

FORUM:	Advisory Panel
ISSUE:	Measures to Stabilize Lebanon's Collapsed Economy and Hyperinflation Crisis
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POSITION:	Head Chair of Advisory Panel

Introduction

Currently, Lebanon is facing one of the most severe economic crises in its history. Various crises have converged in Lebanon. Currency collapse, hyperinflation, banking system failure, and rising poverty as a consequence are affecting Lebanon's economy. However, this crisis is not only dedicated as an economic issue but is also a humanitarian crisis which directly connected to concerns about political stability and regional security.

The international community should pay attention on major two impact caused by this crisis. The impact on Lebanese citizens as first-hand victims of the economic crisis should be addressed. Connecting further of citizens, effects on migration and regional relationships create wider consequences beyond individuals. As an Advisory Panel, at least two questions should be considered throughout the discussion. First, how can Lebanon recover economically while maintaining national sovereignty? Second, how can international organizations provide support while encouraging reform? When our advisors examine this chair report, these two questions should be kept in mind, remaining central in the search for effective and sustainable solutions.



Lebanese Banking Crisis by Med-Or

Background

Going back to Lebanon's economic system before the crisis, the Lebanese Civil War appears as an important historical event that affected Lebanon's economic development. After the end of the Lebanese Civil War in 1990, Lebanon focused on rebuilding its economy. Lebanon relied heavily on foreign investment, the banking sector and tourism. However, this economic foundation of Lebanon has created vulnerabilities because it depended on external factors that Lebanon couldn't fully control. As it relied on

these factors, three main problems developed. Government debt increased and dependence on foreign capital made weak economic structure as a country.

Beginning of the economic crisis started in 2019. Large scale protests occurred. Economic inequality, unemployment, and overall public frustration with the government ignited large scale protests around the country. As the instability of Lebanon continued, a banking crisis emerged. Banks restricted withdrawals, and citizens struggled to access savings, which caused the Lebanese pound to rapidly lose its value. Beirut Port Explosion in 2020 also caused major damage to infrastructure and businesses. In result, decreased public trust in government occurred. Large scale protests and the Beirut Port Explosion from 2019 to 2020 further worsened the economic situation.

Currently in 2026, Lebanon still faces inflation to affect daily life. Prices of basic humanitarian needs, such as food, fuel, and medicine increased significantly. This makes life for Lebanese citizens harder in such an economic crisis. Various international organizations have suggested reforms. However, political disagreements within the country have slowed implementation.

Problems Raised

Currency Collapse and Hyperinflation

The collapse of the Lebanese pound became one of the biggest factors that worsened Lebanon's economic crisis. Since 2019, the Lebanese pound has rapidly lost its value against other foreign currencies. As mentioned in the background of this chair report, Lebanon's dependence on imported goods and foreign factors made the currency crisis more severe because the cost of imported products and foreign factors became significantly more expensive. Lebanon's hyperinflation caused a continuous

increase in the price of essential goods for Lebanese citizens, such as fuel, medicine, and household necessities, which are basic humanitarian needs for Lebanese citizens to continue their lives. These rapid increases in prices created uncertainty because citizens and businesses could no longer predict the value of money. This made not only individuals suffer but also big businesses and organizations face problems with economic factors.

Focusing on how this problem of currency collapse and hyperinflation impacted Lebanese citizens, citizens faced not only a single problem but

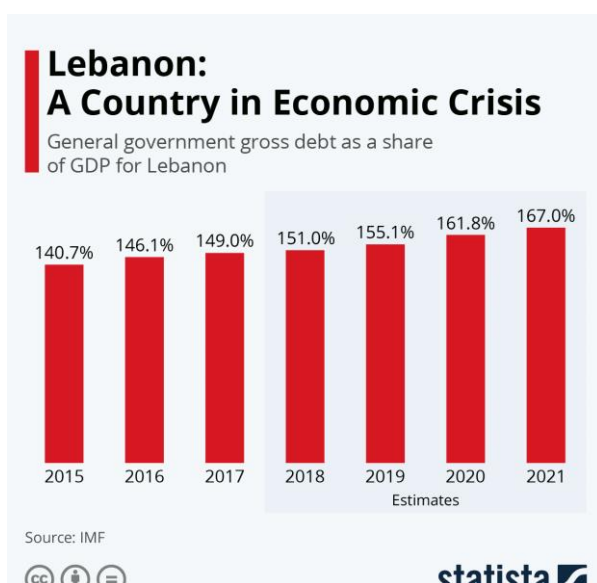


Chart of government gross debt of Lebanon from 2015 to 2021



the problem as a whole. Citizens experienced a major decrease in purchasing power because many people's salary could no longer cover their basic living expenses due to inflation. This connected to many families facing increasing difficulties accessing the necessities and maintaining their lives. The economic crisis increased the poverty rate and created greater dependence on humanitarian assistance, which made the situation worse.

Businesses also struggled with three main factors. First, increased operating costs. Second, unstable prices. Lastly, difficulty planning future investments. Small businesses were especially affected because they had fewer resources to survive the economic instability. The instability of the currency reduced confidence in Lebanon's financial system, which made foreign investors more hesitant to invest due to uncertainty. This was a major problem for Lebanon's economy since previously Lebanon economic were highly dependent on foreign factors.

Political Instability and Difficulty Implementing Economic Reform

Lebanon's current economic crisis is closely connected to long term political challenges. Political disagreements among different groups of Lebanon politics have slowed down the implementation of the necessary economic reforms that the country needs. Although international organizations have suggested solutions, internal disagreements have prevented quick action on the solutions. There are concerns regarding corruption, government transparency, and accountability that have weakened the public trust of Lebanese citizens. The lack of political stability has made it difficult for Lebanon to create a consistent economic policy that could benefit it.

Lebanon needs international assistance from organizations such as the IMF, UN, and foreign governments. However, there are possibilities that some reforms requested by the international organizations may create political disagreement within Lebanon. So, the country and the international organizations must balance accepting international support to a certain degree that protects their national sovereignty and addresses their citizens' immediate needs for their greatest benefit. Also, the international community must consider how to encourage reform without directly controlling Lebanon's internal decisions that may cause external problems.



Woman holding flag of Lebanon in among damaged infrastructure



International Actions

IMF Staff-level Agreement with four-year Extended Fund Facility

After Lebanon's economic crisis worsened following 2019, the Lebanese government requested support from the International Monetary Fund. IMF started discussions with the Lebanese authorities to create an effective economic reform program that could actually address the country's financial collapse. On April 7th 2022, the IMF and the Lebanese government reached a staff-level agreement for a possible 46-month extended fund facility program. The agreement was designed to provide Lebanon with approximately \$3 billion in financial support.

The main goal of this program was to rebuild Lebanon's economy and restore its financial sustainability. Two major reforms were proposed by the IMF in this program. First, they proposed a financial sector restructuring reform which aimed to reform Lebanon's damaged banking system. They recognized and addressed major financial losses and restored the ability of banks to support economic recovery. Second, they reformed governance and transparency. They strengthened accountability within government institutions and increased transparency and financial decision making.

Key Players

International Monetary Fund (IMF)

Mentioned in international action section, the IMF is one of the most important international financial institutions involved in the current issue of Lebanon. They have supported Lebanon by reaching a staff level agreement with Lebanon for extended fund facility programs aimed at addressing the issue of economic reform. IMF believes that Lebanon requires a major structural reform to achieve long term economic stability. IMF supports providing financial assistance but expects Lebanon to complete necessary reforms before receiving the full support of IMF facilities.



Logo of International Monetary Fund (IMF)

European Union (EU) and International Donors

The European Union and other international donors provided financial and humanitarian support to Lebanon. International donors generally support helping Lebanon citizens affected by the crisis. And these actors are important because Lebanon relies on external assistances during economic instability.



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Government of Lebanon

The Lebanese government is one of the key players responsible for managing its own country's economic recovery. The Lebanese government recognizes the need for international financial assistance and economic reforms. So, they have worked with various international organizations including the IMF to develop recovery plans. Currently the main role of government in Lebanon is to balance accepting international assistance with maintaining national sovereignty especially when the country is going through political instability.

Possible Solutions

Implement Comprehensive Economic and Financial Reforms

Lebanon should implement long term economic reforms to address the structural issues that contributed to the current financial crisis. There was previous short term financial assistance for Lebanon. However, short-term assistance alone cannot solve Lebanon's economic problems without improving the systems that actually caused the instability. A realistic action that is possible is to restructure the banking



Currency of Lebanon

sector. Addressing financial losses within banks an institution is necessary. If we restructure the banking sector, it can restore confidence among citizens and investors. Developing a sustainable monetary policy is also an effective way. It can create a more stable exchange rate system that can reduce the uncertainty caused by currency fluctuations. As a whole, it can support the recovery of Lebanon's financial system.

Establish Targeted International Support Programs

While economic reforms are necessary, Lebanon's current humanitarian situation requires immediate support for citizens. International organization of foreign governments should continue to provide assistance while ensuring that aid contributes to sustainable recovery. Assistance should mainly focus on directly supporting the communities and citizens rather than only providing general financial support. From an economic perspective, supporting local businesses and providing resources for small and medium-sized businesses are encouraged. This action can encourage job creation and economic opportunities for citizens to easily access. This action can help citizens immediately that are affected by

the economic crisis and reduce the humanitarian impact of inflation and shortages. Advisors should consider how international aid can support Lebanon without creating dependence.

Glossary

Shortage

Situation where there is not enough necessary resource, product that are available to meet the needs of citizens.

Hyperinflation

Rapid and uncontrolled increase in prices that causes a country's currency to lose its value.

Banking Crisis

Situation where a country's banking system experiences severe instability.

Economic Sovereignty

Ability of a country to make independent decisions by themselves regarding its internal policies without excessive external control.

Structural Reform

Major changes that are made to improve the fundamental systems and institutions of a country.



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