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LEBANON’S ECONOMY AT THE MAY 2026 INFLECTION

MACROECONOMIC ARCHITECTURE AFTER THE WAR SHOCK

CORE GROUP

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KEY JUDGMENTS

KJ-01 HIGH CONFIDENCE

The stabilization that has held the Lebanese economy together since 2024 is intact at the May 2026 inflection, but all three of its supports are under simultaneous strain. The pound has traded within half a percent of its fixed rate of 89,500 to the dollar throughout the war. The central bank's foreign-currency reserves, counting both cash and foreign bond holdings, stood near 12.0 billion dollars before the war and 11.43 billion at the end of April 2026, a drawdown of around 642 million. Payments cleared by check have shifted to a 64 percent share in post-2019 money, a sign that the functioning layer of the banking system is slowly displacing the frozen one. None of the three supports has broken. Each is being compressed.

KJ-02 HIGH CONFIDENCE

With the Financial Gap Law stalled, the central bank has become the de facto authority resolving the banking collapse, and it is accumulating a liability that some future budget will have to absorb. Through end-March 2026, the two deposit-withdrawal schemes (Circulars 158 and 166) had paid out around 6.1 billion dollars to 579,000 depositors. The central bank carried 68.5 percent of that total, and 88 percent of the March 2026 monthly installment, because the commercial banks no longer have the funds to pay their legal share. The central bank is running a deposit-resolution program it has no statutory mandate to run and no government guarantee behind. Each month of delay adds roughly 240 million dollars to the obligation building on its balance sheet.

KJ-03 MEDIUM CONFIDENCE

The roughly 25 billion dollars of cumulative war damage across the 2024 and 2026 conflicts is large but is not what binds the 2026 economy. Physical destruction across the two wars falls in the 10 to 14 billion dollar range, with lost economic activity, mainly the collapse of tourism and services, adding a further 8 to 12 billion. War-response aid tracked since 2 March 2026 totals around 2.4 billion dollars committed, of which 0.5 billion has been disbursed, and that money is emergency relief, not reconstruction. The constraints that actually bind the 2026 economy are the legislative paralysis on the deposit and bank-resolution laws and the absence of outside financing, which the IMF will not unlock without those laws.

KJ-04 MEDIUM CONFIDENCE

The central bank under Governor Karim Souaid has aligned its own conduct with what the IMF wants, but it is very unlikely (5 to 20 percent) to deliver the full reform agenda within

twelve months, because the core changes require laws only Parliament can pass. The 17 May 2026 IMF report finds the central bank's founding law leaves it too exposed to political interference, with weak internal checks and substandard disclosure. Souaid can act through his own regulatory tools, and has. The statutory overhaul the IMF prescribes is beyond his reach. Parliament has not moved on it.

KJ-05 MEDIUM CONFIDENCE

The money Lebanese in the Gulf send home is the support most exposed to a shock Lebanon cannot control. Personal remittances ran at roughly 5.8 billion dollars in 2024, of which an estimated 48 percent, around 2.8 billion, came from Saudi Arabia, the UAE, Kuwait, and Qatar. Central-bank data for the first quarter of 2026 already show a 5 percent year-on-year decline. A sustained contraction of 15 to 20 percent would cut the dollars flowing into Lebanon by 400 to 500 million a year, roughly the annual cost of the deposit-payout schemes, and would force the central bank to choose between funding payouts and defending the currency.

EXECUTIVE SUMMARY

The Lebanese economy on 21 May 2026 carries three crises layered on top of one another, each running on its own timeline. The oldest is the financial collapse that began in October 2019 and has never been resolved: the state stopped paying its foreign debt, the economy measured in dollars shrank from around 55 billion in 2018 to near 20 billion by 2023, and the banking system accumulated losses the International Monetary Fund (IMF) estimated in 2023 at roughly 72 billion dollars. The second is a fragile stabilization that has held since August 2023: the Lebanese pound has stayed fixed at 89,500 to the US dollar, the central bank has kept frozen deposits trickling out through two emergency schemes, and money sent home by Lebanese abroad, roughly 5.8 billion dollars a year, has kept dollars flowing in. The third is the war. The Israeli campaign that resumed on 2 March 2026 tested the stabilization without breaking it. The fixed exchange rate held. Prices on the unofficial street market stayed within half a percent of the official rate. The government's defaulted bonds lost roughly a quarter of their market value in the first month of fighting, then recovered most of it as US-Iran negotiations signaled possible de-escalation.

What the war did change is the growth outlook. Before the fighting, the World Bank projected the Lebanese economy would grow 4.0 percent in 2026. After it, the IMF placed the year near a 7 percent contraction, and the Institute of International Finance, a global banking association, projected a contraction of 12 to 16 percent. The economy is shrinking again, and by how much depends on how long the war runs.

The argument of this report is that the binding constraint on Lebanon in 2026 is not the physical destruction of the war. It is the political failure to pass the laws that would resolve the financial collapse. The government formed in early 2025 under President Joseph Aoun and Prime

Minister Nawaf Salam moved a reform sequence through 2025: a law lifting bank secrecy for investigators in April, a law setting rules for closing or restructuring failed banks in July, and, in December, a draft law to divide the banking system's losses and return frozen deposits. Parliament passed the first two. It has not passed the third. That law, known as the Financial Gap Law, was approved by the Cabinet on a narrow 13 to 9 vote, with ministers from rival blocs opposing it for incompatible reasons. As of mid-May 2026 it sits in parliamentary committee with no scheduled vote.

In the vacuum, the central bank has become the institution holding the system together. It defends the currency, it funds the bulk of the deposit payouts the commercial banks can no longer afford, and it is the subject of an IMF report, made partially public on 17 May 2026, that calls for a complete legal overhaul of how the central bank itself is governed. The post-2024 stabilization rests on three supports: the central bank's foreign reserves, the deposit-payout schemes, and the inflow of money from Lebanese in the Gulf. All three are under strain in May 2026, and none has yet given way. The most exposed is the Gulf remittance inflow, because Lebanon has no policy lever over it. The least visible danger is the liability quietly building on the central bank's books as it covers payouts that are legally the commercial banks' obligation.

KEY TERMS AND INSTITUTIONS

The report uses a number of Lebanese financial terms. The most frequently cited are collected here for reference.

Term	What it means
Banque du Liban (BdL)	Lebanon's central bank.
The peg	The official exchange rate, fixed at 89,500 pounds to the US dollar since 2024 and defended by the central bank.
Circular	A binding directive the central bank issues to commercial banks.
Circular 158 / Circular 166	The two central-bank schemes that let depositors draw capped monthly sums in cash from accounts frozen since 2019.
Fresh vs non-fresh money	Deposits made after the October 2019 freeze (fresh, fully usable) versus deposits trapped by it (non-fresh or legacy).
Financial Gap Law	The draft law, formally the Financial Stabilization and Depositor Recovery law, that would divide the banking system's losses and set terms for returning frozen deposits. Cabinet-approved December 2025, not yet passed by Parliament.
Bank Resolution Law	Law 23/2025, passed July 2025, which sets the legal framework for closing or restructuring a failed bank.

Term	What it means
Banking Secrecy Amendment	Law 1/2025, passed April 2025, which lifted Lebanon’s bank-secrecy regime for auditors and investigators.
Eurobond	A government bond issued in foreign currency to international investors. Lebanon defaulted on its Eurobonds in March 2020.
Association of Banks in Lebanon (ABL)	The commercial banks’ industry body and lobby.
Al-Qard al-Hassan (AQAH)	A large Hezbollah-linked lender operating outside the licensed banking system.

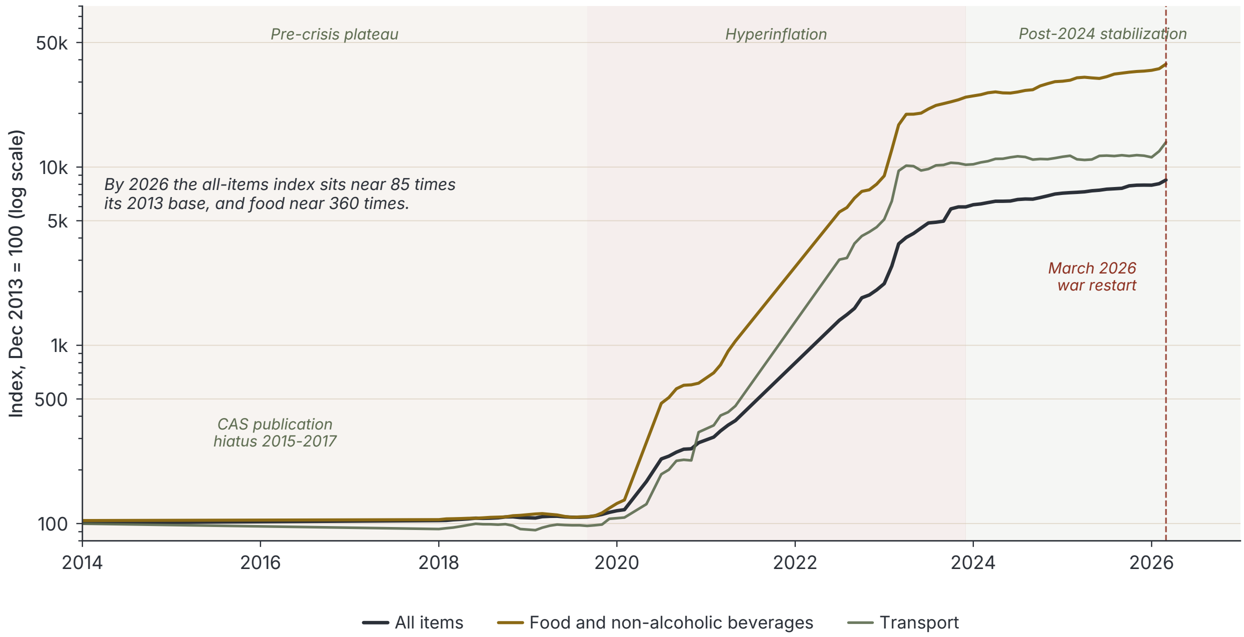
I. WHERE LEBANON'S ECONOMY SITS IN MAY 2026

Three crises run through the Lebanese economy at once, each on a different timeline. The structural collapse that began in October 2019 has never been resolved, by debt write-off, by recapitalizing the banks, or by any other means. The stabilization built from 2023 onward has held the currency steady and rebuilt a regulatory perimeter, but it has not touched the underlying insolvency. The war that resumed on 2 March 2026 has stressed the stabilization without breaking it. Each runs on its own logic, and each leaves a different mark on the data.

FIGURE 1

Lebanese consumer prices: three regimes since 2014

CAS Consumer Price Index, headline and divisions, Dec 2013 = 100



Source: Central Administration of Statistics (CAS) monthly CPI release, Lebanon, base Dec 2013 = 100. Core Group analysis. Core Group · 21 May 2026

A. The structural baseline

The financial collapse of 2019 remains the defining event in Lebanon's recent economic history. Measured in US dollars, the economy shrank from around 54.9 billion in 2018 to 20.1 billion in 2023, a fall of 63 percent. In inflation-adjusted terms the contraction was roughly a third, including a single-year fall near 21 percent in 2020. The Lebanese pound, held at a fixed 1,507.5 to the dollar from 1997, broke in October 2019 and within a month was trading on the street at a large multiple of that rate. A sovereign default followed on 9 March 2020, when the state failed to pay 1.2 billion dollars due on a Eurobond, a government bond issued in foreign currency to international investors. Lebanon has not paid on those bonds since, across a total face value of around 31 billion dollars. Consumer prices rose more than 100 percent in 2020 and stayed in triple digits through 2022.

The banking system's losses crystallized in the same window. The IMF, in its 2023 review of the Lebanese economy (a routine exercise the Fund calls an Article IV consultation), estimated total banking-sector losses at approximately 72 billion dollars, the largest part of it on the central bank's own books. A forensic audit by the international advisory firm Alvarez & Marsal, delivered to Lebanese authorities in preliminary form in August 2023, attributed 7.7 billion dollars of those losses to so-called financial-engineering operations the central bank ran between 2015 and 2020, alongside 111 million dollars in commissions the auditors judged improper and 23 named individuals and entities that each received more than 100,000 dollars in unjustified support. The 332-page preliminary audit has circulated only in fragments and has never been formally published.

The single fact that shapes everything downstream is the October 2019 deposit freeze. Lebanese banks stopped honoring foreign-currency withdrawals, imposed informal capital controls with no law behind them, and split every depositor's money into two pools. Money deposited after the freeze, called "fresh", moves and pays out normally. Money trapped by the freeze, called "non-fresh" or legacy money, is a stock of frozen claims against a banking system that cannot honor them, payable only slowly and at a steep loss through the central-bank schemes described later in this report.

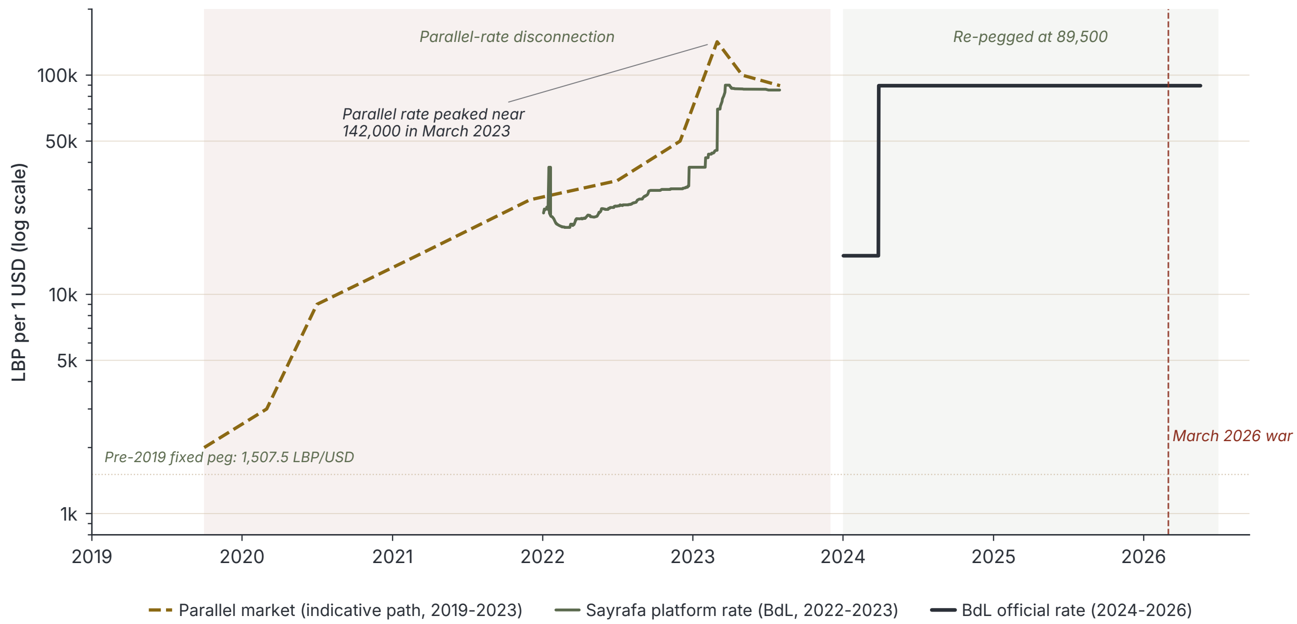
B. The post-2024 stabilization architecture

The Lebanese pound has held at 89,500 to the dollar, the level known as the peg, since August 2023. The peg is the official exchange rate the central bank, the Banque du Liban (BdL), commits to defend. It held because BdL used an electronic currency-trading platform called Sayrafa to absorb the gap between the official and street rates until the two converged. Sayrafa itself was shut down in July 2023 once convergence held. Inflation fell from above 200 percent a year in 2023 toward a projected 15.2 percent in 2025 and, before the war, was expected to reach single digits in 2026, according to the World Bank's Lebanon Economic Monitor published on 22 January 2026.

FIGURE 2

Lebanese pound: from peg-break to re-anchor

The pound against the dollar, 2019-2026, official and parallel rates



Source: BdL Sayrafa archive and official daily rates. The 2019-2023 parallel path is indicative, interpolated from public reporting. Core Group · 21 May 2026

Defending the peg rests on BdL accumulating dollars, through sales of dollars into the market under one circular and through fresh dollar deposits under another, while holding down the supply of pounds. (A circular, in Lebanese banking, is a binding directive the central bank issues to commercial banks.) BdL's foreign-currency reserves, counting both its dollar cash and its holdings of foreign bonds, were rebuilt to around 12 billion dollars by late 2025 and held near that level into the war.

The political conditions for this stabilization are as important as the financial mechanics, and newer. For more than two years Lebanon had no president, and a sequence of caretaker governments could not act. That ended in early 2025. The presidential vacancy was filled in January 2025 by Joseph Aoun, the former commander of the Lebanese Army, and a government was formed in February under Nawaf Salam, a former president of the International Court of Justice. Both are reform-oriented figures from outside the traditional party leaderships, and both were installable only because the war of 2024 had militarily weakened Hezbollah, the armed movement whose veto had shaped Lebanese governments for two decades, and because the November 2024 ceasefire created the opening. Six earlier governments had failed to advance the financial-reform agenda. This one has had the political space to try.

It used that space. In April 2025, Parliament amended the banking-secrecy law (Law 1/2025), lifting the confidentiality that had shielded bank accounts from auditors and investigators, with a ten-year retroactive reach. Karim Souaid, a financier who had run asset-management businesses based in the UAE, was appointed central-bank governor and took office in April 2025, ending a two-year interregnum under an acting governor, Wassim Mansouri. In July 2025, Parliament passed the Bank Resolution Law (Law 23/2025), which sets the legal procedure for closing or restructuring a failed bank.

The 2024 war is the immediate backdrop. That conflict, a 66-day campaign from late September to the November 2024 ceasefire, caused physical damage the World Bank put at around 6.9 billion dollars, total economic losses near 14 billion, and a reconstruction need of roughly 11 billion. In the recovery window that followed, the World Bank's January 2026 report projected the economy would grow 3.5 percent in 2025 and 4.0 percent in 2026. The war that resumed on 2 March 2026 made that projection obsolete within weeks.

C. The March 2026 war shock and what it tested

The resumption of Israeli operations against Lebanon and Iran on 2 March 2026 was a shock to a stabilization that had been in place for about eighteen months. With enough time elapsed, its effect is now legible across several data series.

The peg held. Street-market quotes through May 2026 stayed within 0.2 to 0.5 percent of the official 89,500 rate. No emergency intervention of the Sayrafa kind was needed. BdL's foreign-currency reserves fell by approximately 642 million dollars between mid-February and end-April 2026, from around 12.07 billion to 11.43 billion. The value of the central bank's gold, near 47 billion dollars before the war, fell to about 42.7 billion by end-April, a movement driven by the global gold price rather than by any sale of Lebanese gold.

Lebanon's defaulted Eurobonds, which trade in international markets at a fraction of their face value, registered the war as a credit shock. The benchmark price fell from a pre-war level near 30 cents on the dollar in late February to a low of 22.75 cents in early April, a drop of roughly 23 percent, then recovered to 26 to 27 cents by 10 May 2026 as US-Iran talks signaled possible de-escalation.

Forecasters abandoned the pre-war growth path. The IMF's April 2026 World Economic Outlook, the Fund's twice-yearly global forecast, placed Lebanon's 2026 economy near a 7 percent contraction. The Institute of International Finance, in a 14 April assessment, projected a deeper contraction of 12 to 16 percent and a current-account deficit (the gap between what the country pays abroad and what it earns) widening toward 17 percent of GDP. The distance between the two forecasts reflects two unknowns: how long the war runs, and whether the Gulf remittance inflow holds.

The real economy absorbed the shock unevenly. Throughput at the Port of Beirut, Lebanon's main commercial gateway, fell across March and April 2026 but did not break from its stabilization-era pattern. Tourism collapsed to negligible volumes, with the Eid al-Adha holiday season largely lost to airline cancellations, Gulf-state travel warnings, and intermittent closures of Beirut's airport. Fuel prices at the pump nearly doubled, with 95-octane gasoline reaching about 1.43 dollars a litre by mid-May. Construction and real estate, which had shown tentative signs of recovery in late 2025, fell back further.

The institutional response was orderly. BdL extended the deposit-withdrawal circulars. The Salam government held its fiscal line, keeping public-sector wages paid but adding no new spending. An Aoun-Salam ministerial delegation traveled to Damascus on 9 May 2026 to open economic-cooperation channels with the new Syrian government, channels that, if they materialize, could help close Lebanon's electricity gap.

What the war did not do is break any of the three supports of the stabilization. What it did do is shorten the runway on each.

D. Three economies, one central bank

Lebanon in May 2026 runs three economies side by side. They use different money, respond to different signals, and answer to different institutions. They meet at the level of the household, but they are not one integrated system.

The largest by volume of transactions is an informal cash economy that runs on physical US dollars. After the October 2019 freeze, retail trade, household payments, property, healthcare, and schooling all repriced in dollar banknotes held outside the banks. A 2024 World Bank study of this cash economy estimated the stock of physical dollars circulating outside the banking system at around 9.9 billion, close to half of GDP. By contrast, Lebanese pounds in circulation amounted to only about 696 million dollars' worth at end-April 2026. The implication is structural: monetary policy conducted in pounds reaches less than a tenth of the money Lebanese actually use. BdL's real lever is no longer the pound money supply but the management of its foreign reserves, which sets the street exchange rate and, through it, the residual pound-to-dollar conversion that still matters for the public-sector workers paid in pounds.

The second economy is the formal banking sector, which now functions as a shell. It processes the deposit payouts under the circulars, clears the trade documents that move imports, and runs settlement between banks. It does not do the thing a banking sector exists to do, which is lend. The interbank lending rate in pounds has sat at zero through 2024 and 2025 because no bank's balance sheet can take on new pound exposure.

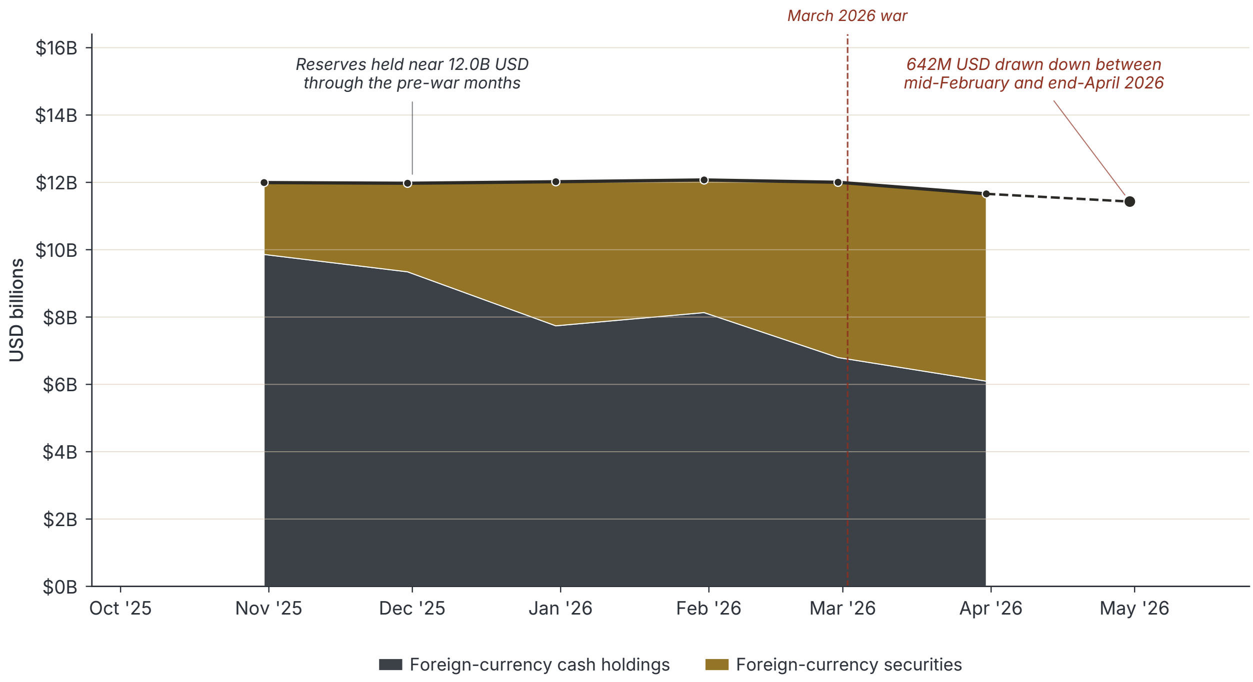
The third economy is funded by foreign aid and has grown sharply since the war. War-response funding tracked since 2 March 2026 totals around 2.4 billion dollars committed. This economy is concentrated in the war-hit south, the Bekaa Valley, and the southern suburbs of Beirut, converts directly into cash dollars in recipients' hands, and bypasses the banks.

BdL is the load-bearing institution across all three. It holds the reserves that anchor the cash economy's exchange rate, it funds the payouts that keep the formal banks' obligations moving, and it provides the foreign-currency settlement the aid economy's institutional accounts depend on. So many system-critical functions concentrated in one institution, set against the governance weaknesses the May 2026 IMF report documents, is the structural vulnerability beneath the stabilization.

FIGURE 3

BdL foreign-currency reserves through the war window

Cash holdings plus foreign-currency securities, October 2025 to April 2026



Source: BdL monthly balance sheet (foreign currencies at the 89,500 peg) and ABL periodicals (foreign-currency securities). April total from BdL statement. Core Group · 21 May 2026

II. MONETARY ARCHITECTURE UNDER PRESSURE

The monetary side of the Lebanese economy is the clearest readable signal of the stabilization. It rests on three working parts: the foreign reserves that fund the defense of the peg, the convergence of the official and street exchange rates, and a money supply that has shifted decisively into dollars. The fiscal side, the state's own finances, is the fourth element, and it is more an absence than a presence. Each is under measurable pressure in May 2026, and none has broken.

A. Reserves and the peg defense

BdL's foreign-currency reserves, the working buffer that funds the peg, are the sum of two things: dollar cash holdings and holdings of foreign bonds and securities. Together they stood near 12.0 billion dollars through the pre-war months and at 11.43 billion at end-April 2026. The war-window drawdown was about 642 million dollars between mid-February and end-April. The composition shifted over the same period, with cash falling and securities rising, which left the total roughly flat until the war.

Gold is the larger reserve, and the less usable one. BdL holds about 286 tonnes, worth near 47 billion dollars before the war and about 42.7 billion by end-April 2026. That swing tracked the world gold price, not any Lebanese sale. A Lebanese law bars BdL from selling gold without a vote in Parliament, which makes the gold a genuine sovereign reserve but removes it from everyday use in defending the currency. The working runway therefore depends on the foreign-currency stock.

At the observed war-window drawdown of about 642 million dollars over ten weeks, an annual pace near 3.3 billion, the 11.43 billion dollar reserve stock would last for years, not months. Reserve exhaustion is therefore not the constraint that binds the peg over the coming twelve months. Three things qualify that runway. The war-window pace is not the peacetime pace, which ran closer to 150 million dollars a month in late 2025. The deposit-payout circulars draw on the same dollar pool and are already inside the observed drawdown. And remittances partly refill the reserves, so a remittance shock would shorten the runway faster than the headline drawdown suggests.

The real question for the peg over the next year is therefore not whether the reserves run out. It is whether a loss of confidence sends Lebanese to convert pounds into dollars on the street faster than reserves can be spent to meet them. The reserve stock buys time. It does not, on its own, fix the insolvency the stabilization has deferred.

B. Parallel and official exchange rates

Lebanon effectively has two exchange rates: the official rate the central bank sets, and the "parallel" or street rate at which money changers actually trade. The parallel rate quoted by the tracking site lbprate.com between 20 March and 20 May 2026 ran in a band of 89,400 to 89,700 pounds to the dollar. The official rate held at 89,500 across the same period. The gap between the two stayed under 0.3 percent through the war.

That gap is the single cleanest gauge of confidence in the peg. During the 2019 to 2023 collapse the street rate ran at large multiples of the official rate, from 1,507.5 pounds before the break to 12,000 by mid-2020, 100,000 by 2022, and a peak near 142,000 in March 2023. The August 2023 convergence brought both rates onto 89,500 and has held them there. A gap under one percent, sustained through a war, is the signature of a peg that retains credibility under stress, not one about to break.

A gap above 5 percent held for 30 days would signal that credibility is eroding. A gap above 15 percent held for two weeks would mark the operational start of a renewed break. Neither has happened during the war.

C. Inflation and dollarization

Lebanese consumer prices, measured against a December 2013 base of 100, peaked at roughly 88 times that base during the late hyperinflation, with food prices peaking higher, near 360 times the base. The official statistics agency stopped publishing the price index between 2015 and 2017, a gap that itself records the breakdown of the Lebanese state's statistical capacity, and now produces a consistent monthly series again. Year-on-year inflation, where it can be computed, ran near 11 percent through January 2026 and rose to 17 percent in March 2026 as war costs passed through into prices.

The dollarization of everyday transactions has deepened through the stabilization. Payments cleared by check ran at roughly 64 percent in fresh, post-2019 money by March 2026, most of it in dollars. The share of public-sector employees' withdrawals taken in dollars through the circulars has risen toward 75 percent. The point for inflation is that the price that matters to most Lebanese is now the dollar price, not the pound index. Food prices in dollar terms moved from about 80 percent of their pre-2019 level in late 2025 to about 95 percent by April 2026, pushed up by both global commodity prices and the war. The Lebanese household in May 2026 pays close to 2018 dollar prices on an income that, measured in dollars, is far below its 2018 level.

D. The fiscal void

The fourth element of the monetary picture is the state's own finances, and here the defining fact is an absence of information. The Ministry of Finance has not published a public-debt report since the last quarter of 2022. With no routine fiscal disclosure since the 2020 default, outside observers, including the multilateral lenders and the rating agencies, work from inference rather than from official figures. Finance Minister Yassine Jaber has said that war-related spending pressures cut treasury revenue by 40 percent in March 2026 against the previous quarter.

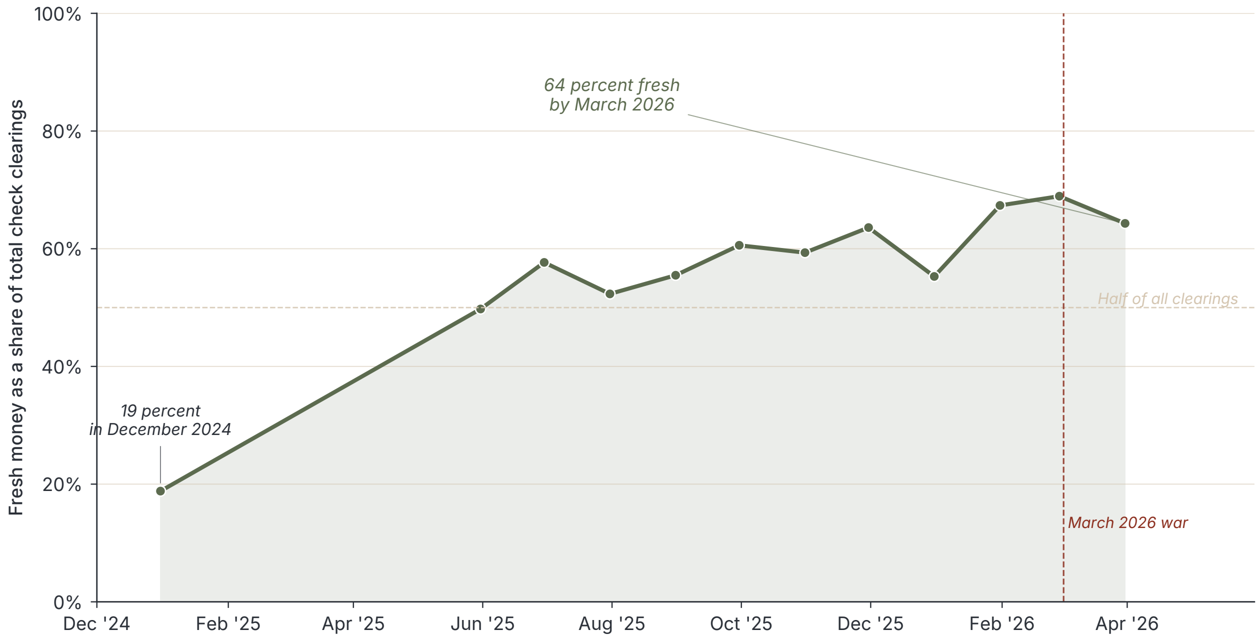
The Salam government has held since taking office to a rule of running no deficit it cannot fund with revenue. It authorized no stimulus in response to the war. Public-sector wages were kept paid, but nothing was added. On the revenue side there has been one gain: a modernization of customs administration, including scanners and tighter enforcement against evasion, raised customs receipts by roughly 108 percent in 2025 from a low base, and produced around 1,800 referrals to the courts for tax evasion.

This fiscal posture has a distributional consequence worth stating plainly. By refusing to run a war deficit, the Lebanese state has pushed the cost of absorbing the war onto the private sector and onto the central bank's reserves, rather than onto the public budget. Public-sector deposits held at BdL actually rose by about 158 million dollars between mid-February and end-April 2026, which indicates the central bank was draining liquidity from the system, not that the treasury was drawing it down. The fiscal void is therefore not simply a vacuum. It is a deliberate non-response that keeps the IMF reform track alive and shifts the adjustment cost off the budget and onto banks, the central bank, and households.

FIGURE 4

The functioning banking layer is displacing the frozen one

Fresh (post-2019) money as a share of total check clearings



Source: Association of Banks in Lebanon (ABL) bimonthly Executive Summary, page-1 indicators on fresh and non-fresh check clearings. Core Group · 21 May 2026

III. BANKING SECTOR AND DEPOSIT POLITICS

The Lebanese banking sector in May 2026 runs as two parallel systems. The fresh system, holding deposits made after the October 2019 freeze, transacts normally and grows slowly. The legacy system, holding the deposits trapped by the freeze, can be tapped only through the central bank's withdrawal schemes, and only at a steep effective loss. Eight large banks remain open but do none of the lending a banking sector exists to do. The laws that would resolve the legacy system exist on paper. They have not been implemented. Understanding why requires seeing that the banking crisis is, at its core, a political problem: the people who own the banks and the people who sit in Parliament are, to a substantial degree, the same people, which is why a collapse now six years old has still not been allocated to anyone.

A. Deposits and the withdrawal circulars

At the time of the October 2019 collapse, Lebanese bank deposits stood at roughly 170 billion dollars, most of it in dollars that the commercial banks had in turn placed with the central bank under the financial-engineering schemes. After the break, those deposits were frozen, and access was reopened only partially, at below-market conversion rates, through a sequence of central-bank circulars.

Circular 151, issued in April 2020, let depositors withdraw dollar balances in pounds at a fraction of the street rate, the arrangement that produced the bitter Lebanese coinage “lollar” for a dollar the bank will only return as devalued pounds. Circular 158, issued in June 2021, set up the main current scheme for withdrawing frozen foreign currency in capped monthly amounts. Circular 166, issued in 2023 and extended since, added a parallel scheme for public-sector wage earners, giving them up to 400 dollars a month in cash against their frozen savings.

Through end-March 2026, the two main schemes, Circulars 158 and 166, had paid out approximately 6.1 billion dollars to around 579,000 depositors. The split between what the central bank funded and what the commercial banks funded shifted decisively over the life of the program. Cumulatively, BdL has carried 68.5 percent of the payouts, about 4.2 billion of the 6.1 billion. In the single month of March 2026, BdL covered about 88 percent, 212 million of a 240 million dollar payout.

That imbalance has no legal basis. The central bank is not a deposit-insurance fund. It is spending its own foreign reserves to make payments the commercial banks are contractually obliged to make. Each month the arrangement runs adds roughly 240 million dollars to a liability building on the central bank’s books with nothing behind it.

B. The burden-shift onto the central bank

The shift of the monthly payout burden onto the central bank is the most consequential thing happening in Lebanese banking finances right now. The commercial banks funded 31.5 percent of the cumulative payouts but only 12 percent of the March 2026 installment. The trajectory shows the commercial banks’ capacity is, measurably, running out.

The mechanism is plain. The commercial banks hold only small remaining pools of liquid dollars and have largely used up their share of the original payout design. BdL has kept the payouts flowing to preserve depositors’ access and to avoid the queues that would form if a window closed. The accounting result is that the central bank’s balance sheet now carries the dollar obligation to depositors that the commercial banks were supposed to carry.

With the Financial Gap Law stalled, this accumulation has no end point. At the March 2026 pace, BdL carries roughly 210 million dollars a month, about 2.5 billion over the coming year. Against an 11.43 billion dollar reserve stock that draw is affordable for the year. The danger it creates is not running out of money soon. It is that every month transfers more of the banks’ liability onto a central bank that has no legal mandate to hold it and no government guarantee behind it. The longer the arrangement runs, the larger the obligation any eventual settlement must recognize, and the less room a future loss-allocation will have to work with.

C. The Financial Gap Law and the parliamentary stall

The Financial Gap Law, formally the Financial Stabilization and Depositor Recovery law, is the centerpiece of the reform agenda. It is the draft law that would, for the first time, divide the banking system's losses among the state, the central bank, the commercial banks, and the depositors, and set the terms on which frozen deposits are returned. The Cabinet approved it on 26 December 2025 by a vote of 13 to 9, after three days of deliberation.

The nine ministers who voted against the law did so from incompatible positions, which is the heart of why it is stuck. Three were ministers of the Lebanese Forces, a Christian party that wanted the banks' shareholders to absorb more of the loss and full accountability for the collapse locked in. Two were Hezbollah ministers, who opposed the law's cap on deposit recovery because it disadvantages their constituency of mid-sized and larger depositors. The rest, from the Kataeb party, the Amal movement, and a minor party, opposed on adjacent grounds. The two anchor blocs, the Lebanese Forces and Hezbollah, oppose the law for opposite reasons and cannot unite behind a single amendment to fix it. That is the structural reason the bill cannot easily be redrafted into a passable form.

The law's design allocates an estimated 70 billion dollar gap, the shortfall between what the banking system owes depositors and what it can pay, across four parties. The state and the central bank absorb most of it through long-dated bonds, with the state's bonds backed in part by Lebanon's gold. The commercial banks are required to cover 40 percent of withdrawal obligations from their own capital and from raising new capital. Depositors holding up to 100,000 dollars are repaid in full over four years, and that threshold covers roughly 85 percent of all individual accounts. Depositors above the threshold receive their first 100,000 in cash and the remainder in long-dated central-bank-backed bonds.

As of mid-May 2026 the bill sits in two joint parliamentary committees with no plenary vote scheduled. The IMF, in its 13 February 2026 mission statement, called for the law to be amended so that the order in which losses are assigned follows international practice, with no losses falling on depositors before the banks' shareholders and junior creditors have absorbed theirs. That position implies the Fund will not endorse the Cabinet's version as drafted.

The political resistance is concentrated in the banks themselves. The Association of Banks in Lebanon (ABL), the commercial banks' industry body, issued a public statement on 5 January 2026 opposing the 40 percent contribution, arguing it would render most of its member banks non-viable. The banks have not put forward an alternative. Reform-oriented research bodies, including the Tahrir Institute and the watchdog group Kulluna Irada, have criticized the Cabinet version from the opposite direction, as too protective of the banks' existing owners. The standoff between the banks on one side and the IMF and the reform groups on the other is the deadlock.

Depositors themselves are the third force, and the one with the least institutional power. Depositor associations, most prominently a body that calls itself the Depositors' Union, have organized repeated protests, including at the presidential palace at Baabda and the seat of government at the Grand Serail when the Cabinet was voting. They want faster and fuller recovery than any version of the law offers. Their leverage is the street, not the committee room, and a bill in committee can absorb street pressure for a long time.

The parliamentary calculus shifted in April 2026. Parliament had been due to hold a general election in May 2026. The war prompted a two-year postponement, justified under the electoral law's force-majeure clause, which extends the sitting Parliament's mandate to 2028. The postponement cuts two ways for the Financial Gap Law. It removes the pressure a competitive election would have placed on legislators to show depositors visible progress, and it removes the accountability an election provides. For a bill that asks legislators to weigh depositor anger against the interests of bank-owning elites, the loss of the May 2026 vote lowers the near-term cost of continued delay.

Passage of the Financial Gap Law by the end of 2026 is unlikely, in the range of 20 to 45 percent. The clearest path to a higher probability is outside financing made conditional on passage. No such conditional pledge has been made public. Absent it, the Lebanese parliamentary process retains every incentive to delay rather than to act.

D. Banking secrecy and the forensic audit

The Banking Secrecy Amendment, Law 1/2025, passed Parliament on 24 April 2025 by 87 votes to 13. It rewrote the operative clause of a 1956 law that had made bank-account confidentiality a foundation of Lebanon's self-image as a regional financial haven for nearly seven decades. The amendment lifts that secrecy for official purposes and reaches back ten years, covering the 2015 to 2025 window in which the central bank's financial-engineering operations took place.

In practice, the amendment lets Lebanese regulators, the Banking Control Commission (Lebanon's bank supervisor), the central bank, court-appointed evaluators, and independent auditors examine bank records without a separate warrant for each account. It does not by itself return any depositor's money. What it does is open the door to forensic disclosure.

The Alvarez & Marsal forensic audit of the central bank has resumed under that legal cover. The firm had walked away from its original engagement in 2024, citing insufficient access to documents. The Salam government's 2025 decision to restart the audit was followed by the firm briefing President Aoun on its status later that year. The 332-page preliminary report delivered in August 2023 remains the substantive baseline: its findings of 7.7 billion dollars in financial-engineering costs, 111 million dollars in improper commissions, and 23 named beneficiaries are the evidentiary floor for any loss-allocation under the Financial Gap Law.

The audit matters because it is the only legal process generating documented findings on where the banking losses came from. Riad Salameh, who ran the central bank from 1993 to 2023 and presided over the financial-engineering era, was detained on Lebanese charges in September 2024 and remains under prosecution, with separate extradition requests from France, Germany, and Luxembourg. The audit findings anchor both the Lebanese case and the foreign ones.

E. The banking-sector consolidation outlook

Eight large banks dominate the Lebanese sector in May 2026: Bank Audi, BLOM Bank, Byblos Bank, Société Générale de Banque au Liban, Fransabank, Banque Libano-Française, Bank of Beirut, and Crédit Libanais. Bank Audi, the largest by assets, carries a roughly 2.4 billion dollar exposure to vehicles linked to Al-Qard al-Hassan (AQAH), a large Hezbollah-affiliated lender that operates outside the licensed banking system. BLOM Bank carries comparable AQAH and correspondent-bank exposure. The others hold varying mixes of frozen-deposit liabilities, central-bank placements, and capital shortfalls.

The central bank issued a new capital-adequacy framework, Intermediate Circular 741, in 2025. An older requirement, Circular 154 of August 2020, that banks hold liquidity equal to at least 3 percent of their foreign-currency deposits at foreign correspondent banks, was not met by its end-2025 deadline, and no Lebanese bank has publicly reported compliance.

No bank has been closed, merged, or formally restructured as of May 2026. The Bank Resolution Law provides the legal procedure. Acting on it requires the central bank to designate a specific bank as non-viable, a step Governor Souaid has not taken. The IMF's position is that the resolution law itself needs amendment before any resolution can proceed at international standards of transparency, and those amendments are not before Parliament.

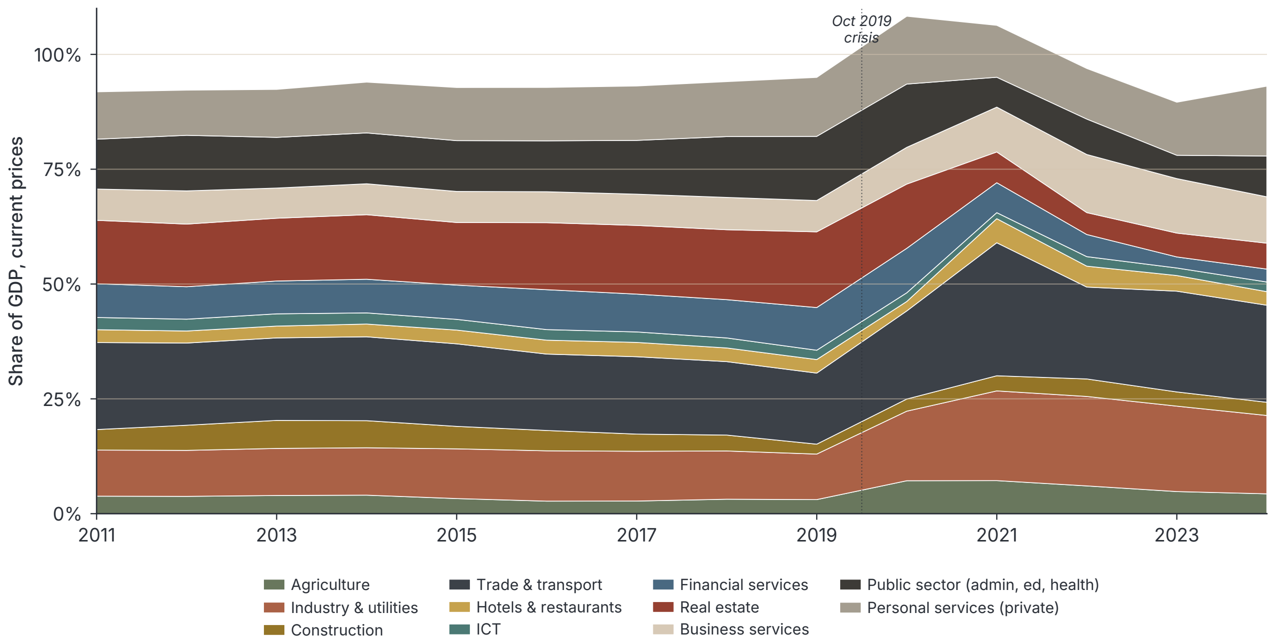
The most probable outcome over the coming twelve months is continued limbo. The banks have every incentive to delay a consolidation that would crystallize their owners' losses. The central bank holds the regulatory authority to force the issue but lacks the political mandate to use it against the banks' resistance. The IMF holds the analytical case but no leverage without a lending program. The standoff is stable and produces nothing.

The sharper risk sits underneath all of this in the form of US sanctions. A designation by the US Treasury against AQAH, or against the correspondent-banking relationships of a named Lebanese bank, would force a structural break the Lebanese process has so far avoided. The mechanism is direct: foreign correspondent banks would cut ties, the inflow of fresh dollars would compress, and resolution would become an operational fact rather than a statute on paper. No such designation occurred during the war window, but the exposure is a permanent feature of a banking sector entangled with a sanctioned movement.

FIGURE 5

Composition of Lebanese GDP by activity, 2011-2024

Sectoral shares in current prices, from the CAS national accounts



Source: Central Administration of Statistics (CAS), Lebanese national accounts: GDP by activity, current prices, share of GDP at market prices. Core Group · 21 May 2026

IV. THE REAL ECONOMY UNDER DUAL SHOCK

The real Lebanese economy, the part that produces goods and services rather than moves money, carries the cumulative weight of the 2019 collapse and the two wars. Its sectoral shape has shifted decisively. Construction and real estate, together about 18 percent of the economy in the 2010 to 2018 baseline, have not regained their footing. Tourism has shed most of its weight. The public sector has grown as a share even while shrinking in dollar terms, because private activity around it collapsed faster. Trade and transport still account for the largest share, near 30 percent, but on much smaller volumes. The economy has not collapsed again in 2026. It has settled at a permanently smaller scale than in 2018, and the war is now pushing it down from there.

A. The shape of output

National-accounts data through 2024 show the shift in what the Lebanese economy is made of. Construction fell from roughly 7 to 8 percent of output in 2010 to 2017 to under 3 percent by 2023, recovering slightly to about 4 percent in 2024. Real estate dropped from around 12 percent to under 8 percent. Hotels and restaurants, the clearest measure of tourism inside the accounts, shrank from 4 to 5 percent to under 2 percent. Industry and utilities held relatively steady at 8 to 11 percent. The public sector, meaning administration, education, and health, expanded from about 12 percent to about 18 percent of the total, a rise that reflects the relative collapse of private value-added more than any growth in the state.

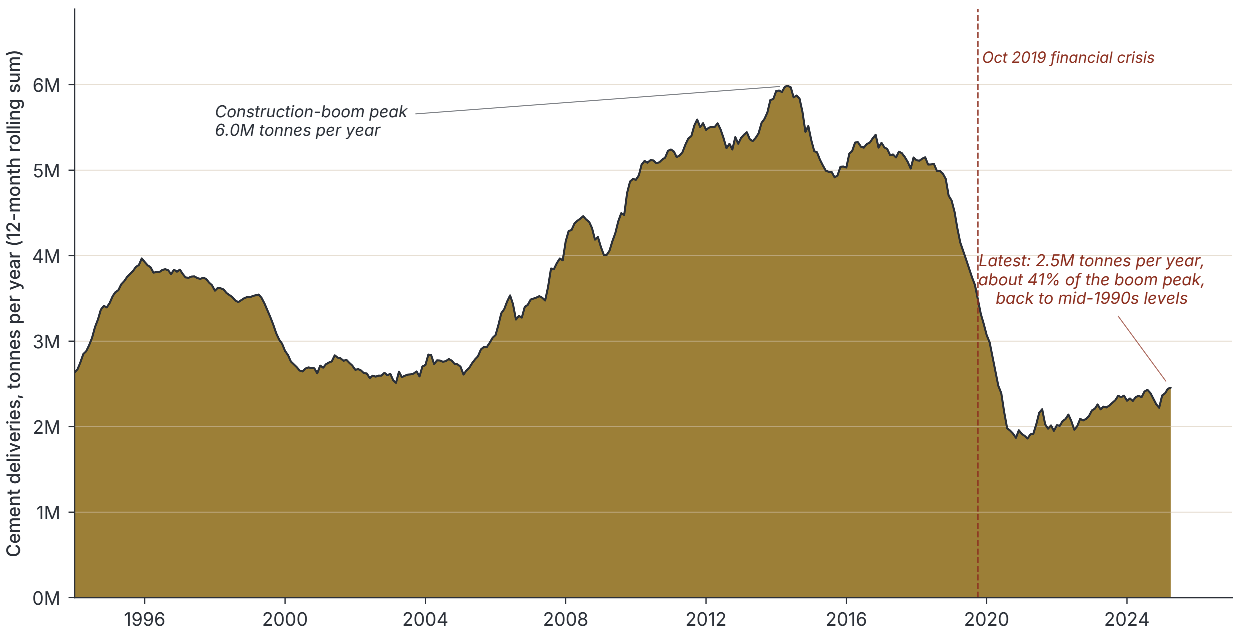
The 2024 recovery delivered real growth of about 3.5 percent, the first positive figure after six straight years of contraction. The war ended it. The IMF's April 2026 outlook places 2026 near a 7 percent contraction. The Institute of International Finance projects a 12 to 16 percent contraction and a current-account deficit near 17 percent of GDP. The gap between the two forecasts is itself the analytic point: with the war's duration unknown and the Gulf remittance channel exposed, the 2026 outcome is not yet bounded. First-quarter 2026 data already show a return to contraction across the war-exposed sectors, led by tourism, construction, and agriculture.

B. Construction and real estate

FIGURE 6

The construction sector that did not return

Lebanese cement deliveries, 12-month rolling sum, 1994-2026



Source: CAS thematic time series (1993-2025), extended with ABL periodicals for the most recent year. Core Group · 21 May 2026

Construction is the cleanest case of a Lebanese sector that has not come back. Cement deliveries, the longest-running proxy for building activity, ran near 6 million tonnes a year at the 2010s construction-boom peak. The latest readings are near 2.5 million tonnes a year, around 40 percent of the peak and roughly back to the level of the mid-1990s, just after the civil war.

Property transactions confirm the picture. In the first quarter of 2026, real-estate transactions ran at about 11,949, down 29.3 percent year-on-year, and their combined value fell to under 1.53 billion dollars, down 18.2 percent. That the count fell faster than the value indicates the average transaction grew larger as smaller buyers dropped out, which is the signature of a market narrowing to cash buyers.

The deeper feature is not war damage but a permanent change in how the sector works. Before 2019, the banking sector channeled remittances and dollar savings into property purchases through mortgage lending. That function is gone. The banks do not lend, and mortgage origination is effectively zero. What remains is a cash-only market concentrated among wealthier diaspora buyers. Construction in Lebanon is no longer a channel through which ordinary households build wealth.

C. Tourism and services

Passenger traffic through Beirut's Rafic Hariri International Airport, the cleanest available proxy for tourism, fell from roughly 9 million a year in 2018 to about 6.5 million in 2024, recovered somewhat through the summer of 2025, and was then cut down again by the 2024 and 2026 wars. The Eid al-Adha holiday window in May 2026, normally the year's first peak earning season, was effectively cancelled by airline reductions, Gulf-state travel advisories, and intermittent airport closures.

The hotels-and-restaurants share of GDP, under 2 percent in 2024, understates the sector's real importance, because tourist spending also flows through trade, transport, and personal services. Tourism's collapse transmits through the demand side of the whole economy rather than showing up in one line of the accounts.

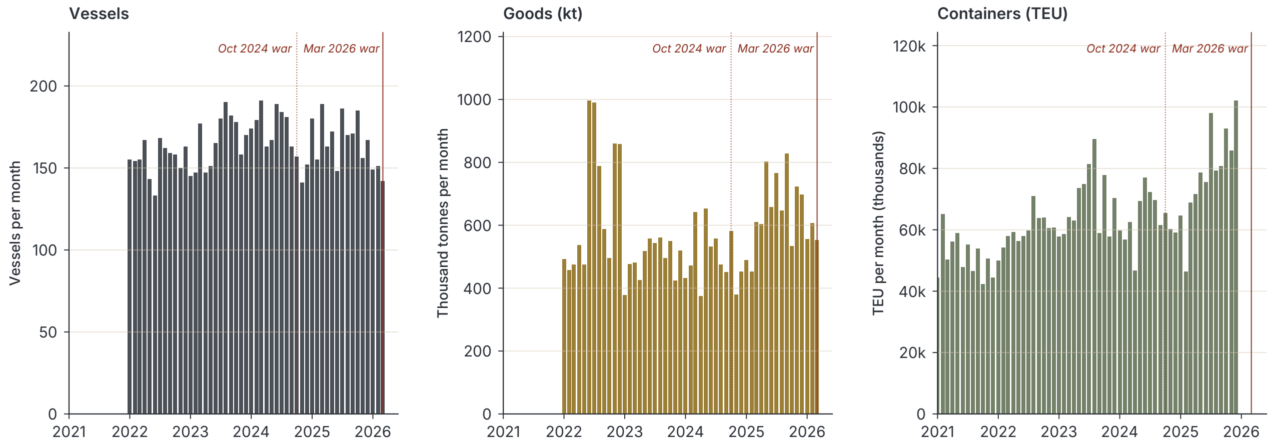
The 2026 tourism season is, in practice, lost. Any recovery over the coming year depends on airlines restoring routes and Gulf states lifting travel advisories, both of which are reactions to the war rather than tools Lebanon controls.

D. Trade and the port

FIGURE 7

Port of Beirut: throughput under successive shocks

Monthly vessels, goods tonnage, and container TEU, 2021-2026



Source: Port of Beirut monthly throughput releases as compiled in the Core Group structured-data pipeline, covering all metric categories: imports, exports, transshipment. Core Group · 21 May 2026

The Port of Beirut, Lebanon’s main commercial gateway, handles roughly 150 to 200 ship arrivals a month, 400 to 800 thousand tonnes of goods, and 50 to 100 thousand containers, measured in the standard twenty-foot equivalent unit. The series shows the expected dips at the 2024 and 2026 war restarts but no structural break. The port kept operating through the war window.

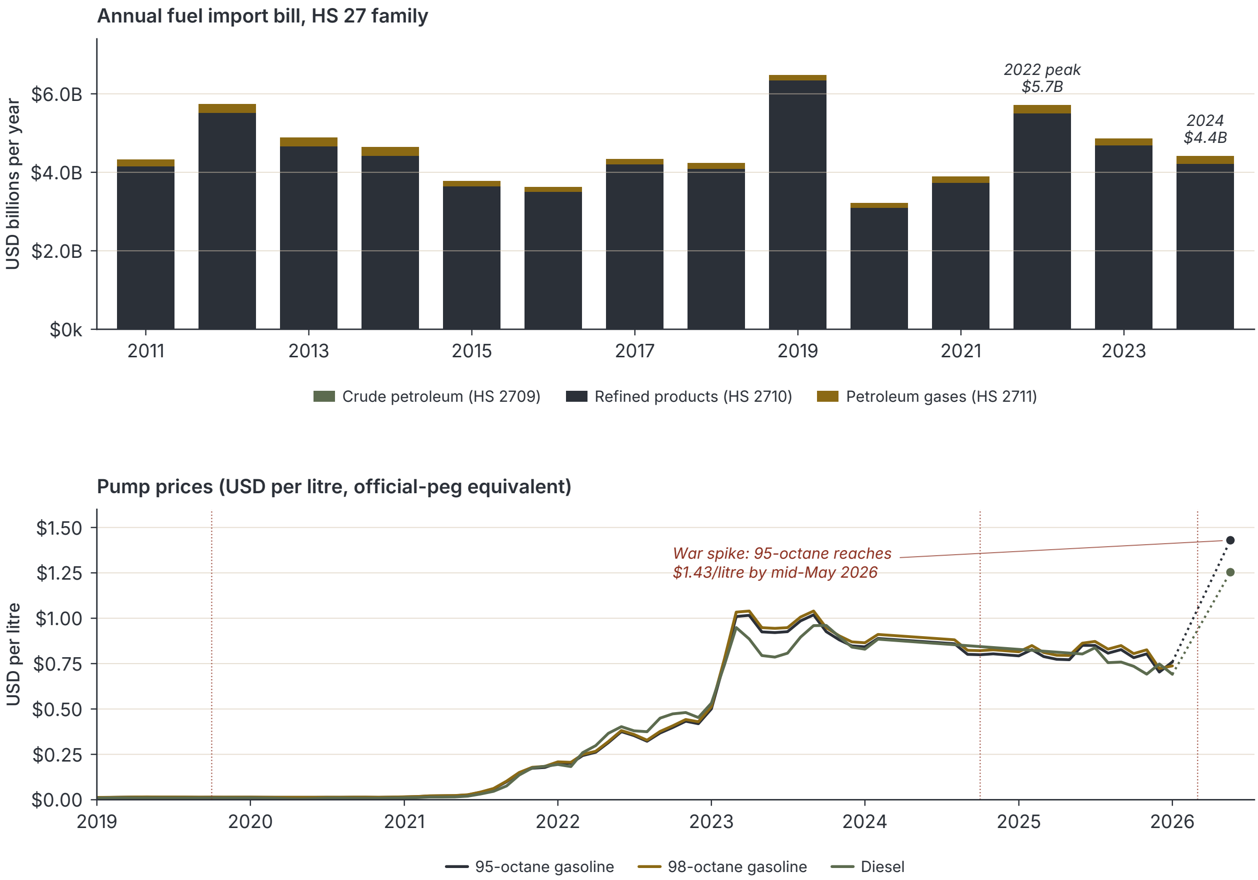
Tripoli’s port, further north, did not absorb meaningful traffic when Beirut was disrupted. Lebanon depends on imports for food, fuel, intermediate goods, and consumer goods, with little capacity to substitute domestic production. The trade balance runs a chronic deficit of around 1 billion dollars a month, covered by remittances and, before the default, by foreign borrowing that is now cut off.

E. Energy and electricity

FIGURE 8

Lebanon's fuel bill and the subsidy unwind

Annual import value (top) and monthly pump prices (bottom), 2011-2026



Source: UN Comtrade (Lebanon imports HS 27 family, world partner, annual). Lebanese Ministry of Energy and Water pump-price gazette. Core Group · 21 May 2026

Lebanon imports essentially all its fuel and has no refining capacity of its own. The import bill peaked near 6.5 billion dollars in 2019, the last year of large subsidies, fell to about 3.2 billion in 2020 as the collapse destroyed demand, recovered to a 2022 peak of 5.8 billion, and settled near 4.5 billion in 2024. Refined products account for roughly 90 percent of the bill.

Pump prices, recorded in the Ministry of Energy and Water's price gazette, were near zero in dollar terms in 2019 and 2020 under the subsidy regime, climbed past 1.00 dollar a litre in 2023 as the subsidy was withdrawn, and settled in a 0.75 to 0.90 dollar range through 2025. The war reversed that. By mid-May 2026, 95-octane gasoline reached about 1.43 dollars a litre and diesel about 1.25 dollars, close to double the end-2025 level, as higher import and shipping costs passed through to consumers. This is a direct channel from the war to the cost of living, and it runs independently of the exchange rate, which held steady throughout.

Électricité du Liban (EDL), the state power company, has been effectively non-functional as a utility since the 2019 collapse. State power reaches most areas only 2 to 6 hours a day. The rest is supplied by neighborhood diesel-generator networks, known in Lebanon as the "motrice", at three to five times the official EDL tariff. The Karpowership contract, under which a Turkish company moored floating power plants off the coast and supplied about a quarter of Lebanon's electricity (around 404 MW), lapsed for good in October 2021 after the state ran up more than 100 million dollars in unpaid bills. It has not been revived.

Energy Minister Joe Saddi's January 2026 plan sets out seven tracks to restore supply, centered on building new power plants, reforming the distribution network, and importing electricity through neighboring grids. New domestic generation is a three-to-five-year project at best. Importing power through Syria is the most credible short-term option, and it was advanced by the Damascus delegation of 9 May 2026.

F. Offshore gas

Lebanon's hope of becoming a gas producer has, for the near term, ended. Block 9, the most promising of the offshore exploration zones licensed in Lebanon's first round, was relinquished by its operating consortium, made up of TotalEnergies, Eni, and QatarEnergy, on 1 March 2026, after the Qana well drilled there in 2023 found no commercial gas.

Attention has shifted to Block 8, awarded to the same three-company consortium by a Cabinet decision of 23 October 2025. The initial work is a seismic survey covering 1,200 square kilometres, at an estimated cost of 10 to 15 million dollars. Early survey data suggest geology similar to Block 9, but confirming a commercial find would require exploratory drilling that has not been authorized.

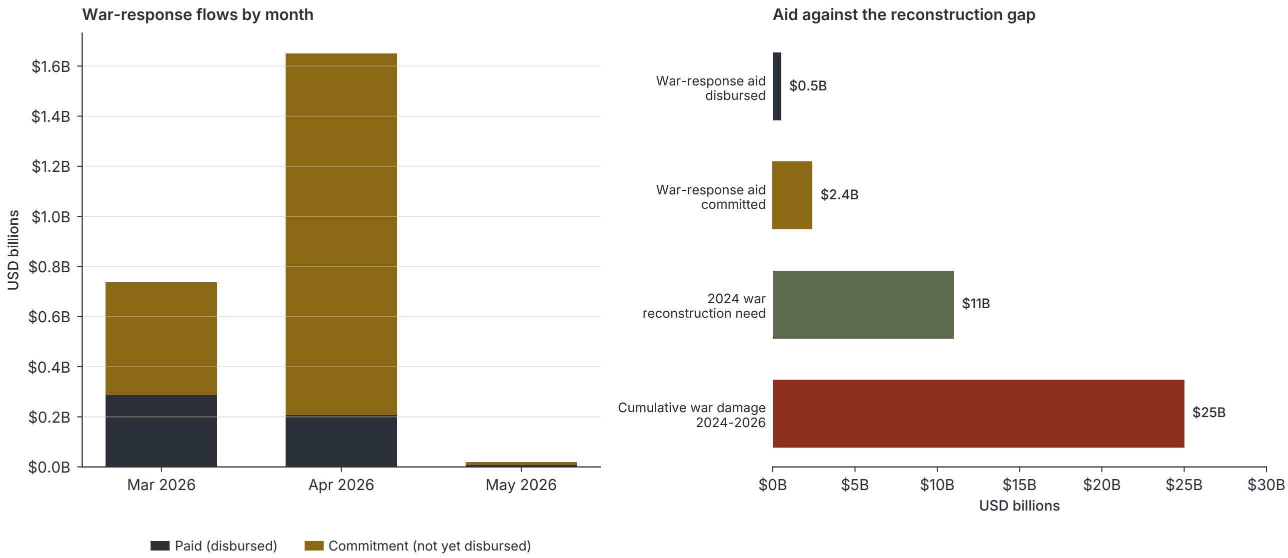
On a realistic timeline, first gas from Block 8 would not arrive before 2031 to 2033: the seismic survey runs 12 to 18 months, exploratory drilling would follow in 2027 to 2028, appraisal in 2028 to 2029, and a development decision around 2029 to 2030. Offshore gas is a possibility for the 2030s, not a source of revenue for the 2026 to 2028 window this report covers.

The one clear gain is on the maritime boundaries. A Lebanon-Cyprus border agreement ratified by the Cabinet in October 2025 fixed the northern edge of Lebanon's exclusive economic zone on terms favorable to Lebanon. The southern boundary with Israel was settled in October 2022. The remaining unsettled stretch is a roughly 750-square-kilometre zone disputed with Syria, which the Damascus delegation discussed without resolving.

FIGURE 9

Emergency aid flows, reconstruction aid does not

OCHA war-response flows since 2 March 2026 against war-damage benchmarks



Source: OCHA Financial Tracking Service for the 2026 war response since 2 March 2026. World Bank RDNA and official damage estimates. Core Group · 21 May 2026

V. EXTERNAL PILLARS AND THE REFORM PIPELINE

Lebanon's economy sits inside a tight external-financing perimeter that the 2019 collapse closed and has not reopened. The country runs a chronic deficit with the rest of the world, covered almost entirely by remittances and a thin flow of donor money. Engagement with the IMF runs at the level of expert missions, not a lending program. International bond markets price Lebanon's debt for a restructuring still 18 to 24 months away. And the Damascus channel, shut for years under the Assad regime, has reopened under Syria's new government but has not yet produced working economic mechanisms.

A. Remittances and the Gulf corridor

Money sent home by Lebanese living abroad ran at roughly 5.8 billion dollars in 2024. It is the largest single inflow of foreign currency into Lebanon, larger than aid, larger than goods exports, larger than tourism receipts, and it is what keeps the chronic external deficit funded. The Gulf states are the dominant source: Saudi Arabia, the UAE, Kuwait, and Qatar together account for an estimated 48 percent of the total, around 2.8 billion dollars a year. Europe and North America supply the rest.

Central-bank data for the first quarter of 2026 show roughly a 5 percent year-on-year decline in the monthly inflow. That window overlaps the Iran-Israel war and the broader regional turbulence affecting Gulf labor markets. No structural break has appeared yet. The second-quarter reading, due in August, is the critical update.

The corridor carries no Lebanese policy lever. Its stability depends on Gulf labor markets, on the residency status of Lebanese workers there, and on the money-transfer operators (Western Union, MoneyGram, and the Lebanese operator OMT) that move the funds. A sustained contraction of 15 to 20 percent across two quarters would cut the dollars reaching Lebanon by 400 to 500 million a year. That is roughly the annual cost of the deposit-payout circulars, and a cut of that size would force the central bank to choose between funding payouts and defending the peg.

B. IMF engagement

Lebanon's last completed Article IV consultation, the IMF's standard review of a member economy, closed on 1 June 2023. No subsequent review has been completed. Since then the Fund has engaged through expert missions and technical reports rather than a full review or a loan.

The framework all current IMF engagement still refers back to is a staff-level agreement reached in April 2022, under the caretaker government of Najib Mikati. A staff-level agreement is a preliminary deal struck with IMF staff that still needs approval by the Fund's Executive Board to become a program. The 2022 agreement was conditioned on ten prior actions, including the banking-secrecy amendment, unifying the exchange rate, resolving the financial gap, and a forensic audit of the central bank. It never advanced to a board-approved program and sat at the staff level for three years. The Salam government has since delivered or begun most of the prior actions: banking secrecy was amended in April 2025, the exchange rate was unified through the 2024 peg, the financial gap is the subject of the pending Financial Gap Law, and the forensic audit has resumed. The substantive reform record is therefore most of the way through the 2022 checklist, even as the program itself remains unapproved.

The Fund's recent missions include one in May to June 2025, the first under the Aoun-Salam government, staff visits in September 2025 and February 2026, and an informal board briefing on Lebanon in April 2026. The 13 February 2026 statement is the Fund's operative position: in any amended Financial Gap Law, losses must fall on shareholders and junior creditors before depositors, the bank-restructuring plan must match the liquidity actually available, the state's contribution must not undermine debt sustainability, and the Bank Resolution Law needs amendment to meet international standards.

The IMF report made partially public on 17 May 2026 is a technical assessment of how the central bank itself is governed. It finds three weaknesses in the Code of Money and Credit, the 1963 law that defines the central bank. The bank is too exposed to political interference, because the finance minister can suspend decisions of its governing board and a government commissioner sits in on its meetings. Its internal decision-making is weak, because senior finance and economy ministry officials vote on that board. And its accountability is weak, with no statutory internal audit, sub-standard external audit, and no fully internationally compliant published accounts. The report calls for a comprehensive legislative overhaul of that founding law.

This report is the basis for the amendments the IMF wants to the Bank Resolution Law. Without those amendments, the Fund will not move toward a program. Without a program, no Article IV review will close. The whole sequence is locked to a Lebanese parliamentary process that has shown limited capacity to pass large reform packages quickly.

The reform machinery carries a structural mismatch among its institutions. The most operationally active of them, the central bank, holds the most legally constrained mandate and cannot legislate its own overhaul. The institution with the legal power to act, Parliament, carries the least urgency and has just had its electoral deadline removed to 2028. The executive sits between them, with influence that depends on holding the Cabinet coalition together without provoking a Hezbollah walkout. The reform pipeline therefore moves at the speed of its least urgent actor, which is also the one that holds the decisive vote.

C. Donor financing and the reconstruction gap

The UN's funding database, the OCHA Financial Tracking Service, records around 2.4 billion dollars in funding for the war response since 2 March 2026, of which 1.9 billion is pledged and 0.5 billion actually disbursed. The flows are concentrated in March and April 2026. The leading contributors are European governments and Japan. No Gulf state appears among the top donors, a notable absence given the Gulf's role in financing earlier Lebanese reconstruction.

The gap between that flow and the need is the most striking external indicator in this report. The World Bank's damage assessment for the 2024 war put reconstruction need at roughly 11 billion dollars. Cumulative direct and indirect damage across the two wars runs in the 25 billion dollar range. The 2.4 billion in war-response funding is emergency relief, concentrated in food, shelter, and health. Reconstruction money, the funding that would rebuild the destroyed housing of the south and the Bekaa, is at the state level effectively absent.

The World Bank runs a separate development-lending track. Its Lebanon Emergency Assistance Project committed roughly 250 million dollars in late 2024, and a larger package of around 1.3 billion was confirmed at the Bank's spring meetings in April 2026, spread across bridge reconstruction, social safety nets, and emergency response. These are loans that add to Lebanon's debt, not grants, and they do not change the order-of-magnitude gap against the damage estimate.

That gap is structural, and it is political. The model that rebuilt Lebanon after the 2006 war, anchored by Gulf-state pledges of 5 to 10 billion dollars, is not available in 2026. Saudi Arabia, the UAE, and Qatar have made no comparable pledges, and their reluctance is not financial but strategic: they will not finance the reconstruction of a country where Hezbollah retains an armed and political presence, and where the question of disarming it is unresolved. The reconstruction money and the sovereignty question are, from the Gulf's side, the same file. The 11 billion dollars pledged at a 2018 Paris donor conference known as CEDRE were similarly tied to reform conditions Lebanon did not meet, and most of that money was never disbursed.

The reconstruction outlook therefore divides along the political outcome of the war. A comprehensive regional settlement that ends both the Lebanese fighting and the wider Iran-Israel conflict would open Gulf and international financing on the order of 5 to 10 billion dollars over two to three years, conditioned on progress with the IMF. A partial settlement that ends the fighting without resolving the regional picture would produce a smaller and more conditional flow of 1 to 3 billion over two to three years, focused on relief and basic services. A continued low-intensity conflict in the south would hold external financing below 1 billion through 2028, routed through aid agencies and municipalities rather than the state. Short of the first outcome, Lebanon's reconstruction will be funded mostly from within, through diaspora property purchases and remittance-financed private rebuilding, rather than from abroad.

D. The Lebanon-Syria economic reopening

The ministerial delegation that traveled to Damascus on 9 May 2026 was the first substantial bilateral economic visit between Lebanon's government and the transitional Syrian government of President Ahmad al-Sharaa, the administration installed after the fall of the Assad regime in December 2024. Prime Minister Salam led a delegation that included Deputy Prime Minister Tarek Mitri, Economy Minister Amer Bisat, Public Works and Transport Minister Fayez Rasamny, and Energy Minister Joe Saddi.

The visit produced four announced outcomes. A long-stalled mechanism to link the Lebanese, Syrian, and Jordanian electricity grids was reactivated. The two governments opened talks on an agreement to transit natural gas to Lebanon through Syria, most plausibly along the existing Arab Gas Pipeline. They agreed to create a joint Lebanese-Syrian business council. And they raised the prospect of a rail link. Border security and smuggling were discussed without an operational mechanism announced.

The Damascus channel is Lebanon's most consequential economic-diplomatic move of 2026 outside the bond and banking tracks. If the grid link materializes, it could supply 200 to 400 MW, replacing much of the electricity lost when the Karpowership contract lapsed, and at a lower per-unit cost. A gas-transit deal could substitute for 5 to 10 percent of Lebanon's fuel import bill. The business council would reactivate trade arrangements dormant for decades.

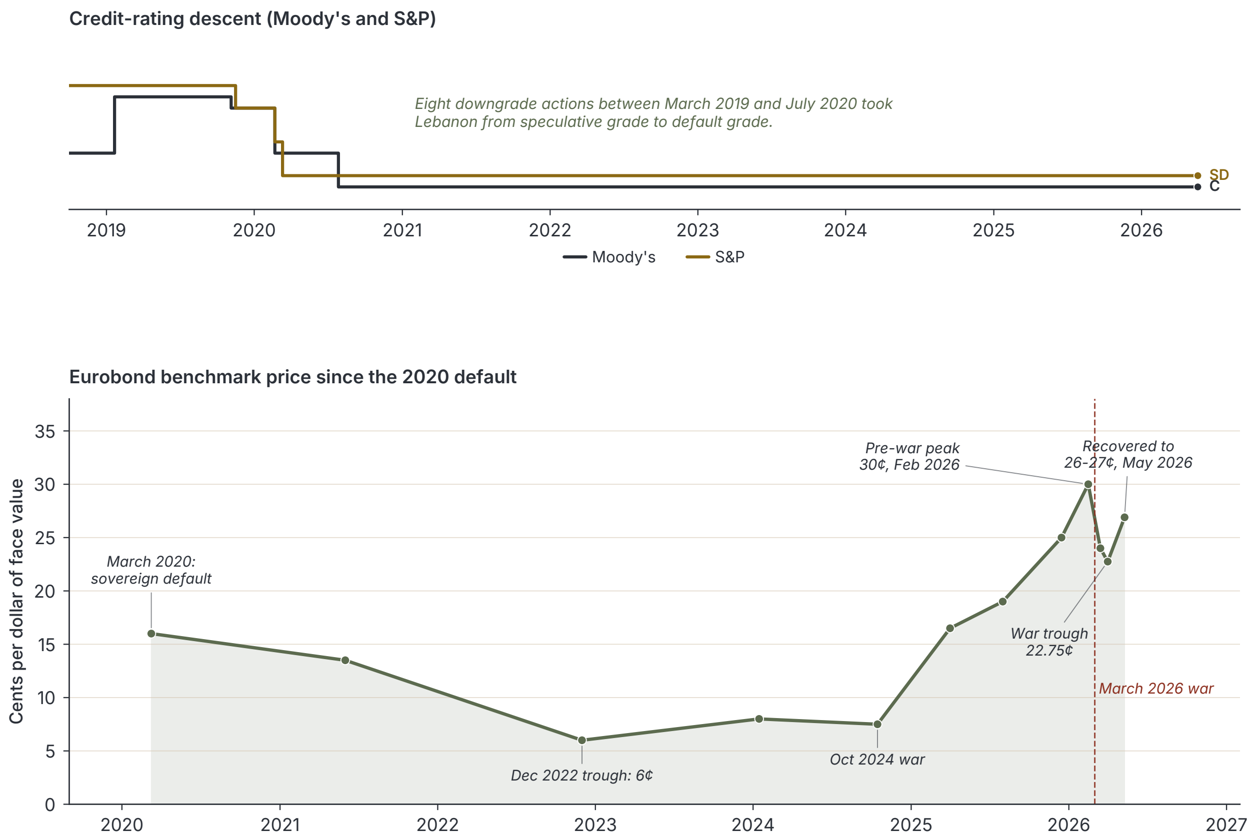
The dependency runs on Syrian stability. The Sharaa government has held since December 2024 through real internal strain, including sectarian violence on the Alawite coast and flashpoints with the Druze around Sweida, without the state collapsing. Whether that holds for the 12 to 24 months these economic arrangements need to take effect is the binding external assumption.

E. Sovereign debt

FIGURE 10

Sovereign credit: default, distress, partial recovery

Rating actions and the Eurobond benchmark price, 2019-2026



Source: Trading Economics rating history (Moody's and S&P). Eurobond prices from press reporting, no live market curve available. Core Group · 21 May 2026

Lebanon defaulted on its Eurobonds on 9 March 2020, on a face value of around 31 billion dollars across maturities running from 2020 to 2037. It has paid no interest since. The bonds still trade in international markets, but their price now reflects what investors expect to recover in an eventual restructuring rather than any income stream. Counting both the Eurobonds and the government’s pound-denominated debt, total public debt has a face value near 95 to 105 billion dollars but a market value below 10 billion at current prices. That gap between face value and market value is the space inside which any debt restructuring has to be negotiated.

The Eurobond price has moved through three phases. From the 2020 default into 2024 it traded at deep distress, from around 16 cents on the dollar at default down to a low near 6 cents in 2022. Through 2025 it recovered, lifted by the formation of the Aoun-Salam government and the passage of the banking-secrecy and bank-resolution laws, from 11 to 13 cents in early 2025 to 28 cents by early 2026. The war and its aftermath then drove the third phase: a fall from 30 cents before the war to 22.75 cents at the early-April low, and a recovery to 26 to 27 cents by 10 May 2026.

Goldman Sachs, in published research, models a restructuring at the end of 2027 with a recovery value of 28 cents, an optimistic case of 40 cents under an earlier restructuring, and a pessimistic case of 17 cents under a later one. A March 2026 update cut the central estimate to 22 to 23 cents, citing the renewed conflict.

The 18-to-24-month restructuring timeline the market is pricing assumes the Financial Gap Law passes, the Bank Resolution Law is amended, and an IMF program is negotiated. None of those is locked in. The current price reflects cautious optimism, not confidence that the sequence will be executed.

The credit ratings are frozen. Moody's has held Lebanon at C, the bottom of its scale, since December 2023. Standard & Poor's has held it at selective default since 2020. Neither has moved during 2025 or 2026, and neither will until a restructuring concludes.

VI. STRATEGIC ASSESSMENT

This assessment rests on three load-bearing assumptions. First, that the reform constellation of President Aoun, Prime Minister Salam, and Governor Souaid stays institutionally intact through 2026. Second, that the central bank's foreign-currency reserves, around 11.43 billion dollars, sustain the peg across the coming twelve months, with the real risk being a loss of confidence rather than reserve exhaustion. Third, that the Gulf remittance corridor, around 2.8 billion dollars a year, continues without a structural break. Each assumption can fail, and the Indicators to Monitor section sets out what would signal it.

Assessment 1 — MEDIUM CONFIDENCE

The peg at 89,500 pounds to the dollar holds through the coming twelve months in the central case (likely, 55 to 80 percent), provided there is no second major war and no major bank failure. BdL holds around 11.43 billion dollars in foreign-currency reserves and a gold position worth near 42 billion that it cannot sell without Parliament. The war-window drawdown ran at roughly 642 million dollars over ten weeks, and at that pace the reserves last for years, so reserve exhaustion is not the binding twelve-month risk. The binding risk is a confidence event that sends Lebanese to convert pounds faster than reserves can meet them. Confidence is MEDIUM because the street-rate spread is the live signal and can move on factors, a second war or a Gulf remittance shock among them, that Lebanon does not control.

Assessment 2

HIGH CONFIDENCE

The central bank carries the deposit-payout circulars at roughly 210 million dollars a month, 88 percent of the March 2026 installment, and books that sum as a liability with no legal mandate and no government guarantee behind it. Over the coming year it commits around 2.5 billion dollars to payouts the commercial banks are legally liable for. The draw is affordable against the reserve stock for the year. The consequence is not near-term exhaustion but the steady transfer of bank liabilities onto the central bank's balance sheet, which shrinks the room any eventual loss-allocation under the Financial Gap Law will have to work with. Confidence is HIGH because the monthly payout and the central bank's share are both observable and have moved in one direction for over a year.

Assessment 3

MEDIUM CONFIDENCE

Parliamentary passage of the Financial Gap Law in 2026 is unlikely (20 to 45 percent). The Cabinet vote of 26 December 2025, 13 to 9, exposed an opposition of incompatible interests: the Lebanese Forces want harder accountability for the banks' owners, Hezbollah opposes the cap on deposit recovery, and smaller parties object on adjacent grounds. The banks' own industry body confirmed its resistance to the law's 40 percent contribution in January 2026. The two-year postponement of the May 2026 election removed the pressure a competitive vote would have placed on legislators and lowered the near-term cost of delay. Confidence is MEDIUM because coalition dynamics can still shift on an external trigger, a Gulf bailout pledge, sustained US pressure, or an explicit IMF conditionality deadline, none of which has materialized.

Assessment 4

MEDIUM CONFIDENCE

The Gulf remittance corridor is the support most exposed to a regional shock Lebanon cannot control. A sustained contraction of 15 to 20 percent in Gulf-origin flows would cut foreign-currency inflows by 400 to 500 million dollars a year, roughly the annual cost of the deposit circulars. Central-bank data for the first quarter of 2026 already show a 5 percent decline. The second-quarter reading, due in August, is the next observable update. Confidence is MEDIUM because the Gulf labor-market signal is noisy in advance and the path from a contraction to a corridor failure is not linear.

Assessment 5

MEDIUM CONFIDENCE

Governor Souaid's reform program at the central bank is aligned with what the IMF wants but is politically contested, and completion of the full agenda within twelve months is very unlikely (5 to 20 percent) without parliamentary action on the underlying laws. Souaid can act through his own regulatory tools, the capital-adequacy circular, the deposit-circular extensions, and supervisory orders, none of which need a parliamentary vote. The substantive reform that does need legislation, the overhaul of the Code of Money and Credit, is beyond his reach. Confidence is MEDIUM because the regulatory floor is operational while the legislative ceiling is not.

Alternative-hypothesis paragraph. An alternative reading, that the system collapses faster than the central case allows, with the peg breaking, a run on the fresh-deposit windows, or a depositor revolt forcing emergency intervention, is less consistent with the evidence from the war window. The street-rate spread held under 0.5 percent through April 2026. No queues formed at the deposit windows. The fresh-money share of payments kept rising. The Eurobond price recovered from its early-April low. The central case beats the collapse reading because the stabilization absorbed the war shock without a currency break, without queues, and without forcing emergency action. The collapse reading gains weight if a second war accelerates the reserve drawdown well beyond the war-window pace, if a major bank publicly enters resolution, or if a failure of the Financial Gap Law triggers a depositor mobilization the state cannot contain.

VII. INDICATORS TO MONITOR

The following are pre-specified, observable developments whose occurrence or absence would move the central case in a stated direction. Each carries a threshold and a direction.

1. **The monthly drawdown of BdL foreign-currency reserves.** Threshold: a monthly drawdown above 400 million dollars sustained for two consecutive months would signal the war-window pace is accelerating beyond the central case and would shift Assessment 1 toward a peg-stress scenario. The level of reserves, near 11.43 billion dollars, is not the near-term constraint. The rate of change is the signal. Source: BdL monthly bulletins and ABL periodicals, visible at a four-to-six-week lag.
2. **The gap between the street and official exchange rates.** Threshold: under 1 percent sustains the central case. Above 5 percent held for 30 days signals eroding confidence in the peg. Above 15 percent held for two weeks marks the operational start of a renewed break. Source: lbprate.com daily quotes against the BdL official rate.
3. **The monthly deposit-circular payouts and the central bank's share of them.** Threshold: a central-bank share above 90 percent of the monthly payout confirms the commercial banks' capacity is exhausted. A share approaching 100 percent would force the issue of the Financial Gap Law. Source: BdL monthly disclosures and ABL data.
4. **The Financial Gap Law's progress through parliamentary committee.** Threshold: referral to the full Parliament, a finalized amendment package, or a scheduled vote. Each is a

discrete update against the central-case assumption of continued stall. Source: Lebanese parliamentary reporting.

5. **An IMF Article IV review or a new staff-level agreement.** Threshold: an IMF mission announcing a staff-level agreement on a lending program would shift Assessment 5 toward a higher probability of reform completion. Source: the IMF's Lebanon country page and mission statements.
6. **The Eurobond benchmark price.** Threshold: above 30 cents on the dollar held for two weeks signals optimism on restructuring. Below 20 cents held for two weeks signals renewed distress. Source: Lebanese financial-market reporting.
7. **The monthly remittance proxy.** Threshold: the BdL workers'-remittance series showing a sustained 15-to-20-percent year-on-year decline across two quarters would move Assessment 4 toward a remittance-shock scenario. Source: BdL monthly bulletins, lagged six to eight weeks, and money-transfer-operator volumes where disclosed.
8. **Regulatory milestones at the central bank.** Threshold: the designation of a named commercial bank for resolution, the submission of a bank-restructuring law to Cabinet, or the on-schedule disclosure of the Alvarez & Marsal audit findings. Source: the BdL circulars list and the firm's communications.
9. **Port of Beirut throughput.** Threshold: monthly container traffic below 40,000 units held for two months would signal real-economy compression beyond the war-window dip. Source: Port of Beirut monthly releases.
10. **The ratio of BdL foreign-currency assets to its liabilities to commercial banks.** Threshold: a coverage ratio falling below 75 percent would indicate the central bank's absorption of bank withdrawals is exceeding the structural capacity of its balance sheet. Source: BdL monthly balance-sheet data.

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ABOUT CORE GROUP

Core Group is a Beirut-based strategic foresight house. We produce decision-ready analysis and advisory for governments, diplomatic institutions, and strategic investors navigating Middle Eastern complexity. Our work integrates structured analytical products, applied strategic advisory, and analysis-informed mediation; delivered on daily and weekly cycles calibrated to the speed at which the situation changes.

We are based in Beirut. In environments where official data is systematically unreliable and remote analysis inherits every distortion in its source material, physical proximity is not a logistical convenience but an epistemological foundation of our methodology. We verify what others can only estimate.