

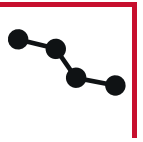
Lebanon Crisis Update

June 2022 ■ ■



Photo: Reuters

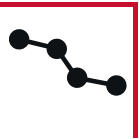
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The Monthly Lebanon Crisis Update provides an overview of economic and political developments to alert the international aid response to new and emerging challenges that could impact the humanitarian situation in Lebanon. In the context of the multiple 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.

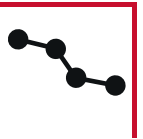
The Lebanon Crisis Analytics Team (LCAT) provides reactive and in-depth context analysis to inform the humanitarian community in Lebanon. The information and analysis contained in this report is strictly to inform the humanitarian response and policymaking on Lebanon.

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

- Despite fluctuating throughout June, the Lebanese pound's (LBP) value against the US Dollar (USD) did not sharply depreciate due to the Central Bank's ongoing intervention via Circular 161. However, this period of relative stability is threatened by the precarious state of Lebanon's economy and a sharp USD 500 million dip in foreign exchange reserves recorded in the first two weeks of June alone.
- Queues returned to gas stations as rumors circulated that fuel subsidies will be lifted. Fuel prices reached record highs in June, with an LBP 75,000 increase in the prices of 95- and 98-octane between the end of May and late June, while the price of diesel increased by LBP 173,000 during the same period.
- Queues formed in front of bakeries across Lebanon in June, primarily due to the Central Bank not providing timely credit lines for importers to bring in needed supplies and the state's inability to find alternative grain markets to those in Ukraine and Russia.
- Caretaker Prime Minister Najib Mikati was named to form a new government but faces a host of challenges in gaining support for his cabinet lineup. Mikati already proposed a new government, with most of the ministers from the caretaker government remaining in place. The delay is largely due to disagreements between Mikati and President Michel Aoun over the appointment of specific ministers, in particular who will be named to head the Ministry of Energy and Water.
- Some 15,000 public administration employees went on strike during June, closing down most public administration offices. Despite multiple proposals to increase salaries and provide other benefits, the employees remain on strike, demanding better work and living conditions.
- Lebanon, Syria, and Egypt signed a gas import agreement but many challenges remain before imports can arrive in Lebanon including pipeline repairs, alleviating concerns that parties to the deal will be sanctioned in line with the US-imposed Caesar Act, and securing a World Bank loan.
- LCAT's own quantitative analysis shows that depreciation has a large impact on the consumer price index (CPI) for food and non-alcoholic beverages and can be used to project the CPI with a high level of accuracy. The LCAT will develop these projections in future work.
- Air pollution decreased in Lebanon over the past year and a half, most likely because of lower levels of automobile traffic due to higher fuel prices.
 - Further analysis by LCAT found that diesel generator emissions are mostly responsible for NO2 pollution in Lebanon.
 - The relationship between diesel prices, electricity consumption, and the total change in electricity consumption, is a potentially useful tool for identifying economically vulnerable households in Lebanon.



JUNE

Israel moved the offshore production vessel Energean Power into the Karish field between Lebanon and Israel's maritime borders.

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The Ministry of Health and Public Health announced Lebanon's first monkeypox case

Lebanon, Syria, and Egypt signed a gas import agreement, which would see 650 million cubic meters of natural gas per year shipped from Egypt to Lebanon via Syria through the Arab Gas Pipeline.

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23



Caretaker Prime Minister Najib Mikati was named to form a new government.

Mikati submitted his first cabinet line-up to President Michel Aoun, which is expected to be rejected by the president.

30





Joseph Eid/AFP via Getty Images

Economic and Financial Updates

Fluctuation of the Lebanese pound

The value of the Lebanese Pound (LBP) against the US dollar (USD) fluctuated throughout June and closed the month at about LBP 28,000. The market rate reached about LBP 31,500 per 1 USD following the first session of the new parliament on May 31, and then quickly appreciated to about 28,000 on June 2. The LBP/USD rate then fluctuated between LBP 27,500 and LBP 28,000, until it depreciated to about LBP 30,000 on June 12. The depreciation on June 12 is linked to some banks stopping the implementation of Circular 161, who claimed that the Central Bank was not providing enough dollars. On the same day, the Central Bank reiterated its commitment to provide an unlimited amount of dollars, returning the market rate to about LBP 28,000 per 1 USD. Following Central Bank Governor Riad Salameh’s interview on LBCI on June 21, the market rate depreciated again to about LBP 30,000 per 1 USD, and later appreciated, closing the month at about LBP 28,000 (see figure 1).

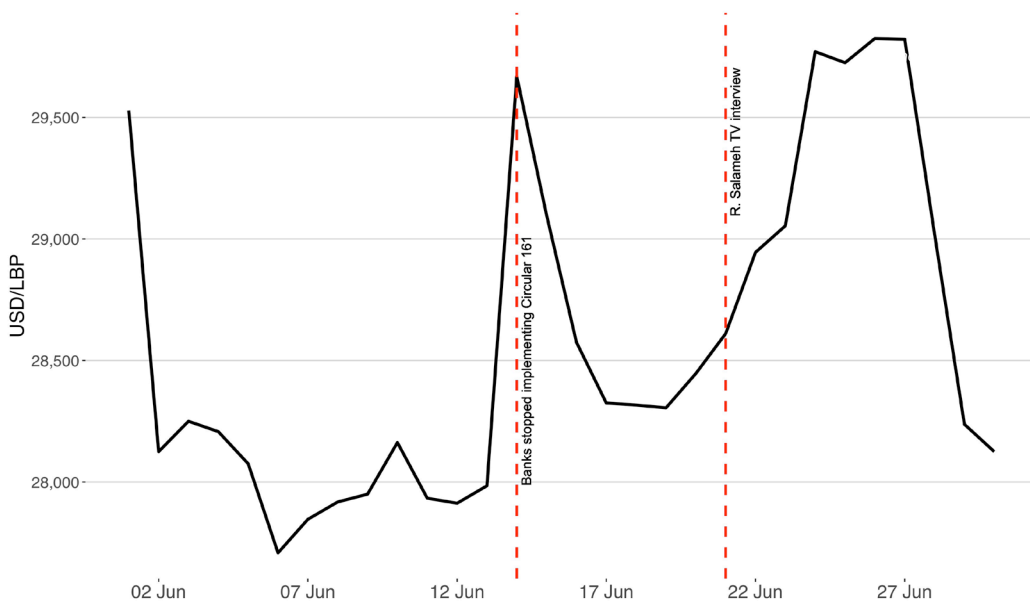


Figure 1: Parallel Market Rate VS Events in June

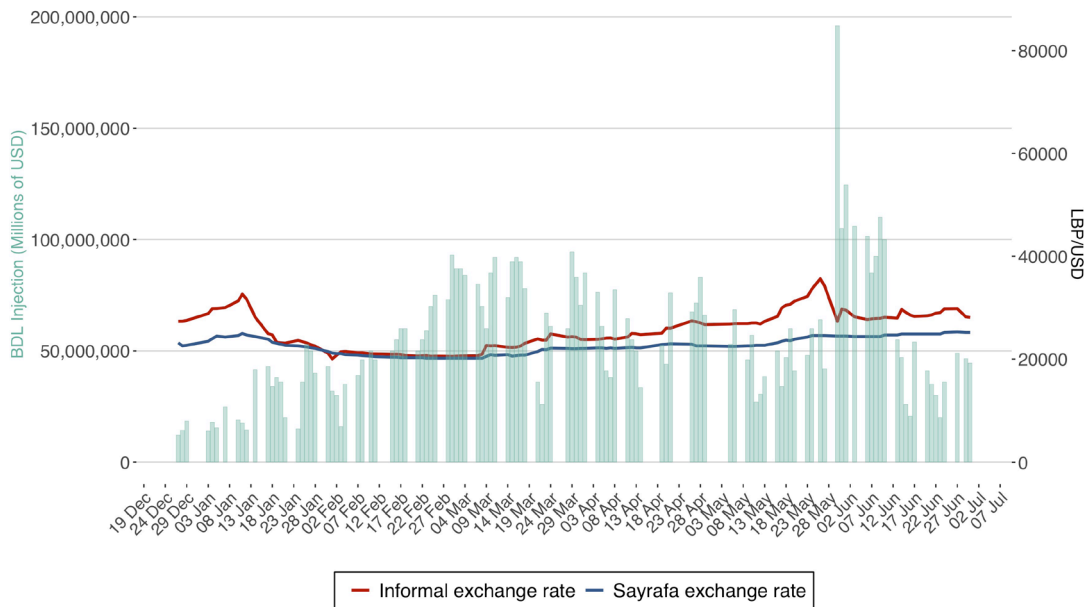
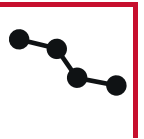


Figure 2: Sayrafa transactions VS Market Rates¹

After reaching an all-time low near the end of May – when the LBP traded at 37,000 per USD 1 – the Central Bank announced that anyone could change LBP to USD at commercial banks at the specified Sayrafa rate². The Central Bank’s announcement increased the amount of USD exchanged via Sayrafa, with more than USD 1.5 billion exchanged on the platform from May 30 through the end of June in comparison with USD 766.5 million exchanged from May 1 through May 27 (see figure 2). After increasing the amount of LBP in circulation in May, the Central Bank extracted LBP from the market in June by allowing people to exchange LBP to USD at the Sayrafa rate. The amount of LBP in circulation is at LBP 55.3 trillion as of 30 June after exceeding 60 trillion in May (see figure 3).

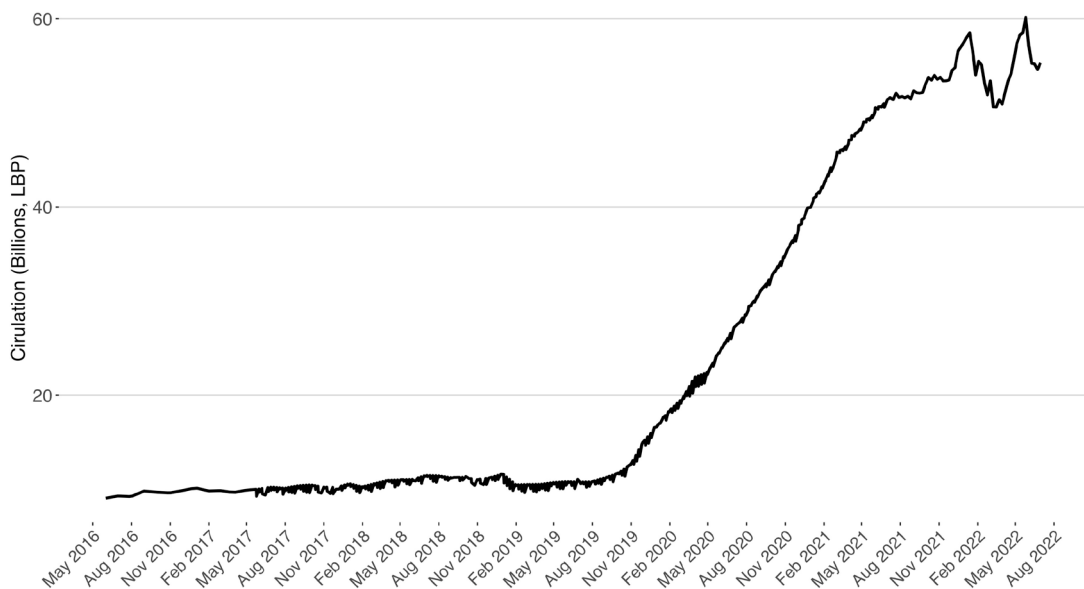
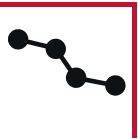


Figure 3: LBP in Circulation³

¹ Source: [Central Bank - lirate](#)

² The Sayrafa rate is the standard transaction rate for international and fresh dollar cards used in Lebanon. The Sayrafa rate is set by the Central Bank and ranged between LBP 24,000 and LBP 25,000 to USD 1 in June.

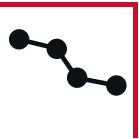
³ Source: [Central Bank](#)



Analysis

Circular 161 was introduced in December 2021, allowing banks to sell a set amount of dollars to depositors at the Sayrafa rate while keeping monthly lira liquidity quotas granted to banks in place. When the market rate reached LBP 33,000 in January, the Central Bank amended the circular and removed all quotas, which allowed banks to sell USD in unlimited quantities to their clients. This increased the amount of USD injected into the market, lowered the amount of LBP in circulation, and ultimately appreciated the LBP market rate. This strategy was then shifted, with more LBP being introduced to the market in March and the LBP market rate gradually decreasing, leading to an all-time low in May, reaching more than LBP 37,000. By amending the circular and allowing anyone to exchange their LBP to USD in commercial banks, similar to the strategy employed in January, the Central Bank increased the amount of USD exchanged via Sayrafa, extracted LBP from the market, and temporarily stabilized the market rate. These tactics, while serving to stabilize the currency market, are proving to be costly to what remains of Lebanon's FX reserves.

Central Bank Governor Riad Salameh stated in his interview with LBCI on June 21 that the implementation of the circular is costing Lebanon its FX reserves and acknowledged a dip of USD 2.2 billion in FX reserves since the start of the year. The governor also said that Lebanon still holds about USD 11 billion in FX reserves, which is about one-third of what the country held three years ago (USD 30 billion). The Central Bank's balance sheets showed a USD 500 million dip in FX reserves in the first two weeks of June alone. Drawing on the Central Bank FX reserves could stymie plans to boost Lebanon's economy through a reform plan, redistribution of losses, and implement a fair capital control law that ensures more money is made available to depositors. Many obstacles remain to address key benchmarks set forth by the IMF to receive a loan and Lebanon is increasingly short on time and money to meet these requirements. If the Central Bank depletes its FX reserves, it is expected that they will try to dip into the gold reserves, subject to parliamentary approval. The Central Bank posted a statement on Lebanon's gold reserves on June 30, which stated that Lebanon has 9,222,437.73 ounces of gold, out of which 3,707,703.13 ounces are located in the USA and 5,514,734.60 ounces are located at BDL. At a current price of USD 1,812 per ounce, the value of BDL's gold holdings stands at about USD 16.7 billion. This means that Lebanon has a combined USD 27.7 billion left between FX and gold reserves, and holds losses of about USD 67 billion.



Reuters

Impact of the war in Ukraine

Fuel prices continue to reach record highs due to global supply disruptions and LBP depreciation, with queues forming on multiple occasions at fuel stations. After fuel prices in Lebanon reached all time highs at the end of April and May, prices continued to rise in June, reaching LBP 687,000 for 20 liters of 98-octane and LBP 676,000 for 20 liters of 95-octane (both increased by LBP 75,000 in comparison with prices at end of May). The price of 20 liters of diesel increased to LBP 173,000 in comparison to the end of May, reaching LBP 747,000 at the end of June. This increase was mainly due to a rise in the price of Brent Crude, which surpassed USD 120 per barrel in early June and remained at that price through most of the month, before dipping to USD 108 in late June.

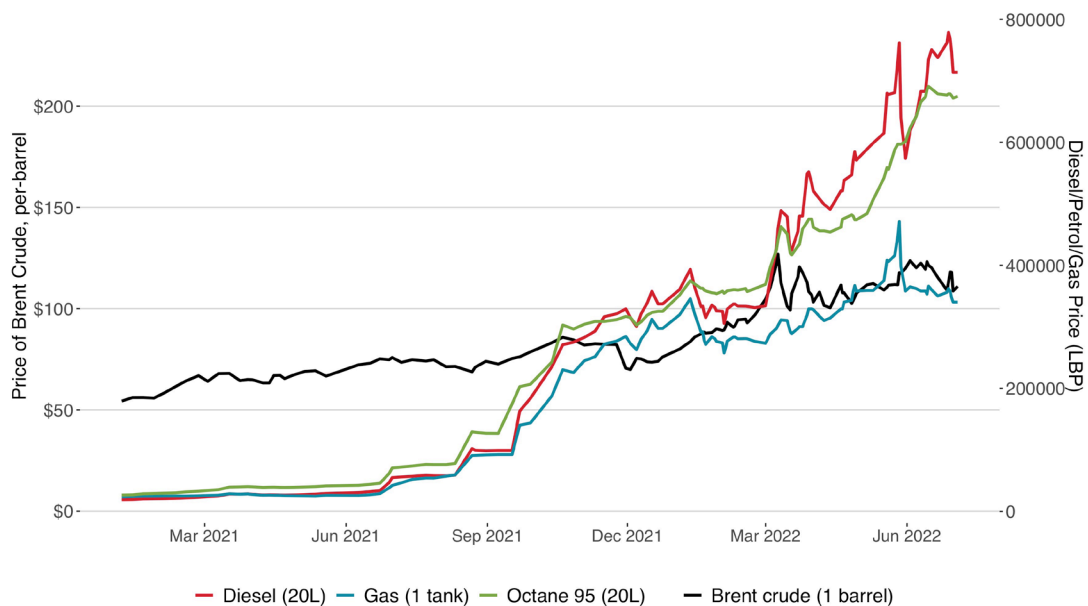
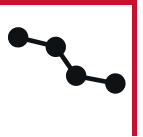


Figure 4: Fuel Prices from March 2021 to June 2022⁴

⁴ Source: [lirate](https://lirate.com)

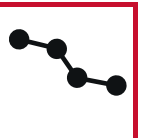


Queues returned to gas stations in June amid rumors that the Central Bank will lift all fuel subsidies. The spokesman for the union of gas station owners, George Brax, claimed that the Central Bank is no longer able to subsidize fuel and that fuel prices will see an immediate hike, which prompted consumers to rush to fuel stations to fill up their tanks. The Ministry of Energy and Water quickly played down these rumors and the Central Bank governor accused the “fuel cartel” of spreading this rumor for people to rush to the stations.

Bread queues formed across the country throughout June. Food security remains a major concern in Lebanon, with bread lines forming around the country, in large part due to a lack of alternatives to wheat supplies imported from Ukraine and Russia. Moreover, the Central Bank has not opened lines of credit to import wheat. Flour is subsidized by the state, meaning mills should receive approval from the Central Bank to open credit lines to facilitate wheat imports, making it difficult for them to provide bakeries with needed supplies. In June, the Syndicate of Bakery Owners in Beirut and Mount Lebanon called for the removal of subsidies on flour and criticized the government for not searching for alternative markets to purchase wheat.

Analysis

The war in Ukraine continues to exacerbate the economic crisis in Lebanon. With the state unable to find alternative markets for wheat supplies, shortages are expected to affect the price of bread and other food items throughout this year. Broader price inflation is hitting Lebanon on multiple fronts. First, local continues to rise (already third-highest inflation in the world), which is placing added pressure on the country’s most vulnerable segments of the population. Second, addressing additional costs using FX reserves (mainly wheat and partially fuel) presents both fiscal risks and could fuel hyperinflation. Non-energy prices, such as agriculture and metals, have also risen significantly. In May 2022, the Lebanese Ministry of Economy announced an agreement with the World Bank on a loan of USD 150 million for the purchase of wheat. However, the parliament did not approve and ratify the loan, with the deal expected to take more time to be put into effect.



Consumer Price Index Projection

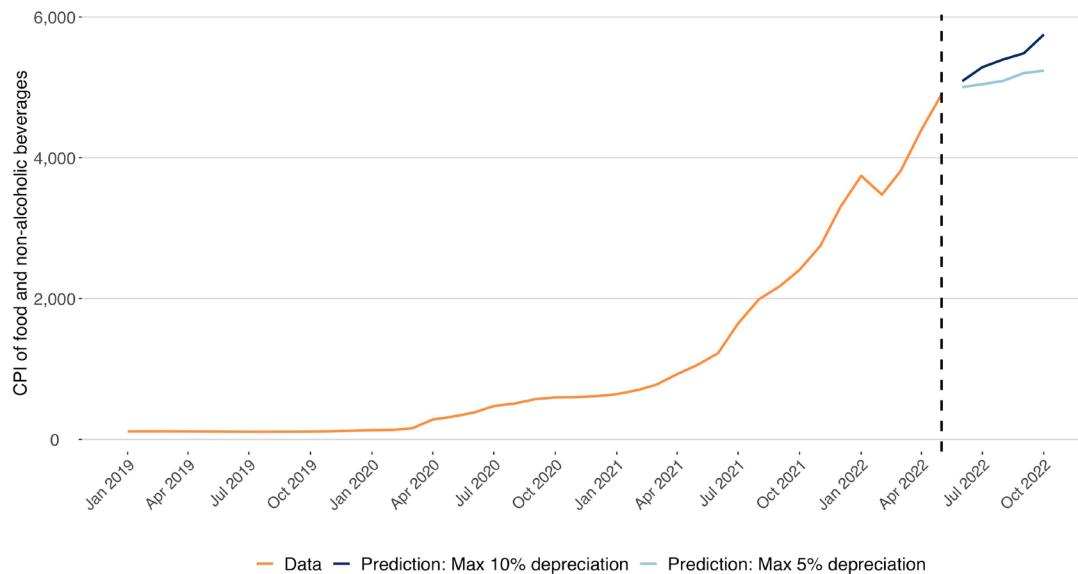
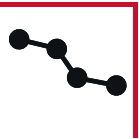


Figure 5: The observed price of the CPI for food and non-alcoholic beverages, along with a 5-month price projection estimated by the LCAT.

The Consumer Price Index (CPI) increased by 211% from May 2021 to May 2022, and CPI for food and non-alcoholic beverages increased by 364%, while the LBP/USD exchange rate depreciated by 129% during the same period. From these changes, it is clear that CPI dynamics are closely tied to changes in the LBP/USD exchange rate. As a result, the LCAT was able to calculate CPI projections using a method based on the pass-through effect⁵ of currency depreciation to consumer prices. First, the CPI of food and non-alcoholic beverages (CPIFB) is calculated and then that figure is multiplied by a hypothetical depreciation rate to estimate a price projection under that economic scenario. Figure 5 shows a five-month projection of the CPIFB under the assumption that the LBP will depreciate by no more than 5% or 10% per-month over the next five months. Specifically, the CPIFB would increase by 14% when depreciation does not increase more than 10% per-month and by 7% when depreciation does not exceed 5% per-month. Testing by LCAT has shown the predictions gave an average 6% margin of error over a five-month projection period.⁶

⁵ The pass-through effect shows how changes in the exchange rate of a domestic currency impact domestic prices for goods.

⁶ LCAT is currently developing food item-specific projections that can be used for scenario planning.



Political Updates and Analysis

On June 23, Caretaker Prime Minister Najib Mikati was designated to form a new government. This is the fourth time the caretaker prime minister has been named to form a government after receiving 54 votes from MPs, 18 votes less than his previous appointment. Mikati's only challenger for the position was Nawaf Salam, a Lebanese Judge in the International Court of Jurisdiction, who received 25 votes, while 46 MPs cast blank ballots. Mikati urged parties to set differences aside, work on securing an IMF deal, and called on the parliament to approve needed laws and reforms.

Mikati's appointment was anticipated but many challenges remain before a government can be formed. The new cabinet's mandate runs through the election of a new president, which is slated for October 31. However, the presidential election is not expected to be held on time, which could result in a presidential vacuum, in which case the new government would hold executive powers until the new president is voted in. The expected cabinet lineup is very similar to the current ministerial lineup, with the notable exception of the Ministry of Energy and Water (MoEW). Mikati has been pushing for the ministry to be held by another political party, as it has been under FPM control since 2008. Reports suggest that in return for giving up the MoEW, the FPM is considering taking the Ministry Interior and Municipalities, a position led by a Sunni minister since 2008. Despite these reports and rumors, the MoEW is expected to be given to FPM. On June 30, Mikati submitted his first cabinet line-up to President Michel Aoun. Mikati reportedly named Walid Sinno, a Sunni businessman and energy expert to the MoEW position. His proposed appointment will likely be rejected by the president. The government formation process is expected to take additional time, particularly as after an agreement is reached between Aoun and Mikati, the parliament will need to give the government a vote of confidence.

On June 5, Israel moved the offshore production vessel Energean Power into the Karish petroleum field between Lebanon and Israel's maritime borders. The floating production storage and offloading unit is slated to develop the Karish natural gas field, which Israel claims as part of its exclusive economic zone. U.S. Special Envoy and Coordinator for International Energy Affairs Amos Hochstein visited Lebanon on June 13 to mediate talks over the 860-square kilometer area. Reporting by Reuters indicated Lebanon is prepared to compromise on the boundary. Hochstein's plan is to create an "S" shaped boundary instead of a straight line, which would take into account Lebanon's claim to Line 29, including the Karish field, which could contain as much as 1.4 trillion cubic feet of gas reserves. Opposition politicians have criticized the proposal and called on Lebanon to officially claim Line 29.

Talks over the demarcation of the maritime border between Lebanon and Israel are progressing, with Lebanon said to have offered the Karish field to Israel, in return for the Qana field. President Aoun has not signed the decree to claim Line 29, opening the way for Israel to begin operations in the Karish field. However, Lebanese authorities did not claim line 29 when negotiations began last year despite experts from the Lebanese Army claiming that it is within Lebanon's maritime borders. Hezbollah announced that it sent three unarmed drones towards the Karish field on July 2 which were intercepted by Israeli forces. Israel accused Hezbollah of trying to prevent the state of Lebanon from reaching an agreement over the maritime borders, while Hezbollah hailed the operation as a success.

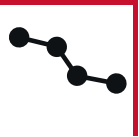
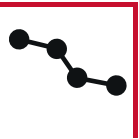


Photo: Mei.edu

Access to services

Public administration employees went on strike in June. Despite proposed measures to improve public employees' working conditions and benefits, the country's public workforce went on strike throughout the month of June. Public administration employees account for 15,000 out of 300,000 public sector employees. Among the proposed measures to improve public administration employee working conditions were doubling salaries, guaranteeing at least eight paid days a month, and a transportation allowance of LBP 95,000 per day. Public administration employees stated that they believed these proposals were unlikely to be implemented and refused to end their strike. The economic crisis in Lebanon has resulted in public sector employee salaries being insufficient to meet basic needs, such as consistently paying for gasoline. Minister of Labor Mostafa Bayram announced that he will offer no new proposals to end the strike after "giving everything he could", meaning there is no clear date set on which public administration offices will reopen.

On June 21, Lebanon, Syria, and Egypt signed a gas import agreement, which could see 650 million cubic meters of natural gas per year shipped from Egypt to Lebanon via Syria through the Arab Gas Pipeline. Gas deliveries from Egypt would increase electricity generation and according to projections would result in an additional four hours of electricity supply per day. Full implementation of the deal, which entails gas being piped to Lebanon's northern Deir Ammar power plant, will likely take some time. Since the fuel plan was proposed and an agreement signed in December 2021, little has changed on the ground. The agreement with the Egyptian Natural Gas Holding is administrative and in order for the plan to be successfully implemented, three challenges need to be addressed. First, despite the World Bank offering to fund the deal, it has predicated the loan on energy sector reforms and a forensic audit of EDL, neither of which has been completed. Logistically, repairing oil pipelines is Lebanon's responsibility, which will not only be costly for Lebanon, but also will take time to implement. Politically, despite the deal being signed under US patronage, the Biden administration has yet to issue a sanctions waiver under the Caesar Act for Lebanon and other parties to the deal to conduct business with Syria.



Public services continue to deteriorate, particularly during the summer months when water and electricity consumption increases. Water shortages affected large portions of Beirut in June, prompting protests in front of the Beirut Water Establishment on June 30. People have been turning to the black market to fill the gap, which is placing additional costs on households. Water provision has become more challenging due to electricity shortages, forcing providers to rely on private generators. Electricity provision is also worsening in Lebanon. Reliance on private generators to fill the gap has not only added to household costs but also increased the level of pollution across the country, which will present additional health threats on the people.

Electricity crisis - understanding the impact of electricity generators on air quality

LCAT measured the level of carbon monoxide (CO) and nitrogen dioxide (NO₂) in Lebanon to assess the impact of electricity generators on air quality. NO₂ and CO are combustion pollutants generated from burning fossil fuels. LCAT used data from the Sentinel-5P satellite, which measures the density of CO and NO₂ in the troposphere. Furthermore, diesel prices, night light reflectance (NLR) data, and Metaverse mobility data related to changes in the level of NO₂ and CO are used as proxies for the cost of electricity, electricity consumption, and automobile usage. Figure 6 shows the trends of all these indicators from January 2021 to May 2022.

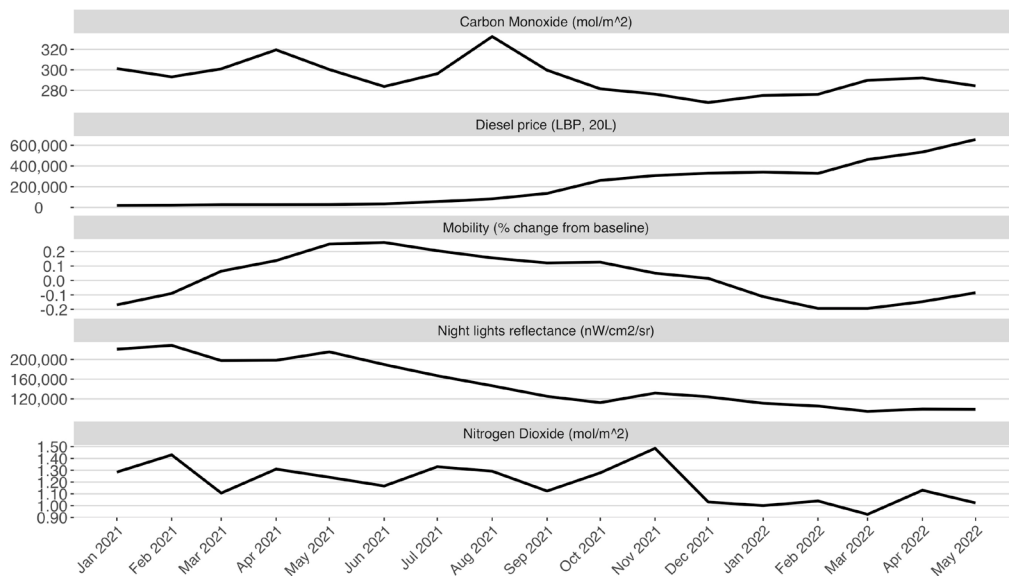
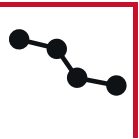


Figure 6: The level of CO and NO₂ air pollution, mobility, and NLR in Lebanon from January 2021 to May 2022.

National NLR is highly correlated to the level of CO ($r = 0.45$) and NO₂ ($r = 0.57$), but mobility is only marginally related to the level of NO₂. LCAT measured the effect of mobility and NLR on levels of air pollution in a multivariate regression analysis at the qada level to measure the relative impact of both emission sources. The results indicate that NLR is strongly positively related to the level of NO₂ (every 10% increase in NLR increases NO₂ by 2.5%), but changes in mobility do not relate to levels in NO₂. However, both mobility and NLR dynamics modestly contribute to changes in the level of CO pollution. Therefore, **LCAT infers that diesel generator emissions are mostly responsible for NO₂ pollution in Lebanon.**



Correlations between NLR and NO₂ were calculated at the qada level to identify locations where most NO₂ air pollution is produced by electricity generators. The LCAT assumes that governorates with higher correlations between NLR and NO₂ are relatively more dependent on generators for electricity production. **Beirut produced the strongest correlation coefficient** ($r = 0.6$), followed by Akkar, Keserwane, and Batroun. Interestingly, Zahle produced the weakest, statistically insignificant correlation coefficient, likely a reflection of the Electricite de Zahle's centralized power generation, which has allowed the area to avoid dependence on numerous smaller generators, unlike most parts of Beirut.

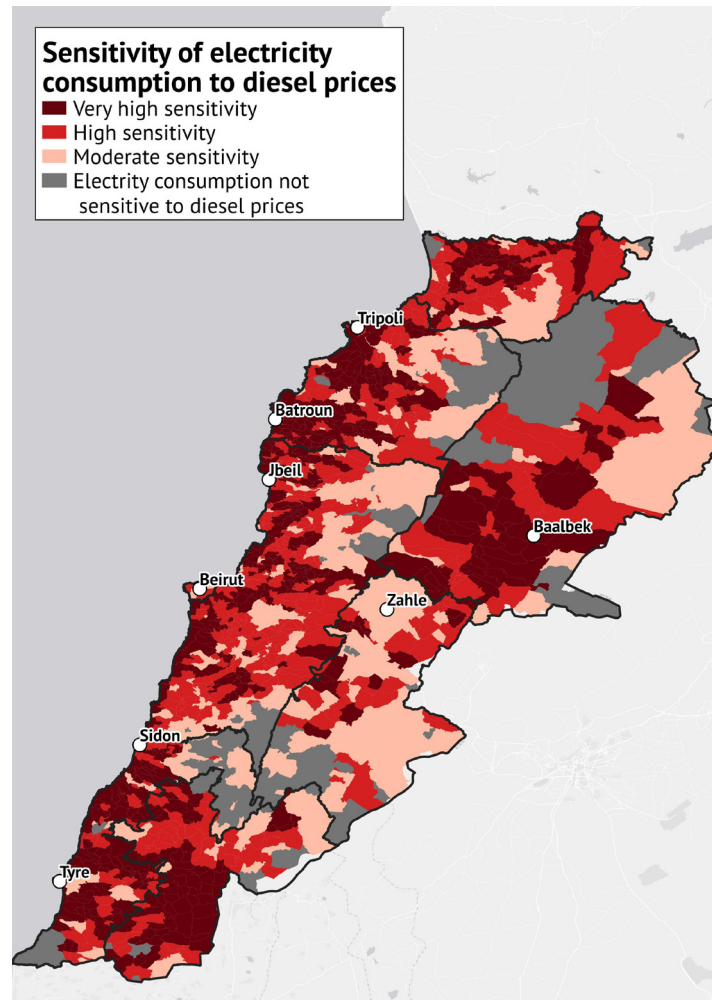


Figure 7: Sensitivity of electricity consumption to diesel prices at the municipality level.

At the national level, the price of diesel was strongly, negatively correlated to NO₂ ($r = -0.57$), CO ($r = 0.52$), NLR ($r = -0.87$), and changes in mobility ($r = -0.58$). Therefore, LCAT investigated the strong relationship and calculated correlations between fuel prices and NLR at the municipality level to measure local price sensitivities to electricity generator costs. The results, shown in Figure 7 highlight municipalities mostly in the south, Baalbek, and most of Akkar governorate. Municipalities with very high diesel price sensitivities and a severe decline in NLR from May 2021 to May 2022 are highlighted in Figure 8. In other words, **residents in these locations are vulnerable to price increases and have experienced a sharp decline in electricity consumption.**

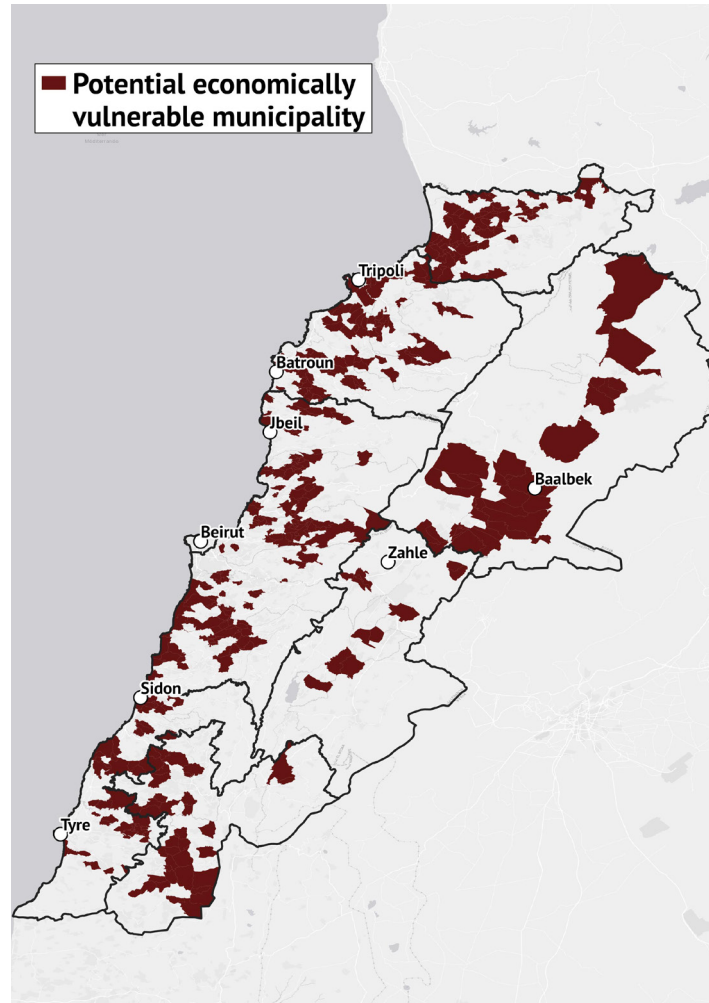
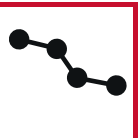


Figure 8: Potential economically vulnerable municipalities. Calculated by selecting municipalities in or above the 50th percentile of diesel price sensitivity and the bottom 50th percentile of NLR growth rates (May 2021 to May 2022).

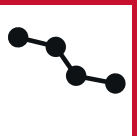
The LCAT calculated the aforementioned indicator⁷ of fuel price sensitive areas at the kaza level to measure its relationship to existing indicators of economic distress; specifically, the 2022 PiN (people in need) per-1,000 people⁸ and the 2019 multidimensional poverty index (MPI)⁹. Using t-tests to measure group differences, the MPI was statistically significantly about 26% higher¹⁰ in kazas identified as fuel price sensitive than those that were not. Group differences in the 2022 PiN per-1,000 people were statistically insignificant. This indicates that **kazas identified as fuel price sensitive are more impoverished than those not assigned to the categorization, and therefore a promising remotely-sensed measure of economic distress**. The LCAT will continue to develop the indicator from a single to multi-category poverty index in future research.

⁷ Kazas very high diesel price sensitivities and a severe decline in NLR from May 2021 to May 2022.

⁸ Population estimates from [Kontur](#).

⁹ [Lebanon Multidimensional Poverty Index 2019](#).

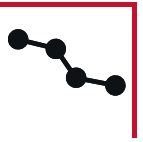
¹⁰ $t(23) = -3.36, p < 0.01$



Looking Forward

- The Central Bank's strategy of increasing the amount of USD exchanged on Sayrafa to extract LBP from the market kept the LBP rate relatively stable in June, with the exception of short-term fluctuation. However, the sharp depletion in FX reserves in June raises more concerns over the Central Bank's ability to maintain its monetary policy. If the Central Bank decides to overturn the policy, further depreciation in the LBP rate is anticipated. The depletion in FX reserves could stymie Lebanon's hopes for an economic recovery and add pressure to opening credit lines for key imports such as fuel, food, and medical imports.
- The anticipated global decrease in fuel prices in July will likely lead to a decrease in the prices domestically after reaching record highs in June. However, long-term global forecasts project that fuel prices will reach record highs as the war in Ukraine drags on.
- The re-appointment of Mikati signals that the next government will be similar to the current caretaker cabinet. Further delays in government formation are anticipated with fears over the Presidential vacuum after the current term ends on 31 October.
- The economic situation in Lebanon, combined with the global crisis, is leading to further deterioration of food security levels¹¹ as well as of access and quality of public services such as water, electricity, and telecommunication, adding additional burdens across households and sectors. Taking into account the labor stoppage by public sector employees, a further deterioration of public services and living conditions could spark further strikes and possibly protests in the near future.

¹¹ The LCAT will continue to estimate CPI and food price projections in the coming months to develop price scenario plans in response to projected LBP/USD depreciation.



Contact

Team Lead: Crisis Analytics | Lebanon
lb-lcat@mercycorps.org



ABOUT MERCY CORPS

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