

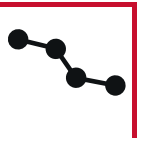
Lebanon Crisis Update

July 2022



Photo by Philippe Boutros/L'Orient Today

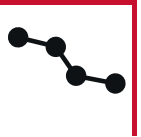
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The Monthly Lebanon Crisis Update provides an overview of economic and political developments to alert the international aid response to new and emerging challenges that could impact the humanitarian situation in Lebanon. In the context of the multiple crises affecting Lebanon, the update tracks the impact of political developments on the economy, relevant international developments, updates on service delivery and governance issues, and analysis of the drivers of humanitarian need as they develop. The report also aims to provide nuanced forecasting on contextual shifts relevant to shifting needs and the implementation of humanitarian programming. The report draws upon a desk review of currently available literature, analysis of relevant quantitative data, and key informant interviews with a range of experts and individuals with knowledge of Lebanon's economy.

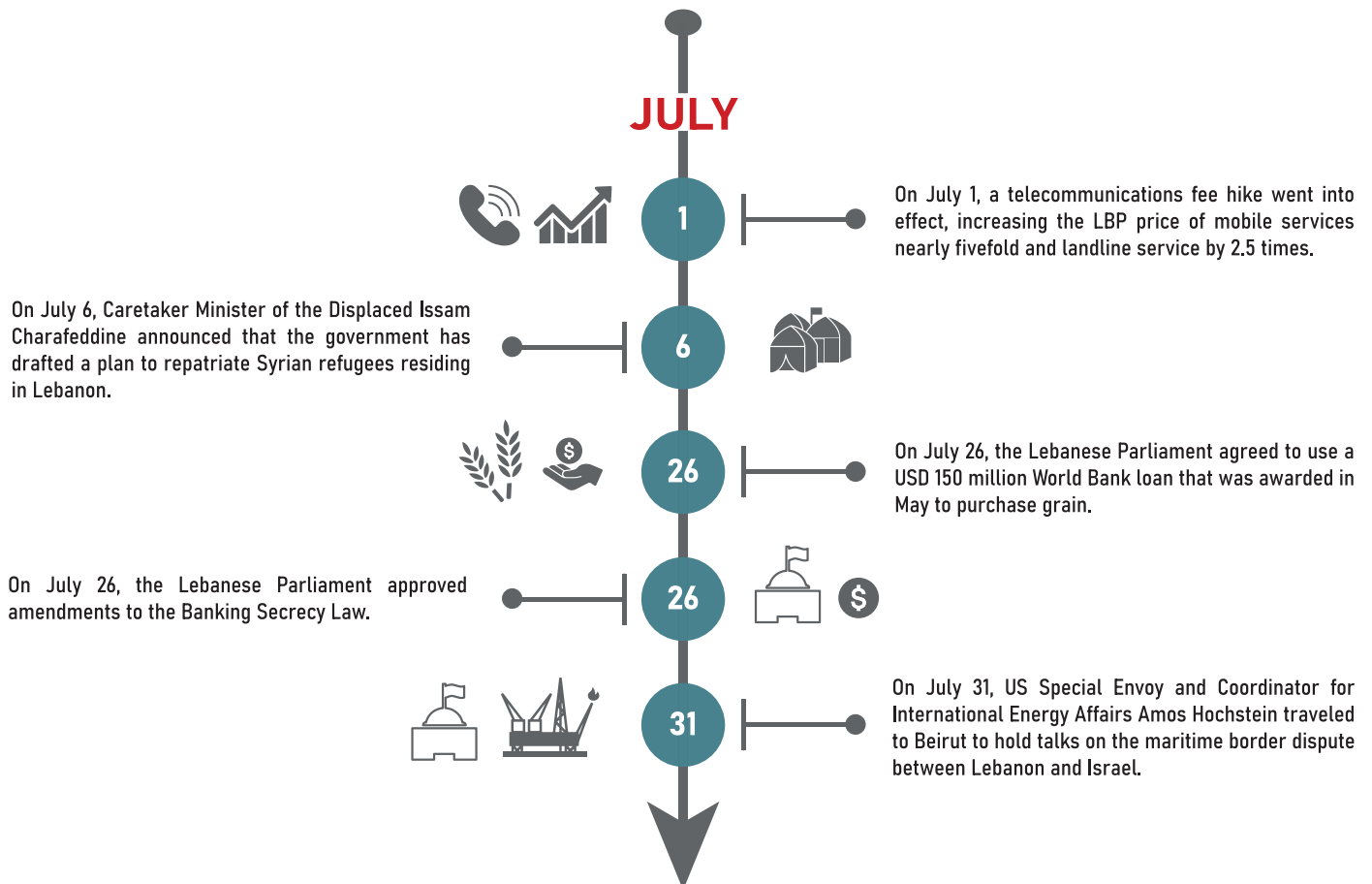
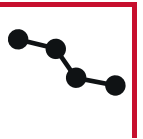
The Lebanon Crisis Analytics Team (LCAT) provides reactive and in-depth context analysis to inform the humanitarian community in Lebanon. The information and analysis contained in this report is strictly to inform the humanitarian response and policymaking on Lebanon.

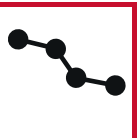
This study/report is made possible by the support of the American People through the United States Agency for International Development (USAID). The contents of this report are the sole responsibility of the LCAT and do not necessarily reflect the views of USAID or the United States Government.



Key Findings:

- The value of the Lebanese Pound (LBP) depreciated slightly against the US dollar (USD) throughout most of July and ended the month at about LBP 30,000. The depreciation appears to have been triggered by a decline in Sayrafa exchanges compared to previous months.
- Amid long queues at Lebanese bakeries due to a shortage of subsidized bread, the Lebanese Parliament agreed to spend a USD 150 million World Bank loan to support wheat imports. An agreement between Russia and Ukraine to resume Ukrainian grain exports could temporarily improve food security in Lebanon but more fundamental factors will continue to drive up the cost of food, such as the potential removal of grain subsidies and price inflation.
- The government formation process remains stalled, with expectations that the deadlock will not be broken before presidential elections, which are slated to be held at the end of October.
- Telecommunications tariff increases in July impacted people's ability to communicate and remain connected, highlighted by a more than 70% decrease in calls received by Mercy Corps' hotline compared to June. Fee hikes could negatively impact the ability of aid actors to contact beneficiaries and program participants, especially those with significant protection concerns.
- Parliament passed amendments to the Banking Secrecy Law but the new changes may not be sufficient to meet IMF requirements. Other IMF requirements remain unmet, meaning a full agreement to release much-needed assistance may not be secured in the coming months.
- Parliament's Budget and Finance Committee will study the 2022 budget in August, which could double or triple public sector salaries and increase import tariffs. Such developments could exacerbate LBP depreciation but will also end the ongoing public sector strike and improve the living situation of hundreds of thousands of public sector employees.
- Caretaker Minister of the Displaced Issam Charafeddine announced a plan to repatriate Syrian refugees residing in Lebanon. The plan entails returning 15,000 refugees to Syria per month and comes amid increased tensions between host and refugee communities, fueled in large part by the latest bread crisis.





Economic and Financial Updates:

Fluctuation of the Lebanese pound

The Lebanese Pound (LBP) depreciated slightly against the US dollar (USD) throughout July and closed the month at about LBP 30,000. The market rate remained steady at about LBP 28,000 per USD 1 in the first few days of the month, but depreciated on July 3, surpassing LBP 29,000. The market rate continued fluctuating between LBP 29,000 and LBP 29,900 throughout the rest of July, until it surpassed LBP 30,000 in the final three days of the month (see figure 1).

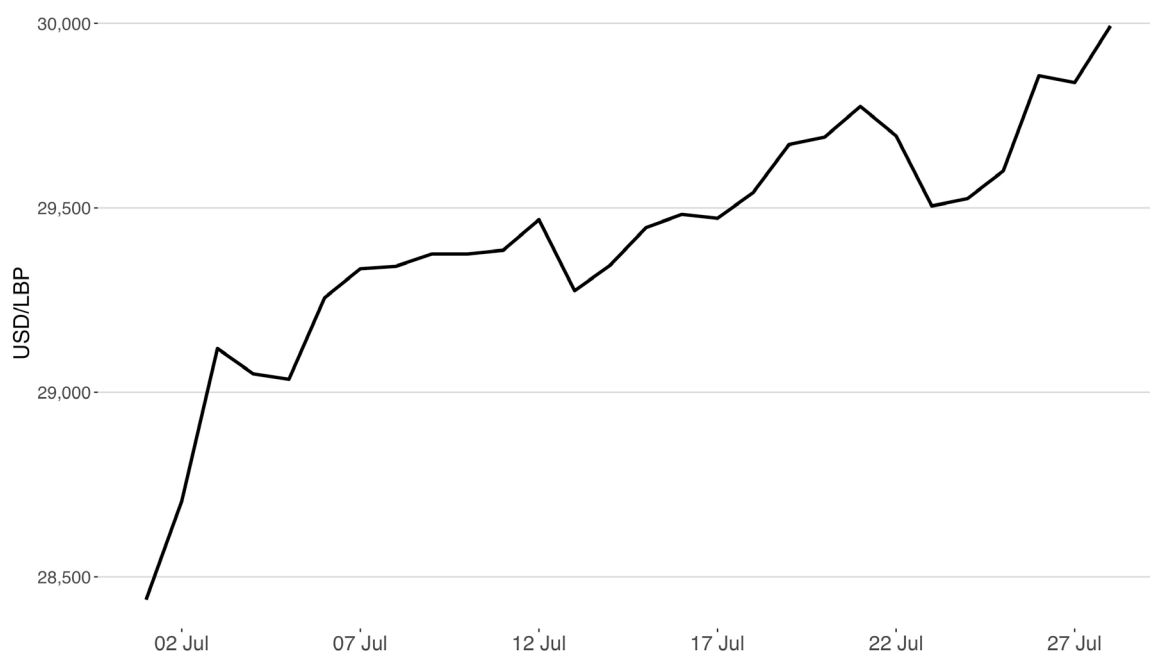


Figure 1: Parallel Market Rate VS Events in July



While relatively stable in July compared to earlier in 2022, the depreciation is likely due to an increase in the amount of LBP in circulation and a decrease in the total amount of USD exchanged via Sayrafa in July compared to previous months. About USD 619.1 million was exchanged via Sayrafa in July – approximately USD 344 million less than June and USD 445.9 million less than May (see figure 2). The decrease in Sayrafa exchanges was likely linked to Central Bank employees going on a three-day strike on July 20, in response to a raid by State Security agents at the Central Bank on July 19, which aimed to bring Central Bank Governor Riad Salameh into custody.¹ Judicial investigations into alleged malpractice by Salameh continue to be a source of political tension, a point highlighted by caretaker Prime Minister Najib Mikati, who said after the July 19 raid that Salameh's case requires a political agreement over the formation of a new government before the judicial probe can progress.

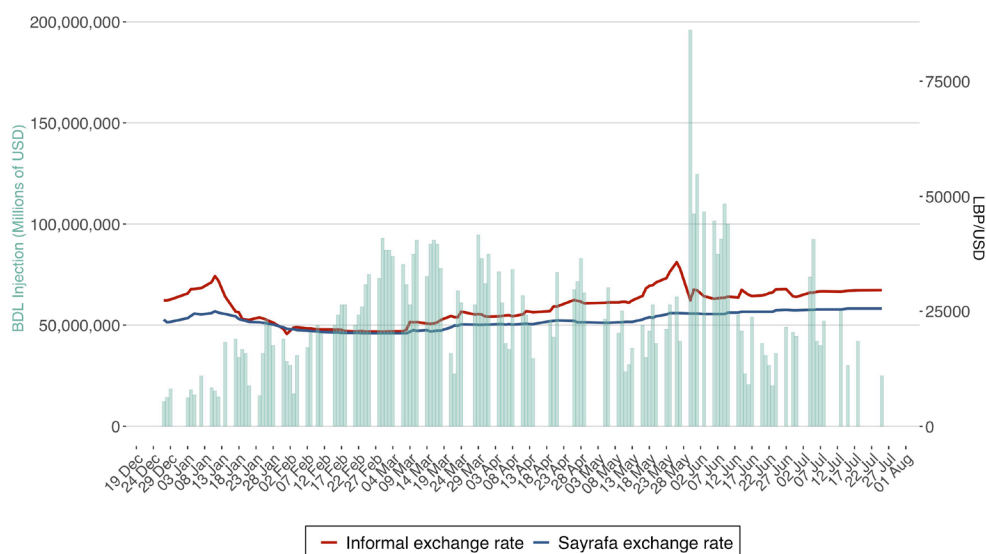


Figure 2: Sayrafa transactions VS Market Rates

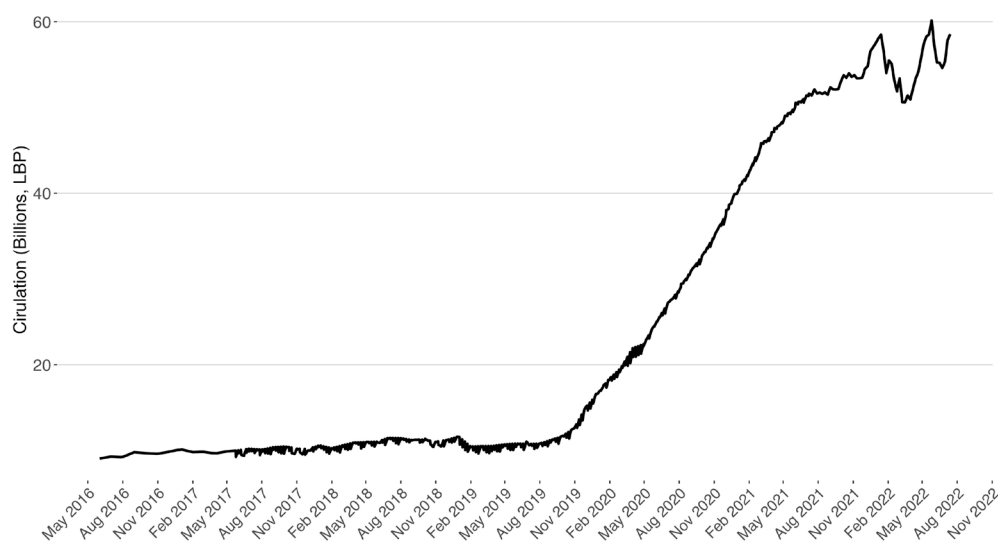
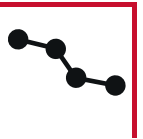


Figure 3: LBP in Circulation³

¹ Judge Ghada Aoun has tried to arrest the Governor several times after charging him with falsifying the budget of the central bank to hide losses. Riad Salameh is now under investigation in five European countries for possible money laundering and illicit enrichment.

² Source: [Central Bank - Lirarate](#)

³ Source: [Central Bank](#)



As of July 21, LBP 58,262 trillion was in circulation (latest Central Bank data) after decreasing to LBP 55.3 trillion in June following an all-time high of LBP 60 trillion in May (see figure 3).

Queues formed at bakeries as a bread crisis unfolded throughout July. Shortages of subsidized bread were reportedly due to low wheat supply, which was in turn exacerbated by delays in import financing from the Central Bank and public sector strikes at the Beirut port. The UNDP Tensions Monitoring project tracked 49 incidents in the last few months related to the provision of bread, with a large portion recorded in the last week of July. These include discriminatory and sometimes violent actions targeting Syrian refugees in bread queues. On July 26, the Lebanese Parliament agreed to use of a USD 150 million World Bank loan that was awarded in May to purchase grain. Minister of Economy and Trade Amin Salam told CNBC⁴ that the loan should cover grain purchases for six to eight months depending on the global price of wheat, which has decreased. Despite prices decreasing, the price of wheat flour in Lebanon has risen 209% since the outset of the conflict in Ukraine, and 330% since Lebanon's 2019 financial and economic crisis began. In a separate but related development, Russia and Ukraine signed an agreement on July 22, brokered with support from the United Nations and Turkey, that could see more than 20 million metric tonnes of grain shipped from Ukraine's Black Sea port. This should improve Lebanon's access to grains, given historical reliance on cereal production in Ukraine.

In line with a drop in global oil prices, gasoline and diesel prices decreased locally and petrol station queues eased throughout July. International oil prices hovered around USD 100 per barrel (P/B) throughout July and closed the month at about USD 98 P/B for WTI and USD 110 P/B Brent Crude. Locally, prices decreased in July, reaching LBP 603,000 (83) for 20 liters of 98-octane and LBP 591,000 for 20 liters of 95-octane (decreased by LBP 83,000 and 85,000 respectively in comparison with prices at end of June) at the end of July. The price of 20 liters of diesel decreased by LBP 98,000 in comparison to the end of June, reaching LBP 649,000 at the end of July.

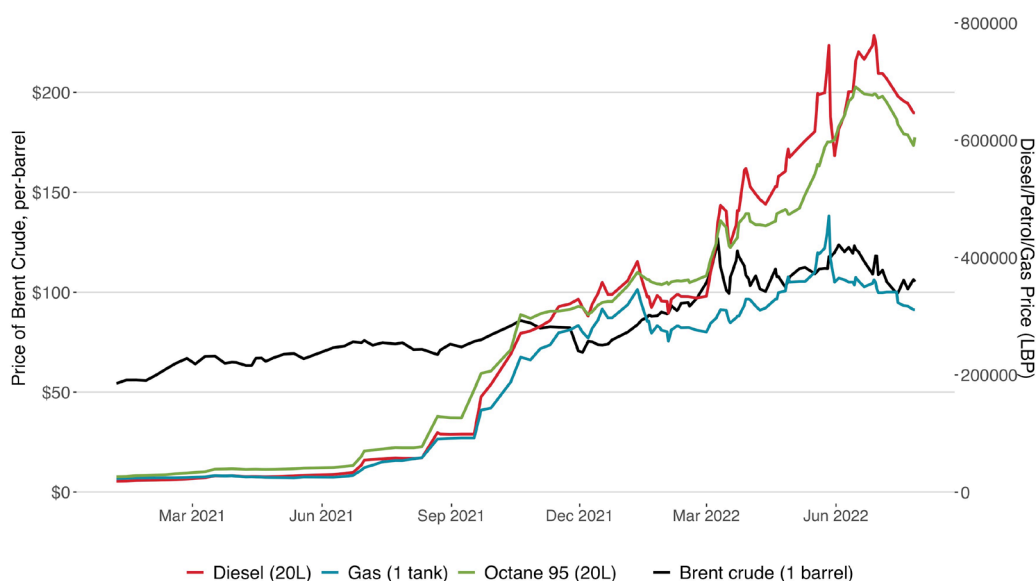
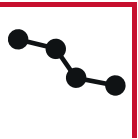


Figure 4: Fuel Prices from March 2021 to July 2022⁵

⁴ "With bread prices skyrocketing, Lebanon waits for crucial wheat imports and international aid", CNBC, July 22, 2022.

⁵ Source: [lirarate](#)



Impact and Analysis

During May and June, the Central Bank increased the number and amount of transactions on the Sayrafa platform after amending Circular 161 on May 27 to allow anyone to exchange LBP to USD at the specified Sayrafa rate. This led to an appreciation of the LBP against the dollar, after reaching an all-time low of LBP 37,000 to USD 1 in May. Crucially, the amount individuals were allowed to exchange via Sayrafa initially was as high as USD 3,000 but in mid-June was reduced to about USD 500. Overall, this intervention appears to have been costly, with FX reserves decreasing by USD 2.2 billion since the start of the year through the end of June. In July, the Central Bank appears to have reversed this strategy, as total amounts exchanged through Sayrafa decreased and the amount of LBP in circulation increased. While the exchange rate remained relatively stable, this may explain the small depreciation in July.

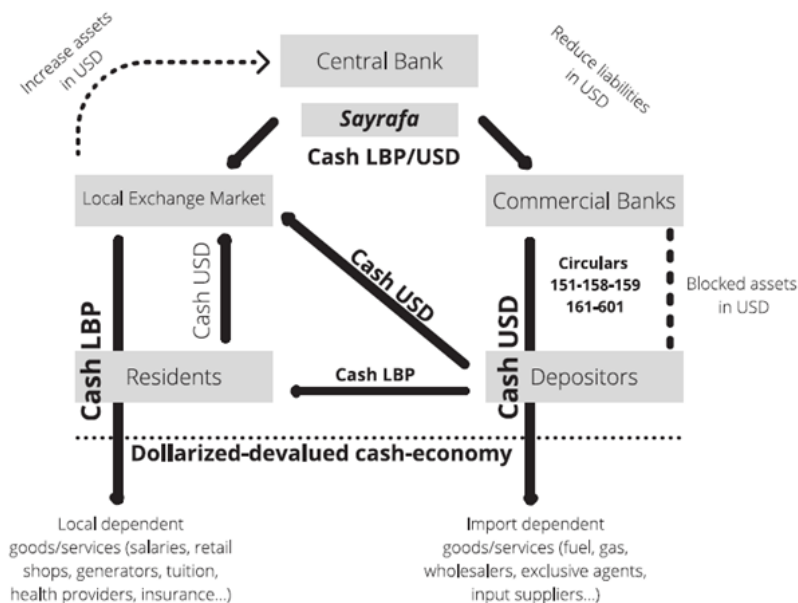
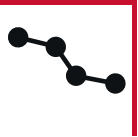


Figure 5: The approximation for how USD and LBP is moving between the main economic and financial stakeholders in Lebanon

Bucking the trend from earlier months, Central Bank FX reserves increased by USD 57 million in the last two weeks of July. This likely resulted from a decrease in Sayrafa injections and increases in the amount of FX entering the country, due to heightened tourism and possibly other remittance inflows. This FX was collected by the Central Bank through purchases of hard currency from exchangers and transfer agencies. It is possible that LBP liquidity will increase in August and September to account for higher levels of economic activity during the summer months. However, should public sector salaries increase in the coming months, the Central Bank may choose not to follow this course of action and could instead attempt to pull LBP from the market. Increased amounts of FX in the market should stabilize the value of the LBP in the short term. However, the LBP may come under pressure later in the year as heightened consumption empties local inventories and importers seek hard currency to finance imports.

The upward trend in price inflation appeared to slow in June, mainly due to declining international oil prices. However, Lebanon currently tops national food inflation rates according to the new food security report by the World Bank,⁶ and will likely continue to experience significant inflation going forward.

⁶ [World Bank Report](#)



While the first ship initially destined for Lebanon from Ukraine has subsequently been redirected to Turkey due to a buyers dispute, the Istanbul Agreement should stabilize Lebanon's access to grains in the absence of significant domestic reserves and, more broadly, lead to small international commodity price reductions.

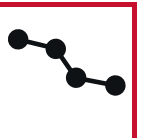
However, the bread crisis was driven by factors other than the capacity to access grain on international markets, in particular disagreements between millers and the government over price regulation and the timely provision of FX by the Central Bank. Public sector labor strikes at the port are also reportedly affecting the timely delivery of goods to the market, an issue that could continue to drive unpredictable and short-term market shortages. These supply issues in turn run the risk of driving political instability and social tension. Scapegoating refugees is now more common in political rhetoric, particularly in conjunction with growing public discourse about forcibly returning Syrian refugees to Syria (see political updates). Kataeb Party MP Salim el Sayegh claimed that half of the beneficiaries of the World Bank loan will be Syrian Refugees and questioned why Lebanon should take a loan to support the wellbeing of refugees. Additionally, caretaker Prime Minister Najib Mikati stated "most of the bread bundles being produced are going toward non-Lebanese, and everyone knows that."

Fuel provision and costs will continue to be an issue in the coming months, particularly as Lebanon's agreement with Iraq to procure fuel oil for electricity production expires on August 25. While state electricity provision is limited to only a few hours per day, it remains a critical service for those unable to afford access to private or neighborhood generators. Lebanon is reportedly

Updates on IMF requirements

Parliament approved amendments to the banking secrecy law, a key requirement to unlock International Monetary Fund (IMF) assistance, while other required reforms remain on hold. The parliamentary Budget and Finance Committee reviewed and approved amendments to the banking secrecy law on July 25, before sending it for approval to the entire parliament on July 26. The bill does not lift banking secrecy as a whole. Instead, it allows banking record secrecy protections to be lifted by the judiciary, the National Commission for the Fight against Corruption, the Special Investigation Commission, the National Deposits Guarantee Institution, and tax authorities. Such action would be permitted in line with criminal investigations into illicit enrichment, money laundering, and terrorism financing. The parliament decided to omit language of "all financial crimes" from the bill, which potentially limits the scope of the law. Notably, passage of the banking secrecy law is but one of many key IMF requirements to unlock a full program for financial recovery.

The 2022 budget has been stalled since April, with Budget and Finance Committee head MP Ibrahim Kanaan claiming that the committee is waiting for the government to send an updated study of the budget and the different exchange rates used in it. Kanaan also said that Mikati announced in a committee meeting that the government is working on a revised financial recovery plan that includes a "recovery fund" to pay back depositors, but has not sent it to the committee for review.



Impact and Analysis

Despite Deputy Prime Minister Saade Chami – who previously worked for the IMF – stating that he believes amendments to the Banking Secrecy Law are adequate, it is not clear whether changes to the law will satisfy IMF requirements.⁷ In addition to amendments to the Banking Secrecy Law, other IMF requirements remain outstanding, specifically a forensic audit of the Central Bank and top 14 commercial banks, bank restructuring, finalization of the financial recovery plan, and unification of the LBP exchange rate. Highlighting the severity of the situation, a recent report published by the the Institute of International Finance includes a worst-case “pessimistic scenario” whereby the LBP/USD exchange rate could depreciate to LBP 110,000 or less by the end of 2026, particularly if the country continues to experience political turmoil and an IMF agreement cannot be reached.

The government and parliamentary Budget and Finance Committee is expected to continue studying the 2022 budget in August and September, though it is unclear when and whether the 2022 budget will be ratified. An approved budget would likely include salary increases for public sector employees, many of whom remain on strike. The budget would also likely contain an increase in import tariffs, which could drive up consumer prices.

⁷ [Budget and Finance Committee approves law on restricted lifting of banking secrecy - L'Orient Today](#)

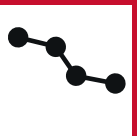


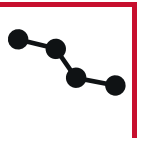
Photo by AFP

Political Updates:

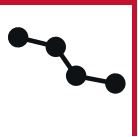
The Lebanese government announced that it drafted plan to repatriate Syrian refugees. Caretaker Minister of the Displaced Issam Charafeddine said on July 6 that the Lebanese government has presented a draft plan to President Michel Aoun to repatriate Syrian refugees residing in Lebanon. The plan entails 15,000 Syrian refugees returning to Syria every month. A committee comprising Charafeddine, Mikati, six other ministers, and the General Security forces has been working on the repatriation plan since March. Charafeddine claims that the committee is serious about implementing the plan and hopes to do so “within months”. The UN High Commissioner for Refugees and human rights groups have opposed involuntary repatriation to Syria, stating that the practice risks endangering Syrians forcibly returned to their home country. It is still not clear how the ministry would implement the plan or when they would do so.

Efforts to form a government headed by caretaker Prime Minister Najib Mikati appear to be stalled. Mikati submitted a government lineup to President Aoun at the end of June, which largely reflected the caretaker cabinet, with the exception of a few ministers. Since the proposed lineup was submitted, little progress has been announced publicly as Mikati and the Free Patriotic Movement accuse one another of being responsible for delays. Speaker of the Parliament Nabih Berri said on July 30 that it would take a miracle for a government to be formed soon. Berri also stated that he would not call for a presidential election before reforms required by the IMF are implemented in law. It is widely believed that the government formation will remain stalled until presidential elections – slated for the end of October – are decided.

US Special Envoy and Coordinator for International Energy Affairs Amos Hochstein traveled to Beirut on July 31 for talks on the maritime border dispute between Lebanon and Israel. At stake is a 860-square km area in the Mediterranean Sea, which both countries claim as part of their exclusive economic zone and could contain commercially viable natural gas reserves. Hochstein’s original plan was to create an “S” shaped boundary between the competing territorial claims. Earlier in July, ahead of Hochstein’s visit, Israel tabled a plan that would share control of drilling from gas exploration in the “Qana” field between the countries, an arrangement Lebanon rejected.



A new plan proposed by Hochstein will reportedly give Lebanon full claim over the Qana field and Israel full control of the “Karish” field. Since remittances are its main source of foreign exchange, oil and gas revenues could enable Lebanon to rebalance its trade deficit. However, expectations should be managed, with any potential confirmed oil and gas reserves requiring years of investment before a positive impact can be felt. Many civil society actors also warn that oil and gas revenues may aggravate governance, or crowd out other productive sectors of the economy through a “dutch disease” effect.



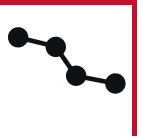
Access to Services and analysis:

Public sector employees continued their open strike throughout July. The strike has impacted multiple areas of service delivery, as well as significantly disrupted operations at the Beirut port. A cabinet meeting was convened on July 25 to resolve the crisis, at which proposals were forwarded to double salaries and extend a daily transportation allowance to employees worth LBP 94,000. The measures are currently under review by the minister of finance. On July 17, President Michel Aoun signed a decree giving public sector employees a payment equivalent to a full month's salary as temporary social assistance. Employees remain firm in their commitment to push for salary increases and have thus far not indicated they will end the strike. Ministry of Information employees joined the strike on July 17 and the Ministry of Education and Higher Education employees joined on July 25. Judicial assistants also joined the strike on July 18. They claim to have not received transportation allowances for April or May and are demanding that their salaries be calculated at the LBP 8,000 exchange rate rather than the LBP 1,507 rate.

The public sector strike has crippled Lebanon's institutions. According to Minister of Labor Mustafa Bayram, the labor stoppage is costing Lebanon LBP 12 billion daily. For instance, students who passed final official exams are not able to receive their certified degrees to apply for universities, Lebanese living abroad cannot register newborns in Lebanon, and goods are stuck at the ports of Beirut and Tripoli.

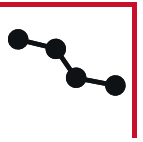
Telecommunication prices increased on July 1, with mobile services raising nearly fivefold, while landline services increased by 2.5 times. The price increases were agreed upon in May and put into effect in July. For example, the largest prepaid monthly recharge phone card increased in price from LBP 40,000 to more than LBP 220,000 (depending on the Sayrafa rate) while the smaller prepaid card increased from about LBP 20,000 to about LBP 130,000. Telecommunications companies, also a source of significant taxation revenue for the state, had their earnings slashed. These companies have consistently argued that telecommunications fees need to be raised in order to maintain infrastructure and prevent a total collapse in internet and phone services, with tariffs still calculated at the LBP 1,507.

Mercy Corps' hotline received about 70% fewer calls in July in comparison to June, an indication that the price hike is having a significant impact. Moreover, the hike in telecommunication prices will continue to exacerbate stress on household budgets due to rampant inflation, driven in large part by the collapse of the currency and increasing global commodity prices. This will also likely impact humanitarian operations and programming. Programs will face outreach and accessibility challenges with participants that find it increasingly difficult to afford new telecom and internet prices. Feedback and accountability mechanisms are particularly dependent on Whatsapp/call access. The increased challenges of reaching out to different institutions' hotlines will have ramifications for beneficiaries seeking to report abuse, corruption and fraud, among others.



Looking Forward

- Telecommunications price rises will continue to impact the ability of the aid sector to communicate with beneficiaries and program participants going forward, with the true impact of the hikes playing out over the following months.
- The government and parliamentary Budget and Finance Committee is expected to continue studying the 2022 budget in August and September, though it is unclear when and whether the 2022 budget will be ratified. An approved budget would include amendments to public sector employee salaries, many of whom remain on strike and likely include an increase in import tariffs, which could drive higher prices on the market.
- Parliament's Budget and Finance Committee will study the 2022 budget in August, which could double or triple public sector salaries and increase import tariffs. Such developments could exacerbate LBP depreciation but will also end the ongoing public sector strike and improve the living situation of hundreds of thousands of public sector employees, whose salaries have been decimated by LBP depreciation.
- It is currently unclear if the Lebanese government will proactively move forward in the short term with its plans to begin forced refugee returns to Syria. However, should they take place, it will most likely be outside the protection and legal frameworks of the United Nations and therefore of major risk to the Syrian population. Ongoing tensions between host and refugee populations driven by the economic crisis specifically issues such as bread shortages will likely continue to simmer in the coming months.
- The World Bank loan to support grain imports should provide some stability to supply chains and therefore lead to some improvement in food security outcomes. However, more influential will be whether the Lebanese Central Bank continues bread subsidies. Once the loan is exhausted in 2023, and should there be no concurrent progress on an IMF deal, the risk of shortages and/or major price hikes will return.
- Continuing delays in government formation could reduce confidence in any movement forward towards meeting the IMF benchmarks, with significant negative implications for a stabilization of the economic situation and any form of sustained recovery.



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ABOUT MERCY CORPS

Mercy Corps is a leading global organization powered by the belief that a better world is possible. In disaster, in hardship, in more than 40 countries around the world, we partner to put bold solutions into action — helping people triumph over adversity and build stronger communities from within. Now, and for the future.

