

BUDGET 2026: BASICS COVERED, STRUCTURAL REFORMS STILL MISSING



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I. OVERVIEW

The 2026 budget draft bill approved by the Council of Ministers (CoM) sets total expenditures at USD 5.974 billion, an increase of 20% compared to the 2025 budget (USD 4.97 billion), and up from USD 5.65 billion in the initial draft submitted by the Ministry of Finance (MoF). This remains just one-third of the 2019 budget, which stood at around USD 17 billion. Public expenditures rose by USD 1 billion compared to the 2025 budget, driven primarily by wages, compensation, and benefits for retired public-sector employees. The increase is about USD 2 billion higher than what was actually spent in 2024, according to the fiscal performance report published by the MoF. Revenue projections were also adjusted upwards at USD 5.974 billion, mainly based on a commitment to increase tax compliance. The figure could however be considered optimistic: while 2025 revenue increases were driven by the post-war rebound effect, growth rates might not be similar for 2026 and the impact of compliance efforts is yet to be verified.

This policy brief was prepared in collaboration with: The Legal Agenda, ALDIC, and The Policy Initiative

FIRST: THE BUDGETARY PROCEDURE HAS IMPROVED COMPLIANCE WITH PUBLIC FINANCE PRINCIPLES, BUT IS STILL IN BREACH OF KEY PROVISIONS

The budget process is in line with constitutional deadlines. The budget bill was submitted to the CoM on August 29, 2025 and sent to Parliament on October 2, 2025, in line with the legal window for the third consecutive year. This marks a willingness to comply with the law and break with past practices. It also opens the way for the possibility of adopting the budget by decree in case parliament fails to issue it within constitutional deadlines.¹

The text contains almost no “budget riders” - with the exception of withholding tax (see below) - a notable improvement over entrenched ill-practice.

This return to procedural formality is an essential but insufficient step:

The budget **does not respect Article 87 of the Constitution, which requires a settlement law** to verify compliance of the actual budget to the one issued by Parliament.²

It also breaches core budgetary principles by omitting certain expenditures and arrears. The most glaring is the omission of major energy expenditures such as the Iraqi fuel bill or expenditures associated with upcoming loans such as World Bank loans, and therefore fails to completely unify public spending.

¹ It is to be noted that the 2025 budget was adopted by decree in March 2025, during the first meeting of the Nawaf Salam government. That decision was driven by the need to authorize spending in 2025 based on a total envelope about USD 1.5 BN larger than that of 2024.

² Unlike drafts for the years 2017, 2018, 2020 and 2024, where exceptionality was at least acknowledged as such, the 2026 draft normalizes the breach by entirely ignoring it—continuing the precedent set by the 2025 budget decree. The Court of Accounts repeatedly requested the MoF to submit the 2021–2023 accounts but to no avail, confirming the Ministry’s primary responsibility for the absence of settlement laws.

SECOND: IN TERMS OF OVERALL APPROACH, THE BUDGET IS AN ACCOUNTING EXERCISE RATHER THAN A STRATEGIC DOCUMENT THAT REFLECTS THE STATE'S PRIORITIES

The budget is conceived with the purpose of achieving “zero deficit”. It therefore adjusts expenditures in line with revenues, while mitigating the depreciation of the lira. This is key to keep state finances in check. However, two main concerns arise: **first, not all expenditures are accounted for, and therefore the overall balance does not accurately reflect the state of public finances. Second, the lack of progress on key structural reforms** — such as public debt restructuring, public sector reform, and comprehensive tax reform — **constrains the state's fiscal capacity.** Without reforms that could curb spending and expand fiscal margins, the state remains unable to spend on its strategic needs:

- **No significant budget is allocated to addressing the consequences of the war.** Reconstruction will depend on international conferences and will be financed outside the budget.
- **More social spending is needed.** Regaining control over public services now dominated by private and sectarian interests is key to meeting rising social needs and restoring state sovereignty.³ The allocation of USD 55 million and USD 14 million, to the Aman program and National Program for Securing the Rights of Persons with Disabilities,⁴ respectively is much welcome, but remains well below needs levels. As for healthcare, allocations stand at only USD 478 million, despite the fact that over 80% of the population lacks medical insurance. Nearly 60% of this amount is absorbed by hospitalizations while preventive care and primary health services remain largely neglected.
- **The army is inadequately funded.** Although the Lebanese Army's budget is substantial — approximately USD 1.081 billion, or about 18% of total expenditures — it remains inadequate in light of the country's security challenges and colossal disarmament agenda. The bulk is absorbed by salaries and benefits, leaving only 4% for maintenance and equipment. Moreover, the Lebanese Army's funding is heavily dependent on foreign assistance.

³ Hezbollah is the most striking example. It once maintained the largest community redistribution network but the disruption of its supply lines has greatly reduced its financial capacity. While it cannot be measured precisely, its financial capacity is relatively lower than before the severe restrictions imposed on it. This should be an opportunity for the state to seek a new social contract with the community served by Hezbollah's social institutions, as well as with all the country's other sectarian “components,” so as to gradually bring Lebanese to see themselves as citizens rather than as subjects of communities whose leaders monopolize representation.

⁴ Particularly that it was accompanied by a rationalization program by the Ministry of Social affairs aiming at redirecting subsidies to NGOs directly to beneficiaries.

THIRD: A MEDIUM-TERM FRAMEWORK IS REQUIRED TO GUIDE FISCAL & MONETARY POLICY, AND PROVIDE GREATER TRANSPARENCY & VISIBILITY OVER STATE FINANCES

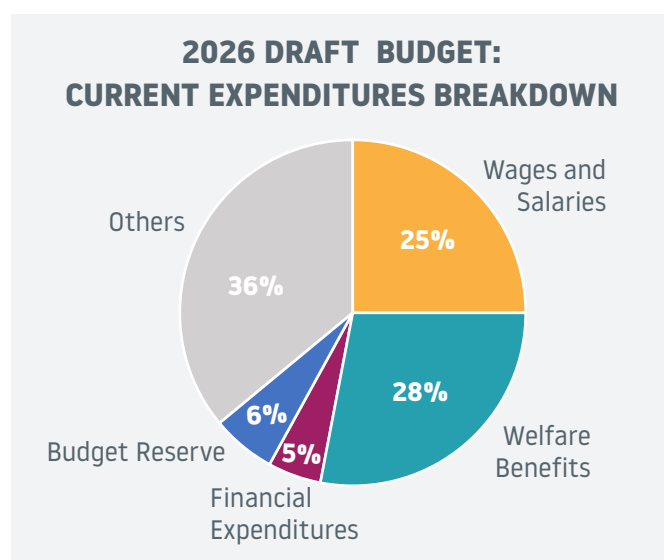
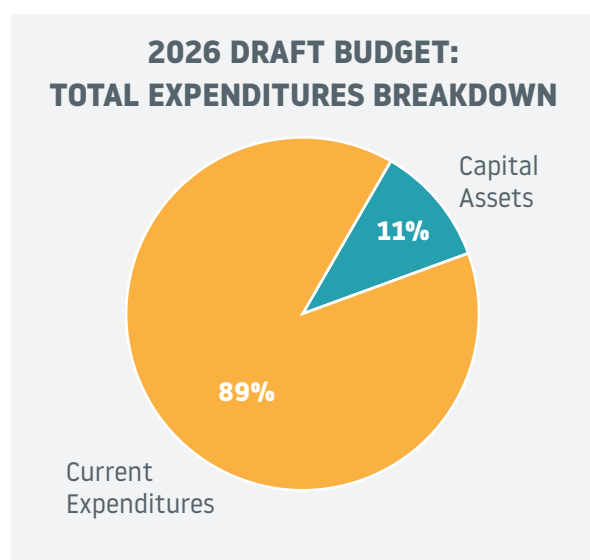
While short term and piecemeal approaches continue to guide the budgetary process, it is imperative to produce a medium-term macro-fiscal-monetary framework that will guide policies in the future and help establish long term, strategic, and sustainable public finance objectives. This medium-term planning, which has already started with selected ministries, is necessary for the allocation of scarce public resources across priorities, including the resolution of both the banking and debt crises. These projections are also at the core of any discussion with the IMF.

In fact, during the past years, surpluses were actually achieved, which the treasury has accumulated at the central bank (BDL). The amount is at nearly the equivalent of USD 2.6 billion. While this has allowed the BDL to maintain exchange rate stability, the state remains unable to spend on its priorities and is resorting to loans for financing its expenses. It remains unclear how this surplus will be used henceforth. Recent statements by the Minister of Finance indicate that it shall be earmarked for: payments for Iraqi fuel shipments (estimated at USD 1.2 billion), debt service in foreign currency (owed to “priority” institutional creditors), and other obligations such as drawing rights fees (SDRs). Part of this amount could also be dedicated towards the recapitalization of the BDL in line with the upcoming Gap Law.

II. EXPENDITURES: A BUDGET DOMINATED BY CURRENT EXPENDITURES

The draft budget is almost entirely consumed by the state's current expenditures, which account for **89% of its total**. Only 11% is allocated to investment—including maintenance costs. Overall spending now represents around 18.7% of GDP⁵ compared to 31% in 2018. However, primary expenditure—that is, total spending excluding debt service—is in fact almost identical to pre-crisis levels. The main difference lies in the absence of most debt service obligations from the 2026 budget.

More than half of operating expenditures go to salaries and benefits for public sector employees—around USD 3.1 billion. Yet even these do not restore pre-crisis purchasing power, given the absence of a salary scale adjustment tied to a broader restructuring of the public sector, a reform that has always been postponed due to its political sensitivity. The remaining current expenditures are allocated to operating costs, debt service and a budget reserve.

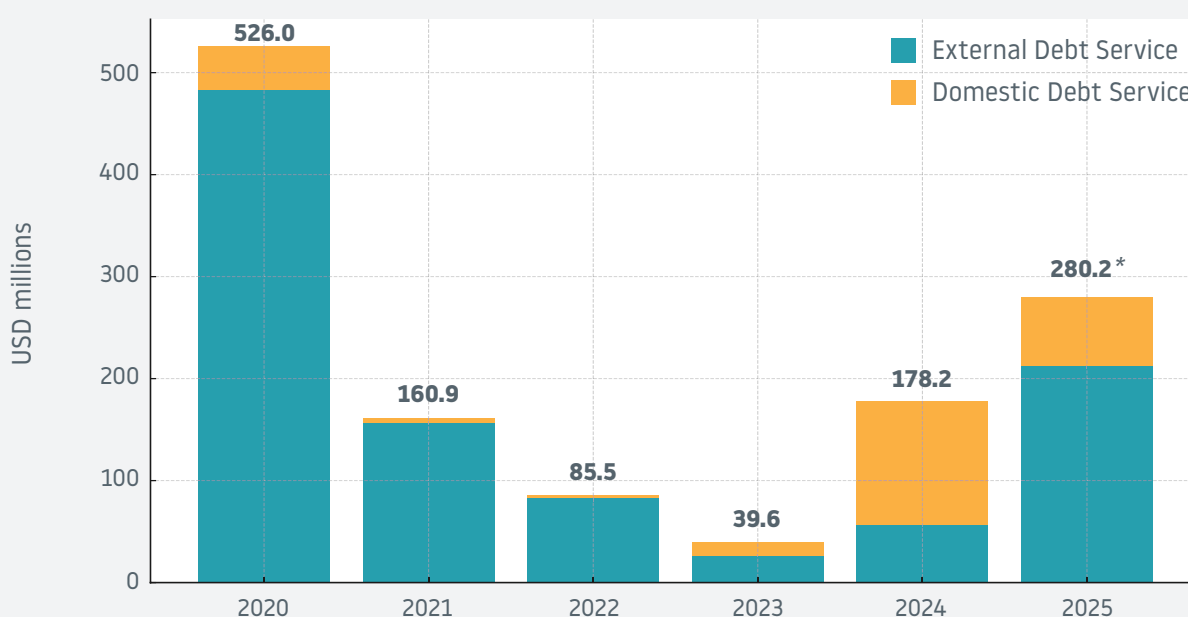


Expenditures	000 LBP	USD	% of Total Expenditures
Current Expenditures	477,912,870,774	5,339,808,612	89
Of which Wages and Salaries	133,509,671,214	1,491,728,170	25
Of which Welfare Benefits	147,752,986,530	1,650,871,358	28
Of which Financial expenditures	25,980,710,000	290,287,263	5
Of which Budget Reserve	29,451,896,521	329,071,470	6
Capital Assets	56,802,746,226	634,667,556	11
Total expenditures	534,715,617,000	5,974,476,168	

⁵ GDP is estimated at around USD 32 billion for this ratio based on recent World Bank projections for 2025. However there are no accurate or official data to reference. The government has not provided any macroeconomic estimates to accompany the draft budget, making it difficult to assess the share of revenues and expenditures as a percentage of GDP. This is all the more challenging given that GDP projections vary : the national statistics administration (CAS) has just released its estimate for 2023 (\$31.6 billion), which is well above the figures from the World Bank and the IMF. The most recent estimate available for 2025 comes from the World Bank, which, in its latest World Poverty Outlook, puts GDP at \$30.6 billion for 2025 and forecasts real growth of 4% for 2026. According to the same World Bank report published on the occasion of the Annual Meetings in Washington, the ratio of estimated expenditures to GDP has declined from 31.4% in 2019 to 16.3% in 2025, while revenues have fallen from 20.8% of GDP in 2019 to 16.3% in 2025.

The draft budget includes an allocation of about USD 290 million for debt service, a decrease of 17% compared to 2025. It must be noted that the draft budget excludes the interest due on international debt (Eurobonds), including arrears, due to the absence of a debt restructuring plan, and includes only the interest on debt in local currency and the interest on foreign debt for international institutions. In total, since 2020, about USD 1.27 billion has been allocated to these creditors. Their seniority explains why a number of international banks and funds continue to propose loan programs to Lebanon despite the sovereign default.

LEBANON DEBT SERVICE 2020-2025 (IN MILLIONS OF USD)



**Estimate based on average annual execution versus budget over the past five years.*

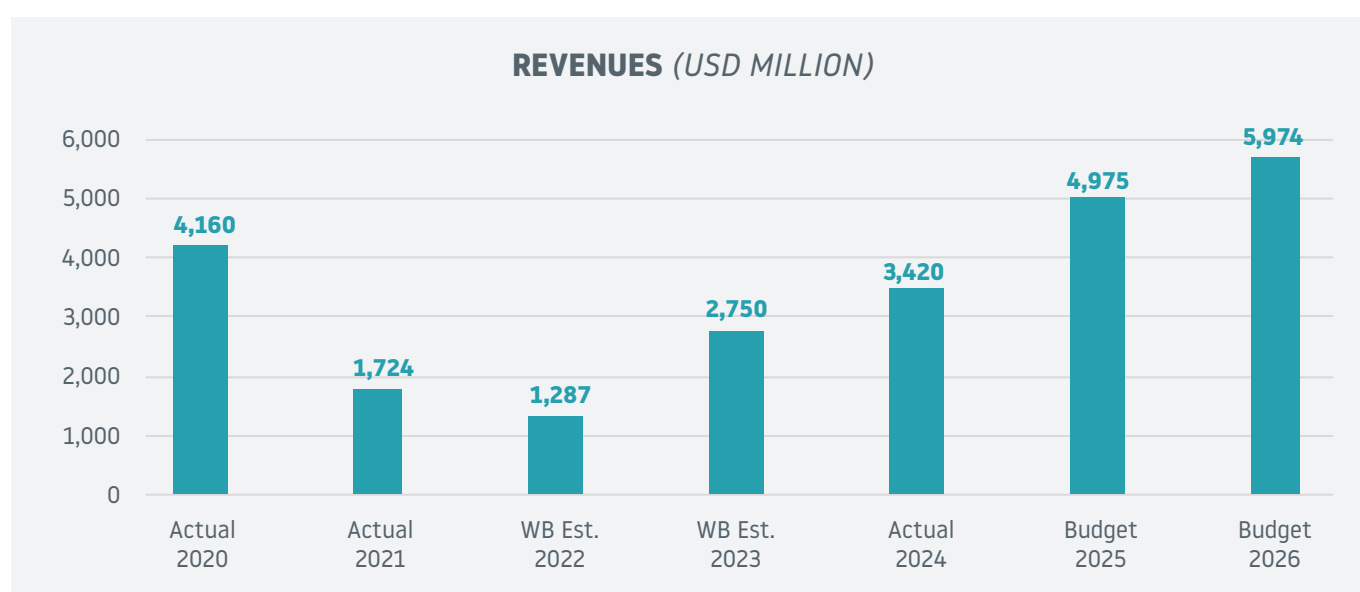
Source: Lebanon Citizen Budget

Investments in reconstruction and infrastructure remain limited. Overall investment expenditures remain modest at USD 634 million, in a continuation of the approach adopted for years, which is based on allocating small amounts for specific expropriation projects (such as roads or the tourist port planned for construction in Jounieh) in addition to maintenance costs and the purchase of some equipment. The budget also includes limited allocations for road rehabilitation and hydraulic projects.

III. REVENUES: A 75% INCREASE COMPARED TO 2024

The 2026 draft budget foresees a 20% rise in revenues compared to what was projected in the 2025 budget, and a 75% increase compared to actual revenues collected in 2024. Total revenues are projected at USD 5.97 billion against an effective collection of USD 3.42 billion for the year 2024.

In fact, state revenues had declined sharply to 6.1% of GDP in 2022 due to the delay in adjusting tax rates to currency depreciation levels. However, they are now back to 2018 levels, reaching about 18.7% of GDP compared to approximately 20% in 2018.⁶



Source: World Bank, 2026 Draft budget

The increase in revenues in the 2026 budget is due to significant increases in most tax categories, with a special focus on: taxes on profits (within income tax), property tax, and international trade taxes. This is primarily attributable to the extension of measures that began in 2022, such as the unification of exchange rates and the adjustment of minimums, exemptions, and fines.⁷ Nevertheless, the methodology for adjusting exchange rates is not clearly explained with the exception of some limited cases.⁸

The government is counting on a noticeable improvement in tax compliance, especially through improved collection on imports due thanks to the installation of scanners scheduled for the end of the year. This will improve the collection of customs duties and value-added tax (VAT).

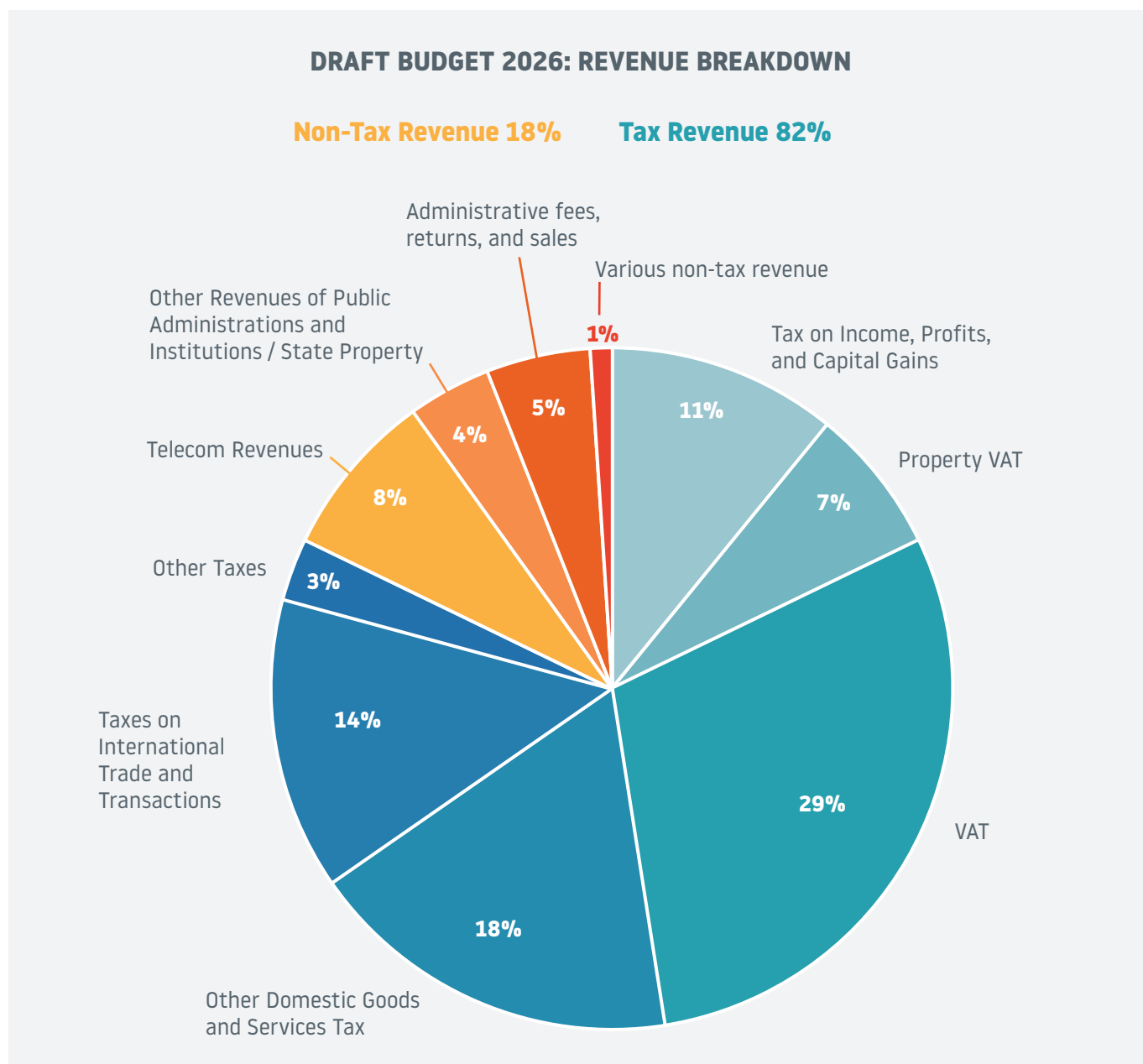
⁶ See previous footnote

⁷ Articles 15, 16, 17, 18, 21, 22, 28, 37, 43, 46, and 47.

⁸ This year, the multiplier for certain tax brackets, discounts, fees, levies and fines is set at 25 times compared to 2025 levels, while last year it was set at 60 times.

The government also relies on improved collection of the tax on profits, which is expected to reach USD 364 million, a 173% increase compared to initial estimates by the Ministry of Finance. The reasons for this large difference have not been clarified, but might be related to the implementation of a 3% withholding tax on income (see below). The expected increase in revenues from the tax on profits (+73%) remains lower than the projected rise in the tax on salaries and wages (+96%) compared to what was collected in 2024.

The tax structure still relies on indirect taxes, which constitute about 65% of total revenues, while regressive taxes (i.e., those of a socially unfair nature) are estimated at about 86% of total tax revenues.



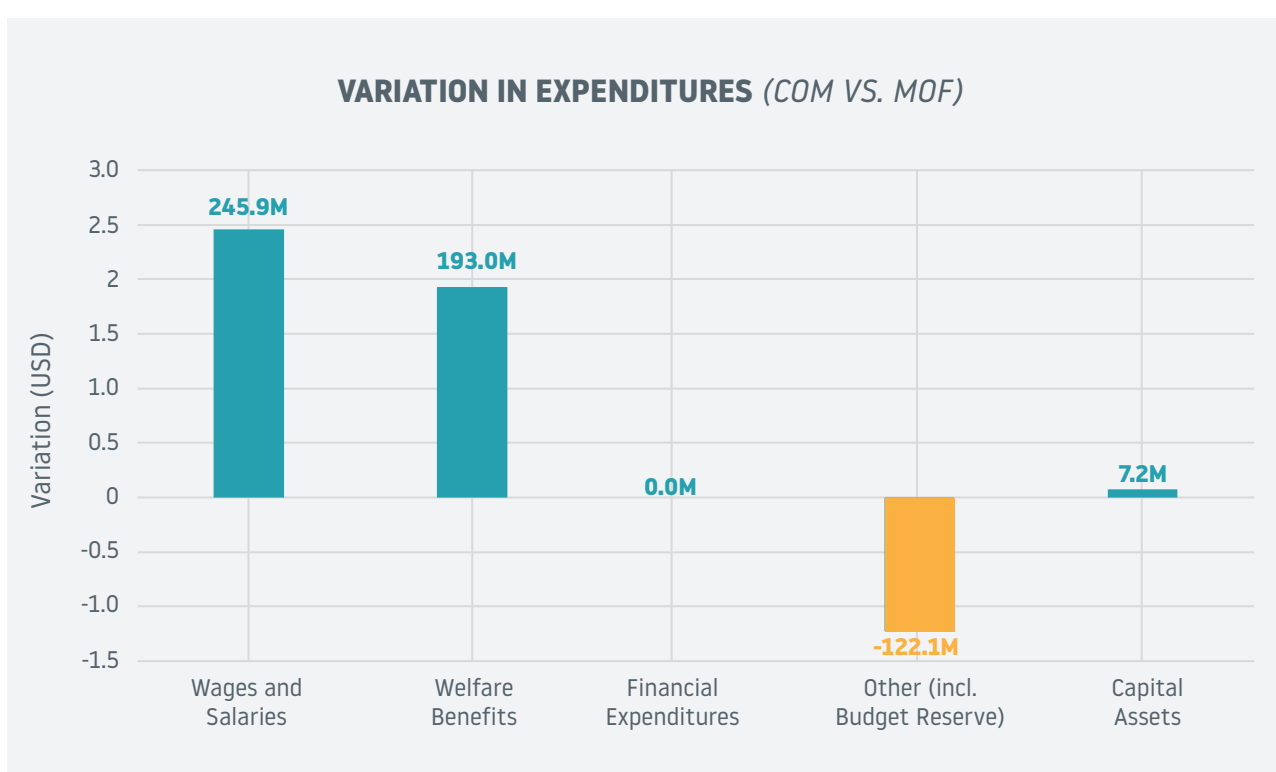
As a result, the 2026 draft budget, like its predecessors, relies overwhelmingly on regressive indirect taxes. The tax burden continues to fall disproportionately on lower-income households and compliant taxpayers, while tax evasion remains pervasive until the moment and unjustified exemptions persist—despite minor improvements.

REVENUE BREAKDOWN (THOUSANDS OF USD)	Actual 2024	Draft Budget 2026	Variation % (2026 vs 2024)
Tax Revenues	2,833,917	4,907,424	73.2
Tax on Income, Profits, and Capital Gains	393,989	645,218	63.8
Of which			
Income Tax	393,989	644,089	63.5
Income Tax on Profits	210,380	364,137	73.1
Income Tax on Salaries and Wages	114,894	225,428	96.2
Income Taxes on Movable Capital	38,816	30,274	-22.0
Income Tax on Bank Interests	25,285	20,704	-18.1
Tax on Property	199,085	402,324	102.1
Domestic Taxes on Goods and Services	1,755,023	2,853,516	62.6
Of which: Value Added Tax (VAT)	1,342,872	2,074,721	54.5
Taxes on International Trade and Transactions	323,117	825,789	155.6
Other Tax Revenues	162,703	181,695	11.7
Non-Tax Revenues	585,453	1,067,052	82.3
Revenues of Public Administrations and Institutions / State Property	420,235	718,329	70.9
Of which: Telecom revenues	221,709	482,542	117.6
Administrative Fees, Returns, and Sales	147,401	305,734	107.4
Fines and Confiscations	1,866	3,074	64.7
Various Non-Tax Revenues	15,954	39,916	150.2
Total Budget Revenues	3,419,374	5,974,476	74.7

IN FOCUS: Council of Ministers BUDGET DRAFT VS. MoF VERSION

Expenditures

The CoM draft includes a USD 324 million increase (+6%) compared to the MoF draft, driven almost entirely by higher current expenditures. The most significant increases are in wages and salaries (+USD 246 million, +20%) and welfare benefits (+USD 193 million, +13%), reflecting the government's decision to allocate additional resources to public sector compensation and social transfers. These increases were partly offset by a reduction of around USD 200 million in the budget reserve, which now stands at USD 329 million, nearly 6% of the budget, thereby limiting the ability for discretionary spending.



Note: The negative variation under "Other" largely reflects a reduction in the budget reserve ($\approx$ -200M USD)

Revenues

The CoM draft bill increases projected revenues by an additional USD 324 million compared to the MoF draft, including USD 258 million from a rise in tax receipts and USD 66 million from non-tax revenues. Tax receipts are now projected at roughly USD 4.91 billion against USD 4.65 billion initially and non-tax revenues at USD 1.067 billion.

STEPS TOWARD TAX REFORM ARE FEASIBLE IMMEDIATELY

The argument that nothing can be done at this stage to address inequities is unconvincing. Several immediate measures could help replenish state coffers both effectively and fairly⁹ provided they are anchored in a credible Medium-Term Revenue Strategy, rather than adopted ad-hoc whenever revenue shortfalls emerge:

- **Recovering dues from quarry operators:** The state must collect taxes, fees, and environmental compensation from quarry operators for the period between 2007 and 2018. These are estimated at USD 2.4 billion according to a 2022 UNDP and Ministry of Environment joint report¹⁰.
- **Recovering arrears on public property:** It is urgent to recover unpaid dues from occupiers of maritime public domains. Budgeted revenues are now set at USD 34 million (an upward adjustment from the USD 12 million in the MoF draft). Despite the adoption of a new fee calculation mechanism in response to criticism, only 56 occupants hold legal status today. Despite Law 64/2017 offering a path to regularization, only 583 out of 1,199 applications submitted within the legal timeframe between 2017 and 2021 have been processed. As a result, the state has neither legalized eligible cases, nor reclaimed properties with unaddressed or unsubmitted violations.
- **Implementing Law No. 144/2019:** This law requires municipalities to identify unregistered businesses, (such as private generator operators and illegal internet providers) in order to combat tax evasion. An amendment to the law could provide municipalities with incentives (a share of the amounts collected by the tax administration) to improve compliance.
- **Activating international information exchange (Common Reporting Standard):** The government should enforce Law No. 55/2016 to obtain financial data on Lebanese residents earning capital income derived and/or transferred from abroad (stocks, bonds, interest on loans or financial accounts, capital gains, etc.). In the absence of access to data, it is difficult to estimate the Treasury's revenue loss resulting from the non-application of the 10% tax on income from movable capital earned abroad by residents. However, experts agree that the potential yield is far higher than the USD 30 million projected in the budget (a 22% decrease compared to 2024).
- **Abolishing the property tax exemption for vacant units.** The continued exemption of vacant residential units from the built property tax and municipal fees represents both a missed revenue opportunity and a distortion in housing policy. In 2023, 380,781 units were declared vacant— with 62% of in Beirut and Mount Lebanon. Removing this exemption¹¹ would support the right to adequate housing by encouraging owners to put empty units on the rental market, thereby helping address the housing crisis, while also curbing tax evasion and increasing both state and municipal revenues.
- **Issuing implementation decrees for the banking secrecy law:** Decrees have been pending since 2022 and are necessary to lift secrecy vis-à-vis the tax administration in order to enable action against tax evasion.

⁹ Comments and proposals on the draft 2026 by Aldic. budget <https://www.albic.net/budget-2026-overview-comments-and-proposals/>

¹⁰ A cabinet decision on September 15, 2025 questioned the study's methodology but failed to provide a timeline to address alleged shortcomings in the study. Regardless of the estimate, collection mechanisms should be established and accountability measures should be enacted against quarry operators.

¹¹ A 2022 budget proposal attempted to cap this exemption, but the amendment was later removed, and no similar provision appeared in the later budgets.

In parallel, several urgent legislative initiatives are required to advance structural reforms:

- **Introduction of a unified tax identification number (TIN) to all citizens and foreign residents** that can be linked to their ID, passport, or residency permit.
- **Transition to a unified income tax:** Lebanon must move away from a fragmented, schedular system toward a single, unified income tax. A draft bill has already been prepared by a dedicated committee under the Mikati government with technical input from the IMF. It should be reviewed by the government and discussed by Parliament at the soonest for implementation in the 2027 budget.
- **Targeted Taxation on Windfall Profits:** It is possible to increase taxation for specific sectors that invest in natural resources or benefit from monopolies.

IN FOCUS

Articles 28, 29, 30 - introducing a 3% withholding tax

The draft law proposes a 3% tax, withheld at the source, on transactions with public entities, certain taxpayers, and imports. The objective of this quick fix measure is to provide immediate liquidity and improve tax traceability, specifically by combating fictitious companies used to clear goods while evading tax registration. The amendment in the latest CoM version—which limits the withholding tax levied by customs on importers who have not filed income and VAT returns for three years—is a positive step that narrows its scope toward suspected evaders. However, significant concerns remain. The amendment was applied only to Article 30, whereas it should also have covered Articles 28 and 29, which empower the Council of Ministers, upon the Minister of Finance's proposal, to impose a 3% withholding mechanism on transactions involving public entities and private taxpayers. Moreover, the measure confers wide discretionary authority on both institutions without defining a clear implementation framework — a gap that could enable arbitrary application or even extortion by those enforcing it. Third, it creates a risk of unfair taxation for loss-making companies and those awaiting refunds, with unclear mechanisms for reclaiming withheld amounts.

Recommendation: It is recommended to withdraw the current measure and prepare a separate and thorough draft bill, accompanied by structural reforms such as a universal taxpayer registry or AI-driven audit systems.

Removal of Article 42 – related to Customs Duties

Article 42 of the MoF draft was removed from the bill approved by the CoM. The article sought to extend the government's delegated authority to set and adjust customs duties and tariffs through legislative decrees, a power currently set to expire on September 1, 2026. This delegation is traditionally renewed in five-year intervals, and is consistent with international practice, since customs tariffs often need to be adapted swiftly in response to changing economic conditions. The parliamentary process, by contrast, is too lengthy to allow for such rapid adjustments.

Recommendation: In order to obtain a new delegated authority to set and adjust customs duties and tariffs through legislative decrees, the government must now submit a dedicated framework customs law to Parliament by September 2026. The bill needs to include necessary safeguards, and should be anchored within a framework that seeks to modernize Lebanon's tariff structure.

