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Commentary

Assessing the Feasibility of Lebanon's Recovery Financial Plan: Economic Viability, Risks, and Long-Term Implications

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1. Introduction

Lebanon is currently experiencing one of the most severe financial and economic crises in modern history, comparable to the Great Depression in terms of depth and duration (World Bank, 2021). The country's banking sector has collapsed, public debt has spiraled to unsustainable levels, and business confidence has eroded. Against this backdrop, the Lebanon Recovery Financial Plan proposes a structured approach to stabilizing the economy, restoring liquidity in the economy, and gradually reducing the state's debt burden in relation to GDP.

This commentary critically evaluates the plan's feasibility, using financial projections and comparative case studies. The proposed framework, which includes the issuance of Eurobonds, restructuring of the banking sector, monetization, and profit generation from State's assets, is compared with similar financial recovery models implemented in Argentina, Greece, and Iceland.

2. Key Assumptions of the Recovery Plan

The Lebanon Recovery Financial Plan is built on a series of macro-fiscal assumptions that determine its feasibility and trajectory. First, the total debt owed by the Banque du Liban (BDL) to commercial banks is estimated at approximately 80 billion USD. In addition to this, the Lebanese state carries an independent debt burden of around 30 billion USD, excluding BDL liabilities. The plan assumes that both the State and BDL will honor all of their obligations without resorting to default, preserving the integrity of sovereign and financial sector commitments. Lebanon's potential GDP is estimated at 60 billion USD, which presupposes significant economic stabilization and structural reform to reach this output level. A target debt-to-GDP ratio of 100 percent has been set, intended to restore fiscal sustainability over the long term. During the recovery period, the State's operational budget will be tightly constrained between 2 and 5 billion USD annually, until GDP reaches its potential. To avoid overburdening the economy, the tax burden is capped at 20 percent of GDP. Finally, a critical assumption underpinning the plan is that Lebanon's State-owned assets are valued at over 100 billion USD, offering a significant potential revenue source for debt reduction through monetization or strategic privatization.

These assumptions are undoubtedly ambitious, yet

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they align with fiscal restructuring strategies observed in prior sovereign debt crises, particularly in Greece and Argentina. However, their viability is contingent on effective governance, transparent fiscal management, and a credible reform agenda—factors that have historically been weak or inconsistent in Lebanon's political and economic landscape (Naimy and Obegi, 2023).

3. The Financial Recovery Proposal

The core component of the Lebanon Recovery Financial Plan is a debt restructuring and liquidity restoration strategy. The State will issue 80 billion USD in Eurobonds with a 20-year maturity and a 5 percent interest rate, transferring these bonds to BDL to cover its financial losses. This restructuring approach is similar to the Argentine sovereign debt restructuring of 2001, which also relied on longer-term debt issuance to delay obligations and restore market confidence (López and Nahón, 2017).

To stabilize the banking sector, BDL will compensate banks with 10 billion USD in cash and 70 billion USD in Eurobonds. This two-year window allows banks to adjust their capital adequacy ratios through capital increases, mergers, or depositor bailouts, following a model similar to Iceland's post-2008 banking reform, where the banking system was recapitalized with a combination of government-backed securities and private sector participation (Zoega, 2018).

BDL will also play a critical role in generating financial revenues for the State through several strategic measures. It is expected to purchase discounted Eurobonds from secondary markets, thereby injecting liquidity and contributing to the stabilization of sovereign debt yields. In addition, BDL may leverage its gold reserves to raise liquidity, following a precedent set by Greece during its 2012 debt restructuring (Zettelmeyer et al., 2013). Another key avenue for revenue generation involves the transparent sale of BDL's commercial and real estate assets, a process that must be carefully insulated from the political patronage networks that have historically compromised the integrity of state asset transactions in Lebanon.

In addition to restructuring existing debt, Lebanon will issue 10 billion USD in tax rebate bonds, 10 billion USD in revenue-sharing notes on state assets, and 10 billion USD in GDP-linked bonds. These financial instruments will provide flexibility, allowing the State to offer alternatives to traditional Eurobonds and ensure market-driven debt servicing mechanisms.

Furthermore, Lebanon should negotiate with the current Eurobond holders, with the assistance of the International Monetary Fund (IMF), to reschedule the existing Eurobond obligations over 20 years while reducing the interest rate to 5 percent. This step would ease Lebanon's immediate debt burden and provide the state with greater fiscal flexibility. Similar debt restructuring agreements have been successfully brokered by the IMF in sovereign debt crises, such as Argentina (2005) and Ecuador (2020), where interest rates were lowered, and maturities extended to facilitate sustainable economic recovery (Force and Vonessen, 2021).

4. Advantages of the Recovery Plan

One of the strongest advantages of the plan is its ability to restore trust in Lebanon's financial system, as it reaffirms the Rule of Law and financial responsibility. A key issue in Lebanon's economic crisis has been the collapse of public and investor confidence, similar to what was observed in Argentina's 2001 default (Fanelli, 2002). By honoring financial commitments and restructuring debt in an orderly fashion, the plan sends a strong signal to investors, banks, and international lenders that Lebanon is committed to stability and Rule of Law.

A second advantage is that financial assets become liquid again, allowing the Lebanese economy to quickly accelerate toward its full productive capacity. Argentina's post-default recovery showed that once financial markets regained liquidity, economic growth rebounded sharply. From a political perspective, the plan avoids the severe austerity measures imposed in Greece's debt restructuring, which led to public protests and economic stagnation (López-Castellano et al., 2022). Instead, the plan provides clear guidelines for state intervention, minimizing external financial dependence. Finally, the plan ensures that Lebanon's economic recovery creates a positive feedback loop, where liquidity improvements drive investment, strengthen the banking sector, and generate additional tax revenues.

Table 1: Financial Simulation: 2025-2029

Year	GDP (Bn USD)	Operational Budget (Bn USD)	Interest on Eurobonds (Bn USD)	Taxes (Bn USD)	Additional Revenues (Bn USD)	Sale of State Assets (Bn USD)	Debt minus Liquid Assets to GDP (%)
2025	20	2	5	4	2	2	345%
2026	25	2.5	5	5	2	2	270%
2027	30	3	5	6	2	2	220%
2028	35	3.5	5	7	2	2	180%
2029	40	4	5	8	2	2	150%

5. Financial Simulation

A financial simulation was conducted to determine whether Lebanon can meet its debt obligations under the proposed plan. The key findings depicted in Table 1 suggest a gradual improvement in debt sustainability metrics, provided that economic growth projections hold. It is important to note that the table is only indicative of a trend rather than an exact forecast, as precise financial and economic data remain limited due to the absence of comprehensive and updated national statistics. Given the current gaps in available economic data, the projections should be interpreted with caution and understood as an approximate trajectory based on reasonable assumptions rather than definitive outcomes.

The financial simulation presented in Table 1 was developed using a trend-based projection model grounded in macro-fiscal assumptions outlined in the recovery plan. The methodology combines basic deterministic forecasting techniques with conservative estimates to assess the trajectory of key economic indicators between 2025 and 2029. GDP growth was projected incrementally, increasing by USD 5 billion per year, based on a gradual economic recovery scenario supported by improved liquidity, restored market confidence, and reactivation of investment flows. The operational budget was scaled proportionally, starting at USD 2 billion and increasing by 0.5 billion annually, in line with the government's commitment to fiscal restraint.

Interest payments on Eurobonds were assumed to remain constant at USD 5 billion per year, based on the proposed issuance of USD 80 billion in Eurobonds at a 5 percent interest rate. Tax revenues were calculated by applying the assumed tax burden cap of 20 percent to the projected GDP figures. Additional revenues were conservatively estimated at USD 2 billion annually, reflecting income from monetization instruments such as GDP-linked bonds, tax rebate instruments, and revenue-sharing notes. Similarly, the contribution from state asset sales was held constant at USD 2 billion per year, acknowledging the challenges associated with large-scale privatization in Lebanon's current political climate.

The debt-to-GDP ratio was computed by subtracting annual liquidity-generating components (tax revenues, additional revenues, and asset sales) from the debt stock and comparing the result to projected GDP. While the simulation does not rely on complex econometric or stochastic models due to the lack of updated national statistics, it follows a scenario-based planning approach, grounded in comparable recovery models like those of Iceland and Argentina. These projections are indicative and designed to reflect directional trends rather than exact forecasts, serving as a policy tool to gauge the potential outcomes of disciplined fiscal execution and structural reform.

The projected debt reduction trajectory mirrors Iceland's recovery model, where debt restructuring, capital market stabilization, and strict fiscal management led to a rapid decline in sovereign debt stress (Zoega, 2018).

6. Conclusion

The Lebanon Recovery Financial Plan presents a structured, market-driven approach to resolving the country's financial crisis. By ensuring financial obligations are met, restoring liquidity, and gradually reducing debt levels, the plan follows historically successful debt restructuring models (Naimy, 2011). However, its success hinges on strong fiscal governance, transparency in asset sales, and sustained economic growth.

The financial simulation offers an optimistic yet cautious trajectory, projecting a decline in the debt-to-GDP ratio from 345% in 2025 to 150% by 2029. These findings provide some basis for targeted recommendations to policymakers. A phased approach to fiscal consolidation is essential, allowing for economic recovery without resorting to harsh austerity. The projected annual revenue from state asset sales highlights the urgent need for transparent and depoliticized asset management, ideally under the supervision of an independent authority with international oversight. Furthermore, as tax revenues are expected to rise within a capped tax burden, the focus should be on improving tax efficiency through modernization and enforcement, rather than increasing rates. Flexibility in debt servicing, supported by innovative instruments such as GDP-linked bonds and revenue-sharing notes, must be carefully managed to maintain market confidence and avoid inflationary pressures. Equally crucial is the institutional strengthening of the Banque du Liban, which plays a central role in the implementation of the plan. Its operational independence and transparency must be reinforced to rebuild public and investor trust. Finally, given Lebanon's volatile macroeconomic environment, annual reassessment of key financial assumptions is necessary to ensure agility and responsiveness in policymaking.

If Lebanon can follow the lessons from Argentina, Iceland, and Greece, while avoiding the political mismanagement of past reforms, it can realistically emerge from the crisis with a stable financial system, renewed investor confidence, and a stronger, more resilient economy.

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Conflict of Interest

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