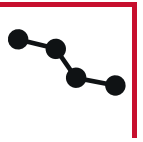


Lebanon Crisis Update

November 2022 ■ ■



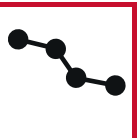
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The Monthly Lebanon Crisis Update provides an overview of economic and political developments to alert the international aid response to new and emerging challenges that could impact the humanitarian situation in Lebanon. In the context of the multiple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

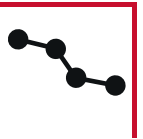
The Lebanon Crisis Analytics Team (LCAT) provides reactive and in-depth context analysis to inform the aid community in Lebanon. The information and analysis contained in this report is therefore strictly to inform humanitarian and development actors and associated policymaking on Lebanon.

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

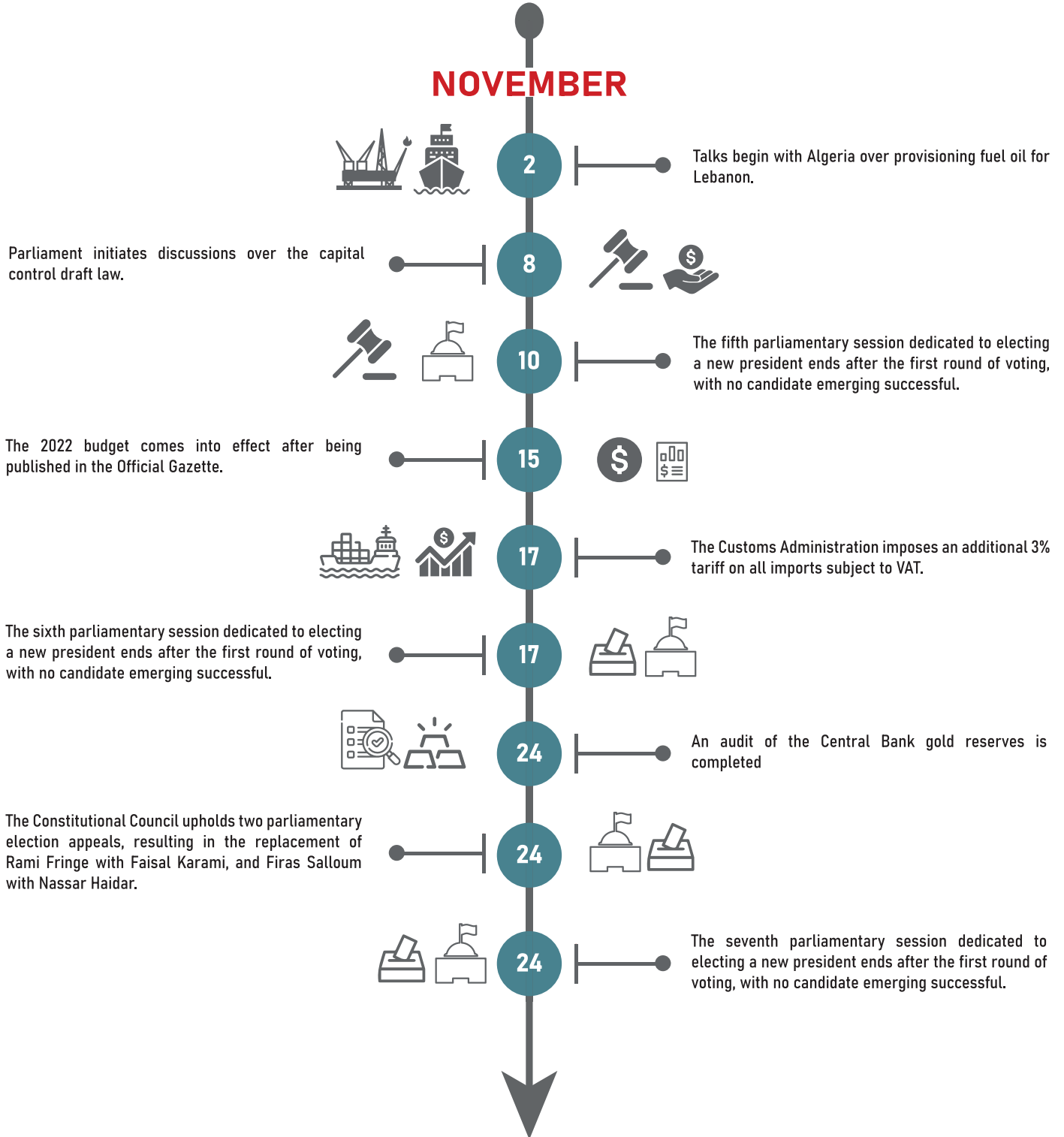


Key Takeaways

- The Lebanese pound (LBP) parallel market exchange rate depreciated to a record low of LBP 41,500 per 1 US dollar (USD) by the end of November. LBP depreciation in November was in large part due to a significant increase in money supply in September and October, despite a slight decrease in November.
- The Central Bank will adopt LBP 15,000 as its official LBP-USD exchange rate as of February 2023. Circular 151 and Circular 158 will then be subject to the same exchange rate. These steps toward unifying Lebanon's multiple exchange rates are a key IMF requirement to unlock financial assistance but will also apply pressure on the LBP parallel-market exchange rate.
- The 2022 budget came into effect on November 15, entailing significant reforms. Personal income tax is now calculated based on the currency which one earns, meaning USD earners' taxes are calculated in LBP via the Sayrafa rate. As of December 1, customs taxes are calculated using the LBP-USD exchange rate of LBP 15,000, while 10% in additional tariffs will be applied to imports already subject to value-added tax (VAT) if these product categories have locally produced substitutes that can meet demand. Imported luxury goods are also subject to this extra tariff. Additionally, article 71 of the 2022 budget imposes a 3% tariff on all products subject to VAT, with certain exemptions.
- Fuel prices (per 20 liters) increased in November and closed the month at LBP 804,000 for 98-octane, LBP 787,000 for 95-octane, LBP 833,000 for diesel, and LBP 455,000 for cooking gas, likely due to the depreciation of the LBP-USD in the parallel market exchange rate.
- Three parliamentary sessions dedicated to electing a new president ended with no success, as competition within the March 8 camp is expected to contribute to prolonging the election of a new president and naming of a new government.



NOVEMBER



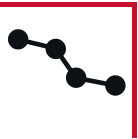


Photo by Anwar Amro/AFP

Economic and Financial Updates

The Lebanese Pound (LBP) depreciated against the US dollar (USD) in November and closed the month at LBP 41,500. In the first days of November, the LBP-USD parallel market exchange rate depreciated to about LBP 38,000, then slightly appreciated on November 3, reaching LBP 37,500. Through November 9, the pound depreciated against the dollar to LBP 40,200, then began fluctuating and appreciated to about LBP 39,400 by November 22. The pound depreciated through the final week and half of November and closed the month at LBP 41,500.

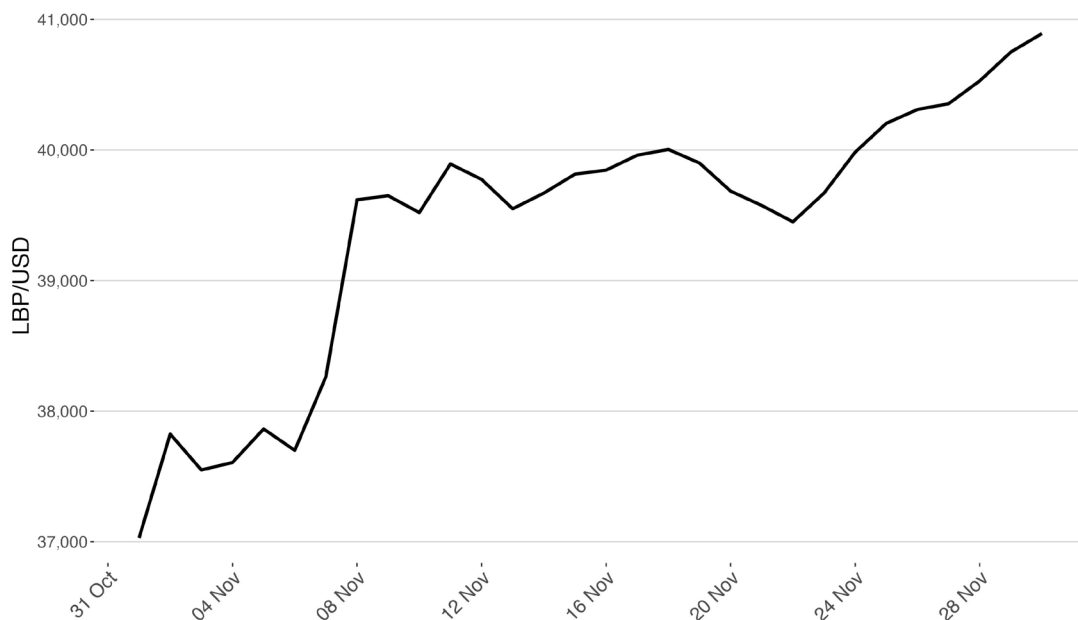


Figure1: LBP Parallel Market Exchange Rate in November.

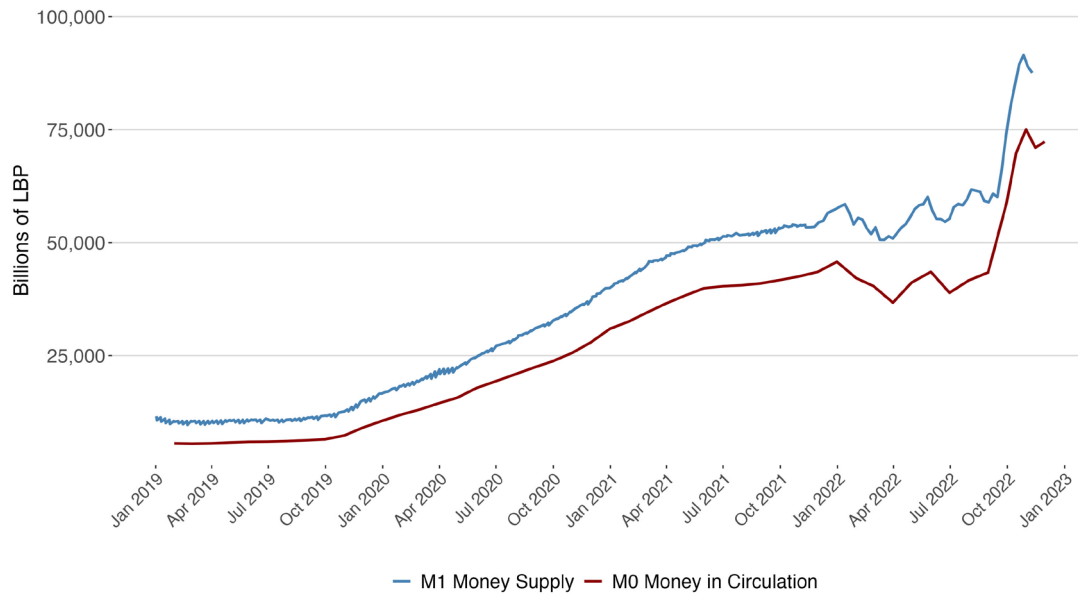
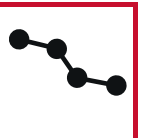


Figure 2: Money Supply and Money in Circulation.¹

The LBP-USD exchange rate appreciated in October, following the Central Bank's announcement that it would stop buying USD from the parallel market. This appreciation was accompanied by a notable increase in money supply (M1), which on October 27 reached an all-time high of LBP 91.5 trillion, though by November 24, money supply had decreased to LBP 86.1 trillion.

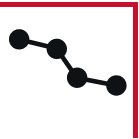
During an interview with Al-Hurra on November 21, Central Bank Governor Riad Salameh announced that the Central Bank would adopt LBP 15,000 as its official exchange rate against the dollar in February 2023, and that circular 151 and circular 158 would conform with the new rate. Salameh said that the amount of currency in circulation would not increase following the introduction of the new official rate, since depositors would be withdrawing their money in USD banknotes at the Sayrafa rate. Salameh stated that only two official exchange rates - the Sayrafa rate and LBP 15,000 rate - will be applicable in February 2023 as part of the gradual unification of exchange rates. Furthermore, Salameh stated that Lebanon's economy is expected to grow by 2% according to Central Bank data.

On November 24, the Central Bank, in coordination with the IMF, completed an audit of its gold reserves. The quantities of gold in the vault are equal to that declared in the Central Bank's assets, though no further information or data was released to the public.

Budget 2022:

The 2022 state budget came into effect on November 15. According to Minister of Finance Youssef Khalil, as of December 1, custom taxes will be calculated using an LBP-USD exchange rate of LBP 15,000, and taxes and levies will be calculated using the Sayrafa rate. Personal income tax will be calculated in LBP by converting foreign-denominated income using the Sayrafa rate, as explained in Table 1.

¹ Source: [Central Bank](#)



Moreover, article 47 of the 2022 budget imposes a 10% tariff on imports already subject to value-added tax (VAT) if these product categories have locally produced substitutes that can meet demand. Luxurious imported goods are also subject to this extra tariff. Article 71 of the 2022 budget imposes a 3% tariff on all products subject to VAT, with certain exemptions. Additionally, the price of official stamps used to certify documents increased and now range from LBP 3,000 to LBP 15,000, depending on the document type. The budget also imposes retroactive measures as of January 1, 2022, including on taxes applied to wages, salaries, and pensions, in addition to taxes on industrial commercial and non-commercial profits.

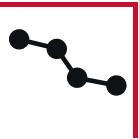
Income / month	L.L 1.5 Million	\$ 1,000
Personal Income Tax amount initially	L.L 105,000	L.L 105,000
Personal Income Tax amount now	L.L 105,000	L.L 6,060,000

Table 1: Differences between Income Taxes Initially and in the current Budget.

As of November 17, the Customs Administration imposed an additional 3% tariff on all imports subject to VAT as a precautionary measure, despite a list of exempted goods not being published. The Association of Lebanese Industrialists criticized the Customs Administration and called on the latter to suspend the 3% tariff until the Ministry of Finance issues a decree listing exemptions.

On November 28, a group of 11 MPs filed an appeal against the 2022 budget with the Constitutional Council. The appeal targets personal income taxes implemented retroactively as of January 1, 2022, as it amplifies the impact on taxpayers. The MPs argued that the budget's legitimacy is in question, as the parliament did not review the 2021 budget before passing the 2022 budget, as mandated by Article 87 of the constitution.

On November 8, a joint parliamentary committee began discussing the capital control draft law submitted by the government. Central Bank Governor Salameh did not attend the session as requested and sent his representative Alexander Moradian instead. Deputy Speaker Elias Bou Saab excused Moradian from the session. Parliamentary blocs initially disagreed about whether to simultaneously pass the capital control law with other reforms laws - such as a law on bank restructuring - but later agreed to legislate reforms individually.



Analysis:

An increase in LBP in circulation in late October was likely the major cause of LBP-USD exchange rate depreciation in November. The significant increase in money supply (M1) in October is still taking its toll and LBP depreciation is expected to continue despite a slight decrease in money supply in November. The 2022 budget aims to increase state revenues in line with the public sector wage increase, which came into effect on December 1. However, according to the budget law, projected collected revenues will total about LBP 30 trillion, with expenditures reaching LBP 40 trillion, leaving more than an LBP 10 trillion deficit - assuming the government is able to fully implement its revenue collection plan. Notably, in the 2020 and 2021 budgets, the Lebanese Armed Forces accounted for two-thirds of public wages, compared to 12% allocated to public education personnel.² For personal income tax collection to be successful under the current plan, members of the workforce must be registered with the Finance Ministry and the National Social Security Fund. According to the International Labor Organization (ILO)³, total employment in Lebanon's informal economy accounted for 77.8% of the workforce as of September 2021. Consequently, the percentage of workers employed in the informal economy is expected to grow, motivated in large part by a desire to avoid tax on personal income.

Discussions over the capital control draft law are progressing slowly, as the law will serve as a basis for other reforms, such as bank restructuring. Once the capital control law comes into effect, all previous Central Bank circulars will be removed and new ones will be issued.

Measures to increase state revenues through custom taxes and personal income taxes will likely lead to more inflation. No forecasts are available given that the list of products exempt from additional tariffs have not been published. However, Lebanon's monthly inflation rate, measured by the consumer price index (CPI), decreased from 173.57% in October 2021 to 158.46% in October 2022. The prices of "water, electricity, gas, and other fuels" increased 254.05% year-on-year following the removal of subsidies, alongside an increase of global commodity prices. Also, "food and non-alcoholic beverages" surged by 203.21% yearly, whereas the average prices of "Transportation" and "Health" increased annually by 195.95% and 269.72%, respectively, by October 2022.⁴

Household expenditure outpaces income:

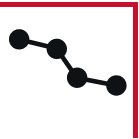
Monthly expenditures for Lebanese households exceed monthly income across most of Lebanon. LCAT compared the average monthly income-to-expenditure ratio per-qada in 2021 and 2022, which were calculated using the 2021 MSNA and preliminary 2022 MSNA datasets.⁵ The growth rates are mapped in Figure 3, and indicate that changes in household budgets vary geographically. The income-to-expenditure ratio remained relatively even (nearly 1:1) from 2021 to 2022 in Aley, Saida, Miniyeh-Danniyeh, and Metn. By comparison, the income-to-expenditure ratio in Zgharta and Marjaayoun increased by more than 100%, while the ratio rose by 93% in Zahle. The latter qadas also featured the highest income-to-expenditure ratios, with monthly expenditures accounting for 180% or more of monthly income.

² Ministry of Finance, Personnel Cost Monthly Bulletin, December 2021

³ [International Labor Organization Mounting challenges have dire effect on Lebanon's most vulnerable workers](#)

⁴ [BlomInvest Lebanon's Inflation Remains high but at a Softer Rate at 158.46%](#)

⁵ The MSNAs report income and expenditure ranges. Therefore, LCAT used the midpoint of the ranges to obtain numeric income and expenditure indicators.



Fuel prices increased in November as European Union (EU) countries reached a preliminary agreement to cap the price of some Russian petroleum imports. Fuel prices (per 20 liters) closed the month at LBP 804,000 for 98-octane (increasing by LBP 114,000 since the end of October), LBP 787,000 for 95-octane (increasing by LBP 112,000), LBP 833,000 for diesel (increasing by LBP 25,000), and LBP 455,000 for cooking gas (increasing by LBP 45,000).

Since the removal of Central Bank subsidies on fuel imports in September, the price of fuel in Lebanon has been directly tied to two factors, the LBP parallel-market rate and global oil prices. In a move which will likely prevent a major increase in global petroleum prices, OPEC+ decided to maintain current production levels on December 4. EU governments also tentatively agreed on December 1 to install a price ceiling of USD 60 on Russian seaborne oil, including an adjustment mechanism to keep the price at 5% below the market price. Such a decision aims to decrease Russian petroleum profits while preventing a spike in global oil prices.⁶

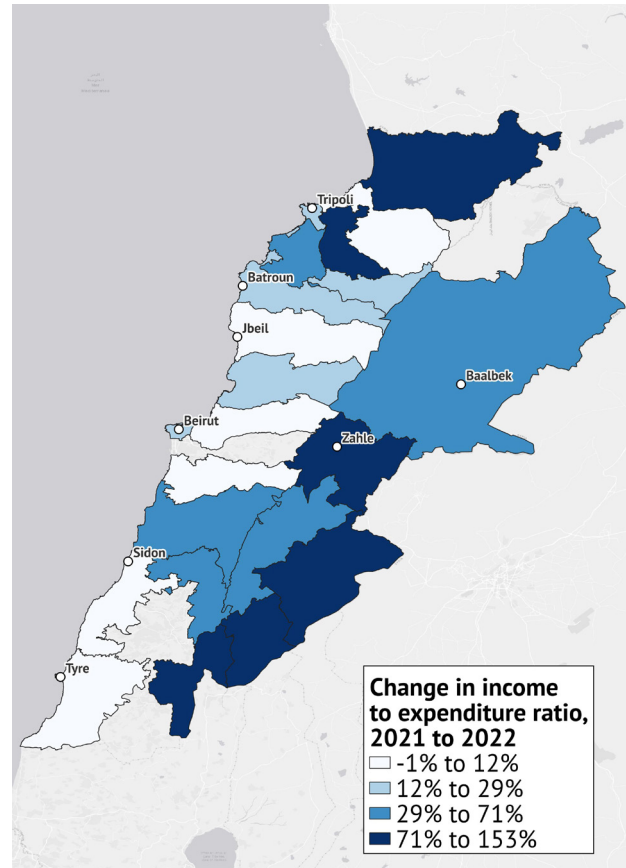


Figure 3: Growth rate of the income-to-expenditure ratio from 2021 to 2022, using REACH MSNA data for both years.

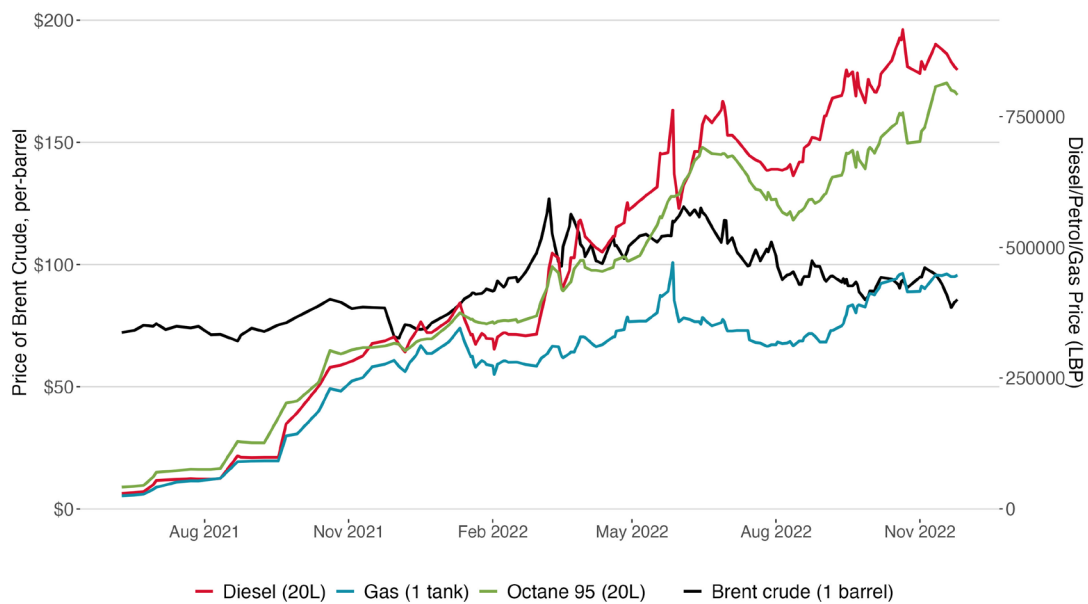
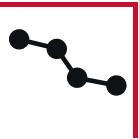


Figure 4: Fuel Prices from March 2021 to November 2022.⁷

⁶ Reuters EU tentatively agrees \$60 price cap on Russian seaborne oil

⁷ Lirarate



Fuel Price Pass-through Analysis:

LCAT calculated the effect of the LBP-USD parallel market exchange rate and the international price of oil (Brent crude) on octane 95 and diesel prices in Lebanon for the following three time periods (post-subsidy removal) to assess how the relative importance of each factor has changed over time.

1. June 1, 2021 to February 23, 2022 (Post-subsidy removal and pre-Ukraine conflict)
2. February 23, 2022 to July 31, 2022 (First five months of the Ukraine conflict)
3. August 1, 2022 to November 30, 2022 (Drop in international oil prices)

The effect of exchange rate fluctuations and Brent crude prices on octane 95 and diesel prices in Lebanon is measured by calculating the pass-through effect, which is the relationship between the change in the LBP-USD exchange rate or Brent crude prices and the rate at which the prices of octane 95 or diesel change. The pass-through effect was calculated using multiple linear regressions⁸ for each time period and weekly average price data. The results are shown in Figure 5.

The LBP-USD exchange rate and Brent crude prices produced distinct pass-through effects on the price of diesel and octane 95. The price of octane 95 follows an expected pattern. A larger proportion of Brent crude prices were passed onto the price of petrol during the first five months of the Ukraine conflict, when international oil prices were significantly higher, whereas a significantly larger proportion of LBP-USD was passed onto petrol in Lebanon when international oil prices decreased. The pass-through effect of the LBP-USD exchange rate and Brent crude prices on diesel prices in Lebanon follows a different pattern, with the LBP-USD exchange rate predominantly passed onto diesel prices during the first months of the Ukraine conflict, while both factors share about the same contribution to diesel prices when the international price of oil decreased. No pass-through effects calculated in the post-subsidy, pre-Ukraine conflict period for octane 95 or diesel were statistically significant.

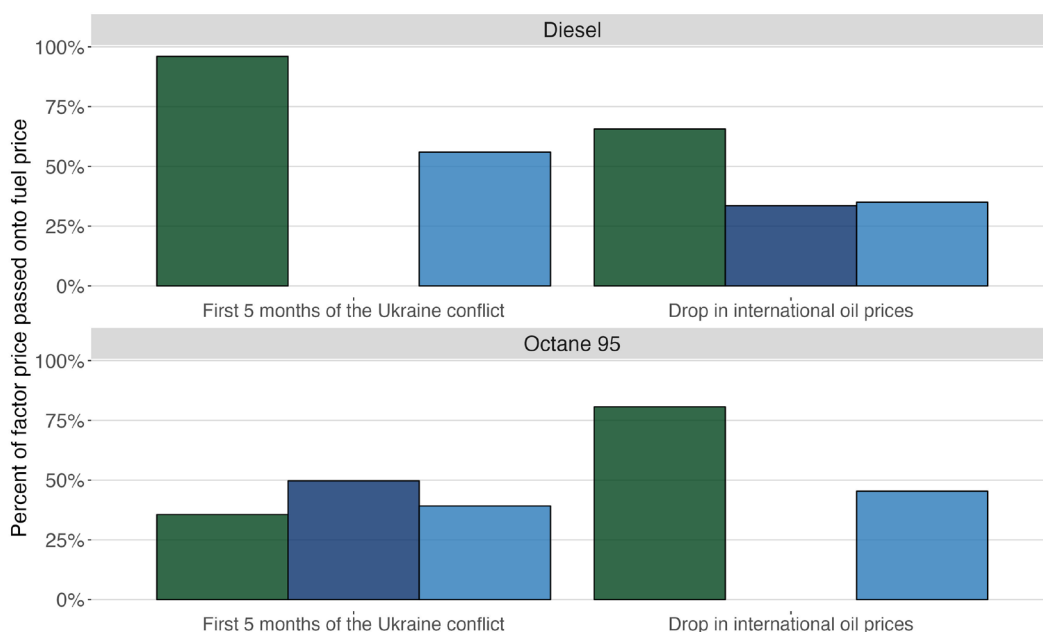
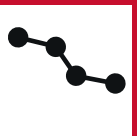


Figure 5: Figure 5. Pass-through effects for LBP/USD exchange rates and Brent crude prices to diesel and petrol prices during the first five months of the Ukraine conflict and the drop in international oil prices (August 2022 to the present).

⁸ Using the following regression model: fuel growth rates = lagged fuel growth rates (1 week) + LBP/USD growth rates + Brent crude growth rates + lagged Brent crude growth rates (1 week)



The results highlight the sensitivity of petroleum prices in Lebanon to global oil price shocks and LBP-USD depreciation, as well as the distinct behavior of diesel prices in Lebanon. The pass-through effect of the LBP-USD exchange rate increased in relation to petrol prices when the price of Brent crude began to trend below USD 100. This trend was observed even though volatility in LBP-USD exchange rates were comparable during the two periods, with an average weekly growth rate of about 1.9%.

The price of diesel was much more sensitive to LBP-USD depreciation than it was to the price of Brent crude during the first five months of the Ukraine conflict, with slightly more than 50% of price changes in Brent crude being passed onto diesel prices, compared to an almost complete pass-through to diesel prices from LBP-USD exchange rate dynamics. Though LCAT has not determined why the pass-through effect of the LBP-USD exchange rate on diesel prices was much higher than on petrol prices, we suspect the distinct behavior of diesel is driven by relatively higher demand for diesel in Lebanon during the coldest and warmest periods of the year, when demand is relatively inelastic,⁹ which motivated traders to sell diesel at the parallel market rate. Conversely, the international price of oil has played a larger role in driving diesel prices when demand softens in the late summer and early fall months.

The price of petrol and diesel in Lebanon are vulnerable to changes in the LBP-USD exchange rate and to global oil price shocks, so consumers will continue to pay higher prices for fuel if these two factors remain volatile.

⁹ Inelastic because cold and hot temperatures require heaters and air conditioners.



Political Updates:

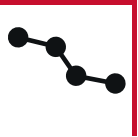
Parliament failed on three occasions in November to elect a new president and the Constitutional Council overturned a pair of parliamentary election results. Eight parliamentary sessions dedicated to voting in a new president have proven unsuccessful, in each case ending after the first round of voting due to a loss of quorum. Four of these sessions were held after former President Michel Aoun left office, including three in November and the latest on December 1. The majority of MPs cast blank ballots during sessions in November and December, with Michael Moawad receiving the majority of declared ballots in each session, though his vote totals decreased from 42 votes on November 24 to 37 votes in the latest session on December 1.

On November 24, the Constitutional Council upheld two appeals challenging 2022 Parliamentary Election results in Tripoli. The decision led to the replacement of Change MP Rami Fringe with Faisal Karami, the incumbent, who hails from a traditional ruling family close to March 8 camp. In accordance with another successful appeal, Firas Salloum was replaced by Change candidate Haidar Nasser.

March 8 parties are divided over who should be elected president, with Hezbollah and the Amal movement favoring Suleiman Frangieh and Free Patriotic Movement (FPM) leader Gebran Bassil believed to favor his own candidacy. Bassil claimed in a press conference that “If someone thinks that they can press us over the presidential issue, we tell them that this matter will not work because it leads to further stubbornness,” and “our free existence is more precious than any understanding,” in an apparent dig at the FPM’s long-term ally Hezbollah.^{10 11} Infighting among and between Lebanon’s major parliamentary blocs is expected to prolong negotiations over electing a new president and naming a new government.

¹⁰ The Mar Mikhael Agreement is a memorandum of understanding signed on February 6, 2006 between then Free Patriotic Movement Leader Michel Aoun and Hezbollah Secretary-General Hassan Nasrallah, which resulted in the two sides becoming strong political allies.

¹¹ [Bassil lashes out at Hezbollah and others over ‘partnership’ — Naharnet](#)



Access to services

EDL New Pricing

New pricing for state-produced electricity came into effect in November. Bills issued in line with new pricing will be issued in February 2023, upon the successful collection of bills issued in 2022 under the previous pricing regime. The table below compares the variable cost of Électricité du Liban (EdL) services with private generators. Furthermore, initial exceptional tariffs for industrial, agricultural, touristic, and religious institutions - priced at a lower rate - were canceled, with prices adjusted to 27 cents/KW.¹²

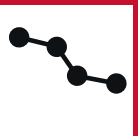
	First 100KW	Above 100KW	Consumption= 200kw
EDL	10 cents/KW = 10\$	27 cents/KW	37\$
Private Generator	50 cent/KW =50\$	50 cents/kw	100\$

Table 2: New prices of EDL in comparison with Private Generator Cost.

Since an agreement is still not in place for the long-awaited gas deal with Egypt, Lebanon has sought to strike a deal with Algeria to provide fuel oil, as Algerian officials originally promised Lebanese officials in the beginning of November.¹³ Lebanon and Algeria will engage in further talks to finalize the deal, taking into account the amount of fuel that will be delivered and the means of payment.

¹² [Lebanon - اعتباراً من شباط المقبل... فواتير الكهرباء تجيء بناء على التعرفة الجديدة](#)

¹³ [LBCI Report](#)



Electricity Costs MSNA Analysis:

LCAT analyzed the relationship between the qada-level proportion of total household budgets spent on electricity and the amount of observable electricity consumption using preliminary 2022 MSNA and night lights reflectance data.^{14 15} The two indicators are moderately positively correlated ($r = 0.44$; $p = 0.04$), meaning that qadas where households spend more of their total expenditure on electricity consume more electricity. Analysis of MSNA data related to the average hours of electricity that households use per-day corroborates this finding, specifically, households with higher income and expenditure per-person consume more hours of electricity.^{16 17} These results highlight the link between financial well-being and electricity consumption, which suggest that cash assistance would enhance households' ability to afford adequate electricity.

LCAT also used household-level MSNA data to measure differences between the proportion of total expenditures spent on electricity and average hours of electricity in households facing severe livelihood and food need. The results indicate that households with an "emergency" livelihood coping strategies index spent about five percentage points less of their total expenditure on electricity and about 1.5 less hours of electricity than households not classified at the "emergency" level. Households with a poor food coping strategies index (FCS) spent about four percentage points less of their total expenditure on electricity and consumed about three less hours of electricity than households above the "poor" FCS classification level.

LCAT also used household-level MSNA data to measure differences between the proportion of total expenditures spent on electricity and average hours of electricity in households facing severe livelihood¹⁸ and food¹⁹ need.²⁰

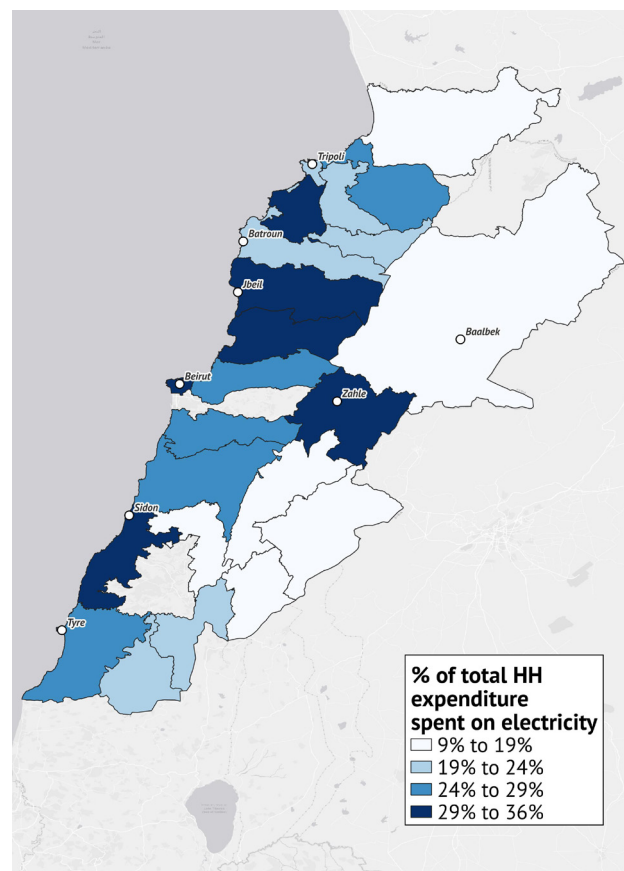


Figure 6: The average proportion of households' annual expenditure used to purchase electricity, including generator costs.

The results indicate that households with an "emergency" livelihood coping strategies index spent about five percentage points less of their total expenditure on electricity and about 1.5 less hours of electricity than households not classified at the "emergency" level. Households with a poor food coping strategies index (FCS) spent about four percentage points less of their total expenditure on electricity and consumed about three less hours of electricity than households above the "poor" FCS classification level.

¹⁴ [VIIRS night light reflectance satellite images.](#)

¹⁵ Population data from [Kontur](#).

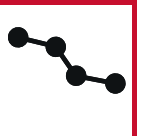
¹⁶ Income per-person & average hours of electricity per-day are highly correlated (Pearson's $r = 0.54$, $p = 0.009$)

¹⁷ Expenditure per-person & average hours of electricity per-day highly correlated (Pearson's $r = 0.63$, $p = 0.001$)

¹⁸ Livelihoods coping strategy index classified as an "emergency" level by REACH.

¹⁹ Food consumption scores of 28 or less, following this [WFP guidance document](#).

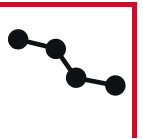
²⁰ Unpaired t-tests.



These results indicate that less electricity is consumed by households with significant livelihood and food needs. Households with severe food and livelihood insecurity likely must prioritize basic needs over purchasing electricity, making it difficult for households to heat their homes in winter, in addition to hindering childrens' ability to study and communities to promote security. These issues should raise concern among humanitarian actors and promote the use of electricity vouchers or cash assistance.

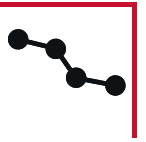
Cholera cases continued to spread throughout November, reaching 20 of 26 districts across Lebanon. The number of confirmed cases in Lebanon increased from 222 to 622 between the beginning and end of November, while suspected cases rose to 4594 from 1889 over the same period. Twenty people had died from cholera infection across Lebanon. Vaccination campaigns are underway, with a focus on areas with a high concentration of cholera cases such as Akkar and the Bekaa. A total of 444,141 vaccines were administered through the end of November.

Cholera cases are largely concentrated in regions with weaker infrastructure, specifically poor electricity and water provision. While the response has improved, there is a need to increase the number of health facilities dedicated to countering the spread of and treating cholera patients, as 50 beds exclusively dedicated to cholera patients are all currently occupied. Chlorination at the household level, in conjunction with vaccination campaigns, is the most effective method of preventing the spread of cholera. Despite improvements on both fronts, the number of cholera cases continue to rise and a second wave of infections is expected.



Looking Forward

- The LBP-USD parallel market exchange rate depreciated to all-time low in November, largely due to the significant increase in LBP money supply in September and October. The increase in Tax revenues will increase the likelihood of a Central Bank intervention using “stop-gap” monetary policy measures, especially if the LBP continues to deteriorate. Such a measure would likely seek to reduce LBP money supply, ahead of new official exchange rates taking effect in February 2023, which in turn will put pressure on the LBP parallel-market value.
- According to the 12-month rule, during each month of a new year that passes without an approved budget, the government can spend 1/12 of the annual amount allocated in the last approved budget, apart from civil servants’ wages. This places the 2022 budget front-in-center, as it could prove to be the basis on which state finances are administered in 2023 if a new budget is not passed on time.
- New provisions in the 2022 budget will place an additional burden on household budgets and those in the workforce. Raising import taxes will likely lead to further inflation in the country and adjustments to income tax calculations will directly impact aid workers, which will see their monthly salaries reduced. Taxes paid by aid organizations will also increase and budgets should be adapted accordingly. According to the 2022 budget, taxes will be collected retroactively from January 2022, but the Supreme Constitutional Council is reviewing this provision within the 2022 budget, meaning it could be overturned.
- Disagreements over preferred presidential candidates between the FPM and Hezbollah will contribute to a delay in filling vacant positions in Lebanon’s executive branch. Already, eight parliamentary sessions dedicated to voting in a president have ended before going to a second round of voting due to loss of quorum. Absent a political deal between established political parties, it is likely that more electoral sessions will end without a new head of state being named.
- The price of fuel in Lebanon increased in November due to LBP depreciation but with the latest OPEC+ decision to maintain current production levels after the EU set a price ceiling for Russian seaborn oil, prices globally are decreasing, which should result in lower prices locally on the short-term. However, further LBP depreciation and a shift in the current OPEC+ position could result in further increases in fuel prices, placing additional burdens on households and increasing inflation.



Contact

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



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