

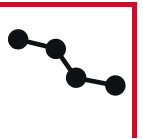
Lebanon Crisis Update

December 2022 ■ ■



Credit: Joseph Eid/AFP

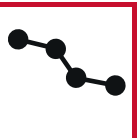
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The Monthly Lebanon Crisis Update provides an overview of economic and political developments to alert the international aid response to new and emerging challenges that could impact the humanitarian situation in Lebanon. In the context of the multiple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

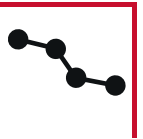
The Lebanon Crisis Analytics Team (LCAT) provides reactive and in-depth context analysis to inform the aid community in Lebanon. The information and analysis contained in this report is therefore strictly to inform humanitarian and development actors and associated policymaking on Lebanon.

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.

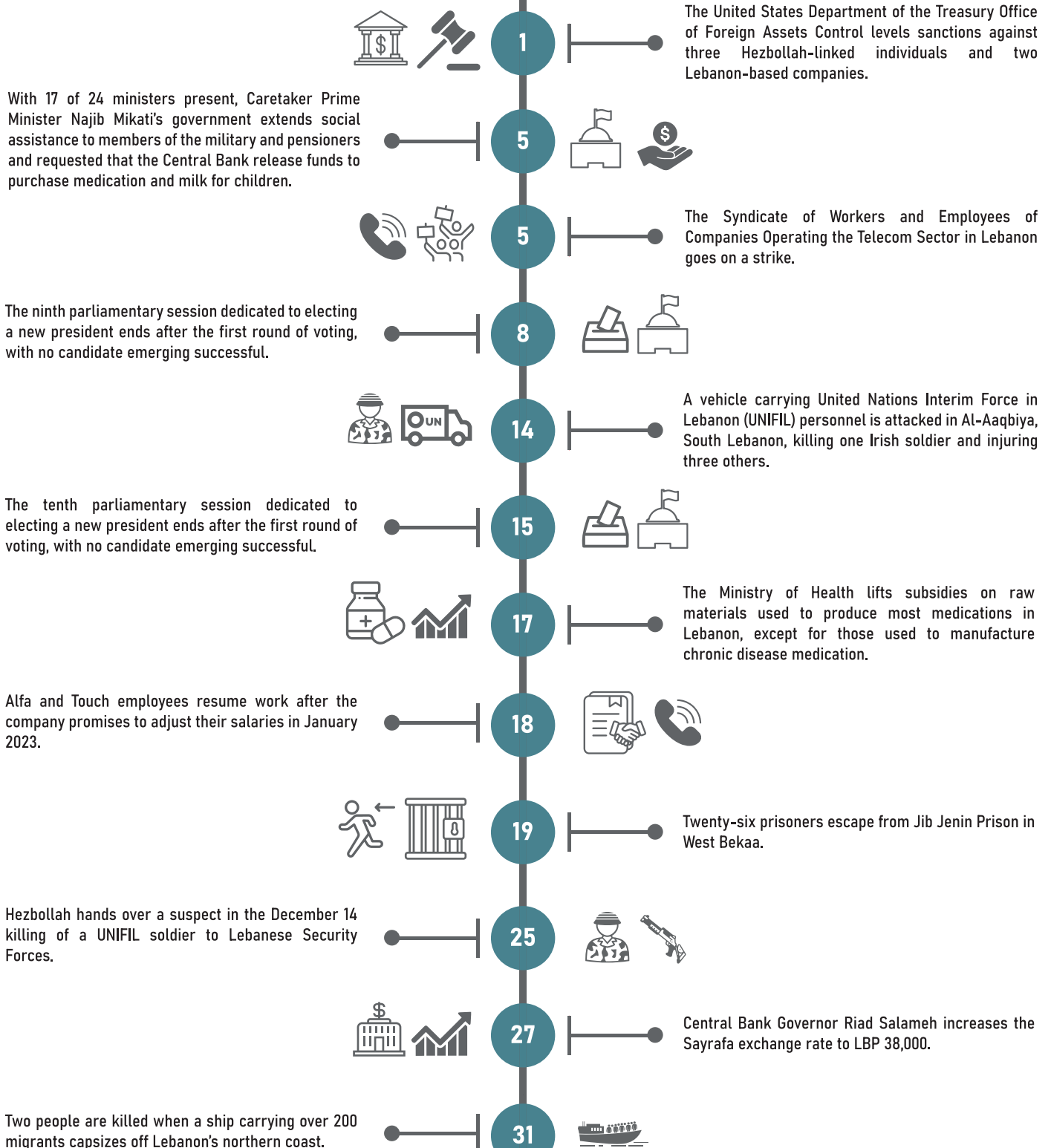


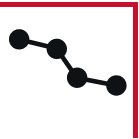
Key Takeaways

- The Lebanese pound (LBP) parallel market exchange rate depreciated to a record low of LBP 47,800 per 1 US dollar (USD) by December 26, largely due to an increase in money supply in December. The exchange rate sharply appreciated on December 27, when the Central Bank increased the Sayrafa exchange rate to LBP 38,000 and lifted all limits on individuals and institutions buying and selling USD at commercial banks via the official exchange platform. In addition to opening greater access to Sayrafa, the Central Bank announced that the official exchange platform would be accessible through 5 PM on all business days until January 31, 2023. Sayrafa transactions totalled USD 300 million per day and USD 1.09 billion overall from December 26 to January 5. In early January, the Central Bank limited Sayrafa transactions to LBP 100 million per month and restricted official use of Sayrafa to individuals.
- Fuel prices (per 20 liters) decreased in December and closed the month at LBP 729,000 for 98-octane, LBP 709,000 for 95-octane, LBP 790,000 for diesel, and LBP 466,000 for cooking gas.
- The European Union allocated 229 million euros to Lebanon on December 14, which will be used to enforce good governance reforms, support the country's public administration, and enable greater transparency and accountability.
- Three parliamentary sessions dedicated to electing a new president ended without success, as political horse trading, particularly disagreements among parties in the March 8 bloc, prolong the election of a new president and naming of a new government.
- The caretaker government convened an urgent meeting on December 5 to discuss medical care and social assistance, at which ministers requested that the Central Bank release USD 35 million to buy medicine and milk for children, though no documentation has been released which details plans on how the funds would be allocated. Also, the cabinet approved social assistance for members of the military and pensioners, with caretaker Minister of Information Ziad Makary claiming that the assistance will be valued at double the recipients' monthly income.



December





Credit: Mohamed Azakir

Economic and Financial Updates

The Lebanese pound (LBP) depreciated heavily against the US dollar (USD) in December, reaching nearly LBP 48,000 before rebounding to LBP 42,400 at the close of the month. Through most of December, the LBP-USD parallel market rate trended down, depreciating to LBP 46,500 on December 21. From December 21 to 24, the market rate fluctuated slightly before depreciating to LBP 47,800 on December 26. The pound began appreciating on December 27, when the Central Bank announced that it changed the Sayrafa exchange rate, and closed the month at LBP 42,400.

Central Bank Governor Riad Salameh also denounced the speculation and smuggling of USD at the Lebanese-Syrian border, which he claimed had a marked effect on the USD-LBP parallel market rate during the Christmas holidays.

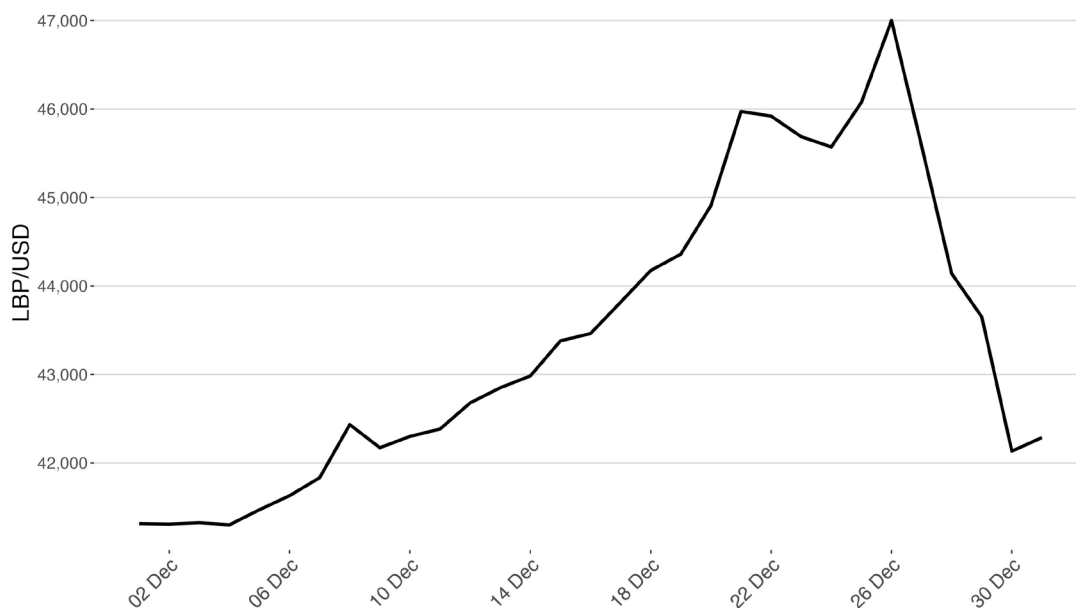
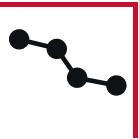


Figure 1: LBP Parallel Market Exchange Rate in December 2022.



In addition to adjusting the Sayrafa LBP-USD exchange rate from LBP 31,200 to LBP 38,000, the Central Bank’s December 27 announcement lifted all limits on individuals and institutions buying and selling dollars on the official exchange platform. However, the Central Bank’s announcement was not binding on commercial banks. Some banks imposed a USD 400 or less limit on Sayrafa exchanges in accordance with articles 75 and 83 of the Monetary and Credit Law, while other banks chose not to adjust their currency exchange policies. The Central Bank also extended hours during which Sayrafa transactions could be conducted via commercial banks to 5:00 pm, a policy which will remain in effect through January 31, 2022.

In apparent anticipation that some banks would not adhere to the new policy, the Central Bank coordinated with Al Mawarid Bank to allow Lebanese citizens to buy USD at the Sayrafa rate at any of its 19 branches if they provide proof of holding an account at a Lebanese bank. Al Mawarid Bank issued a statement on December 28 that it would remain open on December 31, January 1, and January 2, despite those days being official holidays. The Central Bank’s announcement increased the amount of USD exchanged via Sayrafa to a new high of more than USD 300 million per day, totalling USD 1.09 billion from December 26 to January 5.

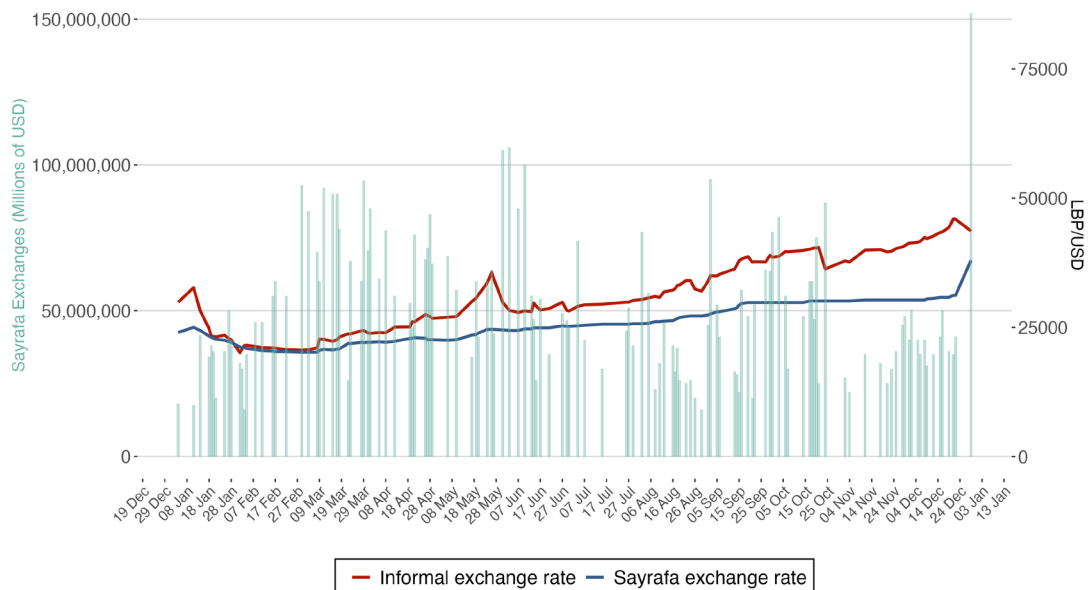


Figure 2: Sayrafa transactions VS Market Rates.¹

Following record-level Sayrafa transactions, LBP money supply (M1) increased in December to a new high of LBP 97,084 billion by December 29. Similarly, currency in circulation outside the Central Bank (M0) increased from LBP 74,773 billion to LBP 80,171 billion from December 15 to December 31.

¹ Source: [Central Bank - lirate](#)

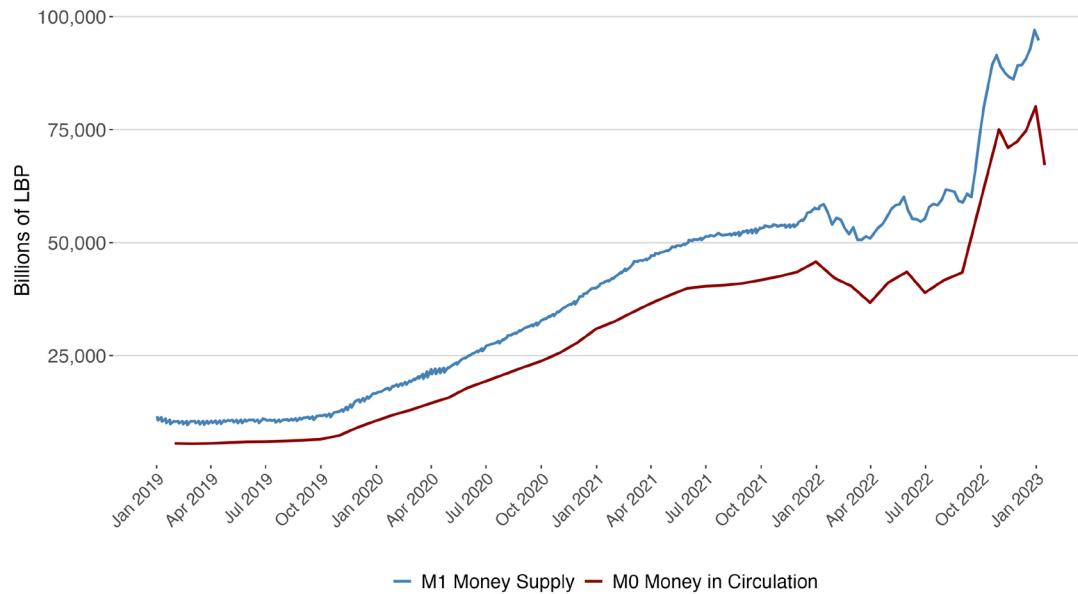
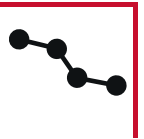


Figure 3: Money Supply and Money in Circulation.²

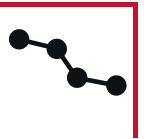
On December 22, General Prosecutor at the Mount Lebanon Court of Appeal Ghada Aoun froze property assets belonging to actress Stephanie Saliba,³ a friend of Central Bank Governor Riad Salameh. Saliba was previously detained and questioned by Lebanese authorities on December 6, in connection with an investigation into potential theft of public funds and money laundering by Salameh. Investigators questioned Saliba about gifts given to her by Salameh.

Delegations of general prosecutors, investigative judges, and financial prosecutors from Germany, Luxembourg, and France scheduled a visit to Beirut from January 9 to January 20, to continue investigations into Salameh and his brother, Raja. Furthermore, Salameh's former partner Anna Kosakova⁴ was placed under judicial supervision in early December and was temporarily removed from the management of the companies BET, ZEL and Eciffice, which were reportedly used for money laundering.

² Source: [Central Bank](#)

³ [Reuters: Lebanese prosecutor seeks to question actress in Salameh graft probe](#)

⁴ Anna Kosakova was indicted by French Judge Aude Buresi in June 2022 for "criminal conspiracy," "laundering in an organized gang" and "aggravated tax fraud"



Fuel Prices:

Fuel prices fluctuated throughout December in line with changes in the LBP-USD parallel market exchange rate and the price of Brent Crude. From December 1 to December 12, the price of Brent crude decreased from USD 87 to USD 75, which resulted in a reduction of petroleum prices in Lebanon to LBP 772,000 for 98-octane, LBP 753,000 for 95-octane, LBP 798,000 for diesel, and LBP 466,000 for cooking gas. Brent crude price increased in mid-December, reaching USD 82 on December 15, which, in conjunction with a LBP-USD parallel market exchange rate depreciation in December, spurred an increase in petroleum prices. By the end of the month, petroleum prices stood at LBP 729,000 for 98-octane, LBP 709,000 for 95-octane, LBP 790,000 for diesel, and LBP 466,000 for cooking gas.

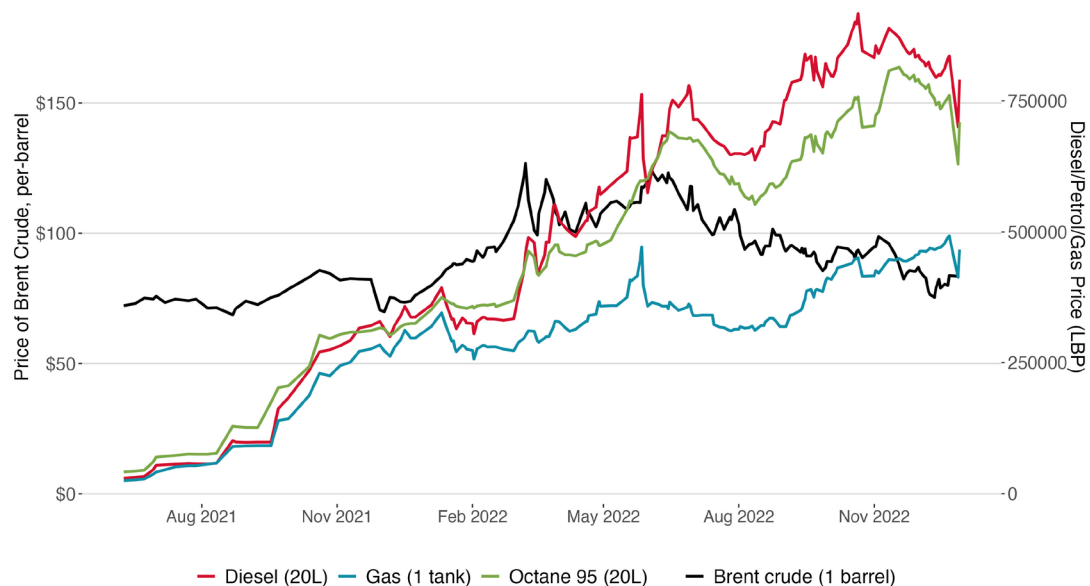


Figure 4: Fuel Prices from March 2021 to December 2022.⁵

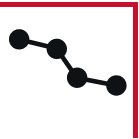
Foreign Financial Assistance:

On December 14, the European Union (EU) allocated 229 million euros to Lebanon to implement and enforce a range of reforms. In its statement,⁶ the EU stressed the importance of reinforcing good governance and supporting public administration reforms that focus on transparency and accountability. Moreover, the grant will aid state and civil society actors in contributing to gender equality, working toward a green and sustainable economic recovery, and transitioning to renewable energy. The grant is also targeted at vulnerable Lebanese and Syrian refugees, with a focus on social protection, education, health, and water provision.

On December 7, Caretaker Minister of Economy and Trade Amin Salam announced that a USD 150 million World Bank loan would come into effect by the end of December to finance wheat imports. The first wheat imports under the loan are scheduled for early January.

⁵ [Lirarate](#)

⁶ [The Delegation of the European Union to Lebanon's Statement](#)



Analysis:

The Central Bank decided to increase the Sayrafa exchange rate for multiple reasons, primarily to prop up the lagging LBP. By doing so, the gap between the LBP 31,200 Sayrafa rate and the LBP 40,000-plus parallel market rate narrowed. Moreover, the rate increase, coupled with the removal of limits on Sayrafa transactions for individuals, resulted in the highest recorded levels of Sayrafa transactions to date. Consequently, USD was more available to individuals and institutions at a lower rate than the parallel market, which led to LBP parallel market rate appreciation. Additionally, the policy affected fuel prices, which in turn affected the pricing of other goods and services. However, the Sayrafa exchange rate adjustment had a short-term effect, largely due to an increase in money supply (M1) and additional adjustments to Sayrafa policy on January 9, when the Central Bank limited transactions on the platform to LBP 100 million (approximately USD 2,600) for individuals each month and barred institutions from officially accessing it.

Over the course of 2022, the LBP-USD parallel market exchange rate steadily depreciated, largely due to the drainage of USD from the market. According to the Customs Administration,⁷ imports totalled USD 19 billion in 2022, whereas exports totalled approximately USD 3.5 billion, resulting in a deficit of USD 16.5 billion. Compared to pre-crisis levels, the deficit in both 2017 and 2018 totalled USD 16.7 billion and 17 billion respectively. This is indicative of the dollarization of Lebanon's economy, characterized by a significant trade deficit driven by consumption.

Caretaker Prime Minister Najib Mikati asserted that the Lebanese economy grew by 2% in 2022 - similar to BDL projections - due to increased tourism revenues and a rise in remittances. Month-on-month inflation slowed in November to 3.74% compared to 14.65% in October, as presented by the Central Administration of Statistics.⁸ According to caretaker Minister of Economy and Trade Amin Salam, almost 70% of foodstuffs are not subjected to new tariff rates. Ministry officials⁹ added that article 47 of the budget, which imposes a 10% extra tariff on imported substitutes for locally produced goods and luxury products, has not been enforced because the classification of "luxury goods" is not complete.

⁷ [Customs Tax Administration Statistics](#)

⁸ [Central Administration of Statistics](#)

⁹ [LBCI: Abu Haidar: The 10% fee on imported goods is still not enforceable](#)



Credit: Dalati Nohra

Political Updates:

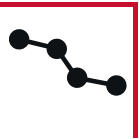
US Sanctions:

On December 1, the United States Department of the Treasury Office of Foreign Assets Control (OFAC) sanctioned two individuals and two companies based in Lebanon for providing financial services to Hezbollah and an additional individual for procuring weapons for the Lebanese political party. Sanctions were leveled against the Al-Khobara firm for Accounting, Auditing, and Studies and its CEO and owner, Adel Mohamad Mansour. According to the OFAC filing, Mansour held another position as the leader of AQAHA, a U.S.-designated Hezbollah-run financial institution. Sanctions were also leveled against the firm Auditors for Accounting and Auditing and its owner Ibrahim Daher,¹⁰ who provided financial services to Hezbollah's Central Finance Unit. Additionally, Naser Hasan Naser was sanctioned for acting on behalf of the auditors. Finally, Hassan Khalil was sanctioned for materially assisting, sponsoring, or providing "financial, material, or technological support for, or goods or services to, or in support of, Hezbollah and has been actively working to procure weapons" for the group.

Ambush Targeting UNIFIL Personnel in South Lebanon:

On Wednesday, December 14, one of two United Nations Interim Force in Lebanon (UNIFIL) armored vehicles traveling from South Lebanon to Beirut came under small arms fire in the village of Al-Aaqbiya. Prior to the attack, the two vehicles were separated when one deviated from the main road. Armed individuals followed and intercepted the vehicle that deviated from the main road and fired on it, killing one Irish soldier and injuring the other three passengers.

¹⁰ Daher was previously designated in May 2021 for acting on behalf of Hezbollah in his capacity as the chief of Hezbollah's Central Finance Unit



Al-Aaqbiya Mokhtar Bassam Jaafar told L'Orient Today that residents tried to stop the UNIFIL vehicle because peacekeeper convoys are “not allowed in the village but only on main routes”.¹¹ While media outlets accused Hezbollah of being behind the incident, the party denied it was involved. Hezbollah MP Ali Fayad stated that “everyone has an interest in the stability of the south” after attending a presidential election session at the parliament on December 15. Shortly after the attack, Hezbollah offered to cooperate and later handed over a suspect to the security forces on December 25. The Lebanese Military Court pressed charges against seven people involved in the incident on January 5.

Presidential Elections:

Parliament failed on three occasions in December to elect a new president (December 1, 8, and 15). Ten 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. Most MPs cast blank ballots during sessions in December, with Michael Moawad receiving the majority of declared ballots in each session. Despite Hezbollah and the Amal Movement favoring Suleiman Frangieh, no votes were cast for him during the ninth and tenth parliamentary electoral sessions.

Caretaker Cabinet Meeting:

On December 5, Najib Mikati’s caretaker cabinet met in Beirut, with the notable absence of several ministers close to the Free Patriotic Movement (FPM), who boycotted the session after releasing a joint statement one day earlier claiming that the cabinet meeting is a “violation of the constitution”.¹² Former President Michel Aoun stated on December 4 that Mikati’s decision to convene the government was an “attempt to seize power and impose his will on the Lebanese, contrary to what the constitution dictates.” Georges Bouchikian and Hector Hajjar, who are both close to the FPM, participated in the in meeting. This enabled the Council of Ministers to reach quorum, with 17 ministers present out of 24.

The cabinet requested that the Central Bank release USD 35 million to purchase medicines and milk for children and approved social assistance for members of the military and pensioners, estimated to be valued at twice their salary. Of note, no documentation has been released which details plans on how the funds to support children will be allocated. Mikati also stated that the Lebanese government can no longer cover expenditures to cover cancer and dialysis treatment.

After the cabinet meeting, FPM leader Gebran Bassil held a press conference on December 6, at which he stressed that the cabinet meeting was “unconstitutional, illegal and unconventional” and threatened to “halt” the so-called “blank vote strategy.”¹³

¹¹ [Lorient Today: Irish UNIFIL soldier killed in South Lebanon](#)

¹² The boycotting ministers were Abdallah Bou Habib, Henri Houry, Maurice Slim, Amine Salam, Hector Hajjar, Walid Fayad, Walid Nassar, Georges Bouchikian and Issam Charafeddine (close to the Druze politician Talal Arslan).

¹³ Bassil’s statement likely implies that FPM MPs could vote for a candidate who is not supported by Hezbollah or the Amal Movement



Credit: NNA

Access to services

EDL:

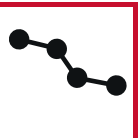
The Union of Employees of Electricité du Liban (EDL) declared an open-ended strike on December 8 across all branches of the institution, demanding increased wages and to be paid in cash. The strike, which is ongoing as of the time of writing, halted all maintenance operations except those needed “to prevent a danger to public safety.” On December 8, the Central Bank informed EDL that it will exchange LBP collected by EDL to USD using the Sayrafa Plus rate, which is Sayrafa rate with a 20% markup.

Telecoms:

On December 1, the Syndicate of Workers and Employees of Companies Operating the Telecom Sector in Lebanon announced that it would hold a “warning strike” and a sit-in the following day to address the “political clientelism and subordination in promotions and incentive distribution”. According to Touch and Alfa employees, the administration selectively adjusted salaries, despite the adoption of the budget law in November, which should have resulted in a pay rise. After negotiations with caretaker Telecom Minister Johnny Corm failed, employees announced an open-ended strike on December 5 that continued through December 18. The strike was limited to the physical customer service center, while online services and telecom coverage remained operational. Employees returned to work after the board of directors at both companies committed to implementing salary adjustments in January 2023.¹⁴

After the adoption of the new LBP 38,000 per USD 1 Sayrafa rate on December 28, Touch and Alfa fees increased by 22%, including recharge cards for mobile data and cell services.

¹⁴ [LBCI News: Alfa and Touch employees resume their work](#)



Health: Drug Price Hikes

On December 14, the union of drug manufacturers in Lebanon announced an increase in the price of drugs produced in Lebanese laboratories, without indicating when the change would go into effect. According to the statement, the prices of drugs which previously cost from LBP 199,000 to LBP 399,000 will increase by LBP 6,000 to LBP 180,000. Prices of drugs previously sold for LBP 400,000 to LBP 1,450,000 will increase by LBP 181,000 to LBP 1,000,000.¹⁵

On December 17, the Ministry of Health (MoH) announced that subsidies on raw materials used to produce medication in Lebanon will be narrowed to exclusively cover inputs for chronic disease medications such as diabetes, high blood pressure, and blood clots. Initially, the USD 5 million subsidy provided by the Central Bank covered the inputs of 500 to 600 locally produced medications.¹⁶ On December 22, the ministry fixed the exchange rate of medications to LBP 45,000 per USD 1, due to fluctuations in the USD-LBP parallel market exchange rate. The new policy is intended to prevent disruptions in the supply of medication.¹⁷

On December 28, the MoH ordered that a contaminated batch of cancer drugs smuggled into the country be removed from circulation. This followed a World Health Organization (WHO) warning against the sale of Methotrex in Lebanon, which has not been registered with the MoH. According to WHO, health authorities in Yemen and Lebanon conducted microbiological tests on unopened vials of the drug, which came back positive for *Pseudomonas aeruginosa*,¹⁸ indicating contamination.¹⁹ In December alone, the MoH registered seven cases in which it banned the import of or confiscated unregistered medicine in the market.

Migration:

A capsized ship carrying 200 people was intercepted by the Lebanese Navy and UNIFIL forces on December 31 along Lebanon's northern coast. Two people were killed when the boat, carrying Lebanese and Syrian nationals, began to sink.²⁰ The Lebanese Armed Forces reportedly transported rescued Syrian nationals to the Lebanese-Syrian border, where they were released into the custody of Syrian officials. According to the Associated Press, the migrants were held until their relatives paid for their release and return to Lebanon via smugglers.²¹

Prison break:

Twenty-six prisoners escaped through a ventilation duct at Jib Jenin prison in Western Bekaa on December 19. Security forces captured one of the escapees while the Military Intelligence Directorate arrested seven more. Prison breaks have increased in past months. In November, 18 prisoners escaped from Amioun prison in Koura. Also, nine detainees escaped in October from the Fakhreddine barracks located near the UNESCO headquarters in Beirut and 19 inmates escaped from a prison in Jounieh.²²

¹⁵ Lorient Today: [Lebanese drug manufacturers announce price hikes](#)

¹⁶ LBCI News: [Rationalizing subsidies on some types of raw materials used in the local pharmaceutical industry](#)

¹⁷ Ministry of Health Website: [Drug Price List 2022](#)

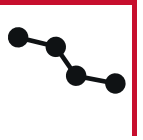
¹⁸ *Pseudomonas aeruginosa* is microorganism that can cause acute or chronic infections, sometimes serious and fatal.

¹⁹ Ministry of Health Website: Drug Recalls

²⁰ [UNIFIL Statement](#)

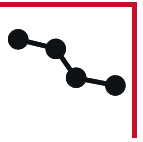
²¹ [Associated Press: Saved from death at sea, Syrian refugees face deportation](#)

²² [Lorient Today: Twenty-six prisoners escape from Jib Jenin prison in Western Bekaa](#)



Looking Forward

- The Sayrafa policy change that allowed Lebanese citizens to buy LBP 100 million (approximately USD 2,600) per month will likely continue through January 31, a marked increase in access to the platform compared to the USD 400 limit in place before December 27. Sayrafa injections stabilized after January 9, likely due to the decision to deny institutions access to the official exchange platform.
- Unsanctioned migration attempts have decreased over the past two months, with only one case recorded in December. It is likely that this is due to seasonality, namely that migration boats are un-equipped to face storms during the winter months compared to the summer months, when unsanctioned migration is more frequent.
- Limited availability of medicines at pharmacies and hospitals will likely persist into 2023, with citizens opting for alternatives and resorting to asking individuals traveling to Lebanon from abroad to supply them with the needed medications. As the availability of medication has reduced, multiple counterfeit and non-compliant products have become available in the market, which could have ill effects on citizen's health. In 2022, the MoH banned or confiscated medicine from the market 45 times.
- Disagreements over preferred presidential candidates, primarily between the FPM and Hezbollah, will likely delay the process of filling vacant positions in Lebanon's executive branch. Already, 10 parliamentary sessions dedicated to voting in a president have ended before going to a second round of voting due to loss of quorum and until a broader political consensus is reached, it is likely that the "dual executive vacuum" will persist.
- Little action was taken in December toward passing reform legislation aimed at securing International Monetary Fund financial assistance. In mid-January, the draft Capital Control Law was passed through a joint committee and is slated to be voted on in parliament, though it is not clear whether the draft legislation meets IMF requirements.



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