former Lebanese officials; politicians; civil society leaders and experts; and representatives of donor countries and international institutions. Many were interviewed on condition of anonymity, in order to speak freely. It builds on past research by The Policy Initiative and Century International on Lebanon's politics and political economy.

There are still things that key players inside and outside Lebanon can do to bring the country closer to an IMF deal. Hope is not entirely lost. The IMF can improve its public communication about Lebanon's lack of progress toward an IMF program and keep up its more recent direct engagement with lawmakers. Donor countries, for their part, should support ongoing criminal investigations into Lebanese elites; those countries should also design assistance to preserve the remaining capacity of Lebanon's state institutions. They also ought to insist that the government properly resource Lebanon's negotiating team. And Lebanon's civil society and reformist elements in government should keep working to inform the public about Lebanon's IMF talks, and what's really at stake.

Ordinary Lebanese people have mostly been kept in the dark about elite dealings with the IMF—and it is these ordinary Lebanese who have suffered extraordinary privations as a result of the irresponsible choices of their elites. They deserve to know the truth about Lebanon's IMF's talks and about what's next for Lebanon, so they can reclaim some agency and help decide the country's economic future. There is still a chance that public pressure could convince Lebanon's leaders to act responsibly and salvage an IMF deal

¹ "Food Security and Vulnerability Analysis of Lebanese Residents," World Food Programme, July 2022, 3, 11, <https://reliefweb.int/report/lebanon/wfp-lebanon-food-security-and-vulnerability-analysis-lebanese-residents-july-2022>.

² "Lebanon Economic Monitor, Spring 2021: Lebanon Sinking (to the Top 3)," World Bank, June 1, 2021, <https://www.worldbank.org/en/news/press-release/2021/05/01/lebanon-sinking-into-one-of-the-most-severe-global-crisis-episodes>.

that would rescue the country's economy. But failing that, Lebanese people should at least know how their elites have failed them, so they can try to hold those elites accountable.

Plunging into Crisis

Lebanon's economic crisis began in earnest in 2019, but it is rooted in the country's post-civil war rentier political economy. This rentier model [necessitated constant inflows of capital to the country](#), which were invested in nonproductive sectors and helped grow Lebanon's banking sector to more than three times the size of the national economy. When these inflows began to slow in 2011, successive governments and the central bank issued more debt and increased interest rates to attract more diaspora capital. They paid their foreign-currency-denominated liabilities with the dwindling amount of new money entering the system—a Ponzi scheme on a national scale.³

By mid-2019, this scheme had already begun to come undone. Then, in October 2019, Lebanon's banks reacted to huge anti-government protests by shutting their doors and denying depositors access to their accounts. These banks' attempt to preempt a run on deposits triggered a crisis of confidence in the country's banking sector, which rendered Lebanon's interlinked state, central bank, and commercial banks all insolvent. The country was plunged into a deep economic crisis, even as, in parallel, its political system also faced a major crisis of legitimacy.⁴

Hassan Diab (prime minister January 2020–September 2021) was the first Lebanese leader to seek IMF assistance, before a revolt of political and financial elites defeated his government's rescue plan.

Diab, an academic and former minister, formed his government on January 21, 2020, following the resignation of Prime Minister Saad Hariri the previous October. As the country's economic crisis worsened, Diab's cabinet [approved a financial rescue plan](#) to be presented to parliament on February 6.⁵ Diab [announced that Lebanon would default on its sovereign debt](#) on March 7.⁶ On May 1, his government formally requested IMF assistance.⁷

Lebanon needed an IMF program both for a direct infusion of funds it would provide, and for other assistance that donors had made conditional on an IMF program. The IMF would additionally assist in negotiations with Lebanon's creditors, and the country would regain access to international lending markets. An IMF program would also involve reforms essential for the country's long-term economic recovery.

Yet powerful interests in Lebanon rebelled against any resolution to the country's economic crisis on terms that might somehow disadvantage them.

³ On Lebanon's postwar economic order, see Hannes Baumann, "The Causes, Nature, and Effect of the Current Crisis of Lebanese Capitalism," *Nationalism and Ethnic Politics* 25, no. 1 (April 10, 2019): 61–77, <https://www.tandfonline.com/doi/abs/10.1080/13537113.2019.1565178>.

⁴ For a more detailed timeline, see The Policy Initiative's "Lebanon's Financial Crisis Interactive Dashboard," <https://financialcrisis.thepolicyinitiative.org>.

⁵ Laila Bassam, "Exclusive: Lebanon Approves Financial Rescue Plan with 'Painful Steps,'" Reuters, February 6, 2020, <https://www.reuters.com/article/us-lebanon-crisis-plan/lebanon-cabinet-approves-financial-rescue-plan-id>. For the plan itself, see "The Lebanese Government's Financial Recovery Plan," Republic of Lebanon Ministry of Finance, April 30, 2020, <https://web.archive.org/web/20220629190433/http://finance.gov.lb/en-us/Pages/Pdf-Preview.aspx?dt=VMT1937>.

⁶ Press release, Republic of Lebanon Ministry of Finance, March 7, 2020, <http://webcache.googleusercontent.com/search?q=cache:U9zKcmvlpuyJ:www.finance.gov.lb/en-us/Pages/Pdf-Preview.aspx?dt%3DOL961&hl=en&gl=qr&strip=0&vwsrc=0>. Many in Lebanon still fiercely criticize the Diab government's choice to default. (The decision to embark on a "disorderly," or non-negotiated, default was "a crime," said Ibrahim Kanaan, chair of Parliament's Budget and Finance Committee chair. Interview with the authors in Qornet Chahouane, December 2022.) Finance Ministry advisor and negotiating team member Henri Chaoul said the government had hoped to negotiate an organized default but quickly came up against a March 7 date to repay bonds from already very limited foreign currency reserves and found that Lebanese banks had sold off their government bonds to foreign buyers, making it impossible for the government to win the agreement of enough lenders to pause payments. There was no choice but to default, he said, and then go to the IMF as quickly as possible. Interview with the authors remotely, October 2022.

⁷ Lauren Holtmeier, "Lebanon Signs Request for IMF Assistance," Al Arabiya, May 1, 2020, <https://english.alarabiya.net/business/economy/2020/05/01/Lebanon-signs-request-for-IMF-assistance>.

The Banks Revolt

At the heart of Lebanon's economic crisis was the fact that the Lebanese state, including the central bank, had accumulated huge losses by propping up the lira and financing successive governments' profligate spending. Lebanon's central bank paid to support the lira with hard currency borrowed from the Lebanese banking sector at exorbitant rates. The country's banks thus made substantial profits, but also took on massive exposure to the central bank. When crisis hit in 2019 and the central bank could not repay its dollar debts, a fight began over who would shoulder the tremendous losses—the state, the central bank, commercial banks, or bondholders. This dispute is a large part of why the economic crisis has dragged on for so long.

The Diab government estimated the combined losses at roughly \$70 billion, including billions in losses built up by the central bank. The prime minister's rescue plan limited commercial firms' recourse to state assets to cover those losses. Covering those massive losses, then, would mean wiping out bank shareholders' capital, and even holding some bank owners personally liable. Lebanon's banking lobby [quickly attacked the Diab plan, which they alleged would destroy confidence in the country's economy](#).⁸

The government's negotiating team, meanwhile, was itself divided over the scale of these losses, and how they would be distributed. A faction inside the team aligned with the country's banks—including the central bank governor—insisted the government plan's estimate of \$70 billion in losses was too high; the faction wanted a far lower estimate, which would mean the banks were on the hook for much less. More broadly, [this faction rejected any settlement in which the country's banks would lose out](#).⁹

The negotiating team's meetings were consumed with arguments over these losses. Eventually a parliamentary "fact-finding" committee including all major political parties intervened to determine the "true value" of financial sector losses and, using some implausible assumptions, estimated losses at only \$33 billion. That much lower figure would have preserved banks' equity and allowed them to survive.¹⁰

The result was deadlock. Members of Diab's government backed away from the government's plan, leaving only a few advisors to defend it. In June 2020, [key members of the negotiating team resigned in protest](#), alleging that powerful economic interests were working to undercut the government's plan.¹¹

The failing negotiations were soon overtaken by an even bigger crisis. On August 4, 2020, a massive explosion at Beirut Port devastated Lebanon's capital. [The Diab government resigned days later](#), although it remained for more than a year in a caretaker capacity, as political parties grappled over the makeup of a new government.¹²

⁸ Eric Knecht and Tom Arnold, "Lebanon Banks Reject Rescue Plan as Government Asks IMF for Help," Reuters, May 1, 2020, <https://www.reuters.com/article/us-lebanon-crisis-plan-idUSKBN22D5NG>. The Association of Banks in Lebanon proposed its own alternative plan, in which the country's banks would cannibalize state assets. See "Contribution of the Association of Banks in Lebanon to the Government's Financial Recovery Plan," Association of Banks in Lebanon, May 20, 2020, <https://www.abl.org.lb/english/abl-and-banking-sector-news/abl-news/--مساهمةجمعيةبنكالمصارف-البنان-في-تعافي-البنان-الاقتصادي>.

⁹ See Sami Atallah et al., "Hiding Behind Disaster: How International Aid Risks Helping Elites, Not Citizens," Lebanese Center for Policy Studies, September 1, 2020, <https://www.lcps-lebanon.org/articles/details/1731/hiding-behind-disaster-how-international-aid-risks-helping-elites-not-citizens>; Nada Maucourant Atallah and Omar Tamo, "Dangerous Liaisons: How the 'System' Got the Better of the 'Technocrats'—Part II of II," *Le Commerce du Levant*, January 15, 2021, <https://today.lorientlejour.com/article/1248324/dangerous-liaisons-how-the-system-got-the-better-of-the-technocrats-part-ii-of-ii.html>.

¹⁰ Sami Atallah et al., "Hiding Behind Disaster." Fact-finding committee head Ibrahim Kanaan said the body intervened in an attempt to resolve the negotiating team's divisions. "There should be one plan, and one entity, representing a state called Lebanon," he said. "We discovered they weren't talking or comparing notes." Interview.

¹¹ See Henri J. Chaoul (@henrichaoul), Twitter status, June 18, 2020, <https://twitter.com/henrichaoul/status/1273639282809462789>; "Second Lebanese IMF Negotiator Quits Ministry Post," Reuters, June 29, 2020, <https://www.reuters.com/article/us-lebanon-crisis-resignation-official-idUSKBN24013D>. On continuing deadlock after their resignation, see Samia Nakhoul, "Rescue Talks with the IMF 'Hit the Rocks' as Lebanese Suffer," Reuters, July 1, 2020, <https://www.reuters.com/article/us-lebanon-crisis-imf-analysis/rescue-talks-with-the-imf-hit-the-rocks-as-lebanese-suffer-idUSKBN242649>.

¹² "Lebanon Government Resigns after Deadly Beirut Blast," Reuters, August 10, 2020, <https://www.reuters.com/article/uk-lebanon-security-blast-resignation-idUKKCN25625P>. Diab has since complained that even political parties that nominated him undermined his government. See Chloe Cornish, "Lebanon Crisis: PM Stuck

Mikati's Meager Progress

Diab's successor as prime minister, Najib Mikati, managed to reach a preliminary agreement with the IMF. Progress stalled, however, when Lebanese leaders actually had to follow through on the reforms to which they had supposedly committed.

Mikati, a billionaire who had served as prime minister twice before (in 2005 and in 2011–14), formed a new government in September 2021. From the start, [the Mikati government committed to resuming negotiations with the IMF](#).¹³ Mikati shortly [announced that the government had reengaged the IMF](#) and named a new negotiating team headed by Deputy Prime Minister Saade Chami, an economist and twenty-year veteran of the IMF.¹⁴

Chami's team moved quickly to reach an agreement with the IMF. Chami told the press in December 2021 that his team [had agreed on financial sector losses of between \\$68 and \\$69 billion](#) (roughly the same as the estimate that had undone the Diab team).¹⁵ Real negotiations with the IMF began in early 2022, Chami said, after several months securing data and updating the team's macroeconomic framework.¹⁶

On April 7, 2022, Lebanese officials and the IMF [announced they had reached a "staff-level agreement,"](#) a preliminary deal on a reform program, pending approval by IMF management and the agency's executive board.¹⁷ The April staff-level agreement was based on the government's economic reform program, which would be supported by a forty-six-month IMF "extended fund facility" that would include direct IMF financing worth approximately \$3 billion, and additional donor commitments of roughly \$10 billion. IMF board approval, however, first required Lebanon to complete a number of agreed structural reforms, termed "prior actions."

Lebanon committed to executing between eight and eleven prior actions, depending on how one counts them. These measures were supposed to restore some minimum level of regularity to the country's finances and provide the legal and regulatory instruments needed for an IMF program and an eventual economic recovery. The prior actions included measures that needed to be taken by the cabinet, parliament, and the central bank, respectively:

- The cabinet would need to approve a bank restructuring strategy and a medium-term fiscal and debt-restructuring strategy.
- Parliament would need to approve bank resolution legislation, a revised banking secrecy law, a capital controls law, and a 2022 budget.
- The central bank would need to unify Lebanon's multiple exchange rates, commission an audit of the central bank's foreign assets, and facilitate an externally assisted evaluation of Lebanon's fourteen largest commercial banks.

in Office on Less than \$1,000 a Month," *Financial Times*, March 16, 2021, <https://www.ft.com/content/1695df1b-4fc7-4461-b529-118588dd0c88>.

¹³ "Council of Ministers—Ministerial Statement" (in Arabic), Lebanese Republic Presidency of the Council of Ministers, September 10, 2021, <http://www.pcm.gov.lb/arabic/subpg.aspx?pageid=13587>.

¹⁴ "Statement by the Ministry of Finance of Lebanon Regarding the Country's Re-engagement with the International Monetary Fund and Public Debt Restructuring Strategy," Republic of Lebanon Ministry of Finance, October 2021, <http://finance.gov.lb/en-us/Pages/Pdf-Preview.aspx?dt=OL831>.

¹⁵ "Lebanon Agrees Losses in Financial Sector '\$68 Bln to \$69 Bln', Deputy PM Says," Reuters, December 14, 2021, <https://www.reuters.com/world/middle-east/lebanon-agrees-losses-financial-sector-68-69-bln-deputy-pm-says-2021-12-14/>. Chami subsequently revised that estimate upward to between \$70 and \$72 billion. Philippe Hage Boutros, "Pour Saadé Chami, l'état est responsable, mais ses moyens sont « limités »,," *L'Orient-Le Jour*, March 10, 2022, <https://www.lorientlejour.com/article/1293171/pour-saadé-chami-letat-est-responsable-mais-ses-moyens-sont-limités-.html>.

¹⁶ Deputy Prime Minister Saade Chami, interview with the authors in Beirut, January 2023.

¹⁷ "IMF Reaches Staff-Level Agreement on Economic Policies with Lebanon for a Four-Year Extended Fund Facility," IMF, April 7, 2022, <https://www.imf.org/en/News/Articles/2022/04/07/pr22108-imf-reaches-agreement-on-economic-policies-with-lebanon-for-a-four-year-fund-facility>; "Media Office of Deputy Prime Minister Announces Reaching Preliminary Agreement on Economic and Financial Correction Program with IMF Delegation" (in Arabic), Lebanese Republic Presidency of the Council of Ministers, April 7, 2022, <http://www.pcm.gov.lb/arabic/subpg.aspx?pageid=21467>.

These prior actions are just the conditions for a full-fledged agreement with the IMF and for entering an IMF program. Over the course of the four-year program, Lebanon would have to meet thirty additional “structural benchmarks” and performance criteria to unlock new tranches of funding.¹⁸

Lebanon’s staff-level agreement had the buy-in of Lebanon’s top political leadership, at least publicly. Lebanon’s “three presidencies”—its president, prime minister and parliamentary speaker—all [publicly endorsed the agreement and committed to implementing agreed reforms](#).¹⁹ Lebanon’s negotiating team had reached the staff-level agreement a little over a month before the country’s May 15, 2022 parliamentary elections. The government [sent its economic plan to parliament on May 20](#), after the elections and immediately before Mikati’s government entered caretaker status.²⁰

Since then, however, Lebanon’s leaders have completed only a few prior actions. (Exactly how many prior actions depends on who is counting, although most say between one and three.)

Parliament did manage to pass a new banking secrecy law in October 2022, after revising it based on IMF feedback (more on which below). The IMF has said, however, that [the law remains incomplete](#).²¹ A draft capital controls law approved by parliament’s “joint committees” after years of debate is [reportedly unacceptable to the IMF](#).²² Parliament passed the 2022 budget last September, but it apparently did not meet IMF standards, and [the IMF advised looking to the 2023 budget instead](#).²³ There has been little progress otherwise on unifying the country’s multiple lira exchange rates, [despite an aborted attempt in late 2022](#).²⁴ The audit of the central bank’s foreign assets has reportedly been completed, but has not been publicly released.²⁵ The audit of the country’s fourteen largest commercial banks has not begun.²⁶

Lebanon’s broader political dysfunction has further complicated reform. Since the conclusion of President Michel Aoun’s term in October 2022, parliament has been hamstrung by the absence of a president. Committees continue to work, but it would require an exceptional decision to convene a plenary session to vote on anything other than the presidency.

Lebanon remains a long way from a final agreement with the IMF. In October 2022, IMF head Kristalina Georgieva [said in a press briefing](#) that the staff-level agreement from earlier that year was indeed “a reason to celebrate,” but that “it would only materialize as a source of growth and opportunities for Lebanon” if Lebanese leaders carried out the prior actions to which they had agreed. “There is still this paralysis,” she

¹⁸ Chami, interview.

¹⁹ “President of the Republic Heads Fiscal Meeting With Mikati...” (in Arabic), National News Agency, April 7, 2022, <https://www.nna-leb.gov.lb/ar/سياسة/٥٣٣٩٧٤/رئيس-الجمهورية-يترأس-اجتماعا-عاما-اليابا-يخضور-ميفاتي-جوز>; “Berri Welcomes Agreement with [International] Monetary Fund...” (in Arabic), National News Agency, April 7, 2022, <https://www.nna-leb.gov.lb/ar/سياسة/٥٣٣٩٩٠/بيري-رحب-بالاتفاق-مع-صندوق-النقد-انجاز-للحكومة-على>.

²⁰ “Financial Sector Recovery Strategy: Memorandum on Financial and Economic Policies” (in Arabic), Lebanese Republic Presidency of the Council of Ministers, 14 June 2022, <http://www.pcm.gov.lb/arabic/subpg.aspx?pageid=21677>.

²¹ “Lebanon: Staff Concluding Statement of the 2023 Article IV Mission,” IMF, March 23, 2023, <https://www.imf.org/en/News/Articles/2023/03/23/lebanon-staff-concluding-statement-of-the-2023-article-iv-mission>.

²² Nada Homs, “Three Years into Lebanon’s Economic Crisis, No Consensus on Capital Control Law,” *The National*, August 31, 2022, <https://www.thenationalnews.com/mena/2022/08/31/three-years-into-lebanons-economic-crisis-no-consensus-on-capital-control-law/>; Saade Chami, “Is Lebanon Effectively Withdrawing from Its Agreement with the [International] Monetary Fund?” (In Arabic), *Nidaa al-Watan*, March 28, 2023, <https://www.nidaalwatan.com/article/157668>.

²³ “IMF Staff Concludes Visit to Lebanon,” IMF, September 21, 2022, <https://www.imf.org/en/News/Articles/2022/09/21/pr22314-lebanon-imf-staff-concludes-visit-to-lebanon>. Instead of budgeting using a single lira exchange rate, the budget invented yet another exchange rate—the so-called “customs dollar”—for assessing import duties. Timour Azhari, “Lebanon Parliament Passes 2022 Budget That Falls Short of IMF Reform,” Reuters, September 26, 2022, <https://www.reuters.com/world/middle-east/lebanon-parliament-passes-2022-budget-2022-09-26/>.

²⁴ Laila Bassam et al., “Lebanon to Slash Official Exchange Rate from Nov. 1, Finance Min Says,” Reuters, September 28, 2022, <https://www.reuters.com/markets/asia/exclusive-lebanon-apply-weaker-official-exchange-rate-finance-minister-says-2022-09-28/>; “Lebanon Steps Back from Plan to Slash Official Exchange Rate—Sources,” Reuters, November 3, 2022, <https://www.reuters.com/markets/currencies/lebanon-steps-back-plan-slash-official-exchange-rate-sources-2022-11-03/>.

²⁵ Chami, “Is Lebanon Effectively Withdrawing?”

²⁶ There have been difficulties finding two internationally reputable audit firms willing to take on the job, according to Chami. Interview.

said.²⁷ IMF officials warned at the conclusion of their March 2023 mission to Lebanon that without urgent reform, the country “will be mired in a never-ending crisis.”²⁸

Negotiations Built to Fail

There are two main reasons why Lebanon’s IMF talks have stalled, both of them related to the political class’s more basic antipathy to reform. The first reason is the flawed structure of the country’s negotiations with the IMF—namely, they are built on IMF engagement with an official Lebanese negotiating team that does not represent Lebanon’s political class. That class remains unconvinced on an IMF program and hostile to reforms that threaten entrenched interests.

The IMF has a resident representative based in Lebanon, and the agency’s Lebanon mission chief visits Lebanon on periodic “missions” to the country.²⁹ The IMF’s principal interlocutors in Lebanon are local authorities, although IMF officials also engage with a broader set of civil society actors during missions. Those actors can include advocacy organizations, bankers, industrialists, and others.³⁰ In Lebanon, the reform advocacy group Kulluna Irada has been especially active in engaging the IMF, including visiting missions and the resident office.³¹ The IMF communicates with the broader Lebanese public through statements to the press.

Donor countries also play an auxiliary role, [meeting regularly with the IMF](#) and advocating locally for IMF-requested reforms.³² Some diplomats also engage at a more specific level, reaching out to ministers, banking authorities, and members of parliament to advance particular reform measures.³³

Unfortunately, the negotiating team speaking on behalf of Lebanon in negotiations with the IMF does not represent the country’s political establishment, and its positions do not command wider political support. Besides Chami, the team also ostensibly includes the country’s key economic policymakers, including the finance minister, Youssef Khalil; the economy and trade minister, Amin Salam; and central bank governor Riad Salameh.³⁴ In practice, however, Chami often seems to be the team’s only active member. He works from offices in the headquarters of Mikati’s private firm, M1 Group, in downtown Beirut. Chami has no dedicated staff.³⁵ An advisor seconded to him by the French government has since departed.³⁶

Chami is the IMF’s local focal point. He receives generally positive reviews for his competence and professionalism, including from local civil society actors and foreign officials. He understands the issues being discussed and can translate the IMF’s requirements for Lebanese decision-makers.

²⁷ “Transcript of October 2022 MD Kristalina Georgieva Press Briefing on GPA,” IMF, October 13, 2022, <https://www.imf.org/en/News/Articles/2022/10/13/tr101322-transcript-of-md-press-briefing-annual-meetings>.

²⁸ “Lebanon: Staff Concluding Statement of the 2023 Article IV Mission,” IMF.

²⁹ The IMF’s Lebanon-based team is headed by Frederico Lima, the resident representative, who was appointed in June 2022. See “Lebanon: Staff Concluding Statement of the 2023 Article IV Mission,” IMF. The IMF’s Lebanon mission chief is Ernesto Ramirez-Rigo, who visits Lebanon on periodic “missions” to the country. This includes regular Article IV “surveillance” missions to Lebanon, most recently in March 2023.

³⁰ For example, see “Association of Industrialists Receives Head of IMF Delegation, Presents Its Project for Economic Recovery” (in Arabic), National News Agency, April 7, 2022, <https://www.nna-leb.gov.lb/ar/economy/533931-جمعية-وعرضت-لم-إمف-الصناعيين-استقبلت-رئيس-بعثة-إل>.

³¹ Kulluna Irada members, interviews with the authors in Beirut and remotely, November 2022 and May 2023.

³² For example, see “The Time to Act Is Now,” *L’Orient Today*, September 27, 2022, <https://today.lorientlejour.com/article/1312839/the-time-to-act-is-now.html>; “Ambassadors’ Statement: One Year since Staff-Level Agreement, Too Little Done—Urgent Action Needed,” National News Agency, April 26, 2023, <https://www.nna-leb.gov.lb/en/politics/610307>; Ralph Tarraf (@EUAmbLebanon), Twitter status, September 20, 2022, <https://twitter.com/EUAmbLebanon/status/1572157967826550784>.

³³ Western diplomats, interviews with the authors in Beirut, November 2022 and January 2023. Diplomats say they view the reforms that the IMF has requested as more important than the IMF program itself, yet they also largely defer to the IMF on which particular reforms are needed, and what IMF staff believe is sufficient to enable a program in Lebanon. “We try to push,” said one Western diplomat. “Because the sense is that if we don’t push, things will just fester.” Interview with the authors in Beirut, November 2022.

³⁴ Ministry of Finance, “Statement by the Ministry of Finance of Lebanon Regarding the Country’s Re-Engagement.” Previously, the team also included a representative of the Lebanese presidency. Chami, interview with the authors remotely, May 2023.

³⁵ Western diplomats, interviews with the authors in Beirut, March and May 2023.

³⁶ Diplomat, interview with the author in Beirut, May 2023.

Yet Chami has no political party behind him, and no authority of his own. He cannot dictate to other members of his team, or to others in Lebanese politics. Chami “works by himself,” said a person involved with Lebanon’s negotiations. “He goes to his office, closes his door, and negotiates with himself, effectively.”³⁷

Chami presides over meetings of the negotiating team, and the documents and draft legislation it issues are ostensibly approved by all team members. Yet only Chami [publicly advocates for the team’s proposals](#) and defends a reform proposal that opponents call “the Saade Chami Plan.”³⁸

Thus, Lebanon’s staff-level agreement with the IMF—and the reform plan that is the basis of that agreement—lack broad political buy-in. The country’s politicians are not invested in “the Saade Chami Plan” or motivated to carry out prior actions that they regard with suspicion. This has been a particular problem now that key legislation requested by the IMF is being debated and revised in the country’s divided, unruly parliament.

Prior Actions in Limbo

Of course, parliament is not the only obstacle to reform. Lebanon’s central bank is also responsible for several prior actions, which likewise remain unfinished. How the central bank will relate to the process going forward is unclear. Riad Salameh, who has been central bank governor since 1993, is expected to conclude his three-decade tenure this summer; he faces criminal charges for money laundering and embezzlement in European courts, and French and German courts have [issued warrants for his arrest](#).³⁹

Still, parliament is where the disconnect between Lebanon’s ruling class and the country’s ostensible representatives in IMF negotiations has been most apparent. The passage of Lebanon’s new banking secrecy law illustrates how that disconnect makes pushing prior actions through parliament more difficult. In July 2022, [parliament passed a new banking secrecy law](#), but in a form the IMF judged unacceptable.⁴⁰ In September, President Aoun sent the law back to parliament for further revision, as, in parallel, [the IMF’s critical assessment of the legislation was leaked to the media](#).⁴¹ In October, [parliament finally passed an amended law that addressed some IMF notes](#).⁴² Yet even then, the law was not entirely satisfactory. Budget and Finance Committee chair Ibrahim Kanaan estimated that parliament took on 80 or 90 percent of the IMF’s feedback.⁴³ The IMF has since made clear, however, that that is not enough.⁴⁴

³⁷ Interview, 2022.

³⁸ For example, see “Association of Banks Position on Government Passage of Financial Sector Recovery Strategy” (in Arabic), Association of Banks in Lebanon, May 24, 2022, <https://www.abl.org.lb/arabic/news/abl-news/موقف-جمعية-المصارف-من-اقرار-الحكومة-لاستراتيجية-التنحيب-النهوض-في-القطاع-المالي>.

³⁹ “French Prosecutors Accuse Lebanon Central Bank Chief of Hiding Fraud,” Reuters, April 21, 2023, <https://www.reuters.com/world/middle-east/french-prosecutors-accuse-lebanon-central-bank-chief-hiding-fraud-2023-04-21/>; Raya Jalabi and Leila Abboud, “France Issues Arrest Warrant for Lebanon Central Bank Chief,” *Financial Times*, May 16, 2023, <https://www.ft.com/content/dd202c39-9a23-49a3-b78c-135cc65b1dd2>; Laila Bassam and Timour Azhari, “Germany Issues Arrest Warrant for Lebanon’s Central Bank Chief—Sources,” Reuters, May 23, 2023, <https://www.reuters.com/world/middle-east/lebanon-verbally-informed-by-germany-an-arrest-warrant-against-central-bank-2023-05-23/>.

⁴⁰ Timour Azhari, “Lebanon Parliament Passes Amendments to Banking Secrecy Law—Reuters Witness,” Reuters, July 26, 2022, <https://www.reuters.com/world/middle-east/lebanon-parliament-passed-amendments-banking-secrecy-law-reuters-witness-2022-07-26/>.

⁴¹ “Lebanon Banking Secrecy Law Retains Key Problems—IMF,” Reuters, September 1, 2022, <https://www.reuters.com/world/middle-east/imf-says-key-deficiencies-remain-lebanon-banking-secrecy-law-assessment-seen-by-2022-09-01/>. For the full text of the IMF’s assessment, see tweet by Nasser Saidi (@nasser_saidi), Twitter status, September 1, 2022, https://twitter.com/nasser_saidi/status/1565386942627434496.

⁴² Bassem Mroue and Kareem Chehayeb, “Lebanon Approves Some Banking Law Changes Demanded by IMF,” Associated Press, October 19, 2022, <https://apnews.com/article/middle-east-business-lebanon-international-monetary-fund-9d44b661461bcc4d4dc4cb42a68d6b40>.

⁴³ Kanaan, interview.

⁴⁴ In particular, the IMF says the law must also include provisions for relevant agencies to access de-anonymized account holder data, for the purpose of bank restructuring. See IMF, “Lebanon: Staff Concluding Statement of the 2023 Article IV Mission.” For their part, lawmakers insist they are trying to include safeguards in this and other laws, lest they be abused by political parties and unscrupulous officials to target rivals. Hasbani, Kanaan, interviews. “People try to portray parliament and the finance committee as being against an IMF program,” Hasbani said. “But those people are pretending to be with an IMF program. There are pitfalls in the details for the future, and laws they can abuse later on. We need protection mechanisms, for the success of an IMF program.”

Evidently, the IMF will not sign off on pro forma, substance-free “reforms.” But lawmakers complain that the IMF won’t accept legislation they consider good enough. Kanaan said the IMF had repeatedly rejected draft capital controls laws because they were only “80 percent” of what the agency wanted, and that it wanted the remainder as well. “It’s like, come on, I’m not a magician,” Kanaan said.⁴⁵

The IMF is unlikely to be flexible, though, given how little progress Lebanese leaders have made. “If they could get close enough, I think there could be some fudging,” said a Western diplomat. “But they haven’t even made a good-faith attempt.”⁴⁶

A banking secrecy law and capital controls law are considered relatively simple. Yet the former was passed in an incomplete fashion, and the latter hasn’t been passed at all, after more than three years and a dozen committee sessions. By contrast, a banking resolution framework is much more complicated.⁴⁷

Donor country diplomats and Lebanese politicians alike cautioned against focusing on any single member of parliament as the obstacle to reform. “The issue isn’t individual politicians,” said another Western diplomat. “It’s all of them.”⁴⁸

Meanwhile, it’s not clear that the legislation Chami has drafted in consultation with the IMF and delivered to parliament even has real backing from Mikati’s government. A draft bank restructuring law was sent by post, said Ghassan Hasbani, who is a member of the Budget and Finance Committee, “but no one would take responsibility for it, not even the government. I think it’s a hot potato.”⁴⁹

Attempting to Adapt

Still, the IMF has attempted to adapt its approach to a Lebanese political system that, for the IMF, presents special challenges. Some resistance to the IMF’s positions is normal in countries that engage the agency. Lebanon’s politics, however, are particularly fragmented. The country’s executive is relatively weak, and the prime minister commands no parliamentary majority that could advance reform legislation. Political parties seem to exercise little discipline over their members, who stake out independent, conflicting positions on IMF talks and key reforms. The system is full of veto players.

The IMF took a more Lebanon-suited approach when, for example, it secured the endorsement of the April 2022 staff-level agreement from the country’s “three presidencies.” The IMF has also interpreted its mandate to engage Lebanese “authorities” broadly. The IMF typically works most closely with executive bodies including the ministry of finance, central bank, and statistical agencies. But in Lebanon, some of the IMF’s traditional counterparts are less useful. The Ministry of Finance, for example, has been weakened during Lebanon’s crisis and now has very limited capacity.⁵⁰ Thus, the IMF has interpreted “authorities” to include leading lawmakers such as Kanaan and [Administration and Justice Committee chair Georges Adwan](#).⁵¹ Since February, the resident representative and other IMF officials have also met with a cross-party group of lawmakers convened by Fouad Makhzoumi, a member of parliament, to more directly convey the IMF’s views on upcoming legislation.⁵²

⁴⁵ Kanaan, interview.

⁴⁶ Western diplomat, interview with the authors in Beirut, November 2022.

⁴⁷ Bank resolution legislation has been split into two draft laws on bank resolution and gap resolution, Chami said, both of which are now with parliament. These draft laws are complex and likely to be time-consuming if an absence of urgency persists among lawmakers, he said. Interview.

⁴⁸ Western diplomat, interview with the authors, November 2022.

⁴⁹ Interview with the authors in Beirut, December 2022.

⁵⁰ Western diplomat, interview with the authors in Beirut, January 2023.

⁵¹ “Kanaan Meets [International] Monetary Fund: Calendar for This Period, Appreciation for Legislative Work, Agreement to Follow Up” (in Arabic), National News Agency, September 5, 2022, <https://www.nna-leb.gov.lb/ar/اقتصاد/561591/كنعان>; “التقى صندوق النقد-تقويم للمرحلة وتأمين العمل كنعان بعد لقاء مع عدوان في صندوق النقد الدولي-ال” (in Arabic), National News Agency, March 22, 2023, <https://www.nna-leb.gov.lb/ar/economy/603284/التقى-صندوق-النقد-الدولي-ال>.

⁵² Fouad Makhzoumi, interview with the authors in Beirut, May 2023. Makhzoumi said the impetus for organizing the meetings was parliament’s passage of two banking secrecy laws in 2022 that members believed matched IMF requirements but, in fact, each proved to be defective and unacceptable to the IMF. He then decided to go directly to the IMF, he said, so members could understand what they were voting on and there would be “no ambiguity.”

The IMF has also been especially explicit in its public statements, from its elaboration on the prior actions agreed with Lebanon in the April 2022 announcement of the country's staff-level agreement; to the critical feedback it has provided subsequently.⁵³ The IMF's forthcoming report based on its March 2023 mission to Lebanon will likely be an opportunity to elaborate further on its positions.

Still, even the IMF's broader engagement has limits. In a system as atomized as Lebanon's, the agency can only meet with so many players.⁵⁴ And even with the best, most perfectly calibrated approach to local engagement, the IMF cannot somehow compel key Lebanese decision-makers to reform. "The IMF isn't some high commissioner," said Karim Daher, a lawyer and the head of the Beirut Bar Association's Commission for Depositors. "It's not some decision-maker foreign power."⁵⁵

Dysfunctional Public Debate

The second main reason why Lebanon's IMF talks have stalled is a political discourse filled with bad-faith anti-IMF narratives and general misinformation. Opponents of reform have promoted distortions—for example, that the government's recovery plan would wipe out regular people's bank accounts—that have spread confusion and uncertainty. The Lebanese public's limited insight into the country's IMF talks has prevented ordinary people from understanding the process and engaging more actively.

Even though the IMF's statements on Lebanon's reform progress have been more fulsome than in some other countries, its public communications have nonetheless been limited. Updating the public on IMF talks is ordinarily the responsibility of the local government, not the IMF. It is not in the IMF's mandate to agitate against local authorities.

In Lebanon, it has mainly fallen to Chami to inform the public and make the case for an IMF program. The rest of the government has been largely absent—a statement in its own right, and a testament to the lukewarm commitment of Mikati and some members of the cabinet to actually getting an IMF program.

Counternarratives and misinformation about the economy and reform, meanwhile, have proliferated in Lebanon's political media. Lebanon's frothy, excitable media is always filled with rumor, speculation, and pure invention, and the country's public conversation on IMF talks has been no exception. Influential interest groups have worked to scramble the national debate on Lebanon's IMF talks, and what's really at stake. The Lebanese system's real winners "are getting fewer and fewer, as time goes on," said Sibylle Rizk, public policies director for Kulluna Irada. "But they're the ones who produce the discourse."⁵⁶

There are too many popular anti-IMF narratives to describe them all. One of the most potent has been a pseudo-populist insistence on "recovering deposits" and championing "depositors." This narrative's elite proponents allege that the government's recovery plan will erase ordinary bank depositors' savings.⁵⁷ Another narrative has suggested that natural gas reserves in Lebanon's coastal waters could be some *deus ex machina* to solve the country's economic crisis, obviating the need for an IMF program and the related reforms.⁵⁸ Yet another narrative has posited that the real solution to Lebanon's economic crisis lies in mending the country's relations with the Arab Gulf, and, more specifically, [naming a Lebanese president and head of government who have Saudi and Gulf backing](#).⁵⁹

⁵³ Compare, for example, the IMF's April 2022 announcement of its staff-level agreement with Lebanon—complete with its enumeration of agreed prior actions—to its less extensive October 2022 announcement of its staff-level agreement with Tunisia: "IMF Staff Reaches Staff-Level Agreement on an Extended Fund Facility with Tunisia," IMF, October 15, 2022, <https://www.imf.org/en/News/Articles/2022/10/15/pr22353-tunisia-imf-staff-reaches-staff-level-agreement-on-an-extended-fund-facility-with-tunisia>. On subsequent critical feedback, see IMF, "IMF Staff Concludes Visit to Lebanon."

⁵⁴ One bank executive complained, for example, that IMF missions had met with the Association of Banks in Lebanon, but not others in the sector more supportive of an IMF program. Interview with the authors in Beirut, January 2023.

⁵⁵ Interview with the authors in Beirut, November 2022.

⁵⁶ Sibylle Rizk, interview with the authors in Beirut, May 2023.

⁵⁷ For example, see "Nicolas Chammas to 'Voice of the People': No Need to Kowtow to [International] Monetary Fund" (in Arabic), LBC International, <https://www.lbcgroup.tv/news/d/lebanon/653884/-نقولا-شمامس-الصوت-الناس-لا-ضرب-وردة-للانطيح-امام-صندو/ar>.

⁵⁸ For the announcement of the agreement, see Antony J. Blinken, "Historic Agreement Establishing a Permanent Israel-Lebanon Maritime Boundary," U.S. Department of State, October 27, 2022, <https://www.state.gov/historic-agreement-establishing-a-permanent-israel-lebanon-maritime-boundary>.

⁵⁹ Lebanese Forces party head Samir Geagea encapsulated this narrative in a January 2023 television interview: "Let's suppose... that if tomorrow, suddenly, Michel Mouawad was elected president of the republic, or someone like Michel

These narratives are promoted in Lebanon's mass media for popular consumption, but they also seem to have impressed themselves on elites and decision-makers. "Now we hear [Lebanese interlocutors] say, 'Well, we've got gas, so we don't need an IMF deal,'" a Western diplomat said.⁶⁰

Some of these narratives seem like more intentional obfuscations and deceptions. Populist grandstanding about "depositors," for example, typically elides the distinction between small and large depositors, and how their interests diverge; it is the latter that really stand to lose out in a restructuring of Lebanon's banking sector. This narrative is often used to argue for a larger contribution by the Lebanese state to any financial sector recovery, to the benefit of the country's few large depositors and commercial banks.⁶¹

Other narratives play into more long-standing pathologies in Lebanon's politics. Some parties' focus on mollifying the Gulf [harkens back to a bygone era in which Gulf monarchies were prepared to underwrite Lebanon's corruption and dysfunction](#).⁶²

Perhaps the most important anti-IMF narrative, however, gets less airtime in Lebanon's media but nonetheless has substantial currency among the country's political and business elite: the sense that the Lebanese economy is stabilizing at a new equilibrium and that, actually, an IMF program isn't necessary after all. "I think everyone feels it," said one political party official late last year, adding that "2022 is better than 2021."⁶³ This narrative is callous and blinkered—if Lebanon is at a new equilibrium, it's an obviously bad one for most Lebanese. Nevertheless, this view is likely to determine the country's coming trajectory.

Chami has [attempted to apprise the public on new developments](#) and to rebut various misunderstandings and falsehoods in press releases, op-eds, and interviews.⁶⁴ He has also regularly attended meetings of parliamentary committees to [defend the government's economic recovery plan](#) and push for draft laws that are among the prior actions agreed with the IMF.⁶⁵ Yet there are limits to his capacity, particularly with

Mouawad, and the Gulf countries looked and found someone trustworthy, the next day the Lebanese crisis would be solved. You wouldn't need the IMF, or anything else. The next day!" See "And Now What' 15-01-2023: Lebanese Forces Party Head Sami Geagea" (in Arabic), uploaded to YouTube by Al Jadeed News, January 15, 2023, <https://www.youtube.com/watch?v=emn41yMEi3w>.

⁶⁰ Western diplomat, interview, November 2022.

⁶¹ For example, see "Patriarch Cardinal Bechara Boutros al-Rahi Sermon—Sunday of the Priests" (in Arabic), Antiochene Syriac Maronite Church, February 6, 2022, <http://bkerki.org/PatriarchNews.html?New=12362>.

⁶² Mounir Mahmalat et al., "How the Many Become a Few: The Great Reduction of Lebanon's Foreign Donors," The Policy Initiative, March 30, 2023, <https://www.thepolicyinitiative.org/article/details/276/how-the-many-become-a-few>. That said, there is a variation on this narrative that may have some partial basis. Some in Lebanon's politics believe the roughly \$10 billion in complementary financing that has to accompany the IMF's own direct \$3 billion contribution will necessarily come from the Arab countries of the Gulf, given strains on Western donors' finances. They also say that Saudi Arabia, in particular, has laid out political conditions beyond the more technical reforms requested by the IMF. "With an IMF program, who will fund it?" asked Ghassan Hasbani, a member of parliament. "Are the Gulf states ready to fund it with Hezbollah in government, and in power? Most funding will come from the Gulf states. They won't participate in any program with Hezbollah, and a Hezbollah-controlled government." Interview, December 2022. This is seemingly why the United States and France have both courted Saudi Arabia and attempted to involve it again in Lebanon. Still, others involved in talks say that \$8 billion over four years could likely be assembled from other donors, even if Gulf funding might be preferable. Chami and Western diplomat, interviews.

⁶³ Interview with the authors, Beirut, December 2022.

⁶⁴ For example, see "Deputy Prime Minister Responds to Association of Banks" (in Arabic), MTV, May 24, 2022, <https://www.mtv.com.lb/news/محلبيات/1285284/نائب-رئيس-مجلس-الوزراء-يرد-على-جمعية-المصارف>; Chami, "Is Lebanon Effectively Withdrawing?"; Laila Bassam and Maya Gebeily, "Lebanon Banks Should 'Go First' in Absorbing Losses, Caretaker Deputy PM Says," Reuters, June 9, 2022, <https://www.reuters.com/world/middle-east/lebanon-banks-should-go-first-absorbing-losses-caretaker-deputy-pm-says-2022-06-09/>; Richard Salame, "A Year on from the IMF Staff-Level Agreement: Lebanon's Caretaker Deputy Prime Minister Answers Some Questions," *L'Orient Today*, April 6, 2023, <https://today.lorientlejour.com/article/1333998/a-year-on-from-the-imf-staff-level-agreement-lebanons-caretaker-deputy-prime-minister-answers-some-questions.html>; and "This Is Beirut—27-02-2023—Saade Chami—Amin Saleh" (in Arabic), uploaded to YouTube by Al Jadeed News, February 27, 2023, <https://www.youtube.com/watch?v=f0DjqDcY2sA>.

⁶⁵ Chami, interview. That has not stopped politicians from claiming that the government has no plan, something Chami has had to rebut frequently. See Saade Chami, "Lebanon Is at Crossroads ... Either Reform and Recovery or More Collapse, the Choice Is Ours" (in Arabic), Al Jadeed, August 12, 2022, <https://www.aljadeed.tv/arabic/news/local/1208202212>; Chami, "Is Lebanon Effectively Withdrawing?"

no communications staff. And although he has mainly framed issues in technical, apolitical terms, his media appearances have also sometimes embroiled him in unhelpful controversies.⁶⁶

Lebanon's Banks and Narrative Production

Lebanon's banks have been [in the vanguard of elite opposition to the kind of reforms sought by the IMF](#).⁶⁷ Despite these banks' insolvency, they remain extremely influential in Lebanon's politics. The country's [political and financial classes are deeply enmeshed](#).⁶⁸ These banks are also main sponsors of popular media, something that The Policy Initiative has [previously shown is evidently intended to promote bank-friendly narratives and themes](#).⁶⁹ Many shows on leading channels "are basically press releases," said Daher, the lawyer. "It's pure disinformation."⁷⁰ This narrative production has effects both on public opinion broadly and on [the positions of elite politicians and decision-makers](#).⁷¹

There are some apparent divisions within Lebanon's banking sector over the desirability of an IMF program. But that has not stopped the Association of Banks in Lebanon, the leading industry group, from [lobbying ferociously against any settlement in which the banking sector loses out](#).⁷²

For Lebanon's banks, the stakes are high. A restructuring of the country's impaired banking sector would likely wipe out banks' shareholder capital and, after the recapitalization of still-viable banks, reduce the country's more than fifty banks to fewer than a dozen.⁷³ Many bank owners and shareholders—including powerful politicians—thus have strong incentives to resist a restructuring of the sector in line with international best practices.

⁶⁶ Notably, Chami set off a political firestorm in April 2022 when he told a television interviewer that bank depositors would necessarily have to bear some portion of the financial sector's losses because Lebanon's state and central bank were "bankrupt." See "Saade Chami Reveals [International] Monetary Fund Conditions Requested of Lebanon in Negotiations" (in Arabic), uploaded to YouTube by Al Jadeed News, April 3, 2022, <https://www.youtube.com/watch?v=3Yqo6Vv8yJc>.

⁶⁷ For example, see Eric Knecht and Tom Arnold, "Lebanon Banks Reject Rescue Plan as Government Asks IMF for Help," Reuters, May 1, 2020, <https://www.reuters.com/article/us-lebanon-crisis-plan-idUSKBN22D5NG>; Nada Maucourant Atallah, "Who Wants to Scrap Saade Chami's Plan?" *L'Orient-Le Jour*, June 20, 2022, <https://today.lorientlejour.com/article/1303238/who-wants-to-scrap-saade-chamis-plan.html>.

⁶⁸ For a recent accounting of Lebanese banks' political ties, see "'They' Have Names: Who's Behind Lebanon's Banks and State," Badil, April 2, 2023, <https://thebadil.com/investigations/>. See also Nada Maucourant Atallah and Omar Tamo, "Dangerous Liaisons: How Finance and Politics Are Inextricably Linked in Lebanon—Part I of II," *Le Commerce du Levant*, January 15, 2021, <https://today.lorientlejour.com/article/1248323/dangerous-liaisons-how-finance-and-politics-are-inextricably-linked-in-lebanon-part-i-of-ii.html>; Jad Chaaban, "I've Got the Power: Mapping Connections between Lebanon's Banking Sector and the Ruling Class," Economic Research Forum, October 2016, <https://erf.org.eg/publications/ive-got-the-power-mapping-connections-between-lebanons-banking-sector-and-the-ruling-class/>.

⁶⁹ Sami Zoughaib et al., "Buying the Narrative: How Lebanese banks exploited the media to influence public opinion," The Policy Initiative, July 14, 2022, <https://www.thepolicyinitiative.org/article/details/178/buying-the-narrative-how-lebanese-banks-exploited-the-media-to-influence-public-opinion>.

⁷⁰ Interview.

⁷¹ Even "change" politicians elected in the wake of Lebanon's 2019 protest movement are not immune. One new opposition member of parliament published a letter in July 2022 that echoed Association of Banks objections that the Mikati government's recovery plan is "unconstitutional" and, bizarrely, threatened Chami with U.S. sanctions. Melhem Khalaf (@MelhemEKhalaf), Facebook post, July 5, 2022, <https://www.facebook.com/MelhemEKhalaf/posts/pfbid02WgcSzKSCcZajMlywdZLqyqNhGXVraPkZoo531Tuk6j5eiDFSKp49fNIDCv2zkJw2l>.

⁷² In one letter to the IMF, for example, an Association advisor alleged that Lebanon's April 2022 staff-level agreement would do "irreparable" damage to the country's economy and that its terms were "unlawful" and "unconstitutional." Timour Azhari and Rodrigo Campos, "Lebanon Banks Association Calls IMF Draft Agreement 'Unlawful' in Letter," Reuters, June 21, 2022, <https://www.reuters.com/markets/currencies/exclusive-lebanon-banks-association-calls-imf-draft-agreement-unlawful-letter-2022-06-21/>. See also, for example, Dana Khraiche, "Lebanese Banks Turn to France to Outflank Government Rescue Plan," Bloomberg, September 16, 2020, <https://www.bloomberg.com/news/articles/2020-09-16/lebanese-banks-turn-to-france-to-outflank-government-rescue-plan>.

⁷³ Financial expert, interview with the authors in Beirut, January 2023.

But opposition to an IMF program and the generation of narratives opposed to reform do not depend on just one powerful lobby. Lebanon's political discourse is kinetic and chaotic. It is always producing new narratives that disrupt local consensus on the need for reform and an IMF program.⁷⁴

The result is a public debate on an IMF program and reform that is energetic, but circular and basically vacuous, and that helps to confound and immobilize the Lebanese public. If ordinary people cannot make sense of where Lebanon really stands with the IMF, how are they supposed to make themselves heard and make demands of their ostensible representatives in government and Parliament?

The Shadow Plan

Lebanon currently seems unlikely to enter into an IMF program, principally because Lebanon's elites just do not want to.

Lebanon's politicians regularly profess their commitment to reaching an IMF program, for which they insist there is no alternative. Yet the Lebanese political class's dawdling, lackadaisical pursuit of reform puts the lie to these pledges. These elites' revealed preference is inaction, and the perpetuation of the status quo. "A capital controls law could be an article—ten lines," a Western diplomat said. "But there's a total lack of willingness, so we've been waiting for it since 2020."⁷⁵ The country's elites "are very good at convincing people they are heading somewhere, when in fact they are just buying time," said Rizk of Kulluna Irada.⁷⁶

Most donor country diplomats have privately written off the possibility of Lebanon entering an IMF program, even if, in meetings with Lebanese counterparts, they continue to stress the need to implement prior actions.⁷⁷ They suspect that top political leaders are doing the bare minimum to not be seen as obstructing reform.⁷⁸ "I think they're serious about giving the impression that they're serious," another Western diplomat said.⁷⁹

Instead of an IMF program, Lebanon is several years into what [some have termed](#) a "shadow plan."⁸⁰ The non-IMF shadow plan is most centrally premised on shifting banks' liabilities to small depositors—who will have no choice but to withdraw their foreign currency savings in lira at hugely disadvantageous exchange rates—and to the country's unbanked poor. "Their solution is to slowly lira-fy all local dollar deposits over time," a Lebanese financial expert said. "Then there will be no problem anymore—other than hyperinflation, whereby the entire public will pay the cost."⁸¹

Meanwhile, Lebanon's economic model will remain unproductive, with little investment in infrastructure or industry. The country's increasingly cash-based economy [will foster tax evasion and other illicit activity](#).⁸² Inequality will deepen, and human capital will erode. The country's many poor will subsist on remittances and foreign aid. The state will wither into almost nothing.

⁷⁴ Among the most recent examples is Deputy Speaker of Parliament Elias Bou Saab's recent intervention, in which Bou Saab—apparently without coordinating with the Mikati government and Chami—met with senior IMF officials in Washington and "proposed new ideas" to be discussed during the IMF's next mission to Lebanon. Bou Saab has since claimed that the meeting indicated a breakdown in communications between the government and the IMF. He has tweeted that he continues to engage IMF leadership, apparently outside the scope of negotiations led by Chami. See Elias Bou Saab (@EliasBouSaab), Twitter status, February 1, 2023, <https://twitter.com/EliasBouSaab/status/1620823698835120130>; "Bou Saab to 'Sunday with Mario...'" (in Arabic), Lebanon, February 19, 2023, <https://www.lbcgroup.tv/news/lebanon/688099/بوسعب-لأحد مع ماريو-أنا مع رفع السرية المصرفية/ar>; "Bou Saab to 'Asas': [International] Monetary Fund Considers Government Unserious" (in Arabic), Asas Media, February 25, 2023, <https://www.asasmedia.com/news/395796>; and Elias Bou Saab (@EliasBouSaab), Twitter status, February 14, 2023, <https://twitter.com/EliasBouSaab/status/1625530830977220616>.

⁷⁵ Interview with the authors in Beirut, January 2023.

⁷⁶ Rizk, interview.

⁷⁷ Interviews with the authors in Beirut, November 2022, January, February, and March 2023.

⁷⁸ Interviews with the authors in Beirut, November 2022 and January 2023.

⁷⁹ Interview with the authors in Beirut, November 2022.

⁸⁰ For example, see "Kulluna Irada' in Meeting with IMF: Lebanese Authorities Trying to Buy Time and Evade Accountability" (in Arabic), Kulluna Irada, March 20, 2023, <https://kulluna-irada.org/ar/article-146>.

⁸¹ Interview with the authors in Beirut, January 2023.

⁸² Maya Gebeily, "Cash Is King in Lebanon as Banks Atrophy," Reuters, January 31, 2023, <https://www.reuters.com/markets/cash-is-king-lebanon-banks-atrophy-2023-01-31/>.

Experts believe this shadow plan could technically work—in the sense that it would balance banks' ledgers, and stabilize the economy at a new, very low level—but only at a terrible human cost.⁸³ Lebanon's elites are not totally deluding themselves when they say Lebanon's economy is approaching some new equilibrium. By some indicators, the economy is already recovering. The private sector is faring better, with help from remittances and tourism. Real estate transactions and prices are back up. Imports in 2022 were roughly equal in value to imports in 2019, before the country's crisis.⁸⁴

Yet this "recovery" is a disaster for most Lebanese. Increasingly, Lebanon has what economist Roy Badaro calls "many economies under one economy."⁸⁵ Lebanon's upper class—with ready access to foreign currency—lives in relative comfort and benefits from this supposed "recovery." Meanwhile, most people get left behind, becoming even poorer and more marginalized.

"Our position is that there's no alternative to the IMF," a diplomat said. "But the reality is that everyone's been waiting a long time, and the country is still working—in a bad way, of course. And long-term, it will be catastrophic—for growth, for social inequality, infrastructure, education... But this is the non-IMF alternative—lira-fication, with need covered by remittances, and smuggling."⁸⁶

"The country's leadership is willing to be stuck at that low level of national income," said Henri Chaoul, a former Finance Ministry advisor and member of the Diab negotiating team. "Look at the statistics. They have no problem with this level of poverty, with this GDP per capita or 'a tale of two cities' within the country. I don't think they care."⁸⁷

Still Time to Act

The IMF seems unlikely to entirely "disengage" from Lebanon. Its resident representative in Lebanon and its dedicated country team will presumably continue to advocate for prior actions with Lebanese interlocutors. But it cannot force reform, if Lebanese leaders are unwilling.⁸⁸

Still, there is more the IMF and others could do. IMF officials should be even more publicly communicative about Lebanon's progress toward an IMF program, or the lack thereof. The IMF's forthcoming report based on its March 2023 mission provides an opportunity for IMF representatives to speak more directly and forthrightly to Lebanon's situation. More frank statements by the IMF are needed to pierce the narrative fog in the country's political media, and to reach the Lebanese public.

The IMF should also continue its consultations with Lebanon's civil society. Lebanon's economists and other civil society actors can, in turn, convey the IMF's real positions and better inform the public.⁸⁹ And the IMF should keep up its direct, unmediated engagement with members of parliament, which can ensure the IMF's positions are clearly understood.

Meanwhile, donor countries may have limited leverage to push for an IMF deal in Lebanon—their most powerful leverage was withholding support for a bailout of Lebanon's economy, leverage they have already used. But they can still do more to press for reform and accountability. They should support the criminal

⁸³ On the current trajectory of Lebanon's economy, see "Lebanon Economic Monitor, Spring 2023," World Bank, which argues that the deceleration of the country's economic contraction does not equal "stabilization." The report additionally estimates the size of Lebanon's cash economy, equivalent to almost half of the country's 2022 GDP.

⁸⁴ Fouad Gemayel, "What the Trade Balance Reveals about Lebanon in 2022," *L'Orient-Le Jour*, February 1, 2023, <https://today.lorientlejour.com/article/1326676/what-the-trade-balance-reveals-about-lebanon-in-2022.html>. Henri Chaoul recounted meetings with members of Lebanon's economic elite. "They tell me the exact same things," he said, "We're growing, get off our backs.' Guys: GDP grew 2 percent, after going down 27 percent! But people do believe those guys. In this mercantile society in Lebanon, people think the country can survive without a state, or a public sector." Interview.

⁸⁵ Roy Badaro, interview with the authors in Beirut, November 2022.

⁸⁶ Interview with the authors in Beirut, January 2023.

⁸⁷ Interview.

⁸⁸ The IMF "will continue operating, even if it doesn't sign a contract for Lebanon," said Karim Daher. Interview.

⁸⁹ To be more efficient, the IMF has "to cross a certain line," said economist Roy Badaro. "They have to speak to the active trends in the country, not only politicians." He emphasized that the IMF's local interlocutors should include "neutral" economists. "There are many economists who are on the payroll of the politicians, and on [central bank governor] Riad Salameh's payroll." Interview.

investigations into Lebanese elites now underway in Lebanon and overseas, and facilitate investigating authorities' work, however possible.

Donor countries should also think about how their support for Lebanese state institutions could improve Lebanon's prospects for reform and economic recovery. The depletion of institutions such as the Ministry of Finance substantially diminishes the country's capacity for reform. Donors should design their assistance and conditionality to preserve and expand that limited expertise and to maintain institutional capacity. They also ought to demand the government properly resource Lebanon's negotiating team, including paying for dedicated communications staff. These donors should consider providing matching funds if the government itself allocates the necessary money, so the team can actually keep the public apprised of talks' progress.⁹⁰

It is the Lebanese public, after all, for whom Lebanon's IMF talks matter most, and who ought to decide the country's economic future. The public deserves to know about Lebanon's IMF negotiations to date, and to understand where the country is now heading.

Concerned civil society groups and reformist elements in government should keep working to educate the Lebanese public about the reality of the country's situation, and the stakes of its engagement with the IMF. With better information, we hope the public can play a more active and involved role, and pressure the country's political leaders to deal with the IMF more responsibly. At a minimum, ordinary people ought to know what's next for Lebanon, so they can formulate their own strategies for political activism, solidarity, and mutual support, even as elites pursue their "shadow plan" at the public's expense.

⁹⁰ If the government is unwilling to allocate resources for more staffers, Lebanese business leaders and other civil society could contribute.