Lebanon's Economic Outlook amid Political Uncertainty: Scenarios from the IIF

BLOMINVEST BANK s.a.l.

July 16, 2026

Contact Information

Jana Boumatar

jana.boumatar@blominvestbank.com

The Institute of International Finance (IIF), in its latest report on Lebanon, "*Lebanon: Economic Outlook under Heightened and Divergent Political Pathways"* (July 6, 2026), argues that Lebanon's economic outlook has become increasingly dependent on the interaction between political developments, security conditions, and the government's ability to implement meaningful reforms. Although the country had begun to achieve modest macroeconomic stabilization before the recent escalation in the Hezbollah-Israel conflict, renewed hostilities have significantly weakened economic prospects. As a result, the IIF projects that Lebanon's real GDP will contract by approximately 12% in 2026, reflecting the sharp decline in tourism, reduced reconstruction-related inflows, and the continued absence of a credible policy framework. Despite these challenges, official foreign exchange reserves remain relatively stable at around $11.6 billion, while the exchange rate has remained close to LBP 89,700 per US dollar since August 2023, largely because of strict liquidity management rather than any fundamental improvement in economic conditions.

The report highlights that fiscal performance has improved considerably despite the prolonged crisis. Government revenues increased from 12% of GDP in 2023 to 19% in 2025, driven by stronger tax administration, improved revenue collection, and tighter fiscal discipline, while government spending remained contained. These measures generated modest fiscal surpluses and contributed to exchange rate stability. However, the IIF emphasizes that these gains remain fragile. The expected economic contraction in 2026 is likely to reduce government revenues, while the enormous costs of reconstruction, growing wage pressures, and deteriorating infrastructure will require higher public expenditure. Furthermore, customs revenues continue to underperform because of widespread tax evasion and administrative inefficiencies, making reforms in customs management, tax compliance, and public financial governance essential for maintaining fiscal sustainability. The report also argues that a broader and more efficient tax structure, particularly one relying more heavily on value added tax (VAT), could strengthen government finances without placing excessive pressure on households and businesses.

Financial markets continue to reflect cautious optimism despite Lebanon's severe structural weaknesses. According to the IIF, Lebanese Eurobonds remain priced according to long-term recovery expectations rather than current economic fundamentals. Bond prices declined from approximately 29 cents on the dollar in February 2026 to around 25 cents by early July, reflecting heightened geopolitical uncertainty rather than a collapse in expectations for eventual recovery. The report expects Eurobonds to trade between 25 and 30 cents during the remainder of 2026, while successful implementation of security arrangements, credible reforms, and reconstruction commitments could lift prices above 30 cents and potentially toward 35-40 cents by 2027. Conversely, continued political deadlock and stalled reforms would likely keep prices closer to 20-30 cents.

A central focus of the report is the June 26 U.S. brokered Framework Initiative, which is presented as a possible mechanism for reducing tensions between Lebanon and Israel rather than as a comprehensive peace agreement. The initiative outlines several key measures, including mutual recognition of each country's right to security, a roadmap toward ending the state of war, the restoration of Lebanese state authority, the gradual deployment of the Lebanese Armed Forces in southern Lebanon, Israeli withdrawal from designated areas, the disarmament of Hezbollah and other non-state armed groups, the establishment of a U.S. facilitated military coordination mechanism, humanitarian and reconstruction assistance, and continued negotiations toward a broader political settlement. Nevertheless, the report repeatedly stresses that implementation remains highly uncertain because of domestic political divisions, unresolved security concerns, and the absence of broad national consensus.

To illustrate the uncertainty surrounding Lebanon’s future, the IIF develops two alternative medium-term scenarios. Scenario A assumes that political disagreements prevent meaningful implementation of the Framework Initiative and broader structural reforms. Under these conditions, repeated security incidents, political paralysis, and weak state authority would delay IMF negotiations, postpone banking-sector restructuring, restrict financial support from Gulf countries, Europe, and international institutions, and discourage both investment and tourism. Consequently, economic activity would remain weak, with average real GDP growth remaining below 2% annually between 2027 and 2030, prolonging Lebanon’s economic stagnation.

In contrast, Scenario B presents a more optimistic outlook in which security conditions gradually improve and political leaders advance a coherent reform agenda supported by an IMF program. Under this scenario, stronger public financial management, banking-sector restructuring, and policy coordination would unlock substantial external financing from Gulf Cooperation Council (GCC) countries, European partners, multilateral institutions, and diaspora investors. Reconstruction spending, foreign direct investment and a strong recovery in tourism and services would raise average real GDP growth to approximately 6.3% between 2027 and 2030. The current account deficit would narrow from almost 30% of GDP in 2026 to around 18% by 2030, while official foreign exchange reserves would increase from roughly $11 billion to $28 billion over the same period. At the same time, public debt would decline dramatically from approximately 141% of GDP in 2026 to around 69% in 2027 following debt restructuring, before gradually falling further to approximately 66% by 2030, reflecting stronger economic growth and improved fiscal performance.

	Actual	Actual	IIF Est.	IIF Proj.	IIF Scenario A: Persistent Instability and limited Policy Progress				IIF Scenario B: Gradual Stabilization and Strengthened Reform Efforts			
	2023	2024	2025	2026	2027	2028	2029	2030	2027	2028	2029	2030
Nominal GDP (LP trillion)	2,258	2,728	3,080	2,975	3,321	3,487	3,597	3,684	3,514	3,868	4,245	4,605
Nominal GDP ($ bn)	25.9	30.5	34.3	33.2	37.0	38.9	40.1	41.1	39.2	43.1	47.3	51.3
Real GDP growth, % change	-0.5	-5.2	3.7	-12.0	3.4	2.0	1.1	0.7	6.0	6.5	6.8	5.8
Gross investment, % GDP	15.4	15.5	16.3	13.9	13.3	13.1	13.0	13.0	19.9	21.9	23.4	23.7
GDP deflator, % change	265.0	27.4	8.8	9.8	8.2	2.9	2.0	1.7	8.2	3.4	2.8	2.6
CPI inflation, %, average	221.3	45.2	14.6	15.5	7.8	4.1	3.3	3.0	7.8	4.1	3.3	3.0
Exchange rate, LBP/US$	85805	89700	89700	89,700	89,700	89,700	89,700	89,700	89,700	89,700	89,700	89,700
Official FX reserves, USD bn	9.6	10.1	11.8	11.4	11.1	11.0	11.0	11.0	15.9	19.4	23.6	28.3
Gold reserves, USD bn	17.9	24.2	40.4	39.7	36.9	36.9	36.9	36.9	36.9	36.9	36.9	36.9

Source: IIF

Despite the potential benefits of reconstruction financing, the report emphasizes that Lebanon cannot achieve durable long-term growth without fundamentally restoring confidence in its financial system. The IIF estimates that approximately $80 billion in frozen bank deposits continue to constrain household consumption, private investment, and overall economic confidence. It argues that resolving this crisis requires a transparent and legally credible restructuring process that includes liquidating insolvent banks, consolidating viable institutions, protecting small depositors, allocating losses among bank shareholders, large depositors, and the state, strengthening banking supervision, conducting forensic audits, and recovering illicitly transferred assets. According to the report, rebuilding the banking sector is essential not only for restoring financial stability but also for reviving domestic credit, reducing dollarization, encouraging investment, and supporting sustainable long-term economic growth.

The report further explains that Lebanon's recovery is likely to occur in three distinct stages. The first phase, covering 2027–2030, would rely primarily on reconstruction spending, foreign direct investment, concessional financing, grants, and the recovery of tourism, potentially generating annual real GDP growth of around 7% despite limited domestic financial intermediation. During the second phase, from 2031–2034, growth would increasingly depend on renewed bank lending, stronger private-sector investment, and expanding exports. The final phase would require sustained productivity improvements, innovation, and a fully functioning banking system capable of efficiently allocating financial resources. In this context, the report concludes that although banking reform is not an immediate prerequisite for reconstruction-led growth, it is indispensable for transforming Lebanon’s post-conflict recovery into a durable and self-sustaining economic expansion.

Finally, the IIF draws attention to Lebanon’s deteriorating statistical system, describing it as a significant obstacle to effective policymaking. It argues that outdated national accounts, delayed fiscal reporting, incomplete balance of payments statistics, and the absence of reliable high-frequency economic indicators prevent both domestic policymakers and international partners from accurately assessing economic conditions. The report specifically questions the credibility of some recent statistics, including the reported $2 billion in foreign direct investment during 2025, and stresses that rebuilding Lebanon’s statistical capacity is essential for designing sound economic policies, improving transparency, restoring institutional credibility, and supporting the country’s broader reform agenda. Overall, the IIF concludes that while Lebanon possesses a potential pathway toward recovery through improved security, structural reforms, and international support, the country’s medium-term outlook ultimately depends on its ability to overcome political divisions, restore confidence in its banking system, strengthen public institutions, and implement a credible and sustained reform program.

For your Queries:
BLOMINVEST BANK s.a.l.

Research Department

Zaituna Bay

POBOX 11-1540 Riad El Soloh

Beirut 1107 2080 Lebanon

Jana Boumatar

jana.boumatar@blominvestbank.com

Research Department

Tel: +961 1 991 784

research@blominvestbank.com

Disclaimer

This report is published for information purposes only. The information herein has been compiled from, or based upon sources we believe to be reliable, but we do not guarantee or accept responsibility for its completeness or accuracy. This document should not be construed as a solicitation to take part in any investment, or as constituting any representation or warranty on our part. The consequences of any action taken on the basis of information contained herein are solely the responsibility of the recipient.