LEBANON ECONOMIC MONITOR

Turning the Tide?

Spring 2025

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Lebanon Economic Monitor

Turning the Tide?

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ACRONYMS

AMAN	National cash transfer program, currently financed by ESSNP
BdL	Banque du Liban
BLOM-PMI	BLOM Purchasing Managers' Index
CA	Current Account
CAS	Central Administration of Statistics
COLIBAC	Lebanese Accreditation Council
CoM	Council of Ministers
EMIS	Education Management Information System
ERA	Electricity Regulatory Authority
ESSNP	Emergency Social Safety Net Program
FATF	Financial Action Taskforce
GAFTA	Grain and Feed Trade Association
GDP	Gross Domestic Product
HFIs	High Frequency Indicators
ICJ	International Court of Justice
IDAL	Investment Development Authority of Lebanon
IMF	International Monetary Fund
ISA	International Standards on Auditing
LBP	Lebanese Pound
MoA	Ministry of Agriculture
MoE	Ministry of Environment
MoPH	Ministry of Public Health
NCA	National Competition Authority
PHCCs	Primary Healthcare Centers
PIM	Public Investment Management
PM	Prime Minister
PPA	Public Procurement Authority
RDNA	Rapid Damage and Needs Assessment
SC	Steering Committee
TRA	Telecom Regulatory Authority
US$	United States Dollar
WEs	Water Establishments

PREFACE

The *Lebanon Economic Monitor* provides an update on key economic developments and policies over the past six months. It also presents findings from recent World Bank work on Lebanon. The *Monitor* places these developments, policies, and findings in a longer-term and global context and assesses their implications on the outlook for Lebanon. Its coverage ranges from the macroeconomy to financial markets to indicators of human welfare and development. It is intended for a wide audience, including policy makers, business leaders, financial market participants, and the community of analysts and professionals engaged in Lebanon.

The *Lebanon Economic Monitor* is a product of the World Bank's Lebanon Macroeconomics, Trade and Investment (MTI) team. It was led by Dima Krayem (Senior Economist), Naji Abou Hamde (Economic Analyst) and Ibrahim Jamali (Consultant). The Special Focus entitled *'Reform for Recovery and Growth: A One-Year Policy Action Plan'* was prepared by a World Bank cross-sectoral team led by Dima Krayem (Senior Economist). The *Lebanon Economic Monitor* has been completed under the guidance of Eric Le Borgne (Practice Manager), Norbert Fiess (Lead Economist), and Jean Christophe Carret (Country Director). Zeina El Khalil (Senior External Affairs Officer) is the lead on communications, outreach, and publishing.

The findings, interpretations, and conclusions expressed in this *Monitor* are those of World Bank staff and do not necessarily reflect the views of the Executive Board of The World Bank or the governments they represent.

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EXECUTIVE SUMMARY

Lebanon's economic outlook for 2025 is shaped by a fragile stabilization in the political and security environment. This follows the end of the conflict and the resolution of a two-year political paralysis with the election of a president and the formation of a reform-oriented government. While this renewed momentum presents an opportunity to begin addressing Lebanon's overlapping financial, economic, and institutional crises, the outlook remains highly contingent on sustained improvements in the security situation and tangible progress on key reforms.

The real GDP contraction for 2024 has been revised downward to 7.1 percent, bringing the cumulative decline since 2019 to nearly 40 percent. The conflict and its aftermath have exacerbated poverty and vulnerability in Lebanon. Agriculture, commerce, and tourism, sectors accounting for 77 percent of economic losses, are key income sources for low-wage and informal workers now at risk. Reconstruction efforts remain slow, constrained by Lebanon's ongoing financial crisis and a lack of external financing, which is unlikely to materialize without comprehensive reforms.

Real GDP is projected to grow by 4.7 percent in 2025, supported by anticipated reform progress, a recovery in tourism and consumption, limited capital inflows, and a base effect. Nonetheless, the outlook remains highly sensitive to progress on key fronts, particularly if reform momentum stalls or security deteriorates. The unresolved financial crisis and a deeply impaired banking sector continue to impede large-scale financial inflows and private investment.

Inflation is projected to moderate to 15.2 percent in 2025, assuming continued exchange rate stability and subdued global inflation. However, risks remain, notably the impact of heightened global trade uncertainty. In fact, growing uncertainty surrounding global trade could carry broader implications for Lebanon, as explored in Box 1. While direct effects may be limited, given that exports to major markets account for only around 4 percent of Lebanon's total goods exports, the indirect effects are more difficult to predict and will depend on how evolving global trade dynamics influence investment, inflation, and economic activity worldwide.

This edition of the LEM includes special analyses on inflation trends and real effective exchange rate (REER) dynamics, presented in Box 2 and Box 3, respectively. As highlighted in Box 2, Lebanon's inflation broadly followed global trends prior to the crisis, though domestic structural factors also played a role. Since 2019, however, inflation has been driven largely by exchange rate depreciation, with varying impacts across price components depending on import content and tradability. As further dollarization takes hold and the exchange rate remains stable, inflation dynamics may gradually revert to pre-crisis patterns, though they are expected to remain above global averages due to persistent domestic factors. Box 3 further examines REER trends, showing that while the REER appreciated until 2019 and then depreciated sharply during the crisis, this did not translate into stronger export performance, reflecting underlying structural constraints and the limiting effects of widespread dollarization.

The fiscal stance is improving supported by stronger revenue collection and a balanced 2025 budget approved by decree. This may provide limited space for increased public spending, particularly on essential services and much-needed capital expenditures. Nevertheless, fiscal pressures remain elevated, and broader structural reforms are needed to support long-term fiscal sustainability.

The external sector remains under significant strain, with a projected current account deficit of 15.3 percent of GDP in 2025. While this marks an improvement from the previous year, the change largely reflects a rebound in nominal GDP and tourism-related services. The accuracy of external balance estimates continues to be undermined by pervasive informality and a cash-based economy.

Drawing on two decades of policy dialogue, technical assistance, and World Bank-financed projects, the Special Focus offers a contribution to the government's reform agenda by outlining a targeted one-year policy action plan. The ministerial statement sets out four high-level overarching priorities: (i) halting financial and economic deterioration and identifying growth enablers; (ii) strengthening social security; (iii) combating waste and corruption; and (iv) preparing a fair parliamentary elections law (the latter falls outside the scope of the Special Focus). To support government reform, the Special Focus offers a comprehensive one-year policy action plan that brings together distills key lessons from years of World Bank engagement and policy dialogue in Lebanon into a set of feasible, high-impact actions that align with the government's stated objectives and can be implemented within its limited tenure. Proposed policy actions prioritized restoring macro-financial stability; rebuilding citizens' trust; and laying the foundation for a new, successful economic development model.

ملخص تنفيذي

الآفاق الاقتصادية للبنان لعام 2025 في ظل استقرار هش في البيئة السياسية والأمنية. بعد انتهاء الصراع وانقضاء حالة الشلل السياسي الذي استمر عامين بانتخاب رئيس للدولة وتشكيل حكومة ذات توجه إصلاحي، يوفر الزخم المتجدد فرصة للبدء بمعالجة الأزمات المالية والاقتصادية والمؤسساتية المتداخلة في لبنان. ومع ذلك، فإن الآفاق المستقبلية تعتمد بشكل كبير على استمرار التحسن في الوضع الأمني وتحقيق تقدم ملموس في الإصلاحات الرئيسية.

تمت مراجعة تقدير انكماش إجمالي الناتج المحلي الحقيقي لعام 2024 إلى 7.1% (مقارنة بـ5.7% وهي النسبة المقدرة في الإصدار السابق للمرصد)، ليصل الانخفاض التراكمي منذ عام 2019 إلى نحو 40%. في السياق ذاته أدى الصراع وتداعياته إلى تفاقم أوضاع الفقر والحرمان في لبنان. وتعد قطاعات الزراعة والتجارة والسياحة، التي تتسبب بـ77% من الخسائر الاقتصادية، مصادر دخل رئيسية للعمال ذوي الأجور المنخفضة والعاملين في القطاع غير الرسمي المعرضين الآن لمخاطر. ولا تزال جهود إعادة الإعمار بطيئة بسبب الأزمة المالية المستمرة في لبنان ونقص التمويل الخارجي، ومن غير المرجح أن يتم تحقيق تقدم دون تنفيذ إصلاحات شاملة.

من المتوقع أن ينمو إجمالي الناتج المحلي الحقيقي بنسبة 4.7% في عام 2025، مدعوماً بالتقدم المتوقع في إطار الإصلاحات المقرر القيام بها، وتعافي قطاع السياحة وزيادة الاستهلاك، ومحدودية تدفقات رأس المال، وأثر فترة الأساس. ومع ذلك، لا تزال الآفاق الاقتصادية شديدة التأثر بالتقدم المحرز على المستويات الرئيسية، لا سيما إذا تراجعت وتيرة الإصلاح أو تدهور الوضع الأمني. وتستمر الأزمة المالية القائمة، إلى جانب ضعف القطاع المصرفي، في عرقلة التدفقات المالية الكبيرة الوافدة والاستثمارات الخاصة.

من المتوقع أن يتراجع التضخم إلى 15.2% في عام 2025، بافتراض استمرار استقرار سعر الصرف وانخفاض التضخم العالمي. ومع ذلك، لا تزال هناك مخاطر، لا سيما تأثير زيادة حالة عدم اليقين بشأن التجارة العالمية. وفي الواقع، فإن تنامي حالة عدم اليقين بشأن التجارة العالمية يمكن أن تكون له تداعيات أوسع نطاقاً على لبنان، كما هو مبين في الإطار 1. على الرغم من أن الآثار المباشرة قد تكون محدودة، حيث ان الصادرات إلى الأسواق الرئيسية تشكل حوالي 4% فقط من إجمالي صادرات لبنان السلعية، فإن التنبؤ بالآثار غير المباشرة يعد أكثر صعوبة. وتعتمد هذه الآثار على كيفية تأثير ديناميكيات التجارة العالمية المتغيرة على الاستثمار والتضخم والنشاط الاقتصادي في جميع أنحاء العالم.

يتضمن هذا الإصدار من المرصد الاقتصادي للبنان تحليلاً خاصاً عن اتجاهات التضخم وديناميكيات سعر الصرف الفعلي الحقيقي، كما هو مبين في الإطارين 2 و3 على التوالي. وكما يوضح الإطار 2، كان التضخم في لبنان يتماشى بشكل عام مع الاتجاهات العالمية قبل الأزمة، على الرغم من أن العوامل الهيكلية المحلية لعبت دورها أيضاً. لكن منذ عام 2019، كان التضخم مدفوعاً إلى حد كبير بانخفاض سعر الصرف، مع تفاوت الآثار على مستوى مكونات الأسعار تبعاً لمحتوى الواردات وقابليتها للتبادل التجاري. ومع زيادة نسبة الدولرة وبقاء سعر الصرف مستقراً، قد تعود ديناميكيات التضخم تدريجياً إلى أنماط ما قبل الأزمة، وإن كان من المتوقع أن تظل أعلى من المتوسطات العالمية بسبب العوامل المحلية المستمرة. ويستعرض الإطار 3 بشكل مفصل اتجاهات سعر الصرف الفعلي الحقيقي، موضحاً أنه رغم ارتفاع سعر الصرف الفعلي الحقيقي حتى عام 2019 ثم انخفاضه بشكل حاد خلال الأزمة، فإن ذلك لم يترجم إلى أداء أقوى على مستوى الصادرات، مما يعكس القيود الهيكلية الأساسية والآثار المقيدة لاتساع نطاق الدولرة.

يشهد وضع المالية العامة تحسناً، مدعوماً بزيادة معدلات تحصيل الإيرادات واعتماد موازنة عامة متوازنة لعام 2025 بموجب مرسوم. وقد يتيح ذلك حيزاً محدوداً لزيادة الإنفاق العام، لا سيما على الخدمات الأساسية والنفقات الرأسمالية التي تشتد الحاجة إليها. ومع ذلك، لا تزال الضغوط على المالية العامة مرتفعة، وهناك حاجة إلى إصلاحات هيكلية أوسع نطاقاً لدعم استدامتها على المدى الطويل.

لا يـزال القطـاع الخارجـي يتعـرض لضغـوط كبـيرة، حيـث مـن المتوقـع أن يبلـغ العجـز في الحسـاب الجـاري %15.3 مـن إجـمالي الناتـج المحـلي في عـام 2025. وعـلى الرغـم مـن أن هـذا يمثـل تحسـناً مقارنـة بالعـام السـابق، فـإن التغـير يعكـس بشـكل كبـير انتعاشـاً في إجـمالي الناتـج المحـلي الاسـمي والخدمـات المرتبطـة بالسـياحة. ولا تزال تقديـرات الأرصـدة الخارجيـة غـير دقيقـة بسـبب انتشـار الاقتصـاد غـير الرسـمي (الاقتصـاد المـوازي) والاقتصـاد القائـم عـلى النقـد.

بالاسـتناد إلى عمـل البنـك الـدولي في لبنـان مـن خـلال الحـوار بشـأن السياسـات والمسـاعدة الفنيـة والمشـاريع التـي مولهـا البنـك وذلـك عـلى مـدى عقديـن مـن الزمـن، **يعـرض الفصـل الخـاص مـن المرصـد مسـاهمة في برنامـج عمـل الحكومـة الإصلاحـي مـن خـلال تحديـد خطـة عمـل مسـتهدفة للسياسـات لمـدة عـام واحـد.** جديـر بالذكـر أن البيـان الـوزاري يحـدد أربـع أولويـات رئيسـية رفيعـة المسـتوى: (1) وقـف التدهـور المـالي والاقتصـادي وتحديـد العوامـل المسـاعدة للنمـو؛ (2) تعزيـز الضـمان الاجتماعـي؛ (3) مكافحـة الهـدر وتبديـد المـوارد والفسـاد؛ (4) إعـداد قانـون نزيـه للانتخابـات البرلمانيـة (لـن يتنـاول الفصـل الخـاص في التقريـر هـذه الأولويـة). ودعـماً لجهـود الإصـلاح مـن جانـب الحكومـة، يقـدم الفصـل الخـاص في هـذا التقريـر خطـة عمـل شـاملة عـلى مسـتوى السياسـات مدتهـا عـام واحـد تجمـع بـين الـدروس الرئيسـية المسـتفادة مـن عمليـات وبرامـج وأنشـطة ومشـاريع البنـك الـدولي عـلى مـدى سـنوات والحـوار بشـأن السياسـات في لبنـان. يـأتي هـذا في إطـار مجموعـة مـن الإجـراءات الفعالـة والمجديـة وعاليـة الأثـر التـي تتـماشى مـع الأهـداف المعلنـة للحكومـة ويمكـن تنفيذهـا خـلال فـترة ولايتهـا المحـدودة. وتعطـي الإجـراءات المقترحـة عـلى صعيـد السياسـات الأولويـة لاسـتعادة الاسـتقرار الاقتصـادي الـكلي والمـالي؛ وإعـادة بنـاء ثقـة المواطنـين؛ وإرسـاء الأسـاس لنمـوذج جديـد وناجـح للتنميـة الاقتصاديـة.

RÉSUMÉ ANALYTIQUE

Les perspectives économiques du Liban pour 2025 sont marquées par une stabilisation fragile de l'environnement politique et sécuritaire. Cela fait suite à la fin du conflit et à la résolution d'une paralysie politique de deux ans avec l'élection d'un président et la formation d'un gouvernement réformiste. Si ce nouvel élan offre la possibilité de s'attaquer aux crises financière, économique et institutionnelle qui se chevauchent au Liban, les perspectives restent fortement tributaires d'une amélioration durable de la situation sécuritaire et de progrès tangibles dans la mise en œuvre de réformes clés.

La contraction du PIB réel pour 2024 a été révisée à la baisse à 7,1 %, portant la baisse cumulée depuis 2019 à près de 40 %. Le conflit et ses répercussions ont exacerbé la pauvreté et la vulnérabilité au Liban. L'agriculture, le commerce et le tourisme, secteurs qui représentent 77 % des pertes économiques, constituent des sources de revenus clés pour les travailleurs à bas salaires et ceux du secteur informel, aujourd'hui particulièrement exposés. Les efforts de reconstruction progressent lentement, frein**és par la crise financière** persistante du Liban et le manque de financement extérieur, qui reste peu probable en l'absence de réformes d'envergure.

Le PIB réel devrait augmenter de 4,7 % en 2025, soutenu par les avancées attendues en matière de réformes, la reprise du tourisme et de la consommation, des entrées de capitaux modérées et un effet de base favorable. Néanmoins, les perspectives restent fortement sensibles aux progrès réalisés sur les principaux fronts. Un ralentissement du rythme des réformes ou une détérioration de la situation sécuritaire pourrait compromettre cette reprise. La crise financière non résolue et un secteur bancaire profondément affaibli continuent d'entraver les flux financiers à grande échelle et l'investissement privé.

L'inflation devrait ralentir pour atteindre 15,2 % en 2025, dans l'hypothèse d'une stabilité continue du taux de change et d'une inflation mondiale modérée. Toutefois, des risques subsistent, notamment ceux liés à l'intensification des incertitudes pesant sur le commerce mondial, qui pourraient avoir des conséquences plus lourdes pour le Liban, comme expliqué dans **l'Encadré 1.** Si les effets directs semblent limités — les exportations vers les principaux marchés ne représentant qu'environ 4 % des exportations totales de marchandises du Liban —, les effets indirects restent plus difficiles à anticiper. Leur ampleur dépendra de l'impact de l'évolution des dynamiques commerciales mondiales sur l'investissement, l'inflation et l'activité économique à l'échelle internationale.

La présente édition du Rapport de la situation économique du Liban (*ou LEM pour Lebanon Economic Monitor*) comprend des analyses spéciales sur les tendances de l'inflation et la dynamique du taux de change effectif réel (TCER)

présentées respectivement dans les Encadrés 2 et 3. Comme souligné dans l'Encadré 2, l'inflation au Liban a globalement suivi les tendances mondiales avant la crise, bien que des facteurs structurels nationaux aient également joué un rôle. Depuis 2019, cependant, l'inflation a été largement alimentée par la dépréciation du taux de change, avec des effets différentiés selon la part des importations et le degré d'échangeabilité des biens concernés. À mesure que la dollarisation progresse et que le taux de change se stabilise, la dynamique de l'inflation pourrait graduellement converger vers les tendances observées avant la crise, même si elle devrait rester supérieure aux moyennes mondiales en raison de facteurs intérieurs persistants. L'encadré 3 analyse également les tendances du TCER, montrant qu'après une appréciation jusqu'en 2019, suivie d'une forte dépréciation pendant la crise, aucun gain notable de compétitivité à l'export n'a été observé — un résultat qui reflète des contraintes structurelles profondes ainsi que les effets limitants d'une dollarisation généralisée.

La situation budgétaire montre des signes d'amélioration, soutenue par une progression du recouvrement des recettes et l'adoption, par décret, d'un budget 2025 équilibré. Cela pourrait offrir une marge de manœuvre limitée pour l'augmentation des dépenses publiques, notamment dans les services essentiels et les dépenses d'investissement indispensables. Néanmoins, les pressions budgétaires demeurent élevées, et des réformes structurelles de plus grande envergure sont nécessaires pour garantir la viabilité budgétaire à long terme.

Le secteur extérieur reste soumis à de fortes pressions, avec un déficit du compte courant attendu à 15,3 % du PIB en 2025. Bien que ce niveau représente une amélioration par rapport à l'année précédente, il reflète essentiellement le rebond du PIB nominal et des services liés au tourisme. La fiabilité des estimations de la balance extérieure continue d'être affectée par la prévalence d'une économie informelle et fondée sur les transactions en espèces.

S'appuyant sur deux décennies de dialogue politique, d'assistance technique et de projets financés par la Banque mondiale, la section Focus spécial contribue au programme de réforme de l'État en définissant un plan d'action politique ciblé sur une période d'un an. La déclaration ministérielle identifie quatre grandes priorités de haut niveau : i) mettre un terme à la détérioration financière et économique et recenser les facteurs de croissance ; ii) renforcer la sécurité sociale ; iii) lutter contre le gaspillage et la corruption ; iv) préparer une loi garantissant des élections parlementaires équitables (ce dernier point ne relève pas du périmètre couvert par la section Focus spécial). Pour soutenir la réforme de l'État, la section Focus spécial propose un plan d'action politique annuel complet, fondé sur les enseignements tirés de l'engagement de longue date de la Banque mondiale et du dialogue politique au Liban. Ce plan rassemble un ensemble d'interventions concrètes et à fort impact, alignées sur les priorités affichées du gouvernement et pouvant être mises en œuvre dans les limites de son mandat actuel. Les actions politiques proposées visent en priorité à rétablir la stabilité macro-financière, restaurer la confiance des citoyens et poser les fondements d'un nouveau modèle de développement économique performant.

1

THE POLICY CONTEXT

A ceasefire between Lebanon and Israel took effect on November 27, 2024, effectively ending the conflict, although uncertainties persist regarding its full implementation. The conflict has claimed over 3,500 lives, injured more than 14,500, and displaced nearly 1.2 million people, over a quarter of Lebanon's population. Beyond the heavy human toll, it has devastated the country's economy and capital stock, particularly in the south. The World Bank estimates physical asset damage at a staggering US$6.8 billion, with housing being the hardest hit sector with damages estimated at US$4.6 billion. Economic losses, in the form of reduced productivity, foregone revenues, and operating costs are estimated at US$7.2 billion, and recovery and reconstruction costs amount to US$11 billion.[1]

By the end of 2024, Lebanon's cumulative GDP decline since 2019 approached 40 percent, deepening Lebanon's pre-existing multi-pronged crisis. The conflict and its aftermath are expected to deepen poverty and vulnerability in Lebanon. Agriculture, commerce, and tourism, sectors accounting for 77 percent of economic losses, are key income sources for low-wage and informal workers now at risk.[2] Reconstruction efforts have been slow following the ceasefire agreement, and Lebanon remains heavily cash-strapped due to its unresolved sovereign debt and banking crises; in addition, foreign financial support is unlikely to be forthcoming without comprehensive reforms.

On a positive note, after more than two years, Lebanon's political paralysis has ended with the election of a President and the appointment of a Prime Minister. A new government, the first since 2022, was formed and granted Parliamentary confidence in February. The ministerial statement outlines four high-level priorities: (i) halting financial and economic deterioration (ii) strengthening social security; (iii) eliminating waste and corruption, and (iv) drafting a fair parliamentary elections law. It also reaffirms Lebanon's commitment to U.N. resolutions, and pledges to uphold the cease-fire

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1 *World* Bank, 2025, *Lebanon – Rapid Damage and Needs Assessment (RDNA) (English).* Washington, D.C.: World Bank Group. Link.

2 World Bank (2025), Lebanon: Macro Poverty Outlook (MPO). Link.

and state sovereignty. It finally calls for dialogue with Syria, securing borders, facilitating the return of Syrian migrants, and maintaining Lebanon's neutrality in regional conflicts.

Since gaining confidence, the Council of Ministers has finalized military and security appointments, including appointing a new army commander. It has also approved the 2025 budget by decree. Prior to the escalation of the conflict in September 2024, the outgoing government had approved a draft 2025 budget aiming for a zero fiscal deficit, with revenues and expenditures projected at 15.9 percent of GDP. However, this draft budget, although submitted to Parliament, was never discussed. Consequently, the new government approved the budget by decree, as permitted by the constitution. Approval by decree aims to prevent reliance on spending according to the 1/12th rule, used in the absence of an officially ratified budget, and to halt the practice of continuous treasury advances which the authorities relied on to maintain a minimal - and largely inadequate - level of public service provision. Although the budget does not reflect the post-conflict reality, especially in terms of spending needed to address urgent requirements, it prevents disruptions to public spending, public services, and administrative procedures. This situation underscores the urgency for the government to initiate comprehensive reforms in the 2026 budget, which include enhancing tax compliance and reducing informality, overhauling the tax system, implementing fairer revenue mobilization measures, and creating fiscal space for rebuilding institutional capacities, public service delivery, public sector wage bill adjustment, which would contribute to more effective public service provision, social protection programs, and limited capital spending.

An IMF fact-finding mission visited Lebanon in March, meeting with Lebanese authorities to exchange views and discuss the economic outlook. During the visit, the Lebanese authorities, including the president and the new government, requested a new IMF-supported program to assist their efforts in addressing Lebanon's crises. In its subsequent press release,[3] the IMF welcomed this request and expressed readiness to support the authorities in developing a comprehensive economic reform program. The fact-finding mission was followed by a staff mission in June to initiate discussions on a reform program. The end-of-mission press release underscored the criticality of rehabilitating the banking sector while protecting depositors to the extent possible, achieving debt and fiscal sustainability, establishing credible monetary and exchange rate policy frameworks, strengthening governance and transparency, enhancing the Anti-Money Laundering and Combating the Financing of Terrorism (AML/CFT) regime, and reforming state-owned enterprises.[4]

On March 27, 2025, the Council of Ministers appointed Karim Soueid as Governor of the Central Bank, a critical position that had remained vacant for nearly two years. This much-anticipated appointment underscores the importance of the Central Bank Governor's role in addressing Lebanon's banking and sovereign debt crises and steering recovery efforts. The position demands independence and merit to guide comprehensive financial sector reforms and critically restore the Central Bank's regulatory and oversight functions. The Governor's approach will be pivotal in restructuring the banking sector, negotiating with the IMF, and ensuring accountability. Bank restructuring, in particular, must adhere to global best-practice principles by endorsing a banking sector resolution that recognizes and addresses the large losses in the sector upfront, respects the hierarchy of claims, protects small depositors, and limits recourse to public resources.[5] Additionally, the Governor must focus on rebuilding a banking sector that fosters investment and growth, removing Lebanon from the FATF grey list, and combating the cash economy.

The Council of Ministers amended the banking secrecy law, which was subsequently ratified by Parliament on April 24. The amended law is an essential reform to ensure that the banking sector restructuring strategy includes the necessary safeguards. The amendments expand the powers of several authorized bodies, including the Central Bank of Lebanon, Special Investigation Commission, appointed

3 Link.
4 Link.
5 World Bank (2022). Lebanon Economic Monitor: Time for an Equitable Banking Resolution. Fall 2022. Link.

auditors, and the Banking Control Commission, allowing them to lift banking secrecy to identify the holders of bank accounts opened in Lebanon as part of their supervisory activities. The law also extends retroactivity to cover the past ten years and enables the conduct of independent audits and asset valuations of banks. Parliamentary approval of the reformed banking secrecy law is necessary to align it with international standards aimed at combating corruption and removing obstacles to effective banking sector restructuring and supervision, tax administration, financial crime detection and investigation, and asset recovery.

The Council of Ministers has also adopted the law on banking sector reform, marking a second major reform following the banking secrecy law. The law focuses on regulating the status of banks but does not address depositor compensation or the distribution of financial losses, issues expected to be covered in a third, more contentious law known as the "financial gap law," which aims to restore financial stability and allocate losses. Importantly, the current law will only become effective once the financial gap law is ratified by Parliament. The banking sector reform law defines the powers and structure of the Higher Banking Commission (HBC), which will oversee the full restructuring process, including the merger, liquidation, or recapitalization of banks. The law also establishes a clear hierarchy for the distribution of financial losses, starting with shareholder equity and in accordance with international standards, while enshrining the principle of limited recourse to public assets. While entrusting the HBC with the supervision of the restructuring of the banking sector represents a step toward institutionalizing the process, cross-country experience suggests that separating supervisory and resolution functions and establishing an operationally independent restructuring and resolution authority, rather than concentrating them within the central bank, can help preserve clarity of roles and minimize potential risks stemming from overlapping mandates.

With these elections and appointments, Lebanon has a critical opportunity to tackle its prolonged, multi-pronged crises through a comprehensive crisis-resolution plan. Such reforms are increasingly urgent given the immediate recovery needs facing the country, including the compounded effects of a five-year financial crisis, the recent conflict with Israel, and the substantial reconstruction efforts required in its aftermath.

2

RECENT ECONOMIC DEVELOPMENTS

Output and Demand

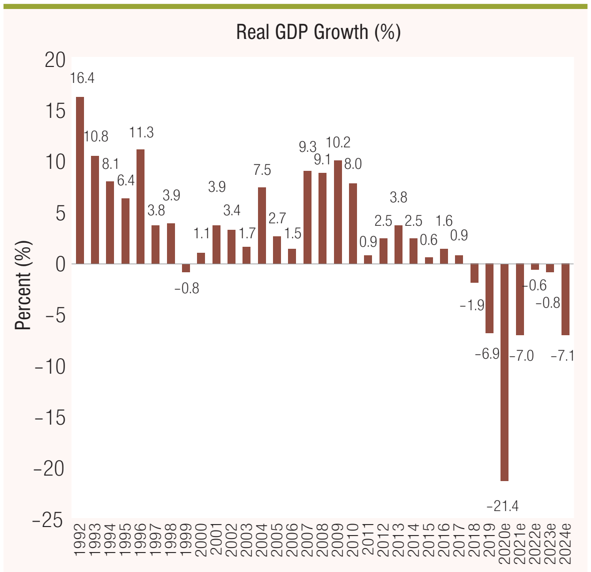
The real GDP contraction for 2024 is now estimated to have been deeper than initially projected, with the figure revised from 5.7 percent to 7.1 percent. The initial projection, presented in the *Fall 2024 Lebanon Economic Monitor*, relied on measuring economic activity using night-time light data, gauging the size of the shock to consumption across the five governorates that have been heavily affected by the conflict, and measuring the losses in tourism receipts. However, the availability of up-to-date data from thirteen high-frequency indicators (HFIs) for the entirety of 2024 has provided more comprehensive insights, particularly concerning the economy's performance during H2-2024. Using econometric models that leverage the informational value of these HFIs, the revised estimate reflects a sharper contraction in economic activity.[6]

The HFIs point to weaker-than-expected economic activity in H2-2024 relative to the baseline, which already accounted for the potential impact of the conflict. Data from the real estate sector are mixed, with construction permits declining by 5.5 percent over the period July to November relative to January to May and cement deliveries increasing by 18.9 percent over roughly the same period. But HFIs outside the real estate sector point consistently to slowing economic activity: The volume and value of cheques in LBP dropped by 38.9 percent and 41 percent, respectively, while the value of cleared cheques in foreign currency fell by 28.7 percent. Passenger arrivals decreased by 21.3 percent during H2-2024 and the BLOM-PMI fell to 45 in October 2024, its lowest reading of the year, down from a peak of 49.4 in January and March.[7] Meanwhile, the BTA-Fransabank Retail Trade Index signaled a sharp contraction in retail sales, declining year-on-year by 37 percent in nominal terms and 32.5 percent in real terms in 2024.

6 The econometric models used to nowcast economic growth since the 2019 financial crisis include: Mixed Data Sampling (MIDAS) regressions with a large set of HFIs, a dynamic factor model, neural networks, and more recently elastic net and Least Absolute Shrinkage and Selection Operator (LASSO) regressions. Further details on the methodology employed to nowcast real GDP are provided in the Annex to the *Spring 2023 Lebanon Economic Monitor: The Normalization of Crisis is No Road for Stabilization*.

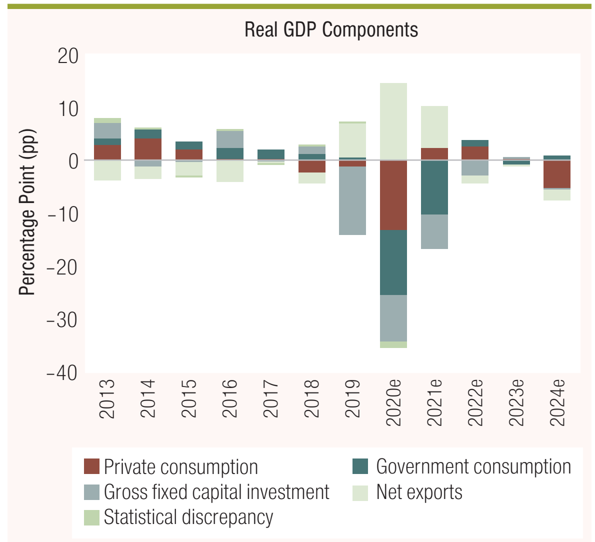
7 A reading of the PMI that is below 50 suggests an economic contraction, whereas a reading above 50 indicates an improvement in economic activity.

FIGURE 1 • Sustained Real GDP Contraction Worsened by Conflict in 2023-2024



Source: CAS and WB Staff calculations.

FIGURE 2 • Government Consumption Was the Sole Positive Contributor to Real GDP Growth in 2024



Source: CAS and WB Staff calculations.

Except for public consumption, all other demand-side GDP components contributed negatively to real GDP growth in 2024. Private consumption exerted the largest drag on growth, with a negative contribution of 5.5 percent. The intensification of the conflict, particularly since September 2024, coupled with heightened uncertainty (Figure 3), weighed heavily on net exports and investment.[8] In fact, investment and exports' contribution to real GDP growth stood at, respectively, –0.1 and –2.1 percent.[9] In contrast, government consumption contributed positively to real GDP by 0.7 percent.

Fiscal Developments

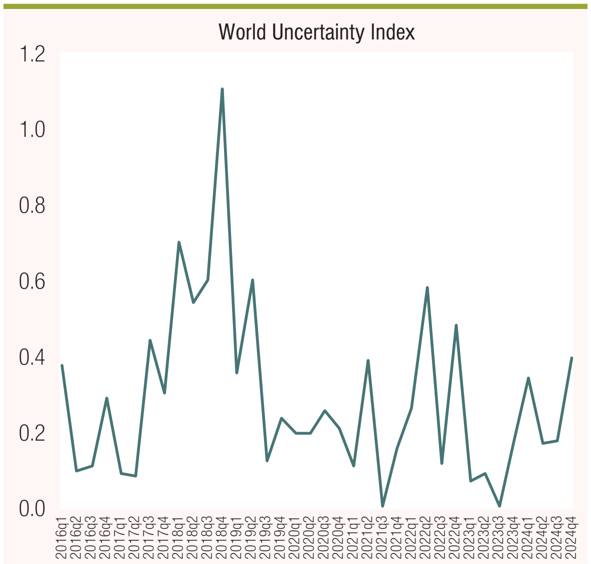
A fiscal surplus of 0.5 percent of GDP is estimated for 2024 due to higher-than-expected revenues and restrained spending. Revenues are estimated to have reached 15.3 percent of GDP (US$ 3,964 million) in 2024, driven primarily by stronger-than-anticipated revenue collection in 9M-2024. This significantly exceeds the estimates of the ratified 2024 budget of13.2 percent of GDP, or US$ 3,439 million. Taxes are the main source of revenue, accounting for 76.7 percent of the total.[10] Total expenditures (on a cash basis) are estimated to have remained for the second year below revenues, at 14.7 percent of GDP (US$ 3,824 million); this is despite increased spending needs arising from the conflict as well as adjustments and supplements to public sector wages that were enacted by the caretaker government in 2024. Expenditures

[8] The global World Uncertainty Index (WUI) as well as the WUI for Lebanon are due to Ahir, Bloom, and Furceri (2022). For further information, please refer to Ahir, R., Bloom, N., and Furceri, D., (2022), The World Uncertainty Index, Working Paper No. 29763, National Bureau of Economic Research. The authors provide empirical evidence that innovations in the WUI foreshadow significant declines in output. The WUI is computed by counting the percent of word "uncertain" (or its variant) in the Economist Intelligence Unit country reports. For Lebanon, uncertainty was subdued from the first quarter to the third quarter of 2023 but increased markedly in the fourth quarter of 2023 and throughout 2024, due to the conflict. The WUI averaged 0.08 in 2023 and 0.27 in 2024. The WUI reached its peak in 2018, prior to the onset of the 2019 financial crisis.

[9] The contribution of imports to real GDP growth in 2024 is zero.

[10] Imports taxes are the main source of revenue and account for 42 percent of total revenues. Non-tax revenues in foreign currency, collected at the ports and airport as well as by the Regie Libanaise des Tabacs et Tombacs and Casino du Liban account for 13 percent of total revenues.

FIGURE 3 • Uncertainty Subdued in Q1-Q3-2023, Markedly Increased in Q4-2023 and 2024 due to Conflict



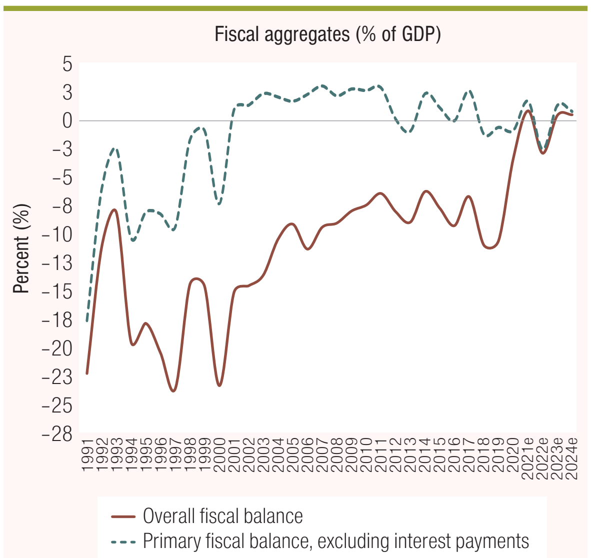
Source: World Uncertainty Index.

exceeded budgeted amounts, reaching 13.2 percent of GDP, or US$ 3,439 million owing to prudent fiscal management.[11] As a result, public sector deposits, which include deposits by public institutions and are not limited to the Treasury account, at BdL increased by US$ 1,847 million between January and December 2024. In tandem, BdL continued to enforce restrictions on foreign exchange operations (i.e., conversion of LBP revenues to USD) by public institutions while converting the domestic-currency cash balances of the Treasury into foreign currency to shore up its reserves. It is important to note that expenditures exclude the contingent liabilities arising from unpaid payments/swaps for Iraqi fuel.

The 2025 budget was approved on March 6 by the new government. The 2025 budget was submitted to parliament by the previous government before the escalation of the conflict. As the budget was not discussed in parliament, it was approved by the new government by decree, as constitutionally permitted. Additionally, a bill was passed to exempt individuals affected by the recent conflict from certain taxes and fees. Finally, the Minister of Finance has been tasked with reviewing the budget provisions related to

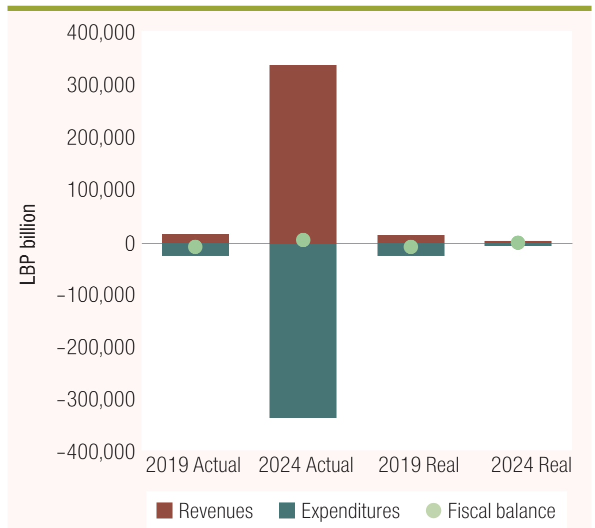
[11] With the Treasury's financial position improving due to prudent fiscal management, the Ministry of Finance cleared arrears to bilateral and multilateral donors, except for one final arrear to the Agence Française de Développement, and line ministries (using revenues collected in foreign currency). Arrears to the National Social Security Fund (NSSF), which are in domestic currency, are also being settled.

FIGURE 4 • Estimated Overall and Primary Surpluses for 2023 and 2024



Sources: Lebanese authorities and WB staff calculations.

FIGURE 5 • Evolution of Public Finances in Nominal (LBP) and Real Terms, 2019 vs. 2024



Sources: Lebanese authorities and WB staff calculations.

the earmarking of revenues from the excise taxes on alcohol and tobacco to the Ministry of Public Health that were proposed by the previous government.[12]

The 2025 budget targets a zero fiscal deficit, with revenues and expenditures projected at 15.9 percent of GDP. Both are estimated at LBP 445.2 trillion (equivalent to US$ 4,974 million at the market rate), marking nominal increases of 30.1 percent in expenditures and 25.5 percent in revenues compared to 2024 estimates, respectively (see Table 1 below). However, since the budget was prepared before the escalation of the conflict, it does not reflect the post-conflict reality, including urgent reconstruction needs and the ministries' critical funding requirements to support affected populations, maintain essential services, and drive recovery efforts. Looking forward, it would be essential to broaden the tax base by improving compliance (i.e., combating evasion), more comprehensive income taxation (such as taxing income from rent), reducing informality, and enhancing the audit and collection capacities of the tax administration.[13] Furthermore, as already noted in the *Fall 2024 Lebanon Economic Monitor*,[14] the budget lacks essential reforms to fiscal and tax policies. These reforms include mobilizing revenues progressively through measures such as enhancing property taxation by eliminating the exemption for vacant properties from the built property tax, abolishing the offshore and holding companies' regimes, modernizing the corporate income tax, and taxing offshore wealth and higher income brackets. Such tax reforms would more than offset any revenue shortfalls that could arise from exempting conflict-affected households and individuals from taxes and fees as well as mitigate, due to the progressive nature, the negative social impact of taxation.

[12] The Lebanese constitution does not permit the earmarking of revenues.

[13] Reducing informality can be accomplished, for example, via introducing simplified or presumptive taxation regimes for small (below the VAT threshold) and medium size enterprises. Enhancing tax compliance can be achieved, for example, by subjecting professionals to the real profits regime and withholding taxes on payments. For additional detail, please refer to International Monetary Fund (2023), "Lebanon Technical Assistance Report on Putting Tax Policy Back on Track", Washington DC.

[14] Link.

TABLE 1 • Fiscal Balance (2020-2025)

	Actual	Actual	Budget	WB Est.	Budget Draft	WB Est.	Budget	WB Est.	Budget
(LBP Billion)	2020	2021	2022	2022	2023	2023	2024	2024	2025
Revenue	15,341	20,264	29,986	35,137	147,739	236,000	308,435	354,760	445,214
Expenditure	19,236	17,861	40,870	51,849	181,923	227,663	308,435	342,288	445,214
Fiscal Balance	−3,895	2,403	−10,884	−16,712	−34,184	8,337	0		0
	Actual	Actual	Budget	WB Est.	Budget Draft	WB Est.	Budget	WB Est.	Budget
(US$ Million)[a]	2020	2021	2022	2022	2023	2023	2024	2024	2025
Revenue	4,160	1,724	1,098	1,287	1,721	2,750	3,439	3,964	4,975
Expenditure	5,216	1,519	1,497	1,899	2,120	2,653	3,439	3,824	4,975
Fiscal Balance	−1,056	204	−399	−612	−398	97	0	139	0
(Percent of GDP)[b]	Actual	Actual	Budget	WB Est.	Budget Draft	WB Est.	Budget	WB Est.	Budget
	2020	2021	2022	2022	2023	2023	2024	2024	2025
Revenue	13.1	7.5	5.2	6.1	8.6	13.7	13.2	15.3	15.9
Expenditure	16.4	6.6	7.1	9.0	10.6	13.2	13.2	14.7	15.9
Fiscal Balance	−3.3	0.9	−1.9	−2.9	−2.0	0.5	0.0	0.5	0.0

[a] World Bank AER is used to calculate fiscal outcomes in US$.

[b] World Bank estimates of nominal GDP for each year are used to calculate fiscal outcomes as a percentage of GDP.

Despite these shortcomings, the budget's approval ensures sound budgetary practices, prevents delays in public service delivery and administrative functions, and reduces reliance on the 1/12th rule or treasury advances for spending. For decades, such practices have obscured public spending, undermined transparency and budget discipline, and perpetuated short-term measures that hinder sustainable reforms. With an approved budget for 2025, the government can now focus fully on preparing an overhauled 2026 budget that incorporates both reform and recovery priorities.

Lebanon's debt-to-GDP ratio is estimated to have decreased to 176.5 percent in 2024 due to a denominator higher than nominal GDP. GDP in nominal terms increased by almost 30 percent from 2023 to 2024 due to (i) an increase in the GDP deflator, and (ii) the stabilization of the exchange rate as of August 2023. The increase in the GDP deflator more than offsets the increase in the debt stock arising from an update to the World Bank's debt model, which now accounts for accumulated principal and interest arrears as well as IMF Special Drawing Rights.[15] Domestic debt has been entirely eroded by years of triple-digit inflation. Lebanon's debt remains unsustainable amid an ongoing sovereign default, and debt dynamics show no improvement.

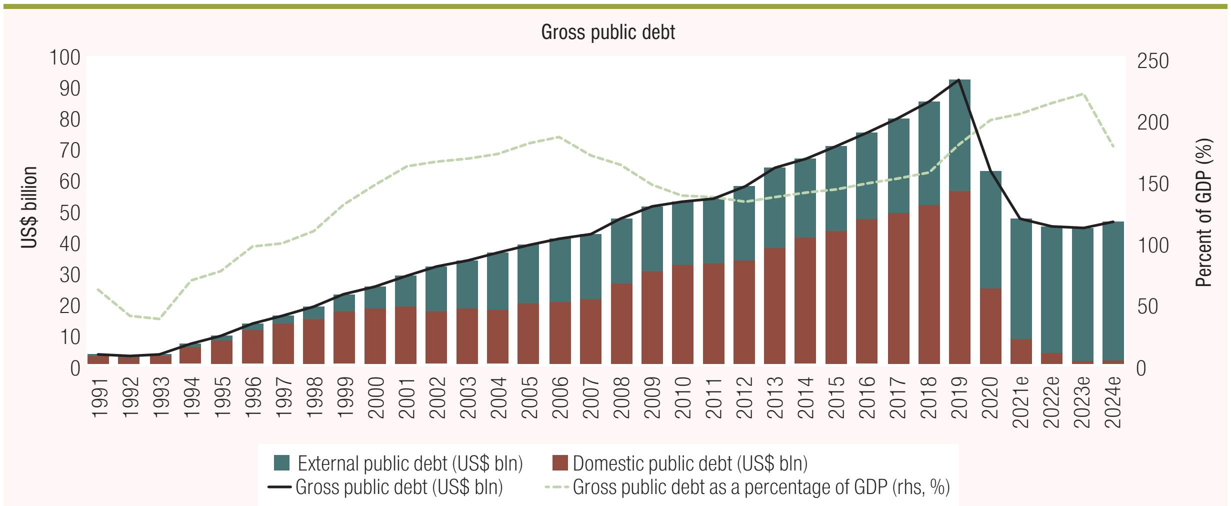
Lebanon's Eurobonds have rallied following the election of the President and the formation of the government. Lebanon's Eurobonds' prices have recorded a price appreciation of more than 50 percent. Despite the positive sentiment, market-implied recovery values did not surpass 20 percent in January 2025, implying large losses to Eurobond holders. Private sector estimates suggest that the haircut on Lebanese Eurobonds that is required to place debt on sustainable footing is about 75 percent.[16] Nonetheless, these estimates may be optimistic given the uncertainty surrounding economic recovery prospects, potential delays in implementing structural reforms, and complexities inherent in the bank restructuring process that may carry a significant fiscal cost.[17]

15 As a result of this change, the debt stock increased by about US$ 9.8 billion.

16 These are not World Bank staff estimates. See for example, Goldman Sachs (2024), "Revisiting Lebanon Debt Recovery Values", CEEMEA Economics Analyst and J.P. Morgan (2025). "Lebanon: Politics and stability before economics"

17 Fiscal outlays that are associated with systemic banking crises are provided in Laeven and Valencia (2013), "Systemic banking crises database", IMF Economic Review, vol. 61, No.2.

FIGURE 6 • Increase in Nominal GDP Prompting a Decrease in Debt-to-GDP in 2024 is not Indicative of Improved Debt Dynamics[a]



Sources: BdL and WB staff calculations.
[a] To convert domestic debt to US$, the World Bank Average Exchange Rate is used for 2020-2024, estimated at LBP 3,688, 11,755, 27,309, 85,828, and 89,500 per US$, respectively.

The caretaker government suspended the right to assert defenses on Eurobond maturities until March 9, 2028, thereby granting authorities more time to complete the debt restructuring. The looming expiration of the statute of limitations on Eurobonds and the potential for a legal challenge by creditors prompted the caretaker government to issue decision No. 30 dated January 7, 2025, asserting the right of the state to defenses (i.e., affirming the government's right to legally defend itself) for the expiring Eurobond maturities. While this move grants to authorities' additional time to restructure Lebanon's foreign-currency debt, it does not eliminate the risk of a legal challenge by creditors.

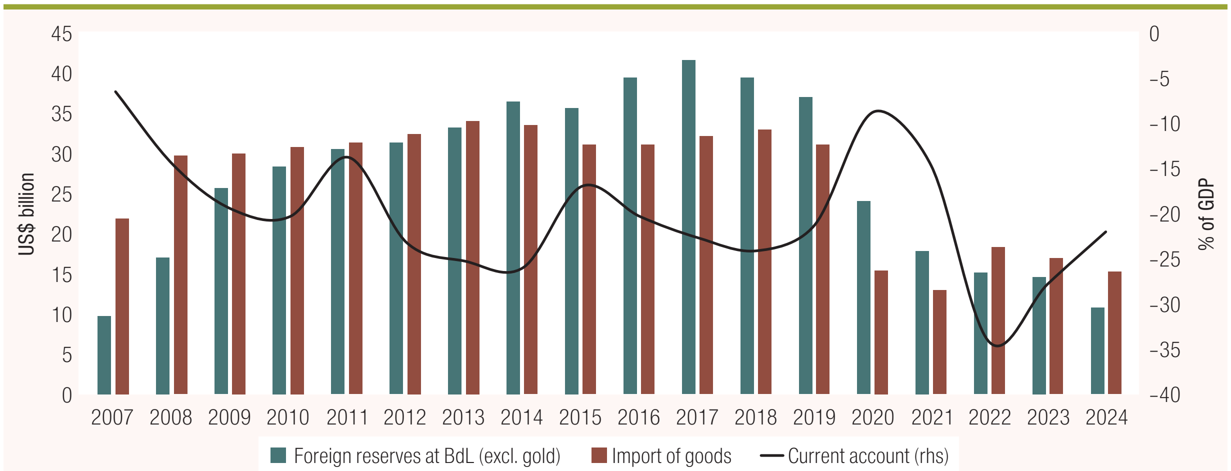
External Sector

The current account deficit narrowed to 22.2 percent of GDP in 2024. Despite an 11 percent import compression relative to 2023, the current account deficit increased by 2 percent in nominal terms to US$ 5.76 billion in 2024. The reduction in imports resulted in a 16 percent reduction in the trade in goods deficit to 44.5 percent of GDP. However, the trade-in-services surplus, which had traditionally mitigated Lebanon's large external financing needs, turned into a deficit of 3.3 percent of GDP in 2024, slightly worsening the current account deficit in nominal terms. The negative trade in services balance, for the first time in decades, was due to the cessation of tourism services exports following the escalation of the conflict.

Despite the conflict and the large current account deficit, the nominal exchange rate remained stable, at the same time BdL accumulated foreign currency reserves. The dynamic underpinning exchange rate stability and reserve accumulation amid a large current account deficit is partly explained by the limited reliance of private sector imports on domestic financial intermediation. Indeed, utilized domestic lines of credit for imports, fully collateralized since the onset of the 2019 crisis, amounted to merely US$ 73.4 million in 2024—a negligible fraction of the total import bill. This indicates that private sector importers primarily relied on foreign banking channels rather than local ones to finance their imports, significantly reducing pressure on domestic foreign exchange reserves.

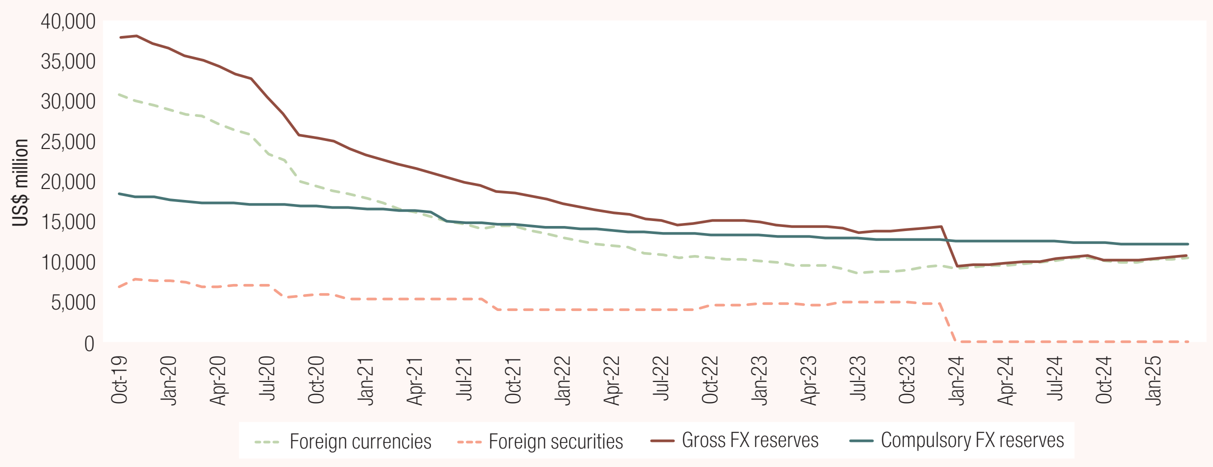
The steady inflow of remittances was essential to supporting Lebanon's external financing needs in 2024. The net inflow of remittances stood at 18.7 percent of GDP in 2024 whereas inward remittances are estimated to have amounted to 26.6 percent of GDP, one of the highest in the world. Nonetheless, the latter figure does not fully capture inflows through informal channels (such as cash carried by individuals entering the country) and likely understates the actual

FIGURE 7 • Narrowing Current Account Deficit as a Percentage of GDP Driven by Higher Nominal GDP in 2024



Sources: BdL, CAS and WB staff calculations.
Note: The reduction in FX reserves shown in the chart (in 2024) is due to a revision of the series in 2024 to exclude BdL's holdings of Eurobonds and its lending in FX to resident banks and financial institutions; therefore, it masks the accumulation of reserves in 2024.

FIGURE 8 • Increase of US$447 Million in Reserves in 2024[a]



Sources: BdL and WB staff calculations.

[a] Foreign securities held by BdL were revised back to January 2024 to exclude its holdings of Lebanese Government sovereign bonds (Eurobonds).

BOX 1. IMPACT OF RISING TRADE UNCERTAINTY ON LEBANON

Growing uncertainty surrounding global trade policies is expected to have direct and indirect implications worldwide. While the full impact remains difficult to assess given ongoing policy shifts, this box examines the potential implications for Lebanon. Direct effects on the country are likely limited, as exports to the US represent only about 5.7 percent of total goods exports. However, indirect effects could materialize through global spillovers, such as weaker external demand or lower investments. A decline in commodity prices, particularly of oil, could improve the balance of payments and reduce input costs, given Lebanon's status as a net oil importer.

Lebanon's Trade Balance

Lebanon has long experienced a structural trade deficit, resulting in sizable and sustained current account deficits (Figure 9). The country has recorded annual trade-in-goods deficits since 2002, the year it began publishing Balance of Payments (BoP) data. Imports of goods

FIGURE 9 • Lebanon Has Registered a Trade-in-Goods Deficit Annually since 2002

Source: BdL and Staff calculations.

FIGURE 10 • Wider Trade-in-Goods Deficit as a Percentage of GDP during Crisis years

Source: BdL and Staff calculations.

(continued on next page)

BOX 1. IMPACT OF RISING TRADE UNCERTAINTY ON LEBANON *(continued)*

averaged 34.4 percent GDP between 2015 and 2020, rising sharply to an estimated 75.3 percent of GDP between 2021 and 2024. Meanwhile, exports of goods averaged 7.8 percent of GDP from 2015 to 2020, and increased to an average of 18.7 percent between 2021 and 2024, largely reflecting a shrinking GDP denominator.

Lebanon's Trade Balance with the US Market

In 2024, the US was Lebanon's ninth-largest source of imports, accounting for 3.4 percent of the total (Figure 11). China was Lebanon's largest import partner (11.6 percent), followed by Greece, Switzerland, and Türkiye. On average, Lebanon sourced 4.16 percent of its imports from the US between 2022 and 2024, primarily importing (i) vehicles, vessels, and transport equipment, and (ii) machinery and electrical instruments.

In 2024, the US was Lebanon's fourth-largest export market, receiving 5.7 percent of Lebanon's total exports (Figure 12). The UAE was Lebanon's top export destination, accounting for 19.1 percent, followed by Iraq, Türkiye, and then the US. On average, 4.21 percent of Lebanon's exports were directed to the US between 2022 and 2024. Lebanon's main exports to the US included: (i) animal or vegetable oils and fats; (ii) prepared foodstuffs, beverages, and tobacco; (iii) chemical or allied industry products; and (iv) pearls, precious stones, and metals.

Impact of Trade Uncertainty on the Lebanese Economy

Direct Impact

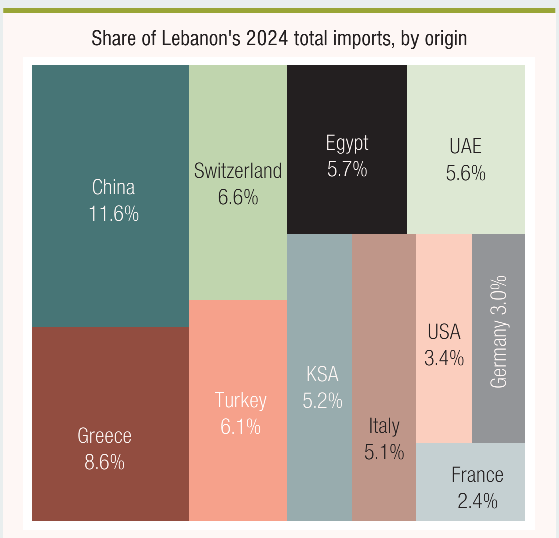
Lebanese exports to the US are subject to the baseline tariff of 10 percent, but the direct impact on Lebanon is expected to be limited in 2025. The US accounts for only a small share of Lebanon's total goods exports and Lebanon has maintained a persistent trade deficit with the US, averaging about US$622 million annually over the past three years. Moreover, Lebanon's exports to the US consist largely of specialty products such as olive oil and food items that cater primarily to the Lebanese diaspora, whose demand tends to be relatively price inelastic. This niche, culturally driven consumption pattern may help sustain export volumes despite the imposition of tariffs. However, the global trade environment remains fluid, and future changes to tariff regimes worldwide could alter the outlook.

Indirect Impact

Rising global trade uncertainty indirectly affects economies through several channels. It can reduce domestic and international investment, slowing growth and causing cyclical shifts in import demand and commodity prices. The process of reorienting trade toward alternative markets may also be prolonged and costly. Further indirect effects include disruptions in global supply chains and reduced demand from countries directly impacted by trade uncertainty.

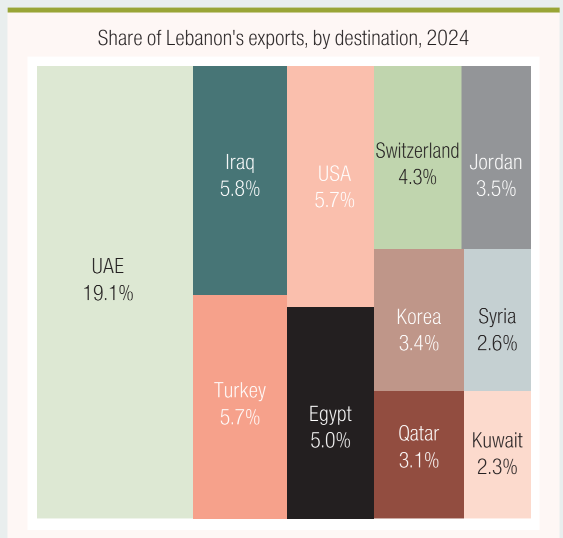
Much of the indirect effect on Lebanon will depend on how global policy shifts will unfold, but as an oil importer, Lebanon would benefit from lower oil prices. As an oil importer, Lebanon relies heavily on petroleum for electricity production, transportation, and other essential

FIGURE 11 • The US Was Lebanon's 9th Largest Source of Imports in 2024



Source: Lebanese Customs and Staff Calculations.

FIGURE 12 • The US Was Lebanon's 4th Largest Export Market in 2024



Source: Lebanese Customs and Staff Calculations.

BOX 1. IMPACT OF RISING TRADE UNCERTAINTY ON LEBANON *(continued)*

needs. Between 2022 and 2024, petroleum and its derivatives accounted for an average of 27 percent of the country's import bill (US$ 4,871 million). Therefore, any drop in oil prices is expected to reduce Lebanon's import costs, thereby decreasing its trade-in-goods and current account deficits. Econometric analysis reveals that a $1 decrease in the price of oil yields a contraction of about $16.4 million in Lebanon's current account deficit. This implies that a US$ 13 decline in the price of Brent oil, as experienced over the period March to April 2024, would be expected to decrease Lebanon's current account deficit by about US$ 213 million. The contraction in the current account deficit will, absent adverse shocks to Lebanon's terms of trade and economic activity, have knock-on positive effects on real GDP growth.

Rising global trade uncertainty may, however, offset some of the positive impacts from lower oil prices. These include weakened consumer confidence, lower foreign direct investment (FDI) inflows, reduced external demand, increased import costs, and renewed inflationary pressures. Lebanon is structurally dependent on imports to meet its demand for goods, so any increase in global inflation, or inflation in major trading partners, could translate into higher domestic prices (as outlined in Box 2).

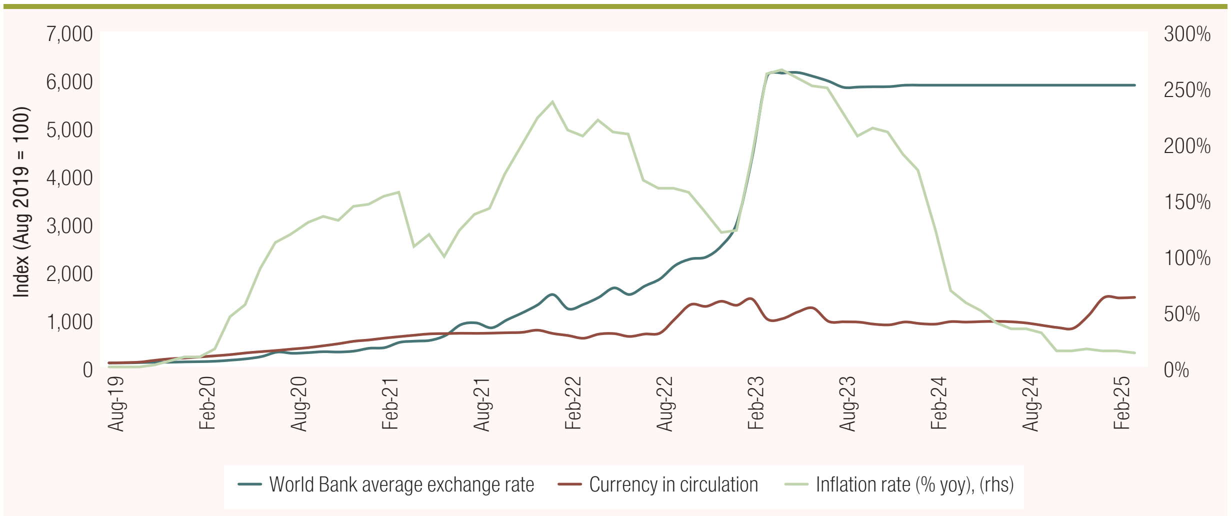
volume of remittances. As a result, a substantial portion of Lebanon's external deficit is also likely financed by remittances that remain unrecorded.

Money and Banking

The Lebanese pound has remained stable at LBP 89,500 per US$ since August 2023, following years of rapid depreciation. This continued stability is likely the result of improved revenue collection in Lebanese pounds, particularly from LBP-denominated taxes, and the subsequent accumulation of public-sector surpluses at BdL. Fiscal sterilization has played a central role: public-sector surpluses deposited at BdL have supported the reduction of excess LBP liquidity in the market, easing downward pressure on the exchange rate. Nonetheless, BdL partially offsets this sterilization by purchasing US dollars from the market, thereby re-injecting LBP into the economy. This allows it to manage currency in circulation while simultaneously accumulating foreign reserves, which increased by US$447 million in 2024, reaching US$10.1 billion in liquid reserves (excluding gold). Exchange rate stability is also reinforced by the high degree of dollarization in the economy, where demand for Lebanese pounds is largely limited to settling taxes, government fees, and small-scale transactions.

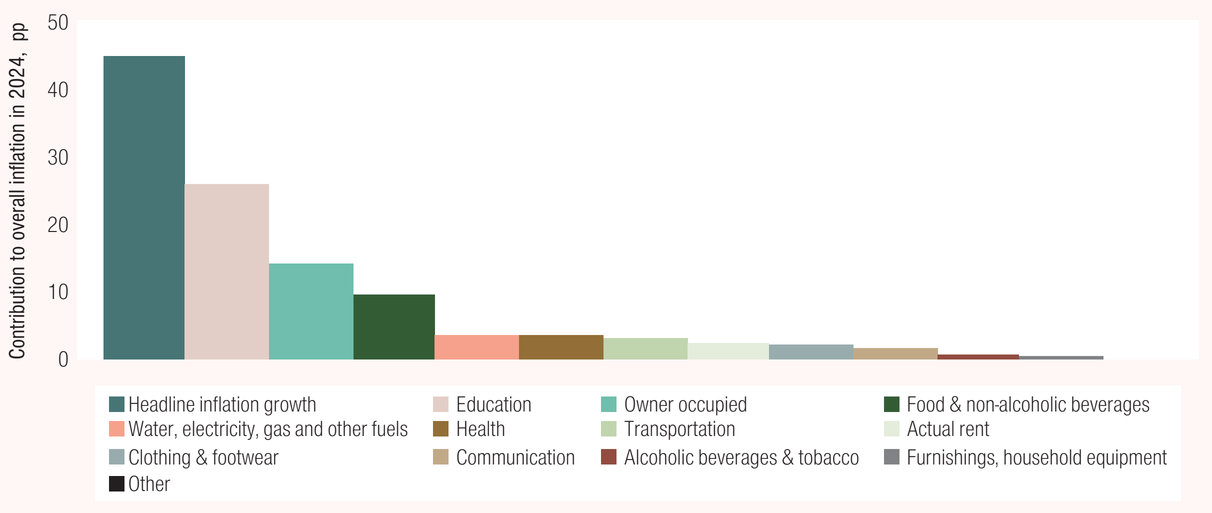
With the accumulation of fiscal surpluses over the past two years, the Ministry of Finance has built a modest buffer to weather shocks. However, continued reliance on fiscal restraint to preserve

FIGURE 13 • Exchange Rate Stability as of August 2023 Drives a Sharp Deceleration in Inflation



Sources: Lebanese authorities and WB staff calculations.

FIGURE 14 • CPI Subcategories' Monthly Contribution to Headline Inflation (2024)



ources: CAS and WB staff calculations.

exchange rate stability limits the government's ability to respond to pressing economic and social needs. This underscores the importance of structural reforms in Lebanon's monetary policy framework.

The annual average inflation rate in 2024 declined to 45.2 percent, a level not seen since 2020. This stabilization, which was largely driven by exchange rate stabilization since August 2023, led to a steady decline in month-to-month inflation, averaging 1.2 percent between August and December 2023 (excluding October, when the education CPI component surged six-fold), and 1.4 percent in 2024 (Figure 14). Education was the largest contributor to inflation 2024, as the base effect receded in other categories. Owner occupied housing costs (i.e., equivalent rent); food and non-alcoholic beverages; water, electricity, gas, and other fuels; and (iv) health also contributed to headline inflation with 14.3, 9.7, 3.5, and 3.5 pp, respectively (Figure 14). The latter inflationary dynamics can be ascribed to the increasing dollarization of prices across sectors as well as domestic pricing factors, such as markup pricing, limited product market competition, and other factors detailed in Box 2, which drive inflation in domestic currency.

The banking sector remains impaired and interbank borrowing costs have soared to unprecedented levels in 2024. While some banks have been able to resume minimal lending, the banking sector is incapable of undertaking its financial intermediation functions owing to losses that are estimated to exceed US$ 72 billion. The interbank lending rates have soared to, respectively, 111.8 and 134.9 percent in August and September 2024, which indicates that some commercial banks are grappling with an LBP, and possibly also an USD, liquidity shortage.[18] Restoring the banking sector's solvency remains critical for channeling the significant capital inflows (financial flows and foreign direct investment) that are required for reconstruction and investment.

[18] Some banks have reportedly borrowed in LBP and undertook foreign exchange transactions to meet their obligations under circulars 166 and 158. Interbank lending rates declined markedly following the cessation of hostilities but remained in the double digits in December 2024 and Q1-2025.

BOX 2. DISSECTING INFLATION: PRE- AND POST-CRISIS DRIVERS

Before the 2019 crisis, Lebanon's inflation moderately tracked global inflation, though domestic structural factors played a key role. Since the crisis, exchange rate depreciation has been the main driver of inflation, with price responses varying widely across CPI subcomponents based on import content and tradability. Looking ahead, as the exchange rate stabilizes and one-off dollarization effects wane, inflation is expected to gradually revert to its pre-crisis dynamics and exhibit a closer correlation with global inflation—though it will likely remain elevated due to domestic factors.

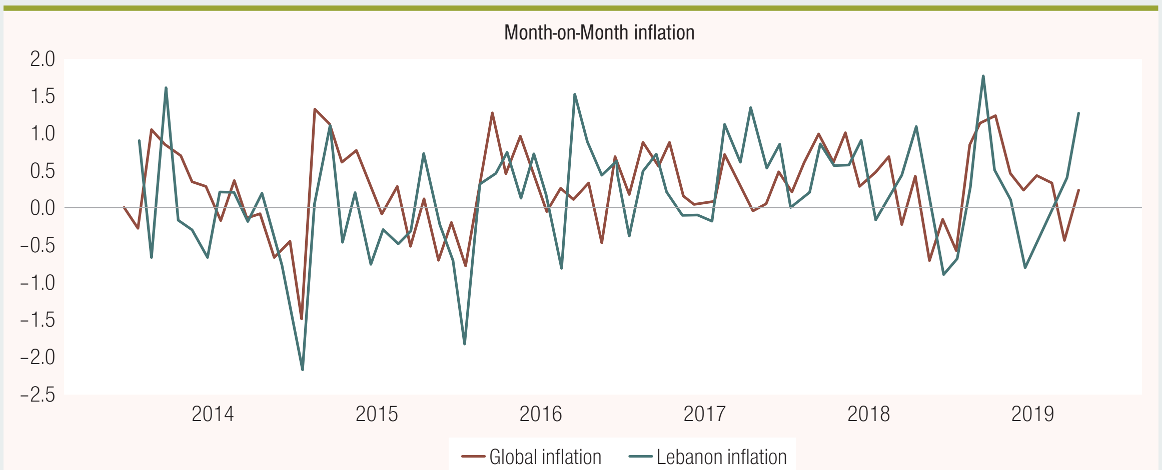
Inflation in Lebanon exhibited a moderate correlation with global inflation in the pre-2019 crisis period. The correlation between consumer price index (CPI) in Lebanon and global CPI inflation (measured as the first principal component of the CPI inflation rates of the G7 countries), was, on average, 0.47 over the December 2013 to October 2019 period (Figure 15). The correlation between US and Lebanese inflation is higher and stands at 0.7. Global and US inflation's pass-through to inflation in Lebanon is discernible. In the pre-crisis period, a 1 percent increase in global inflation was associated with a 0.57 percent to 0.63 percent increase in inflation in Lebanon.[a] The latter is higher than for countries with a fixed exchange or flexible exchange regime in the MENA region.[b] Global inflation also appears to lead inflation in Lebanon.[c] Despite the elevated pass-through, the proportion of variation in inflation in Lebanon that is explained by variation in global inflation, or shocks to global inflation, the price of oil, and shipping costs, is modest (Figure 16). These findings suggest that, in line with the *Spring 2023 Lebanon Economic Monitor*, domestic factors, which could potentially include limited product market competition, oligopolistic market structures, domestic markup pricing, lack of regulatory oversight on domestic pricing as well as hedging are important drivers of domestic inflation.[d]

The onset of the crisis precipitated a decoupling between global and Lebanese inflation rates, and exchange rate fluctuations emerging as the primary driver of inflation after 2019. A depreciation-inflation spiral, triggered by the 2019 financial crisis and fueled by a sharp increase in currency in circulation, drove inflation in Lebanon into triple digits.[e] In the post-crisis period, changes in the exchange rate account for more than two thirds of the variation in month-on-month inflation (Figure 18). Despite a 30 percent decrease in shipping activity through the Suez Canal and Bab El-Mandeb Strait, rising shipping costs do not appear to be associated with higher inflation. Moreover, global inflation's explanatory power for inflation in Lebanon largely dissipates after 2019, indicating that exchange rate fluctuations have significantly greater influence on domestic inflation than global price trends.

The exchange rate pass-through in Lebanon is higher than in both emerging and developed economies. The findings suggest that a 10 percent depreciation in the exchange rate is associated with a 5.74 percent increase in inflation, indicating a high degree of pass-through to consumer prices. This rate exceeds that observed in comparator countries, which is likely a reflection of the larger proportion of imported consumption out of total consumption. Nonetheless, around 26.6 percent of the variation in inflation remains unexplained by exchange rate changes, suggesting that domestic pricing factors continue to exert an impact on inflation, albeit to a much lesser extent than in the pre-crisis period.

The explanatory power of exchange rate fluctuations declined sharply in October 2023 (Figure 18). This drop coincided with a period of exchange rate stability, as the Lebanese pound held steady at around LBP 89,500 per USD from August 2023 onward. Despite this stability, month-on-month inflation spiked in October 2023, driven by a rise in the education subcomponent of the CPI basket as educational services became increasingly dollarized.

FIGURE 15 • Inflation in Lebanon Tracked Global Inflation in the pre-Crisis Period



Source: Staff calculations.

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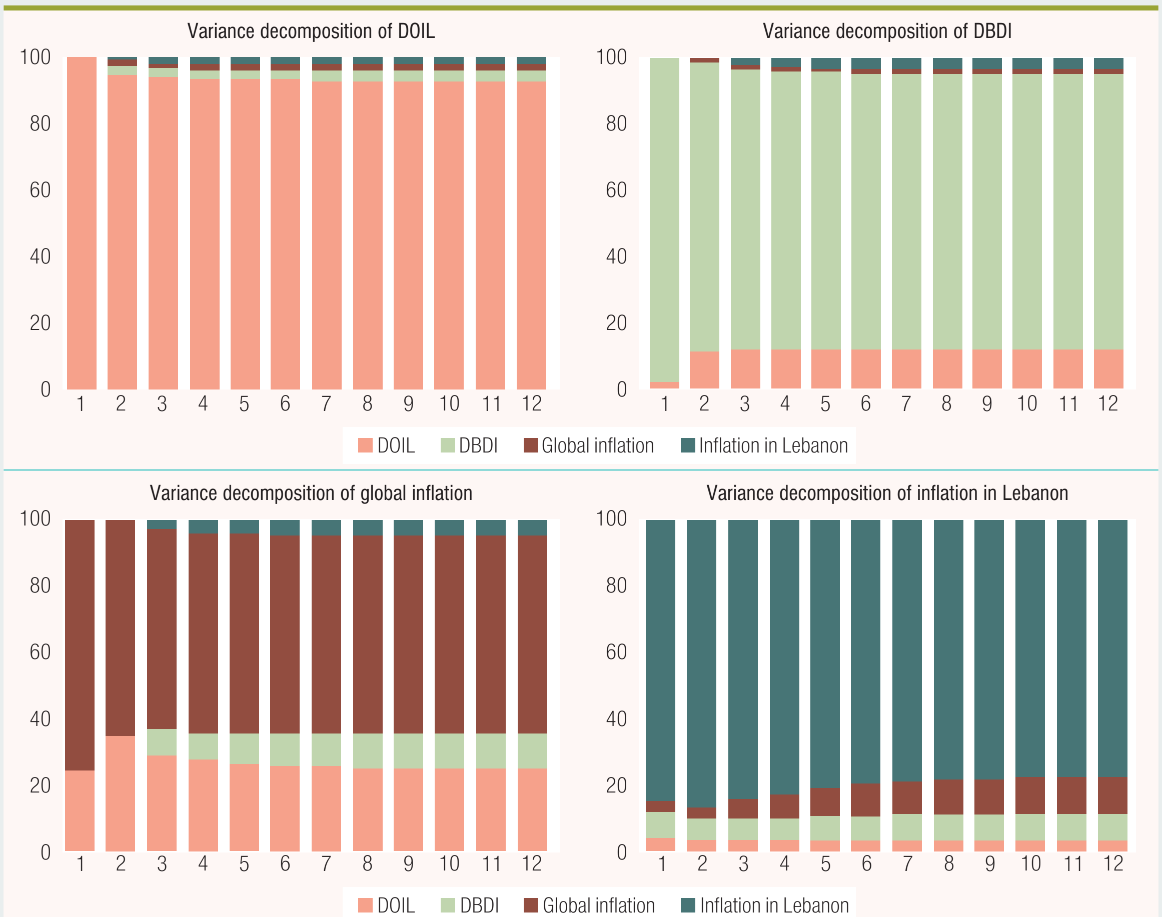
BOX 2. DISSECTING INFLATION: PRE- AND POST-CRISIS DRIVERS *(continued)*

A closer look at the components of the CPI basket reveals substantial heterogeneity in their response to exchange rate depreciation. The subcomponents most sensitive to exchange rate fluctuations include health services, furnishing and household equipment, and alcoholic beverages, all of which exhibit contemporaneous pass-through coefficients exceeding 0.7—implying that a 10 percent depreciation leads to price increases of more than 7 percent. In contrast, the pass-through is weakest for communication and housing. Exchange rate changes explain roughly 80 percent or more of the variation in prices for foods and non-alcoholic beverages, alcoholic beverages, tobacco and narcotics, and furnishing and household maintenance items. Meanwhile, other subcomponents show varying degrees of sensitivity, with inflation in the education and communication categories showing no significant response to exchange rate movements.

The heterogeneity in exchange rate pass-through across CPI subcomponents is proportional to the share of imports in total consumption. Domestic, and largely non-traded services, such as communication and education, have been largely unaffected by the depreciation of the Lebanese pound. In contrast, traded services, including those that benefit from tourism and spending by Lebanese expatriates (e.g., the restaurants and hotels subcomponent), exhibit a higher degree of pass-through. While the pass-through is partial for most CPI subcomponents—and negligible for education, which exhibits yearly one-off spikes due to increased dollarization of fees at the start of every school year, and communication, whose price is government-administered —it appears to be near complete for: (i) alcoholic beverages, tobacco, and narcotics; (ii) furnishing, household equipment, and routine household maintenance; and (iii) restaurants and hotels.[f]

With the fading impact of one-off dollarization effects, and assuming continued exchange rate stability, inflation in Lebanon is expected to more closely track global inflation and revert to pre-crisis dynamics. Looking ahead, Lebanon's inflation is projected to show a higher, albeit

FIGURE 16 • Nonetheless, Shocks to Global Inflation, Shipping Costs, and Oil Prices Account for Less than a Quarter of the Variation in Inflation



Source: BdL and Staff calculations.

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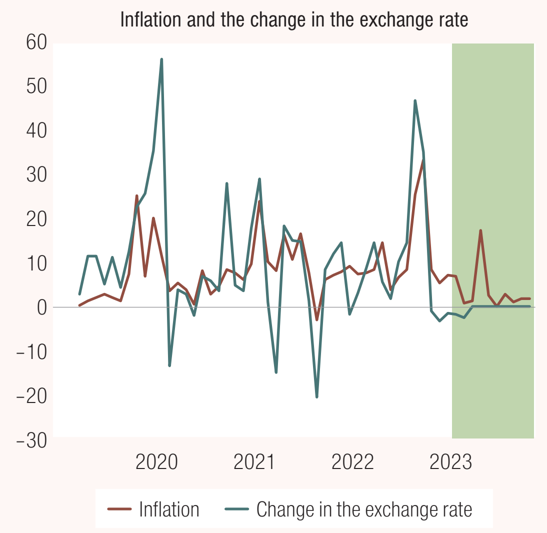
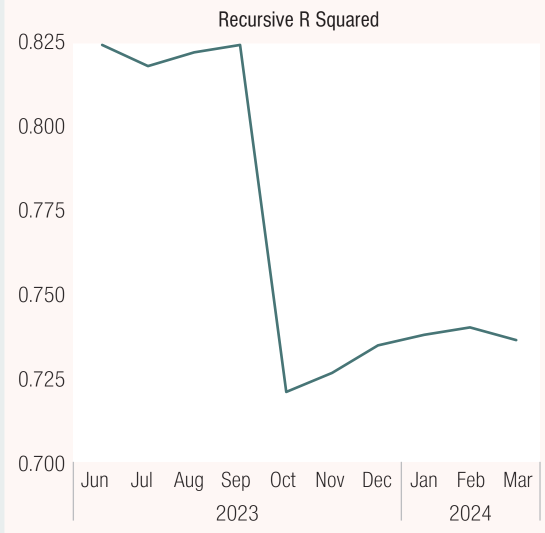
FIGURE 17 • Inflation Moved in Tandem with the Bank Note Exchange Rate Fluctuations in the Post-Crisis Period…



Source: BdL and Staff calculations.

FIGURE 18 • …but the Explanatory Power of the Exchange Rate Fluctuations Dropped Off Sharply when the Exchange Rate Stabilized



Source: BdL and Staff calculations.

still moderate, correlation with global inflation, with domestic inflation trends increasingly mirroring global patterns. Nonetheless, as in the pre-crisis period, inflation in Lebanon is likely to remain above global averages due to persistent domestic factors.

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[a] The pass-through from US to Lebanese inflation is even higher and ranges from 0.66 to 1.09.
[b] Global inflation's pass-through to domestic inflation stands at 0.36 for Egypt (but is insignificant), 0.24 for Jordan, and is not statistically significantly different from zero the Kingdom of Saudi Arabia, the United Arab Emirates, Morocco, and Qatar for the same period.
[c] The contemporaneous cross-correlation between global inflation and inflation in Lebanon is the largest. It is followed in magnitude by a cross-correlation of 0.29 between inflation in Lebanon and the first lag of global inflation.
[d] Discriminating between the latter hypotheses requires more granular data on prices at the commodity level as well as detailed industry-level data which comprises measures of concentration.
[e] For further information, please refer to the Fall 2020, Spring 2021, and Fall 2021 *Lebanon Economic Monitor*.
[f] These findings suggest that (i) Lebanese firms have pricing power, and (ii) much in line with the international evidence (Yotzov et al., 2024), Lebanese firms' response to inflation headlines and passing through of the exchange rate depreciation was swift. For more on firms' speed of response to inflation, please see Yotzov, I., Bloom, N., Bunn, P., Mizen, P., & Thwaites, G. (2024). The speed of firm response to inflation (No. w32731). National Bureau of Economic Research.

BOX 3. ANALYZING LEBANON'S REER: TRENDS AND COMPETITIVENESS

The Real Effective Exchange Rate (REER) has undergone significant fluctuations from January 2010 to December 2024. Initially appreciating until March 2019, the REER indicated a loss of competitiveness, which reversed with the onset of the financial crisis. Despite the depreciation of the REER enhancing export (price) competitiveness, Lebanon did not experience a corresponding increase in exports due to various external and internal factors. The near complete dollarization of the economy further inhibits the benefits of a weaker REER. Moving forward, Lebanon needs to address the root causes of its lack of export competitiveness despite a sharp improvement in its price competitiveness to fully exploit the advantages of a potential flexible exchange rate regime.

Defining the REER

The Real Effective Exchange Rate (REER) measures the value of a country's currency relative to a basket of other currencies, adjusted for differences in price levels between the countries.[a] It also incorporates trade weights to reflect the relative importance of each trading partner in the country's overall trade flows. The REER is commonly used to assess whether a country's nominal exchange rate is misaligned

(continued on next page)

BOX 3. ANALYZING LEBANON'S REER: TRENDS AND COMPETITIVENESS *(continued)*

with its equilibrium value, which would indicate whether the currency is over- or under-valued.[b] A depreciation in the REER enhances a country's export competitiveness by making its goods cheaper abroad, while an appreciation reduces external competitiveness.

The REER is given by:

$$\text{REER} = \prod_{j \neq i} \left(\frac{P_i R_i}{P_j R_j} \right)^{w_{ij}},$$

where P_i is the price level in Lebanon, P_j is the price level in Lebanon's trading partner, R_i and are R_j the nominal exchange rates of Lebanon and country j, respectively, measured in US$ per local currency, and w_{ij} is the trade weight of country j with Lebanon.

Trade-in-goods data are obtained from COMTRADE for the period January 2010 to December 2024.[c] Exchange rates and price level data were obtained from IMF's International Financial Statistics database for the same period. Starting in September 2019, Lebanon's Bank Note Rate (BNR) is used instead of the official exchange rate, to gauge the effect of the depreciation of the LBP on Lebanon's competitiveness.

Dynamics of the REER

The dynamics of Lebanon's REER for the period January 2010 and December 2024 can be delineated as follows:

1. **January 2010 to March 2019: Lebanon's REER was appreciating prior to the crisis, reaching its maximum (for the period under study) in March 2019.** The REER increased by 107.4 percent between January 2010 and March 2019, indicating a significant loss of competitiveness compared to Lebanon's trading partners. Consequently, as imports became cheaper, they increased from US$ 13.2 billion in 2010 to US$19.3 billion in 2018.
2. **April 2019 to July 2020: The trend reversed with the onset of the crisis, as the REER depreciated before embarking on an appreciating trend later.** The REER began depreciating in April 2019, reaching its lowest (maximum competitiveness) in July 2020, 78 percent lower than its (highest) level in March 2019. The LBP's depreciation between April 2019 and July 2020 outpaced inflation, leading to a depreciation of the REER. During that period the BNR depreciated by 475 percent, while prices grew by 112 percent. Imports decreased from US$ 16.1 billion in 2019 to US$ 9.8 billion in 2020.[d] Simultaneously, exports of goods decreased from US$ 3.8 in 2019 to US$ 2.9 billion in 2020.
3. **August 2020 to August 2023: The REER almost doubled over the period August 2020 to August 2023 due to the rapid and massive depreciation in the LBP.** The increase in the REER was brought about by inflation outpacing LBP depreciation. During that period, inflation increased by 1,953 percent, while BNR grew by a lower 1,092 percent. The increase in prices was mainly due to the removal of subsidies and the gradual dollarization of prices.
4. **September 2023 to December 2024: Lebanon's competitiveness gains during the crisis continue to be eroded.** Since August 2023, REER has been appreciating due to rising domestic prices while the exchange rate is stable. The LBP has stabilized since August 2023 for the first time since the peg was dislodged in September 2019. However, inflation was persistent despite slowing down, as prices increased by 42 percent over the period September 2023 to December 2024. This resulted in the REER for March 2024 being almost four times its July-2020 low.

The REER and External Competitiveness

Contrary to theoretical expectations, Lebanon did not reap the rewards of a weaker REER in terms of export competitiveness. While the REER depreciation led to a compression in imports[e], exports did not increase. The lack of external lift during the financial crisis is driven by constrained access to destination markets in the Arab gulf, the turmoil and ensuing closure of trade routes through Syria, subdued global demand amid the COVID-19 pandemic, and a weak business enabling environment and high costs (particularly in electricity). The absence of external lift during the financial crisis is thoroughly discussed in the *Fall 2021 Lebanon Economic Monitor*.[f]

Going forward, the near complete dollarization in the Lebanese economy will inhibit the export competitiveness that stems from a weaker REER. Under sticky prices, US$ costing and pricing, Calvo pricing,[g] or oligopolistic market structures, it is unclear that a depreciation in the REER would spur goods or services exports. Hence, a weaker REER would not necessarily pass-through to Lebanese exports, particularly the export of tourism services.[h]

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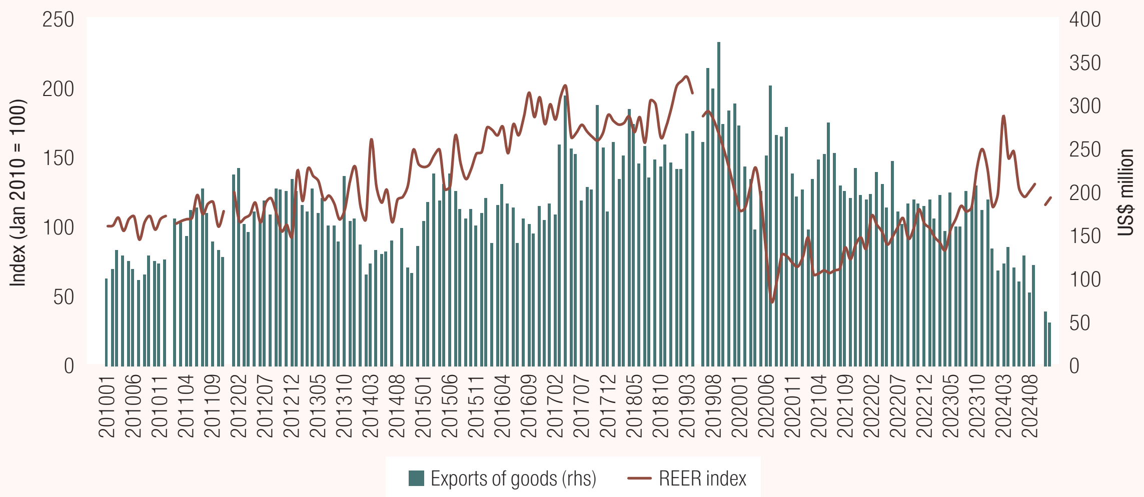
BOX 3. ANALYZING LEBANON'S REER: TRENDS AND COMPETITIVENESS *(continued)*

FIGURE 19 • A Depreciating REER Did Not Lead to an Increase in Exports



Source: CAS, IFS, and Staff calculations.

[a] For a thorough discussion on the alternative definitions and construction of the REER, see Chinn, M. D. (2006). "A primer on real effective exchange rates: determinants, overvaluation, trade flows and competitive devaluation", Open Economies Review, 17, 115-143.

[b] Models that use the real exchange rate include Purchasing Power Parity (PPP) and the Samuelson-Balassa model. In the latter model, differences in productivity between the tradable and non-tradable sectors drive the REER. See, for example, Chinn, M. (2012). "Macro approaches to foreign exchange determination", Handbook of Exchange Rates, 45-71.

[c] Trade-in-services was excluded from the calculations due to unavailability of monthly data for Lebanon through COMTRADE.

[d] This decrease in imports, however, cannot be completely ascribed to the REER depreciation, as this period coincided with the multipronged crisis Lebanon faced (economic and financial crisis, Port of Beirut explosion, and the COVID-19 pandemic).

[e] The compression in imports can also be ascribed to restrictions on cross-border transfers.

[f] See also Cali, Harakeh, Hassan, and Struck (2015), The impact of the Syrian conflict on Lebanese trade, World Bank, Washington DC.

[g] Calvo pricing is a widely used concept in macroeconomics to model price stickiness; that is, why and how prices in the economy do not adjust instantly to changes in supply and demand. See Calvo, Guillermo A. (1983). «Staggered Prices in a Utility-Maximizing Framework.» Journal of Monetary Economics, 12(3), 383–398.

[h] In a Samuelson-Balassa world, the tradables sector, which comprises tourism services, would benefit more than the non-tradable sector from a weaker REER. This effect may be substantially weaker in a highly dollarized economy, like Lebanon.

3

OUTLOOK AND RISKS

In 2025, the end of the conflict and the resolution of political paralysis have generated a sense of cautious optimism. However, this optimism remains heavily contingent on improvements in the security situation which remains fragile despite the ceasefire agreement. It also depends on meaningful progress in long-awaited reforms, now further complicated by growing uncertainty in global trade, as highlighted in Box 1.

The new government's reform plans, a rebound in tourism and consumption, and (albeit limited) capital inflows for reconstruction and recovery are expected to drive real GDP growth to 4.7 percent. This growth is also supported by a base effect, following a nearly 40 percent cumulative GDP contraction during the crisis period. The increase in consumption is attributed to improved consumer sentiment, which raises the marginal propensity to consume and amplifies the consumption multiplier. Consumption is expected to be sustained by remittances, tourism exports, and stronger overall economic activity in 2025, provided a stable or improving security situation. While the growth forecast depends on the prospects for reform, it does not assume, given the government's short tenure, that the impaired macroeconomic and financial frameworks will be fully resolved.

Reconstruction inflows, if realized, could significantly bolster economic activity by creating jobs, increasing consumption, enhancing productivity, and stimulating supply chain growth.[19] Each dollar spent would generate a multiplier effect, amplifying the overall economic impact. Reforms aimed at reducing informality would also serve to increase the public expenditure multiplier and boost growth. Accordingly, if reforms progress and capital inflows rise, growth could exceed projections and necessitate an upward revision of forecasts. On the other hand, if reforms stall, capital inflows fail to materialize, and the security situation deteriorates, growth may fall short of projections. A key caveat remains the impaired banking sector, which continues to pose a significant obstacle to large-scale financial inflows and investments. A successful bank restructuring, which

[19] For theoretical and empirical accounts of the relation between informality and public expenditure multipliers, please see Colombo, E., Furceri, D., Pizzuto, P., & Tirelli, P. (2024). Public expenditure multipliers and informality. European Economic Review, 164, 104703.

comprises bank recapitalization, would significantly boost the consumption multiplier.[20]

With most components of the CPI basket now dollarized and assuming continued exchange rate stability, inflation is projected to decline to 15.2 percent in 2025. This forecast reflects the average month-to-month increases in inflation during 2024, a period marked by exchange rate stability, while excluding the months of conflict escalation, which saw slightly higher inflation likely driven by supply shortages. As outlined in Box 2. Dissecting Inflation: Pre- and Post-crisis Drivers, and contingent on ongoing exchange rate stability, inflation in Lebanon is expected to more closely track global inflation. However, it will remain higher on average due to persistent domestic factors. Should policy or trade uncertainty reignite global inflation, domestic inflation may rise accordingly, given the established correlation between global and local inflation dynamics. As analyzed in Box 3. Analyzing Lebanon's REER: Trends and Competitiveness, the real effective exchange rate (REER) has experienced significant fluctuations in the past. Looking ahead, because much of the economy is dollarized, Lebanon's exchange rate will have limited ability to adjust in response to changes in global trade conditions, making the economy more exposed to external shocks.

As noted earlier, exchange rate stability has been supported by improved revenue collection in Lebanese pounds (LBP taxes) and the accumulation of public sector surpluses at the BdL. Over the past year, the BdL has prioritized reserve accumulation by utilizing fiscal surpluses. In 2025, however, with competing demands related to recovery and reconstruction efforts, the fiscal restraint and prudent fiscal management pursued by the authorities could become more tenuous and increased fiscal flexibility would be warranted, particularly as surpluses have already reached a sizeable level. Improved revenue mobilization, as projected in the ratified 2025 budget, is expected to expand fiscal space and enable higher current spending relative to 2024, while still maintaining a balanced budget.

Lebanon is expected to continue to record a significant current account deficit in 2025, projected at 15.3 percent of GDP, primarily driven by a trade-in-goods deficit. The reduction in the current account deficit as a percentage of GDP, from 22 percent in 2024 to 15 percent in 2025, is primarily attributed to the denominator effect of a larger nominal GDP. Although tourism receipts declined due to the conflict, resulting in a trade-in-services deficit of −3.3 percent of GDP in 2024, the trade-in-goods deficit is projected to be partially offset by a trade-in-services surplus in 2025. This anticipated improvement is driven by higher service exports, fueled by expectations of a robust tourism season amid a more favorable political and security environment. Nevertheless, as previously noted, historically weak balance of payments (BOP) data, along with the dominance of a pervasive dollarized cash economy, are likely to distort official estimates of the current account deficit.

Immediate policy actions and reforms are essential to build momentum and establish a foundation for sustainable recovery, as comprehensive reform remains the only viable path forward. To support the government's priorities outlined in its ministerial statement, the **Special Focus** presents a one-year policy action plan aimed at addressing Lebanon's most pressing challenges with urgency. Derived from sector-specific policy notes, this plan is designed to deliver immediate benefits while paving the way for broader, long-term reforms. By prioritizing actionable, high-impact measures, Lebanon can tackle critical issues and move toward sustainable recovery.

[20] The increase in the consumption multiplier would be driven by the interlinkages between households and banks' balance sheets. For a theoretical and empirical account, please see Faria-e-Castro, M. (2024). "Fiscal multipliers and financial crises", Review of Economics and Statistics, 106(3), 728–747.

TABLE 2 • Selected Economic Indicators (2015-2025)

	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025 Proj.
	(Annual percentage change, unless otherwise specified)										
Real Sector											
Real GDP	0.5	1.6	0.9	−1.9	−6.9	−21.4	−7.0	−0.6	−0.8	−7.1	4.7
Real GDP per Capita[a]	−1.5	4.0	3.6	1.0	−3.9	−20.1	−7.3	−1.1	−1.3	−7.6	4.0
Agriculture	3.7	3.8	4.3	4.4	4.7	6.0	6.0	6.0	6.0	6.0	6.0
Industry	12.7	12.8	12.3	12.0	10.7	12.8	12.8	12.8	12.9	12.9	12.9
Services	72.0	71.7	71.8	72.2	73.9	76.9	78.6	78.6	78.4	78.4	78.4
Net Indirect Taxes	11.6	11.7	11.6	11.4	10.6	4.3	2.6	2.6	2.6	2.6	2.6
	(Annual percentage change, unless otherwise specified)										
Inflation (Consumer Price Index)	−3.7	−0.9	4.5	6.1	2.9	84.3	154.8	171.2	221.3	45.2	15.2
Public Finance[b]											
Revenue	19.2	19.4	21.9	21.0	20.8	13.1	7.5	6.1	13.7	15.3	15.9
o/w Tax revenue	13.7	13.7	15.5	15.4	15.6	9.0	5.6	4.9	10.0	11.7	12.9
Expenditure	26.9	28.7	28.6	32.0	31.4	16.4	6.6	9.0	13.2	14.7	15.9
Current expenditure	21.7	23.2	23.6	26.0	26.1	14.3	5.8	7.8	11.5	10.3	10.7
o/w Interest payment	8.9	9.3	9.4	9.9	10.1	2.5	0.9	0.4	0.9	0.3	0.1
Capital expenditure	1.4	1.4	1.5	1.7	1.3	0.4	0.1	0.2	0.2	0.9	1.8
Overall fiscal balance	−7.7	−9.3	-6.7	−11.0	−10.6	−3.3	0.9	−2.9	0.5	0.5	0.0
Primary balance	1.2	0.0	2.7	−1.2	−0.5	−0.8	1.8	−2.5	1.4	0.9	0.1
	(Percent of GDP, unless otherwise specified)										
External Sector											
Current Account Balance	−17.1	−20.5	−22.9	−24.3	−21.5	−8.8	−14.7	−34.6	−28.1	−22.2	−15.3
Trade balance	−22.9	−23.7	−24.8	−24.8	−25.1	−20.3	−31.0	−55.0	−53.2	−44.5	−30.5
o/w Export (GNFS)	39.7	37.3	36.1	35.7	35.7	28.2	44.9	60.1	52.7	40.2	40.0
Exports of goods	8.0	7.7	7.6	7.0	9.4	12.9	19.9	21.5	20.6	16.3	13.9
Exports of services	31.7	29.6	28.5	28.7	26.3	15.3	24.7	38.6	32.1	23.9	26.1
o/w Import (GNFS)	62.6	61.0	60.9	60.5	60.8	48.5	75.9	115.1	105.9	84.7	70.5
Imports of goods	35.2	35.1	34.8	34.4	35.3	33.4	55.4	86.4	83.9	57.5	46.4
Imports of services	27.4	25.9	26.1	26.1	25.5	15.1	20.5	31.3	21.9	27.1	24.2
Factor services and transfers	5.8	3.2	1.9	0.5	3.0	11.0	18.5	22.3	25.1	22.3	15.2
o/w Net remittance inflows	7.2	6.7	5.2	4.2	6.1	11.9	17.8	21.9	21.2	18.7	15.5
Total Public Debt											
Total debt stock (US$ million)[c]	70,315	74,959	79,530	85,139	91,922	62,567	46,881	44,312	43,976	45,851	47,664
o/w External debt	27,089	28,114	30,391	33,496	35,751	38,095	38,959	40,976	42,906	44,825	46,641
Debt-to-GDP ratio (percent)	140.8	146.6	150.0	155.1	178.1	197.3	202.7	211.1	219.0	176.5	152.4

(continued on next page)

TABLE 2 • Selected Economic Indicators (2015-2025) *(continued)*

	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025 Proj.
Memorandum Items											
Nominal GDP (LBP billion)	75,268	77,105	79,939	82,764	80,196	116,954	271,916	573,282	1,723,308	2,324,462	2,799,560
Exchange rate, average (LBP/ US$)	1,508	1,508	1,508	1,508	1,554	3,688	11,755	27,309	85,828	89,500	89,500
Nominal GDP (US$ million)**	49,929	51,147	53,028	54,902	51,606	31,712	23,132	20,992	20,079	25,972	31,280

[a] Per-capita calculations are based on population estimates produced by the UN population division. These estimates have been significantly revised down for Lebanon, to 5.5 million from 6.7 million in 2022. This change has a prominent effect on Real GDP per capita growth and Nominal GDP per capita.
[b] Fiscal accounts are reported on a cash basis.
[c] The WB-AER is used to calculate the total debt stock and nominal GDP in US$ million for 2019-2025.

SPECIAL FOCUS

Reform for Recovery and Growth: A One-Year Policy Action Plan

The new government has pledged a reform agenda and outlined four high-level objectives in its ministerial statement: (i) halting financial and economic deterioration (ii) strengthening social security; (iii) eliminating waste and corruption, and (iv) drafting a fair parliamentary elections law. To support government reform, this special focus offers a comprehensive one-year policy action plan. The action plan draws on more than two decades of the World Bank Groups' engagement and policy dialogue in Lebanon and reflects key lessons from core diagnostics, technical assistance, and sectoral projects of the World Bank in Lebanon. Recommendations are designed to deliver impact within 12 months, focusing on restoring macro-financial stability; rebuilding citizens' trust; and laying the foundation for a new, successful economic development model.

The one-year policy action plan aims at translating the high-level reform priorities articulated by the authorities into concrete and feasible high-impact actions that can be implemented within the government's short tenure. The proposed framework builds on over two decades of World Bank Group engagement in Lebanon and is intended to help anchor economic recovery and sustain growth beyond 2025 (Figure 20). The framework consolidates existing and past reform recommendations into three core pillars, each critical to driving recovery and long-term development. These pillars are: (i) restoring macroeconomic and financial stability, (ii) rebuilding citizen trust through improved governance, and (iii) investing in human capital and expanding economic opportunities.[21] While the agenda spans a broad set of sectors, all recommendations are designed to be actionable and achievable within a one-year timeframe. The reform proposal also serves to support a structured public debate around reform priorities.

Macroeconomic and financial stability are the bedrock of the reform framework and serve as a prerequisite for all other reforms. Without macro-financial stability, structural reforms cannot take root, public services cannot be restored, and economic recovery cannot be sustained. This should

[21] The proposed reforms draw on the World Bank's institutional memory and reflect a bottom-up approach to sectoral reform, shaped by years of engagement and dialogue with Lebanese counterparts. For example, policy discussions around energy sector reform span more than two decades.

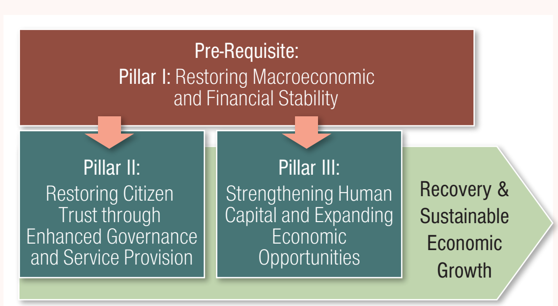
be the government's most urgent priority. While the bank restructuring process remains complex and politically sensitive, the authorities have made some headway, as noted earlier, by enacting amendments to the banking secrecy law and adopting a banking sector reform law—though the latter still requires parliamentary ratification. For the strategy to remain on track, it is essential that the financial gap law be adopted and ratified, as it establishes the framework for allocating the large losses in the banking sector. Without it, the banking sector reform law cannot come into effect. These steps are also critical to restoring credibility, as emphasized under Pillar II.

Building on this prerequisite, the second pillar focuses on restoring trust through improved governance and effective service provision. Institutional credibility and social stability hinge on strengthening governance, enhancing transparency, and ensuring reliable service delivery. Enforcing the rule of law, addressing corruption, strengthening state institutions, and responsibly managing public resources are crucial to rebuilding trust in government, both among Lebanese citizens and with international investors and development partners.

The third pillar supports the foundations of a new development model by investing in human capital and expanding economic opportunities through private sector development. A sustainable recovery must be inclusive and equitable, ensuring Lebanon's workforce is equipped with the necessary skills and opportunities to drive long-term growth. This requires targeted investments in health, education, and social protection, as well as job creation through private sector development, entrepreneurship, and economic diversification.

The core principle of the reform framework is that all components must be treated as interconnected elements of a strategic whole, rather than as isolated actions. The reforms outlined under the three pillars must be pursued simultaneously and comprehensively, reinforcing one another. This approach addresses an important lesson from Lebanon's past, where piecemeal reforms often failed to produce sustainable outcomes. Only a holistic reform implementation strategy can ensure that macroeconomic stability translates into improved governance, strengthened public services, and robust private sector-led growth. Collectively, these interconnected reforms can generate the necessary momentum for lasting economic recovery and sustainable long-term development.

FIGURE 20 • The Reform Framework



From Challenges to Reforms

Pillar I: Restoring Macroeconomic and Financial Stability

Lebanon's economy is marked by macroeconomic instability, an unsustainable debt burden, and an insolvent financial sector. Despite recent exchange rate stabilization, prolonged currency depreciation has eroded purchasing power, fueled triple digit inflation, and deterred investment. The banking sector remains in distress and insolvent, with an unresolved financial crisis that has eroded confidence, paralyzed credit markets, and left depositors unable to access their savings. A growing cash-based economy has worsened financial integrity risks, leading to Lebanon's Financial Action Taskforce (FATF) grey list placement.

Urgent reforms include restructuring and rehabilitating the banking sector as well as establishing a credible exchange rate and monetary framework. A public debt restructuring strategy must be agreed upon with domestic and external creditors to restore fiscal sustainability. Fiscal consolidation should be supported through multi-year budget planning and a more equitable tax regime. Comprehensive banking sector restructuring, including audits, resolution mechanisms, and legal reforms, must be completed, while FATF-aligned AML/CFT frameworks are strengthened. A robust regulatory system for digital payments and non-bank finance is also essential. Enhanced fiscal discipline and greater transparency about fiscal targets would contribute to rebuilding trust, a key requirement under Pillar II.

Pillar II: Restoring Trust through Governance and Public Service Delivery

Institutional capacity is severely undermined by corruption, poor financial governance, and a shrinking, underpaid public workforce. Public services, including electricity, water, and transport, suffer from mismanagement, inefficiency, and years of underinvestment. Digital government remains fragmented. The procurement system is weak and non-transparent. Environmental degradation and outdated telecommunications regulation further hamper service delivery.

Governance reforms include adopting a revised public accounting law, launching civil service restructuring, and enhancing transparency through digital systems and public oversight bodies. In electricity, priority reforms target loss reduction, billing cycle efficiency, and scaling up low-cost supply. In water, passage of the national water strategy and modernization of infrastructure and governance are critical. Transport reforms focus on port law implementation and public transport system design. Procurement and telecom reforms must ensure independent oversight, enforcement of existing laws, and digital upgrades. Restructuring the civil service, by removing redundant and ghost employees, would provide the necessary fiscal space to recruit qualified staff for critical functions at the Ministry of Finance and finance the informational technology systems that are essential for revenue collection.[22] Enhanced fiscal space would also permit gradually increasing wages across the public service, which in turn enhances productivity and government effectiveness. Moreover, the decrease in principial and interest expenditures from a successful debt restructuring would create space to address the chronic underinvestment in the electricity, transport, and waste management sectors.

Pillar III: Strengthening Human Capital and Expanding Economic Opportunities

Lebanon's human capital is eroding due to declining education quality, a healthcare system in crisis, and a fragile social safety net. Youth unemployment and informality are high, and the private sector, crucial for job creation, is constrained by limited access to finance, outdated investment laws, and weak competition. The agrifood sector suffers from fragmented land ownership, broken or limited regional value chain integration, export barriers, and climate and conflict-related damage. The authorities could enhance the agrifood sector's export competitiveness by enacting reforms that target value chain development, food safety enforcement, and modernization of trade and inspection systems. Contingent on continued stability in the security environment, the ongoing improvement in the political environment that resulted from the election of a President and formation of a reform-minded government coupled with regional geopolitical changes would alleviate the uncertainty—a historically significant impediment cited by Lebanese enterprises—facing the private sector and reestablish access to regional destination markets, which is essential for generating cash flows and inward investments. The authorities could also explore, with international and regional partners, bridge financing mechanisms that are specific to the private sector to allay the financing constraint. Operationalizing the Competition Law, passing insolvency legislation, and enhancing the role of the Investment Development Authority of Lebanon (IDAL)'s role would also support a private sector led growth model.

[22] The authorities can create fiscal space by prioritizing such high impact (yet low cost) initiatives that enhance revenue collection. For instance, the Value-Added Tax (VAT) Directorate, Revenue Directorate and Lebanese Customs Administration are critically understaffed. The operational efficiency of the Large Taxpayers' Office could be enhanced and revenue directorates combined and streamlined (IMF, 2023). These reforms to the tax administration would strengthen revenue collection and create further fiscal space. For further information, see IMF (2023), "Lebanon Technical Assistance Report – Tax and Customs Administration: An Urgent Need for Intervention", Washington DC.

Lebanon's education, health, and social protection systems are ailing, undermining human capital development and social stability. The education sector is struggling with declining quality, underfunding, and the erosion of its qualified teaching force, leaving many students without access to proper learning opportunities. The health sector is experiencing a severe financial and operational crisis, with hospitals and primary care facilities struggling to procure medical supplies, retain staff, and provide adequate services due to the multi-pronged crisis. The social protection system remains fragile and constrained in its ability to comprehensively protect and enhance the resilience of the poor and vulnerable, with challenges in securing adequate financing beyond grants and borrowing. Deteriorating labor market conditions, due to rising unemployment, informality, and economic inactivity, are also leading to underutilization of human capital.

The authorities have scope to undertake sector-specific reforms—which do not all necessitate significant financing—that yield rapid and significant impact. Health reforms should institutionalize procurement transparency, expand access through updated benefit packages, and rationalize curative care spending. Education reforms include school rehabilitation, skills-based training, and teacher workforce management. Social protection requires sustainable financing for cash transfers that are currently disbursed to 150,000 extreme poor Lebanese household under the World Bank financed Emergency Social Safety Net Project (ESSN)-AMAN program, recertification of beneficiaries, and implementation of the graduation pillar.

Translating the Reform Framework into Action

The reform framework is operationalized through a detailed policy action plan, identifying the most pressing challenges that must be addressed immediately. This comprehensive, one-year action plan, developed based on sector-specific policy notes, aims to achieve maximum immediate benefits while establishing the groundwork for broader and more extensive reforms. By concentrating on clearly defined, actionable steps with significant potential impact, Lebanon can effectively tackle its most critical issues and build a solid foundation for sustained recovery and long-term development. **Table 1 summarizes key reforms and the corresponding policy action plans** for each sector under each pillar. To ensure implementation and impact, the proposed policy reform actions align with government priorities, are deemed feasible within 12 months, and are considered sufficiently robust to remain effective over the longer-term.

TABLE 3 • Summary of Sectoral Key Reforms and Corresponding One Year Action Plans

Pillar	Sector	Key Reforms	One-Year Policy Action Plan
Pre-Requisite **Pillar I: Restoring macroeconomic and financial stability**	**Macroeconomy (Stabilization)**	**1. Monetary Stabilization**	**Establish a new and credible Exchange Rate & Monetary Framework:** A new monetary policy with a clear focus on targeting inflation would provide a nominal anchor for economic activity
			Full Assessment of the financial position of Banque du Liban (BDL)
			Initiate Governance Reforms in BDL to strengthen financial sector supervision and control
		2. Public Debt Restructuring	**Adopt a Public Debt Restructuring Strategy**: Agree on external and domestic debt restructuring plans and on losses with creditors, subject to equitable burden sharing
		3. Fiscal Framework Formulation	**Timely ratification of consecutive government budgets with immediate corrective revenue mobilization and spending measures**
			Adopt a Medium-term Fiscal and Debt Strategies and Fiscal Consolidation Plan. This can include the preparation of multi-year budgets, targeting a smaller primary deficit, and which possibly include principles of performance-based budgeting**.** A multi-year debt management strategy is also essential to maintain debt on a sustainable footing after the completion of the debt restructuring.
	Banking Sector	**1. Restructure and resolve distressed banks**	**Ratify the banking sector reform law in parliament while maintaining adherence to best international practices.**
			To execute the strategy, conduct an independent audit and valuation of banks. Proper implementation of the bank secrecy law is critical for independent audits and valuations of banks.
			Based on the findings of the independent audit and valuation, i**mplement bank resolution measures with legal protections, operational independence, and alignment with Financial Stability Board (FSB) key attributes.**
		2. Strengthen the AML/ CFT regime and its enforcement in the financial sector	**Amend Anti-Money Laundering (AML) and Combating the Financing of Terrorism (CFT) laws in line with the Financial Action Task Force (FATF)'s recommendations** and ensure effective implementation.
			Track progress on the implementation of the FATF Action Plan.
		3. Adopt a robust regulatory framework for payments, digital financial services, and non-banks	**Adopt comprehensive payment regulations, draft a national payment systems law, establish a fast payment system, and strengthen oversight and supervision of payment services.**
Pillar II: Restoring Citizen Trust through Enhanced Governance and Service Provision	**Public Sector**	**1. Strengthening Public Financial Management (PFM)**	**Finalize the consultations pertaining to the Public Accounting Law (PAL) and submit it to the Council of Ministers and parliament for ratification.** The public procurement law (Law 244/2021), ratified in 2021, streamlines and unifies the previously fragmented and inconsistent procurement framework. The law, which came into effect on July 29, 2022, adheres to international best practices. Despite that, modernizing the PAL, which dates to 1963, is essential for improving budget preparation and execution.
			Public Investment Management (PIM): Consolidate the PIM governance framework via:
			(i) Creation of a steering committee (SC) chaired at the highest level of government to lead, facilitate and report on the progress of the PIM reform;

(continued on next page)

TABLE 3 • Summary of Sectoral Key Reforms and Corresponding One Year Action Plans *(continued)*

Pillar	Sector	Key Reforms	One-Year Policy Action Plan
Pillar II: Restoring Citizen Trust through Enhanced Governance and Service Provision *(continued)*			(ii) Institutionalization of a PIM unit by the Government;
			(iii) Streamline functions and processes with/within the Ministry of Finance for capital budgeting
			Timely publication of fiscal data to increase public trust and enhance fiscal transparency.
		2. Implement a Merit-Based Civil Service Reform to Enhance Efficiency and Transparency	**Initiate a civil service census in line with international best practices.**
			Adopt a credible reform plan for civil service management and wage bill.
			Initiate the establishment of an integrated HR IT system and payroll IT system.
		3. Strengthen Anti-Corruption & Public Oversight (including Judicial Reform)	**Adopt the income and asset declaration system.**
			Enforce access to information law through adopting a Right to Information law requiring proactive publication of government data (budgets and financial reports, information on public services, etc.).
			Ratify the amended law of the Court of Accounts
			Establish a dedicated parliamentary budget office.
			Establish a National Taskforce for Judicial Reform
	Procurement	**1. Ensure public procurement respect of main principles of fairness, transparency, fit-for-purposes and value-for-money.**	**Creation of the Procurement Complaint Authority:** **nomination of president and members** **Issuance of related decrees for operationalization**
		2. Strengthen public procurement institutional oversight for proper reporting on the performance of the system.	**Endorsement of Decrees related to implementation of the public procurement law 244/ 2022:** **nomination Public Procurement Authority (PPA) members** **Issuance of priority decrees for implementation of the law**
	Digital Development	**1. Transition to citizen-centric and resilient digital government**	**Approval of National E-Government Strategy** to enable a trusted, coordinated, and interoperable deployment of digital services.
			Approval of National Data Hosting and Cloud Strategy to enable the efficient, cost-effective, and green delivery of highly available digital services.
		2. Strengthen digital trust foundations	**Submission of Personal Data Protection Law** that regulates the use and handling of personal data.
			Implementation of E-Signatures: operationalization of the Lebanese Accreditation Council (COLIBAC) and implementation of the framework for certification of trust service providers, to enable digital signing of public official documents, reduce paperwork, and improve efficiency.

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TABLE 3 • Summary of Sectoral Key Reforms and Corresponding One Year Action Plans *(continued)*

Pillar	Sector	Key Reforms	One-Year Policy Action Plan
Pillar II: Restoring Citizen Trust through Enhanced Governance and Service Provision *(continued)*			**Approval of the National Cybersecurity Strategy** to improve Lebanon's cybersecurity posture, defend critical infrastructure, and eliminate cyberthreats.
	Sector	**Key Reforms**	**One-Year Policy Action Plan**
	Electricity Sector	**1. Achieve Reliable and affordable grid electricity service**	**Implement Électricité du Liban (EDL) Cost Recovery Plan, approved in July 2024, including urgent measures to:** • Reduce technical and commercial losses from 40% to 20% • Streamline protracted billing cycle from 12 to 3 months • Increase low-cost supply including: (i) utility-scale solar PV plants, (ii) gas and electricity imports, and (iii) rehabilitate transmission networks and hydro power plants (HPPs).
		2. Establish Transparent and predictable payment execution	**Operationalize the Cash Waterfall Mechanism and disclose regular reports on payment execution.**
			Establish EDL opening balance as per International Standards on Auditing (ISA).
			Disclose EDL audited financial statements on yearly basis.
		3. Adopt an effective regulatory framework	**Establish the Electricity Regulatory Authority** (starting with the appointment of ERA commissioners by COM).
			Review sector legal and regulatory framework
			Prepare for EDL Corporatization, starting with functional unbundling.
	Water Sector	**1. Optimize supply infrastructure and systems to bridge the water supply-demand gap to improve water use efficiency**	**Approval of national water sector strategy and subordinate decrees including:** (i) (a) well overhauling requests, (b) well licensing and the use of groundwater, and (c) annual reports of Water Establishments (WEs) by the Council of Ministers (CoM); (ii) internal procedures for the national water council by the PM; (iii) (a) water infrastructure licenses for wells, (b) adoption of the strategy, (c) water rights, (d) judicial police, (e) water users association, (f) oversight of non-public Waste Water installations by the CoM.
	Transport Sector	**1. Adopt structural reform of the port sector to support trade facilitation, improved border compliance, and adequate national digital infrastructure**	**Enact and Implement the Port Sector Law to enable public-private partnership projects,** particularly for the reconstruction of Port of Beirut.
		2. Create a sound legal and institutional framework for good public transport governance	**Adopt a public transport reform plan** including institutional arrangements to enable the development of an integrated public transport system.
	Environment	**1. Advance the implementation of ongoing Reforms in the Solid Waste Sector**	**Pilot the implementation of the Cost Recovery Law for Solid Waste Management in additional municipalities**
		2. Establish an efficient system for processing environmental and social safeguards instruments	**Digitalization of the Ministry of Environment (MoE)'s processes of the safeguards instruments to allow all parties to obtain needed guidance and response**

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TABLE 3 • Summary of Sectoral Key Reforms and Corresponding One Year Action Plans *(continued)*

Pillar	Sector	Key Reforms	One-Year Policy Action Plan
	Telecom	**1. Improve the legal, regulatory, and institutional framework for telecom**	**Enabling the Telecom Regulatory Authority (TRA)** by appointing TRA Board members and ensuring the TRA is fully functional, independent, autonomous, transparent, and accountable.
Pillar III: Strengthening Human Capital and Expanding Economic Opportunities	**Health Sector**	**1. Support Health Service Coverage and Financial Protection**	**Prepare the first version of a unified National Health Benefits Package** to be discussed with relevant stakeholders
			Directly contract Primary Healthcare Centers (PHCCs) using an updated provider payment mechanism funded by the Ministry of Public Health (MoPH) budget to improve access to essential services for vulnerable populations identified through a transparent targeting mechanism
		2. Strengthen the Governance of the Ministry of Public Health (MoPH)	**Institutionalize and expand the digital tracking systems for medicine procurement and dispensing** (Aman and Meditrack)
			Develop and issue the implementation decrees for the Lebanon Drug Agency law enacted in 2022
			Update the MoPH organigram to reflect current needs and fill critical vacancies to restore operational capacity of MoPH.
			Re-establish and activate the Central Public Health Laboratory
		3. Implement Measures for Cost Containment and Efficiency Gains	**Update the list of services covered by MoPH** to rationalize MoPH spending on curative care and optimize use of limited resources.
			Upgrade the physical infrastructure and technical capacities of public hospitals to expand access and improve service quality, positioning them as the primary providers of hospital care for MoPH-covered patients, thereby reducing overall healthcare costs.
			Develop Standard Bidding Documents for public procurement of medicines and update the National List of Essential Medicines, while prioritizing the procurement of generic medications where possible
	Education Sector	**1. Mitigate learning losses**	**Establish temporary learning structures where needed and rehabilitate and reconstruct schools** damaged in the conflict to return all children to in-person learning as soon as possible
			Issue a Ministerial Decision to implement the Teaching at the Right Level approach during regular school hours for the 2025–26 and 2026–27 academic years
			Implement standardized learning assessments for numeracy and literacy at the end of the primary school cycle
		2. Enhance Youth Employability through Skills Training	**Introduce short, market-relevant skills trainings in universities linked to industry certification**, focusing on high-demand sectors (e.g. digital and ICT) to improve youth employability.
			Initiate development of a national Technical Vocational and Education Training (TVET) skills development strategy that includes skills planning, prioritization, and forecasting; a national skills recognition, certification, and accreditation framework; and strong public-private partnerships
		Use human and financial resources more efficiently	**Issue a Ministerial Decision requiring** (i) the recording of civil servant teachers' teaching hours; (ii) raising the minimum number of weekly teaching hours for contractual hours; (iii) instituting objective contractual teacher hiring criteria; and (iv) requiring contractual teachers to pass a standardized exam.

(continued on next page)

TABLE 3 • Summary of Sectoral Key Reforms and Corresponding One Year Action Plans *(continued)*

Pillar	Sector	Key Reforms	One-Year Policy Action Plan
Pillar III: Strengthening Human Capital and Expanding Economic Opportunities *(continued)*			**Issue a decree related to the Teachers Internal Regulation** (النظام الداخلي) with a clarification of the Nisab (effective working hours) for Primary and Secondary teachers
			Initiate the development of an Education Management Information System (EMIS); issue a decree to establish an IT unit under the Minister of Education and Higher Education
	Sector	**Key Reforms**	**One-Year Policy Action Plan**
	Social Protection and Labor	**Improve and institutionalize Social Safety Nets**	**Allocate government budget to the ESSN-AMAN program,**[a] mobilize donor support to, at a minimum, ensure keep the same level of coverage, and develop a sustainable financing plan.
			Introduce key program and system improvements: (1) DAEM Social Protection Information System; (2) digital payments; (3) targeting to re-open registration, recertify existing beneficiaries, and adjust caseload to poverty; and (4) advance the provision of social services through the ESSNP.
			Establish and operationalize the governance of Social Safety Net programs, bringing together government, partners and donors, to support the implementation of the National Social Protection Strategy.
		Implement policies and programs to promote inclusive job access	**Develop an action plan to operationalize the graduation pillar of the National Social Protection Strategy for enhanced delivery of cash transfers under the ESSN-AMAN project. The expansion and unification of cash transfers was made possible by the establishment of a modern social registry (DAEM), which currently holds data on about 45% of the population. DAEM can be leveraged for multiple social programs and easily expanded,** building on the implementation and evaluation of the ongoing economic inclusion pilots.
			Approve amendments to the labor code for gender equality.
	Private Sector	**1. Implement an Effective Competition Policy**	**Draft and pass implementation regulations for the new Competition Law.**
			Establish the National Competition Authority (NCA) Board.
		2. Improve the Business Environment	**Establish a Business Environment Reform Committee to coordinate and monitor the development and implementation of business environment reform agenda.**
			Develop and approve a comprehensive Business Environment Action Plan.
			Enact the draft Insolvency and Insolvency Practitioner Laws and draft and approve executive regulations for both laws.
		3. Enhance Investment Policy and Promotion	**Amend the Investment Law No. 360 to cover key areas for investors in a more comprehensive and investor-friendly manner.**
			Strengthen the Investment Development Authority of Lebanon (IDAL) by improving institutional representation and oversight, and greater decision-making flexibility.
	Agrifood	**1. Incentivize Local Production**	**Implement decision 1/950:** Registration and technical inspections of Agri-food factories.
		2 Strengthen Agrifood Systems and Trade Facilitation	**Revise Law No. 778 Agriculture Quarantine and Plant Health Measures** to align reform of the Inspection Procedures of the Wheat Value Chain with International Practices (GAFTA).

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TABLE 3 • Summary of Sectoral Key Reforms and Corresponding One Year Action Plans *(continued)*

Pillar	Sector	Key Reforms	One-Year Policy Action Plan
Pillar III: Strengthening Human Capital and Expanding Economic Opportunities *(continued)*			**Enforce the Food Safety Law No. 35 (enacted in 2015) and Law No. 224:** The Food Safety Law passed in 2015 remains largely unenforced, resulting in a fragmented and inefficient national food safety system that complicates access to international markets. Enforcing the existing laws is essential for strengthening agricultural and agri-food exports' access to destination markets. The World Bank can support the authorities in terms of technical regulations and the related conformity procedures by providing technical assistance to the Ministry of Agriculture in terms of setting up the Food Safety Lebanese Commission, including pending implementation decrees and procedures to ensure effectiveness of to strengthen traceability systems.

[a] The ESSN is a US$ 246 million World Bank financed Emergency Social Safety Net Project (ESSN) under which cash transfers are provided to 150,000 extreme poor Lebanese households. The ESSN is also known as AMAN. Disbursements of cash transfer under the ESSN began in March 2022. Support under the ESSN was scaled up by US$ 300 million in 2023. One of the goals of the ESSN-AMAN project is the development of a social registry, known as DAEM, that can be integrated with the Social Protection Information System (SPIS) as per the needs of the government.

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