

Lebanon at an Inflection Point: Priorities and Recommendations

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EXECUTIVE SUMMARY

Lebanon enters 2026 at a moment of narrowing opportunity. Conditions today are marginally better than a year ago: state institutions have avoided total collapse, municipal elections were held, and international engagement has not fully dissipated. But the country remains far from recovery.

The regional landscape has also shifted dramatically. Following the strikes in Iran and the killing of the Supreme Leader and senior leadership figures, Hezbollah has now entered the confrontation, declaring that a strategic “red line” had been crossed. This marks the most serious escalation affecting Lebanon in nearly two decades. While Lebanese leaders have called for restraint, the country now faces the immediate risk of becoming a primary arena in a widening regional conflict. With this renewed conflict, further erosion of sovereignty and democratic backsliding are real and growing.

Prior to the attacks on Iran and their dramatic repercussions in Lebanon, the disconnect between the gravity of Lebanon’s internal challenges and the level of urgency perceived in Beirut, Washington, and regional capitals was widening. While US policymakers were viewing Lebanon through a lens of frustration and diminishing returns, Lebanon seemed to be delaying hard political decisions, especially on security and Hezbollah’s disarmament, often with the expectation that external dynamics will resolve internal constraints. At the same time, Lebanese officials argued that continued Israeli military operations and the absence of a credible diplomatic track were constraining political space at home, reinforcing paralysis rather than momentum.

This policy brief outlines what is realistically achievable in the months ahead and identifies priority areas where progress is possible, offering concrete recommendations to the United States, Lebanese, and Israeli governments--as well as the international community--to promote de-escalation, prevent further deterioration, and preserve the foundations already laid for sovereignty, stability, and democratic legitimacy.

STRATEGIC CONTEXT

The regional order has shifted abruptly. The death of Iran’s Supreme Leader and senior leadership figures introduces uncertainty around Tehran’s command structure, proxy coordination, and escalation thresholds. Hezbollah’s posture remains fluid, increasing both risk and unpredictability along the Lebanese Israeli border.

Several dynamics have, most recently, defined Lebanon’s predicament:

- *Intensifying security and sovereignty pressures.* Israeli military operations had increased in tempo with Israel showing no interest in compromising its increased military posture in exchange for LAF progress in the south. The United States’ patience, meanwhile, especially within Congress, was thinning, with a lack of trust between Lebanon and Israel growing.
- *Eroding international engagement.* Lebanon is not a priority issue in Washington, and the Gulf countries had been hesitant to engage without concrete progress on Hezbollah’s disarmament. Policy, as such, risked reverting to a “life support” scenario, i.e., minimal assistance paired with political disengagement.
- *Persisting internal political paralysis.* Key actors continued to block or stymie diaspora voting implementation, direct negotiations with Israel, and key economic reforms.
- *Expanding economic informality and illicit finance.* In the absence of structural reforms, parallel cash-based systems risked entrenching non-state power and hollowing out state capacity.
- *Lebanon’s direct exposure to regional escalation following Hezbollah’s decision to enter the confrontation.* This development that dramatically compresses the timeline for domestic reforms and increases risks to state stability.

Lebanon has made measurable progress over the past year under new leadership, stabilizing key institutions and avoiding further deterioration—a rare opportunity to advance toward greater stability, sovereignty, and economic recovery. However, absent timely action, the dynamics outlined above risk squandering this opportunity.

PRIORITY ISSUE AREAS

Sovereignty and Security

Since the November 2024 ceasefire, sovereignty in Lebanon had re-emerged as the defining issue for its political future. The Lebanese Armed Forces (LAF) had expanded deployment in parts of the south, a major accomplishment early on for this new government. Nevertheless, questions remained about the ability to extend authority nationwide. US congressional scrutiny had also recently intensified, particularly around

whether Lebanon is prepared to take irreversible steps toward consolidating the state's monopoly on force.

Hezbollah's decision to enter the conflict fundamentally alters the operational and political environment for the Lebanese state. The government's quick ban of Hezbollah's military activities reflects an unprecedented assertion of sovereignty. The LAF must now balance its long-term disarmament mission with the immediate need to maintain internal stability and prevent institutional collapse.

Restoring the state's monopoly on force remains the central test of Lebanon's viability. A number of realities define the current landscape:

- The LAF remains the only national institution capable of commanding broad domestic and international support.
- Messaging missteps in Washington by the Lebanese have compounded skepticism, particularly among congressional lawmakers, fueling calls to condition or reduce assistance to the country.
- While the existing Monitoring Mechanism ("Mechanism") for the November 2024 Israel-Lebanon ceasefire has played a useful role in de-confliction and communication between the parties, it currently lacks the authority, resources, and clearly defined mandate needed to transparently assess compliance and measure progress under the ceasefire framework. Its effectiveness will depend in part on whether the United States and other stakeholders choose to invest in strengthening its role.
- The diplomatic channel between Lebanon and Israel needs to be strengthened to address seriously non-disarmament issues central to long-term security, stability, and economic recovery. Initiatives such as a potential economic zone may offer a framework for confidence-building, but any arrangement must guarantee the safe return of displaced residents of southern Lebanon and ensure that local communities are the primary beneficiaries of resulting economic opportunities.

In 2026, success should be defined by credible, measurable steps that demonstrate seriousness of intent. The following actions would constitute progress in this direction:

- US government public support of the LAF's progress to date and continued robust aid for it.
- Public articulation by the Lebanese government and the LAF of a sequenced Phase II framework, including political, security, and institutional components, adapted to current escalation dynamics and reaffirming the state's long-term commitment to consolidating its monopoly on force.
- Sustained coordination of the Mechanism with the parties to prevent escalation along the southern border.
- The Mechanism is empowered to verify the LAF's progress, with the US establishing its own intelligence gathering mechanism to support the work of the mechanism.
- An empowered and serious direct negotiation between the parties that leads to the safety and security of both Lebanese and Israeli citizens, guarantees Lebanon's sovereignty and territorial integrity, and offers the opportunity for Lebanese citizens of the south to regain their way of life.

Reconstruction

The scale of destruction to housing, local infrastructure, agricultural land, and small businesses, especially in the south, has created urgent needs for shelter, basic services, livelihoods, and municipal restoration. Ongoing strikes have not only expanded physical destruction but also displaced large numbers of civilians, creating immediate humanitarian pressures that risk overwhelming local governance capacity. Without timely and visible state-led reconstruction, the government's ability to project legitimacy, consolidate sovereignty, and demonstrate responsiveness to affected communities, particularly in the south, will be significantly weakened. Against this backdrop, reconstruction policy in 2026 must be disciplined, sequenced, and aligned with broader sovereignty objectives. In practical terms:

- Until the international community is satisfied with the progress made on disarmament, reconstruction needs to be framed as early recovery versus long-term reconstruction.
- Assistance that bypasses the state, however expedient, undermines long-term governance and security objectives.
- The private sector and diaspora capital can play a role only if minimal transparency, enforcement, and regulatory clarity are restored.

Reconstruction must thus be leveraged to restore state presence, create employment, and reduce incentives for non-state actors to fill governance vacuums. Action in this regard will especially help demonstrate the state's resolve in addressing the needs of the Shi'a who have been disproportionately impacted by conflict.

Economic Stabilization

Since 2019, the country has experienced a dramatic contraction in GDP, the effective insolvency of its banking sector, the erosion of depositor savings, and a prolonged currency collapse that wiped out most households' purchasing power. Although hyperinflation has moderated and some limited stabilization measures have been introduced, structural reforms, including comprehensive bank restructuring, credible capital controls, fiscal consolidation, and a unified exchange rate regime remain incomplete. Growth today is largely driven by remittances, dollar inflows, and informal cash activity rather than productive investment.

Absent a comprehensive IMF program, Lebanon risks further economic fragmentation especially as economic activity shifts to informal and dollarized transactions beyond regulatory oversight. Prolonged informality indeed risks deepening inequality and empowering illicit networks.

A minimum stabilization package in 2026 should focus on:

- Preserving basic monetary and fiscal coherence.

- A gap law that establishes a clear loss-allocation framework and prioritizes safeguarding small depositors.
- Protecting remaining formal financial channels.
- Preventing further expansion of the cash economy.

Such measures are essential as initial steps towards halting further deterioration.

Illicit Finance and Border Leakage

Lebanon's prolonged economic collapse and expanding cash economy have weakened state oversight over trade flows, customs collection, and financial transactions.

Official and informal border crossings remain vulnerable to the smuggling of fuel, agricultural goods, consumer products, and potentially weapons. Sanctions evasion networks, cash-based exchange houses, and parallel financial institutions continue to operate in gray or unregulated spaces, depriving the state of revenue and reinforcing non-state actors' autonomy. Targeted enforcement against illicit finance, in this environment, is one of the few areas where near-term gains are achievable.

Opportunities include efforts to:

- Curtail smuggling and sanctions evasion at ports, borders, and customs.
- Issuing financial advisories and targeted sanctions against key cash-based entities enabling parallel economies.
- Combining US Treasury actions with diplomatic pressure to change cost-benefit calculations for spoilers.

Progress in this area would signal seriousness and directly constrain Hezbollah's operating space.

Elections and Diaspora Voting

Lebanon's electoral framework has become a focal point for broader debates about legitimacy, accountability, and political revival. Since the 2019 popular uprising and subsequent economic collapse, public trust in political institutions has eroded. Though the 2022 parliamentary elections and subsequent municipal elections demonstrated that electoral processes remain viable, they also exposed deep structural weaknesses, including administrative capacity constraints, political interference, and disputes over diaspora representation.

Diaspora participation carries particular political and symbolic weight. With millions of Lebanese living abroad and remittances serving as a lifeline to the domestic economy, the credibility of diaspora voting is closely tied to perceptions of fairness and reform. Diaspora voters have also tended to favor candidates associated with sovereignty,

reform, and greater institutional accountability. Continued ambiguity around diaspora voting implementation and parliamentary obstruction are problematic ahead of the 2026 elections.

Key risks include:

- Administrative failure to implement any existing laws.
- Political efforts to curtail diaspora participation.
- Further erosion of legitimacy if elections are delayed, diluted, or selectively enforced.

Parliamentary elections must build on the municipal elections precedent which took place in a fair and timely fashion. The parliament should immediately debate provisions that propose changes to allow full participation of the diaspora in an equitable and democratic voting process.

Governance and Judicial Credibility

Lebanon's governance crisis is also rooted in longstanding patterns of political patronage, weak institutional accountability, and interference in judicial processes. Investigations into corruption, financial misconduct, and major national traumas have repeatedly stalled or been politicized, reinforcing public perceptions that accountability is selective. At the same time, sweeping structural reforms, such as comprehensive judicial independence legislation or full anti-corruption overhauls, remain politically constrained by entrenched interests. Selective actions in 2026 remain nevertheless essential, including:

- Efforts to protect judicial processes from overt political interference.
- Enforcement of existing laws where feasible rather than pursuing sweeping new legislation.
- Signaling accountability through targeted, credible steps.

Regional Dynamics

Lebanon's internal trajectory can no longer be separated from regional conflict dynamics. The strikes in Iran, the decapitation of its leadership, and Hezbollah's subsequent decision to enter the confrontation have effectively transformed Lebanon into an active arena within a widening regional crisis. This escalation introduces profound uncertainty, heightens risks of Israeli retaliation, and threatens to derail fragile progress toward state consolidation.

Gulf states have remained cautious and largely disengaged in Lebanon, linking meaningful financial re-engagement to visible reforms and credible state consolidation. However, the ongoing regional escalation, particularly the strikes in Iran and Hezbollah's subsequent entry into the confrontation, has introduced new uncertainty that may further delay Gulf re-engagement or redirect attention toward crisis management rather than long-term investment. Syria's instability, porous borders, and entrenched smuggling networks continue to complicate Lebanon's

security and economic landscape. In this context, Lebanon is both affected by and vulnerable to regional dynamics. Escalation between Israel and Iran, evolving leadership dynamics in Tehran, and Israeli military calculations now directly shape Lebanon's internal political space, often compressing timelines for reform and reinforcing the tendency among Lebanese actors to delay difficult domestic compromises in anticipation of external developments. In this context:

- Lebanon's tendency to wait out regional uncertainty could become a liability.
- Gulf disengagement (such as Saudi Arabia's and Qatar's) reflects fatigue: absent any reforms, re-engagement is unlikely.
- The US' focus on Iran does not negate the need for sustained engagement and counsel with Lebanon to avert worse outcomes.

RECOMMENDATIONS

To the United States

1. *Prioritize immediate de-escalation in Lebanon:* Prevent, with Hezbollah now engaged in the regional confrontation, the expansion of hostilities into full-scale war in Lebanon, while sustaining support for state institutions.
2. *Maintain robust engagement:* Avoid a slide into indifference and keep the pressure on Lebanese institutions to deliver measurable steps.
3. *Clarify benchmarks:* Define realistic, sequenced indicators of progress on all relevant issues.
4. *Use financial tools strategically:* Expand targeted sanctions, financial advisories, and enforcement actions against illicit networks and obstructionist actors.
5. *Preserve support for the LAF:* Maintain and strengthen support for the primary national institution capable of advancing sovereignty and stability.
6. *Engage Congress proactively:* Address bipartisan concerns early to prevent Lebanon policy from hardening along partisan lines.
7. *Prioritize direct negotiations between Israel and Lebanon* to find a peaceful settlement on the contentious issues that divide them.

To the Lebanese Government

1. *Demonstrate seriousness:* No senior engagement with Washington should occur without concrete deliverables (plans, timelines, or actions).
2. *Articulate Phase II and beyond:* Clearly define how the government intends to implement the nationwide disarmament strategy, including enforcement of the Lebanese government's recent ban on non-state military activities, while adapting timelines, resources, and sequencing to current escalation dynamics.
3. *Protect elections and ensure diaspora participation:* Clear and transparent processes and political commitment are essential to legitimacy. Parliament should take up immediately an equitable and fair plan that maximizes diaspora participations in the elections.

4. *Confront illicit finance:* Target enforcement where the state can still act decisively.
5. *Align reconstruction with state authority:* Ensure aid and rebuilding efforts reinforce public institutions rather than bypass them.
6. *Maintain a unified position of restraint:* Public messaging and security posture should reinforce Lebanon's commitment to avoiding any involvement in external escalation while sustaining internal sovereignty measures.
7. *Prioritize direct negotiations with Israel* to find a peaceful settlement between them.

To the Government of Israel

1. *Avoid actions that collapse Lebanese state institutions:* Israeli military actions should seek to minimize damage to Lebanese state infrastructure and avoid undermining the LAF's ability to maintain internal stability.
2. *Take direct negotiations seriously:* Engage in sustained, structured dialogue with the Lebanese government, recognizing that diplomatic progress is essential to long-term security for both countries.
3. *Calibrate military actions to support stabilization:* As Lebanon demonstrates progress in extending state authority and disarmament, Israeli actions should avoid undermining these efforts or weakening the LAF's ability to operate effectively.
4. *Support confidence-building measures:* Consider practical steps, such as facilitating civilian returns to southern communities and exploring economic cooperation frameworks, that reinforce stability and incentivize continued Lebanese progress. These should prioritize strengthening Lebanese state authority as the most sustainable path to security.
5. *Distinguish Lebanon from Iran escalation dynamics:* Israeli responses to developments in Iran should carefully consider the fragility of Lebanon's internal stabilization efforts and avoid steps that could collapse ongoing state consolidation.

To Saudi Arabia, Gulf Partners, and the International Community

1. *Prepare contingency stabilization support:* Coordinate emergency assistance to prevent institutional collapse in Lebanon in the event of sustained escalation.
2. *Support early recovery and reconstruction:* Provide coordinated assistance focused on early recovery, including housing repair, municipal services, and livelihoods, to stabilize affected communities while reinforcing state authority.
3. *Sustain long-term support for the LAF:* Expand financial, technical, intelligence, and training assistance to ensure the LAF can maintain deployments, execute future disarmament phases, and sustain nationwide stability.
4. *Link assistance to coordinated benchmarks:* Align reconstruction and security support within a unified international strategy that is tied to measurable progress on sovereignty, governance, and institutional reform.

5. *Reinforce state institutions:* Ensure that humanitarian, reconstruction, and stabilization assistance is delivered in ways that strengthen Lebanese state institutions and local authorities, preventing further entrenchment of parallel governance networks.
6. *Support monitoring and verification mechanisms:* Invest in strengthening international monitoring frameworks that enhance transparency, build trust, and reduce escalation risks.

CONCLUSION

Lebanon now faces its most dangerous moment in decades. Hezbollah's decision to enter the confrontation following the strikes in Iran has transformed the country from a potential spillover zone into an active front in a widening regional conflict.

This escalation threatens to undo fragile gains made over the past year in restoring state authority, stabilizing the border, and rebuilding international confidence. It also places extraordinary pressure on Lebanese institutions, particularly the LAF, which must now operate amid heightened security risks and political constraints.

Preventing Lebanon from descending into full-scale war must now be a shared international priority. This will require sustained diplomatic engagement, and urgent support for Lebanese state institutions.

Whether Lebanon emerges from this crisis with strengthened sovereignty or is once again overwhelmed by regional dynamics beyond its control, will depend on the decisions taken in the coming days by actors both inside and outside the country.