2025- 2026

GEP DEEP DIVES

BANKING SECTOR & PUBLIC FINANCE

AMERICAN UNIVERSITY OF BEIRUT

GEP
GOVERNMENT ENGAGEMENT PLATFORM

I. MINISTERIAL STATEMENT PROMISES

The following commitments were made by the Lebanese government in its ministerial statement, **forming the baseline against which actual progress is assessed across the Banking Sector and Public Finance.**

Revenue Optimization and Waste Reduction

Improving tax and customs collection, combating smuggling and financial waste.

Commitment to Fiscal Policy

The government is committed to strengthening public finances through sound fiscal policies and maintaining financial stability.

Negotiate New IMF Program

Economic recovery was explicitly linked to negotiating a new program with the International Monetary Fund (IMF).

Banking Sector Restructuring

Prioritize deposit protection through comprehensive reforms and essential parliamentary action.

II. AREAS WHERE PROGRESS HAS BEEN MADE

1. Public Finance and Fiscal Reform

Fiscal Discipline:

- The Ministry of Finance **resumed publishing the financial situation summary for 2024 after a three-year suspension**, restoring a basic standard of fiscal transparency.
- The government established a **strict no-deficit-spending principle,** drawing a hard line against monetary financing and unsustainable public expenditure.

II. AREAS WHERE PROGRESS HAS BEEN MADE (CONT'D)

2. Banking Sector Reform Legislation

- The **Banking Secrecy Law** was formally amended and published in the Official Gazette, delivering a long-overdue reform that had been stalled for years and is a key requirement for Lebanon's financial recovery and international credibility.

- The **Law on Reform and Reorganization of Banks was approved by Parliament** and published in the Official Gazette, marking the most significant concrete legislative achievement in the banking sector to date.

- The **Financial Gap Law (Financial Stabilization and Depositor Recovery FSDR),** drafted by the government and submitted to Parliament, sets the legal framework for quantifying and distributing losses from Lebanon's financial collapse. **Parliamentary deliberations are expected to begin, with the law seen as a critical, and politically sensitive step toward resolving the banking crisis and unlocking broader financial sector recovery.**

3. International Engagement & Confidence Building

- **High-level engagements were conducted with the IMF,** World Bank, US Treasury, EU, France, and the UK, signaling a deliberate effort to re-establish Lebanon's credibility with key international partners.

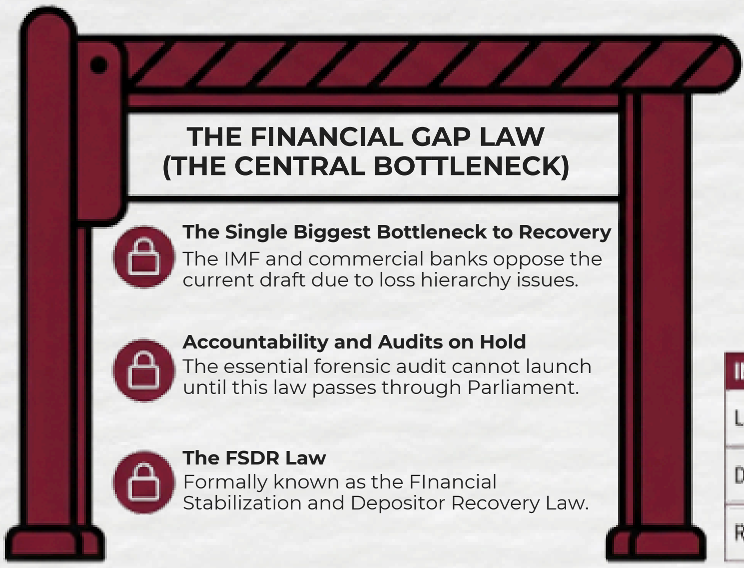
- **The World Bank approved $350 million** in new financing targeting social protection and digital transformation.

- Parliament approved a **$250 million World Bank loan** in December 2025 to finance the Lebanon Emergency Assistance Project (LEAP), covering infrastructure rehabilitation (roads, water, electricity, schools, and hospitals) in conflict-affected areas.

- Qatar pledged **$400 million for housing support,** while the EBRD engaged on private sector development opportunities.

III. AREAS WHERE EFFORTS CONTINUE TO EVOLVE - AGENDA IN PROGRESS

1 The Financial Gap Law — Most Critical Pending Item



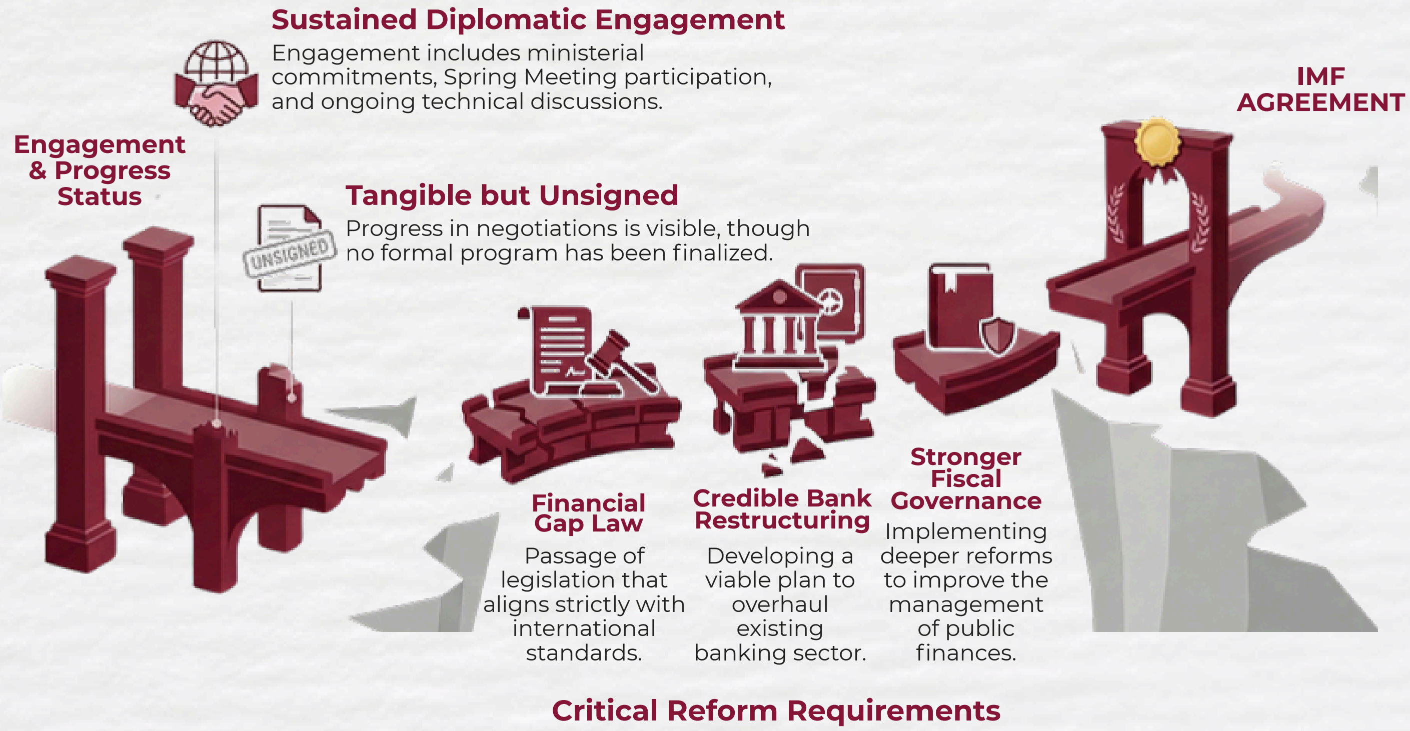
STATUS OF ECONOMIC REFORMS

IMF Program Remains Unsigned
The IMF demands deeper structural reforms and stronger fiscal governance before signing.

Debt Restructuring in Preparatory Stage
Formal talks with creditors are delayed until banking and tax reforms are resolved.

IMF CONCERN AREA	DESCRIPTION
Loss Hierarchy	Disagreement on how financial losses are distributed among stakeholders.
Distressed Banks	Issues regarding the treatment and restructuring of failing financial institutions.
Repayment Structures	Concerns over the sustainability of long-term repayment plans for depositors.

2 IMF Program Negotiations



3 Debt Restructuring

CURRENT PROGRESS & STATUS

Preparatory Stage Only

Formal restructuring talks have not yet launched despite a one-year commitment.

Creditors Standing By

Major bondholders are currently preparing for the start of negotiations.

THE REFORM PREREQUISITES

Banking Sector Reform

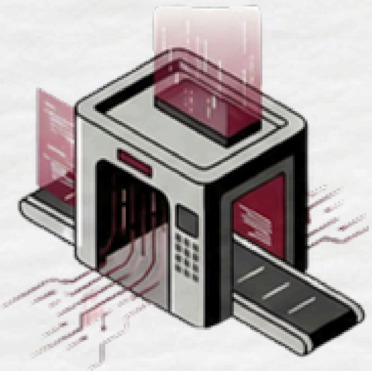
This internal pillar must be resolved before creditor negotiations can begin.

Tax Restructuring

A necessary domestic adjustment required to ensure meaningful negotiation outcomes.

4 Tax Reform & Revenue Mobilization

Current Implementation & Budgetary Focus

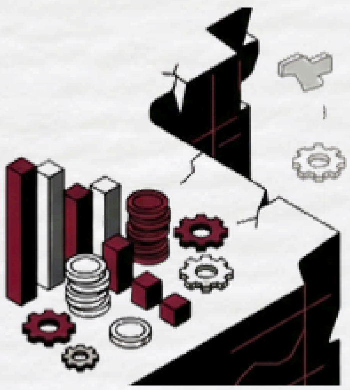


Customs Modernization Initiated

Digitization efforts have begun to modernize customs and revenue mobilization.

2026 Budget Reliability on Regressive Taxes

The budget heavily utilizes VAT and excise fees instead of taxing wealthy sectors.



Strategic Gaps & Structural Delays

No Finalized Tax System Timeline

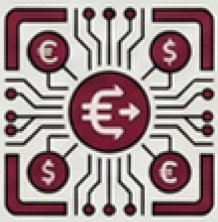
A comprehensive new system is under development but lacks a clear completion date.

Missing Medium-Term Fiscal Framework

The absence of a strategic framework leaves policy without clear long-term direction.

5 FATF Grey List

Corrective Actions Taken



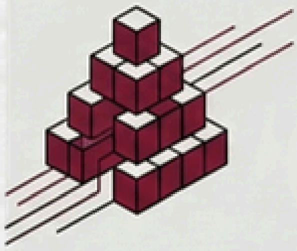
New Regulations for E-Payment Providers

The Central Bank established updated regulatory frameworks for electronic payment service providers.

Direct Engagement with the IMF

The Justice Minister initiated high-level coordination with the IMF regarding FATF implementation.

The Path to Full Compliance



Sustained Institutional Reform

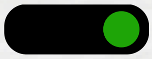
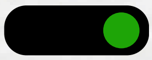
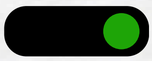
Achieving removal from the grey list requires long-term, coordinated changes across multiple sectors.

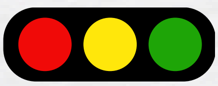
Avoiding Blacklist Risks

Continued reform is essential to prevent further escalation to the FATF blacklist.

IV. OVERALL ASSESSMENT SUMMARY

One year into its mandate, the Lebanese government has shown a clear change in approach, with some legislative progress, improved fiscal discipline, and continued engagement with international partners. However, the most important reforms are still unfinished. While there has been real progress, it has not been consistent, stronger in planning and procedures than in actual results. Achieving financial recovery will largely depend on addressing the remaining challenges.

Commitment	Status	Note
Fiscal Discipline & No-Deficit Spending		Hard line established; 2026 budget passed on time with zero deficit
Customs & Tax Collection		Revenues up significantly; scanners deployed
Banking Secrecy Law Amendment		Amended and published in Official Gazette
Bank Reform & Reorganization Law		Approved by Parliament and published in Official Gazette
International Engagement		Active engagement with IMF, World Bank, EU, US Treasury, France, UK
Financial Gap Law (FSDR)		Submitted to Parliament; broad opposition; amendments expected
IMF Program Negotiations		Talks sustained but no formal program signed
Tax Reform & New Tax System		Modernization initiated; comprehensive reform still incomplete
Debt Restructuring		No formal process launched
FATF Grey List Exit		Some corrective steps taken; full removal not yet achieved
Forensic Audit		Not yet launched



Note: RED - on hold ; YELLOW – in progress; GREEN – on track

Government Engagement Platform (GEP)

College Hall - 4th Floor – GEP Office 427
American University of Beirut
Riad El Solh, Beirut 1107 2020
Beirut, Lebanon
Tel: +961 1 350000 ext. 3585 - 3597
gep@aub.edu.lb
www.aub.edu.lb/gep