KONRAD ADENAUER STIFTUNG
Lebanon Office

MEIRSS

REBUILDING LEBANON

INSTITUTIONAL REFORM & ECONOMIC RECOVERY

POLICY BRIEF BY
MEIRSS

MIDDLE EAST INSTITUTE FOR
RESEARCH AND STRATEGIC STUDIES

REBUILDING LEBANON:

INSTITUTIONAL REFORM AND ECONOMIC RECOVERY

POLICY BRIEF

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EXECUTIVE SUMMARY

Lebanon stands at a historic crossroads amid a compounded crisis of economic collapse, institutional failure, and political paralysis. The June 3, 2025 conference hosted by the Middle East Institute for Research and Strategic Studies (MEIRSS), in collaboration with Konrad Adenauer Stiftung (KAS) and under the patronage of the Saint Joseph University (USJ) Business School, offered a unique platform to reimagine the country's future. This policy brief is rooted in the outcomes of this conference and the insights provided by two major research papers produced by MEIRSS. It translates their findings into concrete, evidence-based recommendations intended to address the overlapping crises Lebanon faces.

The policy brief aims to:

- Present a detailed analysis of Lebanon's current challenges,
- Offer practical policy recommendations for institutional and economic reform,
- Emphasize the role of sovereignty, good governance, and international cooperation,
- Support an implementation framework led by Lebanese research institutions and civil society.

BACKGROUND

Over the past decade, Lebanon has experienced an accelerating breakdown in governance, economy, and sovereignty. A culmination of financial mismanagement, political deadlock, and regional entanglements has placed the country among the worst economic collapses globally since the mid-19th century.

To respond to this crisis, MEIRSS organized a high-level policy conference on June 3, 2025. The conference featured two cornerstone policy papers:

- *"Institutions: A Path to Sustainable Growth"* by Assoc. Prof. Nicole Ballouz,
- *"Reimagining Lebanon's Future: Pathways to Peace and Stability"* by Dr. Elie Elias.

These works served as intellectual anchors for the two panel sessions:

1. Economic Recovery – offering diagnosis and reform proposals.
2. Institutional Reform – advocating sovereignty, justice, and rule of law.

The brief draws from the discussion held, the survey responses collected from Lebanese political and intellectual figures, and historical context, aiming to map a way forward.

KEY CHALLENGES IDENTIFIED

Lebanon's crisis is systemic, with deeply intertwined roots in political dysfunction, economic mismanagement, and regional power dynamics. The major challenges can be classified as follows:

1. INSTITUTIONAL BREAKDOWN

- Absence of a credible and independent judiciary,
- Administrative inefficiency and lack of public service delivery,
- Political clientelism that bypasses institutions,
- Rampant corruption with weak enforcement mechanisms.

2. ECONOMIC COLLAPSE

- Since 2019, GDP has more than halved. According to available data, real GDP fell from $52 billion in 2019 to $23.1 billion in 2021.
- Inflation reached 231% in 2023, one of the highest rates globally.
- The exchange rate collapse eroded purchasing power.
- Depositors' savings were trapped, shaking confidence in the banking system.
- Youth unemployment soared above 47%.

3. LOSS OF SOVEREIGNTY

- Hezbollah operates as a state within a state, undermining national sovereignty, (Annex I and II)
- Border control, foreign policy, and defense decisions are influenced or co-opted by non-state actors,
- UN resolutions 1559 and 1701 remain unimplemented.

4. SYRIAN REFUGEE CRISIS

- Hosting over 1.5 million Syrian refugees, Lebanon bears the highest per capita refugee burden globally, (Annex III)
- Pressure on education, infrastructure, healthcare, and labor markets,
- Limited international assistance to offset the cost.

CONFERENCE HIGHLIGHTS

SESSION I: ECONOMIC RECOVERY
Presenter: Prof. Nicole Ballouz
Moderator: Antoine Saadé

This session laid the foundation for macroeconomic reform grounded in institutional strengthening. Ballouz emphasized that Lebanon's economic collapse stems from structural dysfunctions: fiscal mismanagement, currency manipulation, banking sector opacity, and a lack of regulatory enforcement.

Key Takeaways:

- **Tax System Overhaul:** Widen the tax base, shift to progressive VAT, and combat evasion.
- **Banking Sector Restructuring:** Restore depositor confidence, ensure transparency, and depoliticize the Central Bank.
- **Privatization Strategy:** Engage in controlled privatization, avoiding fire-sale tactics, and focusing on public-private partnerships.

- **Inflation Management:** Adopt inflation-targeting through monetary policy and a floating exchange rate.
- **International Credibility:** Rebuild trust with donors and investors by ensuring political and judicial stability.

Data Reference:

- From 2020 to 2023, the exchange rate was depreciated by over 500%. (Annex IV-V)
- Real GDP contracted by 21.4% in 2020 and another 7% in 2021.
- The Human Development Index (HDI) dropped from 0.764 in 2018 to 0.723 in 2022.

SESSION II: INSTITUTIONAL REFORM

Presenter: Dr. Elie Elias
Moderator: Dany Haddad

Dr. Elias presented the second paper as a blueprint for reconstructing the Lebanese state. The approach blended historical insight, political analysis, and survey results from 15 Lebanese political thinkers.

Key Points:

- **State Sovereignty as a Foundation:** No reform is sustainable without dismantling Hezbollah's parallel authority.
- **Reclaiming the State:** Empower the Lebanese Army, reassert border control, and apply international resolutions.
- **Judiciary and Electoral Reform:** Build an independent judicial system, establish an electoral law based on proportionality, and promote political accountability.
- **Decentralization:** Implement Taif-based administrative decentralization to improve service delivery and local governance.
- **Refugee Return Strategy:** Design a phased, secure repatriation plan in coordination with international actors.

Survey Insight: Respondents emphasized the need for:

- Rule of law over sectarian quota politics,
- Disarmament of militias,
- Citizenship-based governance,
- A regional neutrality policy.

POLICY RECOMMENDATIONS (ANNEX VI)

A. ECONOMIC REFORMS

1. **Fiscal Reform:** Introduce and enforce a golden rule on public spending, reduce waste, and digitize tax collection.
2. **Monetary Policy:** Establish a managed float exchange system and gradually move toward inflation targeting.
3. **Banking Sector:** Create an independent asset management authority to manage debt and deposit restructuring.
4. **Privatization:** Develop a transparent framework for privatizing select public assets, with revenue directed toward debt relief.
5. **Investment Climate:** Remove barriers to foreign direct investment (FDI) and integrate Lebanon into regional trade networks.

B. INSTITUTIONAL REFORMS

1. **Judicial Independence:** Reform the Supreme Judicial Council and remove political influence.
2. **Anti-Corruption Framework:** Activate the national anti-corruption strategy with independent oversight.
3. **Public Administration:** Introduce performance-based hiring and digital government services.
4. **Security Sector Reform:** Ensure that only the LAF retains weapons and deploys in all territories.

C. POLITICAL REFORMS

1. **Electoral Law:** Preserve the proportional representation system with safeguards against gerrymandering.
2. **Foreign Policy:** Commit to positive neutrality and restore ties with Arab and international allies.
3. **Decentralization:** Establish elected regional councils and fund local governments.
4. **Refugee Management:** Cooperate with UNHCR for sustainable return plans and develop host-community support systems.

CONCLUSION

Lebanon's crisis is not insurmountable. The nation retains human capital, a global diaspora, and rich institutional memory. The problem lies in the deliberate misuse of state instruments and the erosion of sovereignty. The June 3rd conference underscored the urgency of acting now, not later.

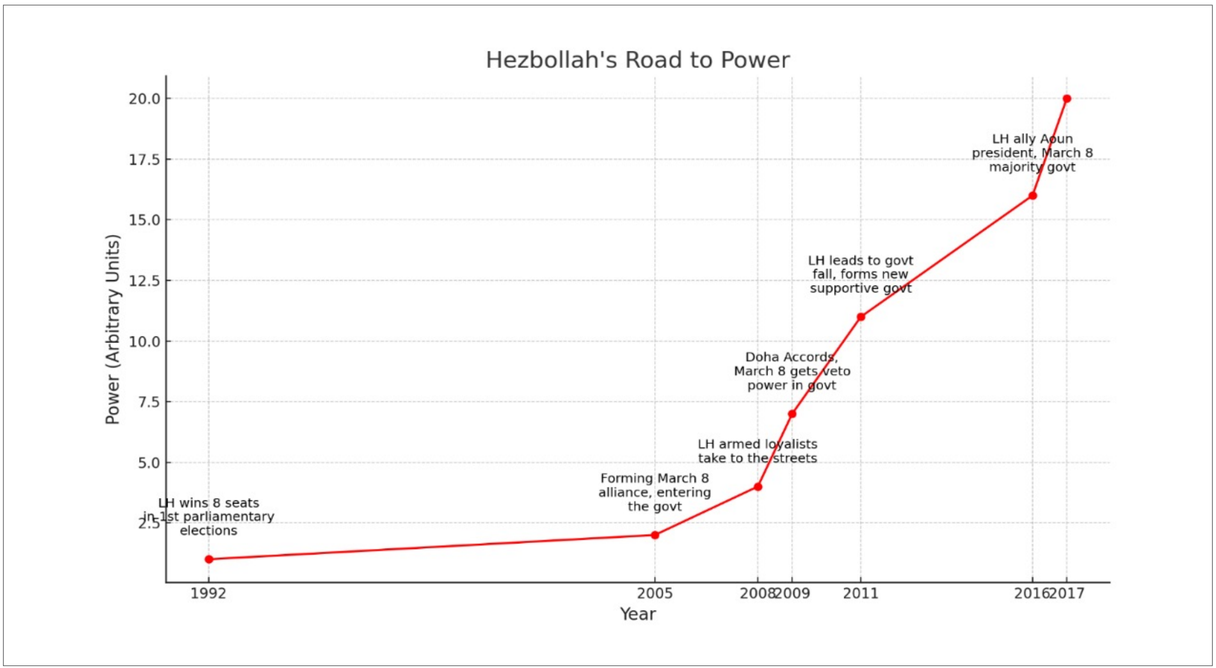
This policy brief, anchored in data and public sentiment, advocates for an overhaul rooted in justice, sovereignty, and transparency. Implementing these reforms will require both national courage and international support.

Moreover, international partners—particularly multilateral donors, development agencies, and technical missions—should be systematically engaged to align external support with reform priorities.

At the same time, Lebanon must invest in strengthening its internal research and policy advisory capacities, such as those provided by MEIRSS and academic centers, to ensure that reforms are locally informed and sustainable. Lebanon can still rebuild—not by returning to old formulas, but by forging a new, sovereign, accountable republic for the generations to come.

TABLES AND CHARTS

I-



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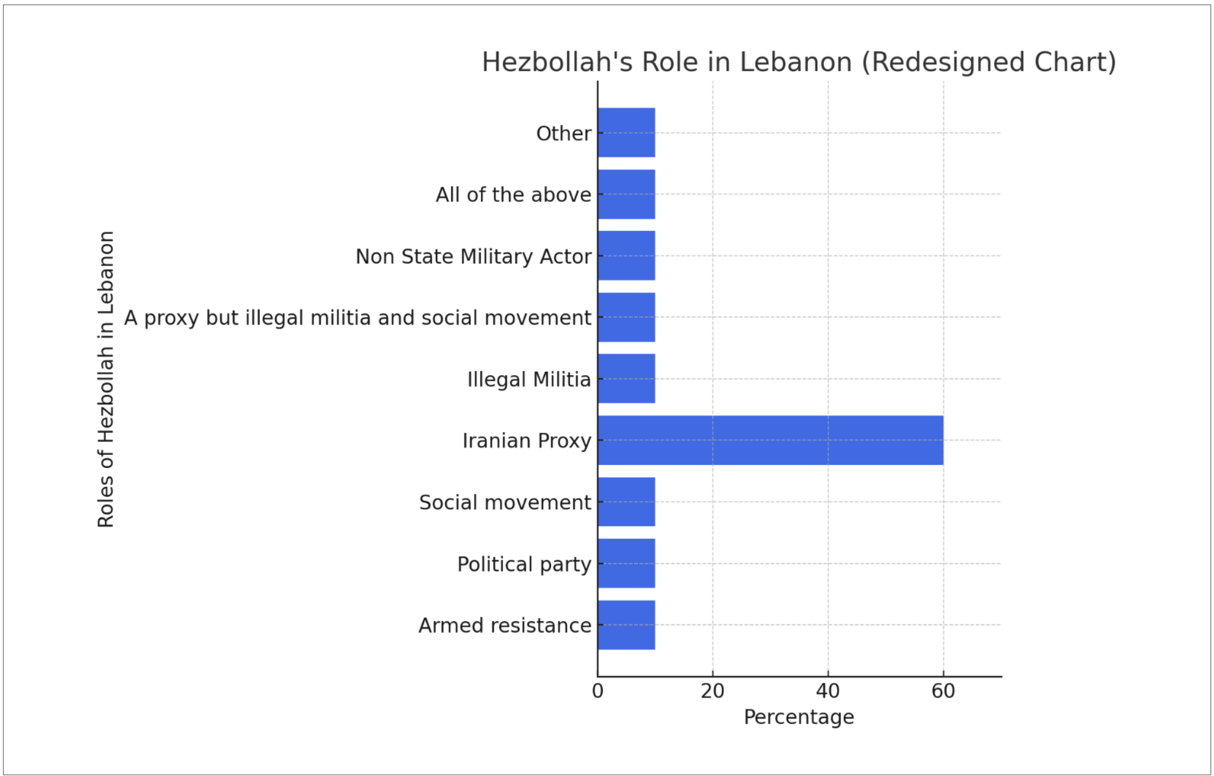
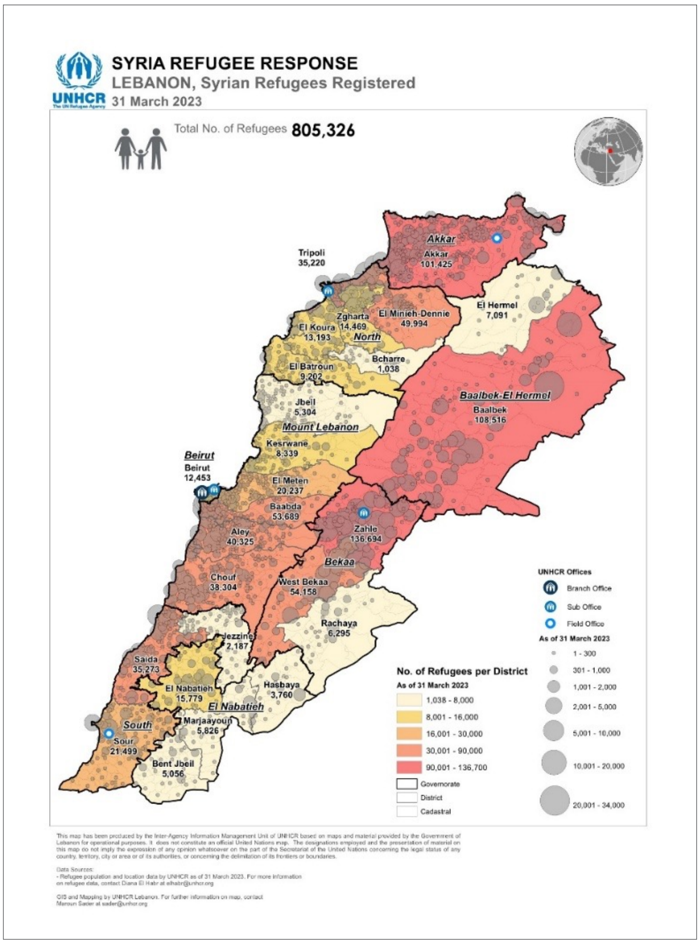


III-


SYRIA REFUGEE RESPONSE
LEBANON, Syrian Refugees Registered
31 March 2023
UNHCR
Total No. of Refugees 805,326
Akkar
Akkar 101,425
Tripoli 35,220
El Minieh-Dennie 49,994
El Hermel 7,091
Zgharta 14,469
El Koura 13,193
North
Bcharre 1,038
El Batroun 9,202
Baalbek-El Hermel
Baalbek 108,516
Jbeil 5,304
Mount Lebanon
Kesrwane 8,339
Beirut
Beirut 12,453
El Meten 20,237
Baabda 53,689
Zahle 136,694
Aley 40,325
Bekaa
Chouf 38,304
West Bekaa 54,158
Rachaya 6,295
Jezzine 2,187
Saida 35,273
El Nabatieh 15,779
Hasbaya 3,760
El Nabatieh
Marjaayoun 5,826
South
Sour 21,499
Bent Jbeil 5,056
UNHCR Offices
Branch Office
Sub Office
Field Office
As of 31 March 2023
1 - 300
301 - 1,000
1,001 - 2,000
2,001 - 5,000
5,001 - 10,000
10,001 - 20,000
20,001 - 34,000
No. of Refugees per District
As of 31 March 2023
1,038 - 8,000
8,001 - 16,000
16,001 - 30,000
30,001 - 90,000
90,001 - 136,700
Governorate
District
Cadastral
This map has been produced by the Inter-Agency Information Management Unit of UNHCR based on maps and material provided by the Government of Lebanon for operational purposes. It does not constitute an official United Nations map. The designations employed and the presentation of material on this map do not imply the expression of any opinion whatsoever on the part of the Secretariat of the United Nations concerning the legal status of any country, territory, city or area or of its authorities, or concerning the delimitation of its frontiers or boundaries.
Data Sources:
- Refugee population and location data by UNHCR as of 31 March 2023. For more information on refugee data, contact Diana El Habr at elhabr@unhcr.org
GIS and Mapping by UNHCR Lebanon. For further information on map, contact Maroun Sader at sader@unhcr.org

IV-

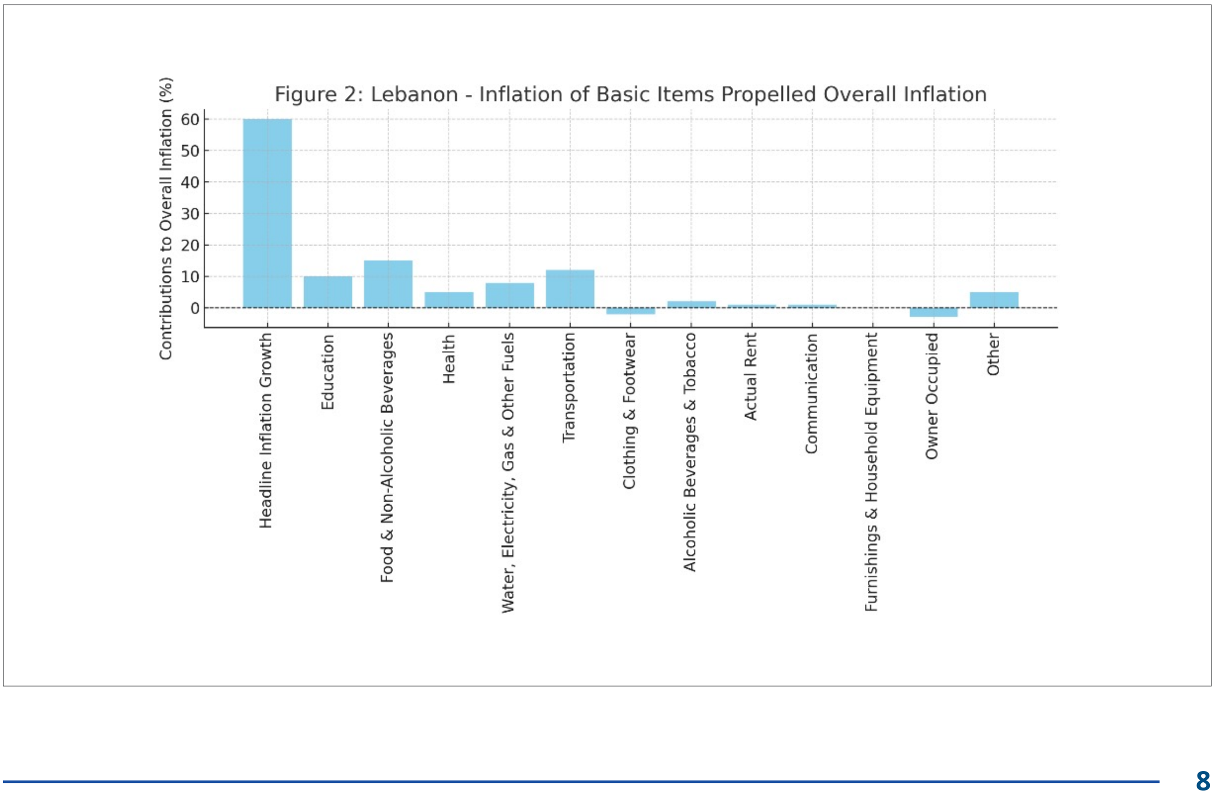


Figure 2: Lebanon - Inflation of Basic Items Propelled Overall Inflation
Contributions to Overall Inflation (%)
60
50
40
30
20
10
0
Headline Inflation Growth
Education
Food & Non-Alcoholic Beverages
Health
Water, Electricity, Gas & Other Fuels
Transportation
Clothing & Footwear
Alcoholic Beverages & Tobacco
Actual Rent
Communication
Furnishings & Household Equipment
Owner Occupied
Other

V-

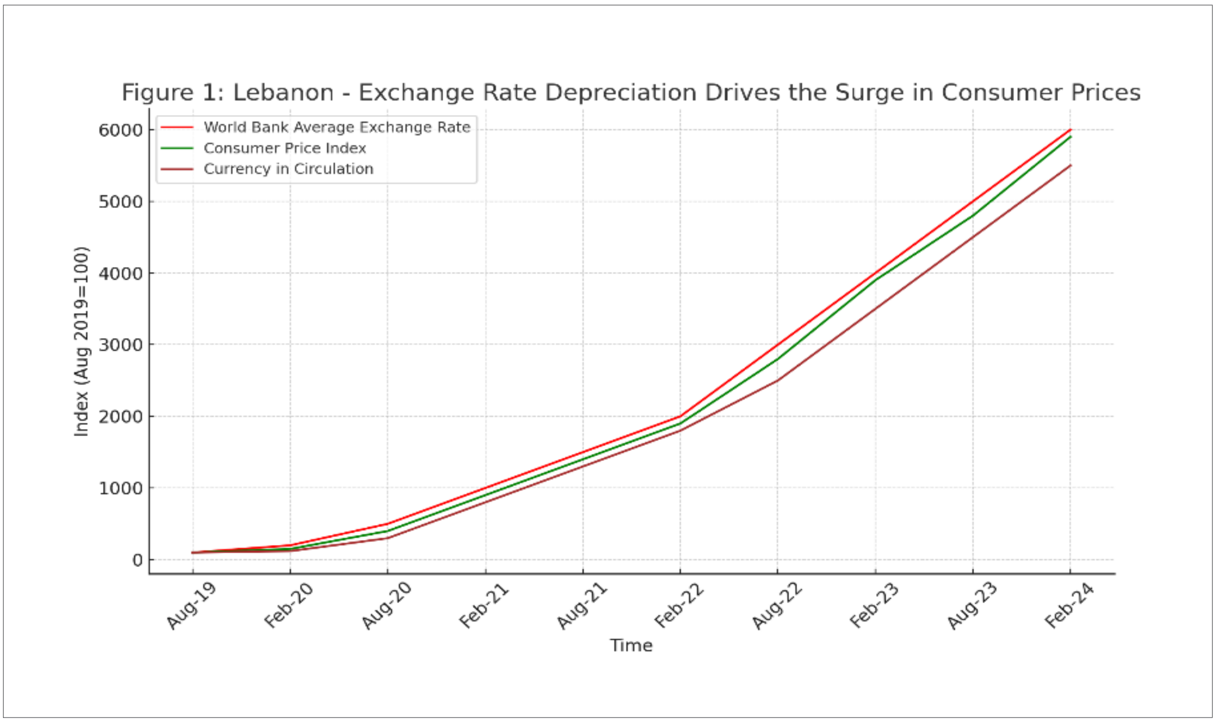
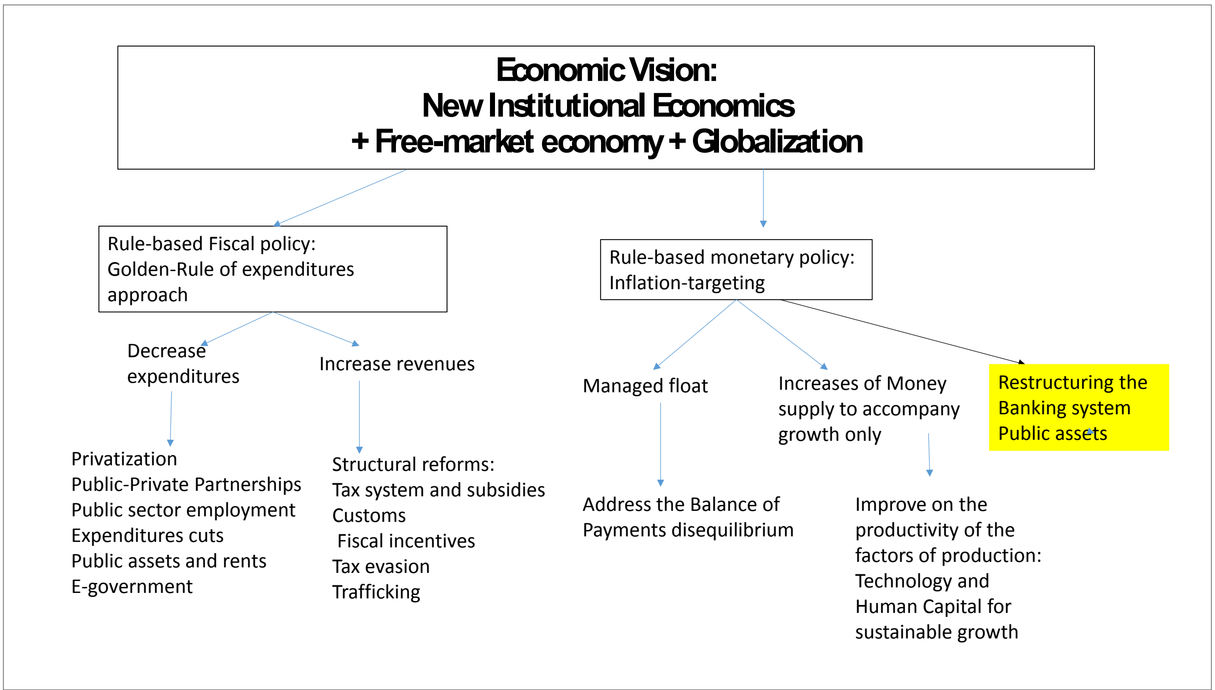


Figure 1: Lebanon - Exchange Rate Depreciation Drives the Surge in Consumer Prices
World Bank Average Exchange Rate
Consumer Price Index
Currency in Circulation
Index (Aug 2019=100)
6000
5000
4000
3000
2000
1000
0
Aug-19
Feb-20
Aug-20
Feb-21
Aug-21
Feb-22
Aug-22
Feb-23
Aug-23
Feb-24
Time

VI-


Economic Vision:
New Institutional Economics
+ Free-market economy + Globalization
Rule-based Fiscal policy:
Golden-Rule of expenditures
approach
Rule-based monetary policy:
Inflation-targeting
Decrease expenditures
Increase revenues
Managed float
Increases of Money supply to accompany growth only
Restructuring the Banking system Public assets
Privatization
Public-Private Partnerships
Public sector employment
Expenditures cuts
Public assets and rents
E-government
Structural reforms:
Tax system and subsidies
Customs
Fiscal incentives
Tax evasion
Trafficking
Address the Balance of Payments disequilibrium
Improve on the productivity of the factors of production: Technology and Human Capital for sustainable growth

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