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## **Introduction**

Lebanon's efforts to address the legacy of the 2019 financial crisis entered a new phase in 2025 following the election of President Joseph Aoun and the formation of Dr. Nawaf Salam's government. The country is now facing a critical transition between years of systemic economic and financial deterioration and a fragile attempt to restore confidence, rebuild state institutions and place the economy on a sustainable recovery path. The new government has revealed greater emphasis on economic and fiscal reform, including the development of a medium-term fiscal framework (MTFF). This represents an important retreat from Lebanon's traditional approach, which has often been characterized by short-term measures and delayed structural reforms. However, the reform process continues to face weighty political, institutional and security constraints.

Against this backdrop, the Leaders Club's report "Fiscal and Economic Reform Agenda" delivers a full overview of the reforms required to address Lebanon's economic and fiscal challenges. It is based on discussions between Minister of Finance Yassine Jaber, economists, representatives of business associations, parliamentarians and former ministers, and identifies several measures considered essential to restore economic and financial stability.

The central question is therefore no longer whether Lebanon knows which reforms are required, but whether it can transform these individual measures into a coherent and continuous reform framework capable of restoring confidence, encouraging investment and generating sustainable economic growth.

This article reviews the main proposals under three broad pillars: (I) Financial Reforms, (II) Fiscal Reforms, and (III) Economic Reforms, while highlighting several areas where implementation will be particularly important.

## **I. Financial Reforms:**

Lebanon's financial sector remains at the center of the country's economic crisis. The systemic banking crisis disrupted the typical function of financial

intermediation, restricted access to deposits and credit, and contributed to a sharp contraction in economic activity. Accordingly, resolving the banking crisis represents one of the most important prerequisites for sustainable recovery. The Leaders Club report identifies several key priorities, including the restructuring of the banking sector, the adoption of a comprehensive framework for recovering deposits, and reaching an agreement with the International Monetary Fund (IMF).

The implementation of the recently amended Bank Resolution Law and the adoption of a Financial Stabilization and Deposits Recovery Law would provide the legal basis for addressing the losses accumulated. Nevertheless, these measures should to be part of a comprehensive plan that forms a clear hierarchy for the allocation of losses and responsibility, protects depositors to the most extent possible, and restores the soundness of viable banks.

The importance of resolving the banking crisis extends well beyond the banking sector itself. A functioning economy needs a functioning financial intermediary. Depositors need confidence that their savings are secure, while banks need sufficient capital and liquidity to resume lending. Once confidence is gradually restored, deposits can return to the banking system and banks can start converting these resources into credit for businesses and households.

This would generate an important transmission mechanism for economic recovery. Increased bank lending could support business expansion, investment and employment, while allowing the private sector to move away from excessive reliance on cash and informal financing.

## **II. Fiscal Reforms:**

Fiscal reform is one of the most critical components of Lebanon's recovery strategy. The reform agenda identified by the Leaders Club covers the budget process, tax collection, public administration, expenditure management and state-owned enterprises.

### Moving Toward Medium-Term Budgeting

One promising progress is the preparation of the 2027 budget within a five-year Medium-Term Fiscal Framework (MTFF). Introducing an MTFF can indicate an important improvement over the traditional approach of preparing annual budgets without consideration of their medium-term implications. A medium-term framework can improve fiscal predictability by allowing policymakers to assess the future implications of current spending and revenue decisions.

The Ministry of Finance is also moving toward a program-based budgeting approach rather than relying exclusively on the traditional line-item and input-based methodology. With support from international partners, including the European Union and the OECD, this approach could strengthen the link between

public expenditure and measurable outcomes. However, the success of the MTFF will ultimately depend on its continuity. Lebanon has frequently experienced changes in governments, resulting in reforms being delayed, modified or abandoned. MTFF should therefore become a permanent component of fiscal management rather than a policy initiative limited to a single government.

#### Tax Collection Rather Than Tax Increases

Lebanon's fiscal challenge is not just a question of low tax rates. It is also a question of tax collection and compliance. Throughout past years, the State has introduced or rose several taxes while continuing to collect revenues insufficient to cover its expenses. This suggests that improving the efficiency of revenue collection should be prioritized before any discussion of tax rates.

The launch of electronic tax payments, electronic invoicing and the invoice lottery could considerably improve tax compliance. In particular, the invoice lottery can create an incentive for consumers to ask for official invoices as they themselves become participants in the system. This creates a potentially great mechanism: the customer becomes extra enforcement means for the tax administration. As such, businesses would have greater hurdle understating their actual revenues. The objective should be to widen the effective tax base rather than constantly increase the burden on already compliant taxpayers. In a weak economic environment, recurring tax rises could create additional incentives for firms to understate revenues or operate informally.

Stronger enforcement is also necessary. The Ministry of Finance has reportedly increased efforts to pursue companies with significant outstanding tax liabilities, including referring cases to the Financial Public Prosecutor. Customs authorities can also contribute by restricting certain transactions concerning companies with hefty overdue VAT commitments.

Such measures could improve the credibility of tax enforcement and send a clear signal that tax compliance is mandatory.

#### Modernizing the Tax System

A new comprehensive tax code should renovate Lebanon's fiscal system, decrease discrepancies between different taxes and improve the fairness and efficiency of taxation.

Contemporaneously, combating the informal economy and counterfeit goods should remain a priority. Informal economy condenses government proceeds,

weakens consumer safety and leads to an unfair competitive environment for businesses that comply with tax and regulatory requirements. Bringing informal businesses progressively back to the official economy could hence be a double edged sword: increasing State's revenues and improving the competitive environment for compliant companies.

#### Public Expenditure and Public-Sector Reform

Improving revenues alone will not solve Lebanon's fiscal problem. The expenditure side requires equally significant reforms. Most of public spending is directed toward salaries, pensions and social-related payments, leaving limited fiscal room for infrastructure and productive investment. The intention should therefore not simply be to reduce spending, but to improve the efficiency and allocation of public expenditure.

Public-sector employment is one of the areas where substantial efficiency gains could potentially be achieved. The problem is that there is a mismatch between the distribution of employees and the real necessities of various public institutions. The education sector presents a perfect example. The large number of public-school teachers relative to student enrollment, combined with reported cases of teachers without current school assignments, indicates that resources are not always allocated based on operational needs. Rather than relying on layoffs, the government could consider reorganization. Certain ministries and government departments face shortages that affect their ability to deliver public services. Such redistributing improves government efficiency without necessarily increasing the overall public-sector wage bill. Consumer protection department at the Ministry of Economy and Trade is a perfect example.

A similar assessment could be done in the military and security sector. The current early-retirement structure should be reevaluated from a long-term fiscal perspective. Forces who are no longer qualified for operational duties due to age or other considerations could possibly be reassigned to administrative and back-office positions before becoming eligible for retirement. Such alterations need thorough institutional planning as they reduce the fiscal pressure created by simultaneously paying pensions to retirees and hiring replacements and provide some space for salary improvements.

### Transforming Electricity from Fiscal Burden to Economic Tool

The electricity sector remains one of Lebanon's most significant structural economic challenges. The sector has accumulated enormous financial losses over the years, while businesses and households continue to rely heavily on private generators that is affecting them financially and healthily. Reliable electricity is an important component of economic competitiveness rather than simply a public service concern. High electricity costs has significant economic effect as it rises businesses' operating costs, discourage investment, and reduce people's purchasing power. Therefore, providing consistent electricity at viable prices could relief the economy.

The first priority should be reducing technical and non-technical losses across the electricity network. Rising generation without dealing with these grid inefficiencies will result in larger financial losses for Electricité du Liban (EDL). Moreover, the restructuring of the electricity sector into generation, transmission, distribution and collection, joint with bigger private-sector contribution, enhance efficacy and accountability. Furthermore, depending on natural gas and renewable energy sources. Increasing dependence on natural gas at Deir Ammar power plant through potential utilization of the Arab Gas Pipeline reduce generation expenses and advance EDL's financial position. In the meantime, facilitating the required secondary legislation, technical measures, grid-connection guidelines and payment processes are applied effectively will complement the law No. 318/2023 that established a structure for distributed renewable-energy production and created mechanisms that can facilitate the integration of privately generated renewable electricity into the network, especially that a large portion of households and companies built solar electricity systems.

### State-Owned Enterprises and Public-Private Partnerships (PPP)

Another central element of fiscal reform is the restructuring of state-owned enterprises. Corporatization, proficient administration, and transparent governance should be implemented to commercial public entities such as airports, sea ports, and EDL to name a few. The recent modernization of the PPP framework, that was done by the current cabinet, would offer opportunities to attract private investments to public services and infrastructure. This reform started at Rafik Hariri International airport and should be continued to other commercially oriented

public institutions. The second entity should be Beirut port, especially that it is managed by temporary management committee since 1992!

As such, the Lebanese Treasury will benefit from its share of the potential profits of these entities instead of weighing on the Treasury.

### **III. Economic Reforms:**

Fiscal and financial stabilization, although essential, but are not sufficient alone to deliver sustainable growth. Lebanon also needs a broad economic strategy and a national vision that attracts investments, strengthens the private sector and rewires the country with regional and international markets.

#### Strengthening Economic Relations with Arab Countries

One of the most important opportunities lies in strengthening Lebanon's economic relationship with Arab countries, as we share with them same language and similar culture. The Gulf represents a main partner to Lebanon, as remittances from the Lebanese diaspora remain a major source of foreign-currency inflows and could be accompanied with potential tourism, investment and exports opportunities. Offering a competitive domestic business environment would allow Lebanon to retain more of its entrepreneurs and human capital. Thus, reversing the current trend in which Lebanese entrepreneurs establish their businesses abroad due to more reliable regulations, lower bureaucratic barriers and further attractive investment environments.

#### Digital Government and Business Environment

Digitalization of government services should also be accelerated, since efficient e-government services shrink administrative costs, shorten the time required to found and run businesses, increase transparency, reduce opportunities for corruption, and increase fiscal revenues. Such reform might not weigh on Lebanese Treasury as Lebanon is already receiving donations for such reforms. Additionally, Lebanon can benefit from Saudi and UAE experience in e-governance as they seem interested in providing the aid that we need in this area.

#### Security and Sovereignty

Economic recovery cannot be parted from security and political stability. Foreign investors require predictability, security, and stable operating environment.

Lebanon's recent economic performance demonstrates the vulnerability of recovery to renewed instability. After an estimated 4.2% real GDP growth in 2025, the World Bank projected a 6.4% contraction in 2026 following renewed conflicts.

This highlights an important lesson: economic reforms can create the foundations for recovery, but sustained growth requires an environment in which these reforms can operate without repeated major disruptions.

Lebanon cannot afford to repeatedly abandon existing reforms whenever governments change and restart the process from the beginning, so sustainability of reforms is vital. A prosperous reform program should hence embrace institutional structures that permit reforms to last, irrespective of changes in government.

#### From Crisis Management to Crisis Prevention

Perhaps the most significant component of the Leaders Club report is its broader approach to Lebanon's economic challenges. The country should move from a system that addresses crises individually toward a framework designed to prevent future crises.

Lebanon's economic problems are interconnected. Banking-sector weakness distracts credit and investment. Fiscal fragility affects sovereign credibility and debt sustainability. Electricity inefficiencies rise costs for both the State and the private sector. Weak public administration limits the government's ability to collect taxes and deliver services. Therefore, reforms should reinforce one another.

Financial reform should restore confidence and financial intermediation. Fiscal reform should improve revenue collection and expenditure efficiency. Public-sector reform should improve government productivity. Electricity reform should reduce the burden on both the Treasury and businesses. Digitalization should improve transparency and reduce administrative costs. Economic reforms should ultimately create the conditions for investment and private-sector growth. This interconnected approach is indispensable since the purpose of these reforms should be to create an economic system that is more resilient to future shocks rather than delivering temporary stabilization.

#### **Conclusion**

Lebanon is at a critical stage in its economic recovery. The country has already identified many of the reforms required to address its financial, fiscal and

structural weaknesses. The more difficult challenge is transforming these reforms into a coherent, continuous and implementable strategy.

The preparation of a medium-term fiscal framework, banking-sector restructuring, improvements in tax collection, public-sector reform, electricity-sector restructuring, state-owned enterprise transformation and greater private-sector participation represent important components of such a strategy.

Nevertheless, legislation alone will not be sufficient. The success of Lebanon's reform agenda will depend on **implementation, institutional capacity, political commitment, security** and continuity.

After decades of short-term crisis management, Lebanon should start addressing the structural roots of its weaknesses. Fiscal reforms should broaden the tax base and improve collection rather than continuously increase the burden on compliant taxpayers. Public-sector reforms should focus on efficiency and profitability. Electricity reform should transform a longstanding fiscal burden into a productive economic asset. Financial-sector reform should restore the banking system's function as a financial intermediary.

Lebanon has all the necessary elements of success such as human capital, resilient private sector that survived many extreme conflicts and keeps holding the nation up, in addition to the strategic geographic location. However, the last seven years concludes that there isn't enough political readiness to have viable economy.

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