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The Issam Fares Institute for Public Policy and International Affairs (IFI) at the American University of Beirut (AUB) recently released a report titled *[Towards a Productive “New” Lebanon](#)*. This report, authored by Lebanon’s Minister of Economy and Trade, Dr. Amer Bisat, and AUB's own Professor of Economics, Dr. Ishac Diwan, and based on discussions and panels with entrepreneurs, sectoral experts, and policymakers, was originally drafted in 2021 at the request of Judge Nawaf Salam. At the time, Judge Salam posed a critical question: with the collapse of Lebanon’s old economic model, how could one envision a “new” and productive Lebanon?

Fast forward four years, and Salam is now steering the ship as Lebanon's Prime Minister, creating a sense of optimism in the political scene. This shift raises an essential question: what will this “new Lebanon” look like? More importantly, does Lebanon have what it takes to achieve this vision? According to the report, the answer is a confident yes.

The report is divided into four parts: **Part 1** presents a future vision based on discussions with entrepreneurs, **Part 2** highlights the constraints that need to be addressed, **Part 3** details actions to ignite and sustain growth, and **Part 4** emphasizes the importance of political change for the emergence of a new Lebanon.

Part 1: A Vision for The Future

Lebanon's economic situation needs a big change. The old way of doing things, where the economy was based on borrowing money and focusing on real estate, is simply not sustainable anymore. Lebanon's future depends on producing things and providing services. To get back to where the economy was before the current crisis, Lebanon needs to more than triple its output. This means moving away from a system that favoured consumption and debt towards one that encourages investment and savings.

To make this change, Lebanon needs foreign investment, but it must attract investment with real opportunities, not just those related to unsustainable interest rates. Strong manufacturing and other productive industries must become the backbone of the economy. This won't be easy, as Lebanon faces political problems and instability. So, the new economic plan must be built on resilience, fairness and helping everyone move up. Currently, Lebanon is very unequal, and that has to change.

The role of the government is key. Lebanon needs a balance between economic freedom and good government oversight. The problem isn't economic freedom itself, but the way it has been twisted into a system of corruption and cartels. The government must do its job by providing basic services like healthcare, education, and infrastructure, and by ensuring a competitive market. This requires fixing government's spending priorities, the tax system, system of exclusivity, high barriers to entry, and regulations, and build a strong, independent judicial system.

Lebanon has some advantages it can use. It has a strong entrepreneurial spirit, educated people, a good reputation, and connections with Lebanese people living abroad. It should focus on exporting high-tech services, developing good agricultural products and crafts, and manufacturing. Lebanon's culture and language are also strengths, especially in the digital world. The Lebanese abroad can provide investments, expertise, and market access.

The aim is to create a diversified economy that offers opportunities for people with all skill levels. This means not just focusing on high value sectors but also supporting industries that employ a broader range of workers. Regional development is also essential. By decentralizing certain industries, Lebanon can create better lifestyles for workers and encourage competition among different regions. Ultimately, Lebanon's future depends on creating a fair, balanced, and sustainable economy that leverages its strengths, addresses its weaknesses, and offers opportunities for all its citizens.

The goal is to have an economy where everyone has opportunities, in all sectors. It's also important to develop different regions of Lebanon, which can improve people's lives and encourage competition.

Part 2: Constraints To Overcome

Unfortunately, there's a huge gap between what Lebanon could be and what it is right now. To close that gap, the country needs to fix what's holding it back.

To get Lebanon's GDP back to its 2018 level of \$60 billion, from an estimated \$20 billion in 2024, exports must rise from \$10 billion to \$30 billion, as productive economies typically require exports to be 50% of GDP.

This requires supporting existing businesses and encouraging new ones, while attracting few big companies, like car manufacturers or pharmaceutical firms. In the short term, smaller businesses are more resilient, but large investments could be possible in the future.

To achieve these goals, it is essential to appoint individuals based on merit rather than sectarian considerations, establish strong systems of control and oversight, and implement efficient regional decentralization urgently. The country is losing its edge because skilled people are leaving, businesses are closing, and the education system is failing.

Moreover, the business environment in Lebanon is severely affected by corruption, inadequate infrastructure, and outdated regulations, standing in the way of innovation and growth. To succeed, Lebanon needs to address these issues, develop a productive economy, and regain its competitive advantages.

Part 3: A Concrete Path to Igniting Growth and Sustaining It

Lebanon's economic recovery requires a dual strategy: addressing immediate crises to jumpstart growth and implementing long-term reforms to ensure sustained prosperity. The country is facing a severely damaged economy, and while some stability may appear to exist, this is a dangerous illusion that could lead to stagnation at a very low level of economic activity. To avoid this, Lebanon must undertake decisive action. In the short term, the focus must be on three critical areas.

First, years of wasteful spending have left Lebanon with a huge debt problem. To recover, the government must restructure the debt and implement urgent financial reforms: fiscal discipline, tax reform, and improved management of public assets.

Second, the financial sector, particularly the banking system, is insolvent and requires a comprehensive major restructuring. Rewriting banking laws and performing audits for consolidation are essential steps to revitalize the sector. A new, independent agency should handle the restructuring process, possibly separating bad assets into a Special Purpose Vehicle. Protecting small depositors is key throughout this cleanup. Once stabilized, Lebanon should reduce reliance on traditional banking and focus on expanding capital markets. Additionally, Lebanon's financial sector should attract talents and funds from the diaspora to strengthen its recovery. Regulatory rules also need a total revamp to fix issues like poor transparency, conflicts of interest, and cartel-like behaviors. Clear laws and better enforcement will help create a healthier financial system and pave the way for broader legal reforms.

Third, effective macroeconomic policies are essential. The Lebanese pound's devaluation presents both opportunities and challenges, necessitating the establishment of a unified and stable exchange rate that is flexible, the implementation of capital controls, and a reformed central bank that operates independently and avoids monetary financing of government deficits.

Beyond these immediate priorities, Lebanon must also implement crucial structural reforms to foster long-term, sustainable, and equitable growth. This includes establishing good governance through merit-based public sector hiring, transparency, accountability, and decentralized governance with strong oversight.

It also entails protecting the environment, recognizing the value of Lebanon's natural resources and ensuring responsible management of potential oil and gas wealth while investing in renewable energy.

Furthermore, promoting fairness and equality is vital, requiring a reduction in inequality through social safety nets and progressive policies, ensuring access to quality healthcare and education for all citizens, reforming the education system to align with labor market demands, promoting fair wages and employment opportunities, and preserving Lebanon's cultural heritage.

Finally, creating a vibrant and competitive economy necessitates a fair and efficient tax system that incentivizes investment, strategic protection of emerging industries, and investment in critical infrastructure, including ports, roads, telecommunications, and electricity.

Part 4: Politics Must Change

The report argues that Lebanon's political system has caused the country's problems and is the main barrier to progress. Without political reforms, Lebanon cannot move forward. The current sectarian system resists necessary changes that threaten the powerful elite and their control over resources. A governance system doesn't need to be perfect right away. "Good enough policies" can create positive changes, maintain hope, and lead to improvements over time. These policies should also prevent negative outcomes like chaos and violence. The goal is that these good policies will gradually lead to political progress and eventually a political transformation. Improved governance requires citizens to work together for the common good, supported by intermediary bodies like unions and associations. The proposed model aims to empower citizens to leverage Lebanon's assets, like education and global connections, and new technologies for productivity, benefiting all regions and sectors.

Critique

While the report offers a valuable framework for Lebanon's economic future, some areas could be strengthened, particularly considering the dynamic and challenging context of Lebanon.

Firstly, since the report was written in 2021, an update is important due to Lebanon's fast-moving situation. For example, the report overlooks the impact of the Israeli war on Lebanon. Its discussion of farming potential in the South and Bekaa ignores the ongoing damage from conflict in these regions, which deters investment. This issue of recurring conflict or tensions in these regions must be addressed. The report could explore strategies to mitigate these risks, such as focusing on sectors less vulnerable to security threats.

Similarly, author Amer Bisat is now Minister of Economy, adding weight to its recommendations. However, it's unclear how he plans to achieve results by translating those recommendations into action in his current role.

Moreover, the report stresses on the importance of restructuring foreign debt and the banking sector. However, it lacks crucial supporting details and plans. Notably absent is an analysis of how costs would be distributed among depositors, banks, and the government. The report is too vague about this.

It's also not enough to simply talk about fighting corruption. People want to know how the government can achieve this. Is seeking international support effective? Would new legal tools like reverse asset recovery, shifting the burden of proof to officials suspected of corruption, effectively combat corruption? Similarly, addressing sectarianism requires more than just good intentions. People are looking for tangible actions that will weaken sectarian divisions over time.

Additionally, improving infrastructure isn't enough; Lebanon must also plan for the impact of refugee crises. For example, the influx of Syrian refugees after recent events in Syria strained Lebanon's resources and infrastructure. This could reoccur given regional instability. Therefore, the report should analyze how to build infrastructure that can handle such influxes, including implementing infrastructure buffers for water and energy that can be scaled up or down as needed.

In summary, the report provides some valuable insights but lacks specific, actionable policy recommendations, limiting its practical utility. While the examples of successful Lebanese businesses and potential are encouraging, policymakers and stakeholders require clearer, more implementable strategies for effective recovery.

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