

An alternative roadmap for economic revival covering the public and private sectors and social development



LEADERS CLUB

Prepared for



# **Table of content**

Preamble	
Methodology	
Endorsers	7
I. Summary	
Relaunch: Roadmap and its prerequisites	8
- On determining value of 'losses' and their distribution	9
- The future first	
- Agreement to replace contention	9
- Alternative Plan: Relaunch the Economy	10
- Relaunch measures: 10-points	
- Dealing with the past	13
II. Macro situation	
Introduction	16
Current status	21
III. Recommendations applicable to all sectors	
Recommendations applicable to all sectors	32
Discussion on gold holdings	
The Central Bank	
Deposit restitution	44
Labor	
Social protection and livelihood	51
Restructuring the public sector	56
IV. Sectoral situation and recommendations	
Banks	58
Trade	61
Manufacturing	63
Hospitality and tourism	
Agriculture	67
ICT	70
Real estate	72
Insurance	74
Transport	75
Education —	77
Health	
Water	
Oil and gas	
Public works	
Solid waste	87



## **Preamble**

his is a comprehensive plan, aimed at advancing measures that address the country's extraordinary circumstances. Some of these measures would be deemed sub-optimal in normal times, but practicality was favored over optimization.

This is an emergency proposal that addresses short-term quick fixes as well measures to be undertaken in the longer term. It should be evaluated in its totality, in terms of its overall impact. It is not a menu of measures to pick and choose from. The major economic challenges can no longer be dealt with one by one, in a 'retail' manner. The approach needs to be 'wholesale', tackling the fundamentals of our system, and making many changes all-at-once.

The proposed measures have the support of a large segment of the private sector but cannot reasonably achieve consensus. Our goal is to use out-of-the-box approaches, and steer away, as much as possible, from the failed past policies. The objective is to reengineer our economy to address contemporary priorities. These priorities have emerged from the socio-economic, fiscal, and financial fiasco we find ourselves in, but also from global changes such as environmental sustainability, equality (for gender, social classes, religious backgrounds, and others), the digital component of our lives, and human and civil rights.

Economic revival is primarily dependent on positive changes in the following areas: Politics, economic growth, reigning in the twin deficit, expanding social protection, and finally and most importantly, regaining the trust of citizens, the business community, investors, and international development organizations.

This plan is being proposed assuming a status quo in the balance of political powers, but with a government that will be held accountable, by the people, the press, and hopefully by the judiciary and State supervisory bodies. Accountability should be exercised in terms of good governance, including performance as well as ethics.

Restoring trust is at the core of reaching revival. The solutions are more than financial, monetary, economic and social. Technical solutions have their limits, unless confidence is restored. Confidence encompasses security, the government, the law and its applications, the banking system, and prospects of economic growth. Restoring trust also includes vastly strengthening social safety nets, especially amid the increasing poverty, unemployment, and dwindling prospects of a decent future.



# Methodology

his study was initiated and implemented by InfoPro. It is an independent work that has received no funding or commissioning. Our team has relied on our own databases, as well as on data collection undertaken since the beginning of the crisis in 2019 and throughout the past five years, including after the start of the 2024 war. The data collection included surveys with companies and their leaders, and consultations with organizations representing the private sector and some of their key members.

This is the fifth edition of the Alternative Economic Revival Plan. This edition has taken into account major developments since the last publication, and has added to its previous analysis and recommendations. Some elements in previous editions have been modified or discarded as mandated by new facts and events. A first edition was released during the first week of December 2019 and was also published as a special issue of Lebanon Opportunities. A second edition was published in January 2020. It was distributed to more than 5,000 recipients including members of LeadersClub, relevant new government ministers, the Central Bank, leaders of private sector organizations, management of medium-sized and large companies, policymakers, economic journalists, international organizations, foreign diplomats, and other interested parties. The third edition was published in April 2020. The fourth edition was published at the onset of the year 2021. Since then, as the political leadership stalled and failed to regroup under a new President and government, we kept updating our data waiting for the opportune moment for a fifth update.

#### Collaboration with private sector organizations

- Amongst our activities, several sector consultations were undertaken with groups representing
  the private sector in collaboration with the Chamber of Commerce, Industry and Agriculture of
  Beirut and Mount Lebanon (CCIA-BML). The associations include:
- Beirut Traders Association (BTA)
- Association of Lebanese industrialists (ALI)
- Professional Computer Association (PCA)
- Association of Tourism Syndicates
- Association of Insurance Companies (ACAL)
- Real Estate Developers Association (REDAL)

The latest series of sectoral consultations concluded in Summer 2024. The latest consultation on economic issues were concluded in December 2024

#### **Disclaimer**

InfoPro is solely responsible for all statistics, proposals, information, and opinions expressed in this study. They do not necessarily reflect those of the individuals, companies, and associations that were surveyed. InfoPro has distilled all the information, recommendations, and opinions received, and incorporated it within its own economic paradigm, proposed in this study.

# LEADERSCLUB by LEBANON OPPORTUNITIES

#### Relaunch 2025

Methodology

Special acknowledgements

The following companies have participated in all the various surveys since 2019 up to 2024. They were generous with their answers and explanations. They are an important component of this study. Many of the ideas and suggestions incorporated in the study originated from them.

#### **LEADERSCLUB Members**

#### who participated in consultations, surveys, and workshops

Nabil Abdelnour (BlueTech), Charbel Abou Chedid (Advanced Plastic Industries – API), Mario Akhras (Tanmia), Moustapha Assaad (Front Page Communication), Cesar Aoun (T. Gargour & Fils), Bassem Assi (SNA), Saad Azhari, (BLOM Bank), Ramzi Azzam (Mena Capital), Marwan Barakat (Bank Audi), Imad Beydoun (Balkis), Magida Beydoun (Copytech), Zafer Chaoui (Chaoui Invest Holding, Omnipharam, Ksara), Raji Challita (BML Istisharat), Raymond Cham (Bankers), Zina Dajani (Antworks), Maroun Daou (Ghia Holding), Johnny El Achkar (Mena capital), Joe Faddoul (BML Isticharat), Massaad Fares (Legacy Central), Moussa Freiji (Tanmia), Leila Hammoud (Alyafi Group), Nabil Gemayel (Gemayel Freres), Walid Genadry (ADIR), Ziad Harb (BCC Logistics), Joseph Himo (Himo Jewelry), Wassim Heneine (EIP), Elias Houayek (Atria), Antoine Issa (Allianz SNA), Bushra Itani Issa (Issa Holding), Toni Issa (IPT), Ziad Karam (Diageo), Samer Khalil (Kidz Holding), Antoine Khawam (Securite Assurance), Wissam El Khoury (Le Pre), Rene Klat (Adir Insurance), Edouard Kosremelli (Chateau Kefraya), Louay Malas (Macsons), Roland Marie (Socotec), Romen Mathieu (Euromena Funds), Maher Merehbi (ACC), Hicham El Moukammal (Crowe Horwath), Georges Najjar (Cafe Najjar), Labib Nasr (LIA Assurex), Pierre Obeid (HIF), Antoine Papadopoulo (CAT Group), Armand Pharès (Cavalier Holding), Mohammad Rabah (ZRE), Assaad Raphael (Porsche), George Rbeiz (Diageo), Chaker Saab (Tinol Paints), Ghassan Saad (Saad Transport), Naii Saade (Abed Tahan & Sons), Claude Saba (AddMind), Rami Sabbagh (Bankers Assurance), Mohamad Sinno (Vertica), Ramzi Saboury (Areeba), Mohamed Sadek (AEG), Wael Sinno (Toy Market), Michel Trad (Saad&Trad), Saad Zeidan (Socrate Catering)



Methodology

# The following individuals, companies, and associations kindly provided specific recommendations

Jean Abboud (Syndicate of Travel Agencies), Aline Abboud (Imar Properties), Ali Abdel Latif (REDPRO), Ziad Abi Chaker (Cedar Environmental), Antoine Abi Nassif (Qbrands), Assaad Abi Saab (White Real Estate Group), Youssef Abillama (MMG Facility Management), Abdo Abo Zgheib (MMG Facility Management), Mohamad Abou Darwich (Ideal development), Sami Abou Saab (Speed), Pierre Achkar (Association of Tourism Syndicates), Charbel Al Haddad (Cosmaline), Amer Al Kaissi (Lebanese Forwarders Syndicate), Sadek Alawiyah (Economic and Social Council), Rony Aoun (Shopping Mall Advisory group – SMAG), Joumana Aoun (Le Gray Hotel), Samy Assaf (ASCO), Ramzi Assily (Crowne Plaza Hotel), Cyril Azar (Gibbons), Elie Azzi (Syndicate of Used Cars Importers), Elissar Baalbaki Eid (Syndicate of Tourist Guides), Hani Bahna (NTI - National Tourism Initiative), Alaa Banat (Chaar Real Estate), Ziad Bekdache (OPP), Wajih Bizri (International Chamber of Commerce), Adib Bou Habib (Union of Printing and Information Workers Syndicates), Ramy Boujawdeh (Berytech), Dany Chaccour (Société de Gestion de Restaurant – S.G.R), Ghassan Chahine (Hala Rent- Á –Car), Joe Chahoud (Intech), Georges Chakkour (Georges Chakkour Transport), Nicolas Chammas (Beirut Traders Association), Maroun Chammas (IDM), Nassib Chamoun (Cirrus), Mona Charif Bodon (Bodon Group), Wissam Chbat (Lebanese Petroleum Administration – LPA), Chantal Choufani (Wide Plains), Hala Dabbous (Metlife), Hassan Daher (Five Stars Tours), Mohamad Dakdouk (Association of Car Rental Agencies), Gabriel Deek (Omnisystems), Hussein Delbani (Terranet), David El Ghobry (Le Gabriel), Adib El Hachem (Ciment de Sibline), Maroun El Helou (Public Contractors Syndicate), Ahmad El Khatib (Century21), Sabine Fakhoury (Chaar Real Estate), Hassan Fakih (General Confederation of Lebanese Unions), Hussam Fakih (LITOOA-Golden Holidays), Patrick Farajian (Sodetel), Haytham Fawaz (Cynthia Tours), Bassem Fawaz (LITOOA), Kabalan Frangieh (Royal Tulip Ashrafieh), Chadi Gedeon (Mövenpick Hotel), Aline Ghanem (Exclusive Services Group), Lara Ghanem (Exclusive Services Group), Slavy Ghazal (Tilia ApartHotel), Maguy Ghorayeb (American Lebanese Chamber of Commerce), Ayman Haddad , Christine Hakime (Le Gabriel), Abdul Hafiz Halabi (Roomnroof), Nour Hamo (Chaar Real Estate), Elie Hanna (Acair Insurance), Hani Hariri (Jubaili Bros), Rana Hassan (Via mina Hotel), Samer Hatab (LBACC), Nabil Hatem (Beirut Traders Association), Joe Hatem (Profiles Software), Talal Hijazi (Association of Lebanese Industrialists), Marwan Iskandar (M.I. Associates), Ismail Iskandarani (Intalio), Bassam Jaber (DAI Global for USAID's Lebanon Water Project – LWP), Dalia Jubaili (Jubaili Bros), Diana Kaissy (LOGI), Waidi Kanaan (Techpunto), Jean-Pierre Kanaan (Kanaan Engineering Group), Rony Karam (Le Gabriel), Yahya Kassaa (Lebanese Franchise Association – LFA), Nadine Keyrouz (Beit Misk), Roula Khadra (ThreeONine), Siwin Khaizaran (AMEE), Naim Khalil (Syndicate of Importers and Exporters of Fruits and Vegetables), Hadi Khalil (One invest), Ardz Khatchadourian (Adkom), Ahmad Khatib (Century 21), Zayn Khatib (Via Mina Hotel), Anis Khoury (Khoury International), Anthony Khoury (Estates), Joe Kik (Urban Central Suites), Fares Kobeissi (Bluering), Mireille Korab (FFA Real Estate), Imad Kreidieh (Ogero), Assaad Mirza (Capital Insurance), Francis Moubarak (Raouche Arjaan by Rotana), Camille Moukarzel (Professional Computer Association – PCA), Georges Moussa (MAC entrorise), Manal Moussallem (Ministry of Environment/UNDP), Charles Muller (Association of North Metn Industrialists -Muller Industries), Joe Nasnas (AXA Middle East), Viviane Nasr (Citysightseeing), Najib Nehme (Société Générale d'Entreprises Touristiques), Nicolas Nehme (SAB Mediterranée), Manuel Nehmeh (Kanaan Engineering Group), Agatha Obeid (San Giorgio Hotel), Georges Ojeil (Four Seasons Beirut), Mohammad Onsi (Ikaar Plus- Onsi Group), Daluli Ora (Delora Hotel), Ramez Osseiran (Association of the Farmers in the South), Mounir Rached (Lebanese Economic Association), Tony Rami (Syndicate of Owners of Restaurants Cafés Night-Clubs & Pastries), Adnan Rammal (Rammal Companies), Riwa Rida (Rida International), Philippe Rizk (Rizk Properties), Fadi Saab (Trans Capital), Rita Saab (Laklouk Village), Samia Saab (Laklouk Village), Selim Saad (Association of Automobile Importers – A.I.A), Ghassan Saad (Saad Holding), Antoine Saadeh (ABS Development), Fadi Sabbagha (Born Interactive), Vrej Sabounjian (Vresso), Makram Sader (Association of Banks in Lebanon), Charbel Salameh (La Phenicienne), Samir Saliba (Ikaria), Ibrahim Salibi (Cedar Oxygen), Pierre Sebaalani (Bancassurance), Nathalie Semaany Aouad (Rida International), Samer Sfeir (Dweltors), Mohamad Sinno (Vertica Realty Group), Naji Sultanem (Victoire), Jad Tabet (Order of Engineers of Beirut), Philippe Tabet (HAR Properties), Fawzi Tamer (G Tamer holding), Jessy Tannous (Tedcom), Elie Torbey (CLA), Lina Wakim (Elmina Guesthouse), Serge Younan (City Center Beirut), Coralie Zaccar (Commercial Insurance), Salim Zeenni (Association of Lebanese Industrialists), Paul-Marc Zegond (Ray White), Khalil Zeineh (Bossa Nova Hotel), Cosette Zgheib (Syndicate of owners of restaurants), Bassam Ziadeh (Order of Engineers of Tripoli)

Copyright © InfoPro 2019, 2020, 2021, 2024



## **Endorsers**

More than 200 club members, companies, business leaders, and economists have endorsed the Alternative Economic Revival Plan in its first publication.



The economic associations (الهيئات الإقتصادية)

Adir Assurance, Altus, Areeba, Assiyana, BCC Logistics, BlueTech, Capstone, CIS, Copytech, Crown Plaza, Data Consult, EIP, Front Page, Gazzaoui, Gezairi, Issa Holding, Legacy Central, Macsons, Monla Group, Socotec, The NET, ZRE...

A&S Chronora, Alamco, Antoine Saliba World of Jewelry, Assuraco, Atabuild, Bassoul&Hneine, Beirut Express, Burgan Insurance, Business Unlimiyed, Capital Insurance, Debbane, Domaine Public Architects, EasySoft, Ecosys, Ets. A Rahme, Fabriano, Fahed Group, Fineon, Folda, Galaxy, George Frem Foundation, Hateco, Hiram Finance, Homecare, HSTCO, Jleilati Audit, Kettaneh Group, Klever, LAUMCRH, Lotus Shipping, Mayfil-Perkins, MSE, Naharnet, Operators, Palladium, Pastel Paints, Pickapp, Porsche Center, Pro Plus Creative, Purple Advertising, Rafic Bawab & Co., Rafic El Khoury, Riad Salamoun & Associates, Rise Properties, Saba & Co., Sipco, Skaff Group, Sloop Insurance, Trace, Unifert, Unileb, UNI-Lebanon, Wadih Kassatly, Zawarib...

Ghassan Ayache, Philippe de Bustros, Roger El Achi, Joe Faddoul, Marwan Iskandar, Issam Khalaf, Fawzi Kiryakos-Saad, Roger Melki, Lamia Moubayed Bissat, Georges Nour, Fouad Rahme, Fadi Saab, Makram Sader...



# **Summary**

# Relaunch: Roadmap and its prerequisites



he economy and the government, including the Central Bank and its other institutions, are on-going concerns, in spite the challenges they are facing. They are not in a state of stoppage. All political and economic stakeholders have agreed to this. Therefore an economic growth approach should be followed rather than a plan for liquidation.

In practice, most 'Recovery' plans so far proposed by the government (and most others) are tantamount to a liquidation approach, and leading towards it. These plans have focused almost solely on the financial sector, leaving behind the fiscal, public administration, social, and economic components. These proposals and (former and present) government decisions are devoid of serious public sector and economic reforms.

In these plans, major challenges are being addressed independently from each other, such as default, subsidies, capital control and lack of, banking secrecy, maintaining an official exchange rate, and many other measures, leading to results in the opposite direction of their intentions:

- Default has led to less available liquidity instead of preserving it
- Subsidies resulted to a severe shortage of basic goods consumed by the poor and depletion of FX reserves, especially in the electricity sector
- Unofficial capital controls caused capital flight and lack of FDI
- Sustaining an official artificial lira exchange rate brought about a mafia-controlled foreign currency exchange system and multiple exchange rates,

Fixing, face-lifting, or embellishing the current plans will not lead to better outcomes. **An alternative approach must be proposed** and lobbied for with a totally different set of priorities and action measures.

The alternative plan must emanate from a <u>participatory approach</u> and should include as many economic stakeholders as possible, such as Trade and Business Organizations, Labor Unions, Professional Associations, and others.





#### On determining value of 'losses' and their distribution

Starting a recovery plan with the estimation of losses and their 'fair' distribution is in practice a liquidation approach. While resolving the problems of the past are necessary, it should be the last agenda item – not the first. It should become the exit step from the crisis rather than the entry to crisis management and resolution. A successful economic revival plan will ensure a reduction of 'losses' as asset values improve leading to an increase in the amount of deposits available to be returned to their owners. More time is needed to determine the share of responsibility of each stakeholder (State, BDL, Banks, and Large Depositors). The various models currently being proposed are too arbitrary, and are based solely on past, rather than on future ability to produce cash flows. The arbitrary approach is politically untenable, as noticed since the first Lazard draft, up to the latest government proposal to Parliament.

#### The future first

More than half the citizens – and they are the poorest half – never had, or no longer have, deposits in banks. Their concerns are to find jobs or to increase their current meager incomes. Therefore, relaunching the economy, creating job opportunities, raising wages, especially for public sector employees, and creating a balance between state revenues and expenditures, should take priority over booking losses on paper. Actually, they are prerequisites to address the issue of deposits. Managing the future should take precedence over dealing with the past.

#### Agreement to replace contention

The State – if it wants to be successful and gain trust – should start with issues that can gather near consensus, or at least the largest extent of agreement. Right now, it is starting from the point that creates the most contention. Presently, it will be impossible to reach a point where enough political backing can be garnered to support any level of determination of losses and their distribution. The political battle will overwhelm any compelling distribution of 'financial losses'. The current government's approach is focused on financial restructuring, i.e. dealing only with deposits in banks, and proposing ad-hoc laws, hastily written, uncoordinated with other measures. There are many problems with this approach including its potential unconstitutionality, lack of outlook for the future, lack of economic growth drivers, and grave pitfalls in a budget proposals and forecasts for revenues and expenditures, and independent from impact of other government actions (or lack of).



#### **Alternative Plan: Relaunch the Economy**

An alternative plan should prioritize economic growth oriented, immediate-results yielding, and confidence building measures. The plan should be sequenced to start with areas of consensus and slowly navigates towards contentious issues, with the expectation that the results of the first actions will partially minimize the pain caused by the requirements of the financial restructuring. Priority should be given to helping economy growth which will engender increased revenues to the Treasury and other economic benefits. The plan should be comprehensive, announced as a full package with an associated timeline of reforms and measures.

#### Relaunch measures: 10-points

The alternative **Economic Relaunch** plan should be focused on immediate measures to be initiated by the government in collaboration with the private sector. The plan can be agreed to and announced even before reaching a final agreement with the IMF.

<u>The following is a simulation</u> of what a (near) consensus plan may look like – <u>but stakeholders can agree to a different scheme</u>. In no particular order, because all points must be undertaken simultaneously, the comprehensive plan may include the following:

#### 1. New Socio-Economic Pact

Negotiate and declare a new socio-economic pact, as a comprehensive and balanced package that determines policy for public sector wages, minimum wage in the private sector, social protection measures, and taxation scheme that includes direct and indirect taxation mechanisms. The pact should include an immediate plan to rescue and recapitalize the NSSF.

#### 2. Special rules for fresh funds

Restart banking activity with 'New Money' where fresh funds attracted by banks, as equity or debt, would be shielded (i.e. not diluted) from past liabilities (old money – pre Oct 2019), and where loans in fresh funds given to individuals and companies must be repaid also in fresh funds. Pre-crisis equity, assets, and liabilities are addressed in the 'Dealing with the Past' section.

#### 3. Free the exchange rate

Freeing the exchange rate will render unnecessary for the Central Bank to require and keep large foreign exchange reserves and will also ensure a balanced Current Accounts since outflows will necessarily not be able to exceed inflows.







#### 4. Public debt restructuring

Debt restructuring will include State debt forgiveness by the Central Bank. There are several possible mechanisms to achieve that. This would erase two thirds of outstanding public debt. Debt in foreign currency (mostly Eurobonds), held by non-bank entities can be repurchased on the open market at a 75-90 percent discount or rescheduled with current holders. Eurobonds held by local banks will become part of the bank restructuring mechanism and could be converted into perpetual non-interest bearing bonds (rendering them as equity), or treated in an alternative matter.

#### 5. Offloading to the private sector

Electricity, telecom, and other public utilities should immediately be handled by the private sector, and services should be priced at a premium to actual cost. The management of these public utilities should be offloaded to the Sovereign Holding Company (see point 6). All rate subsidies must be removed and replaced by subsidies to needy families as per the Poverty Alleviation Fund (see Point 7). The State should retire completely from telecom and the production and sale of electricity. Electricity can be sourced from private sector producers and/or procured from other regional countries such as Turkey, Jordan, Egypt, and the UAE, either through a direct cable or via the Arab Electrical Grid.

#### 6. Sovereign Holding Company

A 'Sovereign Holding Company' (SHC), fully-owned by the government, managed by a Board of Directors appointed by a steering committee of multilateral development organizations (IFC, EIB, etc.). The SHC will take possession of all utilities, unused property and real estate, and income generating infrastructure projects. It will be responsible to corporatize them, and place them under private sector management and depending on each case may have its ownership privatized, partially or fully, at an early or later stage. The State should withdraw totally from productive activities such as electricity generation, operating telecom companies, etc. Net revenues from the SHC will go to the State Treasury, the Poverty Alleviation Fund, and the equity of the Central Bank.

#### 7. Poverty Alleviation Fund

All product subsidies should be eliminated – except very expensive medical treatments (limited to low-income patients not covered by NSSF or other insurance schemes) – utility rates, and other subsidies. Direct subsidy or cash transfer to needy families will be provided instead. A Poverty Alleviation Fund will instituted and financed by the Treasury, partial receipts of the SHC (point 6), and donor countries and organizations.

#### 8. Fiscal policy

Reforming public finance must be implemented in phases. During the first phase, the focus should be on what is practically achievable, even if it is not optimal. For example, direct taxation should be (temporarily) eliminated on individuals and companies except for financial sector, insurance, and large holding companies who currently constitute almost the totality of receipts. Indirect taxation should be increased to its maximum tolerable levels. VAT rates may have four levels: zero rate for currently exempted good and services (food, residential rents, etc.), maintained at the current level for locally produced products and services, increased to 20 percent for imported necessities (such as small cars, home appliances and electronics, etc.) and 30 percent for imported luxuries (large cars, perfumes and clothing, furniture, etc.) After stabilization (3-5 years) and reaching a balanced budget, the tax system can be overhauled, with a progressive direct taxation implemented in parallel to a total modernization of the tax estimation and collection mechanisms. The IMF and other donors may bridge the budget deficit during the period of stabilization and reaching a primary surplus.



#### Summary – Relaunch: Roadmap and its prerequisites

#### 9. Growing the private sector one sector at a time

More than 250 measures have been identified (See section III) that together will remove barriers and incentivize the private sector. These include sectoral as well as across-sector measures. A large portion of these measures do not require much financing and can be passed by ministerial decrees or laws in Parliament.

#### 10. Oil&Gas

Attention has been so far focused on the county's southern maritime borders. Attention should shift to uncontentious maritime blocks. They should be tendered out, all simultaneously, in order to speed up exploration. Any achievement in this field, will improve the country's risk profile.

#### Short term expected results

Major yearly GDP growth, natural increase in private and public sector wages, job creation and reduction of unemployment, improvement in revenues to the Treasury, freeing the exchange rate, growth in consumer spending, spurring of investment in SMEs and large companies, improvement in the Current Account deficit (from tourism, exports, and remittances), restoring the health of the financial sector and start restoring and growing relationships between banks and their clients, and taking the first steps towards restoring confidence in the State and the financial system.

#### Medium-term objective: Administrative reform

The current structure of the public sector, dating from decades ago, needs a full revamp. There is a glut of employees in many areas, and a severe shortage in others. A new structure must be designed, taking into account administrative decentralization where necessary, in parallel to further centralization towards digital systems. Several ministries can be consolidated or be outright eliminated.





#### Dealing with the past

Obviously, the plan would be a non-starter if it does not include a reasonable and achievable plan on dealing with liabilities to depositors and debt holders.



#### 1. Deposits have evaporated

Acknowledge officially that the deposits have mostly evaporated, and servicing the debt at its face value has become impossible. A portion of the deposits in foreign currency was the result of internal money creation, i.e. not from inflows. They were used to finance a large deficit in the balance of payments, and a deficit in the public finances.

#### 2. Rights are preserved

Acknowledge that the rights of depositors and debtors are fully and legally preserved. Declare a total moratorium on repayment to depositors and debt holders during the revival phase (3-5 years) – with exceptions of small deposits to the maximum possible extent – during which time the authorities and banks will negotiate repayment terms with each class of right holders, in light of financial results from implementation of revival measures.

#### 3. Restating financial figures in real terms

The needed financial and fiscal adjustments that donors have called for have actually occurred for the most part. The public accounts have been almost zeroed out but at a tremendous the social and economic cost.

- The public debt had reached nearly \$100 billion in 2019, a third of which was in foreign currency. The Eurobonds' market value (most of foreign currency debt) is a small fraction of its nominal value (\$31 billion plus accumulated interest). Debt in lira outside of the Central Bank is almost nill.
- The debt-to-GDP ratio has declined from around 180 percent to probably less than 30 percent, depending on how GDP is going to be calculated.
- The State has reached a fiscal stalemate, resigning most of its duty to collect or spend. It is levying a small fraction of what it should in revenues, and unable to shore up its expenditures to make up for the loss of purchasing power of the heavily devalued national currency. Public revenues and expenditures have both declined tremendously to result in a small budget deficit when expressed in real dollars.



#### Summary – Relaunch: Roadmap and its prerequisites

#### 4. Vast reserves are still exist

It should be recognized that the \$25 billion in gold and more than \$10 billion in foreign currency reserves (totaling more than \$35 billion or more than 100 percent of GDP) are more than enough to restart the economy – especially if the exchange rate is totally freed and no longer requires large foreign currencies reserve at the Central Bank. These assets should not be used to support erasing past liabilities, but rather to support future economic growth.

#### 5. Deposit restitution

It is obvious that the banks have lost almost all their equity due to the depreciation of the lira, the conversion of dollar into 'lollar', government default, and losses in the commercial market. Banks have retained a substantial part of their fixed and human assets such as branches, information technologies, processes, and bank employees. They have an immediate ability to survive with the 'new money' scheme proposed (Item 2 in the revival plan outlined in the previous section).

There have been a number of proposals, from the IMF, official plans, and plans proposed by others to deal with how to restitute the deposits to their rightful owners.

# **Macro situation**



### Introduction



#### **Acknowledging the Root Causes**

Economic, monetary, fiscal, and administrative failings were not, in themselves, the primary drivers of the crisis, even though there are countless valid reproaches of Lebanon's financial and economic structures, the glaring failure to achieve even minimal levels of social justice, and the lack of necessary reforms—chief among them, judicial independence and the enforcement of numerous existing laws. At its core, the crisis is political. The economic contraction, the paralysis of the banking sector, the state's inefficiency, and the collapse of citizens' purchasing power are all inevitable consequences of conflicting political interests, both domestic and regional. These conflicts have led to prolonged governmental deadlock and an inability to implement reforms.

It is unlikely to reach a consensus on diagnosing these political maladies. Every faction blames the others. Yet, few would deny that the erosion of the State's role—its judiciary, defense, and administration—coupled with the repeated violation of the constitution, has collectively led to the collapse of the system. This downfall appears almost deliberate, as it was indeed engineered. In place of the State's exclusive authority came another form of dominance—powerful yet unaccountable—propping up old and new networks that divided the spoils among themselves while failing to manage the country or its economy, or to address the conflict with Israel, and the repercussions of the Syrian war on tourism, trade, investment, and infrastructure, as well as its relations with supposed allies and friends.

As a result, the state's institutions crumbled under the dominance of one of its components and the unprecedented strain and duration of the war next door. This led to a systemic collapse—whether by design, incompetence, or a combination of bad intent and poor governance.



Introduction

#### **Facing Harsh Realities**

Much of the money deposited in the Central Bank and private banks has vanished. Depositors' rights remain legally valid, but recovering these rights depends on massive reform efforts, some of which can be implemented swiftly, while others require time and rare political courage. Such efforts also necessitate an unlikely retreat from meddling by those with vested, obstructive interests.

No official has dared to publicly acknowledge these truths, though they concede them in private, and they have become obvious to most of the public. Instead, political leaders—especially those in power or claiming to represent the people's interests—focus on loss narratives and how to distribute blame. They propose dubious solutions, such as canceling deposits, pursuing stolen or transferred funds, or forcibly converting dollar deposits to lira ('Lirafication'). They introduced for a while nonsensical terms like "excessive interest rates" or "qualified deposits" and bizarre mechanisms such as the Sayrafa platform or multiple fixed exchange rates and differing budgetary exchange rates for revenues and expenditures. This has now been replaced by a single fixed exchange rate.

This chaos must end. Market forces cannot be outmaneuvered, especially in the absence of sufficient resources or capabilities.

#### **A Continuous Economy**

Economists, political leaders, international bodies, and self-proclaimed experts agree that, despite its deep crises, the Lebanese economy remains active, albeit at a slower pace. The economy has not ceased or died but persists through private sector production and ongoing consumption, albeit at reduced levels. The State continues to function in areas like security, taxation, and public services such as health and education, though the low wages and lack of reform create an appearance of near-paralysis.

Therefore, recovery plans that begin by estimating losses and proposing "fair" distributions of those losses effectively pursue liquidation rather than sustainability. Defining "fairness" is impossible in a fragmented society, and all proposed approaches to date lack legal grounding and rely on arbitrary decisions. Loss calculations focus solely on the past and on assets' crisis-depressed market values, rather than considering the economy's potential to generate future cash flows once recovery begins.





Introduction

#### Recovery as the Goal, Not Liquidation

Resolving past issues is essential, but this should be the final step in a recovery plan, not the starting point. Economic recovery will naturally reduce "losses" as asset values rise, enabling more deposits to be returned to their owners. This requires time and legal clarity to apportion responsibility between the state, the Central Bank, private banks, and major depositors.

Full repayment of deposits is currently impossible and will remain so until depositors regain trust in the banking system, withdrawing only what they need rather than demanding all their funds. This trust can only be rebuilt over time, alongside reform efforts and within a functioning state governed by the rule of law.

#### **Prioritizing Immediate Needs**

State responsibilities must begin with the poorest citizens and gradually extend to the broader population, including middle-income earners and private sector stakeholders. Nearly half of Lebanon's citizens, who are among the poorest, have no remaining bank deposits. Their concerns lie elsewhere—finding jobs and raising their meager incomes. Thus, reviving the economy, creating jobs, raising wages (especially for public sector employees), and balancing state revenues and expenditures should take precedence over the accounting liquidation of losses.

#### A Long Road to Redemption

For Lebanon to regain public trust, the State must start with initiatives that can garner broad political and social consensus. Instead, current efforts focus on contentious issues like calculating and distributing losses, which inevitably spark political battles.

A better approach would prioritize growth, social protection, and trust-building measures with immediate, tangible results. Recovery plans should be comprehensive, announced as integrated packages tied to clear timelines, and include measures to stimulate growth, such as liberalizing the exchange rate, regulation that would allow and protect fresh dollar banking, and inviting private sector participation in managing public assets like electricity, telecommunications, and transport.

Despite the challenges, Lebanon's economy retains the capacity for resilience and growth, bolstered by untapped assets, human resources, and know-how. However, this potential remains squandered amid political inertia and economic mismanagement. A fresh narrative and a radically different approach are urgently needed. Alas, no one seems willing to break free from the prevailing parroting of failed ideas.







Introduction



#### **Financial Victims**

Prior to the onset of the crises in 2019, more than a third of citizens did not have any bank accounts, and about a third of those who held dollar-denominated accounts had no savings. Additionally, all small depositors (up to \$3,000) were able to withdraw their full amounts in fresh dollars, and all accounts up to \$50,000 were scheduled for repayment over five years and have been gradually withdrawn. This indicates that the issue of dollar deposits in banks affected less than a quarter of the population, while the rest, largely from the poorer classes, have other pressing concerns no less significant than dollar deposits. These include the devaluation of deposits in Lebanese lira to nearly zero, most of which are retirement savings, such as end-of-service indemnities in social security funds and others, savings policies with insurance companies, the sharp decline in salaries in both the public and private sectors, the dwindling funds of charitable organizations and professional and labor unions, the contraction of economic activity and its severe impact on the income of small businesses and freelancers, and the massive increase in unemployment and poverty rates. Moreover, the explosion at the Port of Beirut left a devastating impact on the income, livelihoods, and properties of tens of thousands of families. The banking sector's cessation of lending further exacerbated the liquidity crisis faced by households and the private sector alike.

#### The Endless Byzantine Debate

Since the crises erupted over four years ago, public discourse in the media, as well as in political circles and among international organizations, has been narrowly focused on the issue of the inability to withdraw dollar deposits from banks. There is no doubt that the ongoing debate - about the losses in the banking sector and the Central Bank (or the so-called financial gap, as some prefer to term it) and the apportionment of (non-) accountability for these losses - has been a futile and unproductive exercise. This is evidenced by the fact that after all this time and effort, no tangible progress has been made, while the financial catastrophe has worsened due to blame-shifting and inaction. Throughout this prolonged period, public discourse has been filled with reformist slogans lacking any implementation, and various economic principles, rescue ideas, and crisis exit plans have been proposed by successive governments, parliamentary committees, economists (old and new), experts, consultants, opinion leaders, and social media bloggers, as well as by the International Monetary Fund, the World Bank, and certain countries with vested interests in Lebanon. These proposals, naïve or cunning, often veer toward magical thinking about restoring the vanished dollars—some knowingly, others unwittingly ignoring the impossibility of such a task—while neglecting or sidelining other pressing priorities.



Introduction

#### From Magical Solutions to Practical Approaches

It is time to temporarily postpone the pursuit of magical solutions to the issue of missing dollars and treat it as a final component of a comprehensive and equitable plan that addresses all societal groups. Instead of relying on desperate prayers for a sudden influx of dollars that will not materialize, attention should be redirected toward addressing other urgent matters within a holistic economic rescue plan. This plan must include bold measures to achieve economic growth, create job opportunities, increase salaries, and generate taxable profits and surpluses that can help balance the public budget and contribute to covering past gaps. Such steps will also advance social progress to alleviate the suffering of impoverished and destitute classes. These combined efforts could, over time, lay the groundwork for financial recovery.

Rather than relying solely on unprecedented banking schemes that promise liquidity to depositors but fail to deliver, it would be more effective to return to proven economic fundamentals and a minimum level of government responsibility. The plans proposed thus far have barely scratched the surface of how to achieve economic recovery, often presenting vague headlines that betray the lack of effort invested in defining them. Instead of trading accusations and scoring points against one another, all stakeholders—government, workers, and economic entities—must engage in dialogue, listen to one another, and collaborate to identify common ground as the basis for a unified national economic plan.



#### Rebuilding with an Integrated Approach

There are several pathways to economic recovery, such as restructuring the State's role in managing productive assets and expanding private sector involvement, enabling banks to resume their lending roles through simple legislative measures, removing administrative obstacles facing private sector enterprises, and revisiting the system of taxes and fees that burden citizens and businesses, especially collection methods. Additionally, revitalizing social security institutions through structural reforms and addressing the substantial deficits caused by the economic collapse, while developing a new system that separates legacy liabilities from future operations, are crucial steps. These measures must be implemented as part of an integrated and comprehensive strategy, rather than in isolation, to avoid counterproductive outcomes, as is currently the case. A unified, all-encompassing plan could garner societal consensus and pave the way for the first steps toward restoring trust.

As for banking matters, everyone has already weighed in repeatedly, yet no resolution has been reached. Perhaps, after the start of implementation of an economic recovery plan, stakeholders can revisit this issue with a fresh perspective and renewed spirit. The challenges facing citizens and the private sector cannot be put on hold until a magical solution to dollar deposits is found. Addressing obstacles for citizens and the private sector and achieving the desired economic growth will ultimately benefit everyone, including depositors, many of whom are also grappling with other challenges. Furthermore, this will create a conducive environment for liberating their deposits in the future.



## **Current status**



By the fifth year of the crisis, the government has failed to accomplish any remarkable progress towards achieving economic recovery and implementing reforms. The little hope that existed for accomplishing any advancement in this regard was dashed by the devastating Oct. 2023-Nov. 2024 war with its horrible death toll and huge economic losses. More than 4,000 people lost their lives and over 16,600 were injured. Losses and damages were estimated by the World Bank at \$8.5 billion (economic losses \$5.1 billion, damage to physical structures \$3.4 billion). Social problems are worsening and resumption of offshore hydrocarbon exploration has become more elusive. On the positive side, the Central Bank (BDL) has succeeded in achieving monetary stability and controlling the lira money supply. Another significant accomplishment was the unification of the exchange rates.



**Current status** 

#### A misguided plan

The delay in implementing reforms and the prolongation of the economic and financial crisis are mainly the product of the misguided initial recovery plan devised by the government in 2020 to address the crisis. The government's Financial Recovery Plan, as indicated by its title, focuses on financial restructuring and on addressing the issue of deposits and losses of the banking system instead of finding solutions to drive economic recovery. The government's approach has failed to win the approval of different stakeholders and of the political class due to lack of consensus on how to address the issue of deposits and on how to estimate and distribute the losses of the banking system and identify the sides that were responsible for these losses. Identifying and prosecuting the culprits is a thorny investigative and legal challenge and takes years to be implemented if the so-called 'wrongdoing' could be legitimately considered a violation of the law. For a plan to be successful and gain trust, it must address issues that can garner some consensus, or at least the largest extent of agreement.

#### **Resistance to reform**

In 2022, the government announced an economic and financial reform program to address the unprecedented economic, financial, and social crisis whose repercussions have seriously worsened to dangerous levels. The program, which is the basis for negotiation with the IMF, is of a wider scope than the previous plan - but fails to convince. Besides financial reforms, the new program also involved structural reforms of the public sector as well as the energy and telecom sectors in addition to tackling social issues including social safety nets, healthcare, and education. The 2022 plan also involved general suggestions to develop the private sector and stimulate economic growth without much clarity on how it plans to do that - or determine the budgets required to achieve it. As expected, the government failed to implement this program. The slow-to-inexistent implementation of reforms and failure to address the crisis also result from the perennial national governance problem caused by deep-rooted political conflicts which continue to paralyze state institutions and render them dysfunctional including the Council of Ministers and Parliament. A flagrant example of the governance stalemate is the recurrent failure to elect a President within the constitutional deadline. Another factor for dodging the implementation of reforms is wide-spread corruption.





**Current status** 



#### Missing an IMF program

The sluggish implementation of reforms is prolonging the crisis. It is also delaying the implementation of an IMF program that would unlock financing from international organizations and donors and that would restore trust in the State and in a restructured banking sector which then will be able to resume its badly needed activities. Despite the government's loitering, the IMF declared that it has no intention of canceling the staff-level agreement reached in 2022 and that included a 46-month Extended Fund Arrangement (EFF) allowing access to Special Drawing Rights (SDR) which are reserve assets created by the IMF to supplement the official reserves of its member countries. The government could obtain SDR 2.17 billion (equivalent to \$3 billion) to support its implementation of comprehensive economic policies that include a reform strategy to restore growth and financial sustainability, strengthen governance and transparency, and increase social and reconstruction spending. This must be complemented by the restructuring of external public debt. The execution of the deal is subject to approval by IMF management and its Executive Board, after the timely implementation of all prior actions required by the IMF and confirmation of financial support by international partners. The first disbursement would take place immediately after the Executive Board's approval with subsequent payments contingent on acceptable implementation of the program. The drawback of the IMF program is that with it the government returns to its old borrowing habit especially that the EFF involves the payment of interest charges. The interest rate is equivalent to the SDR rate (weighted interest rate of the five currencies that make up the SDR) plus one to three percentage points. The government also has to pay a service charge of 50 basis points on drawn amounts.

#### Public sector in shambles

Public administrations continue to lack the needed resources to function properly. They are witnessing frequent closures and suffer from the scarcity of some materials such as office supplies in addition to a mass exodus of their workforce. This is the result of austerity budgets that represent a fraction of precrisis spending. For instance, the 2024 budget accounts for 20 percent of the 2019 budget. The government has been forced to curb spending since BDL has decided not to lend to the State and because the banks lack the needed liquidity and are also unwilling to expose themselves to the extremely high sovereign risk. The sharp decline in public sector workforce results from an exodus driven by the deterioration of their salaries and social security benefits after the collapse of the lira. Vacancies in public administrations reached 19,600 or 73 percent of the total number of jobs. Though this is advantageous from a budget perspective, it is detrimental to the public sector as it will not be able to continue normal operations unless it hires new employees especially that its workforce will continue to suffer attrition by retirements.





**Current status** 



#### Lingering banking crisis and credit crunch

The private sector is still struggling to cope with a nonfunctioning banking system, which is a basic component of a functioning economy, as restructuring of the banks has not yet occurred five years since the outbreak of the crisis. Lack of financing continues to slow down business activity and to prevent expansion and growth. Efforts by businesses to modernize machinery and equipment or to expand operations in order to meet an increase in demand on global markets or on the local market are impeded by the lack of credit. Only a handful of banks have set up very small portfolios of consumer loans in fresh dollars, including car loans, to a preselected and very limited clientele. Fresh dollar deposits in the banking sector, which are currently estimated at nearly \$3 billion, are insignificant compared to foreign currency deposits of \$123 billion in commercial banks at the end of September 2019, on the eve of the uprising. Transferring money from abroad is still difficult and is forcing companies to open accounts in other countries. The war and the political stalemate have discouraged foreign and local investors from injecting new capital in the economy while some countries like the Gulf States are restricting financial transfers to Lebanon due to hostility by some local political factions. The only positive byproduct of the banking crisis seems to be the settlement of corporate debt at a low cost which had enabled many businesses to use their financial resources for investment or to increase salaries. As result of the repayment of debt by individuals and businesses, outstanding loans of commercials banks to resident customers plunged from \$47 billion in September 2019 to just \$5 billion at the end of November 2024.

#### Unification and stabilization of the exchange rate

The measures required by the IMF that are still pending include adoption of an emergency bank resolution legislation, passing the capital controls and deposit withdrawal limits law, and assessing banks on a bank-by-bank basis. The implemented measures include: approval of the bank strategy, amending the bank secrecy law, completing the first phase of BDL's special audit, approval of the medium-term fiscal and debt sustainability strategy, approval of the energy strategy, passing the 2022 budget, and unification of the exchange rates. The unification of the exchange rate and stabilizing it at the market rate (LL89,500 at the time of writing) have put an end to a chaotic and complex business environment that made planning and pricing of products and services very difficult and forced businesses to set up substantial provisions for foreign exchange losses. These additional costs were ultimately assumed by final consumers or narrowed the profit margin of businesses. The unification and stabilization of the exchange rate have therefore contributed to the alleviation of internal inflationary pressures. Inflationary pressures were also weakened by BDL's decision to contain the money supply. Currency in circulation (lira) dropped by 36 percent to LL44 trillion (equivalent to \$488 million) at the end of November 2024 compared to two years earlier. Controlling the money

# EADERSCLUB by Lebanon Opportunities - Relai

Relaunch 2025

**Current status** 

supply also limited demand for dollars and for speculative trading in foreign currencies and consequently contributed to exchange rate stability. The Central Bank has also terminated the operations of the Sayrafa foreign exchange platform which had enabled speculators to earn arbitrage profits estimated at \$3.23 billion for the period from mid-December 2021 to the end of July 2023. BDL was able to stabilize the exchange rate without practically intervening on the market by selling dollars. This nonintervention policy, together with its decision not to lend to the State, has helped the Central Bank increase its liquid foreign reserves by \$2 billion between the end of July 2023 and mid-September 2024 bringing the total to \$10.6 billion. But the war, forced the Central Bank to intervene on the market and use its reserves in order to prevent a devaluation of the lira. This has resulted in an over \$400 million decrease in reserves in October alone to \$10.3 billion. That was the first decline since July 2023 when BDL reserves were \$8.6 billion. The reserves dropped further to \$10.1 billion as at end of 2024. BDL's policy allowing depositors to carry out additional withdrawals from their dollar deposits, under circulars 158 and 166, in light of the war circumstances, may lead to a further depletion of its reserves if this policy continues for a longer period of time.

#### More balanced but small budgets

The inability of the State to borrow from BDL or from a nonfunctioning banking sector has forced it to set tighter budgets and improve public revenues by using the real exchange rate to calculate taxes. The 2024 budget was ratified by Parliament at nearly a zero deficit which is a radical improvement as the country has been suffering from a chronic fiscal deficit for many years. On the flipside, the size of the budget, in terms of dollars, is insignificant compared to precrisis levels. Total expenditure in the 2019 budget was nearly \$17 billion compared to just \$3.4 billion in 2024. Other byproducts of the crisis that are contributing to more balanced public finances include the plunge in the dollar value of public debt denominated in lira and the sharp decline in public sector workforce. The war made the numbers of the 2025 draft budget unrealistic, especially projected revenues, because the 44 percent increase in revenues was supposed to be generated from taxes and fees which were the most affected by the war such as income and capital taxes, domestic fees on goods and services, and fees on international trade.

#### EDL raises the tariff but fails to tackle thorny issues

Electricité du Liban (EDL) continues to use more polluting and more expensive imported fuels. This is depleting the country's foreign currency reserves and weighing heavily on the fiscal and trade deficits. In addition to that, the state-owned utility incurs transmission and distribution losses that were estimated at 34 percent in 2018.





**Current status** 

These losses consisted of technical losses of 17 percent and non-technical losses of 21 percent (theft and uncollected bills). As a result of transmission and distribution losses and expensive fuels, the cost of electricity is ¢20/Kwh while the tariff remained unchanged since it was set in 1994 at ¢9.5/Kwh until it was raised to ¢27/Kwh in 2022. But EDL raised the tariff without addressing technical losses and without improving collection or preventing illegal connections to the grid. To boot, the gap between EDL's electricity supply and market demand is high and it is widening further. Even before the current crisis of electricity shortages, it covered only 55-64 percent of the country's electricity needs because of a long-standing capacity deficit of around 1,500 MW. EDL will be able to serve only ten percent of demand if it doesn't build new power plants starting from 2031. The losses in the electricity sector resulting from the war consist of additional cost of urgent repairs, investment in infrastructure to improve service in displacement areas, direct damage to infrastructure, and decrease in revenue collection. The sector's infrastructure losses are estimated at \$300 million to \$400 million, while revenue collection declined by about \$130 million.

#### Chasing the elusive hydrocarbon dream

Lebanon continues to lag behind neighboring countries in exploiting its potential hydrocarbon resources in ten offshore blocks as a result of political wrangling and a slow decision-making process at the State level. The straw that broke the camel's back recently, was the expansion of the Gaza war to an all-out attack on Lebanon. Countries in the region have already started production while Lebanon has not yet discovered commercial quantities following exploratory drilling operations carried out by a consortium led by TotalEnergies in blocks 4 and 9. The deadline for bidding for exploration rights in the third licensing round has been extended from July 2024 to March 2025. The third round aims to award exploration rights to all blocks with the exception of Block 9. Block 4 is up again for bidding as the TotalEnergies consortium has relinquished its exploration right in it. The escalation of the war has also heightened for a period of time the risk of rescinding the maritime border demarcation agreement, concluded in 2022, and which enabled exploration work in Block 9.





**Current status** 



#### Worsening social problems

The war came to exacerbate the social problems resulting from the severe economic and financial crises. Poverty among Lebanese citizens tripled over the last decade to 33 percent. Israeli attacks since October 2023, have caused severe damage to water, electricity, telecom infrastructure and roads. By mid-August 2024, around 23 percent of the population was food insecure, up from 19 percent in March of the same year. Only 24 percent of the people this year are able to make a major purchase. It was previously estimated that \$110 million in aid was needed by humanitarian partners of the United Nations (UN) to assist conflict-affected people from August until the end of 2024. But after the dangerous escalation of the war, the UN and the government launched a \$426 million 'Flash Appeal' to mobilize urgent resources for affected civilians. It was followed by a second \$371 million extension appeal. The two-month intensifying of the war sharply increased the number of the displaced causing housing problems and had a negative impact on the education sector. The healthcare sector became increasingly unable to meet the needs of growing war casualties. Before October 2023, an estimated 3.7 million people were already in need of humanitarian assistance. The Lebanon Response Plan, which is a 2024-2025 humanitarian-stabilization framework co-led by the government and the UN, has so far received just \$670 million out of the required total of \$2.72 billion. The plan aims to support crisis-affected people including vulnerable Lebanese, displaced Syrians, Palestinian refugees, and other migrants. Nearly 14 percent of households receive remittances from expats abroad while five percent of families were receiving aid from NGOs and the Ministry of Social Affairs before the escalation of the fighting.

#### War prevents recovery

GDP is estimated to have shrunk by 0.2 percent in 2023. After five consecutive years of contraction, the economy was projected to record the first growth rate, though modest, in 2023 but this was thwarted by the outbreak of the war in October 2023 which began to adversely affect investor confidence and different economic sectors starting from the last quarter of the year. The war is likely to have led to real GDP contraction in 2024 of at least 6.6 percent. This compounds five years of sharp economic contraction exceeding 34 percent. The Consumer Price Index is expected to increase by six percent, and private consumption to decline by 15 percent. Investors have adopted a wait-and-see attitude refraining from taking new investment decisions and postponing previous plans. Under the impact of the war, 64 percent of companies lost an average





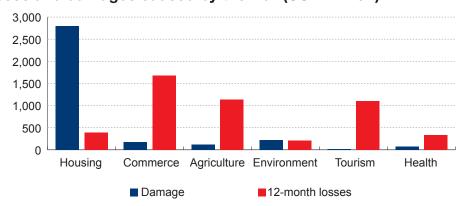
**Current status** 

of 40 percent in revenues in September 2024 when compared to August of the same year, according to a survey by InfoPro Research of more than 100 medium and large companies in the Greater Beirut area (southern suburbs excluded). When compared to September 2023, revenues drop by an average of 56 percent as reported by more than half of the businesses. Even if the conflict was to stop by the end of 2024, GDP is expected to further contract by an additional 2.3 percent in 2025 and 2.4 percent in 2026 driven by a sharp slowdown in economic activity, substantial capital losses, and a slow pick-up of recovery and reconstruction.

Decline in Key Sectors	
Energy and water	24.5 percent
Trade	21.2 percent
Transport and communications	12.0 percent
Merchant services	8.1 percent
Agriculture and livestock	6.3 percent
Industries	3.9 percent
Construction output	1.2 percent
Public administration	0.95 percent

Source: UNDP

#### Losses and damages caused by the war (USD million)



Source: World Bank

#### Impact on agriculture and manufacturing

The war has inflicted losses and damages to the agricultural sector of nearly \$1.3 billion. Around 1,900 hectares of agricultural land and pasture have been burned. The industrial sector continues to suffer from the destruction of assets and infrastructure, the disruption of supply chains and services besides the lack of workforce. Before the outbreak of the hostilities, the manufacturing sector was witnessing some recovery as it has significantly expanded its share on the local market after imported consumer goods became largely less affordable with the decline of purchasing power. Exports, which mostly consist of industrial products, dropped to \$3 billion in 2023 and are expected to remain at this level this year. They had grown to an average of \$3.5 billion over the period 2019-2022 from an average of \$3 billion over 2014-2018.



**Current status** 

#### Impact on services

- Direct and indirect contribution to GDP of the travel and tourism sector has dropped from 19 percent in 2019 and 6.6 percent in 2023. The losses and damages of the tourism and hospitality sector as a result of the war are estimated at more than \$1.1 billion. Tourism receipts are expected to drop to \$2 billion this year from \$5.4 billion in 2023 which is even far below their levels in 2019 (\$8.6 billion) and in previous years. Hotel occupancy rate plummeted to below 20 percent in 2024 as a result of the war and also fierce competition from the growing guesthouse sector which relies on vacation rental platforms like Airbnb.
- The trade sector was starting to witness some recovery as household spending was projected to increase slightly in 2024 thanks to stable and significant remittance inflows, increasing income dollarization and salary adjustments which are strengthening purchasing power.
- The real estate market continues to suffer from low demand due to weak purchasing power and the lack of credit and also from low supply resulting from a slump in development activity and as most of the stock of properties was sold during the rush on purchasing real estate. Cement deliveries, which are an indicator of construction activity, totaled 2.4 million tons in 2023 which represents half their amount in 2018.
- The information technology and telecom sector (ICT) was severely hit by the Port Explosion as many ICT companies and startups are located in areas affected by the blast mainly the Beirut Digital District. Exports of ICT services totaled \$141 million in 2023 recording a nosedive of 44 percent compared to the previous year and of 75 percent compared to 2019. Overseas demand for local ICT services has also been affected by the growing concern of foreign customers about business discontinuity due the escalation of the fighting.
- The insurance industry is among the sectors that have been severely affected by the crisis. Non-life insurance premiums dropped by 75 percent in terms of fresh dollars in 2023 compared to pre-crisis levels. In 2023 alone, life insurance premiums plunged by 62 percent. Insurers are not only suffering from weak sales but from difficulties in collecting premiums while low demand has sparked a price war among themselves.





**Current status** 

#### **Rising costs**

- The business community is facing rising costs resulting from external and internal factors.
- The escalation of war in Lebanon is causing direct damages, disruption of business activity and of government services, displacement of workforce, higher costs, destruction of infrastructure, and rising social needs.
- Electricity cost has surged with the adoption of the new tariff by Électricité du Liban (EDL) which reflects the actual power generation cost. Efforts of the private sector to develop alternative power generation solutions, mainly solar power, are impeded by outdated laws and the lack of an electricity regulatory authority.
- Salary adjustments are also narrowing further the profit margin of businesses most
  of them are also suffering from labor shortage especially of skilled workers due to
  the brain drain and the inadequacy of vocational and technical education.
- The disruption of international maritime routes due to attacks on ships in the Red Sea has resulted in a longer shipping time and higher transportation costs.
- Global prices of raw materials have been rising since the outbreak of the Russia-Ukraine war.
- The tax burden has become heavier. The authorities have started using the real
  exchange rate to calculate taxes. Businesses had previously enjoyed a temporary
  relief when taxes were levied at the old exchange rate which was far below the real
  rate. For this reason, the end-of-service indemnity and retirement compensation at
  the National Social Security Fund (NSSF) are also perceived as a huge burden for
  employers.

#### Rising imports and war impact on monetary inflows

**Caution:** Given the estimated high volume of contraband imports and exports, the below official trade figures are probably much skewed.

The return of imports to their pre-crisis levels and the war escalation are negatively affecting the state of monetary flows with the outside world. After dropping in 2020 and 2021 driven by a temporary decrease in imports when the economic crisis was in full swing, the trade deficit is rising again. It reached \$14.5 billion in 2023 which is close to the \$16.5 billion average deficit for the period 2014-2019. In normal times, the trade deficit outflows could be offset by inflows from tourism receipts and expat remittances. While remittances remain basically stable over the years at around \$6-\$7 billion, tourism receipts are highly sensitive to the security and political tensions and the country's relations with the outside world.





# **Short-term recommended measures**

#### **Bank financing**

#### **Relaunch Bank Credit**

For the business sector to function normally, banks must relaunch credit services to consumers and companies. A law must be immediately promulgated that requires borrowers to repay loans obtained after the law passage in fresh money and in the same currency that was used to make the loan. Additionally, banks should be incentivized to attract loan capital by insulating the new funds from past liabilities.

#### Lobby the Central Bank to access liquidity

The Central Bank (BDL) has expressed initial readiness to inject up to \$3 billion into the economy. Work must continue in this direction to determine the channels and schedule to distribute this liquidity.

#### Taxation and budget

- Allow taxpayers to settle taxes using their pre-crisis bank deposits, providing much-needed relief in the current economic environment. Offering incentives for taxpayers to settle old dues from 2017-2022 may generate up to \$500 million for the Treasury
- Extend the deadline for income tax declaration, until the law on assets and inventory revaluation is approved
- Extend the deadline for payment of fines of all kinds
- Postpone the deadline for payment of value-added tax
- Grant tax settlements for last year 2023
- The 2025 draft budget needs to be revised because the projected figures have become unrealistic due to the war, revenues in particular. Actual revenues are expected to be much less than the projected revenues and the government can no longer secure financing or resort to Treasury advances to cover expenditure.









#### **NSSF**

- The current system is flawed forcing businesses to allocate substantial provisions for retirement and end-of-service indemnities. If enforced, it may lead to the bankruptcy of many establishments. The same applies for calculating current NSSF charges due by employers. A new system separating pre-crisis from current obligations, already initially approved, must be implemented.
- Extend the validity of financial 'quitus' clearances (پر اءة ذمة مالية)

#### **Customs Enforcement**

- Strict enforcement of inspections at ports, airports, and land border crossings must be implemented for all merchandise. Customs authorities must ensure thorough and regular inspections to reduce smuggling and tax evasion. Combatting corruption in Customs requires close supervision, job rotation, limiting interaction between Customs officers and importers/exporters, and increased computerization to minimize human error and manipulation.
- Request the parties concerned with the clearance of goods from the port of Beirut (Ministry of Agriculture, Ministry of Public Health, Industrial Research Institute, Al-Fanar Laboratories of the Lebanese Agricultural Research Institute) to take measures that would remove goods as quickly as possible from the Port of Beirut, especially food, medical supplies and fuels.

#### **Collaboration with Municipalities**

Municipalities should play a key role in ventures such as power generation and electricity distribution networks. They can also play a role in regulating informal activities and in limiting the number of non-registered foreign workers. Tax issues between businesses and certain municipalities need to be addressed.





# Long-term recommended measures

#### **Businesses facilitation and investment promotion**

- Regulate informal businesses and enforce registration, tax compliance, and adherence to NSSF
- Special visa exemptions for foreign entrepreneurs
- Ease brand and trademark registration procedures
- Modernize Lebanese Standards Institution (Libnor)
- Enhance Lebanon's international reputation (Country Branding)

#### **Banking**

- Maintain and reinforce the independence of the Central Bank
- Refrain from artificially supporting the exchange rate except in short-term acute crises
- Preserve the banking sector network to ensure needed banking services for individuals and companies

#### Dealing with the past

- Convene a national taskforce with international members (IMF and others) to resolve the gridlock concerning banks' liabilities (deposits), to find a middle-ground, fair, and workable plan
- Negotiate with Eurobond holders on a long-term settlement

#### Reforms and IMF

- Reorganize priorities and determine a new set of reforms that include most of what
  is already in the staff-agreement with IMF, and add a long list of missing ones
- Renegotiate with IMF starting with a Lebanese-devised agenda
- Source financing to implement many of the reforms including IMF and others





#### **Energy and Power Generation**

- Establish the Electricity Regulatory Authority
- Involve the private sector in each cycle (generation, distribution, collection, etc.) by the appropriate approach (privatization, PPP, and management, etc.)
- Remove all illegal encroachments on the electricity grid
- Automatize metering and billing (digital meters, electronic billing)
- Source and invest \$2 billion to meet current and future energy needs
- Focus on clean energy
- Regulate, inspect, and revise home solar power that has mushroomed without any regard for safe practices
- Implement net metering
- Purchase electricity from neighboring countries (Egypt, Turkey, Syria, Jordan)
- Connect to the Arab Electricity Grid when it becomes possible

#### Trade Agreements and Customs Duties

- Lift temporary customs duties on imported goods with local substitutes, especially
  on goods from the EU, which normally benefit from zero or negligible duties under
  the Euro 1 agreement.
- Revise exiting trade agreements and reopen negotiations when needed
- Engage with contravening trading partners to ensure the respect of reciprocity
- Revive the efforts and preparations to accede to WTO

#### **Taxation Reform and Policy Consistency**

- Combat tax evasion instead of increasing taxes by stronger enforcement of tax laws and measures to close loopholes. This would increase revenue and expand the tax base
- Impose a flat customs duty to prevent tax evasion and misclassifying goods
- Ensure tax policy predictability by avoiding sudden and frequent changes and give at least one to three years grace period before implementation
- Engage in serious consultations with stakeholders and taxpayers to ensure minimal unwanted consequences from new taxes or tax regulations

#### **NSSF**

 Reengineer social security and modernize its processes, separate the health functions from end-of-service indemnities, introduce third-pillar coverage, expand overall coverage, collaborate with the private sector for managing claims as well as funds.

#### Improve Public Administration Efficiency

Restructure the public sector to eliminate redundancies and overlaps, merge certain ministries and government positions, and gradually reduce the size of the public administration, adopt full scale e-government, internally as well as with interactions and transactions with the general public, and re-engineer procedures to eliminate the number of steps and signatures needed for formalities.

#### **Modernize Laws**

Undertake a full scale effort to modernize laws including the commercial code, labor law, insurance law, and others.



# Discussion on gold holdings



One of the 'Sacred Cows' or taboos is to start a discussion on the role of gold assets held by the Central Bank in planning the recovery of the financial and fiscal situation.

The moratorium on the discussion comes from the perceived danger that the discussion will inevitably lead to a sale of a portion, or all, of the gold. As in the case of privatization, there are two main legitimate concerns:

- 1. It is feared that the gold will be sold and proceeds will be squandered like the rest of foreign reserves and fiscal spending
- 2. There is also a belief that the gold, inherited from a previous generation, should be preserved for future generations, who in turn should preserve it for subsequent generations

The end result is that gold is being treated as if it does not exist – which practically means it has no use. If so, why have it?



## Discussion on gold holdings

## **Background information**

Gold (together with the US Dollar) used to be a basis upon which currency exchange rates were determined (1945 Bretton Woods agreement). The United States has abandoned the system and floated its currency. Many countries followed suit.

The Code Money and Credit – which governs BDL – had specified the following:

- Issued currency and demand deposits must be backed by at least 30 percent in gold and foreign currencies. The coverage of the currency alone must be at least 50 percent in gold and foreign currencies
- The Central Bank is allowed to buy and sell gold. Parliament enacted a law in 1986 that forbade any transaction involving current holdings of gold at the Central Bank

For all practical purposes, there is nothing special about gold, above the fact that it is a foreign currency, just as the USD, the Euro, the Yen, or any other free floating currency. This is how it is considered in accounting balance sheets of central banks (or any other entity). However, gold is considered the emblem of moral comfort and confidence in a currency. This is no longer the case in most countries besides Lebanon where gold holds a special significance and symbolism. The argument of holding gold was very tenable when maintaining trust in the local currency was at stake. However, with trust having crumbled, gold no longer plays the role it used to.

To prove the point above, gold has appreciated in value from around \$9.85 billion in June 2016 (right before the start of the financial engineering operations) to more than \$24 billion at the time of this writing, or a 2.5 times gain since the onset of the financial crisis it has appreciated by \$10 billion (from \$14 billion). During that same period, there have been large conversions from the lira to the dollar by depositors. Dollar deposits started exiting the local banking system first towards banks abroad and lately were hoarded at homes. Obviously, gold did not do much to uphold the trust of depositors. The effect of gold is no longer what it used to be.







## Discussion on gold holdings

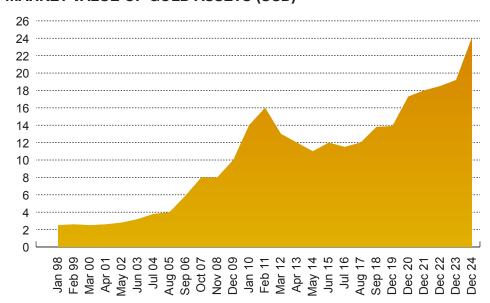
At the outset of the crisis (June 2019), BDL held \$14 billion in gold and \$30 billion in foreign currencies (Total: \$44 billion), against a monetary mass (M2) in lira of LL59,600 billion or close to \$40 billion (at LL1,500). The lira was more than 100 percent covered by gold and FX – not accounting for BDL's accumulated liabilities that were book kept at 'Other Assets'. This ratio was not indicative of a looming crisis, which makes it a wonder why the currency was starting to collapse.

#### What to do?

As part of an overall plan, gold assets should become part of the total picture. At the very least, their value will be restated as per the real market exchange rate, which will reinforce BDL's balance sheet. Additionally a portion (up to \$2 billion worth, or 25 percent of gains made in the past five years) of the gold can be used as a short-term security for one or more of the following:

- During a transition period until the balance of payments becomes positive to secure financing for foreign trade (import) transactions
- Obtain financing to recapitalize banks against shareholding in the banks to be redeemed after a transition period (three to five years)
- Secure financing to undertake major income-producing infrastructure projects (such
  as building power generation plants after ensuring a positive cash flow from such
  projects although we favor forgoing building plants and purchasing electricity from
  the private sector or foreign countries (see Section on Electricity)
- Contribute to the capital of the proposed Lebanon Holding (Section on Sovereign Wealth Holding Fund)

#### MARKET VALUE OF GOLD ASSETS (USD)





## Discussion on gold holdings

#### Excerpts of articles concerning Gold in the Code of Money and Credit

The Central Bank (BDL) must maintain in its assets gold and foreign currencies that ensure the safety of coverage of the Lebanese currency equal to 30 percent at least of the value of the cash it issued and the value of its demand deposits, provided that the percentage of gold and the currencies mentioned is not less than 50 percent of the value of the issued cash.

BDL uses the means that it deems necessary to secure the stability of the money market, and for this it can especially work in the market in agreement with the Minister of Finance, buying or selling gold or foreign currencies.

#### BDL may:

- Buy, sell, import, and export gold and other precious metals, and perform all other operations on these materials
- Accept deposits of gold coins or gold bullion and issue in favor of the depositors who request them gold deposit certificates in the form of bearer bonds or an order

BDL can issue gold deposit certificates for the benefit of all persons and buy or sell gold without the intermediation of other banks.

BDL's assets of gold and foreign currencies are recorded in its accounting system at their equivalent value at the legal rate of the Lebanese lira

A special account is opened in the name of the Treasury, in which:

- The differences between the equivalent of BDL's assets of gold and foreign currencies at the legal rate and the actual price for buying or selling these assets
- > Profits or losses resulting, in BDL's assets of gold and foreign currencies, from adjusting the legal rate of the Lebanese pound or the rate of a foreign currency





# The Central Bank



The Central Bank (BDL)'s strategy to address the crisis is based on four fundamental pillars. They mark a significant departure from past practices and include major policy shifts regarding bank deposits, exchange rates, and the relationship between BDL and the State. The overarching goal is to restore monetary stability, promote economic recovery, and rebuild trust in the financial system.

#### 1. Ending Lending to the State

As of August 2023, BDL ceased all lending to the State, whether in lira or foreign currencies, and pledged never to use its foreign currency reserves to finance government operations. This includes refraining from subscribing to Treasury bills in lira.

The State must now adopt balanced budgets to align with this policy shift. Current budget revenues of \$3.2 billion—down from \$17 billion before the crisis—are insufficient to address the recession. The government must expand the economy through constitutional means, as BDL will not permit spending beyond the approved budget unless legally justified by Parliament.

BDL has also refused to write off the State's \$16.5 billion debt, citing the risk of signaling collusion between the Central Bank and the government, which could jeopardize assets like gold reserves (\$25 billion) and foreign reserves (\$10.5 billion) in case of losing an international legal dispute with creditors to the State. A professional committee will advise on how to account for this debt, ensuring compliance with Article 113 of the Code of Money and Credit, which mandates State repayment within one fiscal year.

#### 2. Restoring Monetary Policy Independence

By halting State financing, BDL is reaffirming its independence and returning to its primary role: managing monetary policy and regulating the banking sector.

Currency in Circulation: Lira circulation has dropped from \$3.5 billion pre-crisis to less than \$600 million at prevailing market exchange rate, aligning with the contraction in government revenue. This balance supports monetary stability, as the highly dollarized economy relies more on transactions in foreign currency.

Exchange Rate Stability: BDL has unified exchange rates at LL89,500 on its platform, a critical step for financial transparency and economic recovery. Collaborative efforts with the Ministry of Finance and other bodies to reduce lira supply have minimized speculation, stabilizing the exchange rate without depleting FX reserves.

#### 3. Supporting Banks and Economic Recovery

A functioning banking sector is essential for economic revival. BDL's policies focus on reinvigorating the sector while ensuring fairness and accountability.

Liquidity Management: BDL will inject liquidity in foreign currencies to stimulate the private sector. Unofficially, it said that up to \$3 billion can be unblocked as part of a comprehensive plan approved by Parliament and executed by the government.

Legal Framework: Banks require clear legislation to resume lending activities, particularly in fresh dollars. The absence of legal safeguards is delaying recovery efforts.

Fairness and Accountability: Existing banks will not be replaced. Instead, BDL is prioritizing accountability for wrongdoing while protecting legitimate investments. Dividends remain restricted to strengthen the sector's capital base.



The Central Bank

#### 4. Comprehensive Reforms for the State

The State's inaction since the onset of the crisis is a significant impediment to recovery. Fundamental reforms are necessary, including:

Securing an IMF Program: International funding hinges on an agreement with the IMF, which requires implementing structural reforms.

Infrastructure Investment: Without external financing, the government cannot undertake essential infrastructure projects.

Bank Deposits: Resolving the foreign currency deposits remains critical. BDL is working on structured solutions to enable withdrawals while ensuring transparency and fairness. Current plans allow limited withdrawals under Circulars 158 and 166, but broader solutions require legislative action. Deposits will be categorized based on social impact, prioritizing small savers, pension funds, and non-profit organizations. Wealthier depositors, especially those who profited from financial speculation, may face higher haircuts or extended withdrawal timelines.

Accountability: BDL is committed to holding those responsible for the crisis accountable, including banks, managers, and policymakers. The judiciary must play a central role, supported by investigations into past financial misconduct, such as misuse of subsidies.

Collaborating with International Partners: BDL has implemented governance reforms, including improved accounting practices, and continues to collaborate with the IMF and other international organizations. Maintaining relationships with correspondent banks remains a priority, while tackling the challenges of Lebanon's cash-driven economy.

BDL warns that continued inaction will lead to irreversible losses, risking the collapse of critical sectors. A national dialogue involving all stakeholders—Parliament, the government, banks, and the private sector—is essential to develop and execute a comprehensive recovery plan.



# **SHORT-TERM** recommended measures

- Complete the already underway BDL's operational and administrative restructuring
- Complete the audit and evaluation of each bank by the Banking Control Commission
- Enhance the transparency of accounts
- Enhance communicating the monetary policy

- Recapitalize the bank
- Reduce the mandatory reserves and limited only to the national currency
- Reduce the foreign currency holdings
- Liquidate a portion of recent increase gold holdings as part of an overall strategy
- Generate income from gold holding by renting it to highly rated governments and parties
- Enhance generated statistics



The Central Bank

#### A CLOSER LOOK ON THE CENTRAL BANK'S BALANCE SHEET

BDL Interim Balance Sheet (in million USD)

Financial Crisis	Change in BDL	Outburst of All-	Latest Available
Onset	Governorship	Out War	Balance Sheet
October 15, 2019	July 31, 2023	September 30, 2024	

#### **Assets**

Total Assets	136,162	103,094	94,805	93,960
Fixed Assets	259	34	6	6
Other Assets	22,770	6,656	213	253
Assets from Exchange Operations of Financial	11,994	1,205	0	0
Valuation Adjustment	0	41,102	34,258	34,625
Loans to Local Financial Sectors	15,022	1,049	434	430
Loans to Public Sector	0	16,622	16,613	16,613
Securities Portfolio	39,194	9,607	6,320	6,246
Foreign Assets	33,135	8,759	10,654	10,197
Gold	13,787	18,037	24,462	23,660

A USD 23 billion reserves loss registered since crisis onset, mainly as a result of subsidy and intervention via Sayrafa over the first three crisis years.

The newly created USD 34.6 billion of valuation adjustment on the asset side is part of BDL losses, acknowledged for the first time in February 2023.

Other assets include open market operations and seigniorage, thus partly denominating BDL losses.

Monetary value of gold reserves have increased by almost USD 10 billion since the onset of the crisis, with ... half of the increase being realized this year.

While FX reserves have increased by USD 2 billion between July 2023 and September 2024 (as a result of the new monetary policy paradigm at BDL), they decreased by USD 0.5 billion since the outset of allout war in September (half of it due to exceptional withdrawals under circulars 158 and 166).

o.w. USD 5 billion is the estimated eurobond portfolio held by BDL, while USD 10 billion are held by Lebanese banks, USD 3 billion held by the public, leaving USD 13 billion held by foreign investors.

The USD 16.6 billion of BDL loans to the public sector is the result of previous USD overdraft from BDL to government.

Source: BDL, comments by Bank Audi



The Central Bank

	Financial Crisis Onset	Change in BDL Governorship	Outburst of All- Out War	Latest Available Balance Sheet
	October 15, 2019	July 31, 2023	September 30, 2024	November 15, 2024
Liabilities	`		`	
Currency in Circulation Outside BDL	4,370	4,131	597	558
· Financial Sector Deposits	110,584	87,789	85,145	85,870
· Public Sector Deposits	4,070	7,710	5,975	6,016
Valuation Adjustment	8,333	0	0	0
Other Liabilities	5,142	834	551	797
Capital Accounts	3,663	899	719	719
Total Liabilities	136,162	103,094	94,805	93,960
			-	
LP/USD Official Exchange rate	1,507.5	15,000	89,500	89,500

o.w Banks' FX deposits at BDL are estimated at USD 84 billion today.

Government now holds USD 6 billion in its accounts at BDL (Account 36 and annexes) all currencies included (LL, Lollar deposits and Fresh USD).

Currency in circulation rose from LP 7 trillion at crisis onset on October 15, 2019, to LP 62 trillion at end-July 2023 amid BDL monetary creation to finance public deficit and circulars 151 and 158, ...... but decreased again to LP 50 trillion as of November 2024 with the more orthodox monetary policy since the governorship change.

The re-pegging of official exchange rate from 1500 to 85,500 resulted into a USD 3 billion contraction in BDL's disclosed capital accounts.

BDL Equity (USD million)	November 15, 2024
Capital Accounts	719
Less: Valuation Adjustment	-34,625
Less: Other Assets	-253
BDL: Negative Equity	-34,158
Less: BDL Eurobond Portfolio*	-4,250
Less: BDL Loans to Public Sector*	-14,121
Aggregate BDL Losses	-52,530

<sup>\*</sup> Assuming a 15% recovery value on claims on State

Source: BDL, comments by Bank Audi



# **Deposit restitution**

It is obvious that the banks have lost almost all their equity due to the depreciation of the lira, the conversion of dollar into 'lollar', government default, and losses in the commercial market. Banks have retained a substantial part of their fixed and human assets such as branches, information technologies, processes, and bank employees. They have an immediate ability to survive with the 'new money' scheme proposed (Item 2 in the revival plan outlined in the previous section).

There have been a number of proposals, from the IMF, official plans, and plans proposed by others to deal with how to restitute the deposits to their rightful owners. The following facts are, or should be, recognize as a prerequisite to broaching this issue:

- 1. The liquidity gap between what is owed and what is actually available (estimated at \$70 billion) is real and the funds are not available
- 2. No banking system in the world can or should restitute totaling of its funds outside the banking system
- 3. There is no magic wand that would bridge this gap, i.e. create \$70 billion in liquidity, in the short or medium term
- 4. Less than 25 percent of citizens currently have pre-Oct 2019 remaining deposits
- No scheme should compel depositors to accept a haircut or a conversion. Depositors should be given the option to opt-in or out of any future arrangement.
- 6. State property should not be liquidated to compensate the 25 percent of people who have a problem with their bank deposits
- 7. Any of the scheme currently being considered by the State are detrimental to all stakeholders because it will be detrimental to shareholders who will suffer from a deep haircut, the banks who will lose all their equity and many will have to declare bankruptcy, which is detrimental to the economy, and to the State who will have to liquidate its assets to indemnify people. And even after this, only a small fraction of the deposits will actually be restituted.
- 8. Any future scheme approved by the authorities should be preceded with a bona fide consultation and negotiation between all stakeholders. Currently this is not possible, and each stakeholder's demands are absolute and expect the burden to fall on the other stakeholders.

Given these facts, and the poor state of finance at the levels of the Treasury, the Central Bank, and the banking system, and the impossibility of a quick fix, it is advisable to deal with the matter similarly to a 'Chapter 11' bankruptcy status (in the US) which entail the following:

- Moratorium (with some exceptions such as the circulars 158, 161, and maybe future ones) on demands on the banks and the Central Bank for an interval (3 years for example)
- 2. During this period, the State will prioritize growing the economy, reach a primary surplus, attract funds and financing from friendly countries and international development banks and agencies, including perhaps the IMF and others
- 3. Proposals (see Banking section) to facilitate banks to lend to the domestic sector (corporate and retail) will be enacted
- Devise a plan to involve the private sector in asset management, and for some sector, to be readied for sale
- 5. At the end of this period, the State assets would have gained in value, and a healthy primary surplus would have been achieved. At that juncture, the State, the Central Bank, and the banks would be in a better position to make concessions, and large depositors would become more interested in converting their deposits into other assets (bail-in or other schemes).



**Deposit restitution** 

#### **Proposed schemes**

A number of other schemes have been prepared or even proposed by IMF, government (a.k.a. Lazard), and some economists. Here are quick summaries of some of those:

#### A. Government 2022 plan



The government announced a recovery plan in September 2022. The plan outlines a framework for structural economic and financial reforms to address the crisis. Central to the plan is negotiations with the IMF to ensure financial assistance and support for recovery. Its goals are to restore macroeconomic stability and promote equitable financial restructuring, rehabilitate infrastructure, and stimulate growth through the private sector.

This plan has many facets including dealing with losses in the financial sector which it estimated to be \$72 billion, mostly linked to central bank activities and non-performing loans. The financial sector reforms include:

#### 1. Addressing Financial Losses

- Total financial losses are estimated at \$72 billion, stemming from:
  - > Decline in the value of deposits due to currency devaluation.
  - > Accumulation of non-performing loans.
  - > Structural issues within the banking sector and the Central Bank.
- Measures include recognizing and transparently addressing these losses.

#### 2. Banking Sector Restructuring

- Banks will undergo a classification process to determine their viability:
  - > Unviable banks will be liquidated.
  - Viable banks will be recapitalized by their shareholders and other stakeholders.
- A recapitalization plan will include converting part of large depositors' holdings into bank equity to absorb losses.

#### 3. Deposit Protection and Adjustments

- Small depositors will be protected, with a threshold of up to \$100,000 per account guaranteed.
- Large deposits may be partially converted into equity or subjected to "haircuts" as part of loss-sharing mechanisms.
- Depositors will also see conversions of some deposits to Lebanese pounds at adjusted exchange rates.



## **Deposit restitution**

#### 4. Central Bank Reforms

- Plans to restore the financial solvency of the Central Bank (BDL) include:
  - A comprehensive audit of the Central Bank's accounts.
  - > Restructuring its balance sheet to eliminate deficits over time.
- The government will ensure enhanced transparency in the bank's operations.

#### 5. Establishment of a Deposit Recovery Fund (DRF)

- A new fund will be created to recover depositors' funds above the guaranteed limits
- The fund will pool resources from:
  - > State assets earmarked for privatization.
  - > Recoveries from corruption and illicit financial outflows.
  - > Contributions from viable banks and their shareholders.

#### 6. Unified Exchange Rate

- Move towards a unified exchange rate system to restore confidence and address distortions caused by multiple rates.
- Gradual phasing out of subsidies linked to preferential exchange rates.

#### 7. Strengthening Oversight and Regulation

- Reinforcement of the banking regulatory framework to ensure sustainability and reduce systemic risks.
- Implementation of reforms to separate commercial banking activities from investment banking.

#### 8. Focus on Transparency and Accountability

- Enhancing transparency in the restructuring process to rebuild trust among depositors and investors.
- Protecting small and medium-sized depositors while ensuring equitable loss distribution.

#### B. Central Bank (Manssouri era)



Depositors should be categorized as very small (no longer exist since they have withdrawn their deposits and closed their accounts), small (up to a certain level, currently identified by the government at up to \$100,000), medium (to be defined), and large (to be defined). Depositors in the 'Large' category are to be considered 'informed investors' and their deposits should be treated as such, just like investors in bonds or the stock market. Their losses are not to be automatically indemnified but subject to negotiation – just like the Eurobond holders.



**Deposit restitution** 



#### C. Proposal by former IMF senior economist Mounir Rached



Release up to \$20 billion from BDL to banks who in turn will pay them to depositors. The funds will emanate from reducing the current foreign currency reserves and will liquidate a portion of gold holdings equivalent or inferior to its recent gains in value due to increase in its price.

In parallel, the balance of the deposits will be scheduled to be released annually over the medium term (five to seven years). The funds are assumed to remain in the banking sector post-release as most of it will not be able to exit the country, and trust in the banks will slowly be restored, at least partially.

Negotiations with bondholders will lead to a rescheduling of most of the foreign debt. The principal will be reduced (probably to a quarter or less of its nominal value, especially that most current bondholders have bought it at a discount on the secondary market). Following a grace period of two to three years, bond repayment will debut to be equivalent to the forecasted primary surplus in the budget. This assumes fiscal rigor.

#### D. Former chairman of the Banking Control Commission

Alleviating banks' balance sheets by placing all past depositor rights and loans into a single fund (such as a bad bank) against a shareholding scheme (owned by the newly created fund, and maybe the banks themselves). The fund will untangle and balance rights, and derive profits from its shareholding of banks.

#### E. Proposal-in-progress (not final) by the Mikati government in 2024/2025

Categorize local dollar deposits totaling \$86 billion into eligible (pre-October 17, 2019) and non-eligible (post-October 17, 2019) deposits. Key measures include:

- 1. Interest Claw-Back
  - Interest earned above one percent annually from 2015 to 2020 on accounts exceeding \$100,000 will be clawed back, amounting to \$9.2 billion.
- 2. Reimbursement of Protected Deposits
  - Eligible Deposits: Up to \$100,000 reimbursed over 11 years in dollar installments, equally financed by BDL and banks (\$11.8 billion total).
  - Non-Eligible Deposits: Up to \$36,000 reimbursed over 11 years, 75 percent in dollars (split between BDL and banks) and 25 percent in lira (fully funded by BDL), totaling \$6.9 billion.



Deposit restitution

#### 3. Voluntary 'Lirafication'

 Depositors can convert \$100,000 to \$500,000 into lira at rates of 45 percent (eligible deposits) or 30 percent (non-eligible deposits). Estimated total: \$21 billion.

#### 4. Handling Remaining Deposits

- Bail-In: \$9.4 billion converted into equity (\$5 billion common shares, \$4.5 billion subordinated bonds).
- Zero-Coupon Bonds: \$11.9 billion in deposits converted into bonds maturing
- in 20-30 years, financed by BDL, with a present value of \$2.9 billion. Deposit Recovery Fund (DRF): Remaining deposits transferred to a fund financed by taxes, state-owned enterprise income, and anti-corruption efforts, estimated at \$11.9 billion.

#### 5. Perpetual Bonds

Remaining deposits at BDL will be converted into perpetual lira bonds with a five-year grace period for interest payments.

Outcome: An estimated deposit recovery rate of 44 percent, equating to \$38 billion, with recovery rates of 50 percent for eligible deposits and 39 percent for non-eligible deposits.

#### Other schemes have also been proposed

A slew of other spreadsheet based calculations have been proposed to restate, reengineer, and restructure the balance sheets of the Central Bank and those of banks.





# Labor

#### SITUATION OF THE SECTOR

Working-age population in 2022 is estimated at 3.35 million

The unemployment rate jumped from 11 percent in 2018-2019 to 30 percent in January 2022. Long-term unemployment represented 49 percent of the unemployed population in 2021-2022.

Driven by the Oct. 2023-Nov. 2024 War, unemployment is expected to rise to nearly 33 percent in 2024. An estimated 166,000 individuals lost their jobs resulting in a loss in earnings of \$168 million. The war forced 26 percent of companies to reduce working hours, and a fifth of them to start or increase remote work, according to a survey by InfoPro Research of more than 100 medium and large companies in the Greater Beirut area (southern suburbs excluded). Less than ten percent of businesses started reducing pay, and only four percent had to let go of employees. Many companies indicated that more pay decreases and layoffs were expected.

The unemployment rate more than triples (from 13 percent in 2018-2019 to 43 percent in 2022) if time-related underemployment is factored in. Time-related underemployment is the segment of the employed not working full time and available and willing to work more hours.

	15+ years age					
	Employed	Unemployed	Outside labor force			
Women	14.9%	7.3%	77.8%			
Men	47.4%	18.8%	33.8%			
Women & Men	30.5%	12.8%	56.6%			

Distribution of employed (15+ years) per major economic activity				
Wholesale and retail trade; repair of motor vehicles and motorcycles	18.8%			
Manufacturing	12.1%			
Public administration and defense; compulsory social security	12.0%			
Education	9.3%			
Construction	8.0%			

Source: Central Administration of Statistics (Lebanon follow-up Labour Force Survey January 2022)



The men's unemployment rate almost tripled from ten percent in 2018–2019 to 28 percent in 2022. The increase for women was from 14 percent to 33 percent. The unemployment rate among youth of the 15–24 age bracket more than doubled over the same period from 23 percent to 48 percent.

Since 2015, the working-age population (15–64 years old) has been declining by an average compounded annual rate of 3.5 percent driven by declining fertility rates, increasing life expectancy, and mass emigration

The older adults (over 60 years) age group is projected to grow to 27.1 percent of total population

Labor force participation rate (LFPR) is persistently low. It fell further from 48.8 percent in 2018–2019 to 43.4 percent in 2022. This is the result of jobless growth, high unemployment rates, chiefly among the youth, chronic skills mismatch, and widespread informal low-productivity jobs

Employment in the informal sector has increased from 35 percent in 2018-2019 to 48 percent

48 percent in January 2022 partly due to the difficulty of opening new bank accounts to register new companies and the weak financial performance of businesses.

Nearly half of the Lebanese workforce and 60 percent of non-Lebanese workers are employed in low value-added sectors, susceptible to wage reduction and job loss such as wholesale and retail trade (19-20 percent) which is characterized by low productivity and weak job creation.

The minimum monthly salary in the private sector has been raised to LL18 million (\$200 at an exchange rate of LL90,000) but it is still less than half its value before the crisis.

The lack of opportunities in the local market has driven local labor, mostly skilled, to seek jobs abroad. The chronic brain drain is expected to worsen with the fallout of the war including the massive destruction of residential and commercial properties.



Labor

# **SHORT-TERM** recommended measures

- The Ministry of labor (MoL) has to clarify the application of the labor law in times of crisis such as when a layoff is considered an arbitrary dismissal
- Issue the implementing decrees of Pension Law 319, passed in December 2023, which brings a significant amendment to the National Social Security Fund (NSSF) law by replacing the current end-of-serviceindemnity scheme by a new pension system that offers retirees a monthly payment during their lifetime.
- Implement MoL's decree that exempts employers hiring first-time job entrants from NSSF dues
- Maintain the meetings of the tri-partite commission on minimum wage
- The government (Ministry of Finance) must pay dues in arrears owed to NSSF
- The National Employment Office (NEO) has to collaborate with universities, vocational and technical colleges, municipalities, and NGOs to improve its service of helping jobseekers find work



- MoL has to develop a National Employment Policy for recovery to address employment and labor market challenges. It must include policy actions to address longstanding structural employment challenges as well as the repercussions of the multiple crises and the war
- Enact additional amendments to the labor code, which was passed in 1946, in order to bring it in line with new international labor standards and address issues like unemployment, informal work, equality between the sexes, rights of foreign workers and of workers with special needs
- Adopt and ratify labor conventions and protocols issued by the International Labour Organization such as the 'Freedom of Association and Protection of the Right to Organize Convention (1948) No 87'. Public employees still do not have the right to establish or join labor unions or go on strike.
- Empower NEO with the necessary human and technical resources to enable it to conduct research about the labor market and create a better fit between labor supply and job offers
- Amend the NSSF law to expand the scope of beneficiaries and include new segments of the population who do not enjoy social security coverage such as small employers, freelancers, farmers, and fishermen.
- Develop a plan to ensure financial sustainability of the NSSF
- Update vocational and technical education curricula in order to better meet the needs of the job market
- Increase the personnel and number of judges at labor arbitration councils to speed up conflict resolution
- Set up an unemployment insurance system to provide temporary support to workers registered in the NSSF
- Prioritize social issues and the labor market when entering into foreign assistance agreements. Study the potential impact of these agreements on labor
- Take the necessary measures in different fields to alleviate the workers' cost of living burden such as approving the universal health coverage draft law, providing more support to State hospitals, the Lebanese University, and public schools, in addition to modernizing and expanding the public transportation network, and developing a housing policy that protects low-income people.





#### SITUATION OF THE SECTOR

#### Poverty rises to alarming levels

The livelihood conditions, which have been severely deteriorated by the economic crisis, have further worsened by the war. The decline of the purchasing power of people whose income has been fully denominated in dollars since 2019 is estimated at nearly five percent while the decrease experienced by lira earners over the same period reached almost 6,000 percent due to the collapse of the currency.

Poverty among Lebanese nationals more than tripled over the last decade to reach 33 percent by 2022 with 36 percent of the population living below the extreme poverty line which exposes the State to acute social risk. The depth of the poverty gap—the financial shortfall required to bring the poor to the poverty line—has similarly widened. Non-Lebanese individuals, including Syrian and Palestinian refugees, are disproportionately affected, as they are three times more likely to live in poverty.

As a result of the war, the percentage of people living in multidimensional poverty became alarmingly high, particularly in Nabatieh (94 percent) and the South governorate (87 percent), with noticeable increases in housing, education, and income deprivation. The multidimensional poverty rate was 53 percent before the economic crisis.

#### High unemployment

Unemployment has surged from 11 percent in 2018 to 30 percent by 2022, with estimates suggesting it reached 33 percent by the end of 2024 due to the war. An interim assessment has estimated that around 166,000 individuals lost their jobs resulting in a loss in earnings of \$168 million. Even in areas not affected by the war in Greater Beirut, in areas not directly affected by the hostilities, companies had to let go of some of its labor force.

The expansion of employment in the informal sector driven by increasing scarcity of employment options has to a certain extent contributed to further deterioration of social conditions as people working in the informal sector are not covered by labor laws and do not receive any social benefits. They are generally employed in temporary jobs at low wages.

Informal amplement	2018-2019	2022	
Informal employment	54%	60%	



## Social protection and livelihood

#### **Eroded incomes**

The sluggish adjustment of salaries is also delaying the recovery of the income of wage earners.

The minimum monthly salary, adjusted in 2024 to LL18 million (\$200), remains less than half the pre-crisis level of \$450. The war also took its toll on wages. Even in areas in Greater Beirut not directly affected by the hostilities, eight percent of businesses had to reduce salaries.

Besides low wages, consumers have to face high inflation which remains elevated though it has been steadily decelerating since the stabilization of the exchange rate in the second half of 2023. The annual inflation rate was 15 percent in November 2024. Inflation was mainly driven by an increase in food prices and rent resulting from the war, and rising prices of imported products and their shipping costs. Displaced people had to bear the burden of rent and faced a surge in rental rates in areas where a large number of them had to flee during the war especially in the case of furnished apartments. Many of the displaced had to face an increase in rent even in their own region after their return with a \$100 to \$200 average increase in monthly rent in the villages of the Tyre caza and Nabatieh governorate.

#### Deterioration of living conditions and social coverage

Limited income-generating opportunities coupled with rising food prices forced many households to reduce the number of meals or buy low-quality food. Over 20 percent had to resort to critical livelihood coping strategies.

Besides low income and high inflation, most of the population has to face the additional challenge of the absence of social and insurance coverage which makes them extremely vulnerable to health and other risks. People covered by the National Social Security Fund (NSSF) are still unable to benefit from the services of the NSSF whose resources have largely evaporated together with the end-of-service indemnity (EOSI) as a result of the collapse of the value of the lira. Transition to the new pension system from the EOSI system, which was inadequate even before the crisis, has not started yet as it is still awaiting the required implementing decrees.









#### War exacerbates social problems

Social problems have been worsened by the human cost of the war. The number of injured people reached almost 17,000 while the death toll totaled more than 4,000 victims. The war has displaced nearly 900,000 people between September and November 2024. Most of them started returning home after the ceasefire (Nov. 27). Around 125,000 were still displaced by the end of last year. The housing sector sustained the biggest damage estimated at \$2.8 billion with nearly 100,000 housing units partially or fully damaged just by the end October 2024.

The hostilities led to an interruption of education for more than two million children. Nearly 400 schools and university branches were closed due to insecurity and/or damage, and about 600 educational establishments were repurposed as shelters.

Attacks on healthcare institutions and health workers have taken a devastating toll on the country's health infrastructure and exacerbated the health needs of the displaced and people directly affected by the war. Nearly 36 percent of hospitals and primary healthcare centers became partially or fully non-operational mainly in the South and Nabatieh governorates and southern suburbs.

Besides workers, the war impaired the livelihood of small farmers and low-income selfemployed people. Losses in the agricultural sector alone reached over \$1.1 billion, due to lost harvest caused by destruction of crops and livestock and displacement of farmers.

#### International support

On October 1, 2024, the United Nations (UN) and the Lebanese government launched a \$426 million Flash Appeal to mobilize resources from international donors for urgent humanitarian needs resulting from the escalating war. In the last week of that month, more than 70 nations and international organizations gathered in a conference held in Paris, pledged \$800 million in humanitarian aid and \$200 million for the security forces. The total pledged amount of \$1 billion exceeding by far the appealed amount.

At the beginning of 2025, the government and the UN issued a \$371 million extension of the appeal to the first quarter of the year. The aim is to provide urgent humanitarian assistance and protection to one million conflict-affected Lebanese citizens especially that 125,000 were still displaced and hundreds of thousands were facing huge challenges restarting normal living conditions. The aid also targets Syrian and Palestine refugees and other migrants directly impacted by the hostilities and displacement.





Flash appeal extension (from January to March 2025)					
Sector/cluster	Total people targeted	Funding required (USD million)			
Basic Assistance	780,000	\$40			
Education	220,000	\$14			
Food Security and Agriculture	1,000,000	\$112			
Health	500,000	\$46.5			
Nutrition	165,000	\$6.8			
Protection					
– General Protection	200,000	\$10			
– Child Protection	130,000	\$9.5			
– Gender-Based Violence	80,000	\$7.5			
Shelter	227,500	\$39			
Site Management and Coordination	48,000	\$5.4			
Social Stability	1,000,000	\$14.5			
Water, Sanitation and Hygiene (WaSH)	_				
– Direct support	750,000	\$60			
– System-level	1,500,000				
Logistics		\$4.7			
Coordination and Common Services		\$1.3			
Total		\$371.4			

#### Preparing for reconstruction

The cost of reconstruction has not been assessed yet. Damage to physical structures is expected to exceed by far preliminary estimates of \$3.4 billion. The caretaker government has called for an Arab initiative similar to the Marshall Plan to support Lebanon's recovery.

In December 2024, the caretaker government allocated LL4 trillion (\$44 million) for a number of operations mainly removing debris and assessing damages. The cost of removing rubble in the Southern Suburb alone (two to four million tons) is estimated at \$12 million. According to preliminary estimates, construction and demolition waste (CDW) resulting from the war, ranged between 50 and 100 million tons as of November 2024. The CDW resulting from the 2006 war totaled just six million tons. The main challenge the government is facing regarding the CDW is finding a suitable place to dispose of the debris.





# **SHORT-TERM** recommended measures

- Accelerate the reopening schools and healthcare facilities in war-affected areas.
- Enhance access to essential services, such as health, education and psychological support, for vulnerable people affected by the war.
- Seek additional international financial assistance to meet the social needs of war-affected population and finance the reconstruction venture.
- Allocate additional funding to the Ministry of Public Health to enable it to support hospitalization and medical care for war-affected people, and the Ministry of Social Affairs (MOSA) to help it assist the displaced and those who have returned to their towns and villages.
- Expand the scope of the Emergency Social Safety Net (ESSN) and the National Poverty Targeting Programme (NPTP) to include the population affected by the war especially vulnerable people such as children, women, and the elderly by using the proceeds of pledged international aid.
- Set up programs to provide urgent financial assistance to farmers in the affected areas, including grants, subsidies, and soft loans to help them recover their losses and return to productivity.
- Regular meetings of the committee on minimum-wage adjustments (Index) at the Ministry of Labor.
- Carry out a comprehensive assessment of damage to residential units, schools, hospitals, public utilities, and other infrastructure. This assessment should be the basis for recovery and reconstruction plan that focuses on sustainable rebuilding involving eco-friendly materials and climate-resilient infrastructure.



# **LONG-TERM** recommended measures

- Increase budget allocations for government spending aiming to meet social needs and addressing social problems.
- Diversify the financing structure of social protection as revenue projections are often highly volatile in order to provide stable assistance especially emergency social protection.
- Ensure that social protection is adequately and evenly provided to the poor and vulnerable across all contingencies and life-cycle stages.
- Prioritize the reconstruction of the health and utilities infrastructure in order to restore health services and water and electricity provision, and other basic services, as soon as possible.
- Create incentives for investment in the most waraffected sectors such as agriculture, tourism, and small and medium-sized enterprise in order to create jobs and contribute to economic recovery.

#### **NSSF**

- Accelerate the transition from the end-of-service indemnity (EOSI) system of the National Social Security Fund (NSSF) to the pension system because EOSI benefits, which were already deficient before the crisis, have lost their value following the collapse of the lira. This measure is critically needed because the general population and old people in particular have been severely affected by the economic and financial crises, Covid-19 pandemic, Port Explosion, and the 2023-2024 war which have resulted in the surge of the poverty and unemployment rates.
- Support the recovery of the NSSF to help it resume its badly needed services in light of the severe social problems resulting from expanding poverty and unemployment.
- Implement the reforms stipulated in the new legislation pertaining to the NSSF management.
- Modernize and digitalize the MOSA and NSSF in order to enable them to provide fast and efficient services.
- Set up a financial information management system at MOSA and other social protection entities to track social spending, reduce misallocations, and facilitate data-driven decision making at the level of the government and donors.



# Restructuring the public sector

The public sector needs to be streamlined, the overlap between policy creation eliminated, and as many jobs as possible to be transferred to the private sector.

#### Abolish the following ministries

#### Information

- > TeleLiban and Radio Liban must be grouped under a new public entity: Lebanon Broadcast. Managed by a board of directors composed of independent members and a government representative, it will be focused on programs on public interest topics such as culture, sports, academia, municipal news and stories from across Lebanon, civil society initiatives. Political and business news will not be covered. It will be financed by the government, international donors and NGOs, and corporate sponsors. It will also include an academy for journalistic training in collaboration with the Lebanese University
- National Press Agency. It will disseminate public sector news and will become part of the Office of the Prime Minister

#### **Tourism**

To be replaced by a National Tourism Board, financed by the State and the private sector with some funding from international NGOs. Governed by an independent board of directors, with a government representative, the board will be under the umbrella of the Ministry of the Economy

#### **Telecom**

Given that the sector will be fully privatized, the remaining duties of the Ministry will be transferred to the Telecommunication Regulatory Agency

#### **Energy and Water**

After the sector is fully in the hands of the private sector, the remaining duties will be transferred to the relevant regulatory agencies

#### **Displaced / Refugees**

Its mission has been mostly completed. All pending issues will be transferred to the Higher Relief Council

#### **Youth and Sports**

> The activities of this Ministry will be transferred to the Ministry of Education

#### **Public Works and Transport**

 Transform the ministry into a Ministry of Transport and Logistics and remove the public works component that should be transferred to other authorities.

#### **Industry**

 The activities of this Ministry will be transferred to the Ministry of Economy and Trade, to be renamed Ministry of Economy

#### **OMSAR**

> The activities of this Ministry will be relegated to the Office of the Prime Minister

#### • E-government

- Transactions and information services should be digitized, including the filing of applications, declarations, and payments. This process should be placed on a fast track
- The government has to issue the implementing decrees of the 'electronic transactions and personal data protection' law which was passed more than a year ago. Electronic transactions and e-signature are crucial for developing e-government
- The e-government project should be implemented gradually starting, for instance, with municipalities and the Ministry of Finance because it is the most computerized

#### Simplify transactions

Each ministry and public agency should review its various processes and find ways to reduce the number of steps and signatures needed, and establish a one-stop-counter for citizens, including online facilities

#### • Administrative Decentralization

This topic has been proposed and debated ad infinitum since Independence, and probably before that time. All political parties are on record for supporting it. But the successive governments never took the initiative to devise a serious development plan. The advent of e-government will make this task easier, but the issue remains ill-defined. In some quarters, especially in rich municipalities, there is even a call for fiscal decentralization – which has witnessed a lot of pushback, mostly on political grounds. Work on Administrative Decentralization should start by elaborating a draft plan and presenting it to the public for discussion, with the support of organizations and firms with experience in other countries.

# Sectoral situation and recommendations



# **Banks**



Commercial banks (USD billion)					
	Oct. 2019	Oct. 2024*	Change		
Loans to resident private sector	47.2	5.0	-89%		
-In lira	14.2	0.1	-99%		
-In foreign currencies	33.0	4.9	-85%		
Total customer deposits	167	88.4	-47%		
-In lira	44.2	0.7	-99%		
-In foreign currencies	122.7	87.7	-28%		
Resident customers' deposits	131.3	67.4	-49%		
Nonresident customers' deposits	35.5	21.0	-41%		
The bank's deposits with BDL	154.3	80.6	-48%		
Claims on nonresident financial sector	8.4	4.2	-50%		
Liabilities owed to nonresident financial sector	9.7	2.5	-74%		

<sup>\*</sup>The 2024 figures reflect the real value of assets/liabilities in terms of real dollars only in the case of lira-denominated items as the real market rate (LL89,500) has been adopted by the Central Bank since January 2024. The absolute value and decline of dollar-denominated items reflect their book value which are much less than their real value and real decline if converted into fresh dollars.

Fresh dollar deposits in January 2025

\$3 billion

CON	ANA	ED	CIA	N I	D	A N	ш	c
COI	ALIAI			<b>1</b> ∟	D	-/11	AL	73

	Dec. 2019	Jun-24	Change
Number of branches	1,058	655	-38%
Number of employees	24,704	14,693	-41%

	End of 2019	End of 2023	Change
Number of outstanding payment cards	3,036,756	1,875,352	-38%
Number of ATMs	2,003	1,244	-38%



**Banks** 

#### SITUATION OF THE SECTOR

The banking sector continues to reel from the crisis as more than five years have passed since its outbreak and the government has not yet implemented the banking restructuring plan or the IMF reform requirements. Banking activity has not resumed yet apart from negligeable consumer loans by a handful of banks and the sluggish growth of the so-called fresh dollar deposits to just around \$3 billion. The sector continues to shrink with both assets and liabilities plummeting to rock bottom due to the collapse of the lira which has lost 98 percent of its value and the morphing of bank dollars into worthless lollars besides the massive repayment of private sector loans and deposit withdrawals. The lack of banking activity forced the banks to significantly downsize their workforce and considerably reduce the number of branches, ATMs, and payment cards.

The 28 percent decrease in foreign currency customer deposits between October 2019 and October 2024 in the books of the banks is misleading because it compares the real dollars of the precrisis era with the lollars of the present. The real decline could reach 90 percent with the exception of an estimated \$1.3 billion withdrawn per year from these deposits under circulars 158 and 166. By the end of 2024 more than 431,000 depositors have withdrawn \$3.24 billion since the launch of these two circulars.

Lira deposits, when expressed in dollars, have been practically wiped out (a decline of 99 percent compared to 2019) due to withdrawals and the collapse of the currency. But the lira nominal value of these deposits started to increase recently which would reflect a real growth if

the exchange rate remains stable. They increased by 23 percent to LL59 trillion in October 2024 compared to a year earlier. The growth is attributed to rising demand by banks for lira liquidity to pay their own operating expenses, ensure foreign currency liquidity of 100 percent on their fresh customer deposits, and meet deposit withdrawals under BDL circulars. The National Social Security Fund's gradual withdrawal of its deposits at banks to place them with the Central Bank has also contributed to the rise in demand for liras. In addition, BDL has attempted to reduce the currency in circulation as much as possible to safeguard the country's exchange rate. Currency in circulation is currently below LL50 trillion (equivalent to \$560 million).

The credit crunch continues. Only a very small number of banks have started to offer tiny amounts of consumer loans in fresh dollars such as car loans. These loans only target a limited number of customers carefully selected by the banks. Outstanding loans to the resident private sector have basically vanished as the real value in dollars of lira-denominated loans is just \$128 million compared to \$14.2 billion before the crisis while what remains of foreign currency loans merely consist of nearly five billion Iollars. While the crisis and concerns about the health of the lira caused a panic that led depositors to withdraw as much as they could of their funds, the crisis was seen by borrowers as an opportunity to settle their bank loans at a fraction of their value. Both businesses and individuals benefited from existing legislation that allows them to settle their foreign currency debt in lira at the official exchange rate which was far below the market rate. They also used their lollar deposits which have lost their value and could not be withdrawn to settle their debts.



by LEBANON OPPORTUNITIES

Banks



Likewise, loans denominated in lira became insignificant with the collapse of the currency and borrowers with fresh dollars could settle the entire loan and realize huge foreign exchange profits.

The banks' deposits with BDL mainly consist of lollars as their lira deposits have shrunk to nearly \$1.5 billion at the current exchange rate. Moreover, the Central Bank started last year to write off the lira loans provided to the banks under the financial engineering operations against the proceeds of these loans that were deposited with BDL. The profits that the banks had generated from the financial engineering operations and that they were not allowed to distribute to their shareholders, have not been converted into dollars, and are estimated at LL7.3 trillion. Their value in real dollars has plunged from \$4.8 billion to less than \$82 million at the current exchange rate.

Before the crisis, the banks used to hold \$14.8 billion of the Eurobonds issued by the Lebanese government, nearly half the \$30 billion total bonds issued. The banks have reduced their Eurobond portfolio over the years to \$2.3 billion (October 2024) in order to obtain foreign currency liquidity and reduce their exposure to the sovereign risk. The Eurobond market prices have recently started to recover with growing positive prospects for improvements of the political and economic conditions.

Restructuring the banking sector should not be undertaken independently from a comprehensive economic plan. Banks were accused of transgressions such as concentrating their deposits at the Central Bank or favoring certain clients in transferring their deposits abroad after the crisis began. These accusations should be declared illegal by the competent courts before declaring them confirmed, and in such case, the bank's management should be held responsible, and restitution be borne by the bank's shareholders. However, it is primordial to preserve the banking system, which one of the most prized and advanced pillar of the economy.

#### **SHORT-TERM**

recommended measures

- Legislation mandating new loans in dollar to be repaid in that same currency
- Legislation allowing new capital used by banks for new lending (equity or long term debt) should be insulated from past liabilities and not diluted by them. Part of the profits from such operations should be earmarked and withheld for restituting old deposits

- Provide banks liquidity to be used in lending by using part of BDL's liquid reserves and mortgaging its gold reserves in addition to State funds and capital injections by shareholders willing to recapitalize their banks.
- Complete the audit of each bank and review its restructuring business plan.
- Convene a committee with representatives of all stakeholders of deposit owners (State, BDL, banks, and others) to devise and recommend to the government an exit strategy for the issue of deposits. This includes how the deposits will be categorized and means and level of payment for each category (cash, bail-in, etc.)
- The criteria used for the categorization include whether the deposits are for retirements or investment by learned investors, social impact, economic impact, age, and those who benefited from the crisis such as loan repayments and other.



# **Trade**

#### SITUATION OF THE SECTOR

The contribution to GDP of the wholesale and retail trade sector increased from 12 percent in 2018 to 14 percent in 2020.

The contribution to GDP of commercial trade and transport jumped from 16 percent in 2018 to 29 percent in 2021

The wholesale and retail trade sector has the largest share of employment (19-20 percent)

The sector was starting a recovery journey after household spending returned to a very modest growth trajectory, reversing a long declining period. Household spending, which recorded severe contractions over the period 2018-2021, was expected to increase slightly in 2024 after basically stabilizing in 2023. The growth in spending was driven by remittance inflows, and by the expansion of income dollarization and salary adjustments that were strengthening purchasing power. Mounting inflation pressures [in dollar], however, will continue to weigh on disposable incomes.

The trade sector, however, was affected by the Oct. 2023-Nov. 2024 War. Nearly 11 percent of establishments in areas affected by the fighting has been damaged, with the highest costs incurred in the South. The value of damaged cars is about \$60 million and more than 30 showrooms have been damaged. Nearly 1,000 out of 7,000 pharmacies in the country have closed. Only a few large insurance companies are still covering war risks on imported cargo but at a high premium. The cost of war risk insurance increased by two to 2.5 percent.

#### Oct. 2023-Nov. 2024 War



\*Losses were mainly driven by the displacement of employees and business owners, supply chain disruptions, and shifts towards consumption of essential goods. About 83 percent of losses are in war-affected areas, the remaining 17 percent in the rest of the country

\*\* Cut-off date: October 27, 2024

Source: Interim Damage and Loss Assessment Nov. 2024 World Bank

The customer's basket size at supermarkets has recorded a significant increase in 2024 compared to 2023. For instance, some supermarket chains witnessed a 30 percent growth in their average basket size.



The restoration of the VAT refund service, which allows tourists and Lebanese expatriates shopping on the local market to recover the VAT tax paid on their purchases when leaving the country, is expected to have some positive impact on retail sales.

Even though sales of low-cost products at supermarkets have increased due to the crisis, customers are increasingly buying again high-end global brands thanks to the improvement in purchasing power. This has resulted in the recovery of the sales volume of expensive items in some supermarkets to 70-75 percent of their pre-crisis levels. This means that consumer product preferences have almost completely returned to their pre-crisis pattern. Some good-quality new brands that have entered the market during the crisis have survived while others have exited the market. But this trend has been by the war with imports of some luxury items having decreased in 2024 while imports of some essential goods rose by 20 percent, such as canned food, edible oil, and legumes.

Some supermarket chains are returning to the local market such as France-based Monoprix which has signed a franchise agreement with Gray Mackenzie Retail Lebanon, owner of the Spinneys. UAE-based Al Habtoor Group has also reopened its five-story shopping mall in Habtoor City Place in Sin El Fil.

The performance of shopping malls is also improving. The existence of payment cards linked to international accounts or to local fresh foreign currency accounts has encouraged malls to accept non-cash payments which has resulted in sales growth. Lebanon is also regaining the trust of mid-range international brands and as a result more franchise retail brands are entering the market. The malls' average occupancy rate is currently higher by 18 percent in terms of gross leasable area (GLA) compared to recent years. Their footfall has also increased rising by 12 percent since the beginning of 2024.

The country suffers from a huge chronic deficit in its trade balance with imports exceeding by far exports though it is hard to estimate it accurately because international trade statistics are largely unreliable due to smuggling and corruption at sea, air, and land ports of entry.

Lebanese trucks carrying local merchandise continue to face obstacles in neighboring countries though Syria has recently decided to reduce transit fees by 50 percent on trucks carrying goods from Lebanon to Iraq and vice versa.



**Trade** 





- Ease tough requirements and unnecessary hurdles imposed on imports, including excessive testing by the Industrial Research Institute (IRI) on products that don't require this type of testing.
- Relax excessive quality and safety requirements of certain imported food items
- Allow importers to withdraw their merchandise when the product is being tested (against a financial guarantee) to avoid additional demurrage, warehousing charges, and electricity in the case of refrigerated foods.



- Amend and modernize all laws and decrees regulating the retail sector especially the outdated Legislative Decree 277/1 pertaining to profit margins of retailers and wholesalers which was passed in 1972
- Enact all necessary laws and adopt all required trading standards that facilitate the accession of Lebanon to the World Trade Organization (WTO)
- Increase consumption of imported finished goods by lowering taxes and customs duties on these imports.
   This will boost sales of traders, will generate more income to the Treasury, and will combat contraband
- Negotiate with Iraq to ease formalities on Lebanese merchandise especially the ruling that forces Lebanese trucks to unload their cargo and load it on Iraqi trucks which involves extra cost and time and could damage the merchandise.
- Expand the development of e-commerce by enhancing the digital ecosystem sector including legislation, incentives to developers of e-commerce solutions and to adopters of such solutions, cooperation with universities and international organizations to ensure technology transfer, and enhancing online payment systems.
- Enhance the public image of traders which has been tarnished in the traditional and social media.



# Manufacturing



#### SITUATION OF THE SECTOR

The contribution of the industrial sector to GDP is estimated to have increased to 37-41 percent

The manufacturing sector currently employs a workforce of 200,000 to 225,000 representing around half of the country's employees who are registered in the National Social Security Fund (NSSF), in addition to a large number of informal workers

The sector continued to attract investments in the last three years with around 1,300 industrial licenses being granted by the Ministry of Industry (MoI) in different industrial sectors.

Promising and high-return sectors include agri-food industries, pharmaceuticals, and fashion design

The agri-food industry accounts for almost a quarter of the manufacturing sector and is the largest industrial exporter.

Pharmaceuticals: This promising and high-return industry has been able to enter the Arab and international markets with a good quality and price ratio.

Fashion design, perfumes, and other industries that are based on fine arts and beauty. This subsector is wellknown on global markets and taps the strength of local producers at different levels

The share of local industrial output on the local market has increased from 11-17 percent to 67 percent at present.

The Association of Industrialists (ALI) believe that their market share in supermarkets is estimated to have increased to nearly 60-65 percent from 30-35 percent before the crisis.

The increase in local demand has led to the growth in the number of manufacturing firms operating in certain subsectors, notably food stuff and cleaning products. This has resulted in a plethora of new brands in these two subsectors leading to market saturation.

The Oct. 2023-Nov. 2024 War forced 25-30 percent of the total number of factories in the country to stop operations. They are mainly located in southern governorates, Bekaa, and the southern suburbs. Nearly 85 percent of factories in the South, Nabatieh, and Baalbek-Hermel governorates halted their activities. Few large factories (five to eight percent) were able to relocate to safer areas.

Nearly 400 of the 1,100 factories registered at the Association of Industrialists in Bekaa are located in Baalbek which was heavily targeted by raids. Besides direct damage, the manufacturing sector suffered indirect losses as a result of the disruption of raw material supply chains and the impact of the decline of airport traffic on exports. Clothing and footwear factories topped the list of affected plants, according to initial estimates, because demand for their products has decreased due to the war.



**Manufacturing** 

The country's total exports are expected to drop this year to \$3 billion from \$4 billion.

The Saudi ban on imports from Lebanon has not been lifted yet and a number of exporters have to circumvent the ban by repackaging their products and exporting them through other countries.

The decision of the Ministry of Foreign Affairs and Emigrants to drastically reduce the number of economic attaches at Lebanese embassies as part of the government's austerity measures has added another challenge to exporters.

Manufacturers are facing challenges due to rising costs of raw materials and energy. Most factories have resorted to solar power to remediate unreliability and shortages of power supply but reforms in the electricity sector are still needed to make this option more feasible.

The industrial sector continues to suffer from shortages of labor due to a skills gap, outdated and inadequate vocational and technical education system, lack of interest of young professionals in technical and mechanical work, and a significant brain drain of skilled labor.

ALI has taken the initiative to support some vocational schools and help them modernize.



# **SHORT-TERM** recommended measures

- Ensure that the scanners installed in ports, land crossings, and the airport for cargo inspection are functioning normally
- Increase the diplomatic effort to lift the Saudi ban on imports from Lebanon
- Initiate support programs to help local manufacturers adhere to EU import conditions for food products
- Implement the decree to discount 75 percent of the income tax imposed on the profit generated from exports
- Apply the VAT refund on the exported goods of manufacturers, not just on their local sales

- Technical and Vocational Education and Training (TVET) must become more specialized and the outdated equipment and curricula of TVET institutions must be modernized
- Intensify efforts to support vocational education and have private sector stakeholders play a bigger role in the management of TVET institutions
- Foster cooperation between manufacturers and universities and research centers
- Identify value chains and create programs that enhances their competitiveness
- Revise trade agreements and renegotiate those that are applied unilaterally, or whose conditions have become unfair to Lebanon
- Set up Civil Defense or Fire Brigade centers in industrial areas





# Hospitality and tourism

#### SITUATION OF THE SECTOR

Direct and indirect contribution to GDP of the travel and tourism sector was 19 percent in 2019 and is estimated to have dropped to 6.6 percent in 2023

The hotel and restaurant sector contributed five percent to GDP in 2021 and three percent before the crisis

Revenues generated from tourism activity increased by 1.7 percent to \$5.4 billion in 2023 compared to the previous year. As a result of the Oct. 2023-Nov. 2024 War, tourism receipts are expected to decrease to \$2 billion in 2024.

#### Oct. 2023-Nov. 2024 War

\$1,097 \$18 \$1.1

12-month losses\* Damage\*\* Total (USD million) (USD billion)

\*Losses driven by a drastic drop in tourist arrivals, hotel occupancy, and inbound travel that has affected revenues of hotels, restaurants, and other sectors that rely on tourist spending such as retail, and transportation businesses.

\*\*Cut-off date: October 27, 2024

Source: Interim Damage and Loss Assessment Nov. 2024 World Bank

Many evacuation calls and travel advisories by foreign countries resulted in a 75 percent drop in airport arrivals and less than ten percent hotel occupancy rates in the summer of 2024.

The low hotel occupancy rate also results from the fierce competition hotels are facing from the growing guesthouse sector which relies on vacation rental platforms like Airbnb.

Tourist arrivals dropped by 24 percent in the first eight months of 2024 compared to the corresponding period of the previous year.

Passenger arrivals per day at the airport have nosedived from over 13,000 to 3,500-4,000 passengers at present.

The travel sector declined by 80 percent in 2024 compared to previous years. Only Middle East Airlines (MEA) was operating during the clashes at the airport which used to receive flights from nearly 60 airlines.

Estimated tourism and hospitality losses in conflict-affected areas represent 43 percent of the total with the remaining 57 percent occurring in the rest of the country. The airstrikes endangered iconic historical sites in Tyre and Baalbek.



The workforce employed in the travel and tourism sector decreased from over 415,000 in 2019 to less than 373,000 in 2023

The hospitality sector is benefitting from the growth of domestic tourism which was a positive byproduct of the economic crisis.

The footfall rate of restaurants is expected to drop by 75 percent in 2024 as a result of the war.

Despite the fighting that affected their turnover, the number of food and beverage (F&B) businesses operating in Beirut increased by 12 percent by July 2024.

The tourism sector suffers from the neglect of iconic tourist sites like Baalbek temples and Jeita grotto that need a revamp and that are not accorded the visibility they deserve as cultural heritage sites that form the backbone of the country's tourism identity.

Potential delay in the resumption of tourism activity may complicate post-conflict economic recovery.



# Hospitality and Tourism

# **SHORT-TERM** recommended measures

- Enhance Lebanon's image abroad by shedding the light on the country's tourist attractions and rich cultural heritage and on the fact that normal life continues in many Lebanese regions despite the war. The marketing campaign must first target countries familiar with and sympathetic to Lebanon. The private sector could play a pivotal role in this regard due to the problems the government is facing. It could use social media platforms for this purpose
- Improve the visibility of the country and its hospitality and tourism sector at major tourism markets and events. This could be achieved through the participation of businesses operating in the tourism sector as well as the Ministry of Tourism
- Revamp major tourist sites such as Baalbek temples and Jeita grotto and put them in the spotlight as integral parts of the country's cultural heritage in order to attract more visitors. Besides the role of the government, tourism businesses could promote these sites through social media
- Standardize taxi fares especially at the airport to prevent exploitation of tourists and chaotic pricing
- Create tourism packages for each Lebanese region and market them abroad through travel agencies

- Regulate guesthouses and other lodgings that rely on online platforms for vacation rentals like Airbnb to ensure that they are providing high-quality services and in order to reduce security risks
- Stakeholders in the tourism sector have to spearhead community-wide initiatives to develop the ecotourism business in rural areas
- Ensure that the transportation network that serves tourists accesses all major tourist sites and is effective, reliable, and of high quality of service
- Address the decline in professional standards of tourist guides resulting from the emigration of skilled talents through training and better education
- Initiate support programs for F&B outlets to provide training to avoid the lack of qualified staff, especially during peak seasons
- The Ministry of Tourism needs to streamline licensing procedures
- Improve access to the airport to all airlines to avoid limited direct flights to Beirut
- Create Destination Management Organizations (DMOs) structured under a master plan to foster regional tourism clusters. The DMOs will be supported by local stakeholders and international donors
- Implement the planned expansion of the Beirut Rafic Hariri International Airport to accommodate more arrivals. This requires setting up a regulatory authority for the transport sector and enacting required legislation





# **Agriculture**

#### SITUATION OF THE SECTOR

The contribution of the agriculture, livestock, forestry and fishing sector to GDP increased from an average of 3.4 percent over the period 2011-2019 to eight percent in 2020 and 7.7 percent in 2021. The food processing industry contributed another four percent to GDP in 2020.

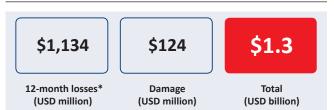
Lebanon's trade with the outside world in agricultural and agrifood products (crops and processed foodstuff) is characterized by a chronic deficit averaging \$2.4 billion over the decade 2014-2023. Average imports over the same period reached \$3.1 billion while average exports stood at \$0.7 billion. The deficit narrowed in 2020 and 2021 under the impact of a temporary decline in imports as a result of the economic and financial crises while exports remained basically stable.

The major agricultural exports consist of processed foodstuff accounting for 16 percent of total agriculture exports on average over the last decade, fruits representing 14 percent of these exports, and beverages and alcoholic drinks accounting for 11 percent.

Fruit exports have been witnessing a growth trend since 2020 while exports of processed foodstuff have remained basically stable over the decade 2014-2023. Major fruit exports consist of bananas, apples, and grapes which together account for 57 percent of overall exports of fruits and nuts.

70 percent of the agricultural sector has been directly or indirectly affected by the Oct. 2023-Nov. 2024 War.

#### Oct. 2023-Nov. 2024 War



<sup>\*</sup> Losses resulting from lost harvest caused by destruction of crops and livestock and displacement of farmers.

Source: Interim Damage and Loss Assessment Nov. 2024 World Bank

1,900 hectares of agricultural land and pasture burned mainly due to white phosphorus.

12 000 hectares of cropland could not be harvested due to fighting and 230 hectares were burned. The total 12,230 hectares of cropland represent 22 percent of the agricultural land in the South and Nabatieh governorates. Around 60 greenhouses were burned.

Exports of Bekaa farmers plunged by 70 percent and their local sales dropped by 50 percent.

Banana plantations in the South suffered losses estimated at \$353 million resulting from damage and the inaccessibility of plantations.

The disruption of olive harvest caused by shelling and displacement is likely to result in \$58 million in losses. Around 12 percent of olive groves have been destroyed. Nearly 65,000 olive trees were burned.

Damage to livestock (cattle, poultry, sheep, goats, and other animals) is estimated at \$99 million and losses at \$533 million. Poultry has suffered the highest losses (\$297 million), followed by cattle (\$154 million).

The fighting killed more than one million chickens and over 18,000 heads of cattle. It completely damaged 5,200 beehives and partially damaged 20,000 beehives.

Local consumption of chicken and eggs has dropped by around 25 percent due to the war. High supply and weak demand have led to a drop in prices resulting in further losses

In 2018, there were 1,245 businesses operating in the agrifood industry.

Dairy production of the country's nearly 16,000 dairy farms accounts for 40 percent of the total output of the agricultural and agrifood sector.

Employment (15 years and above) in agriculture, forestry and fishing is 4.1 percent as in 2022.

Agriculture, fishing and forestry is the top economic activity with the highest percentage of informal employment (98 percent in 2022) with limited access to social security.

#### **Trade in Agriculture Products (USD billion)**

	2019	2020	2021	2022	2023
Exports	0.6	0.7	0.7	0.7	0.7
Imports	3.1	2.3	2.3	2.8	3
Deficit	-2.5	-1.6	-1.6	-2.1	-2.3

Source: Customs



**Agriculture** 

Agriculture suffers from structural problems such as an ineffective cooperative system, small landholdings which limit achieving economies of scale in addition to domination of wholesale distributors and low bargaining power of farmers that increases the risks of unfair trade practices

Small farmers contribute 70-80 percent of agricultural production

Nearly 64.3 percent of Lebanon's area is allocated to agriculture, the largest share in the Middle East

The sector is characterized by a high portion of abandoned arable lands due to rising cost of land maintenance, low productivity and declining profitability, rural exodus, and wars. According to the 2010 agriculture census, about 47,000 hectares of land (over 20 percent of total arable land) were abandoned.

Agriculture is partially modernized and its capacity to adopt new technologies and good practices is limited. The sector mainly relies on seasonal low-skilled workers and farmers have lower literacy and education rates than the general population. Nearly 16 percent of farmers are illiterate and 61 percent of them have only primary level education but control 60 percent of the total agricultural area

Farmers are facing high production cost driven by high input prices. Most agricultural and agrifood businesses are unable to make large-quantity commitments on sales deals. The sector is characterized by overuse of fertilizers and pesticides and weak compliance with quality and safety standards. The traceability system of food products is deficient. All these factors weaken export potential.

Farms encounter difficulties to obtain bank financing, even in normal times, as they are considered high-risk businesses with no guaranteed production or market. For this reason, they often rely on credit purchases from input suppliers.

On the positive side, businesses in the agricultural and agrifood sectors have the potential to boost exports of fruits and vegetables and to invest in promising products like wine, olive oil, and other niche products. They can leverage technological advances such as using drones and sensors and alternative solutions like organic farming and precision agriculture in order to improve efficiency and productivity and reduce their reliance on imported inputs.



# **SHORT-TERM**recommended measures

- The Ministry of Agriculture and Ministry of Health should create and enforce standards for production, processing, and labelling of promising products such as wine, olive oil, fruits and vegetables
- Set packaging standards, including labeling and product identification, and enforce compliance
- Monitor the quality of seeds, pesticides, and veterinary drugs, and combat the smuggling of these products to increase the quality of crops which have to comply with strict international standards when exported
- Secure financial support from donors and international organizations to subsidize purchases of good quality pesticides and fertilizers by farmers who currently buy cheap low-quality varieties due to their weak purchasing power
- Enforce compliance with international quality standards and good agricultural practices (GAP) regarding all agricultural stages from the pesticides used to adequate transportation and refrigeration
- As the State is currently unable to invest in infrastructure projects, donors could help improve farmers' access to soil tests and affordable water sources
- Amend the implementation mechanisms of the Forest Code of 1949 pertaining to the use of grazing land and managing the movement of cattle in forests. The aim is to improve the management of grazing land, preserve biological diversity, and reduce forest fires
- Set up a clear import-export calendar to protect local produce taking into consideration bilateral and regional agreements.



**Agriculture** 

- Promote the introduction of advanced technology and know-how transfer and improve production techniques by strengthening linkages between farmers and the Lebanese Agricultural Research Institute (LARI), National Council for Scientific Research (CNRS), research centers, universities, vocational and technical education institutions, and business development organizations. This includes providing training and technical assistance to farmers
- Secure technical support and knowhow from countries with developed agricultural sector and similar agricultural conditions such as climate and soil
- Support a transition from low-return traditional crops towards higher-value crops such as kale, little gem lettuce, blueberry, raspberry, shiso herb, passion fruit, seedless grapes, and jujube. This could be achieved by providing incentives, information, consultancy, training, and seeds and saplings of the new varieties to farmers
- Promote the development of cold storage, packaging and other post-harvest facilities by providing incentives and support to encourage investment in the expansion of existing facilities or the creation of new ones. The incentives and support could include tax breaks, soft loans, technical support, and improving the infrastructure
- Amend outdated environmental regulations
- Put an end to the indiscriminate overexploitation of underground wells which drain aquifers
- Speed up the implementation of projects that aim to reduce the pollution of irrigation waters especially in the Qaraoun Lake and the Litani River
- Rehabilitate existing irrigation canals and/or build new ones and improve farmers' access to good quality water
- Invest in irrigation systems, storage facilities, and other infrastructure projects and ease the access of small farms to finance and inputs in order to help food production meet local demand
- Improve agricultural, postharvest, and processing practices to open new marketing channels and limit the loss of unsold produce
- Address the issue of ineffective cooperative system.
   Start by carrying out a study about the reasons for
   the failure of cooperatives then identify appropriate
   solutions and the entities that will be involved in their
   implementation as well a timetable for achieving this
   goal. The aim is to have a successful cooperative system
   that offers many benefits to producers including cost
   reduction, access to common equipment and marketing
   channels as well as sharing common sorting and cold
   storage facilities
- Encourage the expansion of urban farmer markets as they provide low-cost option to farmers to sell their produce directly to consumers and cut out the middlemen who dominate the market of agricultural produce. This also allows city dwellers to have better access to buying fresh produce and facilitates the exchange of know-how in the agricultural and agrifood sectors



- With the return of economic growth and the expansion of public revenues, the government must increase public expenditure on agriculture which has been traditionally extremely low. The government's spending on agricultural and agrifood R&D and on food safety is also very limited and must be increased
- Establish a 'Disaster Fund' to compensate farmers who suffer losses from natural disasters
- Provide social security coverage to small farmers and agricultural workers
- Promote modern technologies to boost yield and quality of agricultural produce by providing soft loans or equity financing for the acquisition of new technologies and supporting research facilities
- Set a strategy for the agriculture sector (or revise the National Agricultural Strategy 2020-2025) in order to classify agricultural land into zones according to climate and type of soil. Base the strategy on studies that identify optimal crops for each zone
- Build new roads in remote agricultural areas
- Encourage farmers to register at the chambers of commerce, industry and agriculture to enable them to profit from the benefits that membership offers
- Intensify reforestation efforts to increase precipitation quantities, slow down surface flow of rainwater, and improve infiltration of water into the soil
- Enforce the rental law of agricultural land and set its implementing decrees
- Upgrade the curricula of agricultural studies
- Use the findings of value chain analysis studies undertaken by UNDP, USAID, and UNIDO in order to improve efficiency, boost revenues, cut costs, and provide more job opportunities in the agricultural sector. This could be achieved by educating and training farmers
- Provide financing on favorable conditions to farmers (especially small farmers) in order to enable them to be less dependent on input suppliers.



# Information technology







#### SITUATION OF THE SECTOR

The contribution of the information and communications technology (ICT) to GDP dropped from \$1.1 billion (two percent) in 2018 to \$246 million (one percent) in 2021

Mobile cellular subscriptions were 4.3 million or 77 percent in 2021

The percentage of individuals using the Internet was 87 percent of the total population in 2021

ICT goods imports represented three percent of total goods imports in 2021

Exports of ICT services continue to decline. They dropped in 2023 by 44 percent to \$141 million. The decrease is 75 percent compared to 2019. A significant part of the decline in exports is attributed to the Port Explosion as most of IT companies and startups are located in areas affected by the blast mainly the Beirut Digital District. Exports of ICT services plummeted by 58 percent in 2020, the year the explosion occurred

Computer and communications services and other related services accounted for 28 percent of total commercial service exports in 2023

Exporters of ITC services are still facing challenges as foreign customers are concerned about risks of business discontinuity due to military conflicts, interruption of services caused by Internet and electricity problems, unpredictable legislation with retroactive effects, and the country's negative image. These challenges are forcing a number of companies to incur additional costs to set up contingency plans for negative scenarios.

The crisis has also strengthened the bargaining power of foreign customers of IT companies, especially in Gulf countries, who perceive the Lebanese as eager to accept less favorable deals due to economic difficulties.

The Oct. 2023-Nov. 2024 War put 175 telecom stations operated by Touch out of service, including nine stations completely destroyed and 11 partially damaged. Alfa has 161 stations that have become inoperable. The destroyed stations are located in the southern suburbs, South, and Bekaa.

The combined losses of OGERO, and mobile phone operators Touch and Alfa as a result of the war, were estimated at \$67 million by October 2024.

The war has worsened the challenges that startups, most of them ICT businesses, have been facing since the onset of the crisis and it threatens the survival of the little remaining startup activity. Investors do not have the appetite to invest in this high-risk market and the fragile infrastructure has been further damaged. Many startups had to pause operations, close their businesses or relocate – mostly to GCC countries.

Export-oriented IT companies are shielded to a large extent from the banking crisis as they use their export proceeds to meet their cash flow needs. Individuals engaged in software programing and app development are also selling their services abroad through outsourcing which is a sustainable long-term strategy for this type of service.



## Information Technology

Most ICT startups, especially those with bank deposits were badly hit by the crisis, many of them moved abroad and new ones are practically nonexistent due to lack of funding. Only seed funding from international organizations mainly European and American is available.

Well-established businesses were basically able to survive and are mainly focusing on exports.

ICT companies are suffering from the brain drain unless they offer attractive salaries.

Out of 13,500 Lebanese IT graduates almost 60 percent of them (around 8,000 graduates) currently work abroad mainly in GCC countries. Before the crisis, 60 percent of graduates used to work in Lebanon.

The ICT sector is suffering from the prevalence of illegal Internet networks and contraband of computer hardware.

The stalled fiber object project has also created a digital divide resulting in unfair competition as some areas enjoy high-speed Internet while other areas are lagging behind.

OGERO faces cash flow problems that are delaying its projects and affecting its operations.

The ICT sector lags behind peer countries in modern legislation such as those regulating digital identity (digital ID) and e-signature which is still awaiting the implementation of a law issued in 2018.

Cybersecurity, artificial intelligence (Al), Cloud services, and app development (especially Healthtech, Fintech, and Edutech) are growing driven by global demand and as local providers are tapping their talented, multilingual, and creative workforce at a lower cost compared to other countries such as the Gulf states.

Money transfer companies are boosting their online services including the creation of digital wallets to partially replace a dysfunctional banking system.

The government's launch of its Digital Transformation Strategy 2020-2030 is expected to provide plenty of job and business opportunities if local firms are given the priority over foreign companies in awarding the planned digital transformation projects.

# SHORT-TERM recommended measures

- Lobby the government to speed up the deployment of the fiber optic network and ease procedures for businesses to connect to the grid in order to bridge the digital divide created by the partial implementation of the fiber optic project
- Enable the private sector to share in the costs of the deployment of the fiber optic network
- Lobby the authorities to reform the financing modus operandi of OGERO which is slow and inefficient.
   OGERO urgently needs funding to pay competitive salaries and complete the fiber optic project
- IT companies have to create incentives to attract and retain talents in key specializations like cybersecurity including better salaries and other benefits
- Connect to Starlink satellites as a viable backup to ensure continuity of Internet connection in case of war or Internet interruption.

- Seek international financing for ICT startups beyond the existing seed funding which is not sufficient
- Business development organizations and accelerators must focus on ICT services in high global demand when offering support programs to startups
- Revive and empower the Telecommunications Regulatory Authority (TRA)
- Collectively develop a clear, transparent roadmap for the ICT sector with inputs from both the public and private sectors. A clear plan should seek government support
- Lobby the government to support local key ICT services including Cloud services by providing tax incentives and better Internet connection
- Create a national Computer Emergency Response Team (CERT) of computer security experts to face cyberattacks and to act as an early warning system for the detection of cyberattacks.
- Add ICT subjects, such as coding, to public school curriculums
- Lobby the authorities to pass the proposed regulatory framework draft law for digital transformation
- Modernize the legislation governing digital identity (digital ID) to facilitate the transition from paper-based methods to digital systems
- Petition the relevant authorities to issue the implementing decrees of the Electronic Transactions and Personal Data Law passed in 2018



# Real estate

#### SITUATION OF THE SECTOR

The contribution of the real estate sector to GDP declined from \$8.4 billion (15 percent of GDP) in 2018 to \$1.3 billion in 2021 (seven percent of GDP)

The number of real estate sales transactions recorded at the Land Registry and Cadastre (DLRC) dropped by 61 percent from 61,000 transactions in 2018 to 23,000 in 2023. The decrease is mainly attributed to the decline of the real estate market and also to the frequent closures of the DLRC last year. The value of real estate sales fell from \$8.1 billion in 2018 to \$7.2 billion in 2023.

Cement deliveries increased by 11 percent to 2.4 million tons in 2023 compared with the previous year. But they fell by 50 percent from 4.7 million tons in 2018.

The number of registered real estate transactions plunged by 43 percent in September 2024 compared to August of the same year due to the escalation of the Oct. 2023-Nov. 2024 War even though the number of transactions more than doubled in the first nine months of 2024 compared to the corresponding period of the previous year. The growth is attributed to the fact that real estate registries were often closed in the first nine months of 2023 due to strikes by public sector employees.

Housing is the sector that has suffered the most damage from the war. Almost 100,000 housing units have been damaged by October 27, 2024, impacting over eight percent of the housing stock in the war-impacted areas. Nearly 18 percent of the damaged units are completely destroyed and 82 percent are partly damaged.

#### Oct. 2023-Nov. 2024 War



<sup>\*</sup> Economic losses, including rental revenue, operating revenue, wages of domestic workers, and property tax revenue

Source: Interim Damage and Loss Assessment Nov. 2024 World Bank)

Rental rates surged particularly in areas with large numbers of displaced people. The increase was steeper in the case of furnished apartments due to higher demand with rental rates sometimes tripling on an annual basis. As a result, the stock of furnished apartments for rent is almost depleted.



Regardless of the security situation, the real estate market remains in a slump due to weak supply and demand. Low supply results from stagnation in development activity since the onset of the economic and financial crises in 2019 and the fact that most of the stock of properties was sold during the rush on purchasing real estate.

Developers have also become less eager to sell what remains of unsold properties because almost all of them have settled their debts during the purchasing rush.

Besides the lack of financing and low investor confidence, the slump in development activity was exacerbated by the surge in building material prices internationally and rising wages and salaries on the local market.

Current demand for real estate is basically confined to Lebanese expatriates and affluent residents with liquidity in foreign currency due to weak purchasing power and the lack of bank financing, which is essential for these big-ticket purchases.

Buyers include those who purchase property as safe investment haven for their funds. They aim to rent out the property or resell it when prices improve.

Low- and middle-income individuals are still unable to buy properties in the absence of bank loans supported by the Public Corporation for Housing and as a maximum loan provided by Banque de l'Habitat reaches only \$40,000 for applicants with limited income and \$50,000 for those with medium income. The bank doesn't have enough resources to provide a large number of loans and is seeking funding from Arab and international organizations.

<sup>\*\*</sup>Cut-off date: October 27, 2024. Apartments account for 91 percent of the total cost of damage and houses for eight percent.



Real Estate

Despite a slight recovery, apartment prices are still below their pre-crisis levels by an average of around 41 percent. The decline in prices varies within a spectrum ranging from 22 percent to 67 percent

The war in Gaza and on the southern borders didn't have any significant impact on prices of residential units in 2024. Only ten percent of residential property owners, those who were in urgent need for dollar cash, were ready to sell their units at a discount. Sales deals show that prices in 2024 are 50 percent less than pre-October 2019 levels.

Following the outbreak of the war, apartment rental rates in Beirut and Mount Lebanon soared from a monthly average of \$300 to as high as \$1,400 driven by a surge in demand resulting from the displacement of an increasing number of people.

The decline in office prices was more severe compared to pre-crisis levels as many office spaces, especially in Beirut, have become vacant with the exception of Mina El Hosn and the Beirut Digital District. Prices in these two districts have almost returned to pre-2019 levels as buildings there attract many local and international companies because they are well maintained

Office rental rates relatively stabilized in 2024 despite the fighting but remain 40 percent less than their levels before October 2019.

Amid the credit crunch, the most common payment method is to sell completed properties in cash and those under construction with a downpayment and settling the remaining amount by installments until the project is completed. In some cases, sellers allow buyers to move in but don't register the property until the final installment is paid.

# **SHORT-TERM** recommended measures

- Resume normal operations of all real estate registry offices
- Accelerate the formation of joint committees between the Ministry of Finance and concerned stakeholders in the real estate sector to unify property valuations in order to reduce price disparities, stabilize the real estate market, create a transparent environment, and enhance confidence between property sellers and buyers
- Gather data about stalled projects that couldn't be completed due to the crisis for the purpose of rescuing them by interested developers who could form a consortium for this purpose
- Address the issue of lawsuits of developers by natural or legal persons who had bought properties from them and couldn't register these properties before the crisis and who are claiming that the developers had failed to provide the necessary papers on time



- Speed up the approval of the draft law that aims to create a one-window system for real estate transactions by linking notary publics, real estate registry offices and the relevant tax administrations, in order to facilitate and accelerate the registration process and streamline bureaucratic procedures
- Use the services of escrow agents to facilitate property sales. An escrow agent acts as a third party who, for example, holds the price of a property in trust until the terms of the sales agreement are fulfilled (the project is completed and its s title deed issued).
- Elucidate existing rules and enact new guidelines to ease, clarify, and streamline procedures in public administrations pertaining to real estate
- Delineate responsibilities of government, municipal, and judicial officials involved in procedures relating to real estate
- Ease procedures for obtaining building permits including permits for temporary structures
- Reduce the specific fees and taxes imposed on developers especially the exorbitant municipal fee they have to pay to obtain a building permit for a temporary structure. Also reduce taxes on transfers of shares in project companies
- Set up a regulatory authority for the real estate sector similar to Dubai's Real Estate Regulatory Agency (RERA) to protect both the sector and consumers
- Facilitate the registration of a project company as a special purpose vehicle exclusively created for the development of real estate projects and for carrying out related transactions
- Seek financing for Banque de l'Habitat from international organizations like Arab funds and the European Bank for Reconstruction and Development (EBRD)
- Pass the required legislation to address the problem of random and unregulated construction in some areas like Akkar, Bekaa, and the South in order to ensure the new buildings abide by safety and construction standards and to prevent encroachments on adjacent land plots and public land in particular



## **Insurance**

#### SITUATION OF THE SECTOR

The insurance sector has been severely affected by the crisis. Many insurance firms are in a survival mode.

Collection of non-life insurance premiums in terms of fresh dollars plunged 75 percent to \$898 million in 2023 compared to pre-crisis levels.

Life insurance premiums plummeted by 62 percent in 2023 to \$94.7 million compared with the previous year

Insurers are not only suffering from lower sales volumes but from difficulties in collecting premiums on sold policies

Demand for health and medical insurance policies has declined 15 percent compared to before the crisis

Demand for medical insurance is mainly for B and C class policies due to weaker purchasing power

The predicament of those needing medical support is exacerbated by the lack of coverage from the NSSF and the Ministry of Public Health (MoPH)

New life insurance policies have decreased drastically because of lack of demand in the absence of bank lending and of new real estate development projects

Weak demand has triggered a price war among insurers. A cut-throat competition is especially noticed in the prices of health and motor insurance policies with huge discounts offered that could destabilize the sector and threaten the survival of those engaged in these price wars

The profitability of insurers is being impaired by rising costs of claims mainly due to skyrocketing hospital expenses and an increase in the cost of car parts which are priced in fresh dollars

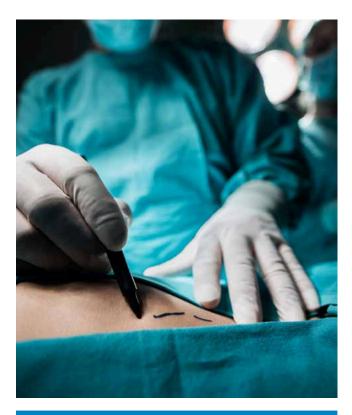
Insurance firms have around \$1.2 billion in deposits stuck in banks

Many life insurance companies will be facing a survival problem if they are required to pay to the insured in real dollars as life policies involve large sums of money that many insurers don't have

Insurance companies are practically not solvent. They don't have [access] to their assets if they go bankrupt

The capital of insurance firms has been largely eroded and shareholders are unwilling to inject new funds amid the current circumstances.

Major reinsurers have exited the country because of lack of trust while newcomers from Africa are entering the market



# **SHORT-TERM** recommended measures

- Insurers need to resolve the price war among themselves and agree on a code of behavior with some enforcement mechanisms
- A resolution needs to be found to the fresh dollars due in outstanding indemnities
- Exempt insurers temporarily from the tax on foreign exchange gains and from the tax on reinsurance in light of the current tough conditions they are facing

- The Insurance Control Commission (ICC) must be given more prerogatives including enabling it to penalize wrongdoers
- Modernize the outdated law that organizes the insurance sector and that was passed in 1968
- Enact legislation to subject mutual funds to regulatory supervision
- Initiate a project and a campaign to improve the public image of insurance companies
- Set up a national council for the insurance sector through Association of Insurance Companies (ACAL), and in cooperation with other stakeholders
- Address the problem of corruption, nepotism, and political interventions in the granting of licenses to insurance brokers



## **Transport**

#### SITUATION OF THE SECTOR

Sea, air, and land transport activity has significantly slowed down due to the war

Global freight rates surged in 2024 driven by higher operational costs and disruptions in major maritime routes (Red Sea, Suez Canal, and Panama Canal)

In 2024, the government launched a master plan for the reconstruction and repair of the Port of Beirut (PoB) at a total cost of \$80 million to \$100 million which will be financed from the port's revenues. The project is expected to be completed within three years from its inception. An area of about 25,000 square meters has been allocated to build new wheat silos.

A large part of the PoB, including the grain silos, was completely destroyed by the explosion. Preliminary estimate of damage caused by the blast to land and maritime transport and to food security infrastructure ranges from \$280 million to \$345 million

PoB's container terminal is fully operational. The number of handled shipping containers jumped to around 800,000 TEUs (twenty-foot equivalent units) in 2023 from nearly 600,000 TEUs in 2022

PoB does not suffer from liquidity problems. Its revenues have been growing gradually since 2020 when they recorded an unprecedented low level of \$9 million. They reached nearly \$150 million in 2023

Cargo clearance takes a long time which increases the costs of importers and exporters

The accommodation capacity of the Rafic Hariri International Airport (six million passengers) is below annual traffic (over eight million) while its expansion project is on hold

Roads suffer from high traffic congestion to bad quality

The allocation in the 2024 budget to the Ministry of Public Works and Transport amounts to LL17.2 trillion (\$192 million) well below the needed \$350 million

Periodic maintenance work, by the Ministry of Public Works, which includes snow removal, clearing rainwater drains, and maintaining roads and highways, costs \$111 million annually

The roads remained basically without maintenance for nearly five years due to the crisis and low allocated budgets

Starting from July 2024, the Ministry of Public Works began to gradually operate a fleet of 96 public buses on a network of 11 routes first within Beirut then gradually in other areas.

The Ministry of Public Works and Transport has raised public transport fares. It increased the minimum fare for a ride by service taxis in Beirut to LL150,000. The minimum fare for buses and vans was increased to LL75,000.

Around half of 60,000 taxis and 4,000 buses are registered while only 4,250 out of a large number of minibuses are registered.

Port of Beirut					
	2020	2021	2022	2023	H1 2024
Vessels	2,079	1,890	1,857	1,978	1,057
Merchandise (million ton)	4.9	5	8	6	3.1
Cars	5,761	15,576	26,604	25,132	10,205
Local containers (TEU*)	466,265	480,821	568,713	550,237	261,692
Transshipment	306,606	134,173	146,386	277,452	110,267
Total revenues (USD million)	\$9	\$14	NA	\$150	NA

Beirut Rafic Hariri International Airport					
	2020	2021	2022	2023	H1 2024
Aircraft movement	NA	NA	52,381	57,159	10,880
Passengers (million)	2.5	4.3	6.4	7.1	3.0
Freight (metric ton)	57,305	66,719	59,342	54,512	NA



**Transport** 

## **SHORT-TERM** recommended measures

- Identify potential public-private partnerships (PPPs) to leverage private investment and support the recovery and reconstruction program of the Port of Beirut
- Regularize the Port of Beirut's existing contracts, and prepare reconstruction contracts in line with the new port sector law, procurement reform, and the law on PPPs
- Approve a customs strategy as a first step to streamlining, automating, and reducing costs of trading across borders

- Carry out additional automation of the Customs to reduce corruption and shorten the time span of a clearance procedure
- Adopt a one-stop-shop procedure for container inspection in the presence of representatives of Customs and other authorities and involved parties to reduce the time and cost of clearing operations. This also lowers the risks of corruption.
- Develop a national electronic single window for Customs formalities, to be implemented in the medium term
- Redefine the principles for the container terminal concession in the Port of Beirut
- Enact a law to organize the professions of freight forwarders, shipping lines, and customs brokers

- Expand the container yard and the storage area at the Port of Beirut to boost the transshipment activity for the region
- Address urban congestion around the Port of Beirut
- Enhance logistics efficiency and the handling of hazardous goods
- Enact a new Port Sector Law, addressing the port authority's operations as well as customs and defining the respective roles of the government, the port authorities, and commercial operators, as well as their relationships in terms of duties, rights, and responsibilities
- Develop a national strategy for economic corridors and ports/maritime clusters
- Use an economic corridor approach to better position Lebanon as a regional hub for maritime transport networks
- Encourage women's involvement in leadership and management positions, including the board of the port authority
- Reopen the tourism (passenger) berth of the Port of Jounieh and modernize its fishing berth
- Activate the airport expansion project to boost its accommodation capacity in order to cope with growing passenger traffic
- Regularize the large number of privately owned, nonregistered, public transport vehicles (taxis, minibuses, and buses)





### **Education**



#### SITUATION OF THE SECTOR

The total number of school students increased slightly by 0.6 percent to almost 1.1 million in academic year 2022-2023

The number of students registered in public schools for the academic year 2024/2025 totaled around 220,000

The number of schools amounted to 2,780 in academic year 2022-2023

The number of university students decreased by eight percent to around 224,200 in 2023.

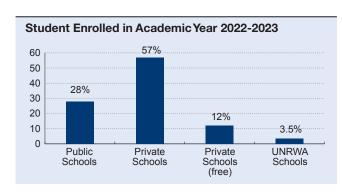
The number of students enrolled in the Lebanese University dropped by 16 percent to around 66,000 in 2023.

Enrollment in the Lebanese University in 2023 accounted for 30 percent of the total number of university students

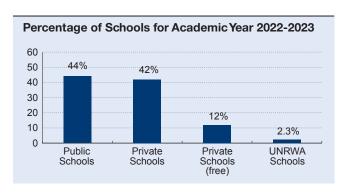
The number of students enrolled in vocational schools dropped by five percent in 2022 to around 100,000 (64 percent in public vocational schools, 36 percent in private vocational schools)

The escalation of the Oct. 2023-Nov. 2024 War has severely affected the education sector. The sector suffered losses estimated at \$215 million during 12 months of the war. The losses consist of lost private school tuition payments and the costs of temporary schooling.

The negative effects include direct damages to education premises in war areas, displacement of students, disruption of public education as many public schools. Around 545,000 students were displaced. They included 400,000 Lebanese students. The remainder were Syrian and Palestinian refugees. Nearly 36 percent of grade 12 students in the South and Baalbek were displaced.



Source: Center for Educational Research and Development (CRDP)



Source: Center for Educational Research and Development (CRDP)



LEAUERS GLUB

by Lebanon Opportunities

Education

More than 45,000 teachers could not carry out their job.

By August 2024, 60 percent of parents reported disruptions in their children's education.

Nearly 75 percent of public schools and educational establishments were not functional due to damage or repurposing as shelters. 594 public education institutions have been repurposed as shelters (505 public schools, 70 technical and vocational education centers, and 19 branches of the Lebanese University).

Nearly 60 percent of shelters for displaced families were housed in public schools. This has forced the Ministry of Education and Higher Education (MEHE) to delay the opening the 2024/2025 academic year of public schools to November 4, 2024, one month after the opening of private schools.

The quality and quantity of learning is also being affected by the fact that teaching days have been reduced and part of the teaching is being given online.

Difficulties in the education sector started before the escalation of the war. As of December 2023, about 27 percent of children were out-of-school (seven percent of Lebanese children and 40 percent of Syrian refugee children) mainly due to the cost of transportation to school and the cost of educational materials.

In November 2024, UNICEF announced it was helping MEHE to get nearly 387,000 children, including those living in shelters and war-affected communities, back to learning as part of an emergency response plan to support the opening and operation of 326 public schools not used as shelters for the displaced. These schools will receive essential funding from the MEHE/UNICEF Transition Resilience Education Fund (TREF) for necessary teaching materials, such as textbooks, and for vital psychosocial support and health screenings. With UNICEF support, they will be able to deliver quality in-person and blended learning opportunities including online learning through MEHE's digital platform.

## **SHORT-TERM** recommended measures

- Channel rapidly the funds allocated to the public schools out of the \$800 million in humanitarian aid pledged by donors at the international conference held in Paris in October 2024.
- Use part of the funds allocated for education at the Paris conference to improve the salaries of public-school teachers, help displaced and vulnerable students, equip public schools, and support online teaching.
- Once the security situation improves, provide remedial support to mitigate the learning loss and deterioration of education quality caused by the war.
- Relocate displaced people from schools to other shelters or provide other locations to be used to teach public school students. Part of the financial support pledged at the Paris conference could be used to rent the needed premises.



- Amend terms for promoting teachers, to take into consideration skills in addition to the current system that bases promotion only on seniority
- Apply more stringent conditions when licensing new education institutions
- Rehabilitate public school buildings to meet safety requirements and improve accessibility to students with physical disability
- Prepare a five-year strategic education sector plan by engaging in broad public consultations
- Narrow the achievement gap between private and public schools by updating curricula and upgrading equipment. The most recent curricula were designed in 2000
- Speed up the adoption of international standards and increase educational exchanges with other countries to update and enrich the curricula and improve the skills of teachers and students
- Integrate psychosocial wellbeing into formal and nonformal education programs
- Build new schools, university faculties, and TVETs in rural and remote areas to contribute to the development of these areas and prevent massive internal migration to crowded cities
- Modernize the Lebanese University and supply it with up-to-date equipment
- Emphasize practical and entrepreneurship skills to improve school-to-work transition of TVET graduates.
- Provide up-to-date job-related equipment and materials to vocational and technical schools to allow trainees to acquire practical skills similar to workplace experience
- Build strong public-private partnerships within a decentralized system to allow for increased on-the-job training, and for the donation of job-related equipment (including second-hand equipment) to training centers
- Develop links between university research and the business sector through business development centers
- Establish an obligatory training program for teachers of both public and private schools with cyclical evaluation
- Set an accreditation system for the faculties of education



### Health

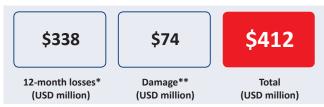


#### SITUATION OF THE SECTOR

The healthcare system is overburdened by demand and provides largely unaffordable services due to the fallout of the political and economic crises. It is also characterized by uneven distribution of services with limited access to primary care in rural areas. The high number of refugees per capita and economic crisis will continue to weigh on the healthcare system.

Healthcare is expensive for a large number of people as the country has a high percentage (37 percent) of out-ofpocket healthcare expenditure.

#### Oct. 2023-Nov. 2024 War



\*Losses result from increased costs for additional health treatment of injuries and sicknesses due to the war and displacement, decreased revenue from inoperative facilities, and reduced availability of health personnel to provide adequate medical service, leading to a rise in mortality and morbidity

\*\*Cut-off date: October 27, 2024

Source: Interim Damage and Loss Assessment Nov. 2024 World Bank

Clashes have impacted 66 percent of hospitals and 36 percent of primary healthcare centers. Nearly 36 percent of hospitals and primary healthcare centers became partially or fully non-operational mainly in the South and Nabatieh governorates and southern suburbs.

Around 31 hospitals and 26 primary healthcare centers were damaged, principally in the South and Nabatieh governorates and southern suburbs.

Total injuries	16,638*
Total deaths	4,047*
Closed primary health care centers	53
Hospitals closed	7
Health facilities damaged	51

\* According to MoPH Dec. 4, 2024

Source: Lebanon Health Sector Emergency Situation Report-Nov. 25, 2024-ReliefWeb

Attacks on health care			
Attacks	140		
Deaths	233		
Injuries	206		
Attacks impacted health facilities	36		
Attacks impacted transport	90		

Source: Lebanon Health Sector Emergency Situation Report-Nov. 25, 2024-ReliefWeb

Around 750 nurses have been displaced and most of an estimated 2,000 nurses in war areas are likely to have stopped work

Displaced people included 11,600 pregnant women according to approximate statistics. Most of them were suffering from lack of adequate medical care. Average number of births per month among the displaced was 1,500.

It became very difficult and even impossible for the insured to add a clause to their hospitalization policies for war damages because a large number of reinsurance companies stopped their coverage in Lebanon due to very high war risks. Local insurers are unable to cover war damages because this would lead to their bankruptcy.



Health

The majority of hospitalization insurance policies, which were issued in the past two years, include, in principle, the passive war risk clause. The insured could benefit from this coverage provided they are not directly participating in the war. In other words, combatants are not covered.

Insurance policies bought by schools to cover pupils don't include the passive war risk clause.

On the long run, the increasingly aging population will lead to a growth in demand for healthcare services which already outpaces existing supply.

In January 2023, the Ministry of Public Health (MoPH) launched in partnership with stakeholders in the health sector its National Health Strategy: Vision 2030 as a framework to achieve a sustained and modernized recovery of the sector, meet escalating health needs, and contribute to building a more resilient health system.

Allocations to the MoPH have decreased from \$483 million in the 2018 budget to \$452 million in the 2024 budget and \$445 million in the 2025 budget law proposal

Health expenditure in Lebanon accounted for ten percent of GDP in 2021 up from 7.6 percent in 2020 and eight percent in 2018. This is higher than the Arab world's average which was five percent of GDP in 2021

The number of physicians registered at the Lebanese Order of Physicians was 15,059 as of 2023 (254 physicians per 100,000 people). This is above the recommended ratio of 200 physicians per 100,000 people but it does not reflect the real number of those working in Lebanon as an estimated 3,500 physicians have moved abroad since 2019 because of the crisis

There are 246 registered family medicine physicians (four physicians per 100,000 people) which is considerably below the recommended ratio of 30 physicians per 100,000 people. This is because many medical students often choose medical and surgical specialties over primary care.

The number of nurses and midwives increased from 1.8 per 1,000 people in 2017 to 1.9 in 2018. This is lower than the Arab world average of 2.3 per 1,000 people in 2019

An average of 560 medical students and 455 residents of different specialties graduate annually from the country's eight medical schools

The number of hospital beds decreased from 15,000 beds in 2020 to 6,000 at the start of 2023

There are 136 private hospitals and 29 public ones, which reflects a chronic reliance on the private sector



There is a large number of small hospitals with 65 percent of hospitals having less than 100 beds. There is a shortage of specialized hospitals.

The hospital bed occupancy rate dropped by 15 percent from before the crisis

More than half of citizens do not benefit from health insurance whether by the NSSF, mutual funds, or insurance firms

In 2024, the NSSF increased the coverage of the hospitalization cost of surgical operations to 90 percent. It also raised its coverage of the cheapest among the medications approved by MoPH to 80 percent for drugs for chronic and blood diseases and 95 percent for drugs for cancer and other incurable illnesses

In 2024, the NSSF increased the tariff of consultation fees of doctors operating in private clinics 40 times. The fee of general practitioners (GPs) has been increased to LL1.3 million (\$15) and that of specialist doctors to LL2 million (\$22).

In light of the negative impact of the crisis and the Covid-19 pandemic on the hospital sector, some university hospitals have acquired, merged, or took over the management of a number of medical centers and hospitals.

Digital health is still in its infancy due to lack of government funding, regulatory barriers, and an already-strained healthcare sector.



Health

# **SHORT-TERM** recommended measures

- Mutual funds need to speed up the payment of dues owed to private hospitals
- Government has to issue the implementing decrees for launching the National Drug Agency whose mission is to register, monitor, and price medications, infant milk, and nutritional supplements and set standards to ensure their quality
- Activate the Central Laboratory for testing drugs, nutritional supplements, and other similar products
- Enhance trust in generic drugs and local brands of medications through awareness campaigns in order to lower the cost to patients and support local drug manufacturers
- Enact the law of the health card (hospitalization card) for those not benefiting from the NSSF and other funds in order to ensure mandatory universal health coverage for all citizens. The universal coverage draft law aims to create incentives to encourage providing primary care and preventive medicine and to support public hospitals and the cooperation between the public and private sectors.
- Use the services of third-party administrators (TPAs).
   TPAs will manage claims of hospitalized patients on behalf of MoPH in private and public hospitals since the ministry's team is small and unable to audit all the hospitals' invoices



- Create a mechanism to thoroughly implement the objectives listed in the National Health Strategy: Vision 2030.
- Improve data collection in order to be able to tap the population health data to maximum advantage
- Physicians need to receive their dues separately from hospitals
- Apply Order of Nurses recommendations regarding nurse-to-patient ratio in line with hospital accreditation standards
- Revise the method used to determine ceilings for funds allocated to hospitals by MoPH for payment of hospitalization cost to citizens not covered by NSSF. Criteria to take into account in order to match the ceilings to the real needs of each hospital include geographic location, demographics.
- Implement the medical waste management plan set by the Ministry of Environment which involves the sorting, treatment, transportation, and reducing the production of medical waste.
- Reinforce the referral system, through stronger intraministerial cooperation and coordination.
- Convene regular (such as biannual) multi-stakeholder health forums.
- Enhance the digitization of NSSF operations to speed up procedures and reduce errors, cost, and corruption.
- Set up common standards for contracts concluded between doctors and hospitals to homogenize the contracting procedure and protect physicians from unfair clauses that could be stipulated in some contracts.
- Set up a coordinating board to oversee the coordination effort of providers of emergency medical care in case of national health emergencies resulting from disasters similar to the Port's explosion, epidemics, and earthquakes
- Introduce a barcode system in hospitals to manage medicine consumption and avoid the use of smuggled or expired drugs
- Set a national standard program for teaching nursing at universities and for training instructors at the nursing vocational schools
- Enact a law requiring continuing medical education for doctors to be always updated of latest developments in the fields of therapies, drugs, and surgery



### **Water**

#### SITUATION OF THE SECTOR

There is a scarcity of water but potentially bulk water supply sources. The severe water supply shortages are due to limited water resources, infrastructure deficit, and suboptimal water resources management.

Large quantities of water are lost through leakages from the dilapidated distribution network which needs maintenance. Water recycling or re-use is almost nonexistent. People have to often rely on expensive bottled and tanker water.

Total renewable internal freshwater resources are estimated at 4.8 billion cubic meters. Annual freshwater withdrawals total 1.8 billion cubic meters as in 2021.

The share of the industrial sector in freshwater withdrawals jumped from six percent in 2000 to 49 percent in 2021 while the share of the agricultural sector dropped from 64 percent to 38 percent over the same period and domestic use plunged from 30 percent to 13 percent

Renewable internal freshwater resources per capita continue to decline over the years. They dropped from 1,111 cubic meters in 2000 to 848 cubic meters in 2020.

Existing water storage capacity is estimated at 233 million cubic meters (static) and 315 million (dynamic) which is far below growing demand

The capacity to store surface water is very low (six percent) compared to a regional average of 85 percent.

A very controversial plan to build nine high-priority dam projects has been projected to boost water storage capacity to 838 million cubic meters in a decade and could increase hydropower production capacity from 282 MW to 325 MW

The exploitation of groundwater does not take into consideration the need for ensuring sustainability. The number of licensed individual private wells in the Greater Beirut Mount Lebanon area is estimated at 20,000 wells in addition to 60,000 illegal wells. The aquifers located on the coast suffer from seawater intrusion.

The losses in the water sector resulting from the Oct. 2023-Nov. 2024 War consist of additional cost of urgent repairs, investment in infrastructure to improve service in displacement areas, direct damage to infrastructure, and decrease in revenue collection.

The total cost of destroyed water sector facilities, buildings, and equipment exceeds \$200 million. Revenue collection of water establishments dropped by more than \$30 million

The violent raids that targeted the water sector destroyed drinking water purification stations, sewage treatment plants, public water wells, pumping stations, water storage tanks, and solar energy systems that supply power to these facilities.

The South Lebanon Water Establishment alone lost ten of its employees

Operational dams in 202		Storage (Mm³/y)*			
	Static	Dynamic	Height (meters)	Usage	
Chabrouh Dam	9	11	65	Potable/Irrigation	
Ballout Lake	0.5	0.5	15	Potable/Irrigation	
Qaysamani Lake	1	1	15	Potable	
Brissa Dam	0.8	0.8	35	Irrigation	
Kouachara Lake	0.4	0.4	11	Irrigation	
Yammouneh lake	1.5	1.5	7 0	Irrigation C	
Qaraaoun Dam	220	300	62	Potable/Irrigation/Hydropower	
Total	233.2	315.2		<u> </u>	

<sup>\*</sup>Million cubic meters per year

Source: Ministry of Energy and Water



Water

## **SHORT-TERM** recommended measures

- Complete the installation of water meters in households and businesses to encourage responsible water consumption
- Improve the collection of water subscription fees from households and businesses in all regions

- Apply current regulations or enact new legislation to organize the chaotic exploitation of underground water by the private sector
- Apply governance principles to the general exploitation of underground water and prevent overconsumption especially in Bekaa where subterranean water levels are dropping
- Upgrade the customer database at water establishments such as the Beirut and Mount Lebanon Water Establishment and incentivize households to register their connections
- Rebuild customer-centric communication and dialogue between water establishments and civil society organizations
- Various public water establishments must coordinate their work to avoid duplication of efforts and benefit from the synergetic effect of cooperation
- Increase underground water quantities through the artificial recharge process by injecting rainwater into subterranean wells. This will increase fresh underground water level in coastal areas
- Revamp the drinking water networks. In some old networks half of the water is lost due to leakages
- Survey the locations that are suitable for building dams thoroughly before construction to avoid past mistakes in the choice of sites, from geological and economic perspectives
- Safeguard Lebanon's shares in international rivers: Orontes (Assi) (Syria and Turkey), Nahr El Kabir (Syria), and Hasbani (Palestine)
- Activate or amend the agreement with Syria regarding sharing the water of the Assi river and which involves building two dams and prohibiting the construction of new artesian wells after the signing of the agreement in 1994. Putting the dam project on hold and preventing drilling new wells is limiting the supply of irrigation and drinking water in the area. The Ministry of Energy and Water must also ease the granting of permits for the cleaning and maintenance of existing wells.
- Exploit submarine fresh water springs
- Recycle domestic wastewater, especially in the Bekaa, in order to avoid pollution and reduce the abusive exploitation of underground water. There are 22 main recycling plants and 65 small plants. Out of the total, 50 percent are not operating. The rest are badly managed
- Intensify reforestation work. It will slow down surface flow of rainwater, improve infiltration of water into the soil, and could increase precipitation quantities to some extent







- Install devices to measure different kinds of water parameters to make up for lack of technical data about the water sector
- Educate public sector employees about water regulations by organizing workshops since legislation related to water is fragmented and badly understood
- Create tax and other incentives to promote drip irrigation and other modern watering methods which are more efficient than traditional flood irrigation
- Civil society organizations, NGOs, and policy advocacy groups could help in exploiting nonconventional water resources including rainwater harvesting, wastewater reuse, and spring water catchment.
- Research centers, universities, and NGOs could help farmers introduce water-efficient crops and adopt water-efficient farming practices



# Oil and gas

#### SITUATION OF THE SECTOR

Neighboring countries have already started exploiting their hydrocarbon resources, mainly natural gas, while Lebanon continues to lag behind in exploring its ten offshore blocks due to political wrangling, a slow decision-making process at the State level, and recurrent wars and upheavals.

A consortium led by TotalEnergies and including Italy's Eni and QatarEnergy has not yet discovered commercial quantities following exploratory drilling operations in blocks 4 and 9. Initial offshore drilling of the first exploration well in Block 4 found traces of natural gas but didn't prove the existence of a gas reservoir. It has, however, confirmed the existence of the basic elements of a geological-oil system.

The current war has exacerbated the sluggish exploration process. It has also increased the risks of revoking the U.S.-mediated maritime border demarcation agreement, concluded in 2022, and that has enabled exploration work in Block 9 which is located in a disputed maritime territory.

There is a high degree of uncertainty about the size of proven and commercially viable natural gas reserves at the offshore blocks that could be exploited. The estimated size ranges from 30 billion cubic meters(m³) to 500 billion m³

There is also high uncertainty about the time it will take to start commercializing and exporting the natural gas. Estimates for the first natural gas extractions range from one or two years to more than six years

The deadline for bidding for exploration rights in the third licensing round has been extended from July 2024 to March 2025. The third round aims to award exploration rights to all blocks with the exception of Block 9. Block 4 is up again for bidding as the TotalEnergies consortium has relinquished its exploration right in it.

The decree pertaining to the Petroleum Register was issued in 2022. The Petroleum Register records awarded petroleum rights and any changes or mortgages related to these rights. It aims to maintain transparency and give a positive signal to stakeholders in the oil and gas sector. The register protects the rights of right holders (companies involved in exploration and production activities) and facilitates the declaration of registered rights towards third parties. It also covers beneficial owners and politically exposed persons who own shares and rights in right holder companies.



In 2022, the Council of Minister established the National Anti-Corruption Commission. The commission's aim is to combat, prevent, and monitor corruption. It is tasked with executing anticorruption laws enacted by Parliament and overseeing the application of future anticorruption laws yet to be proposed and ratified. It will have the prerogatives to prosecute public officials involved in corruption, impose travel bans on indicted officials, and lift the secrecy on their bank accounts

In December 2023 and after a delay of 13 years, Parliament approved a law on the creation of a Sovereign Wealth Fund (SWF) to which will be allocated the State's proceeds from the oil and gas sector. The SWF consists of a savings and investment portfolio as well as a development portfolio. The savings and investment portfolio will be used for depositing all SWF's revenues with the exception of tax revenues. It aims to boost the SWF's revenues by engaging in long-term investments with moderate risks while maintaining the Funds capital growth for the benefit of future generations. The development portfolio will use the State's tax revenues from petroleum activities to finance development projects. It will be involved in investments characterized by high liquidity and moderate risks. It will be used to reduce the public debt only when the public budget achieves a primary surplus.



Oil and gas

## **SHORT-TERM** recommended measures

 Activate the National Anti-Corruption Commission, which was established in 2022 through cooperation with international organizations in order to support it in developing its capabilities to achieve its objective of combating corruption.

- Once security stability has returned, exploration for hydrocarbon resources must be accelerated by tendering out all offshore blocks simultaneously
- Improve the subcontracting process. The regulatory framework of subcontracting in the oil and gas sector needs to be amended to allow all potential suppliers to participate in the competitive bidding process without any restrictions as long as the contractors' requirements are met
- Ensure that local companies have equal or preferential opportunities to bid for subcontracts during the exploration and production process. Apply the principles of transparency by requiring these companies to disclose important and relevant information such as the identity of their owners
- Reduce the number of planned Floating Storage Regasification Unit (FSRUs) from three to a single one because the country does not need three FSRUs especially that the project requires large investments

- Create joint ventures with specialized Arab and international entities to convert natural gas and oil into refined petroleum products
- Develop the infrastructure to ease the transport of extracted materials for domestic use and exportation
- Cooperate with Arab and international investment banks and other financial organizations to fund projects related to the oil and gas sector
- Lebanon could in the future export its natural gas
  to the region through the Arab Gas Pipeline. But in
  order to take full advantage of its export potential,
  it needs time and substantial capital investments
  to develop an adequate infrastructure to either
  connect to the Trans-Adriatic Pipeline or to build
  LNG terminals for exports to European markets and
  beyond. This also could necessitate agreements with
  neighboring countries.
- A positive hydrocarbon outcome could represent an opportunity for Lebanon to use natural gas for power generation instead of the more expensive and more polluting imported liquid fuels. But the country must not rely on future hydrocarbon revenues to solve its financial problems since the recovery value of its reserves and the net present value of its future fiscal revenues will not be sufficient as there is significant uncertainty over the size of the reserves and the time it will take to exploit and export the output to markets beyond neighboring countries.





### **Public works**

#### SITUATION OF THE SECTOR

Contracting was the most affected sector by the crisis, as contracting companies were unable to ensure the continuity of their operations. The number of contracting firms has decreased from 1,700 before the crisis to less than 500 operating companies due to the lack of public spending during the past five years. A number of contracting companies have relocated to Gulf and other Arab countries in addition to Africa in order to survive and secure fresh dollars to pay their workforce. Many skilled workers, young engineers, and new engineering graduates moved abroad during the crisis.

Investment in the contracting sector is currently worth around 20 percent of its value in normal times. The sector operates at 15 percent of its capacity. It is still able to survive, albeit with difficulty, thanks to a few ongoing projects that mainly consist of some necessary and indispensable works such as power stations, water purification, highways and roads. These projects represent ten to 20 percent of the entire contracting sector.

The funds allocated for contracting projects by the government in the public budget are insignificant and are mainly for maintenance work. The funding for ongoing basic projects is provided through grants or loans by international organizations such as the World Bank, Arab Fund for Economic and Social Development, Islamic Development Bank, and the European Union.

The funds allocated for the Ministry of Public Works and Transport total \$192 million in the 2024 budget and \$262 million in the 2025 budget proposal

Maintenance of highways, alone, costs \$150 million

In 2024, the Ministry of Public Works and Transport embarked on a project for the rehabilitation and maintenance of all highways across the country in cooperation with the Council for Development and Reconstruction (CDR). The project is financed by budget allocations without any foreign grants.

Difficulties faced by contractors had prevented the completion of projects that were under implementation and that were valued at around \$100 million. Some halted projects have been relaunched after the government's settlement of arrears owed to contractors on these projects.

At the end of 2022, the government repaid part of dollar arrears owed to contractors in lira at an exchange rate of LL1,500. This means that the settled amounts, when expressed in real dollars, represented less that two percent of their original value. Later on, some of the arrears were paid at an exchange rate of LL15,000.



Around 20 contracts with local financing and pertaining to road, electricity, and water projects were canceled upon the request of contractors. Projects with foreign funding continue such as a road rehabilitation project financed by the World Bank.

The CDR has adopted the LL89,500 exchange rate for the unsettled arrears. These arrears have decreased to \$60-\$70 million but the Treasury lacks the funds to pay them. New projects are currently denominated in real dollars.

Contractors reject projects denominated in lira

The Public Procurement Law was approved by Parliament in 2021 and put into effect in 2022.

The Court of Accounts is receiving the support of the Court of Accounts of France and INTOSAI Development Initiative (IDI) through a two-year project (2024-2025) to strengthen its capacity, optimize a-priori control, improve internal management, and enhance its legal framework.

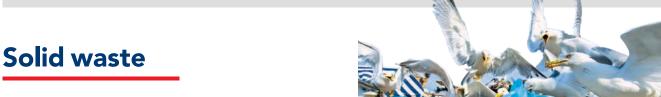
### **SHORT-TERM** recommendation

- Embark on new road construction projects in order to cope with demographic expansion after having focused during the years of the crisis on the bare minimum of road maintenance to ensure public safety
- Pay the remaining arrears due to public contractors by installments as the Treasury's available funds are insufficient
- Terminate distressed contracts as soon as possible as requested by contractors and advisors to avoid the accumulation of losses.

# **LONG-TERM** recommendations

- Approve the decree regulating the practice of the contractor profession
- Refer arbitration cases involving conflicts between contractors and counterparties to special courts not regular courts
- Amend the legislation governing the 'General Terms and Conditions' of contracts





#### SITUATION OF THE SECTOR

The sector suffers from long-term structural vulnerabilities including inadequate infrastructure, incompetent management, corruption, and political bickering. The solid waste policy is still mostly relying on unsustainable options such as landfilling and incineration. Every few years a new crisis emerges when one landfill becomes saturated and the garbage fills the streets.

Inadequate solid waste systems are accelerating environmental degradation including air pollution caused by open burning of solid waste, water-borne diseases associated with inadequate solid waste management, and negative impact on land resources and coastal zones of open dumping and extensive construction of related infrastructure

By 2019, open dumping and open burning increased significantly, with 42 percent of waste ending up in open dumps, posing health and environmental risks even before the crisis.

Lebanon is spending much more than peer countries in the region on these unsustainable solutions which also have detrimental health and environmental effects.

The solid waste sector generated six percent of greenhouse gas (GHG) emissions in 2019

Despite legislative efforts and many studies in previous years that have now become irrelevant, the solid waste sector continues to suffer from inefficiencies and lack of coordination among stakeholders.

Most municipalities spend more than 75 percent of their budgets on waste collection and disposal, and sometimes they face large deficits because of these costs.

Total waste generation has dropped by 25 percent since 2018.

Waste treatment capacities barely cover eight percent of total waste. Waste disposed of in sanitary landfills and open dumps increased from 77 percent of total waste in 2018 to 99 percent in 2023. Open dumping has almost doubled since 2018, with about 42 percent of waste ending up in open dumps and subject to open burning.

There are 6,800 workers employed in the waste management sector including sewerage, waste management, water supply, and remediation activities

Last year, the United Nations Development Programme (UNDP) launched an invitation to bid for a tender to rehabilitate the Karantina Solid Waste Management Facility which was damaged by the Port Explosion. The project includes construction and equipping works needed to bring the facility back to normal operation whether at partial or full processing capacity depending on the allocated budget.

The impact of the Oct. 2023-Nov. 2024 War on solid waste management provision has resulted in losses of \$16 million. Losses caused by disruptions to natural resource ecosystem services amounted to \$198 million bringing total environmental losses in 12 months of war to \$214 million.

#### Oct. 2023-Nov. 2024 War

\$214 \$221 \$435

12-month Environmental damage\* (USD million)

(USD million) Total (USD million)

\*Cut-off date: September 27, 2024

Source: Interim Damage and Loss Assessment Nov. 2024 World Bank

	Wast	Waste Disposal Practices in 2018 and 2022			
	Waste generated (tons/day)	Waste disposed (tons/day)	Share of waste disposed out of total waste generation		
2018	7,342	5,674	77%		
2022	5,600	5,528	99%		

	Waste Disposal Practices in 2018 and 2022			
	Share of waste disposed of in sanitary landfills out of total waste	Share of waste disposed of in open dumps out of total waste		
2018	55%	22%		
2022	57%	42%		

Source: World Bank



Solid waste

## **SHORT-TERM** recommended measures

 Accelerate the reconstruction of the solid waste recycling and sorting facility at Karantina which was destroyed by the Port's explosion as well as the solid waste composting facility in Bourj Hammoud

# **LONG-TERM** recommended measures

 Allocate a financing envelope of \$90 million for the solid waste sector over the short to medium terms. Also allocate \$200 million over the Long-term to rehabilitate existing waste treatment facilities (sorting and composting plants), construct new ones, and for investing in building and equipping sanitary landfills.

Short-term priority Investment Envelope in solid waste (USD million)				
2024	2025	2026	Total	
30	30	30	90	

#### Source: World Bank

- Reduce landfilling to the maximum extent possible because it is detrimental to public health and the environment. It is also an unsustainable solution due to limited space availability and high land cost
- Find an alternative to Bourj Hammoud-Jdeideh Landfill to avoid a waste crisis similar to that of 2015
- Prioritize recycling over other options, as it is an
  effective and feasible solution. Use advanced
  technology in the recycling industry. Paper and
  carton recycling factories are already operating.
  Support projects that use conversion technology for
  recycling plastics, such as turning PET bottles (for
  mineral water) into polyester fiber
- Reduce the quantities of solid waste sent to landfills instead of creating new landfills or expanding existing ones. This could be achieved by accelerating the implementation of the Sorting-at-Source government decree issued in 2019. The law delegates to municipalities the task of overseeing the sort-at-source process and of providing drop-off centers for sorted solid waste. Sorting at source must be carried out by households, businesses, public administrations, and other entities

- Create a sorting-composting facility in each caza
- Implement waste treatment projects through publicprivate partnerships (PPPs) between municipalities and private sector companies
- Besides accelerating the implementation of the Sortingat-Source decree, speed up the creation of drop-off centers and the operation of treatment facilities. This is because waste recycling, in addition to its environmental benefits, offers job opportunities thanks to its size (nearly 1,000 tons/day of recyclables across the country)
- Develop a national composting strategy to reduce the quantity of organic waste sent to landfills and set up landfill gas recovery systems to further reduce GHG emissions in designated solid waste sites
- Accelerate the amendment of Law No. 80\2018 to enhance the recovery of operational costs of solid waste services such as imposing fees to cover the cost of collection, transportation, treatment and final disposal of waste from public and private institutions and residential units
- Improve solid waste collection, treatment, and management to mitigate GHG emissions because the solid waste sector generates more than 60 percent of these emissions which mainly consist of methane. The solid waste sector alone engenders 75 percent of total methane emissions. Improving solid waste collection, treatment, and management also reduces threats to public health and safety and climate change as 70 percent of dumpsites have fires.
- Accelerate the implementation of the Ministry of Environment's 2023-2026 solid waste roadmap which includes priority reforms and guidelines for achieving sustainable recovery of the sector such as closing open dumpsites, increasing composting rates, reactivating methane recovery operations, and reconsidering waste-to-energy options.
- Treat the hazardous garbage dump by the Port of Tripoli which runs the risk of explosion from the methane gases it harbors
- Prepare a national emergency response plan and empower the country to face large-scale disasters and mitigate their impact on the environment and public health
- Implement management plans for waste streams (including hazardous material, electronic waste, and scrapped vehicles) and for restoring affected natural ecosystems such as marine and green cover
- Develop the legal framework for storage and handling of chemicals.





ECONOMIC THINK TANK