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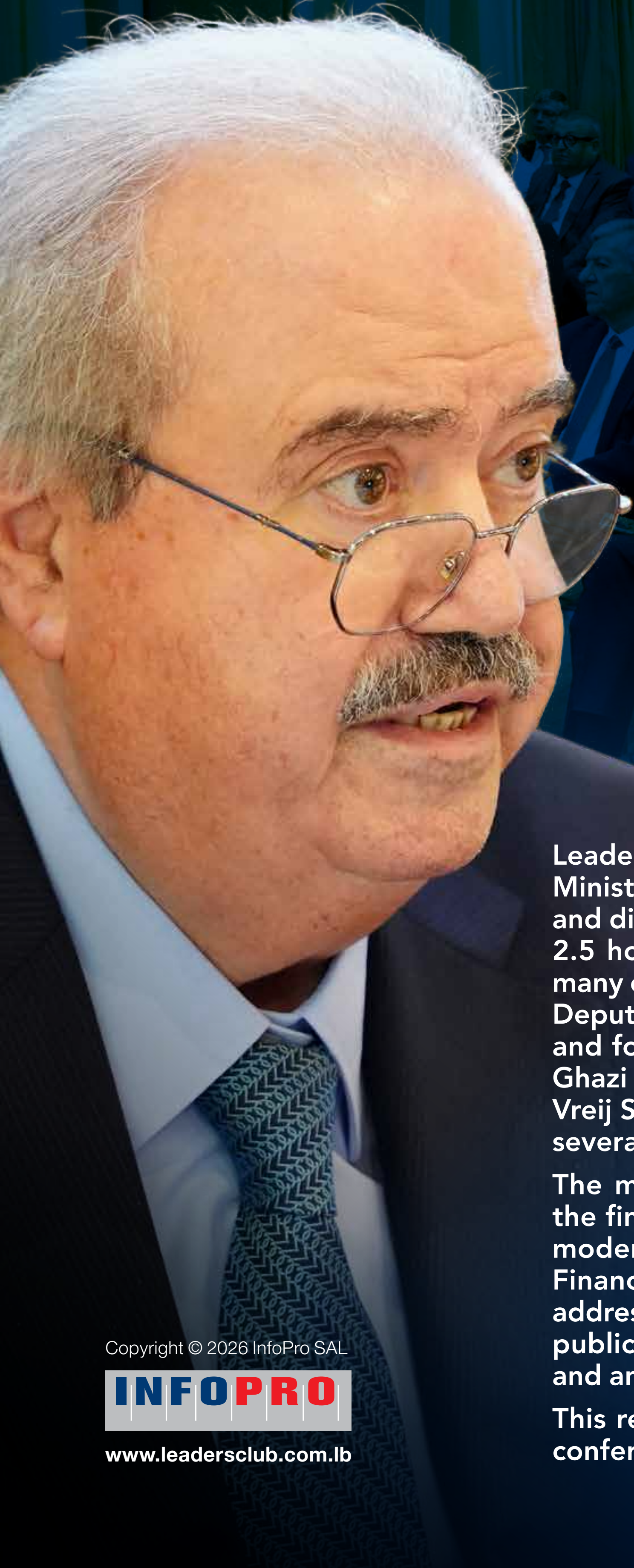
Fiscal and Economic Reform Agenda

Report on the Conference Address and Question and Answer Session with **Minister of Finance Yassine Jaber**



LeadersClub – by Lebanon Opportunities hosted the Minister of Finance Yassine Jaber for a presentation and discussion. The event which extended more than 2.5 hours, was attended by over 100 participants, many club members, as well as Saadeh Chami, former Deputy-Prime Minister in charge of IMF negotiations, and former ministers of finance Raya El Hassan and Ghazi Wazni, and former ministers Sami Haddad and Vreij Saboundjian, and MP Mark Daou, in addition to several presidents of business associations.

The minister outlined a broad program to restore the financial system, strengthen public finances and modernize the State, with banking reform and the Financial Gap Law at the center of the process. He addressed attendees on the state of the economy and public finances, followed by an extended question and answer session.

This report brings together the proceedings of the conference, organized by topic.

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Executive Summary

Lebanon's economic and financial recovery depends on restoring confidence in the State, rebuilding the banking system, strengthening public finances and implementing structural reforms that can support sustainable economic growth. The approach outlined by The Minister of Finance Yassine Jaber combines fiscal consolidation with institutional modernization, while seeking to resolve the financial losses accumulated since the beginning of the crisis. The overall approach is therefore not limited to fiscal adjustment. It seeks to address the institutional weaknesses that contributed to the crisis and to create conditions for a functioning economy in which the state can collect revenues, provide services, regulate effectively and support private investment.

The banking sector remains central to the recovery. The priority is to restructure banks, determine the size and allocation of the financial losses and establish a credible framework for dealing with depositors. Restoring confidence requires a banking system capable of operating normally again, together with a clear and sustainable mechanism for addressing outstanding deposits. The recovery of the banking sector is closely linked to negotiations with the International Monetary Fund and to the broader restructuring of public finances.

Fiscal reform is intended to increase State revenues primarily through better collection and improved administration rather than through indiscriminate increases in tax rates. The Ministry of Finance (MoF) is seeking to broaden the effective tax base, improve compliance among large taxpayers, reduce evasion, strengthen VAT collection and bring parts of the informal economy into the formal system. Digital invoicing, electronic payments, the invoice lottery and modernization of the General Tax Code are among the instruments intended to improve tax administration.

The budget process itself also requires reform. Greater discipline in the preparation and execution of the budget is needed, together with more reliable revenue and expenditure projections. The objective is to move toward a state whose financial decisions are based on realistic resources and clearly defined priorities rather than recurring financing gaps.

Modernization of the public administration is another major component of the reform agenda. Digital government, electronic identification, customs modernization, electronic payments and the modernization of the real estate registry are intended to reduce administrative costs, improve transparency and make public services more efficient. Digitalization is also expected to improve the state's ability to collect revenues and monitor economic activity.

Public sector reform remains constrained by the deterioration in salaries and the fiscal limitations of the state. A sustainable solution requires addressing the salary structure while avoiding a return to expenditure levels that public finances cannot support. The objective is to establish a more coherent unified salary framework and improve the functioning of the administration.

Electricity is a particularly important component of the fiscal and economic reform agenda. Reform of the electricity sector, including tariffs, fuel costs, gas supply and investment in generation capacity, is necessary to reduce the burden on public finances and provide a more reliable service. The possible use of natural gas and the development of the Deir Ammar plant form part of this broader approach.

Infrastructure investment is expected to rely increasingly on private-sector participation. Public-private partnerships, concessions and other forms of private investment can provide financing and management capacity where the state does not have sufficient resources. The approach extends to infrastructure, state-owned enterprises, the Port of Beirut and projects that could strengthen Lebanon's position as a regional transport and economic hub.

Regional economic integration represents an additional opportunity. Lebanon's geographical position can support trade, transport and logistics links with neighboring countries and the wider region. Investment in Northern Lebanon and improved regional connectivity could create opportunities extending beyond the domestic market.

Reconstruction will require substantial financing that cannot be provided by the State alone. Mobilizing private capital, international financing and regional investment will therefore be important. This requires credible institutions, transparent projects and a stable financial and regulatory environment.

Exchange-rate stability is closely connected to fiscal and monetary discipline. A durable improvement in the currency requires restoring confidence in public finances, rebuilding the banking system and establishing a more stable relationship between government policy and monetary policy. Coordination between MoF and the Central Bank (BDL) is therefore essential.

Economic recovery ultimately depends on the private sector. Businesses require predictable regulations, functioning public services, access to finance and an administration capable of processing transactions efficiently. Improving the state's interaction with businesses can therefore have an immediate economic impact without requiring large public expenditures.

Fintech and digital payments can contribute to this transformation by reducing reliance on cash, increasing transparency and improving the traceability of economic transactions. Greater use of electronic payments can also strengthen tax administration and help integrate economic activity that currently takes place outside the formal financial system.

The central challenge is implementation. Lebanon has already accumulated a long list of proposed reforms. The difference between previous reform programmes and the current agenda will depend on the ability to translate legislation, administrative measures and institutional changes into concrete results. Continuity of policy, coordination among state institutions and the rebuilding of confidence among citizens, depositors, businesses and investors are essential to that process.

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Restoring Confidence in the State

The economic and financial crisis has become a crisis of confidence in the State and its institutions. The damage has extended beyond the currency, banking system and public finances, affecting economic growth, citizens' daily lives and Lebanon's relations with Arab countries and the international community.

The war added another layer of destruction and economic pressure, particularly in Southern Lebanon and parts of the Bekaa. Homes, businesses, agricultural land, infrastructure and public facilities were damaged, while tens of thousands of people were displaced. The cost of reconstruction is beyond the current financial capacity of the State.

Reconstruction therefore requires more than financing. Lebanon must demonstrate that it has institutions capable of managing funds efficiently, transparently and accountably. Restoring confidence among citizens is a prerequisite for attracting confidence from Arab countries, international institutions, donors and investors.

The same principle applies to economic recovery. Lebanon retains substantial human capital, a resilient private sector and a large diaspora, but these assets can contribute fully to the economy only if they operate within a state governed by institutions and predictable rules.

Reform and the IMF

Economic reform is regarded as a domestic necessity rather than simply a condition imposed by the International Monetary Fund. The IMF program is nevertheless important because an agreement would provide an external signal that Lebanon is committed to serious reform, fiscal discipline, transparency and sound governance. The IMF agreement is therefore viewed less as an end in itself than as a mechanism for restoring confidence. An agreement could help reopen access to international financing, encourage investment, support reconstruction and facilitate economic growth.

Two principal elements form the current reform framework. These are the Bank Resolution Law, and the Financial Gap Law. Banking secrecy has also been lifted. The Bank Resolution Law has passed through Parliament and has been signed by the President. Its importance lies in establishing a legal framework for dealing with banks according to defined rules rather than allowing the present uncertainty to continue. The Financial Gap Law remains the principal outstanding component of the framework.

In parallel, and to be able to address our upcoming financial obligations, a Medium-Term Fiscal Framework (MTFF) is being updated following the change in economic and fiscal assumptions caused by the war.

An IMF Staff-Level Agreement does not necessarily have to wait for the enactment of the Financial Gap Law. Discussions are continuing with the IMF, and the possibility of reaching an agreement before the law is finally passed remains open.

Resolving the Banking Crisis

Normal economic activity cannot resume without a functioning banking sector. Banks are needed to provide credit, finance investment, issue letters of credit, facilitate international transactions and supply liquidity to the economy. The banking crisis has now lasted approximately seven years. This prolonged uncertainty is considered unsustainable. The objective is not to liquidate banks indiscriminately but to establish clear regulatory requirements under which viable institutions can be recapitalized and non-viable institutions can be resolved.

Banks will have to meet defined capital requirements. Their shareholders will have the option of injecting new capital, merging with other institutions or exiting the sector. Capital increases are expected to take place over a five-year period. Banks that cannot raise the necessary capital will be subject to resolution. Deposits can then be transferred out of institutions that cannot be recapitalized, allowing viable banking operations to continue without leaving the entire financial system trapped by legacy problems. The Bank Resolution Law also addresses the position of shareholders in failed institutions. Shareholders of banks that fail under the normal resolution framework would generally be excluded from future ownership. An exception has been created for the present systemic crisis because the collapse affected the entire monetary and financial architecture rather than resulting simply from the actions of individual bank boards.

The Financial Gap and Depositors

The Financial Gap Law is intended to provide the mechanism for dealing with the accumulated losses of the financial system and the claims of depositors. The proposed mechanism would transfer depositors' claims into asset-backed instruments issued at the Central Bank level, supplemented by phased contributions from commercial banks. This is intended to separate the legacy losses from the future operation of viable banks. The objective is to create a banking system in which new capital can enter without requiring new investors to assume the entire historical burden of the sector.

Three clean banking licenses are currently available in Lebanon. They carry no historical liabilities and can be acquired by investors wishing to enter the Lebanese banking market. Banque du Liban permits the transfer of valid banking licenses. This provides an alternative route for investors who are prepared to inject fresh capital into Lebanese banking but are unwilling to assume legacy deposit liabilities.

Restoring Depositor Confidence

The banking sector cannot resume its normal function until depositors regain confidence in banks. At present, public employees typically withdraw their salaries almost immediately after they are deposited. This behavior reflects the continuing lack of confidence in the banking system. A functioning banking sector requires deposits because banks cannot provide credit without a stable deposit base. Once banks are recapitalized and comply with international standards, the objective is to restore their ability to attract deposits and use them to finance businesses and investment. The eventual reopening of normal banking activity is also essential to reducing Lebanon's dependence on cash. A predominantly cash-based economy cannot provide the payment infrastructure required by a modern economy and creates additional difficulties for tax collection, financial transparency and international transactions.

The 2027 Budget

The 2027 draft budget is being prepared within a five-year Medium-Term Fiscal Framework. The framework establishes macroeconomic and fiscal projections and sets expenditure ceilings based on expected revenues, tax compliance and broader economic indicators. An earlier MTFF had already been approved by the Cabinet, but the war fundamentally changed the assumptions underlying its projections. An updated version is therefore being prepared. It is a government framework and does not require parliamentary approval. The 2027 budget has been prepared under severe fiscal constraints. Approximately 53 percent of expenditure is allocated to social spending, including salaries, hospitals, healthcare, social protection and support for people with disabilities.

Around 35 percent is allocated to the armed and internal security forces. Capital investment is therefore limited to approximately 10.5 percent of total expenditure. The limited room for domestic investment is being supplemented by targeted multilateral financing for water, electricity and reconstruction. The budget is also intended to avoid relying primarily on higher tax rates. The strategy is to increase revenue by improving compliance, expanding the tax base, reducing tax evasion and bringing more of the informal economy into the formal system.

Reforming the Budget Process

The Ministry of Finance is changing the way the state prepares its budget. With European Union support and cooperation with the OECD through SIGMA, the budget process is gradually moving away from a traditional line-item and input-based approach toward a program-based budget. The purpose is to link public resources more directly to government priorities and measurable outcomes. This should make it easier to evaluate whether public spending is producing the intended results and to improve transparency, accountability and spending efficiency. The five-year framework and the program-based budget are intended to make fiscal policy more predictable and reduce the practice of preparing budgets without a clear medium-term financial framework.

Increasing Tax Collection Without Broad Tax Increases

Increasing tax revenue does not necessarily require increasing tax rates. A substantial part of the potential revenue lies in improving compliance among businesses and individuals who already have tax obligations but do not fully meet them. Approximately 7,000 new companies have registered for VAT. Stronger enforcement is intended to create a deterrent effect and encourage businesses to register and comply voluntarily rather than wait for enforcement measures. The objective is to bring businesses into the tax system while also improving the administration's ability to identify discrepancies between economic activity and declared income.

Large Taxpayers and Tax Evasion

The Large Taxpayers Directorate covers approximately 1,500 to 1,600 major companies. The files of these companies have been reorganized by sector, including petroleum, banking, money transfer operators and pharmaceuticals. This makes it possible to compare tax payments across companies operating in the same sector. A company with substantial business activity but negligible declared revenue can therefore be identified for audit.

The approach is intended to focus scarce auditing capacity where it can produce meaningful additional revenue. Large companies that have paid their taxes correctly have no reason to be targeted simply because they are large. The focus is on discrepancies and non-compliance. The administration has already referred non-compliant companies with significant VAT liabilities to the Financial Public Prosecution.

VAT Compliance

VAT is treated as money collected by businesses on behalf of the state rather than as a business expense or source of corporate income. Businesses collecting VAT are therefore expected to remit it to the Treasury rather than retain it, delay payment or use it for their own financing. Enforcement has been strengthened through Customs. Companies with overdue VAT balances can have their import and export clearances conditioned on settlement of their arrears. This measure has encouraged many companies to pay outstanding amounts. Where significant sums continue to be withheld, files can be referred to the Financial Public Prosecution for recovery of the State's money.

The Invoice Lottery and Electronic Invoicing

An invoice lottery is being introduced as an initial step toward mandatory electronic invoicing. Consumers will be able to scan their official invoices through a mobile application and receive a lottery number. Periodic prizes will provide an incentive for consumers to request official receipts from merchants. The purpose extends beyond the lottery itself. Each registered invoice creates transactional information for the Treasury. Over time, this can provide a much clearer picture of who is selling what, at what volume and what revenues are being declared.

Mandatory electronic invoicing is expected to follow. The necessary infrastructure is already being developed and discussions with technology providers are underway. Electronic invoicing should make it considerably more difficult for businesses to operate outside the tax system or understate their sales. The transition will take time because the technological infrastructure and administrative systems have to be established progressively.

The General Tax Code

A comprehensive draft general tax code was prepared previously in coordination with the IMF and submitted to the Council of Ministers. The draft was subsequently withdrawn after requests for revisions. A review committee was established and has completed its work. The revised draft is expected to return to the Cabinet before being submitted to Parliament. The intention is to provide a more coherent legal framework for taxation and to modernize the existing system.

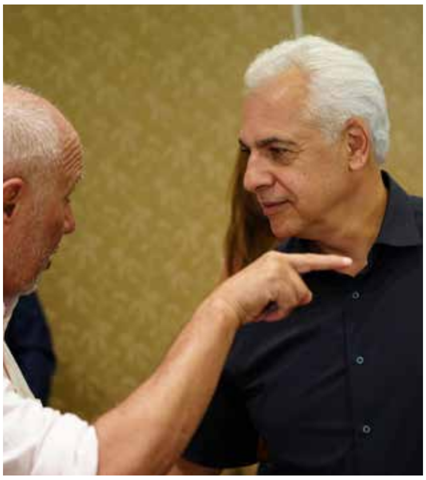
Direct Taxation and Recent Tax Years

The relatively low contribution from income taxation in recent budgets is partly linked to the disruption caused by the financial collapse. Following the 2019 crisis, a tax settlement law was prepared covering liabilities up to 2022. At the same time, the legal and administrative deadlines for tax declarations were suspended following the 2024 war, allowing taxpayers to submit their 2023 and 2024 declarations later. The tax administration could not audit or demand settlement before those declarations were formally submitted. Now that the relevant declarations have been filed and are being reviewed, income tax collections are expected to increase.

Tax administration resources are also being directed toward the more recent years. Auditing accounts from the immediate post-2019 period is particularly difficult because the exchange rate moved from approximately LL1,500 to the dollar to LL3,000 and then LL6,000, creating an extremely distorted accounting environment. The priority is therefore to concentrate limited auditing resources on 2023, 2024 and 2025, when monetary conditions were more stable and the potential for effective collection is greater. The corporate income tax rate remains 17 percent, together with dividend withholding taxes.

Taxation of Digital Services

Foreign digital services consumed in Lebanon currently present a gap in VAT collection. The draft budget contains a provision requiring foreign digital service providers to appoint a local fiscal representative responsible for collecting and remitting VAT in Lebanon. The measure is intended to cover services such as foreign software subscriptions, streaming services and other digital platforms that can currently be purchased directly from abroad without Lebanese VAT being collected.



Taxation of Illicit Income

Lebanese income tax law provides a basis for taxing profits generated within Lebanon without necessarily distinguishing between legitimate and illicit sources of income. This creates a potential distinction between criminal liability and tax liability. A criminal amnesty can remove or reduce criminal penalties without necessarily eliminating an underlying tax obligation. The possibility of requiring individuals benefiting from an amnesty to obtain a tax clearance certificate before release could therefore provide a mechanism for determining whether outstanding tax obligations exist. The administration considers this an interesting legal proposition requiring further examination.

The Informal Economy and Counterfeit Goods

Tax enforcement is being extended beyond small informal businesses to larger commercial establishments. The informal economy includes businesses operating without proper registration or declaring only part of their activity. It also includes businesses involved in smuggled, counterfeit or substandard goods. The fact that such businesses may operate openly does not remove the enforcement problem. Bringing them into the tax system requires better information, stronger inspection and enforcement mechanisms and improved transactional data. The invoice lottery and electronic invoicing are intended to contribute to this process by making commercial transactions increasingly visible to the tax administration.

Modernizing the Public Administration

The public administration suffered significant deterioration during the monetary chaos of 2020, 2021 and 2022. Payment mechanisms were disrupted and more than two million payment receipts accumulated without being entered into the state's systems. The receipts were stored physically and had to be entered, verified and audited before the state accounts for the missing years could be closed. The process required approximately a year and a half of intensive work by Ministry of Finance staff.

The physical infrastructure of government offices also deteriorated. Buildings damaged by the Beirut Port explosion remained unrepaired in several cases, while legal restrictions prevented the state from undertaking major capital repairs to rented premises. The Ministry of Finance has consequently consolidated several functions into the VAT building. The Real Estate Registry Directorate and the Bechara El Khoury office were relocated from dilapidated premises, allowing citizens to handle different transactions in a single location.

The longer-term objective is to eliminate the need for citizens to visit government offices altogether.

Digital Government

Most Ministry of Finance transactions can now be conducted online through the ministry's portal. Mobile applications are expected to be introduced shortly. The Real Estate Registry already provides digital title deed extracts, although its systems remain slow until new servers and data-center infrastructure become fully operational. The Ministry of Finance's systems have undergone a broader overhaul. Customs has also received a new data center, and the automated NAJM customs system is being upgraded to operate at substantially higher speeds. The technological modernization has been financed through external assistance rather than the Lebanese Treasury. A $12 million European Union grant was administered under World Bank supervision, with procurement carried out according to World Bank standards. A further $28 million World Bank loan is being used to connect the departments of the Ministry of Finance. A $150 million loan facility is also before Parliament to extend automation and digitalization to other ministries and government departments.

Digital Identification and Customs

Digital national identification is intended to replace the current reliance on paper civil registry extracts. Once digital identification is established, it can support more advanced government services and Customs procedures, including Advance Cargo Information and automated risk assessment. The objective is to create an interconnected state in which information can be exchanged between government departments rather than requiring citizens and businesses to carry documents from one office to another.

Electronic Payments

Government payments are increasingly moving from cash to electronic channels. Digital wallet providers have begun offering services that allow citizens to pay taxes through mobile wallets. Commercial banks are also integrating their systems. Card terminals have been installed at Ministry of Finance payment counters. Citizens can obtain a queue number, complete their paperwork and settle their obligations by card without carrying cash. The State can now accept both lira and dollar for taxes and public fees. The measure followed the practical reality that many taxpayers use dollar-denominated cards.

The acceptance of dollar payments does not represent an intention to abandon the lira which remains the national currency. Accepting foreign currency for routine government payments reduces unnecessary obstacles for taxpayers.

The 'Daribati' portal allows taxpayers to access their accounts using their tax identification number and password, check outstanding liabilities and pay by credit card. Training webinars are being provided to help taxpayers adapt to mandatory electronic filing.

Modernizing the Real Estate Registry

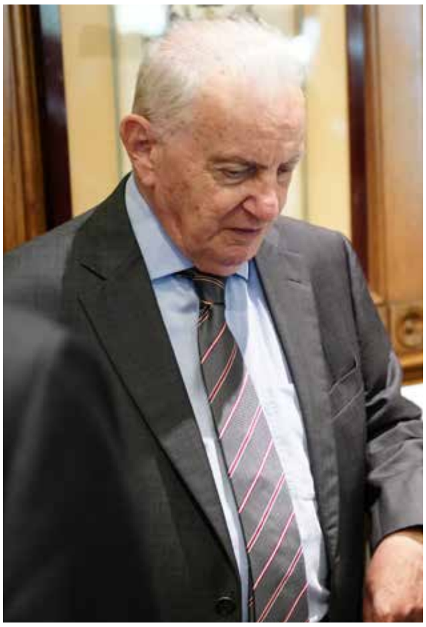
The Real Estate Registry has been operating with severely outdated technology. Its servers dated from 2007 and had operated for years without adequate maintenance or software updates. Financing has been secured for new infrastructure, with procurement conducted under World Bank supervision. Once the new system is operational, citizens should be able to complete property transactions online without repeatedly visiting registry offices. This is intended to reduce bureaucracy and the opportunities for personal intervention that historically accompanied paper-based procedures.

Customs Modernization

Customs is receiving new technological infrastructure and a new data center. The upgraded NAJM automated system is expected to process transactions more rapidly. Future digital identification systems can also support Advance Cargo Information and automated risk assessment. The objective is to make Customs more efficient while improving the administration's ability to identify suspicious or high-risk shipments.

Public Sector Reform

The public sector is considerably larger than the employees working in ministries. It includes approximately 120,000 active military and security personnel, around 80,000 retired military personnel, approximately 45,000 to 50,000 retired civil servants and around 50,000 public school teachers. This brings the overall number of current and retired public-sector personnel to approximately 300,000. By comparison, the central ministry bureaucracy numbers only around 7,000 to 8,000 employees.



Public-sector reform therefore cannot be reduced to reducing the number of ministry employees. It also has to address military and security personnel, pensions, education and the unified salary system.

The Unified Salary Scale

The unified salary scale creates significant distortions because employees with very different responsibilities and levels of accountability can receive similar basic salaries. A tax auditor responsible for collecting several million dollars in taxes can receive a base salary of approximately $900. The same basic salary can apply to an employee with considerably less responsibility and legal exposure. A functioning administration requires a salary structure that reflects responsibility, expertise and performance. Comprehensive public-sector reform remains difficult because public employees are also facing a dramatic increase in the cost of living. Fuel and other basic expenses have risen sharply while the state itself faces severe fiscal constraints.

Public Sector Salaries and Fiscal Constraints

The 2027 draft budget introduced six additional salary grades and expanded family allowances. Public employees received the increase at the end of August. Further demands subsequently emerged from public-sector unions. Meeting those additional demands in full would require approximately $1.1 billion in additional expenditure. The Treasury does not have the ability to finance such increases through additional borrowing. Lebanon's fiscal position no longer permits the state to cover large deficits by issuing debt. The 2019 budget deficit was approximately $5 billion. Returning to that level of deficit financing is not considered possible under current conditions.

The State instead faces substantial accumulated obligations, including claims by Eurobond holders, unpaid fuel-related obligations, depleted Special Drawing Rights and the requirement to address depositors' funds. Article 113 of the Code of Money and Credit also requires the state to intervene if the Central Bank incurs a deficit. These obligations have to be considered alongside the demands for higher public-sector compensation.

Public Education

The public education system has substantial staffing distortions. There have been cases where schools with only 10 or 20 students had 27 teachers, while teachers sought assignments close to their homes. At one point, approximately 5,000 teachers were reportedly on the public payroll without assigned schools. Municipalities have also hired teachers on temporary contracts and subsequently transferred responsibility for those employees to the Ministry of Education when municipal funds were exhausted. In some cases, qualifications were not adequately vetted before the transfers. The problem is therefore not simply the number of teachers. It involves the way staffing decisions have historically been influenced by political and local considerations. Resolving the situation requires significant administrative and political reform.

Electricity Sector Reform

Électricité du Liban (EDL) has accumulated approximately $21 billion in liabilities on the Ministry of Finance's balance sheet. The central structural problem is that EDL can lose more money as it produces more electricity because of transmission losses, non-technical losses and inadequate collection. The electricity sector is being reorganized into generation, transmission and distribution and collection.

Private capital will participate in generation through Independent Power Producers. Distribution and metering will be transferred to private concessionaires that purchase bulk electricity and manage retail collection at their own commercial risk. High-voltage transmission will remain under State ownership. A $250 million World Bank loan is intended to finance national control centers, grid transformers and measures to stabilize and reduce network losses. Liquidity problems at EDL have also required direct payments by government entities. Fuel-related costs have increased sharply, with shipments rising from approximately $50 million to $100 million.

Electricity Tariffs and Fuel Costs

Electricity tariffs remain politically difficult to adjust despite the sharp increase in international energy prices. A progressive tariff system could theoretically protect lower-income households while charging heavier consumers more. The difficulty is reaching the necessary political consensus.

Operational problems also continue. The Zouk and Jiyeh power plants have approximately 300 MW of capacity and available fuel oil but remain offline. The cost of private electricity generation is particularly significant because households and businesses depend heavily on diesel-powered generators. Dependence on diesel also makes the economy highly vulnerable to international energy prices. Fuel costs affect transport, electricity generation and almost every production chain.

Natural Gas and Deir Ammar

Replacing diesel with natural gas at the Deir Ammar power plant could provide more immediate relief from fuel costs. The proposed solution involves using the Arab Gas Pipeline through Jordan and the floating storage and regasification infrastructure at Aqaba.

Domestic gas exploration and regional gas supplies could provide longer-term opportunities, but the pipeline connection offers a potentially more immediate way of reducing the cost of electricity generation and the associated burden on public finances.

Public-Private Partnerships

Private participation in infrastructure does not mean selling state assets. The policy is to use Public-Private Partnerships and concession arrangements while retaining public ownership of strategic assets. The PPP legislation has been amended to make projects more attractive to investors. Private operators can manage revenue collection directly while remaining subject to state regulation and auditing. The Kleyat René Mouawad Airport is an example. A private concessionaire would operate the airport, with government incentives such as reduced airport travel taxes and landing fees intended to attract airlines. Private developers would also participate in associated transport infrastructure, including road and bus connections.

The same model can apply to roads, tunnels and other infrastructure. A privately financed tunnel linking Beirut with the Bekaa could operate through tolls. Users would pay for a service that reduces travel time and congestion while private investors finance construction and operation. Concession models are also being considered for major transport infrastructure elsewhere. The underlying distinction is between selling a public asset and granting a private operator the right to develop and operate infrastructure under a regulated concession while the state retains ownership.

State-Owned Enterprises

Several state-owned enterprises generate substantial revenues, including the seaports, Beirut airport, Casino du Liban and the Régie des Tabacs. The Régie des Tabacs has moved from being a subsidized burden to becoming a profitable industrial operation. A licensed Philip Morris production line has been established in Lebanon, including domestic production of Marlboro cigarettes, generating returns for the Treasury.

The corporatization of other State entities is also advancing. The Beirut Airport Company has been legally established with an independent board under regulatory supervision. It retains operational cash flows to finance its own operations and transfers surplus revenues to the Treasury. A similar corporatization decree is being prepared for the Port of Beirut, replacing the temporary committee that has managed the port since 1992. EDL is also expected to become a joint-stock company. The objective is not to extract dividends from the electricity company but to eliminate its continuing burden on the Treasury.

Beirut Port and Regional Transit

The expansion of Beirut Port's container terminal in partnership with CMA CGM is intended to strengthen the country's position as a regional transit hub. The potential advantage is particularly significant for trade with Iraq. A container travelling from Europe to Umm Qasr can currently require 30 to 35 days because of the maritime route through the Suez Canal, Bab al-Mandab, the Strait of Hormuz and Jebel Ali before feeder transport continues toward Iraq. A route through Beirut followed by overland transport could reduce the transit time from 45 days to approximately eight to ten days if port and land operations are efficient. Lebanon's geographic position therefore creates a potential advantage in regional logistics, provided infrastructure and border procedures are capable of supporting rapid transit.

Northern Lebanon and Regional Investment

Several projects in North Lebanon are being developed around private-sector participation. The Tripoli Special Economic Zone is expected to depend heavily on private capital. Expansion of the Port of Tripoli and the redevelopment of the Rashid Karami International Fair can also provide opportunities for private investment.

Regional energy transit provides another potential source of activity. Lebanese infrastructure could potentially become part of routes carrying energy products from Iraq toward the Mediterranean. Petrochemical manufacturing could also be established in free-zone facilities, with exports to the European Union benefiting from Lebanon's existing trade arrangements. Realizing these opportunities requires stability, functioning institutions and enforcement of existing legislation.

Regional Connectivity

Lebanon's position between the Mediterranean and the wider Middle East creates opportunities if regional transit routes become more active. The reopening of transport corridors through Syria toward Iraq, Jordan, Turkey, Europe and the Gulf could substantially increase the importance of Lebanese infrastructure. A feasibility study is being conducted for a highway tunnel connecting Beirut to the Bekaa. An inland dry port in the Bekaa is also being planned. The Kleyat René Mouawad Airport project is advancing, and a comprehensive railway study has been launched. These projects are intended to strengthen Lebanon's role in regional transport and trade rather than rely solely on domestic demand.

Reconstruction Financing

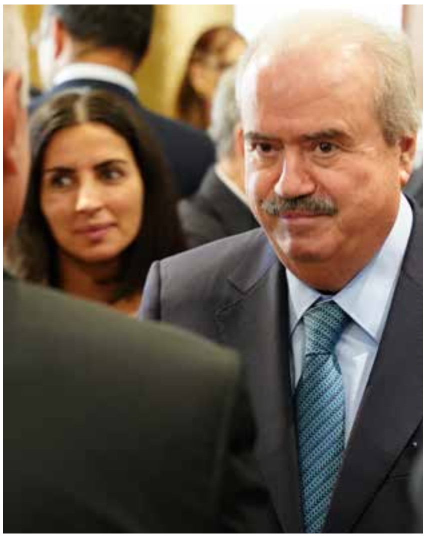
Limited fiscal capacity means that reconstruction will require external financing and private investment. The World Bank-backed LEAP facility is intended to capitalize a reconstruction fund of approximately $1 billion. An initial $250 million commitment has been identified, accompanied by approximately $80 million from France. The principal problem is not only securing financing but also absorbing and disbursing it. Loan agreements secured several months earlier have reportedly experienced slow disbursement. Accelerating implementation is important because external financing for infrastructure can simultaneously support reconstruction and stimulate economic activity.

Exchange Rate Stability

Maintaining stability in the lira remains a priority. Floating the currency under current conditions would reduce the State's ability to control monetary conditions and could further weaken household purchasing power and the value of Treasury reserves, which are predominantly held in lira. Despite the war and substantial fiscal outflows, the exchange rate has remained stable.

The Treasury disburses at least $550 million in cash each month. Approximately $250 million to $262 million goes toward public-sector salaries, while around $210 million covers circular settlements, armed forces operations and other essential expenditure. Foreign reserves at BDL have declined by approximately $400 million despite these outflows. Liquidity is being actively managed to prevent excessive lira liquidity from entering the market and creating additional pressure on the exchange rate. MoF and BDL coordinate regularly on liquidity, government disbursements and the ability of the market to absorb fiscal spending.

Gulf Economies and Lebanon



The country remains highly dependent on economic developments in the Gulf. Hundreds of thousands of Lebanese live and work in Gulf countries, generating remittances that support families in Lebanon and reducing pressure on the domestic labor market. Slower Gulf growth and corporate layoffs therefore have direct consequences for Lebanon. Lebanese-owned businesses operating in Gulf markets are also affected by higher operating costs and weaker economic conditions. The return of stronger Arab economic relations, tourism and investment remains closely linked to regional stability and confidence in Lebanon's institutional environment.

Economic Growth

The 2026 budget had been prepared on the assumption of real GDP growth of approximately three to four percent. The escalation of the conflict subsequently led to expectations of a contraction of between seven to ten percent. The World Bank later estimated the contraction at approximately 6.4 percent. Tourism during the summer season also fell short of expectations, reducing economic activity and government receipts. For 2027, assuming a return to greater regional stability, GDP growth of approximately three to four percent is projected. Higher tourism receipts and improved tax collection are expected to contribute to the recovery. Economic confidence is also considered important. When uncertainty is high, households and businesses tend to hold onto cash and postpone investment. Greater stability can encourage consumption, investment and business activity.

Private Sector and Government Services

The private sector remains a major source of employment, investment and economic resilience, but businesses continue to face weak public services, infrastructure problems, high energy costs and an uncertain operating environment. The government's approach is to improve the business environment through better public services, digital government, banking reform, infrastructure investment and greater private participation in public projects.

Business associations are encouraged to provide concrete legislative proposals that can be translated into government action. The modernization of the Real Estate Registry illustrates how administrative reform can directly affect businesses. Once property transactions can be completed electronically, companies and investors will no longer have to devote substantial time to repeated visits to government offices.

Fintech and Digital Payments

Money transfer operators, electronic wallets and other financial technology companies expanded because the banking crisis created a gap in the market. Their regulation falls primarily under Banque du Liban. The Central Bank has been asked to strengthen auditing and regulatory oversight of money transfer institutions. Commercial banks nevertheless retain an important structural advantage through their international correspondent banking networks. Once the banking sector is restructured and recapitalized, banks should be able to compete again on the basis of their international connectivity and capacity to provide a broader range of financial services. Regulation of international payment gateways also falls principally under Banque du Liban. The Central Bank is reviewing fintech and digital payment regulations with the objective of facilitating greater international integration.

Supporting Businesses Through Better Administration

The government's support for businesses is being directed less toward generalized subsidies and more toward improving the operating environment. Faster digital procedures, electronic payments, improved Customs systems, online property transactions and a functioning banking sector can reduce costs for businesses without requiring direct fiscal transfers. The private sector is also being encouraged to participate directly in infrastructure development through PPPs and concession arrangements. The objective is to create a system in which private investment can finance projects that the Treasury cannot afford to undertake on its own.

Continuity of Reform

Institutional continuity remains essential to successful reform. We have repeatedly experienced changes of government, caretaker administrations, political deadlock, the COVID-19 pandemic, the Beirut Port explosion and armed conflicts. These interruptions have prevented several reform programs from being completed. Earlier governments prepared recovery and financial plans, and previous negotiations with the IMF reached important stages. The current approach is to build on existing work rather than repeatedly begin from zero. The Bank Resolution Law illustrates the importance of maintaining momentum once legislation reaches the parliamentary stage. After Cabinet approval, the law becomes subject to parliamentary debate, amendment and voting. The same principle applies to economic reform more broadly. Durable institutions require successive governments to preserve and develop reforms rather than abandon them when political circumstances change.

MoF and BDL Coordination

There is regular institutional coordination between MoF and BDL. The Director General of Finance sits on the Central Council of Banque du Liban, while the government commissioner participates in its meetings. Technical differences can arise over specific legislative provisions, but the institutions continue to coordinate on the broader reform framework. The Ministry of Finance, Banque du Liban and the IMF have agreed on fundamental principles governing the hierarchy of claims on financial-sector balance sheets. Once the Financial Gap Law is enacted, Banque du Liban will have an important role in determining the viability of individual banks and supervising their recapitalization.

Moving Beyond Crisis Management

Recovery requires a shift from managing individual crises toward building systems that prevent their recurrence. Banking reform must restore a functioning financial sector. Fiscal reform must increase revenue without placing the entire burden on existing taxpayers. Public-sector reform must align salaries, responsibilities and staffing. Electricity reform must reduce the sector's burden on public finances. Digitalization must replace paper-based procedures and personal discretion. PPPs must mobilize private capital for infrastructure while preserving public ownership where appropriate. The various reforms are therefore interconnected.

A stronger tax administration improves public finances. Better public finances improve the state's capacity to invest. Digital systems make tax collection and government services more transparent. Banking reform restores credit and electronic payments. Infrastructure investment improves the environment for private investment. Public-sector reform reduces inefficiencies and strengthens administrative capacity.

The Road Ahead

The immediate priorities include implementation of the 2027 budget, completion of the updated Medium-Term Fiscal Framework, continued negotiations with the IMF and preparation of the Financial Gap Law. Banking reform remains central to the recovery. The objective is to establish clear rules for capitalization, resolution and the treatment of legacy deposits so that new capital can enter the sector and viable banks can resume normal operations. Tax reform will continue through stronger compliance, the expansion of VAT registration, the Large Taxpayers Directorate, the invoice lottery and eventual mandatory electronic invoicing. Digital transformation will continue across the Ministry of Finance, Customs and the Real Estate Registry, with further government departments expected to be incorporated into the system. Electricity reform will require progress on unbundling, private participation, transmission investment and fuel substitution. State-owned enterprises will continue to be corporatized, while PPPs will provide a mechanism for private investment in infrastructure. The broader economic objective is to create the conditions under which investment, tourism, trade and reconstruction can resume on a sustainable basis.

Lebanon still has substantial human capital, a resilient private sector, a global diaspora and a strategically important geographic position. Turning these advantages into sustained economic activity depends on the ability to restore functioning institutions, predictable rules, fiscal discipline and confidence in the State. The central challenge is therefore not simply to stabilize the economy after the crisis. It is to build the institutional and financial foundations for an economy that can function normally again.