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Relief Under Constraint: How Lebanon's Ministry of Finance Can Stabilize Businesses and Restart the Economy on Day One After Ceasefire

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STABILITY UNDER FIRE

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How Lebanon's Ministry of Finance Can Stabilize Businesses and Restart the Economy on Day One After Ceasefire

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On the first day after a ceasefire, the Lebanese economy will not merely require reconstruction; it will demand immediate stabilization. Firms emerging from war conditions face acute liquidity constraints, disrupted supply chains, uncertain legal environments, and weakened demand patterns. In such a context, the Ministry of Finance is often expected to intervene with fiscal spending. Yet Lebanon's fiscal reality precludes large-scale financial support. The binding constraint is not the absence of policy tools, but the misconception that meaningful support must be costly. In fact, a carefully designed set of zero-monetary-cost administrative and regulatory measures can materially reduce risk, restore confidence, and incentivize economic reactivation. By reshaping the timing, enforcement, and structure of existing obligations, the Ministry can create fiscal space for businesses without incurring fiscal outlays, while simultaneously safeguarding medium-term revenue by preventing economic collapse and informality.

The central principle guiding such an approach is simple: in a post-war environment, liquidity matters more than liability. Businesses are less constrained by the absolute level of taxes owed than by their immediate capacity to meet those obligations. Temporary tax deferrals, therefore, represent one of the most powerful instruments available to the Ministry. By allowing firms in directly affected sectors and regions to postpone tax payments without accruing penalties or interest, the Ministry effectively injects liquidity into the private sector without transferring public funds. This is not a tax forgiveness mechanism, but a rephrasing of obligations aligned with firms' recovery trajectories. When paired with explicit penalty waivers for late payments during the war period, such deferrals can prevent otherwise viable firms from exiting the formal economy due to accumulated liabilities that are impossible to service in the short term.

Accelerated VAT refunds constitute a complementary measure with immediate impact. In normal times, delays in VAT reimbursement represent a manageable inefficiency; in post-war conditions, they become a critical bottleneck. Firms that are net exporters or that have accumulated input credits effectively hold claims on the state. Expediting the processing and payment of these refunds is equivalent to unlocking

trapped working capital. Importantly, this does not constitute new spending but rather the timely fulfillment of existing obligations. By prioritizing VAT refund clearance - particularly for sectors with high employment multipliers - the Ministry can inject liquidity precisely where it is most needed, reinforcing production and trade flows at a critical juncture.

Administrative forbearance on audits and compliance deadlines is equally essential. The post-war period is characterized by incomplete documentation, disrupted accounting systems, and physical loss of records. Strict enforcement of audit schedules and filing requirements under such conditions risks penalizing firms for circumstances beyond their control, thereby discouraging formal participation. A temporary suspension or postponement of audits for affected sectors, combined with extended deadlines for tax filings and compliance submissions, would reduce regulatory pressure without undermining the integrity of the tax system. This approach recognizes that enforcement capacity should be countercyclical: stringent in periods of stability, but adaptive in times of systemic disruption.



The Ministry can further stimulate recovery through targeted adjustments to business entry costs and tax treatment in war-affected areas. Waiving or significantly reducing business registration fees, licensing charges, and initial tax obligations for new enterprises in these areas would lower barriers to entry at a moment when entrepreneurial activity is both most needed and most fragile. Temporary tax holidays for startups and reactivated firms in heavily damaged areas can serve as a powerful signal that the state is committed to facilitating economic renewal. Crucially, such measures need not erode the fiscal base if designed with spatial differentiation. During the war, economic activity in relatively safer “hosting” areas - where displaced populations and businesses have relocated - often expands, generating additional taxable income. The Ministry can maintain or even strengthen enforcement in these areas to capture increased revenues, thereby partially offsetting the temporary relaxation in affected areas. This spatial rebalancing acknowledges the uneven geography of economic impact and leverages it to sustain overall revenue flows.

Absent such measures, the counterfactual is stark. Firms unable to meet immediate tax obligations or navigate rigid compliance frameworks are likely to exit the formal economy, either ceasing operations or shifting into informality. This transition has long-term consequences: reduced tax revenues, diminished access to finance for firms, weakened labor protections, and lower overall productivity. By contrast, policies that preserve firms within the formal system - even at the cost of short-term revenue deferral - protect the tax base over the medium term. The objective is not merely to support businesses, but to maintain the institutional architecture through which economic activity is recorded, taxed, and regulated.

Beyond tax policy, the Ministry of Finance can play a coordinating role in reducing financial sector risks without deploying public funds. One immediate priority is the facilitation of loan rescheduling agreements between banks and businesses. While the Central Bank and banking sector will be primary actors, the Ministry can provide a regulatory umbrella by recognizing the exceptional nature of the post-war period and endorsing standardized rescheduling frameworks. Such coordination can prevent a wave of defaults that would otherwise propagate through the financial system, further constraining credit availability. By signaling that restructured loans will not trigger adverse tax or regulatory consequences, the Ministry can encourage both lenders and borrowers to engage constructively in restructuring processes.

The formal recognition of force majeure conditions in tax enforcement is another critical step. Many businesses will have been unable to operate, generate revenue, or maintain records during the war. Codifying these circumstances as force majeure within the tax code provides a legal basis for leniency in enforcement actions, penalty waivers, and dispute resolution. This reduces uncertainty and limits arbitrary or inconsistent application of rules across cases. In a context where trust in public institutions is fragile, such clarity is not merely administrative; it is foundational to restoring confidence.

Trade facilitation measures, particularly in customs administration, can yield rapid gains in economic activity. Expedited customs clearance procedures for imports and exports reduce delays, lower transaction costs, and enable firms to reestablish supply chains more quickly. Simplifying documentation requirements, adopting risk-based inspection protocols, and extending operating hours at ports and border crossings are all measures that can be implemented with minimal fiscal cost. Temporary reductions or waivers of administrative fees associated with customs processing further ease the burden on firms without significantly affecting overall revenues, given that increased trade volumes can compensate for lower per-transaction fees.

A broader set of administrative fee waivers can reinforce these effects. Temporarily suspending or reducing fees for licenses, permits, and routine government services lowers the cost of compliance and encourages businesses to remain within the formal system. Extending this logic, the Ministry can declare a comprehensive exemption from its fees on residential properties, commercial establishments, and inheritance transactions in directly affected areas until key recovery benchmarks are met. These benchmarks could include the restoration of employment levels and the reactivation of a critical mass of registered businesses to their pre-war levels. By linking fee exemptions to measurable recovery indicators, the policy maintains a clear exit strategy while providing immediate relief.

Effective implementation of these measures depends on accurate and timely data, which underscores the importance of coordination with municipalities. Local authorities possess granular knowledge of business activity, damage levels, and population movements. By establishing data-sharing mechanisms between municipalities and the Ministry of Finance, the government can better target its administrative interventions, identify eligible firms, and monitor recovery progress. This decentralized information infrastructure enhances policy precision without requiring significant new expenditures.

Additional regulatory adjustments can further support business continuity. Allowing greater flexibility in the carryforward of tax credits enables firms to offset future liabilities once profitability is restored, thereby aligning tax obligations with recovery timelines. Fast-tracking dispute resolution processes within tax administration reduces the backlog of contested cases and frees up resources for both firms and the government. In parallel, issuing clear, binding guidance on all temporary measures - covering eligibility criteria, duration, and procedural requirements - minimizes ambiguity and ensures consistent application across different administrative units. In a post-war environment, uncertainty is itself a cost; reducing it is a form of support.

Simplification of import and export documentation is particularly important for small and medium-sized enterprises, which often lack the administrative capacity to navigate complex procedures. Streamlined forms, reduced documentation requirements, and digital submission options can significantly lower compliance costs. These measures not only facilitate immediate recovery but also contribute to longer-term improvements in the business environment by embedding more efficient administrative practices.

The cumulative effect of these interventions is greater than the sum of their parts. Each measure addresses a specific constraint - liquidity, uncertainty, compliance burden, or market access - but together they create a coherent framework for risk reduction. By reconfiguring the interaction between the state and the private sector, the Ministry of Finance can transform itself from a passive collector of revenues into an active stabilizer of economic activity, even in the absence of fiscal spending. This shift is particularly important in a context where traditional policy levers are constrained and where the credibility of public institutions is under strain.



Critically, these policies are not without trade-offs. Deferring tax payments and waiving fees may reduce short-term revenues, while administrative leniency could create risks of abuse. However, these risks can be mitigated through clear eligibility criteria, time-bound measures, and targeted enforcement in less-affected areas. More importantly, the alternative - widespread business failure, increased informality, and a shrinking tax base - poses far greater fiscal and economic costs. In this sense, zero-monetary-cost measures are not merely a second-best option; they are the most viable strategy under current constraints.

The success of this approach ultimately hinges on credibility and communication. Businesses must believe that the announced measures will be implemented consistently and that the policy environment will remain stable over the recovery period. The Ministry of Finance should therefore prioritize transparent communication, publishing detailed guidelines and maintaining open channels for feedback from the private sector. Engagement with business associations, chambers of commerce, and professional networks can help refine policies and ensure that they address real constraints on the ground.

On the day of the ceasefire, the Lebanese economy will stand at a critical threshold. The choices made in that moment will shape the trajectory of recovery for years to come. By deploying a comprehensive set of administrative and regulatory tools that impose no direct fiscal cost, the Ministry of Finance can stabilize businesses, preserve the formal economy, and lay the foundation for renewed growth. This is not a strategy of austerity, but of intelligent adaptation - one that recognizes that in times of constraint, the most effective policies are often those that change rules rather than spend resources.