

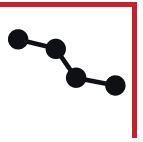
# Lebanon Crisis Update

May 2022 ■ ■



Photo by KARIM SAHIB/AFP via Getty Images

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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.

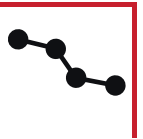
*This study/report is made possible by the support of the American People through the United States Agency for International Development (USAID). The contents of this report are the sole responsibility of the LCAT and do not necessarily reflect the views of USAID or the United States Government.*



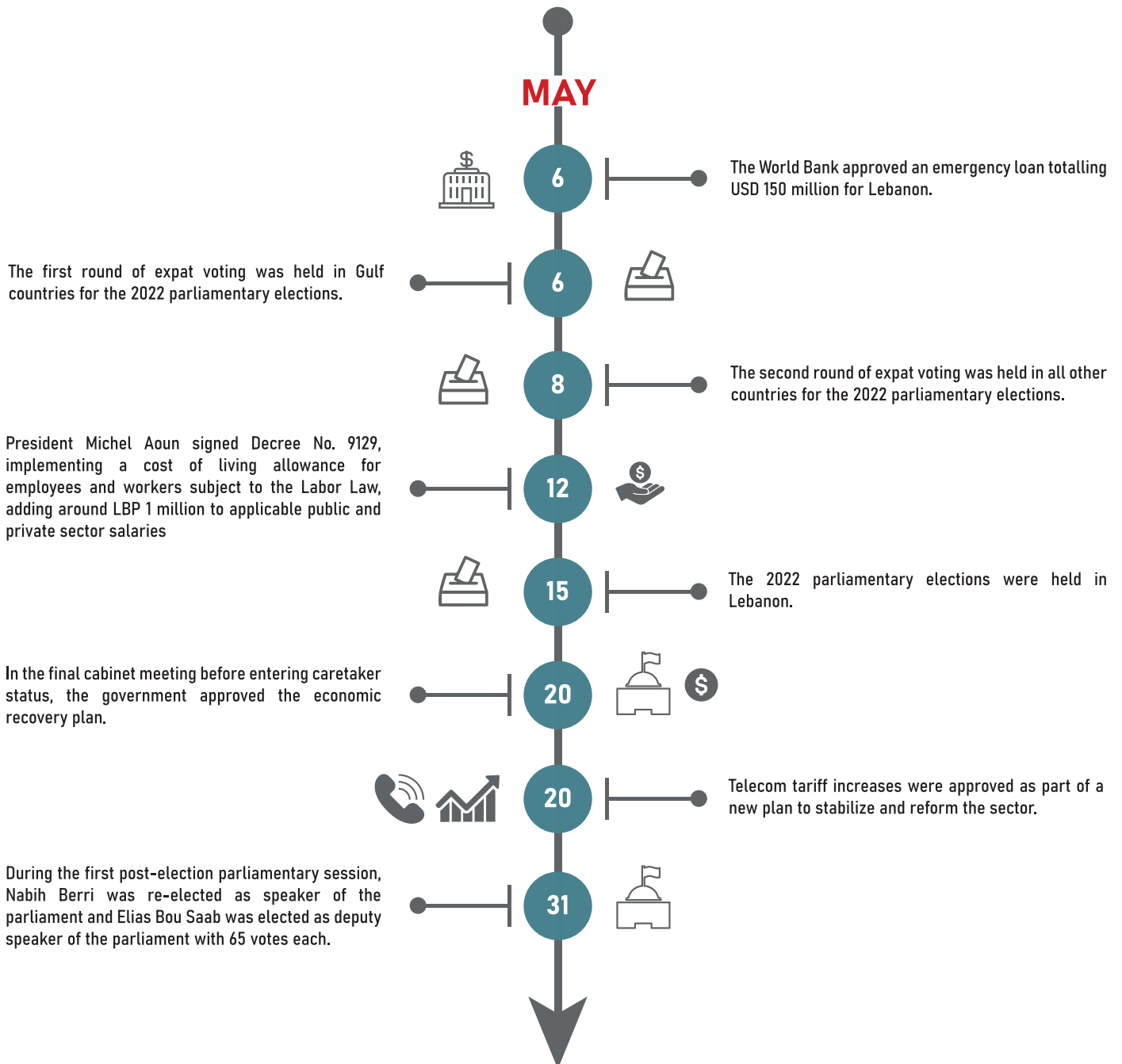
## Key Findings:

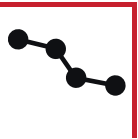
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- Lebanon held national elections on May 15, the first since the country's economic crisis began in 2019 and the August 2020 Beirut port blast. No parliamentary block or political alliance won a clear majority, unlike in the previous parliament. Opposition candidates fared well, gaining 13 seats. There are concerns that the makeup of the new parliament is ripe for endemic deadlock over key policy issues, re-raising the familiar specter of long-running caretaker governments and political vacuums experienced recurrent in Lebanon over the last decade or so.
- In the first post-election parliamentary session on May 31, Nabih Berri was re-elected as speaker of parliament for the seventh time in a row and Elias Bou Saab was elected as the new deputy speaker. The parliament's focus now shifts to the formation of a government, slated for June, amid concerns that there could be delays in approving a new cabinet.
- The value of the Lebanese Pound (LBP) against the US dollar (USD) fluctuated dramatically throughout May, reaching an all-time low of LBP 37,000 on May 27 before rebounding to around LBP 27,000, and closing the month at about LBP 30,000 as a result of Central Bank interventions through the Sayrafa platform. Despite this, a lot of uncertainty remains in the coming period, with political dynamics likely to continue to have a significant impact on issues such as currency volatility and market confidence.
- Fuel prices are at record highs due to global disruptions stemming from the conflict in Ukraine, as well as continued LBP depreciation. After fuel prices rose at the end of April, they increased again, reaching an all-time high of LBP 601,000 for 20 liters of 95-octane and LBP 574,000 for 20 liters of diesel at the end of May. Prices are expected to rise again during the summer, largely driven by global price increases, resulting in higher electricity and transportation costs for much of the population, as well as increasing the likelihood of major service delivery failures, such as water shortages.
- The World Bank approved an emergency loan of USD 150 million on May 6, in an effort to support Lebanon's access to wheat and overcome global supply chain challenges.
- The economic crisis continues to impact public services, with a telecom tariff increase by five times approved by the cabinet on May 20 as part of a new plan for the sector. An expectation of higher fuel prices in the summer continues to threaten the possibility of water shortages.



## MAY





## Economic and Financial Updates:

The value of the Lebanese Pound (LBP) against the US dollar (USD) fluctuated dramatically throughout May, reaching an all-time low before rebounding and closing the month at about 30,000. After declining to about LBP 27,000 per USD 1 at the end of April, the LBP was relatively stable at about LBP 27,000 per USD 1 through parliamentary elections on May 15. Following the elections, the LBP sharply depreciated, reaching LBP 37,000 per USD 1 on May 27, losing about 30% of its value during this period. On the same day in the afternoon, the Central Bank published an announcement that beginning on May 30, anyone could change LBP to USD at commercial banks at the specified Sayrafa rate in accordance with Circular 161. The Central Bank also asked commercial banks to open their branches through 18:00 to account for expected higher demand. The Central Bank statement swiftly impacted the LBP exchange value, as it appreciated to about LBP 27,000 per USD 1 in one day, gaining almost 30% in value. However, after the first parliamentary session, the LBP depreciated again, reaching about LBP 32,000 on May 31 and later closing the month at about LBP 30,000.

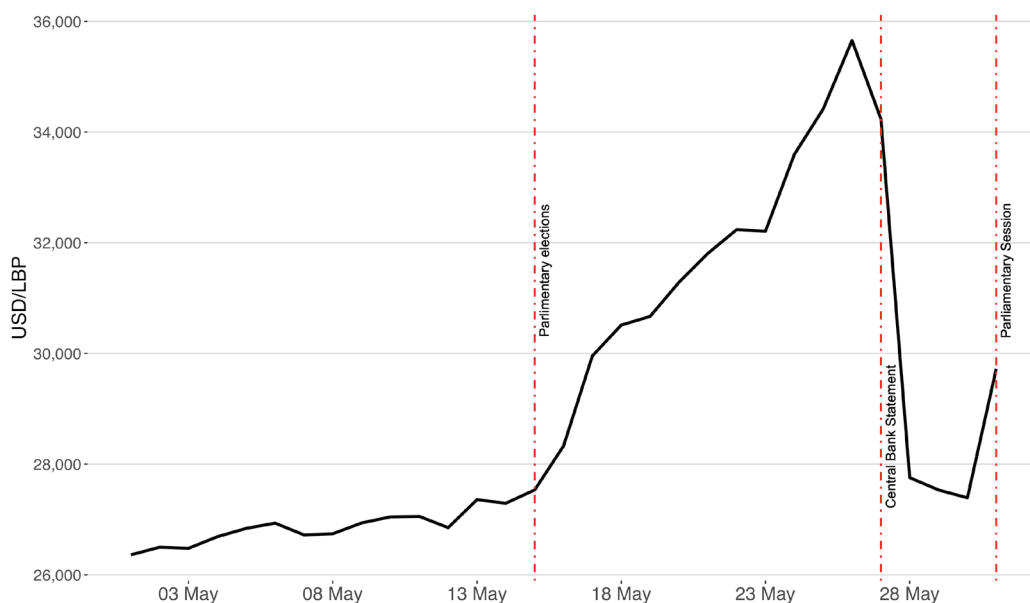


Figure 1: Parallel Market Rate VS Events in May

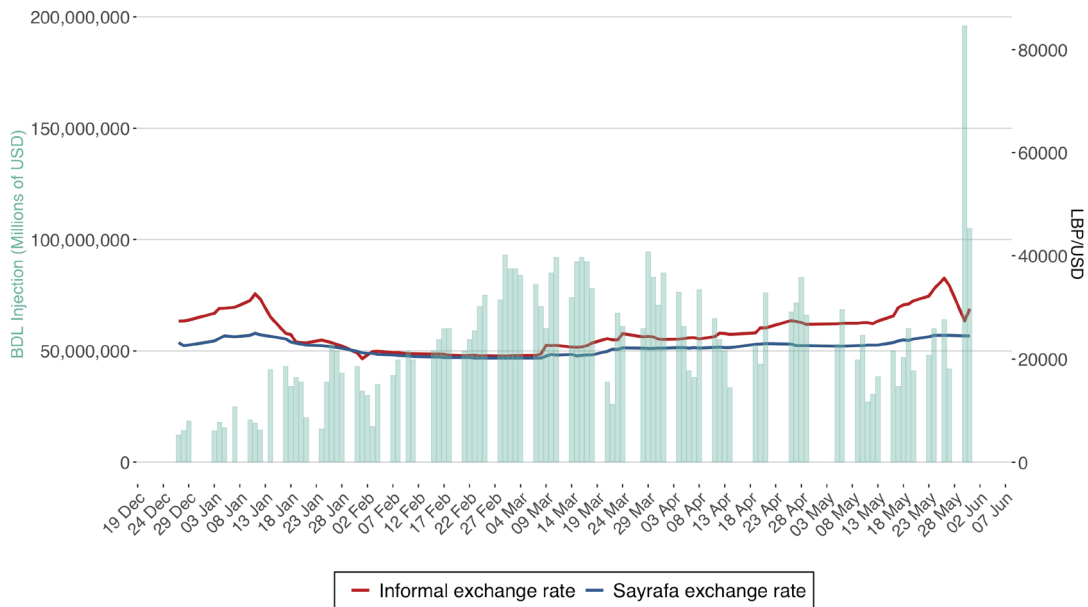
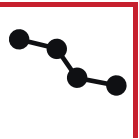


Figure 2: Sayrafa Injections VS Market Rates<sup>1</sup>

Following a decrease in USD sold through the Sayrafa platform in April (USD 1.042 billion), about USD 1.065 was exchanged in May. USD 766.5 million was exchanged from May 1 through May 27, averaging about 28.4 million a day, before USD 301 million was exchanged on the last two working days of the month. Similar to April, the Central Bank also continued to increase the amount of LBP in circulation in May. Previously, in March, the Central Bank reduced LBP liquidity.

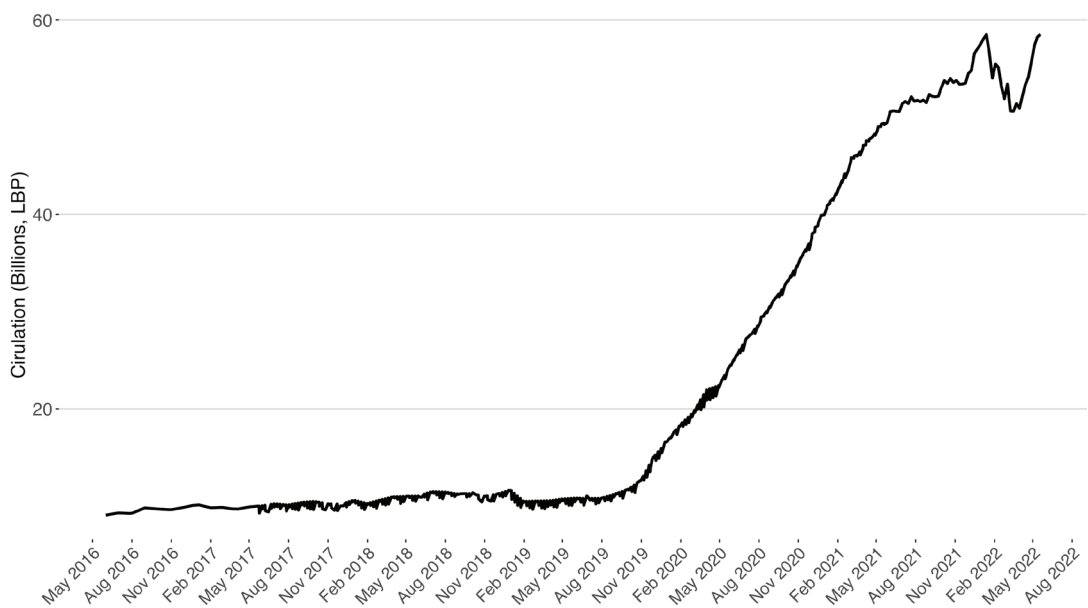


Figure 3: LBP in Circulation<sup>2</sup>

<sup>1</sup> Source: [Central Bank - lirate](#)

<sup>2</sup> Source: [Central Bank](#)

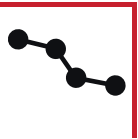


Photo by Bilal Hussein/AP

# The Impact of the Ukraine Crisis:

**Fuel prices continue to reach record highs due to global disruptions and continued LBP depreciation.** Although fuel prices in Lebanon reached an all time high at the end of April, prices continued to climb to new record highs in May, reaching LBP 612,000 for 20 liters of 98-octane, LBP 601,000 for 20 liters of 95-octane (both increased by LBP 126,000 in comparison with prices at end of April), and 574,000 for 20 liters of diesel at the end of the month. This increase was mainly due to a rise in Brent Crude prices and the fluctuation of the LBP. Brent Crude rose to over USD 120 per barrel in early June, with some estimates expecting it to reach 140 throughout the rest of 2022, largely due to supply chain disruptions and the Ukraine conflict.<sup>3</sup> For example, the price of diesel reached LBP 762,000 per 20 liters on May 27 when the LBP rate reached 37,000, with the price of diesel rebounding along with the appreciation in LBP on May 30.

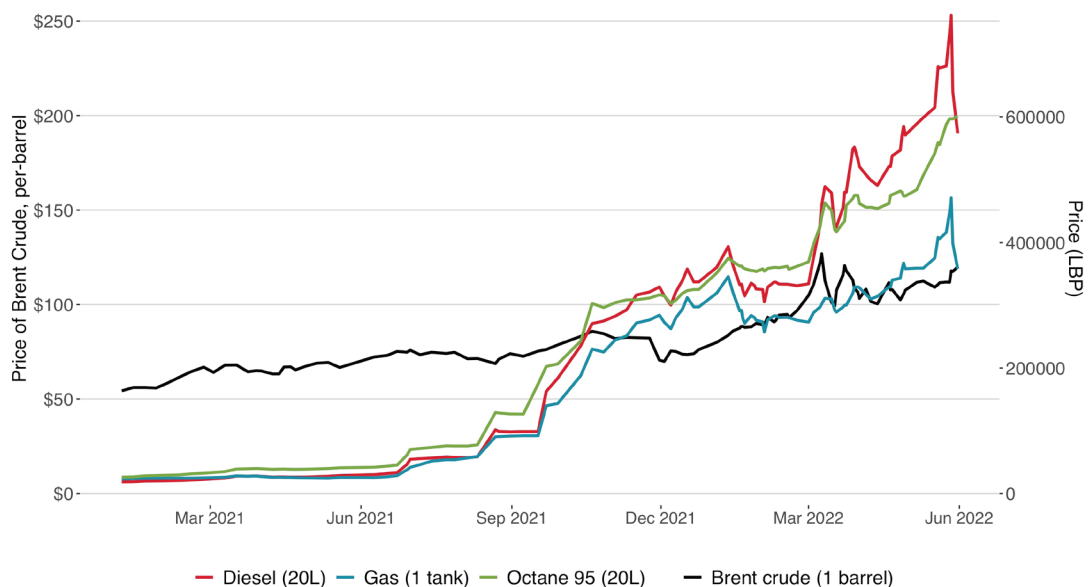
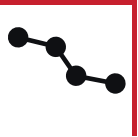


Figure 4: Fuel Prices from March 2021 to May 2022<sup>4</sup>

<sup>3</sup> [markets.businessinsider.com/news/stocks/goldman-now-sees-oil-hitting-140-this-summer-1031513759](https://markets.businessinsider.com/news/stocks/goldman-now-sees-oil-hitting-140-this-summer-1031513759)

<sup>4</sup> Source: [lirarate](https://www.lirarate.com)



**The World Bank approved an emergency loan of USD 150 million on May 6, in an effort to support Lebanon amid global supply chain challenges.** The loan aims to stave off supply shortages of wheat by financing imports via the Ministry of Economy and Trade in collaboration with the private sector and wheat importers over the coming 12 months. The World Bank will only be involved in shipping wheat to ports in Beirut and Tripoli rather than any of the milling or distribution processes. The project, however, does not specify whether subsidies will continue. In May, with the deterioration of the LBP market rate, queues formed at bakeries before the increase in bread bundle prices (big bread bundle prices reached LBP 16,000) while a parallel market for bread was created and traded at around LBP 30,000. However, as the market corrected, bread prices decreased, with large bread bundles reaching LBP 14,000 at the end of the month.

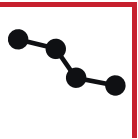
Figure 5 shows year-on-year price changes in Lebanon, the country with the third-highest inflation rate in the world according to the World Bank. Inflation has drastically increased the Survival Minimum Expenditure Basket (SMEB), with the food component of the basket per-person increasing from about LBP 150,000 per month in early 2021 to about LBP 700,000 per month in April.<sup>5</sup> According to the UN OCHA People in Need (PiN) report, over 2.1 million Lebanese are at risk of food insecurity.<sup>6</sup>

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<sup>5</sup> [powerbi.com](https://powerbi.com)

<sup>6</sup> [reliefweb.int/report/lebanon/increasing-humanitarian-needs-lebanon-april-2022-enar](https://reliefweb.int/report/lebanon/increasing-humanitarian-needs-lebanon-april-2022-enar)





# Analysis/Impact:

## Economic and Financial developments:

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LBP depreciation continues to erode the purchasing power of the resident population, while volatility stemming from Central Bank interventions are fundamentally disruptive to the economy and potentially provide significant room for speculation by some actors at the expense of healthy market activity. It is possible that the dynamics surrounding LBP volatility are being influenced by political dynamics, such as parliamentary appointments. There was concern following the election that a reduction in USD Sayrafa injections compared to the previous month would continue, under the assumption that the stabilization policy was at least partly aimed at calming markets ahead of elections. However, at the end of the month, the Central Bank both dramatically increased the amount of LBP in circulation while ramping up the amount of USD sold through the Sayrafa platform at a significant discount, largely fuelled by USD pulled from the market through exchange shops and other financial service providers.

Meanwhile, foreign exchange reserves continue to decline, indicating that they are being used to at least partly fund the Sayrafa sales. Sayrafa USD injections may also have served in part to subsidize those able to access the platform, such as public sector workers, who were able to sell their dollars over the final weekend of the month at the much higher parallel market rate, then exchange again once banks opened at the beginning of June – in the process earning up to %30 on initial amounts exchanged (and which has continued since, with a reduced profit margin). This may have been intended as an indirect subsidy – akin to a rather small social safety net payout – to those that are able to access it, although not to those that most need it. It is possible that much of the benefit of the arbitrage opportunity is being captured by politically connected actors exchanging at scale. The retail sector was less fortunate. According to interviewed exchange shop staff, retailers were converting LBP sales into USD as fast as possible during the major decline experienced in the final week of May. In retrospect, these retailers exchanged at a far more expensive rate than if they waited for the currency market correction. These costs have in turn been passed on to consumers, as retail goods continue to be priced according to the weaker exchange rate leading up to May 27.

Overall, these tactical maneuvers by the Central Bank are largely an effort to gain more control over the increasingly cash-based market, and to pull sorely needed USD back into the financial system while also exercising some control over the currency. Moreover, these maneuvers are, somewhat confusingly, a tool to hand out small short-term windfalls to various actors able to access the Sayrafa platform – notably the very public sector workers who have had their earning and purchasing power severely diminished by massive inflation.

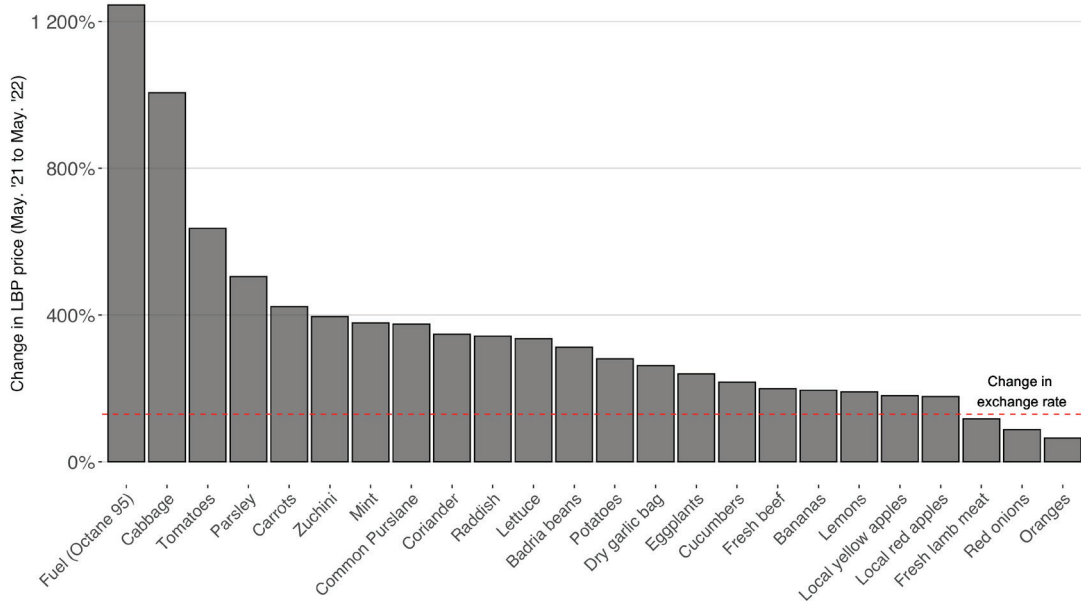
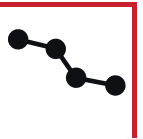


Figure 5: Year over Year Price Changes between May 2021 and May 2022<sup>7</sup>

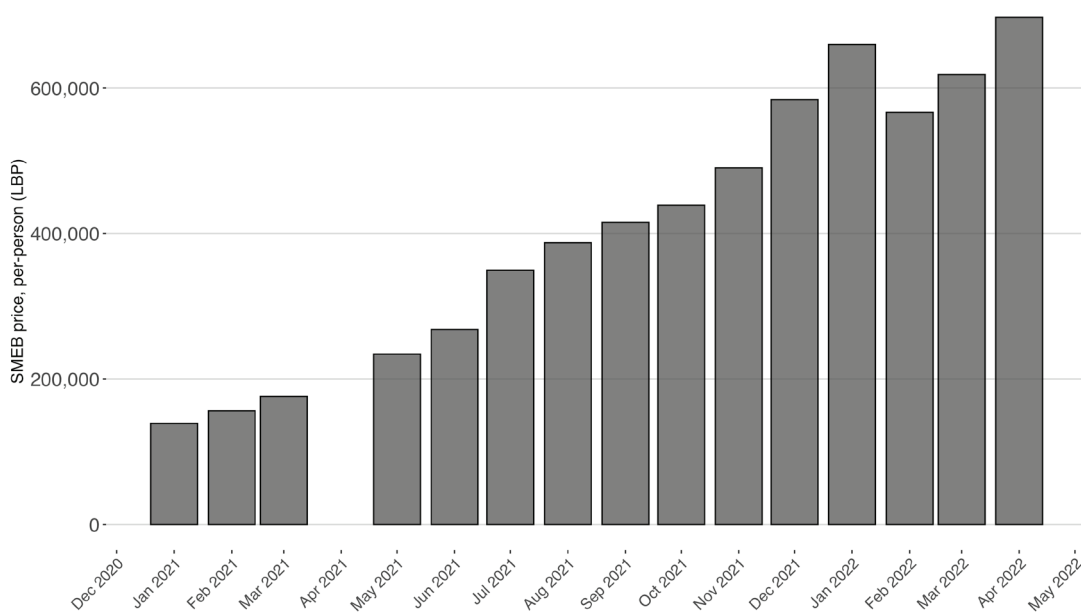
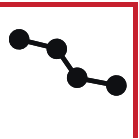


Figure 6: Monthly Survival Minimum Expenditure Basket of Food Price Per-person<sup>8</sup>

<sup>7</sup> Source: [Ministry of Economy and Trade](#)

<sup>8</sup> Source: WFP- BA Interagency



# Political Updates:

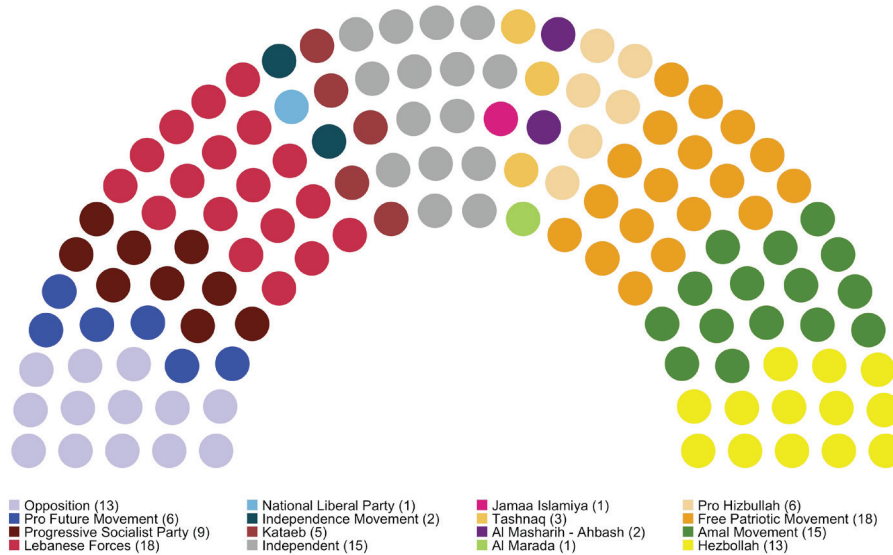


Figure 7: Composition of the newly elected Parliament<sup>9</sup>

Lebanon held national elections on May 15, the first since the country's economic crisis began in 2019 and the Beirut port blast on August 4, 2020. No parliamentary block or political alliance won a clear majority, unlike in the previous parliament, in which March 8 parties held a majority (see figure 7 and figure 8). Hezbollah, Amal, and the Progressive Socialist Party were able to retain their share of seats while the Lebanese Forces increased their parliamentary share and the Free Patriotic Movement lost some seats. Despite doubts over opposition groups' electoral viability, independent candidates won a significant number of seats, notwithstanding a failure — in most areas — to unify electoral lists. Opposition groups won 13 seats overall, a major success, particularly as most of the seats won by opposition candidates were previously held by Hezbollah allies. Overall voter turnout was initially reported to be just below 41% but the final numbers published by the Ministry of Interior and Municipalities showed a total turnout of 49.19%, with 1,951,683 voters casting ballots out of 3,967,507 eligible voters. Beirut I had the lowest turnout at 35.83% while Mount Lebanon I had the highest turnout at 66.83%. Many violations were recorded during campaigning and on election day itself by the European Union Election Observation Mission Lebanon and the Lebanese Association for Democratic Elections (LADE). According to a preliminary statement released by the European Union, elections were “overshadowed by widespread practices of vote buying and clientelism, which distorted the level playing field and seriously affected the voters’ choice.” Regarding campaigning, the statement mentions “various instances of intimidation, including on social media, and instances of campaign obstruction” while the “legal framework for campaign finance suffers from serious shortcomings concerning transparency and accountability.”<sup>10</sup> Similarly, LADE recorded more than 1,000 violations across the country including logistical hurdles, voter intimidation, bribery, voter fraud, and security incidents in and near polling centers.<sup>11</sup>

<sup>9</sup> Source: [Gherbal Initiative / L'Orient Today](#)

<sup>10</sup> [Preliminary EU Elections Observation Mission Lebanon](#)

<sup>11</sup> [Preliminary LADE Report](#)

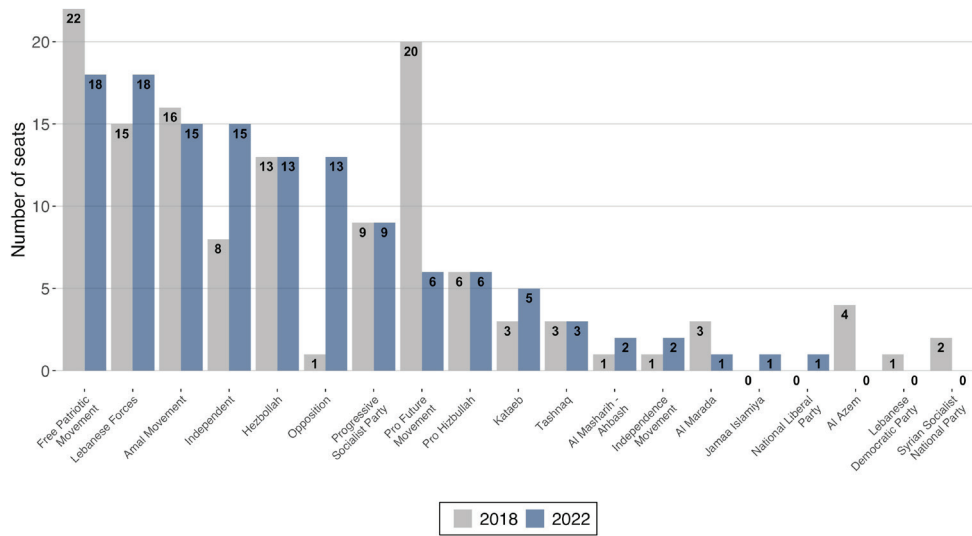
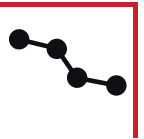


Figure 8: Comparison between number of seats per group between 2018 and 2022<sup>12</sup>

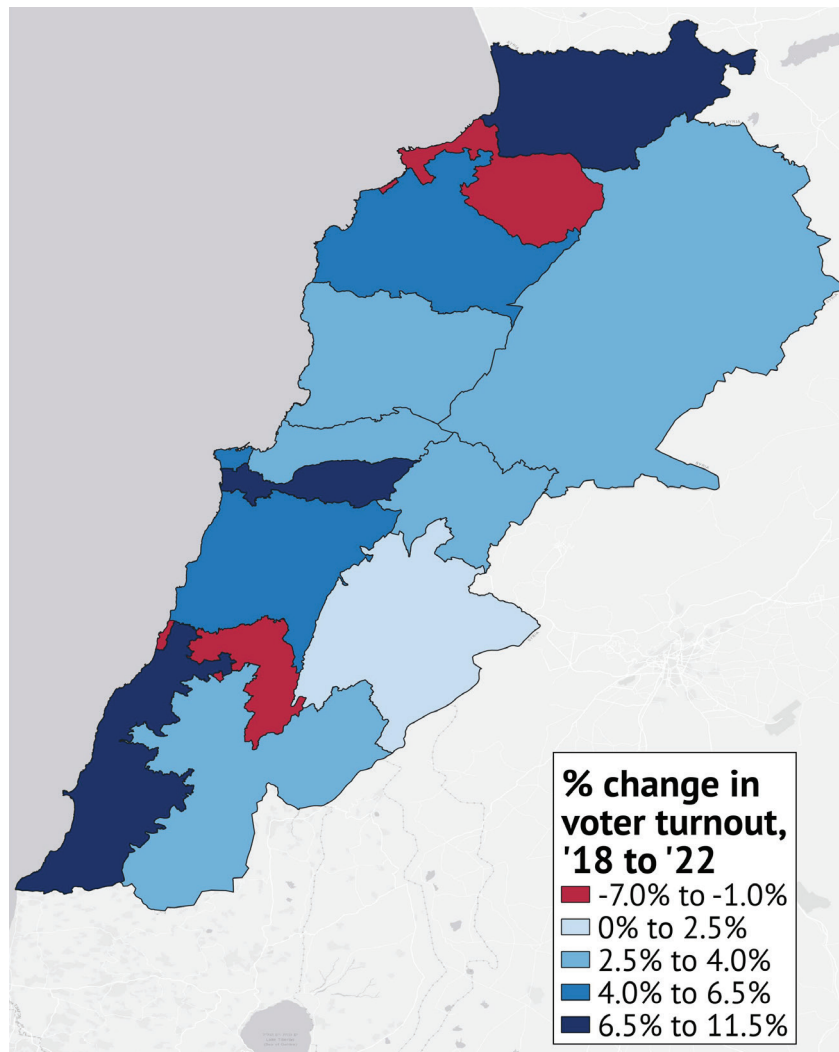
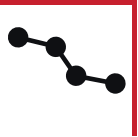


Figure 9: Percentage change in voter turnout between 2018 and 2022<sup>13</sup>

<sup>12</sup> Source: [Gherbal Initiative](#)

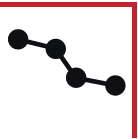
<sup>13</sup> Source: [Gherbal Initiative](#)



**In the first parliamentary session following elections on May 31, Nabih Berri was re-elected as speaker of the parliament for the seventh time in a row and MP Elias Bou Saab was elected as the new deputy speaker.** Berri, the Amal Movement leader, was first elected as speaker in 1992 and has held the position since then. He received 65 votes, the exact number needed to retain his post, a significant decrease compared to 98 votes Berri received in 2018. Twenty-three members of parliament cast a blank vote while 40 others cast ballots bearing slogans and names, rendering their ballots invalid.<sup>14</sup> MP Ghassan Skaff was Bou Saab's only challenger for deputy speaker. Neither MP received the needed number of votes in the first round to be elected. Bou Saab, a member of the Free Patriotic Movement, received 65 votes in the second round to secure the deputy speakership, which traditionally goes to a Greek Orthodox MP. Thereafter, MP Alain Aoun, member of the FPM, and MP Hadi Abou Hassan, member of the PSP, were elected to the two secretary positions.

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<sup>14</sup> Many ballots contained messages such as "Justice for the port victims, Justice for Lokman Slim, Justice for people that lost their eyes during the protests" in messages of support to the Beirut port explosion victims, an activist that was assassinated in South Lebanon last year, and people injured during the protests.



# Analysis/Impact:

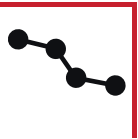
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The results of the Lebanese parliamentary elections were surprising, particularly given the strong showing among independents and opposition candidates. While the March 8 majority was lost, parties in the coalition demonstrated their capacity to rally a majority on specific issues, namely the re-election of Berri and the subsequent election of Bou Saab.

The focus has now shifted to the selection of the cabinet, with presidential consultations expected later in June. There are concerns that the makeup of the new parliament is ripe for endemic deadlock over key policy issues, re-raising the familiar specter of long-running caretaker governments and political vacuum experienced recurrently by Lebanon over the last decade. This in turn has many concerned about the impact prolonged deadlock could have on a variety of critical policy decisions such as managing the impact of the financial and banking crisis, and mitigating the devastating effects of the war in Ukraine.

However, the success of the speaker and deputy speaker nominations could indicate that the process of government formation, and the subsequent presidential vote expected later in the year, might not be as painful as expected. This in turn offers a spring of hope that positive movement can be made on a range of critical decisions and policies – namely moving forward towards meeting the benchmarks laid out by the International Monetary Fund (IMF). This appears to be partly explained by higher levels of political flexibility among MPs whose coalitions and factions are still consolidating, such as former Future Movement MPs. These parliamentary dynamics will likely influence the outcome of the presidential election following the end of President Michel Aoun's term in October. Potential candidates' such as Sleiman Frangieh and Gebran Bassil are now in a weakened position, while the Lebanese Forces will continue to push for Samir Geagea, Kataeb will possibly name Sami Gemayel, and other more "independent" options such as Nehmet Frem will also be considered. Lebanese Armed Forces General Joseph Aoun, considered a more neutral choice for president, remains a likely candidate.

The coming period will likely be characterized by uncertainty, with political dynamics slated to significantly impact currency volatility and market confidence. Interest groups and lobbies have continued to push competing agendas around the distribution of financial losses among banks, depositors, and the Lebanese government. The outgoing government was able to rush forward approval of Lebanon's Economic Recovery Plan, with Prime Minister Najib Mikati continuing to portray himself as the best positioned politician to engage with the IMF – possibly in an effort to position himself towards heading any new government. Should the caretaker government remain in place for a while, it is not entirely clear whether their mandate enables the cabinet to move forward with other IMF-mandated measures necessary for implementing a rescue package, however Mikati indicated that even in the context of continued government formation delays, the caretaker government does potentially have the authority to do so.



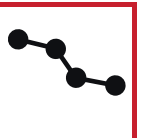
# Policy Updates:

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**In the final cabinet meeting before entering caretaker status, the government approved the economic recovery plan on May 20.** An economic recovery plan and “financial sector rehabilitation strategy” were approved by the cabinet on May 20 at its final session before entering caretaker status. The approved plans are similar to the version leaked in April, with one notable exception: the removal of a deposit guarantee of up to USD 100,000. However, Mikati stated in a speech following the session that the government had reached an agreement with the IMF to secure deposits up to USD 100,000. This plan was rushed through the cabinet before it went into caretaker status, though considerable resistance is expected in the parliament, in particular due to the Association of Banks’ (ABL) ongoing criticism and rejection of the plan. Similar to last month when the draft was leaked to the press, ABL posted a statement accusing the government of erasing depositors’ money “with a pen ... despite the existence of alternative clear solutions”. It seems evident that the election results will have an impact on any reform plan, while the real pushback will be over who pays for losses. Commercial banks are expected to be especially influential in this regard, particularly many are linked to established political parties. As a result, many banks and their backers could advocate for alternative policy prescriptions, such as selling public assets to cover losses.

**The economic crisis continues to impact public services, with the telecom sector the latest to increase tariffs.** During the last cabinet meeting, a telecom tariff increase was approved as part of a new plan for the sector passed on May 20. The tariff will increase on July 1. Mobile phone providers Alfa and Touch will raise prices fivefold, while Ogero landline charges will increase by 2.5 times. Telecoms Minister Johnny Corm, who has been vocal about the need to increase tariffs since the beginning of the year, said the move is needed to prevent the network from collapsing and return the system to profitability. Lebanon had one of the most expensive telecom services in the world prior to the economic crisis, yet telecoms consumers have, since the LBP began to depreciate, benefited from tariffs being calculated on the LBP 1,507 rate. Some reports have indicated that the 2g service may be discontinued, as well as part of the the 3g network, which is expected to impact the countries poorest - who tend to use older phones unable to access 4g - disproportionately.

Other public services in Lebanon, such as water supply, already increased tariffs about threefold in December. Despite this, an alarming statement was released by the Beirut and Mount Lebanon Water Corporation stating that “the situation may lead to a complete depletion of the ability to feed water to the point of complete interruption”, adding that the budget allocated for fuel will not be enough to cover increased water demand in the summer. Meanwhile, poor provision of state electricity, averaging a few hours per day, will likely continue. The proposed deal between Lebanon, Egypt, Jordan, and Syria to provide increased electricity provision to Lebanon – about five hours per day – appears stalled. Moreover, the Dier Ammar power plant halted operations on May 23 due to fuel shortages, as a fuel oil tanker arrived in Lebanon behind schedule.



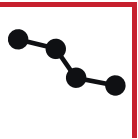
## Analysis/Impact:

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The expected hike in telecommunications tariffs raises a number of concerns over its impact on Lebanon's most vulnerable. Many rely upon an inexpensive "Whatsapp" bundle for communication, and a proposed "Whatsapp tax" in 2019 was the initial trigger for widespread protests. The risk of price increases will be an additional burden on those already struggling to manage expenses. The loss of 2g or 3g network access could also reduce internet access for many using older phones. Also worrying is the impact this will have on aid organizations, particularly as many programs will be faced with additional challenges communicating with communities and program participants. Programs will face outreach and accessibility challenges with participants that find it increasingly difficult to afford new telecom and internet prices. For example, many aid organizations have relied on Whatsapp to reach participants and implement programs during the Covid-19 pandemic. On the operational side, staff communication budgets and internet fees will increase and organizations will need to adapt their budgets accordingly, requiring donor support.

Water infrastructure is similarly threatened by rising fuel prices and the growing inability of utilities to provide services. Lebanon has suffered from water shortages in the past, with significant rationing in Beirut and other cities in summer 2014. However, this was largely due to poor rainfall and snow levels over the winter, while dams and reservoirs are full in 2022 due to heavy snowfall. Rather, fuel shortages at water pumping stations, as well as a lack of infrastructural investment, are the main risks going forward. Humanitarian actors may need to consider scaling up expensive water trucking in the context of a major breakdown in water infrastructure in the coming months.

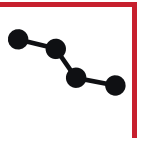




# Looking Forward

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- Parliamentary elections ushered in a new political dynamic, albeit one dominated by traditional actors who remain firmly in place. This suggests there is a political will to form a new government with a similar composition to that of the current caretaker cabinet. Deadlock is more likely in the presidential election, particularly as Aoun's term ends in October and the forthcoming government will enter a caretaker status in November.
- Economic challenges in Lebanon will need to be addressed in a well-structured recovery plan that unlocks IMF funds. Yet, the distribution of losses continues to be a point of contention, with lobbying by interest groups such as ABL for a lower share of losses among Lebanese banks gaining traction among MPs.
- Despite rebounding, the LBP reaching an all-time low in May signals the emergence of a worrying trend. The Central Bank's strategy of increasing USD injections via Sayrafa at the end of the month will continue in June. The ability of the Central Bank to maintain this strategy is questionable given the depletion of FX reserves, which may result in reversing this policy, leading to further deterioration in the market rate. Moreover, a depletion in FX reserves will present barriers to opening credit lines for key imports such as fuel, food, and medical imports.
- The Ukraine crisis will continue to impact Lebanon, with global fuel prices expected to increase, leading to additional increases in local fuel prices that will compound burdens across all sectors and on households. Despite the World Bank loan to stabilize bread prices and wheat imports more generally, bread prices will continue to increase due to both LBP depreciation and higher costs of inputs such as fuel.
- The economic and fuel crisis in Lebanon continues to impact key public services in Lebanon, with telecom prices set to increase in July. This will place an additional burden on the most vulnerable, negatively affecting business operations and service provision, and could potentially foster serious outreach and connectivity barriers between aid actors and benefiting communities. Aid actors should put quick mitigation measures and amend their budgets and planning based on the new prices.
- With the greater demand for water and electricity in the summer, both sectors will be saddled with additional burdens given the steady increase in fuel prices. The state is expected to increase tariffs on both water and electricity in the coming months. Shortages are also expected to increase, with implications for both programming modalities and needs.



# Contact

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## ABOUT MERCY CORPS

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