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In his recent report, *Country at a Crossroads: War and the Economic Shock, March 2026* , the Chief Economist of MENA and Central Asia Region at the Institute of International Finance (IIF), Dr. Garbis Iradian, pinpointed the main economic consequences of the current war in Lebanon. The report tackled the consequences of the compounding crisis in Lebanon, such as the decrease in tourism revenues, the worsening of external balances, and public institutional weaknesses. In what follows, we will provide a brief analysis of the main points tackled in the report, in addition to tackling other ideas outside it.

Since 1958, Lebanon faced several events or conflicts that had negative humanitarian and economic consequences. Most of these conflicts severely affected the Lebanese economy, but were separated by periods of economic recovery and growth.

However, since late 2019, the country faced recurring crises and conflicts: financial and exchange rate crises, sovereign default, Covid-19 pandemic, in addition to the 2024 and 2026 wars with Israel. Thus, the 2026 war is not an isolated shock but it is an additional layer on top of previous collapses.

The 2026 war that is currently raging is projected to result in a GDP contraction of 12%-16%, depending on the duration of the war. The primary cause of such contraction is the downfall of tourism sector. As such, services sector that is the main pillar of the Lebanese such as hospitality (hotels, restaurants, etc...), transport and retail sales were hit hard. This is accompanied by losses in the agricultural sector due to destruction of many large agricultural areas especially in the South Lebanon and Bekaa. In addition, infrastructure had its share of destruction as extensive damage occurred to residential and commercial building, roads, utilities (water and electricity), and communication networks.

Additionally, indirect consequences are mounting as the war continues such as pressure on public services, labor markets, healthcare services, and public education in the areas were more than one million people were forced to displace.

Furthermore, to add insult to injury, the increased geo-political tensions in the Middle East had its negative consequences on remittances from Lebanese diaspora in the GCC, in addition to the widening of current account deficit. The Hormuz Strait closure and Iranian attacks on GCC countries resulted in decreased revenues in these countries that might affect Lebanese expats businesses and transfers to Lebanon.

As a result, the current account deficit is likely to broaden also due to increase in imports value in USD after the increase of commodities prices, especially oil prices, in addition to disruptions of goods exports and drop in tourism sector.

In consequence, Central Bank' s (CB) foreign reserves assets dropped by around $446M between 28/02/2026 and 30/04/2026, reaching around $11.43 billion as shown in the above graph. It is interesting to note that during the 2024 war, foreign reserves assets also decreased by around $490M between 15/09/2024 and 30/11/2024. In addition, the decrease in price of gold following the escalation of geopolitical tensions in the Middle East weighed on CB' s balance sheet, resulting in a $5 billion decrease in CB' s total assets between end of February 2026 and end of April 2026.

The last and most important point in our opinion that the report mentioned is public institutions' weakness. After restoring fiscal discipline in 2024 and 2025, resulting from improving revenue collection while implementing rigor expenditure policy, 2026 is expected to result in fiscal deficit as revenue collection is expected to decrease due to inability to collect taxes and services revenues (such as water, electricity, etc.) from areas that are destroyed or attacked by Israel. In case the CB stayed firm regarding government financing cessation, the government has to rely on grants and loans from international organizations to provide humanitarian aid to displaced people.

The consecutive problems that hit Lebanon since late 2019 resulted in a significant drop of public employees' wages after the local currency lost around 98% of its value. As such, talented employees left the public sector and joined the private sector either in Lebanon or abroad. Moreover, as per Information International s.a.l., around 38% of people on the state's payroll list are retirees.

There are few points that we would like to address that the report didn't tackle that we believe it is important to mention. First, it didn't mention the root cause of the collapse. We consider that it is a continued decomposition of the political and economic system rather than an isolated shock resulted from the current war.

The report also mentioned that reconstruction activity and partial external support might begin in 2027 and 2028 which might be optimistic. Nowadays, there are stricter conditions imposed on Lebanon that must be applied before receiving any support. The first condition is the financial and economic reforms. Seven years into the crisis, no key financial or economic reforms have been implemented yet. So, we believe it is unlikely that these reforms will be completed in a year. The other condition is surrendering all weapons to the Lebanese Official Army. After around 18 months since the ceasefire agreement in November 2024, internal agreement on this step is still absent.

In conclusion, the IIF report is a valuable one as it quantifies the scale of Lebanon's wartime economic shock; however, it shed light on the results only through the macroeconomic context and did not pinpoint the main reason for the collapse. The current political and economic systems have lost its ability to regenerate itself, to provide public services, or to sustain social stability. Finally, unfortunately, without weapon surrender to the Lebanese Official Army, accompanied by structural economic, financial and judiciary reforms, Lebanese economic and financial recovery will not materialize.

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