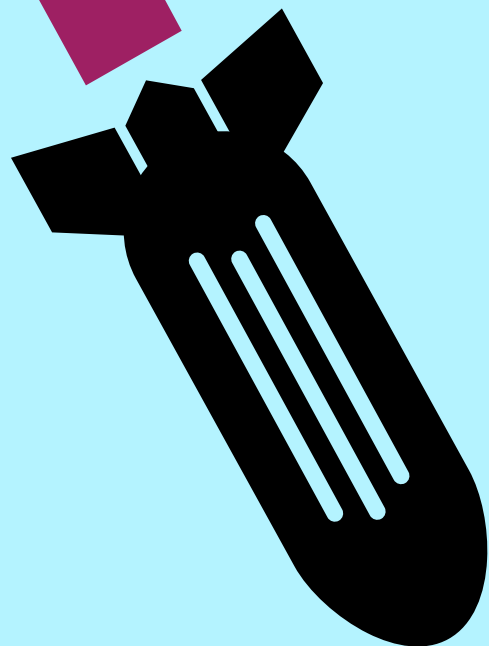


WAR ON TOP OF COLLAPSE

April 2026

**THE ECONOMIC COST
OF THE 2026 WAR
IN LEBANON**



Nearly two months into the renewed war in Lebanon, the country has entered a phase of acute humanitarian, social, and economic distress. Lebanon is facing a triple shock: a regional war, continued attacks on and occupation of parts of its territory, and deep structural vulnerabilities rooted in years of unresolved economic collapse. While the hope is that the current temporary truce evolves into a lasting agreement that eases the suffering, such an outcome remains uncertain, and the crisis is already unfolding.

This brief analyzes the transmission channels of this deepening economic crisis, which are multiple and cumulative. Two major disruptions stand out: first, the destruction of physical capital and infrastructure; and second, the worsening of external imbalances which threatens to trigger a new liquidity crisis. The war is therefore generating a dual impact: a stock effect through the destruction of assets, and a flow effect through the contraction of economic activity and income. This translates into supply-side shock, marked by the destruction of farmland and the disruption of trade and industry, but also into a collapse in demand, leading to a broad economic contraction.

1. HUMAN, CAPITAL, AND OUTPUT LOSSES

A VERY HEAVY HUMAN AND MATERIAL TOLL.

So far, the 2026 war has caused almost 2,491 deaths and 7,719 injuries¹, including 881 children either killed or injured². Displacement has reached massive levels, with around one million people forced to leave their homes, 115,432 of whom are accommodated in 631 collective shelters.

INTENSIFICATION OF DESTRUCTION.

The full scale of destruction of housing and infrastructure is not yet quantified, but it adds to reconstruction needs already estimated at \$11 billion by the World Bank at end-2024. During the most intense phase of the 2024 war, the daily cost of the war amounted to approximately \$157 million. At that pace, six weeks of conflict (before the ceasefire) would already represent more than \$7 billion in damages³. Until present⁴, nearly 54,000 housing units were either totally destroyed or heavily damaged—equivalent to around 25% of the housing damage recorded during 2023-2024.



While earlier forecasts projected growth of 4-6% in 2026, updated estimates suggest that real GDP could contract by 7% to 16%.

A NEW GDP SHOCK ON TOP OF THE 2019 CONTRACTION.

The impact of the war must be understood in light of Lebanon's pre-existing vulnerabilities. The economy had already contracted by nearly 40% in real terms since 2019. For a country with limited fiscal space, the capacity to absorb additional shocks is extremely limited. Indicators confirm a rapid deterioration: the BLOM Lebanon PMI—an indicator of private sector business activity—fell to 47.4 in March 2026, down from 51.2 in February, marking a 17-month low signaling a renewed contraction in economic activity⁵. While earlier forecasts projected growth of 4-6% in 2026, updated estimates suggest that real GDP could contract by 7% to 16%, depending on the duration of the conflict⁶.

A LONG-TERM THREAT TO HUMAN CAPITAL.

Although recent data on migration flows is not yet available, earlier trends observed suggest that net emigration is likely to accelerate, particularly among young professionals and skilled workers: some 800,000 people have left Lebanon since 2020, and the net outflow has stood at one million people since 2014⁷. This dynamic may be temporarily constrained by access difficulties to Gulf countries, but over the medium to long term it will continue to erode Lebanon's human capital.

2. RISK OF A MAJOR LIQUIDITY SHOCK

A RISING IMPORT BILL.

The regional war represents a major global external shock, transmitted through higher prices for energy and essential goods. For Lebanon, this directly raises import costs. It acts as what the IMF describes as a ‘sudden tax on income’, with heavier consequences for economies like Lebanon, that are structurally dependent on imports and face chronic foreign currency shortages. For instance, the increase in global energy prices could add around \$ 1 billion, and potentially up to \$ 1.5 billion to Lebanon’s annual fuel import bill in 2026, depending on price and volume assumptions.



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EXPORTS AT RISK.

At the same time, exports—already weak—are likely to decline further due to logistical disruptions and regional instability. This risk is amplified by Lebanon’s exposure to the GCC, which accounts for around 19% of total exports, the vast majority of which,



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about \$ 743 million out of \$ 898 million, are directed to the United Arab Emirates, while Lebanese exports to Saudi Arabia and land transit through Saudi territory to wider GCC markets remain restricted⁸.

REMITTANCES UNDER PRESSURE.

Lebanon remains one of the world’s most remittance-dependent economies, with inflows estimated at around 20% of GDP, more than half of which originate from the GCC. Weaker economic conditions in the GCC are likely to translate into a slowdown in remittance inflows over the medium term. Early signs of this trend were already visible before the war: in the first nine months of 2025, remittances declined by 5.3% year-on-year to \$4.87 billion, while net transfers fell by 9.3%⁹, reflecting both reduced income flows and lower diaspora



Current dynamics could widen the current account deficit up to roughly \$6.2 billion in 2026.

travel. That said, the magnitude of the cash economy makes these figures difficult to interpret, as a growing share of transfers may now bypass the banking system and remain in cash holdings, temporarily supporting essential consumption. A simple scenario shows the scale of exposure: if remittances total \$6 billion, with 60% originating from the GCC, a 10% decline in these flows would imply a loss of about \$360 million, equivalent to roughly 1.2% of GDP, before accounting for multiplier effects.

A WIDENING EXTERNAL GAP.

These disruptions are occurring in a context of already severe external imbalances. While Lebanon's current account deficit stood at around \$5 billion in 2025¹⁰, current dynamics could widen the current account deficit up to roughly \$6.2 billion in 2026. This will be driven by the rise in the oil bill and shipping and insurance costs, and takes into account factors like demand



Foreign currency reserves, decreased by \$380 million over the past two months.

destruction, impact on exports, remittances and tourism.¹¹ Overall, the current account deficit is expected to widen beyond already fragile pre-war levels, increasing Lebanon's need for foreign currency in a context of negative net reserves and strong dependence on external inflows.



While the Central Bank could likely manage this liquidity shock in the short term, sustaining it beyond 5 to 6 months would become increasingly difficult without external support.

PRESSURE ON CENTRAL BANK RESERVES.

In most countries facing an oil or external price shock, central banks rely on interest rates and reserve buffers to balance inflation and growth. In Lebanon, the constraint is particularly severe, as the central bank lacks effective monetary tools such as interest rate policy. Pressure is therefore absorbed through declining foreign currency reserves, which decreased by \$380 million over the past two months: from \$12.08 billion in mid-February, to \$11.7 billion by mid-April¹². Monthly foreign currency outflows include approximately \$250 million for public sector wages and

a similar amount for deposit-related payments (BDL circulars). Based on current trends, the pace of reserve depletion could reach up to \$400–500 million per month, implying a loss of \$2.4–3.0 billion over six months. Given that around \$2 billion of reserves are tied to external bilateral debt obligations, usable reserves are already more limited. According to international prudential standards, reserves should cover at least three months of imports (around \$5.5 billion), and closer to six months (around \$11 billion)¹³ in highly import-dependent economies such as Lebanon. While the Central Bank could likely manage this liquidity shock in the short term, sustaining it beyond 5 to 6 months would become increasingly difficult without external support.

RENEWED DEVALUATION RISK.

The relative stability of the exchange rate since mid-2023—after a cumulative depreciation of about 98%—has been achieved through a managed exchange



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rate policy supported by fiscal surpluses in local currency estimated¹⁴ at \$645 million in 2024 and \$1.5 billion in the first ten months of 2025. This mechanism has allowed the central bank to accumulate foreign currency reserves. However, this stability—which came at the cost of significant fiscal austerity, is now under severe strain as fiscal discipline erodes and the central bank has begun drawing on these reserves. Therefore, the Lebanese pound is once again threatened by the combined effect of a widening current account deficit and the likely return of fiscal deficits.

3. BUDGETARY PRESSURE AND SOCIAL FRAGILITY

RISING HUMANITARIAN NEEDS.

With protracted displacement, social needs are rising while resources remain well below requirements. Based on an average cost of \$250 per displaced person per month¹⁵, hosting the displaced in shelters would cost around \$200 million over six months¹⁶. This estimate covers only shelter-based assistance and excludes broader social support measures. A separate cash-transfer scheme for displaced persons outside shelters already covers 137,430 families, with \$15,6 million disbursed¹⁷. The government has limited resources and financing available remains well below requirements. While the United Nations mobilized \$700 million during the 2024 war, Lebanon's latest \$308 million emergency appeal had secured only around 33 percent of requested funding as of end

of April. Together with other aid disbursed outside the appeal, total support received by Lebanon so far amounts to around \$200 million. Against this backdrop, the government is seeking to re-purpose certain World Bank loans to redirect funding to social support. It has also approached other international donors for emergency support.

INFLATION AND HOUSEHOLD FRAGILITY.

Rising oil prices are expected to increase inflation and reduce growth. The March figures already reflect this pressure, with the Consumer Price Index (CPI) rising by 4.9% month-on-month and 17.3% year-on-year. Increases have been particularly sharp in Housing and Energy (+~20%) and Transport (+~25%), directly reflecting the impact of the oil crisis. In Lebanon, where food and energy represent a large share of consumption, the social impact is particularly severe. This is especially true since 85% of what the country consumes is imported. It therefore bears the full brunt of imported inflation, even as the Ministry of Economy¹⁸ attempts to contain the local portion of price increases through strengthened controls. While fuel prices have increased significantly, Électricité du Liban states that it does not intend to



While the United Nations mobilized \$700 million during the 2024 war, this time, Lebanon has only secured around \$200 million in support, as of end of April.

change its tariff structure at this stage. Risks of shortages are ruled out, for now, by all actors across the food supply chain.

PRESSURE ON REVENUES.

While the Ministry of Finance has projected a primary surplus of around \$1 billion for 2026, this target now appears increasingly unlikely to be achieved. Rising expenditure pressures are likely to coincide with weakening revenues, increasing the risk of renewed fiscal slippage at a time when Lebanon's public debt remains unresolved six years after sovereign default.

- Estimates indicate that the Treasury lost approximately \$1.07 million per day in revenues during the 66-day escalation of the 2024 war¹⁹. March revenue data do not yet provide a clear picture of the extent to which revenue collection is being affected this time. While receipts declined 28 percent month-on-month compared with February, they remained up 44 compared to March of last year. This apparent improvement likely reflects a combination of base effects, recent tax adjustments, and temporary distortions linked to import dynamics, including precautionary stockpiling, rather than a sustained strengthening in collections.
- Higher international oil prices may provide partial short-term support to revenues through VAT collection. A 50 percent increase in petroleum prices



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could generate roughly \$250 million in additional VAT receipts annually, assuming constant import volumes, or approximately \$200 million allowing for moderate demand contraction.

- However, the fuel excise tax—introduced in February 2026 remains volume-based and is therefore vulnerable to declining import and consumption levels in the event of prolonged economic disruption. This tax, meant to finance part of the increase in public sector wages, comes at a very high social cost. Yet, given current conditions, it will be unable to generate the annual \$500 million it was expected to. According to the Ministry of Finance, the new tax has so far generated monthly revenues of \$35 million.
- Increased fiscal pressure also raises questions regarding the state's ability to cover the public sector salary increase approved by the Cabinet before the war, and which stands at \$800 million annually.

4. CONCLUSION & RECOMMENDATIONS

The current war represents a new shock superimposed on a series of unresolved crises. While existing liquidity may allow Lebanon to cope in the short term, foreign currency reserves are declining rapidly. This trajectory may be manageable over a limited horizon, but it would place the country in a critical situation if the conflict is prolonged. Available resources are insufficient to meet growing needs, and the assumptions underpinning previous bank and sovereign debt restructuring scenarios—already contested due to limited liquidity—will likely need to be revised downward. Goldman Sachs has already indicated that recovery values on Lebanese Eurobonds, currently trading 8–10% below their value at the start of March, may need to be adjusted further downward.

The authorities' room for maneuver remains extremely constrained. Nonetheless, there is an urgent need to mobilize both national capacities and external support to design immediate economic and financial resilience measures while preparing for the post-conflict phase.

International aid remains Lebanon's primary resort for emergency support. Yet even a coherent national response has so far generated only limited support. Absent a credible domestic reform effort, external assistance is likely to remain fragmented, insufficient, and far below the scale of the shock.

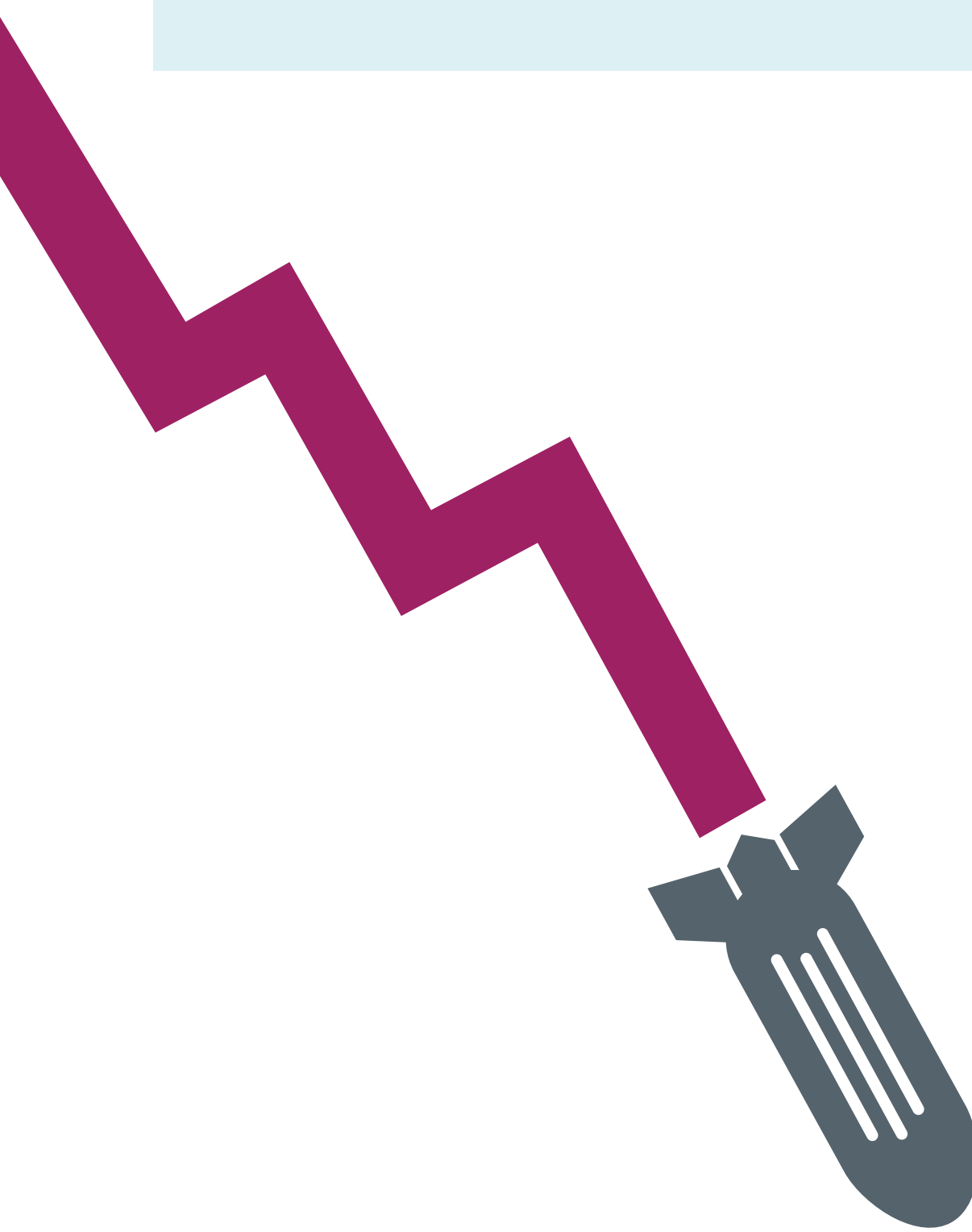
Past crisis responses provide important guidance: broad-based subsidy schemes should be avoided, as Lebanon lacks the fiscal and monetary capacity to sustain generalized support measures during a prolonged shock. **Instead, highly targeted social assistance schemes should be maintained and expanded;** while ensuring they effectively reach the most vulnerable populations.

The productive sectors should be supported during these challenging times. This includes incentives and fiscal packages. But also, maintaining export activity is key. In this context, guaranteeing transit routes will be crucial to circumventing current disruptions.

At the same time, while many countries facing energy shocks have implemented demand-management measures, **Lebanon could consider fuel rationing mechanisms**—such as alternating circulation schemes.

In parallel, it is essential to develop a revised macro-fiscal framework incorporating the new economic realities, as well as major reconstruction costs. This framework could serve as the basis for continued efforts to conclude a program with the International Monetary Fund, anchored in a revised and updated plan to restructure the banking sector and restore public finances.

Finally, Lebanon will not secure meaningful international support if it is not willing to help itself first. The passing of an IMF-compliant Gap Law remains a critical precondition for unlocking support from the IMF, but also from bilateral donors, who have so far provided only limited support, if any, as both political and economic reforms stall and erode donor confidence.



FOOTNOTES

¹ As of April 24, 2026 per the Disaster Risk Management Unit

² <https://www.unicef.org>

³ This estimate should however be treated with caution, as the \$11 billion figure includes both direct and indirect losses and may not have been incurred evenly throughout the period. Yet available indicators suggest the current pace of destruction may be comparable, if not higher

⁴ CNRS Lebanon, April 22, 2026

⁵ According to BlomInvest; the war is expected to result in a contraction of 3.5% in GDP nominal terms, equivalent to around \$45M per day, reflecting declines in real output alongside forgone growth. Should the conflict persist over a longer period, losses could accumulate substantially, potentially reaching \$16B over a year

⁶ Institute of International Finance, quoted by Bank Audi Report and Lebanon This Week Report

⁷ Based on figures provided by the General Security Directorate

⁸ <http://www.customs.gov.lb>

⁹ Lebanon This Week, Byblos Bank

¹⁰ According to the World Bank and IMF

¹¹ This estimate is based on a scenario in which higher oil prices add approximately \$1.2 billion to Lebanon's fuel import bill and increased shipping and insurance costs contribute a further \$0.4 billion, partly offset by an estimated \$2.4 billion contraction in import volumes due to demand destruction. On the inflow side, the scenario assumes declines of \$1.8 billion in tourism receipts, \$0.6 billion in remittances, and \$0.1 billion in exports, partially offset by a \$1.4 billion reduction in outbound tourism spending. Overall, this would widen the current account deficit by an estimated \$1.2 billion

¹² Over the first month of the war, reserves declined by \$343 million followed by a \$143 million increase in the first half of April. BDL Balance sheet - April 15, 2026

¹³ According to World Bank projections in the Lebanon Economic Monitor 2025, imports of goods and services account for 72% of GDP, estimated at just over \$30 billion in 2025. Monthly imports of goods and services therefore amount to \$1.84 billion

¹⁴ Arab Centre for Research and Policy Studies - Assessment of the situation: 'The Return of the Twin Deficits: The Impact of the War on Public Finances in Lebanon' - 14 April 2026

¹⁵ As per the Minister of Social Affairs

¹⁶ Assumption: 142,000 displaced persons in the first month of the war and 121,000 thereafter

¹⁷ Daily Situation Report, April 23, 2026

¹⁸ Press conference Minister of Economy Amer Bisat, April 1, 2026

¹⁹ Arab Centre for Research and Policy Studies - Assessment of the situation: 'The Return of the Twin Deficits: The Impact of the War on Public Finances in Lebanon' - 14 April 2026

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