

WB: From a 4% Projected Growth to a 6.4% Contraction in 2026



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Introduction

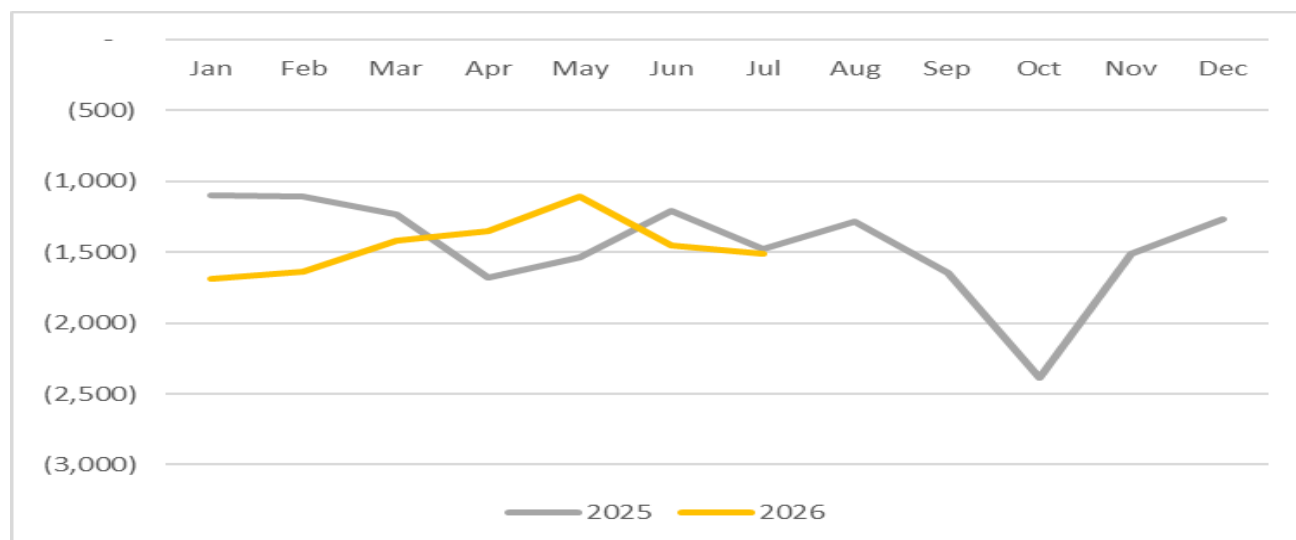
Lebanon entered 2026 with signs of stabilization, but the March escalation of conflict quickly derailed this progress. The conflict has caused severe humanitarian losses, driven mass displacement, and left housing and infrastructure in ruins in the South and southern Beirut suburbs. These new losses add to the damage from the 2024 war. Reform efforts, including steps toward banking sector restructuring, have been disrupted as authorities shift focus to crisis response. According to the World Bank (WB) *Lebanon Economic Monitor* (LEM) for Summer 2026, titled [A Conflict-Torn Economy](#), Lebanon's brief stabilization in 2025 led to an upward revision of growth to 4.2%, compared with 3.5% in the Winter 2026 LEM. However, the renewed conflict in 2026 reversed this trend, prompting a sharp downward revision: instead of the 4% growth projected in the Winter 2026 LEM, the economy is now expected to contract by 6.4% this year. This paper will examine the WB's findings in greater detail.

WB Findings

Fiscal results strengthened in 2025, yielding a surplus of 3.9% of GDP. Compliance gains and improved VAT/customs collection drove revenues. Since March 2026, conflict-related humanitarian and displacement spending has risen. Surpluses were recorded in H1-2026, but H2 performance is expected to weaken as crisis spending, a higher public wage bill, a weaker tax receipts from deferrals, and a contracting tax base take hold due to a slower economy. Public debt stays unsustainable, with the lower debt-to-GDP ratio largely a statistical effect of nominal GDP growth from exchange rate dynamics.

The current account deficit expanded in 2025, with imports outpacing exports and remittances, widening the current account deficit. In 2026, rising energy prices and regional trade disruptions are set to prolong external pressures.

Chart 1: Lebanon's Trade Balance in 2025 and 2026 in million USD



Sources: Customs, BLOM Bank

Exchange rate stability has been preserved by using reserves and restricting liquidity, yet risks remain if inflows weaken, external obligations rise, and conflict shocks persist.

As per BDL's data, BDL's foreign reserves rose by 17% in 2025 to \$11,895 million due to the country's reforms and relative security stabilization in most of the country. However, this trend reversed in 2026 due to the war's escalation. As of end of August 2026, BDL's foreign reserves fell by 3% this year to \$11,566 million.

It is important to add that mineral product imports — including energy — are Lebanon's largest import category, accounting for about 25% of total goods between January and July 2026. Rising fuel costs therefore inflate the national import bill directly, while also pushing up the prices of nearly all imported goods.

At the same time, local manufacturers and agricultural exporters depend heavily on private diesel generators due to chronic state power outages, as well as on imported raw materials whose costs rise alongside global energy prices.

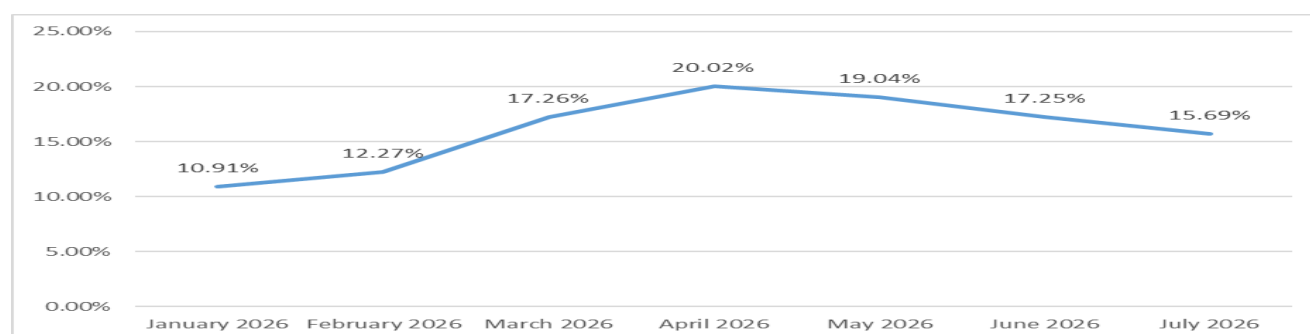
Consequently, higher energy prices not only raise the cost of imports and domestic goods — fueling inflation — but also erode export competitiveness. This double impact intensifies pressure on foreign currency reserves, as the country faces both a heavier import burden and weaker export performance. So far, remittances from the Gulf — which account for roughly half of Lebanon's total inflows — have remained largely unaffected. However, if the war persists, they are expected to come under pressure, further pressuring the Lebanese currency's stability.

Despite partial restructuring steps, the banking system remains severely impaired. Parliament's passage of an amended Bank Restructuring Law in August removed one key obstacle toward an eventual IMF program and debt restructuring. However, the Financial Regularization and Deposit Recovery Law—commonly referred to as the Gap Law—remains pending. Conflict dynamics have further undermined the framework by raising social and reconstruction financing demands and intensifying uncertainty over the resources available to support deposit recovery. As discussed in [GS Sees Lebanese Eurobonds as Overvalued; Global Yields Hit 18-Year High](#), Goldman Sachs analysts said in their CEEMEA Outlook: Cautiously Optimistic (September 2, 2026), “While not a formal requirement, we believe that a resolution to the question of Hezbollah disarmament is a precondition for an IMF programme and any future bilateral/multilateral financial assistance beyond that limited to proving near-term humanitarian relief.”

This adds another layer of complexity. The United States effectively holds a veto: if Washington opposes IMF lending to Lebanon, securing funds becomes impossible. Given its confrontation with Iran and Hezbollah's alignment with Tehran, U.S. approval seems to have become a de facto prerequisite for any IMF program or broader financial assistance.

Inflation is forecast to climb by 17.5% in 2026, reflecting supply chain disruptions, elevated freight costs, and energy price increases in an import-dependent economy, *which all have a domino effect on overall prices*. The erosion of purchasing power will deepen, with the trajectory of the downturn shaped by conflict dynamics, displacement, physical destruction, and regional geopolitics. Even as authorities address humanitarian and economic fallout, reform implementation has advanced on financial sector restructuring, fiscal frameworks, and public financial management, albeit not as fast as hoped. Sustaining this progress is essential to restore confidence, catalyze growth, and mobilize concessional and official financing for recovery.

Chart 1: Lebanon's Annual Inflation Rate in 2026

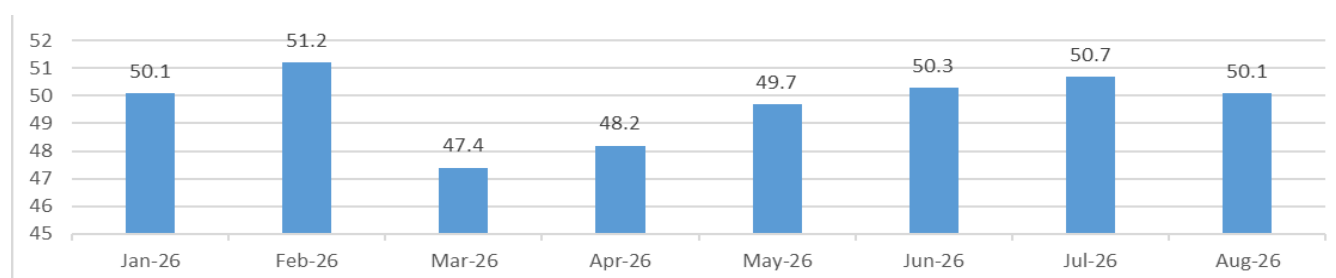


Sources: Central Administration of Statistics, BLOM Bank

We would like to add that as per the report, “Cleared checks in LBP and US\$ rose by approximately 49.5 percent and 29 percent in H2-2025 relative to H1-2025, respectively. Construction activity also picked up, with construction permits and cement deliveries increasing by 12.8 percent and 14 percent in H2-2025 relative to H1-2025, respectively. Passenger arrivals, an indicator of tourism sector activity, rose by 24.5 percent over the same period. On a year-on-year basis, cement deliveries and construction permits increased by 36 percent and 29.3 percent, respectively, while night-time lights, an alternative proxy for economic activity, rose by 30 percent.” In other words, the 2025 rebound was consumption- and tourism-led, which is why a security shock could dismantle it so quickly.

In addition to that, Lebanon is known for delays in official data releases, so private indicators such as the BLOM Lebanon PMI are essential. As highlighted in [Lebanon's GDP and PMI: A Correlation Analysis](#), the PMI should be used as a trend monitor rather than a scaled proxy for output. The chart below shows that the BLOM Lebanon PMI was rising before the March 2026 escalation, but once the escalation began, the index fell and continued to decline. Although the PMI returned to the growth zone in June 2026, this improvement reflects growth relative to the previous month — meaning it is from a low base. Overall, GDP is estimated to have contracted in the first half of 2026 and is expected to remain in contraction for the year.

Chart 3: BLOM Lebanon PMI



Source: BLOM Bank

GS Sees Lebanese Eurobonds as Overvalued; Global Yields Hit 18-Year High

TABLE 1. SELECTED ECONOMIC INDICATORS (2015-2026)

	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026
					100	72.45785	73.42437	74.13032768	73.420562	69.24005	Est.	Proj.
	(annual percentage change, unless otherwise specified)											
Real Sector												
Real GDP	0.5	1.6	0.8	-1.9	-6.6	-28.7	1.6	1.4	-0.5	-5.2	4.2	-6.4
Real GDP per Capita*	-1.5	4.0	3.5	1.0	-3.6	-27.5	1.3	1.0	-1.0	-5.7	3.4	-7.2
	(Share of Real GDP)											
Agriculture	3.5	3.7	4.1	4.2	4.5	7.0	7.4	7.9	7.9	7.9	7.7	8.0
Industry	13.6	13.5	13.1	12.8	11.6	9.8	10.0	9.5	9.8	9.9	10.5	10.8
Services	72.9	72.8	73.0	73.4	75.2	82.9	80.6	76.8	76.7	69.8	69.4	69.0
Net Indirect Taxes	10.0	10.0	9.8	9.5	8.7	0.4	2.0	5.7	5.5	12.4	12.4	12.2
	(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	14.6	17.5
Public Finance**												
	(percent of GDP, unless otherwise specified)											
Revenue	19.2	19.6	22.0	20.9	20.8	16.8	8.2	5.7	10.5	12.8	16.8	16.2
o/w Tax revenue	13.7	13.9	15.5	15.3	15.6	11.5	6.2	4.5	7.7	9.3	12.4	10.3
Expenditure	26.9	29.0	28.7	31.8	31.3	21.1	7.3	8.3	10.1	12.0	12.8	14.9
Current expenditure	21.8	23.5	23.7	25.8	26.0	18.3	6.3	7.2	8.7	9.1	9.4	11.2
o/w Interest payment	8.9	9.4	9.4	9.8	10.0	3.2	1.0	0.3	0.7	0.6	0.8	0.4
Capital expenditure	1.4	1.4	1.5	1.7	1.3	0.5	0.1	0.2	0.2	0.1	0.6	1.2
Overall fiscal balance	-7.7	-9.4	-6.7	-10.9	-10.6	-4.3	1.0	-2.7	0.4	0.8	3.9	1.3
Primary balance	1.2	0.0	2.7	-1.2	-0.5	-1.1	2.0	-2.3	1.1	1.4	4.7	1.7
External Sector												
	(percent of GDP, unless otherwise specified)											
Current Account Balance	-17.1	-20.7	-22.9	-24.2	-20.8	-11.6	-23.3	-36.4	-22.6	-18.2	-24.9	-21.3
Trade balance	-22.9	-23.9	-24.8	-24.6	-24.3	-26.9	-40.8	-59.3	-44.0	-38.3	-40.4	-39.1
o/w Export (GNFS)	39.7	37.7	36.2	35.5	34.6	37.4	50.3	61.9	46.7	35.8	33.5	30.3
Exports of goods	8.0	7.8	7.6	7.0	9.1	17.1	21.1	22.2	16.0	12.4	12.7	11.7
Exports of services	31.7	29.9	28.6	28.5	25.5	20.3	29.2	39.7	30.8	23.4	20.8	18.6
o/w Import (GNFS)	62.6	61.6	61.1	60.1	58.8	64.3	91.1	121.2	90.8	74.1	74.0	69.4
Imports of goods	35.2	35.4	34.9	34.2	34.2	44.3	65.9	89.0	65.0	52.6	52.3	58.6
Imports of services	27.4	26.2	26.2	25.9	24.6	20.0	25.2	32.2	25.8	21.5	21.6	10.8
Factor services and transfers	5.8	3.2	1.9	0.5	3.5	15.3	17.5	22.9	21.4	20.1	15.5	17.8
o/w Net remittance inflows	7.2	6.7	5.2	4.2	6.2	16.4	21.7	22.6	18.0	16.5	12.3	13.5
Total Public Debt												
Total debt stock (US\$ million)***	70,315	74,959	79,530	85,139	93,420	59,552	46,372	43,966	43,961	45,851	48,158	49,844
o/w External debt	26,724	27,703	29,985	33,545	35,751	35,857	38,959	40,976	42,906	44,825	47,135	48,828
Debt-to-GDP ratio (percent)	140.9	148.1	150.4	154.0	175.3	249.0	236.7	215.6	169.5	150.4	130.6	127.9
Memorandum Items												
Nominal GDP (LBP billion)	75,213	76,307	79,717	83,349	80,359	91,139	246,092	621,364	2,257,806	2,728,402	3,300,615	3,487,229
Exchange rate, average (LBP/US\$)	1,508	1,508	1,508	1,508	1,508	3,810	12,563	30,477	87,043	89,474	89,500	89,500
Nominal GDP (US\$ million)***	49,893	50,618	52,880	55,290	53,306	23,921	19,588	20,388	25,939	30,494	36,878	38,963

* 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

**Fiscal accounts are reported on a cash basis

Source: WB

Conclusion

The Summer 2026 Lebanon Economic Monitor tells a story of a recovery that was real — broad-based, consumption- and tourism-led, and visible across high-frequency indicators through late 2025 — being cut short by a security shock.

The swing from 4.2% growth in 2025 to a projected 6.4% contraction in 2026 underscores a critical reality: despite reforms enacted by the parliament elected in early 2025, economic progress cannot be sustained without security stabilization.

While hopes rest on an end to Israel's war on Lebanon, the government's immediate role is to contain the downside and prepare the right policy steps so that, once stability returns, the economy can resume significant growth.

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