

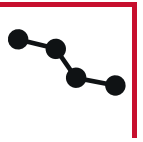
Lebanon Crisis Update

January 2023 ■ ■



Photo by Reuters

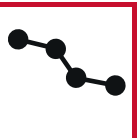
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The Monthly Lebanon Crisis Update provides an overview of economic and political developments to alert the international aid response to new and emerging challenges that could impact the humanitarian situation in Lebanon. In the context of the multiple crises affecting Lebanon, the update tracks the impact of political developments on the economy, relevant international developments, updates on service delivery and governance issues, and analysis of the drivers of humanitarian need as they develop. The report also aims to provide nuanced forecasting on contextual shifts relevant to shifting needs and the implementation of humanitarian programming. The report draws upon a desk review of currently available literature, analysis of relevant quantitative data, and key informant interviews with a range of experts and individuals with knowledge of Lebanon's economy.

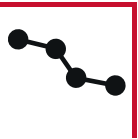
The Lebanon Crisis Analytics Team (LCAT) provides reactive and in-depth context analysis to inform the aid community in Lebanon. The information and analysis contained in this report is therefore strictly to inform humanitarian and development actors and associated policymaking on Lebanon.

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.

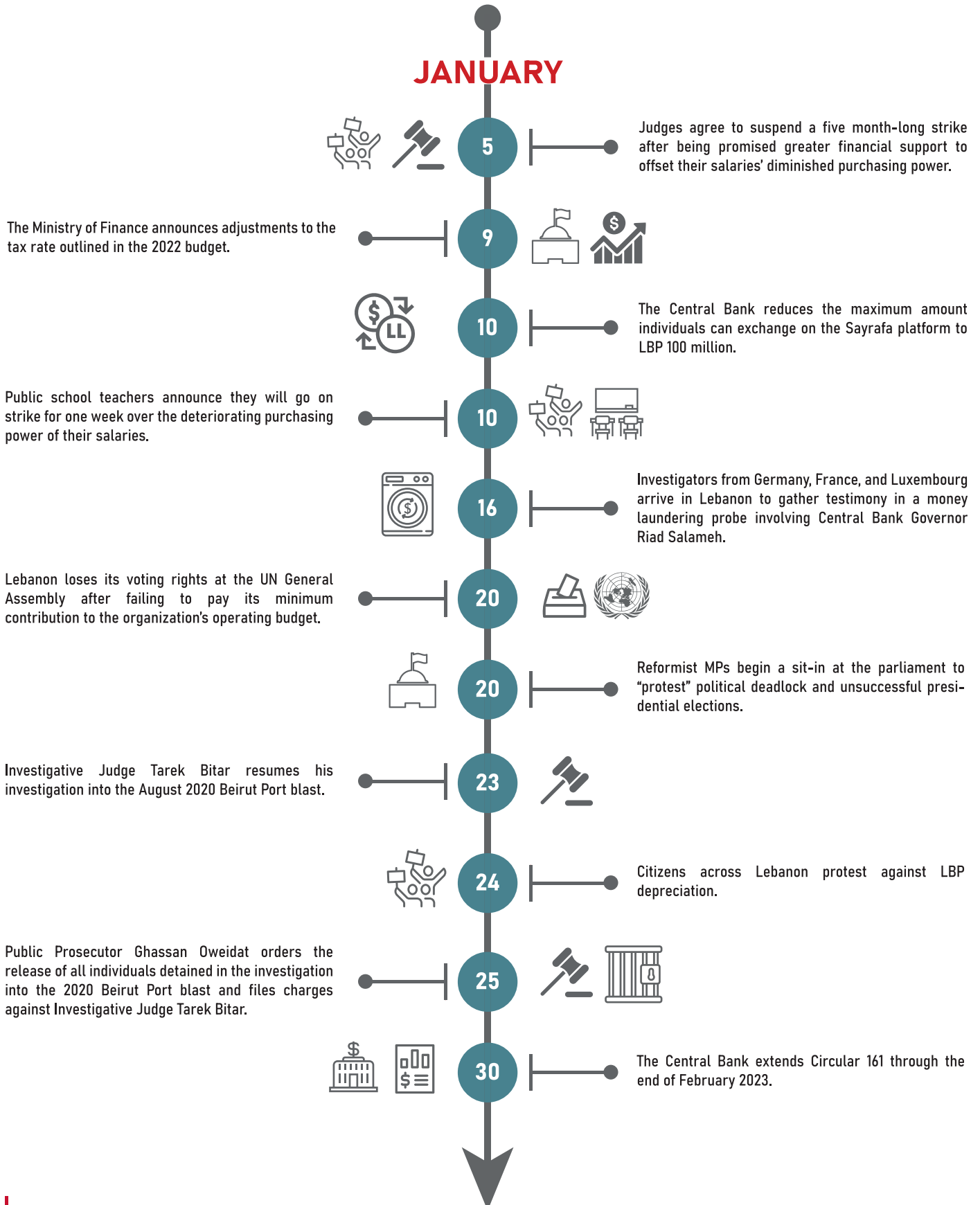


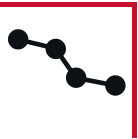
Key Takeaways:

- The Lebanese Pound (LBP) depreciated to a low of LBP 63,500 per USD 1 on January 26. Acute LBP depreciation in the second half of January was accompanied by an increase in LBP money supply and Central Bank-mandated limits on Sayrafa platform transactions to individuals - excluding firms and organizations - and a LBP 100 million conversion ceiling per individual. Despite a change in the Sayrafa rate at the end of January to 42,000, the divergence between the parallel market exchange rate and Sayrafa rate widened significantly.
- The Central Bank issued multiple circulars in January to account for a change in the official LBP exchange rate. The circulars enable USD account holders to withdraw up to USD 400 a month, with an annual limit of USD 4,800, and withdraw LBP from their USD-denominated accounts at the new rate of LBP 15,000. The Central Bank also updated regulations on repaying foreign currency loans.
- Fuel prices surged across the country as the pound depreciated, triggering protests and road closures. At the end of January, prices stood at LBP 1,082,000 for 95-octane, LBP 1,107,000 for 98-octane, LBP 1,118,000 for diesel, and LBP 685,000 for gas. Record-high prices place an additional burden on individuals and households, particularly transportation and electricity costs.
- A delegation of European investigative judges arrived in Lebanon on January 16 as part of a cross-border probe into an alleged money laundering scheme involving Central Bank Governor Riad Salameh. The delegation heard testimony from Central Bank officials and employees at commercial banks.
- Public sector employees resumed their strike in response to a decrease in the purchasing power of their salaries and a lack of additional financial support. Public school teachers began a week-long strike on January 7, over the deteriorating purchasing power of their salaries and a lack of government assistance. Ministry of Telecommunications employees went on a strike on January 17, in response to currency and price instability endangering the value of their salaries.
- Investigative Judge Tarek Bitar resumed work on a probe into the 2020 Beirut Port blast by releasing five individuals held in connection with the investigation, and charged others in relation to the blast, including Public Prosecutor Ghassan Owaidat. Days later, Owaidat filed charges against Bitar and ordered the release of detainees held in connection with the blast investigation. The flurry of judicial moves leave the eventual fate of the probe in doubt.
- Lebanon's 2022 import data was released in early January, showing an import bill that was surprisingly large relative to the country's estimated GDP. This reflects an economy struggling to improve its balance of payments in the face of negative coping mechanisms and perverse incentives, a bad sign for recovery and stabilization.



JANUARY





Economic and Financial Updates:

The Lebanese pound (LBP) depreciated against the US dollar (USD) in January, marking one of the most volatile periods for the Lebanese currency since the start of the crisis. Through the first week of January, the LBP-USD parallel market fluctuated between LBP 42,000 and LBP 44,000 per USD 1. The pound then depreciated from 45,000 on January 9 and reached LBP 47,600 on January 16, largely due to the Central Bank adjusting Sayrafa exchange platform policy. Later in the month, the pound depreciated to a new low of LBP 63,500 on January 26. Despite a short-lived round to LBP 55,500 on January 27, the currency closed the month at about LBP 60,000.

Currency volatility had immediate consequences, as many saw the value of their LBP holdings diminishing at an alarming pace. Demonstrations broke out in cities and towns across Lebanon in late January in response to accelerated LBP depreciation. On January 20, protestors blocked roads leading to Beirut's Martyrs Square and in the Saida suburb of Abra before being cleared by the Lebanese Armed Forces (LAF). On January 24, demonstrators blocked roads in Beirut, Tripoli, and Metn when the LBP parallel market exchange rate depreciated to LBP 54,000 per USD 1, with protests continuing through the following day.

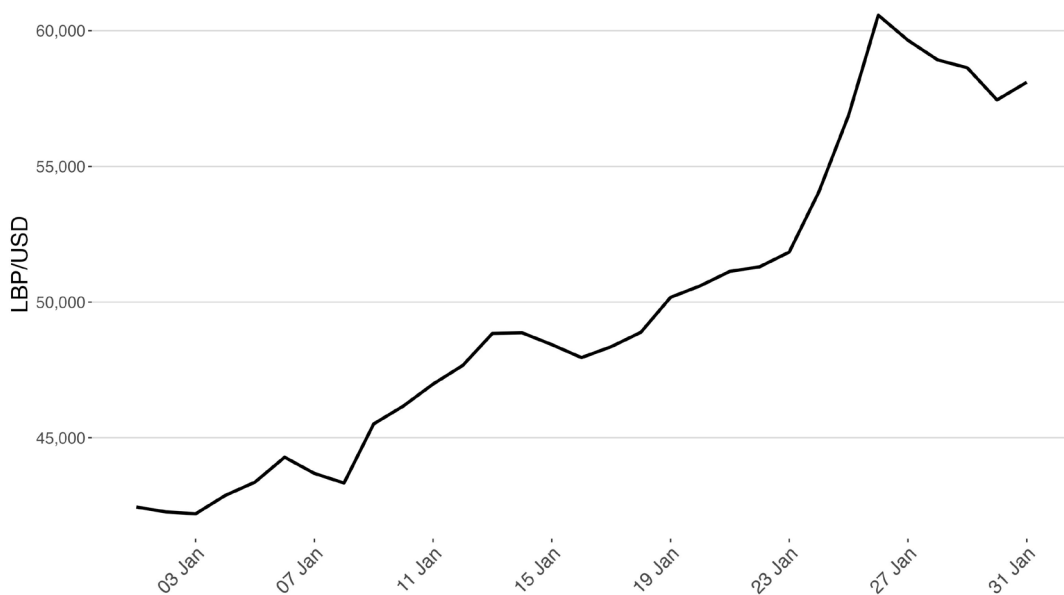
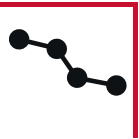


Figure 1: LBP Parallel Market Exchange Rate in January



The Central Bank issued multiple circulars in January affecting the amount depositors with USD-denominated accounts can withdraw from Lebanese banks, exchange rates for deposits, and foreign currency-denominated loan repayments. On January 20, the Central Bank issued three new circulars in line with a previously announced change in the official exchange rate from LBP 1,507.5 to LBP 15,000, effective February 1. Circular 158 allows USD account holders to obtain USD 400 per month in three forms: cash, transfers abroad, or credit card usage abroad. Annual withdrawals in this form cannot exceed USD 4,800. Additionally, a USD account holder can withdraw up to USD 400 in two forms: 50% in LBP using the USD-LBP exchange rate of LBP 15,000 (instead of LBP 12,000) and 50%, also exchanged at LBP 15,000, paid through debits cards, checks, or transfers to pay domestic bills (for instance, taxes, telecommunications, and electricity bills). Circular 151 increases the rate at which USD deposits can be exchanged to LBP, from LBP 8,000 to LBP 15,000, subject to a USD deposit ceiling of USD 1,600 per month.¹ Circular 81 stipulates that all loans extended to non-residents should be paid back in the currency in which the loan is denominated and executed by transfers from abroad.

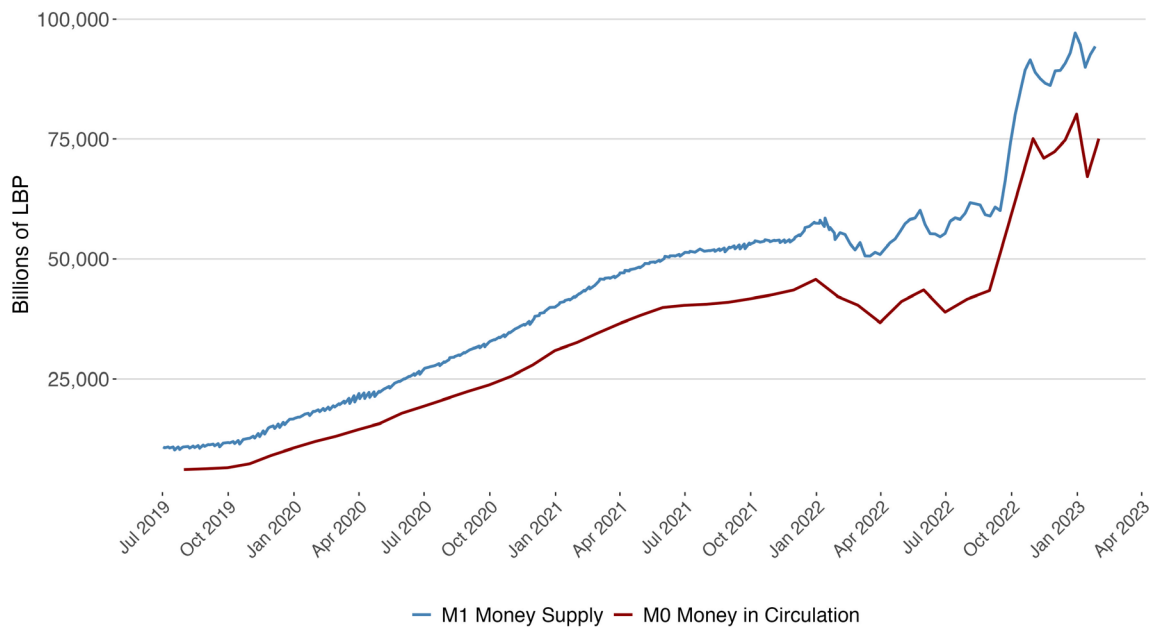


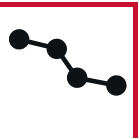
Figure 2: Money Supply and Money in Circulation²

The amount of LBP in circulation significantly shifted in January, with supply shrinking in the first half of the month, then increasing in the second. Money supply (M1) decreased from LBP 97,084 billion to LBP 89,974 billion by mid-January. In mid-January, the volume of Sayrafa exchanges decreased and in the second half of January, money supply increased to LBP 94,310 billion. Similarly, currency in circulation (M0) decreased from LBP 80,171 billion to LBP 67,160 billion by mid-January, but jumped to LBP 75,055 billion by the end of the month.³

¹ Circular 158 applies only to deposits made before the end of October 2019, while Circular 151 applies to any deposit in USD.

² Source: [Central Bank](#)

³ [Statistics and Research](#)



Fuel prices increased to all-time highs in January as the LBP-USD parallel market exchange rate dipped. Petroleum prices increased to LBP 1,147,000 for 95-octane, LBP 1,174,000 for 98-octane, LBP 1,195,000 for diesel, and LBP 730,000 for cooking gas. After the LBP-USD rebounded to LBP 55,500 near the close of January, fuel prices decreased and closed the month at LBP 1,082,000 for 95-octane, LBP 1,107,000 for 98-octane, LBP 1,118,000 for diesel, and LBP 685,000 for cooking gas.

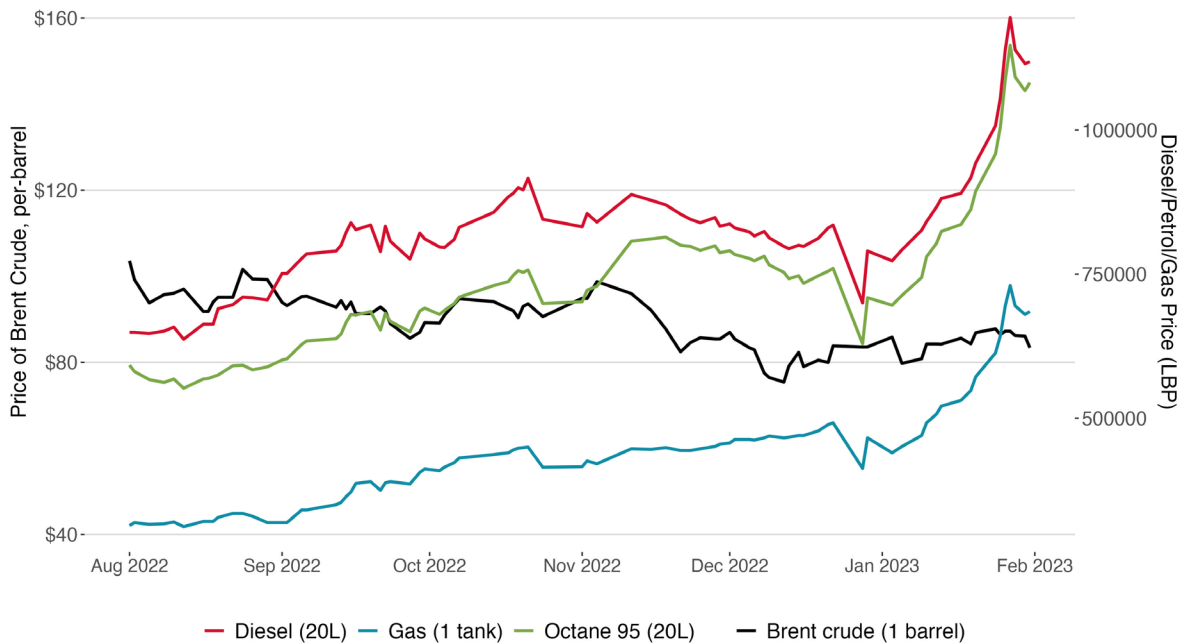


Figure 3: Fuel Prices from March 2021 to January 2023⁴

Analysis and Impact:

Since subsidies on fuel imports were removed in September 2022, the price of fuel has been linked to two main indicators: the LBP-USD parallel market exchange rate and international commodity prices. LBP depreciation was the primary driver of increasing fuel prices, with the price of fuel surpassing the LBP 1 million per 20 liters mark for the first time. This will place additional burdens on households in terms of higher transportation costs. **For example, taking into account the increase in public sector salaries, the average public sector employee will receive a monthly salary totalling LBP 7 million, meaning they could spend more than what they earn to fuel up their car three times over the course of one month.**

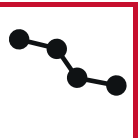
In addition to consumers contending with higher fuel prices, many gas stations closed in the North and Bekaa on January 25 and reopened only after the Ministry of Energy released a new fuel price list. Truck and bus drivers also held protests in the North and Bekaa against ongoing LBP depreciation, while tuk-tuk drivers blocked a road in Akkar.

LBP depreciation and increasing food prices will add pressure on the food survival minimum expenditure basket (SMEB),⁵ in turn, the gap between the SMEB and the transfer value of many cash assistance programs has, and will continue to increase. According to conservative LCAT analysis, the SMEB increased by about %8.6 from December to January, and is projected to increase by at least another %8.7 in February.⁶

⁴ Lirarate

⁵ SMEB data from WFP.

⁶ According to projections calculated by LCAT, which will be publicly available on a forthcoming economic data dashboard.



In focus: secondary environmental impacts of high fuel prices:

The combination of rising fuel prices and severe storms and cold in the second half of January likely led to negative coping responses, such as illegal logging of Lebanon’s sparse forests. This is particularly the case in highly vulnerable areas most susceptible to diminished LBP purchasing power, such as Akkar and the Beqaa. Of note, these regions are home to a large number of state employees - whose salaries remain largely unadjusted to inflation - compared to the country average. While the ability to measure logging activities in 2023 through remote sensing for forest cover changes is currently constrained, forested areas of Lebanon are particularly vulnerable in the context of the broader crisis in Lebanon, as are many many other aspects of the environment. A combination of forest fires and logging significantly affected greencover levels from 2021 to 2022, with forest fires often being the justification for logging (the removal of vegetation being exploited for saleable charcoal/surviving timber).

In order to visualize this phenomenon, LCAT measured the extent that burned forests were cleared due to (largely unpermitted) logging in Hima Andaqit,⁷ near the town of Andaqit⁸ in Akkar governorate.⁹ Some forest fires were reportedly set to facilitate firewood collection in the summer of 2021; however, the origin of the fires in Hima Andaqit are unknown.¹⁰ Figure 4 shows satellite images of southern Hima Andaqit immediately before, immediately after, and one year after the forest fire in summer 2021.¹¹ The loss of forest cover is clear when comparing images taken in June 2021 and early September 2021. According to LCAT estimates, the Hima Andaqit lost approximately 79 hectares (29% of the total forest area) to the forest fire in summer 2021.¹²

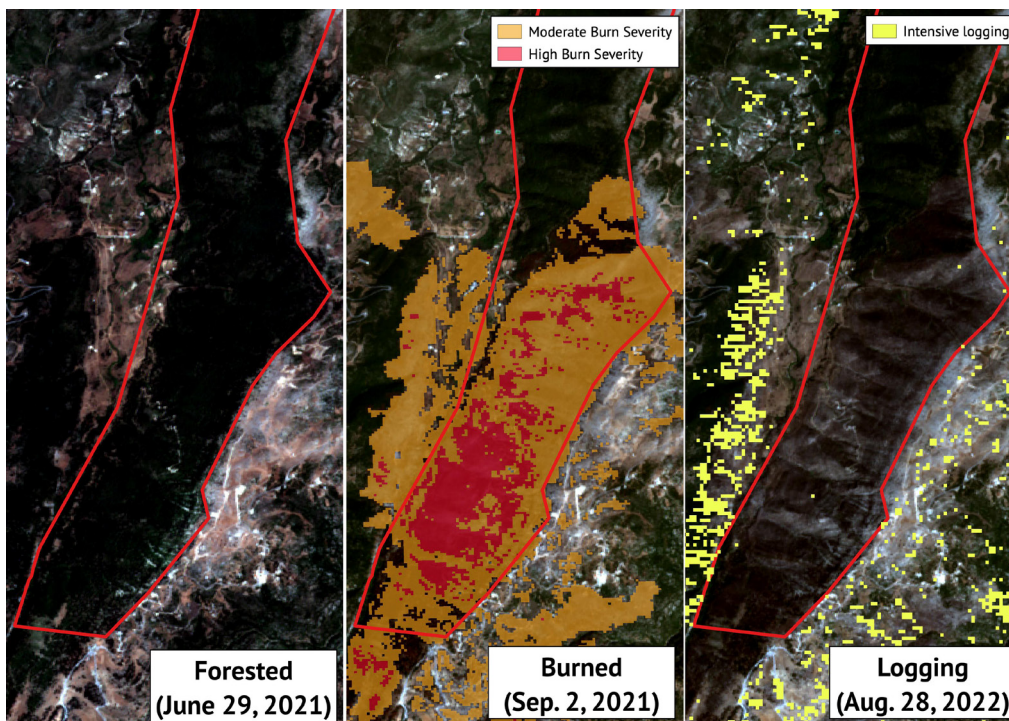


Figure 4: False-color satellite images of the southern half of the Hima Andaqit immediately before, immediately after, and one year after the forest fire in summer 2021

⁷ According to the forest boundary obtained from wikimapia.org.

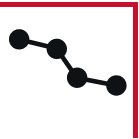
⁸ See [A tale of opportunity and need: Illegal logging is rife in North Lebanon](#) for further information

⁹ The district (qada) of Akkar had the third-highest proportion of Lebanese residents (25%) that reported using wood as a cooking fuel, according to the 2022 MSNA.

¹⁰ *ibid*

¹¹ Sentinel-2 Images obtained from the [Copernicus Open Access Hub](#).

¹² A sum of the area classified as moderate or high burn severity within the forest boundary, according to the calculated [change in the Normalized Burn Ratio](#).



Logging of burnt trees is visible when comparing the images taken in early September 2021 and late August 2022. LCAT estimates that at least 18 hectares of the Hima Andaqit's burned area have been subject to intensive logging.^{13 14} Hima Andaqit is not the only location where this is occurring,¹⁵ but this analysis provides one example of the extent of uncontrolled logging in burnt forests areas, a practice that will continue until energy alternatives become widely available and affordable.

European investigators visited Beirut as part of an investigation into alleged money laundering by Central Bank Governor Riad Salameh and his associates. A European delegation of investigative judges and financial prosecutors from France, Germany, and Luxembourg arrived in Lebanon on January 16 as part of a European cross-border money laundering probe,¹⁶ focusing on Central Bank Governor Riad Salameh and some of his associates. On January 20, the European judicial delegation completed the first stage of its visit to Beirut, during which they gathered testimony from two Central Bank vice-governors, two Central Bank directors general, private sector bankers, and a commercial auditor. The delegation will return in February to continue their investigation, including gathering testimony from 18 additional financial and banking figures, including Salameh.

On January 13, the International Monetary Fund (IMF) published a report outlining tax reform “options to stop the drain on Lebanon’s tax revenue in the immediate and near-terms and to move toward a more efficient, effective, and inclusive tax system in the medium-term.” According to the IMF, the failure to adjust tax rates and index them to inflation resulted in a loss of 4.8 percent of GDP in 2022. The report emphasizes the need to adopt a “single market exchange rate ... for all valuations for tax purposes” and advises that specific taxes and thresholds should be indexed to inflation, in order to hedge against severe currency depreciation in the parallel market. The report suggests that the following reforms be implemented in the immediate term: indexing nominal exercises to inflation, introducing strict property tax measures, and removing favorable capital income tax treatment. Suggested near-term measures include increasing value-added tax (VAT), efficient use of fuel excises, and modernizing the corporate income tax. In the medium term, the report proposes broadening income, property, and import taxation to include previously exempted bases like vacant properties. The IMF advises that Lebanon complete preparations for medium-term reforms by the end of 2023, so they can go into effect in 2024 and 2025.¹⁷

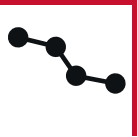
¹³ Comparing the surface aperture radar measurements (essentially elevation taken from the highest point of a ground surface area) from the Sentinel-1 satellite in late August/early September 2021 and late August/early September 2022. Pixels where the highest median point decreased by 50% or more were considered areas where significant logging had occurred.

¹⁴ Logging inside the mapped boundary Hima Andaqit has been limited, likely due to the challenging slope.

¹⁵ [Lebanese villagers try to stem illegal logging scourge](#)

¹⁶ Riad Salameh and his brother Raja Salameh are accused of embezzlement, illicit enrichment, and laundering more than USD 300 million in Switzerland between 2002 and 2015. Funds from the Swiss money are related to real estate purchases in France, Germany, and other European countries. Earlier in March 2022, the European Union’s criminal justice cooperation organization froze property and accounts worth USD 130 million across Europe in connection with the case.

¹⁷ [المجلس الدستوري يبتّ بالطعن المقدم من عدد من النواب التغييرين بموازنة العام 2022 - Lebanon News](#)



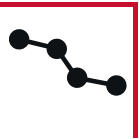
New tax regulation came into effect following the implementation of the 2022 Budget and the Ministry of Finance (MoF) clarified the rate at which taxes should be calculated.

According to the 2022 budget, personal income taxes are calculated retroactively as of January 1, 2022, at the newly adopted tax rate of LBP 15,000. However, the MoF clarified on January 9, that the tax rate will be adjusted to LBP 8,000 for the period prior to November 15, 2022, and LBP 15,000 for the period starting November 15, 2022, therefore modifying the retroactive taxation base of the budget. The MoF clarification was issued after the Constitutional Council rejected a challenge filed against the budget.¹⁸ Prior to the passage of the 2022 Budget, public sector servant salaries totaled LBP 12 trillion. Under the new budget, total salary expenditures increased to LBP 30 trillion, despite a decrease in the number of public employees from 320,000 to 280,000. The decrease in the number of employees is driven by employees retiring or resigning due to the decrease in the purchasing power of the salary in LBP. On January 9, the MoF also clarified policy on taxing revenues of foreign movable capital and self-employment income.^{19 20}

¹⁸ On January 4, the Constitutional Council rejected a challenge filed by 11 MPs on November 28 against the 2022 budget, specifically articles related to retroactive tax measures and personal income taxes on pension funds.

¹⁹ In accordance with article 87 of the tax law, the MoF declared that taxes on revenues from foreign movable capital should be paid twice a year to the treasury; the first in July for the first six months of the year and the second in January for the final six months of the previous year. Moreover, article 82 of the tax law requires the declaration of revenues from investment securities abroad by the end of February of the year, following its receipt, and a 10% tax due at the end of March.

²⁰ Lebanese law applies a flat rate to annual salaries to determine the taxable base, which is subject to another variable tax rate. Before the MoF decision, the taxable base was 40% of annual income. This rate decreased to 16% after December 29. However, the budget now reports income at the effective rate (or the Sayrafa rate), which will increase the taxable base by approximately ten-fold, making it subject to other taxes such as VAT.



In Focus: Lebanon's import bill incommensurate with current state of economy

Data on Lebanon's import levels for 2022 showed that a perplexingly large amount of foreign exchange was spent on imports, even as the country continues to grapple with a devastating macroeconomic situation. In other countries experiencing economic decline and severe currency fluctuations, imports decline significantly, as imports become too expensive and local production and consumption behavior adapts. While the latest Lebanon import data may lead some to conclude that an economic recovery is taking place, or that the resources available to the economy are more than previously assumed, such a conclusion is likely incorrect. On closer inspection, 2022 import data is extremely worrying, and reflects an economy straddled by a perverse set of incentives and negative coping mechanisms, such as huge tax breaks on luxury goods, overstocking of inventories by importers ahead of expected tax increases, inefficient consumption of fuel products to provide electricity, and the import of expensive machinery to help cope with the collapse of centralized electricity provision. This in turn results in Lebanon spending inordinate amounts of its limited foreign reserves, likely portending far worse economic conditions in the future than if the country had been able to adapt in a more manageable and sustainable manner to the current economic and monetary situation. Looking closer at the data, humanitarian actors can also discern worrying import trends regarding the amount spent on, for example, medicines.

According to official Lebanese Customs data compiled by LCAT, Lebanon's import bill totaled USD 19.5 billion in 2022, reaching the country's pre-crisis levels. If the World Bank's forecast of 5.4% contraction of GDP is verified, and GDP in 2022 reaches USD 21.13 billion, this leaves Lebanon with an import-to-GDP ratio of 92.3%, after reaching 33.2% in 2020. This is an alarming rate, not recorded since the 1980s, and suggests an accelerating import-dependency trend despite the economic and monetary crisis. 2022 marks the first year since the end of the civil war in 1990, in which the value of imports exceeded foreign currency reserves. Total Reserves in Months of Imports is an index used by the IMF to monitor countries' monetary stability. While Central Bank reserves were estimated to cover 22 months in 2021, this dropped to six months in 2022.

Increases in imports had marked repercussions on LBP depreciation. Since subsidies on imports began to be lifted in September 2021, importers have relied on the informal market to provide most foreign currency needed to pay their import bills. It is therefore necessary to examine the channels used by companies to fund transactions in foreign currency. As the subsidized rate was lifted on essential products and Sayrafa transactions were progressively limited to private customers, businesses have relied on the local cash-based economy by heavily amassing USD from the market. Over the last three years, many companies have also opened bank accounts abroad, circumventing capital controls imposed by commercial Lebanese banks.

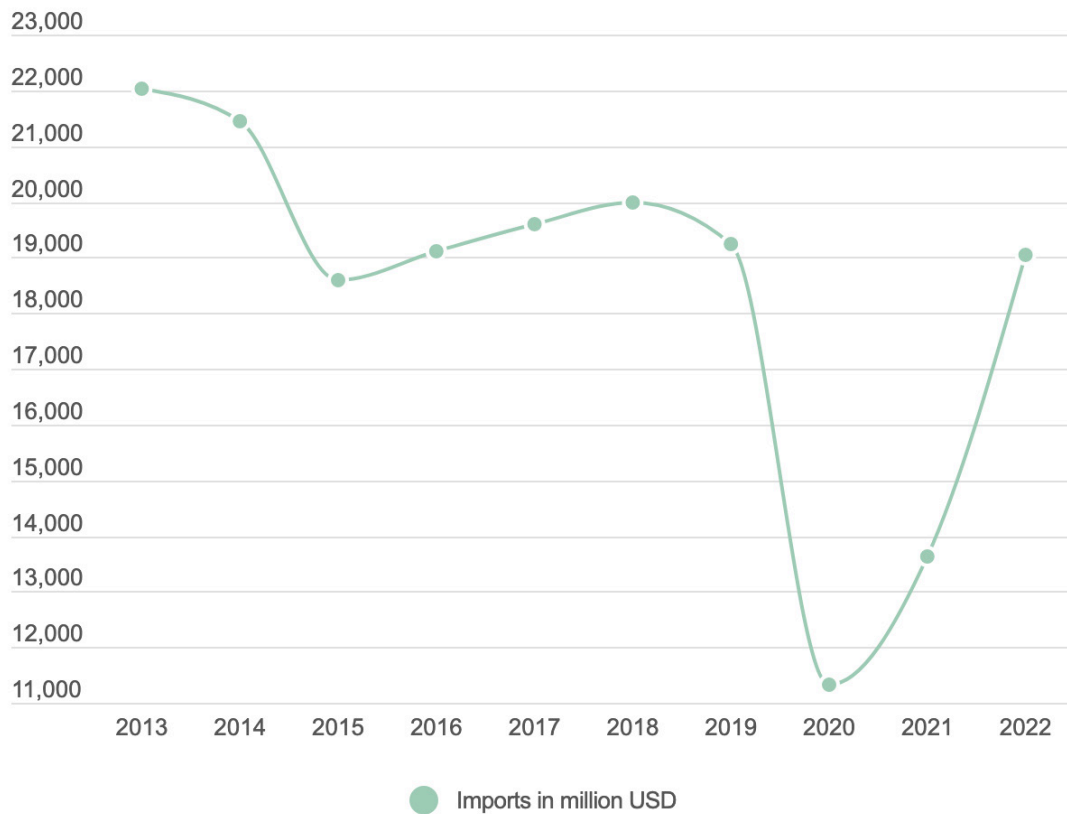
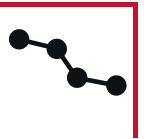


Figure 5: Imports in thousands of USD between 2013 and 2022²¹

Major imported product categories in 2022 included mineral fuels, mineral oils, and products of their distillation, which accounted for 29.29% of imports; machinery and electrical instruments with 12.9%; followed by vehicles, mainly cars, with 10.49%; and pearls, precious stones, and metals with 8.83%.

Fuel and oils recorded the highest increase, with an import bill that was 44% more expensive in 2022, rising from USD 3.89 billion in 2021 to USD 5.58 billion in 2022. Despite a rise in import bills, Lebanon imported 15% less mineral fuels and oils in 2022. This increase can be explained in part by global fuel prices hikes, but also by an increasing reliance on generators to provide electricity. Some reports also mention that the drop in quantities, "could be due to reduced smuggling to Syria as subsidies on fuel were removed by BDL in September 2021."²²

²¹ [الجمارك اللبنانية \(customs.gov.lb\)](http://customs.gov.lb)

²² blog.blominvestbank.com/46001/what-drove-the-two-digit-trade-deficit-in-lebanon-in-2022/

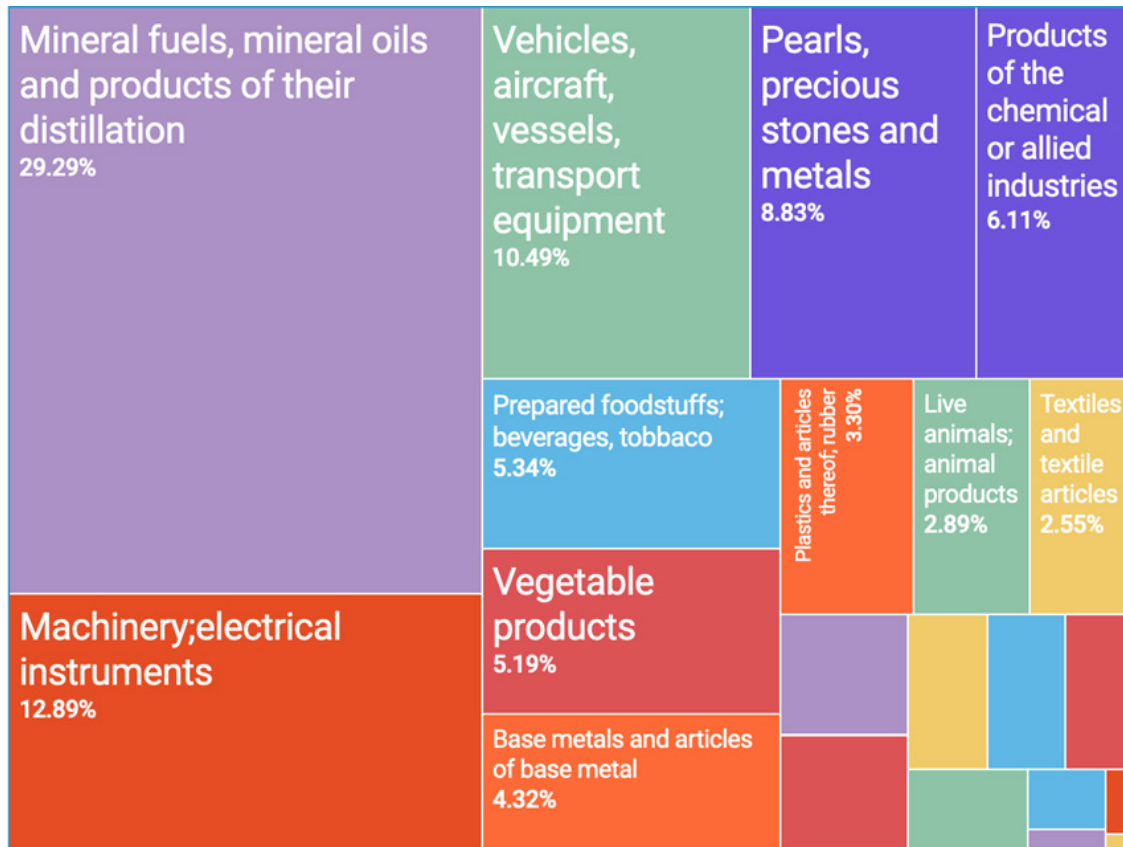
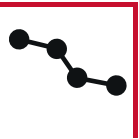


Figure 6: Percentage of Imports by Category²³

Cars and vehicles import bills significantly increased over the past three years, reaching their highest recorded level. This follows a drop compared to previous years. In 2019, car imports totaled USD 1.17 billion, decreased to USD 472 million in 2020, increased to USD 1.12 billion in 2021, and peaked to USD 2 billion in 2022. The increase in cars and vehicles import bills is striking, particularly in light of the decrease in the number of private loans and payment facilities granted by banks and weaker private consumption, in addition to critically low levels of foreign currency reserves to provide credit lines for trade. Other product categories had noticeable increases in their import bill, mainly manufacturing machinery and inputs, such as plastics, timber, and metals. Those increases and values were the highest of the last 10 years and are most likely due to suppliers hoarding stocks before the application of a 15,000 LBP/USD customs rate on imported products.

The largest drop in imports in 2022 was in the pharmaceutical category, which accounted for USD 551 million in 2022, half of that recorded in previous years (1.33 billion USD in 2018). The progressive removal of import subsidies can explain this sizable drop in drug and medication imports, in addition to the collapse of the National Social Security Fund, and the critical conditions of public and private hospitals. This is indicative of Lebanon's poor humanitarian health situation, with many residents purposefully limiting their access to medication and medical checkups or unable to access them entirely.

²³ الجمارك اللبنانية (customs.gov.lb)



Photo by Hussam Shbaro/Anadolu Agency

Political Updates:

Caretaker Prime Minister Najib Mikati's cabinet convened once in January to approve funding for the electricity sector, though other agenda items were shelved. Despite political maneuvering which could have prevented the Council of Ministers from convening, a cabinet meeting was held on January 18 at the Grand Serail, notably without most FPM-affiliated ministers in attendance.²⁴ The cabinet's agenda was limited to the urgent approval of diesel payments and maintenance costs at the Deir Ammar and Zahrani power plants. Other proposed allocations to provide fuel to the Jiyeh and Zouk power plants are subject to future approvals.²⁵ The cabinet's moves are expected to increase state electricity supply to about four hours per day.²⁶

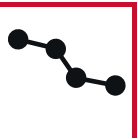
On January 23, Investigative Judge Tarek Bitar resumed the Beirut port blast investigation, though his move was countered by Lebanon's top public prosecutor only days later. Bitar did not specify the nature of the charges and scheduled interrogation sessions for February. Among those charged were Lebanon's top Public Prosecutor Ghassan Oweidat, Former Prime Minister Hassan Diab, Director of the General Directorate of General Security Abbas Ibrahim, Director of State Security Tony Saliba, former Public Works Minister Ghazi Zeiter, and former Minister of Interior Nouhad Mashnouk. Days later, on January 25, Oweidat filed charges against Bitar and ordered the release of 17 people detained in connection with the explosion, countering Bitar's attempt to resume the probe. Bitar was referred for judicial inspection on January 26, in addition to being banned from international travel.

Actions by prosecutors and the judiciary sparked criticism by port blast victims' families, who protested in front of Daher and Oweidat's homes on January 25. Days later, the families protested in front of the Judicial Palace on January 28, with families calling for Bitar's investigation to move forward.

²⁴ Most FPM-affiliated ministers have refused to participate in cabinet meetings since late last year, including a cabinet session on December 5, on the grounds that convening the Council of Ministers was "unconstitutional" and should meet only for "urgent matters".

²⁵ Mikati announced that his cabinet approved USD 62 million to pay for fuel that arrived on two ships in December, each carrying 66,000 tons of diesel slated for use at the Deir Ammar and Zahrani power plants. Additionally, his cabinet approved USD 54 million to cover the maintenance costs for both plants. The cabinet suspended approval of a USD 45 million payment for fuel on two other ships that arrived with more than 60,000 tons of grade A and grade B fuel oil bound for the Jiyeh and Zouk Mosbeh power plants. Moreover, the cabinet suspended the approval of a USD 140 million payment for fuel needs during the transition period

²⁶ كهرباء لبنان: رفع التغذية بالتيار الى 4 ساعات ابتداء من يوم الجمعة وطباعة الفواتير وفق التعرفة الجديدة نهاية الاسبوع



On January 19, the parliament held its 11th session dedicated to electing a president. As in the previous 10 electoral sessions, parliament lost quorum after the first round of voting. MP and FPM leader Gebran Bassil publicly hinted on January 29 that he could run for president, seemingly placing him at odds with FPM political ally Hezbollah, which publicly supports the candidacy of Marada Movement leader Sleiman Frangieh. Forces of Change MP Melhem Khalaf said at the beginning of the session that neither he nor his colleague Najat Saliba would leave parliament unless speaker Nabih Berri declared that the parliamentary session would remain open until a new president is elected.

On January 19, UN Secretary General Antonio Guterres stated that Lebanon lost its right to vote in the UN General Assembly because the country had not paid their minimum contributions to the operating budget of the international organization, amounting to USD 1.8 million for fiscal year 2021/2022. The Lebanese Ministry of Foreign Affairs (MoFA) stated on January 20 that steps to complete payments have been initiated. The MoFA released a statement on January 29 claiming that media reports unfairly held the ministry responsible for Lebanon's failure to pay its contributions. The ministry has yet to issue a statement about when the contribution will be made.

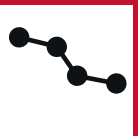


Access to Services

Public school teachers went on strike ahead of the second half of the academic year. On January 7, public school teachers' unions went on strike over the deteriorating purchasing power of their salaries and a lack of government assistance. Initially, caretaker Minister of Education Abbas Halabi promised to pay public school teachers an extra 5 USD per working day, but this was rejected by the Contractual Teachers League. Following salary raises stipulated in the 2022 budget, public school teachers' monthly remuneration now ranges between LBP 6 million and LBP 11 million. However, they are demanding an adjustment in the 2023 budget, given the depreciation of LBP in the parallel market, in addition to higher transportation allowances and a review of the status of contractual workers. On January 16, public school teachers assigned to classes dedicated to Syrian refugees went on strike, with similar demands to their colleagues who had already gone on strike. On February 1, some teachers at private schools also went on a one-day "warning strike" to protest against high transportation costs.

According to the Center for Educational Research and Development, contractual teachers comprise approximately 39% of the teaching body of public educational institutions. This ratio is increasing as full-time teachers retire amid a hiring freeze of full-time teachers. There are no employment-type quotas in place at specific schools, meaning the impact of this strike varies according to the number of contractual teachers at each facility. Consequently, even if full-time teachers decide to resume their work, the danger of paralysis in the academic calendar remains, as the public educational staffing levels are currently down 40%.²⁷

²⁷ [CRDP Lebanon - النشرة الإحصائية 2021-2022 | المركز التربوي للبحوث والإنماء](#)



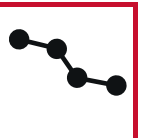
Other public sector strikes continued through January, due to delayed salary payments and reduced purchasing power. On January 17, Ministry of Telecommunications employees went on strike in response to a two-month delay in salary payments and a six-month delay in transportation allowances. On January 28, the administrative body of the Public Administration Employees Association declared a strike through February 3 to protest the devaluation of their salaries. On January 30, head of the General Labor Confederation Bshara Asmar called on the land transport sector, the independent businesses' unions, the governmental hospitals, and the teachers' leagues to participate in a nationwide strike on February 8.

Removal of subsidies on medicine

On January 10, the Ministry of Health lifted subsidies on infant formulas, replaced nine cancer medications with cheaper alternatives, and announced that it will release a daily updated price list for unsubsidized medication.²⁸ Minister of Health Firas Abiad confirmed that 55 medications for cancer and chronic diseases are currently enlisted on MediTrack, a system that tracks imported cancer and chronic diseases medication from the point of import through purchase, in addition to a separate platform MedLeb, which enables patients to browse prices and substitutes of prescription drugs.²⁹ For some time, shortages have forced citizens to resorted to sourcing needed medication from abroad. Pharmacies went on strike on the morning of January 26, before reopening at noon on the same day. The Union of Pharmacies said that medicine importers and suppliers refused to deliver medical products with unchanged prices due to exchange rate instability.

²⁸ [News](#)

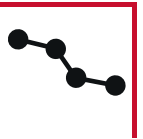
²⁹ lbcgroup.tv/news/lebanon/682038/المساعدة-المريض-على-معرفة-سعر-الد-الmedleeb-اطلاق-تطبيق



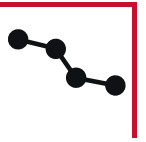
Looking Forward

- LBP depreciation in January saw fuel prices reach new highs, which will have a lasting effect on household spending, particularly in terms of the SMEB and other household costs such as transportation and generator fees. Rising transportation costs (in LBP terms) will impact the ability of laborers to commute to work, children to attend school, and even humanitarian actors to reach aid beneficiaries. Fuel price increases also impact people's ability to afford heating, a key concern as temperatures dropped in January and cold weather is expected to continue into the coming months. This in turn is expected to incentivise additional negative coping mechanisms such as illegal tree logging.
- It is unclear how or when Lebanon's political deadlock can be broken. The absence of a president has delayed needed legislative action by the parliament - which is largely confined to electoral duties until a new president is elected - and executive-level decision making is hampered by its caretaker status. Only when Lebanon's most powerful parties are in near alignment can the executive take action, though as the latest cabinet meeting shows, not in a decisive or comprehensive manner. Regardless of the expected consequences of inaction, there is no sign of an immediate breakthrough that would see a new president elected and the naming of a prime minister designate.
- Major LBP depreciation and price volatility at the end of December and throughout January has had a significant impact on the effectiveness of humanitarian assistance denominated in LBP, such as that received by much of the Syrian refugee population. While there are frameworks for adjusting assistance levels in LBP to take into account currency volatility, these are often not able to mitigate the erosion of aid purchasing power during more dramatic periods of depreciation. Should the LBP continue to decline at an accelerated rate in the coming months, the value of assistance will decrease and aid beneficiaries will suffer. This will be compounded by persistent cold weather.
- LBP depreciation has had a direct impact on Lebanon's education system, as public school teachers are refusing to end their strike before their salaries' loss of purchasing power is offset. Teachers who work on a non-contractual basis remain on the job, but reliance on them is not a sustainable solution, particularly as the rate of career teacher retirements rises.
- Public sector employees plan to continue or declare new strikes in February, which will likely impact access and service delivery. For example, if Ministry of Telecommunications employees continue or escalate their strike, phone and internet services could be interrupted, making it more difficult to reach and access local communities. Further telecoms tariff increases are also possible in the near to medium term if the ministry decides to increase employee remuneration by increasing revenue, or account for a rise in other operating costs. This could have significant humanitarian consequences.³⁰ General Labor Confederation strikes, which often entail road closures to pressure state action, would likely disrupt routes used by aid workers.

³⁰ [Humanitarian Impact of Telecommunications Price Hikes - Mercy Corps Lebanon](#)



- Lebanon's import bill for 2022 was very high relative to the country's GDP. It is likely that imports in some categories will remain high in 2023, notably fuels or items designed to mitigate the impact of service delivery collapse such as solar panels and generators. This will continue to place strong downward pressure on the LBP, with significant consequences for those dependent on LBP salaries, or on LBP-denominated assistance. However, imports in 2023 were also likely incentivised by the expected increase in customs taxes, which could result in a reduction of import bills in 2023 across some categories, such as vehicles.
- State revenues outlined in the 2022 Budget are insufficient to cover wages, meaning the MoF will likely request a treasury advance from the Central Bank to make up the difference. In order for the Central Bank to comply with this request, it would need to increase money supply, resulting in further LBP market rate depreciation. This is unlikely to change in the absence of comprehensive economic reforms. In the event expansionary monetary policy is implemented, the positive results of it would likely be short-lived, while in the longer-term such a move would likely dampen prospects for an economic recovery.



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