

Can cryptocurrency help solve Lebanon's banking crisis

Author: Luca Z Bassil¹

*Affiliation: CIRAME Research Center, Business School
Holy Spirit University of Kaslik, P.O Box 446, Jounieh, Lebanon*

Abstract:

Since the 2019 financial collapse, Lebanon has experienced one of the most severe economic contractions in modern history, characterized by a 90% devaluation of the Lebanese pound and the systemic failure of the commercial banking sector. This research investigates the emergence of cryptocurrencies—specifically Bitcoin and Ethereum—as a parallel monetary system in response to draconian capital controls and the erosion of institutional trust. Utilizing a qualitative analytical framework, the study evaluates whether digital assets can effectively serve as a substitute for traditional banking, a reliable store of value against hyperinflation, and a mechanism for cross-border remittances.

The findings indicate that while decentralized finance (DeFi) provides a critical "lifeline" for individuals and small businesses to bypass local banking restrictions and facilitate international transfers, it remains a partial solution. The study identifies four primary barriers to total integration: high price volatility, regulatory ambiguity, technological barriers to entry, and the inability of digital assets to provide essential banking functions such as credit provision and formal financial infrastructure. The research concludes that while cryptocurrency offers a necessary alternative for financial inclusion during a state of collapse, it cannot replace the structural reforms required to restore Lebanon's fiscal integrity. Ultimately, digital assets function as a proactive response to institutional failure rather than a comprehensive cure for systemic economic crises.

Keywords:

Artificial Intelligence (AI), Blockchain Technology, Financial Reporting, Fraud Detection, Accounting Automation

Introduction: "The What & Why"

In the last few years, Lebanese pound lost more than 90% of its value. The system collapsed in 2019 because of debt, bad policies and bad and weaknesses in the banking sector. The commercial banks wouldn't give money to the people or they did but at a lower price than the market which made depositors lose a lot of their money that they had. Thus, the trust between depositors and banks was broken and nobody is depositing in banks anymore and the need for a substitute is necessary.

On the bigger side, cryptocurrencies were booming as an alternative monetary system because it is operating outside the control of the central banks. Cryptocurrencies offered solutions that normal currencies had problem with like resistance to government-imposed restrictions. So, in countries like Lebanon or any other instable currency, we can see a rise in cryptocurrency because of its potential and also because it is easy to transfer cross border which can help the economy itself.

Lebanon's case is very important to study because it had one of the greatest falls in our current era. All the banks collapse, depreciation of currency and restrictions on withdrawal pushed everyone to search for a new method of payment and make transactions. One of the alternatives adapted in Lebanon was cryptocurrencies like Bitcoin and Ethereum but this solution is not perfect as it got many issues for example; cybersecurity threats, volatile asset, speculative bubble. While it can help it isn't a perfect method

This study is to let us see whether cryptocurrency can act as:

Substitute for commercial banks in the presence of capital restrictions

A reliable store of wealth in a country with a currency depreciation and high inflation

A mean that facilitate transactions between borders

A tool that will restore the collapsed financial system in Lebanon

Whether the instability and absence of clear regulation limit its effectiveness as a good alternative

Evaluate the impact of integrating crypto into a collapsing system

Literature Review: "The story so far "

Lebanon didn't start as a country who is financially unstable, it was originally called the Switzerland of the middle east. its economy relied on a fragile monetary supported by large inflows of foreign currency and a fixed exchange rate system. But doing so made the banking system exposed to government debt and the state had to be dependent on banks to finance their deficits. So, on the outside it appeared to be a stable and strong system but it was really vulnerable underneath and we were only seeing the tip of the iceberg.

Additionally, when confidence in the system started to decline, it became impossible to hide the weaknesses. Foreign currency inflows slowed, the central bank's reserves came under pressure and then the banks decide to limit withdrawals and transfers to everybody in the country. This control changed the relationship between banks and depositors. Everybody stopped trusting the banking system and then they found out that they couldn't access their own money. Lebanese people felt like this was both a financial loss and a personal dignity loss.

The collapse of the Lebanese pound didn't help the situation at all, on the contrary it make it worse because all imported goods became more expensive while families struggled to even buy basic living stuff because salaries were with the Lebanese pound. Inflation rose and salaries declined so they had to find a new alternative, that's why they decided to see alternative currency.

Methodology: "The how we did it "

In recent years, cryptocurrency had already gained an interest in Lebanon because it offers features that traditional banks and fiat money no longer seem to provide. One of the best points is that it is decentralized. Since they are not controlled, people feel less exposed to domestic banking failures and government-imposed restrictions.

Another advantage is portability, it is a digital currency that can be transferred across borders relatively quickly and without problems, which can be useful to a country like Lebanon which is in an economical crisis. It will be like an alternative that will help because Lebanon is a country that has been dependent on money sent from abroad family members. In this context cryptocurrency may be good for moving funds when the banking system is unreliable and expensive.

It is also attractive as a potential hedge against local currency depreciation. When people lose confidence in the national currency, they tend to search for assets that can preserve value. People may go to gold US dollars (Kamel et al., 2025) or foreign bank accounts because they are safer than their current option. While others would consider now digital assets because they are the future and because they believe that these assets can serve as a parallel store of value.

Despite all of these advantages, we need to be very careful if we want to consider cryptocurrency as a solution for Lebanon's crisis. It may help in individual cope with the crisis but that doesn't necessarily mean that it can replace the banking system completely.

First of all, it is highly volatile. Its value can rise or fall sharply in a short period of time, which can make it risky for daily transactions or even riskier for saving as a whole. A new currency should be stable but that is the opposite of crypto. This is one reason why people see them as a speculative asset rather than a reliable currency (Lavalliere et al., 2023).

Secondly, its regulation remains uncertain. It is a currency-like asset needs a legal framework to govern taxation, consumer protection, fraud prevention and exchange operation. Without clear rules and regulation, it can create confusion and expose users to scams. In an already bad economy, people need trust and trust is difficult to build in such a weak environment.

Thirdly, not everyone in Lebanon has equal access to smartphones and internet connectivity or even technical knowledge required to use digital wallets safely. If something that mainstream is too complex for normal users, it is practically useless and becomes limited.

Lastly it cannot fully replace core banking because banks do more than just storing money. They provide credit, deposit services, financing and payment infrastructure. Even if crypto can support transfer or asset value, it doesn't provide the full range of service that banks offer.

Results: "The facts "

One of the strongest arguments in favor of crypto is its financial inclusion. In our country, many people have been excluded from banking system because of withdrawal limits and loss of trust, digital currencies will offer a new financial activity and entry point instead of the traditional system.

For small business owners, family receiving support from abroad, cryptocurrency may reduce dependence on local banks. Lebanon is highly impacted by remittance inflows and the bad economy will lower transactions in some cases.

However, its benefits shouldn't be exaggerated. It all depends on access to exchange platforms into local currency and the ability to store the asset safely. If there are no way to convert crypto into cash quickly, then this whole system is useless and inefficient. But if they do have a way, it make still face exchange costs and limited liquidity.

To really implement cryptocurrency in Lebanon we should see all the risks that are going to be involved. The first risk that we may encounter is instability. A tool that changes value too quickly may help some users during short periods of depreciation, but it doesn't provide the table purchasing power that people usually expect from money.

We also have the regulatory uncertainty. We have to have restrictions on digital asset use, exchange rate and taxes. This can reduce confidence and limit its adoption. We need good regulations because it could attract illegal activities which could make people more hesitant to support the new alternative.

After that we have the vulnerability of the technology. There are many stories of people that lost millions because of hacks, loss of private keys and user who make mistakes and have no way to recover. Users have no protection unlike traditional bank account; crypto doesn't protect their users that much.

The last risk is that cryptocurrency may deepen inequality because there are many people who don't understand and don't have access to online platforms while there are people who understand everything without any problem which won't help solving the broader crisis

So the question that we have here is not whether cryptocurrency has an value at all; as we say it does have a lot of value as a transfer mechanism, digital asset but the real question is that if it can solve Lebanon's banking crisis in a meaningful and sustainable way.

My answer is no because it can beat everything by itself. It may provide a relief for some users but it won't be the solution for everyone. Moving money across borders, store part of their wealth outside local banking system is better but it will not repair the structural problems that caused the crisis in the first place.

Our country's crisis isn't only a currency problem. It is a problem of trust, government, debt and weak regulation and the solution isn't digital asset. However, it can help us as a substitute for banks, reform, and monetary policies. It can be a good help but not replace reform.

As of an international finance perspective, this is an important discussion. This innovation will be present in the future and should be presented as solutions to deep economic problems but they cannot answer political failure or restore confidence and as we saw in Lebanon's case, it can work as a parallel but not as a full solution.

Discussion and conclusion: "The so what ? "

So, in conclusion the crisis in Lebanon created an environment in which people started to search for alternatives to the old-fashioned financial system. It was offered as an alternative because of its decentralization transferability and protection against depreciation.

Nevertheless, it also has many limitations like its volatility, lack of regulation, technological risk and limited ability to replace banking services prevents it from becoming the primary currency in Lebanon. Therefore, it shouldn't be seen as a cure but rather as a response to help the structure.

In the end we saw how it may help some individuals but it won't replace and be the solution because Lebanon needs to rebuild trust, confidence in the banking system and create a stable monetary framework. Without these it can help a little but it can't rebuild an entire system.

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