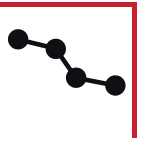


# Lebanon Crisis Update

March 2022 ■ ■



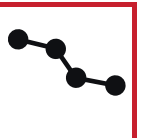
- 3 ● [Key Findings](#)
- 5 ● [Financial Updates](#)
- 8 ● [Update on the Impact of the Ukraine Crisis](#)
- 10 ● [Analysis/Impact of the Ukraine Crisis](#)
- 14 ● [Governmental/Parliamentary updates](#)
- 16 ● [Looking Forward](#)



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.

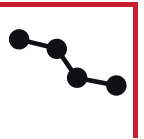
*This study/report is made possible by the support of the American People through the United States Agency for International Development (USAID). The contents of this report are the sole responsibility of the LCAT and do not necessarily reflect the views of USAID or the United States Government.*



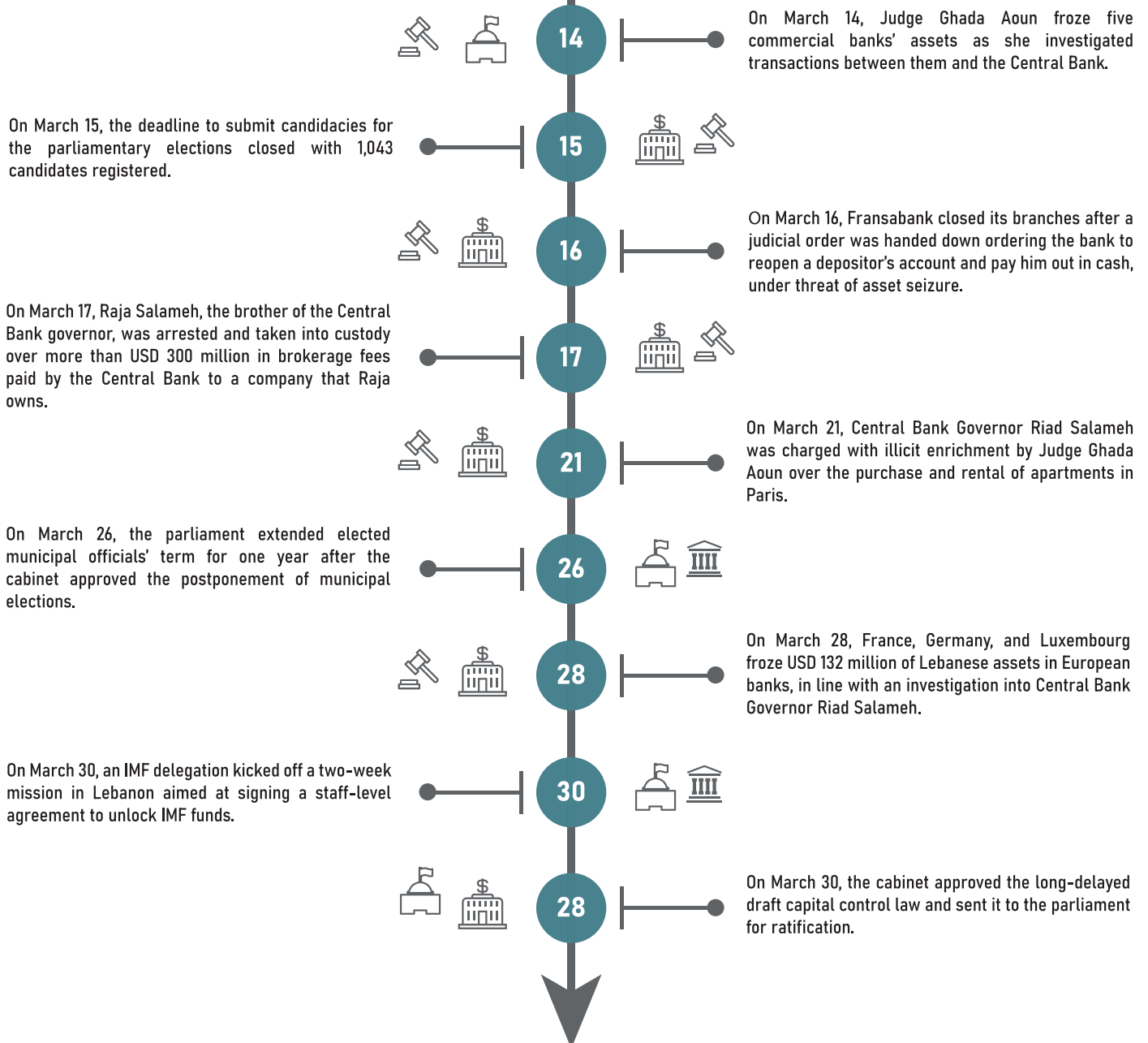
## Key Findings:

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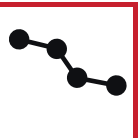
- The Lebanese pound's (LBP) value against the US dollar (USD) declined in March, largely over concerns about how long Circular 161 will remain in force and multiple probes targeting the banking sector locally and internationally. Investigations into the Central Bank governor and his brother also impacted currency weakness.
- The Central Bank injected about double the amount of USD via the Sayrafa platform compared to February. However, USD cash injections under Circular 161 affected the value of the LBP to a lesser degree in March than in February. Any potential cessation of USD sales under the circular will result in a sharp decline in the value of the LBP.
- Bread prices are surging and further price increases are expected due to global inflationary pressure and the effect that the Ukraine conflict is having on commodity prices. Fear of shortages resulted in temporary queues at fuel stations similar to the fuel crisis in the summer of 2021. While fuel prices increased across the board in March, diesel surged by about 60%.
- A key indicator of the severe economic crisis that Lebanon faces is changes in night light reflectance at the cadaster level, which was heavily impacted by the surge in diesel prices in March. According to data on geographic distribution of electricity consumption, Lebanon's electricity consumption previously declined by 53% from December 2019 to December 2021.
- An International Monetary Fund (IMF) delegation is in Lebanon for another round of talks. While a staff-level agreement was announced on April 7, economic reforms stipulated by the IMF must be implemented to unlock funds. The 2022 budget remains under review in the parliament. Separately, the capital control law was approved by the cabinet and sent back to the parliament for ratification.
- Candidates submitted their applications to run for Lebanon's parliamentary elections, which are currently scheduled for May 15. While it appears likely that elections will go ahead, logistics and budgeting concerns leave open the possibility of last-minute delay.



## MARCH







## “ **Financial updates:**

**Following a period of relative stability in February, the value of the Lebanese Pound (LBP) decreased in March as multiple probes targeted commercial banks, the Central Bank governor, and his entourage.** The LBP value against the US dollar (USD) ranged from 21,000 to 20,000 in February, after reaching a high of LBP 33,000 in January, triggering a Central Bank intervention via Circular 161. In early March 2022, the LBP/USD market rate stood at about LBP 20,500 but depreciated to about LBP 24,000 at the end of the month. On March 9, speculation that Circular 161 may not remain in force prompted several commercial banks to end their provision of USD at the Sayrafa rate, by either lowering the daily quotas assigned to clients or not paying out public sector salaries in USD. The LBP/USD market rate reached about LBP 22,500 on March 10 after the Central Bank announced that they will continue to sell unlimited amounts of USD via the Sayrafa platform.

On March 14, Judge Ghada Aoun froze the assets of the Bank of Beirut, Bank Audi, SGBL, Blom Bank, and Bankmed – including properties, vehicles, and shares in companies owned by the banks and board members – as she investigates transactions between commercial banks and the Central Bank. On March 16, Fransabank closed all its branches in Lebanon following a judicial order to reopen the bank account of a depositor and pay his deposits in cash under threat of asset seizure. In response to the judicial orders issued on March 14, the Association of Banks in Lebanon (ABL) announced on March 17 that commercial banks would close on March 21 and 22. Also on March 17, Central Bank Governor Riad Salameh's brother, Raja Salameh, was taken into custody over alleged illegal brokerage fees paid by the Central Bank to a company Raja owns. According to Swiss authorities, Forry Associates Ltd collected a total of more than USD 300 million in fees from 2002 to 2014. These events led to a depreciation in the LBP/USD market rate, from about LBP 22,500 to LBP 23,500 on March 18.

On March 21, Riad Salameh was charged with illicit enrichment by Judge Aoun over the purchase and rental of apartments in Paris. The governor has thus far failed to appear before the court. The charge against Salameh coincided with a further depreciation in the LBP/USD market rate to about LBP 24,200 on March 21. Uncertainty over whether the Central Bank will open lines of credit for fuel importers prompted fuel stations to close, causing further LBP/USD market rate depreciation, to about LBP 25,400 on March 24 (see figure 1). On March 28, USD 132 million in Lebanese assets held in European banks were frozen as part of an investigation into suspected money laundering by Riad Salameh.

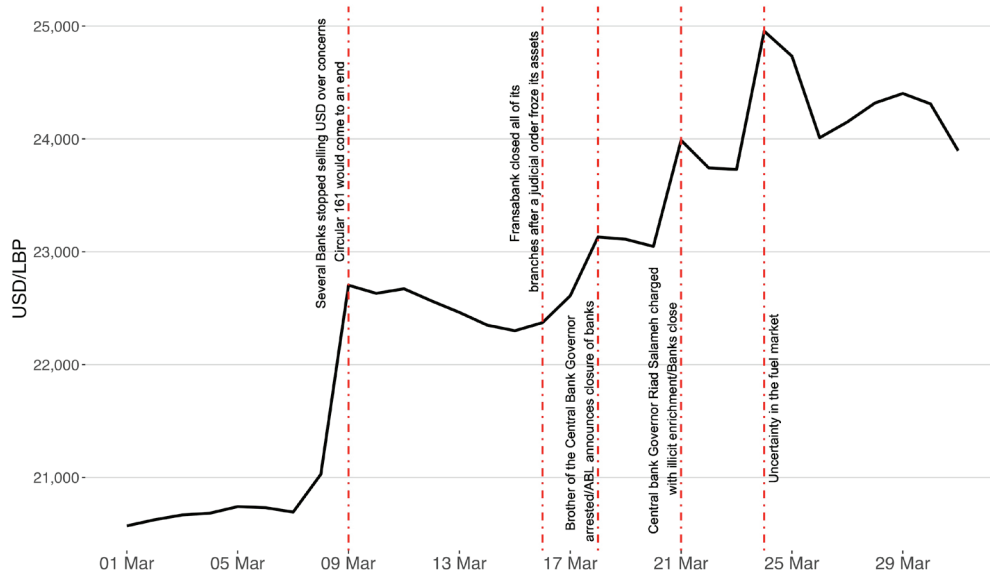
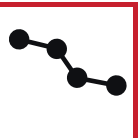


Figure 1: Events VS Parallel-market Rate from January 10-February

Since Circular 161 was issued in December 2021, the Central Bank has injected USD 3 billion in total into currency markets. The Central Bank increased their intervention in March, reaching USD 1.655 billion after injecting USD 572.9 million in January and USD 846 million in February. Despite this, the Central Bank was not able to keep the LBP/USD market rate as stable in March compared to February (see figure 2). On March 30, the Central Bank extended the circular through the end of April.

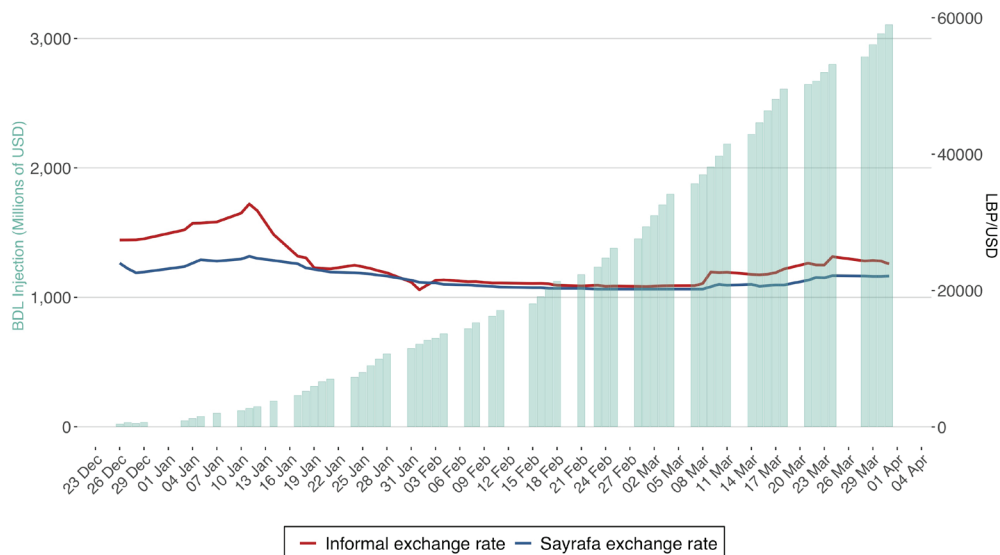


Figure 2: Sayrafa Injections VS Market Rates

On March 12, the Syndicate of Supermarket Owners in Lebanon announced that supermarkets will accept maximum of 50% of payment on credit cards, with the rest to be paid in cash. Most gas stations in Lebanon no longer accept card payments and many restaurants are following suit. Notre Dame University also instructed students to settle their tuition payments in cash only.

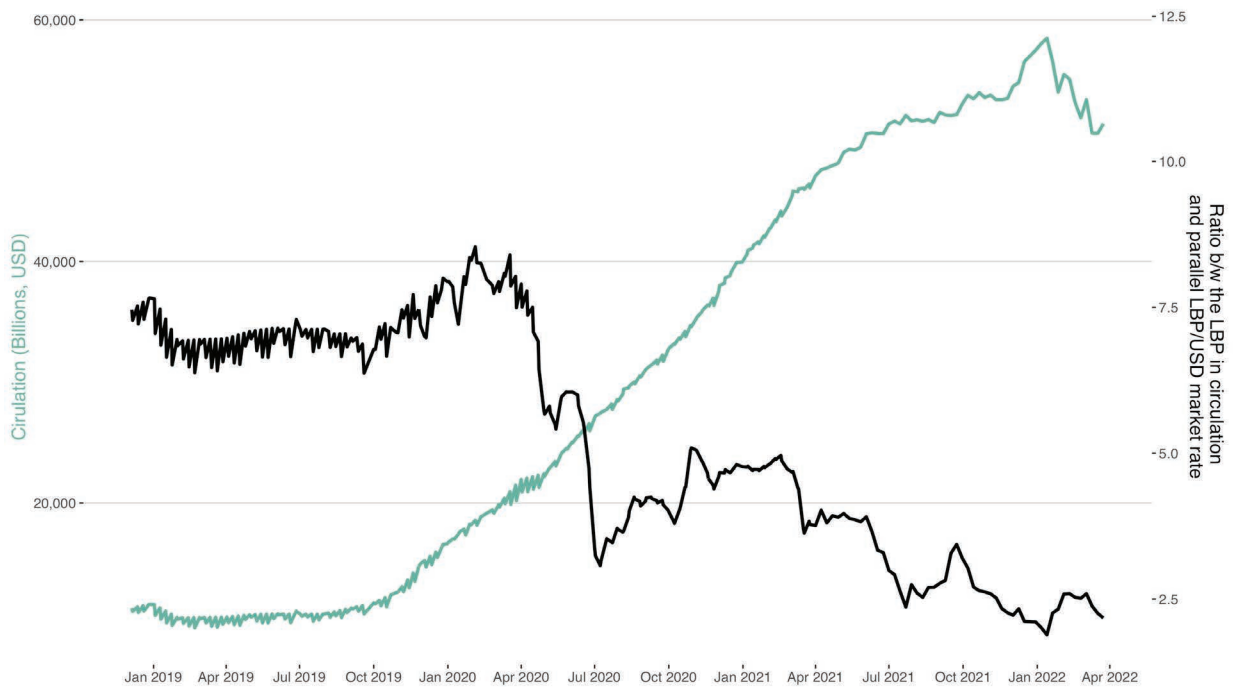
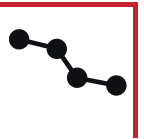
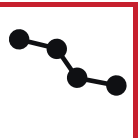


Figure 3: LBP in Circulation

Figure 3 shows the amount of liquidity in circulation, highlighting the increase in LBP in circulation since the start of the economic crisis in 2019, reaching a record LBP 58.49 trillion in mid-January 2022. The Central Bank decreased the amount of LBP in circulation – to 51.4 trillion – on March 24 (latest data) for the first time since the start of the crisis. This recent cut in LBP provisioning led banks to set new monthly withdrawal limits under the pretext that the BDL is not supplying them with enough liquidity. In a primarily cash-driven economy, coupled with a refusal to engage in point of sale money transactions, these new liquidity constraints are likely a short-term tactical move by the Central Bank governor to calm markets by stabilizing the LBP. However, in practice, these constraints will further increase inflationary pressure on basic goods.



*Credit: Associated Press*

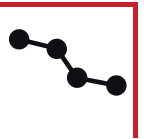
## Update on the Impact of the Ukraine Crisis

**Lebanon is already feeling the effects of the conflict in Ukraine, with bread and fuel prices rising in March.** The Minister of Agriculture said on March 22 that there is no wheat crisis and that high prices are a result of the Ukrainian-Russian crisis. On March 29, the Ministry of Economy announced new bread prices, with the cost of a family-sized bundle rising to LBP 14,000 from LBP 3,000, despite decreasing in size from 1,750 grams to 1,085 grams. A 1,750 gram bread bundle cost LBP 2,000 in 2020. While bread remains subsidized, the ministry blames the price surge on the rise in fuel and wheat prices on the international market, in addition to the LBP's devaluation in March. Head of the Bakeries Owners Syndicate Ali Ibrahim predicts that bread prices will rise by LBP 20,000 to LBP 25,000 if the subsidies are lifted. President of the Association of Mills in Lebanon Ahmad Hoteit said that Lebanon's wheat stocks are sufficient to last from 20 days to one month and that the wheat shipments are delayed because the Central Bank has not opened lines of credit for importers. He also predicted that bread prices will surge in early April.

Lebanon contended with another fuel crisis in March, entailing long queues at gas stations, higher fuel prices, and fears of fuel shortages leading to gas station closures. The minister of energy and water announced at the beginning of March that the national fuel stock is sufficient for 15 days, which prompted a run on gas stations. As queues grew, the ministry changed prices on a daily basis. The ministry's directive that fuel storage tanks on trucks be standardized led to a strike by tanker owners and fuel distributors on March 22, specifically over additional costs incurred by fuel distributors. Shortages increased as fuel distributors sought assurances that the Central Bank would maintain its 85% credits at the Sayrafa rate to import fuel.<sup>1</sup>

<sup>1</sup> The central bank provides lines of credit for fuel importers, specifically, 85% of the USD needed for fuel import payments at the Sayrafa rate.

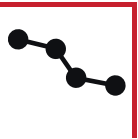




The Ministry of Energy and Water and fuel importers reached an agreement to end the crisis after adding about LBP 15,000 to the price of fuel to cover losses due to the exchange rate and banking fees. The price of diesel also surged by about 60% in March, increasing from LBP 334,000 on March 1 and closing at LBP 533,000 on March 31. The price of 20 liters of 95-octane rose about 29% – from LBP 369,000 to LBP 475,000 – over the same period (see figure 4).



Figure 4: Price of Diesel and 95 Octane in March



(Reuters)

## “ Analysis/Impact: of the Ukraine Crisis

As the prices of basic products like bread and fuel continue to rise, the ability of households and small businesses to cope with increased prices weakens. Although the consumer price index (CPI) slightly decreased from February to March, the increase in fuel prices and continued depreciation of the LBP indicate that it will rise again from March to April. As shown in the figure below, CPI is projected to increase by 1.8%. Food and beverage products – which are more sensitive to exchange rate fluctuations – are projected to increase by 3.3%.

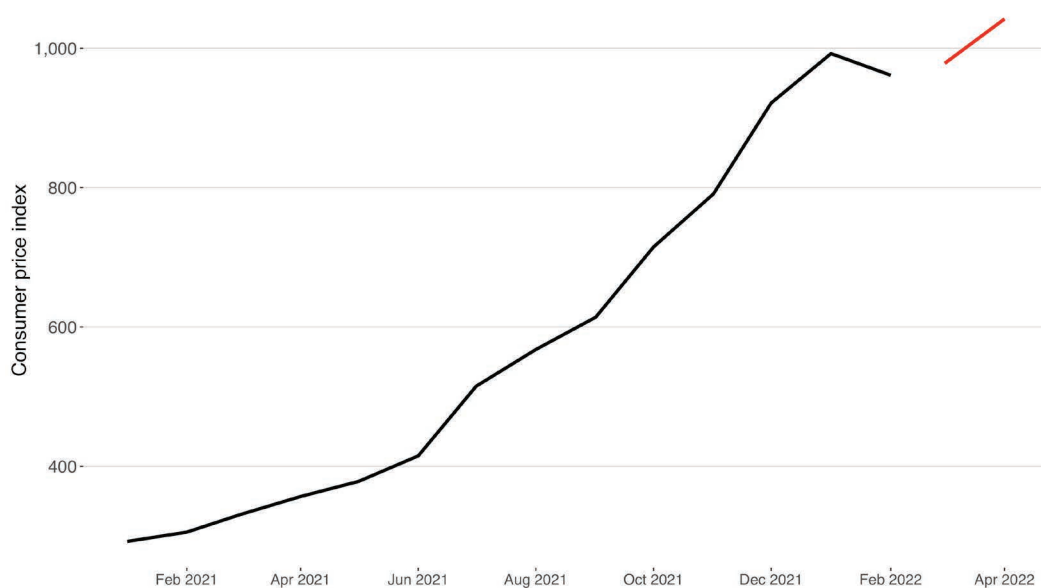
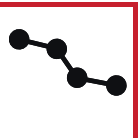


Figure 5: Consumer Price Index rate



**CPI predictions:** Less sensitive to currency depreciation

- February observed == 961.1511
- March predicted == 978.2630 (+1.8% from Feb.)

**Food & beverage (non-alcoholic) CPI predictions:** More sensitive to currency depreciation

- February observed == 3476.7253
- March predicted == 3590.5840 (+3.3% from Feb.)

The price of most food items increased from February 21 to March 21, in most cases exceeding the level of LBP depreciation. In anticipation of Ramadan (which began on April 1), the prices of most “Fattoush” salad components (cucumbers, tomatoes, parsley, radish, cabbage) increased by 20% to 75%. The “Fattoush indicator” is utilized to measure increases in food prices, which usually occur before and during Ramadan. This year, despite the stark increase in prices compared to last year, there is an observable and significant upward effect on prices.

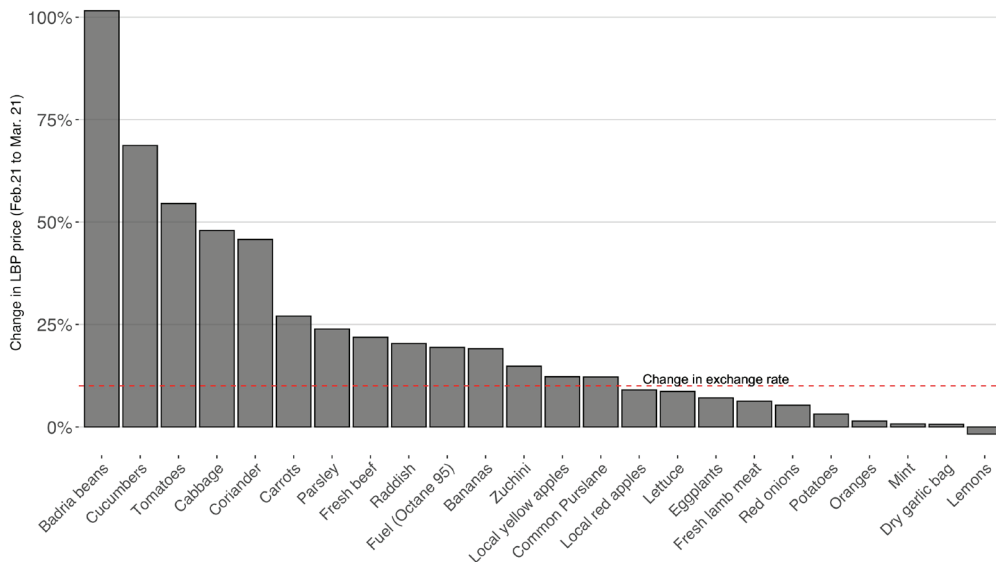


Figure 6: Change in Prices of Goods from February 21, 2022 to March 21, 2022  
Source: Ministry of Economy

Public sector workers are still paid their pre-crisis wages in LBP despite significant increases in basic food basket and fuel prices. The graph below shows that the lowest public employee salary is about LBP 1,500,000 (equivalent to about USD 62), the median employee public salary is about LBP 2,100,000 (equivalent to about USD 88), and the highest public employee salary is about LBP 5,800,000 (equivalent to about USD 242). According to CAS 2019 statistics, 13.7% of the employed labor force works in government institutions, and this share is highest in Akkar and Baalbek-Hermel,<sup>2</sup> where many people are enlisted in the Lebanese Armed Forces (LAF). Households who relied on these salaries prior to the monetary and economic crisis must therefore find secondary sources of income such as aid, remittances, or other employment in order to meet their needs. Some public servants, especially members of the LAF, receive food rations to compensate for their decrease in purchasing power.

<sup>2</sup> Akkar and Baalbek had the second- and third-most applicants for the ESSN program. [IMPACT, the First e-Governance platform in Lebanon](#)

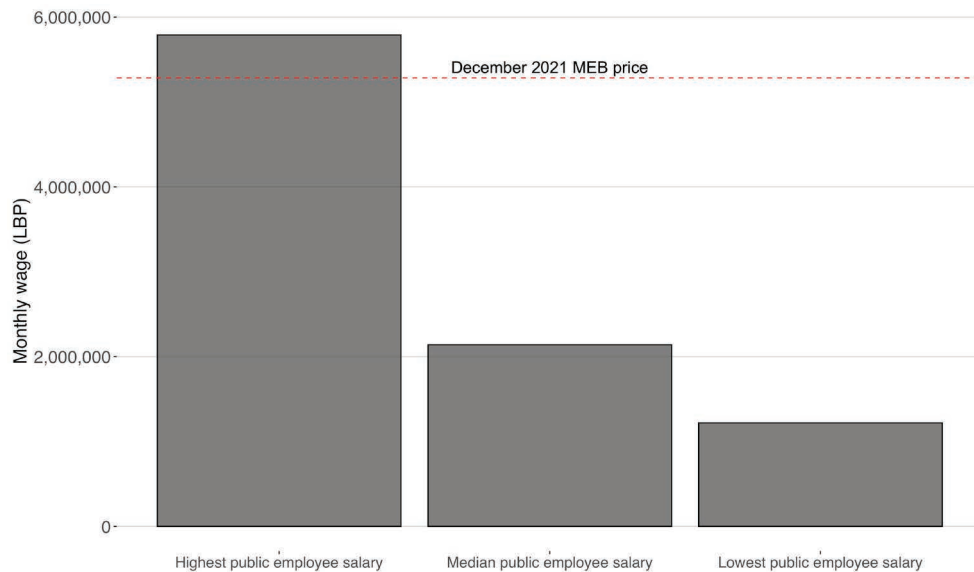
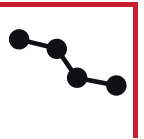


Figure 7: Public sector Salaries VS Minimum Expenditure Basket

The surge in fuel prices in March, in particular diesel (see figure 4), increased the cost of operating private generators, on which many Lebanese rely for private electricity consumption. This suggests Lebanese households will consume less electricity in the coming month, primarily due to an inability to cover generator costs.

In order to document changes in electricity consumption over time, LCAT utilizes night light reflectance (NLR) data.<sup>3</sup> Prior to the crisis in 2019, Beirut and Mount Lebanon<sup>4</sup> were provided with a nearly 24-hour supply of state-produced electricity, while rural and peripheral regions were provided an intermittent supply of 6 to 12 hours per day. Electricity provision decreased in all regions after the onset of the economic crisis, making prolonged blackouts a common occurrence. The surge in fuel prices has also affected people's ability to procure power through private generators, the most common alternative source of power. The NLR data at the cadaster level shows that on aggregate, Lebanon's electricity consumption declined by 53% from December 2019 to 2021. This decrease has not affected all regions in the same way. Table 1 shows changes in NLR by governorate, with Akkar experiencing the sharpest decline (-62%) and Baalbek-El Hermel the least decline (-38%). Several factors affect these changes in electricity provision and disparities between regions, such as population density, overall economic and industrial activity, access to generators, socio-economic vulnerability, and different base-lines in quantity of supply in 2019.<sup>5</sup>

<sup>3</sup> Night light imagery is used as a proxy for urbanization and electricity consumption, measurement of economic activity, population growth, and monitoring humanitarian and security conditions in dangerous and difficult contexts. NLR values are extracted satellite images posted from December 2019 and December 2021 and made available by Earth Observation Group: [Earth Observation Group Annual VNL V2](#)

<sup>4</sup> With Zahle in Bekaa being the exception with 24 hours of privately supplied electricity the fuel crisis in 2021

<sup>5</sup> The LCAT team will study these factors in detail seeking to find the most important determinants of disparity between regions in terms of access to electricity. Results will be presented in a separate research report and main findings will be shared as they are finalized.



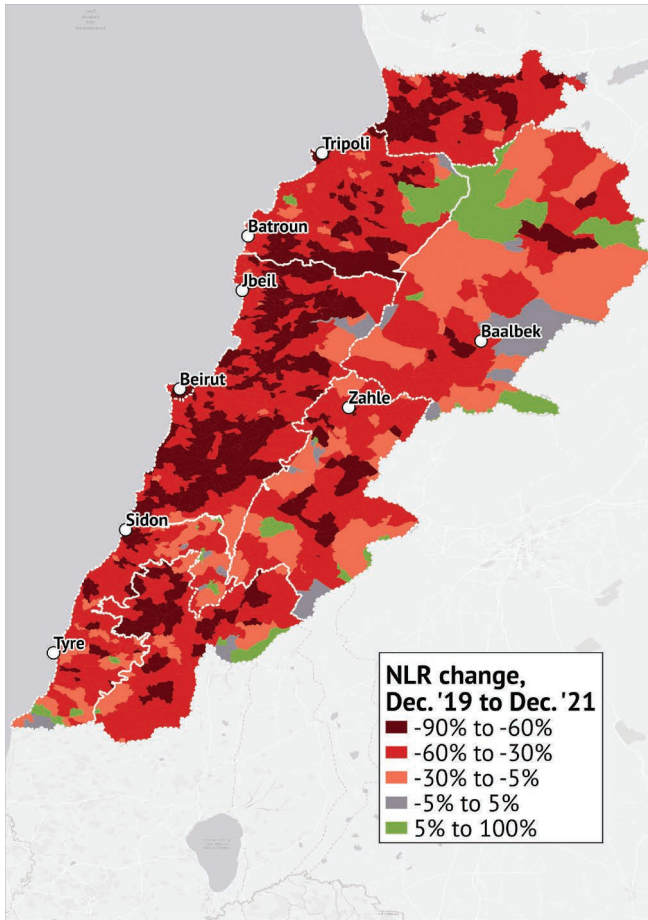
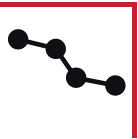
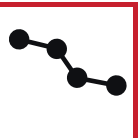


Figure 8: The change in night light reflectance (NLR) in Lebanon between December 2019 and December 2021 at the cadaster level

Governorate	Change in NLR, Dec. '19 to Dec. '21
North	-51.6%
Baalbek-El Hermel	-38.2%
Mount Lebanon	-58.9%
South	-41.8%
El Nabatieh	-51.4%
Akkar	-62.1%
Bekaa	-44.2%
Beirut	-59.5%

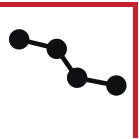
Table 1: Change in NLR between December 2019 and December 2021 per governorate



## Governmental/Parliamentary updates:

**Parliament’s Finance and Budget Committee has not finished its review of the 2022 national budget, despite passing a constitutionally mandated deadline.** The 2022 budget was finalized by the cabinet, signed by the president, and sent to the parliament in February. The parliamentary Finance and Budget Committee has been reviewing the budget since early March, approved all allocations to ministries, and finalized the budget’s first 17 articles – described by Committee Chair MP Ibrahim Kanaan as structural – with 147 articles remaining, including tariffs clauses. Kanaan heavily criticized the cabinet for “rushing” budget preparations in the interest of progressing IMF talks, saying that revenue and expenditure estimates are not realistic and that the budget lacks vision. Once finalized, the cabinet must approve the version sent by the committee before being sent back to the parliament for voting and ratification.

**The IMF delegation kicked off a two-week mission in Lebanon on March 30, culminating in a staff-level agreement in early April, however, many hurdles remain before funds can be unlocked.** The IMF announced on April 7 that it reached a staff-level agreement with the Lebanese negotiating team headed by Deputy Prime Minister Saadeh Chami. While this represents a positive step forward, many needed reforms have yet to be implemented and any final agreement will require the approval of the IMF board. For its part, the Lebanese side is hopeful it will soon agree to a Memorandum of Economic and Financial Policies, which is a list of measures Lebanon must implement in order to receive up to USD 3 billion in aid and possibly unlock a further USD 11 billion in other financial resources. Prior to the delegation’s arrival in Lebanon, the IMF declined to comment on the possible timeline for finalizing an agreement but Gerry Rice, an IMF spokesperson said “The discussions are progressing well.”



**The cabinet approved the long-delayed draft capital control law on March 30, a key IMF requirement.** Lebanese officials have failed to pass a capital control law since 2019, when the financial crisis led to a banking sector collapse and depositors were allowed limited or no access to their USD-denominated accounts. The law was approved by the cabinet after three years of back and forth between the Finance and Budget committee and two cabinets, and the parliament twice rejected previous versions of the capital control law. IMF pressure was integral in moving the process ahead, primarily because the law is a key precondition for receiving IMF funds. The draft law was sent back to the parliament but as of publishing, a session has not been scheduled to vote on it. Though some of the clauses might change, the draft law has been criticized for giving discretionary decision power to a committee formed by the Minister of Finance, the Central Bank, and commercial banks.

**Candidates submitted their applications to run in parliamentary elections and electoral lists were published, as the cabinet postponed municipal elections.** Parliament approved the postponement of municipal elections on March 26, extending the term of elected municipal officials for one year. On March 10, the cabinet decided not to establish mega centers for the parliamentary elections scheduled on May 15. Ministers approved plans for both mega centers and electronic voting for the 2026 elections.

On March 15, the deadline to submit candidacies for the parliamentary elections closed at midnight, with 1,043 candidates registered. Only 155 candidates are women, representing about 15% of total candidates, a slight increase in comparison to 11% in the 2018 elections. Traditional political parties renominated 75% of their current members of parliament. Electoral lists were published on April 5. Prime Minister Mikati announced on March 15 that he will not run in the elections, but his party "Azm" will. Former Prime Minister Fouad Siniora announced the next day that he will not run, placing the Sunni leadership in political limbo, particularly after former Prime Minister Saad Hariri and the Future Movement announced that they would not participate in parliamentary elections.

**On March 17 and 18, diplomats and directors within the Ministry of Foreign Affairs went on strike, calling for diplomatic transfers and a rotation of roles.** This follows Lebanese embassies abroad petitioning for private donations to cover administrative costs in January. More than 225,000 Lebanese living abroad registered to vote in the upcoming elections. Expat voting will take place on May 6 and 8, depending on the weekend of the country in which they reside. The election budget was finalized by the cabinet and approved by the parliament in February, but has yet to be signed by President Michael Aoun. The Ministry of Interior and Municipalities and Ministry of Foreign Affairs have not completed preparations for the elections, leaving open the possibility of postponing election day.



Credit: Hussein Malla/AP

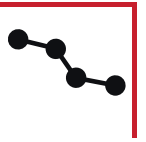
## Looking Forward

- Tensions are expected to rise in Lebanon as parliamentary elections draw closer. Though there are still logistical challenges regarding election implementation, elections will likely be held as planned, possibly with imperfect and divisive implementation.<sup>6</sup> Limited violence could break out in highly contested areas, with voter intimidation expected across a number of locations, as has been experienced in the past. The election period has and will likely continue to see increased pressure on aid actors by local stakeholders attempting to direct aid delivery toward their own political objectives, through direct pressure on contractors as well as more nuanced pressure regarding the optics of aid delivery.
- The LBP could decrease in value, especially if the Central Bank decides to halt dollar injections via Circular 161, however this is unlikely before election day. Such a move would lead to further inflation and a surge in the prices of goods and services. Should this come to pass, the cost of programming might increase and programs will need to be redesigned and adjusted accordingly.
- Further volatility is expected in the banking sector, which may impact humanitarian organizations and aid actors' operations. Aid actors must continue to implement contingencies, notably in their dependence on local banks, especially regarding paying staff and suppliers and losses in organizations' assets.
- The crisis in Ukraine will continue to drive high prices and potential shortages, particularly wheat and fuel.<sup>7</sup> Aid actors must respond to increased needs among the population, especially in the context of potential further depreciation. Declining aid budgets will in turn be strained in the context of rising needs, likely forcing a simplification in programming towards basic assistance. Rising social tensions between communities could in turn put pressure on aid actors from local communities in a variety of ways, including access, exacerbating the impact of other contextual dynamics such as the upcoming elections.
- Progress in IMF talks is an important step for Lebanon, but prospective reforms are still the key factor to unlocking funds. Though Lebanon has taken some necessary steps towards implementing reforms, such as the capital control law and sending the 2022 budget for parliamentary approval, some reforms such as distribution of losses and bank restructuring could prevent funds being unlocked.

<sup>6</sup> LCAT will monitor and publish a report on the election results and the implications of the elections on the humanitarian field in Lebanon.

<sup>7</sup> LCAT will continue to monitor the implication of this crisis and its impact on vulnerabilities in Lebanon.





# Contact

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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.

