

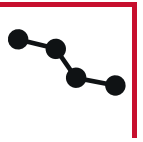
Lebanon Crisis Update

February 2023 ■ ■



Photo by Mohammad Yassine

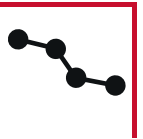
- 3 ● [Key Takeaways](#)
- 5 ● [Economic and Financial Updates](#)
- 12 ● [Political Updates](#)
- 13 ● [Access to Services](#)
- 15 ● [Looking Forward](#)



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

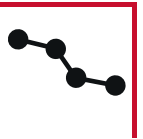
The Lebanon Crisis Analytics Team (LCAT) provides reactive and in-depth context analysis to inform the aid community in Lebanon. The information and analysis contained in this report is therefore strictly to inform humanitarian and development actors and associated policymaking on Lebanon.

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.

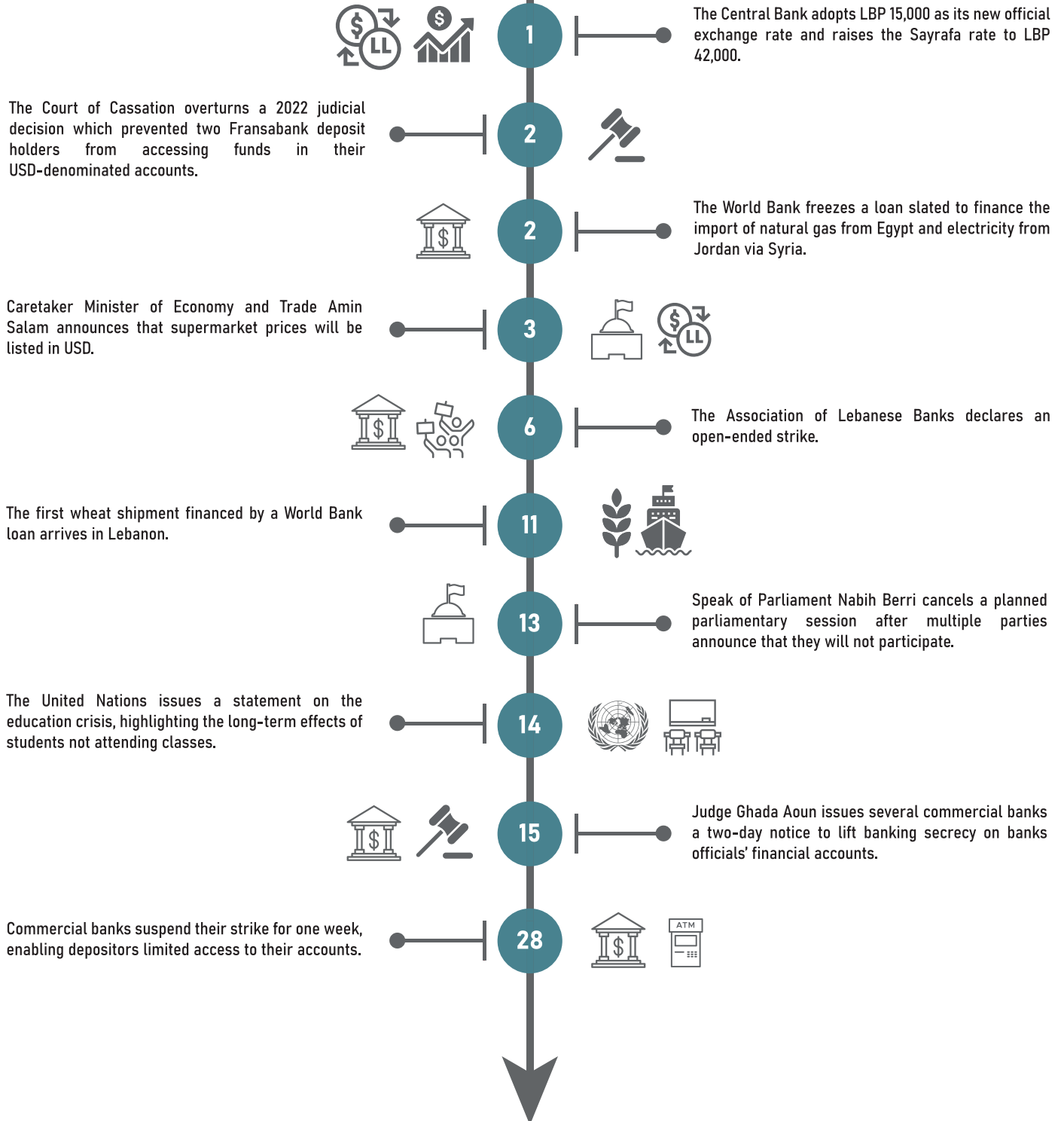


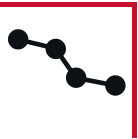
Key Takeaways:

- The Central Bank established a new official USD exchange rate of LBP 15,000 and raised the Sayrafa rate to LBP 42,000 on February 1. The US dollar (USD)-Lebanese pound (LBP) parallel market exchange rate reached LBP 88,000 in late February before rebounding to LBP 80,000 after the Central Bank raised the Sayrafa rate to LBP 70,000 in early March. In addition to an increase in money supply (M0), commercial banks' open-ended strike from February 7 through February 28 - which brought depositor-based Sayrafa transactions to an effective halt - drove parallel market depreciation.
- The Association of Lebanese Banks (ABL) declared their open-ended strike in the immediate aftermath of a February 2 ruling by the Lebanese Courts of Cassation, which effectively ordered commercial banks to grant depositors access to their USD-denominated accounts. ABL officially called for the strike in response to a lack of state support for banks and because the Capital Control law has yet to be passed. Throughout the strike, banking customer services were severely restricted, as no bank branches officially opened and depositors could only access their accounts - in a limited fashion - via ATMs.
- Fuel prices increased in line with LBP depreciation - despite stability in international Brent crude prices - and closed the month at LBP 1,638,000 for 98-octane, LBP 1,599,000 for 95-octane, LBP 1,521,000 for diesel, while cooking gas exceeded LBP 1,000,000 for the first time. This led to an increase in transportation, food, and energy costs.
- Supermarkets began pricing most goods in USD in line with a decision issued by the Ministry of Economy and Trade. The move follows dollarization of other sectors like tourism. The measure was slated to go into effect in early February but was delayed until later in the month due to objections raised by labor unions and consumer associations.
- Public school teachers resumed their strike in February despite the Ministry of Education announcing that it would supplant some of the lost purchasing power of teacher's wages due to LBP depreciation. Some schools reopened at minimum capacity following a public announcement by the United Nations Children's Fund, in which the organization warned about the dangers that school closures pose to Lebanese children and the future of the Lebanese economy.



FEBRUARY





Economic and Financial Updates:

The Lebanese pound (LBP) is mired in one of its most volatile periods since late 2019, having reached a new low against the US dollar (USD) in February. On February 1, the Central Bank adopted LBP 15,000 as its “official” USD exchange rate and recorded USD 25 million of trading on the Central-Bank-run currency exchange platform Sayrafa on February 1, after raising the Sayrafa rate to LBP 42,000.¹ On the same day, the pound traded on the parallel market at about LBP 60,000 per USD 1. Over the next two weeks, the pound gradually depreciated, reaching LBP 66,000 on February 13. Thereafter, the pound sharply depreciated against the dollar, breaking the LBP 80,000 barrier and reaching LBP 88,000 by the end of the month.

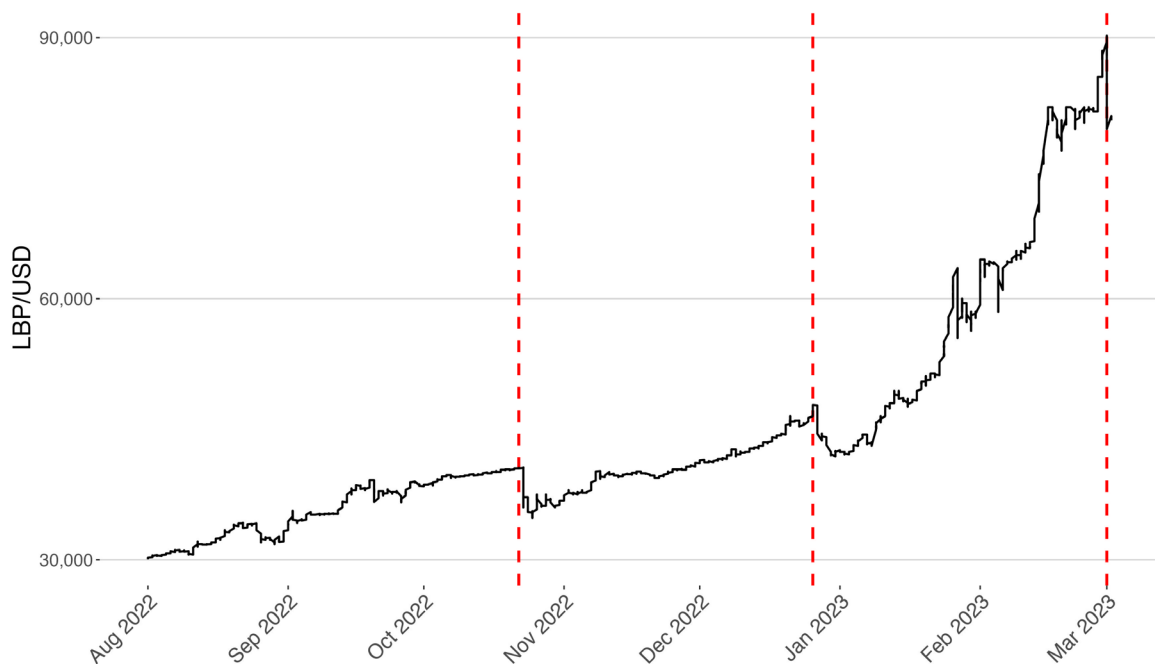
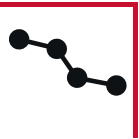


Figure 1: The LBP-USD parallel market exchange rate from August 2022 to March 2023. Red lines denote instances in which the Central Bank intervened in the market.

¹ Circulars 151 and 158 - which stipulated that depositors can withdraw from USD-denominated accounts at a rate of LBP 8,000 and LBP 12,000, respectively - are no longer in effect.



On March 1, the Central Bank announced that individuals would be granted greater access to and businesses would (again) be able to conduct transactions on Sayrafa. This led to immediate LBP appreciation, with the LBP-USD parallel market rate reaching about LBP 80,000. The new Sayrafa measures placed a LBP 1 billion cap on transactions per account held by individuals and an LBP 10 billion cap per business account, at a LBP-USD exchange rate of LBP 70,000 (See figure 1).²

LBP depreciation was largely driven by an increase in LBP in circulation (M0), especially in the second half of February when it increased by LBP 7.3 trillion, reaching LBP 83 trillion by the end of the month. This raised the total amount of LBP in circulation by LBP 16.1 trillion (%24) between January 15 and February 28 (see figure 2).

A previous Central Bank intervention on December 27 lifted Sayrafa platform exchange limits for individuals and institutions. This led to an increase in Sayrafa transactions in early January, until the Central Bank decided to limit Sayrafa exchanges for individuals and companies on January 10. This limitation decreased the total amount of currency exchanged via Sayrafa, which was likely a driving force behind LBP depreciation in February. Notably, when the Central Bank opened up access to Sayrafa in December, many depositors sought to profit by withdrawing currency at the Sayrafa rate and reselling with money traders at the parallel market rate. However, rapid LBP-USD market rate depreciation resulted in many depositors reporting losses when attempting this form of arbitrage.³ Taking this into account, as well as the relatively low Sayrafa rate compared to December, fewer depositors are expected to utilize Sayrafa in March. Many Lebanese residents view the Central Bank’s March 2 decision to set the Sayrafa rate at LBP 70,000 as an indicator that the parallel market rate will significantly depreciate in the coming months.

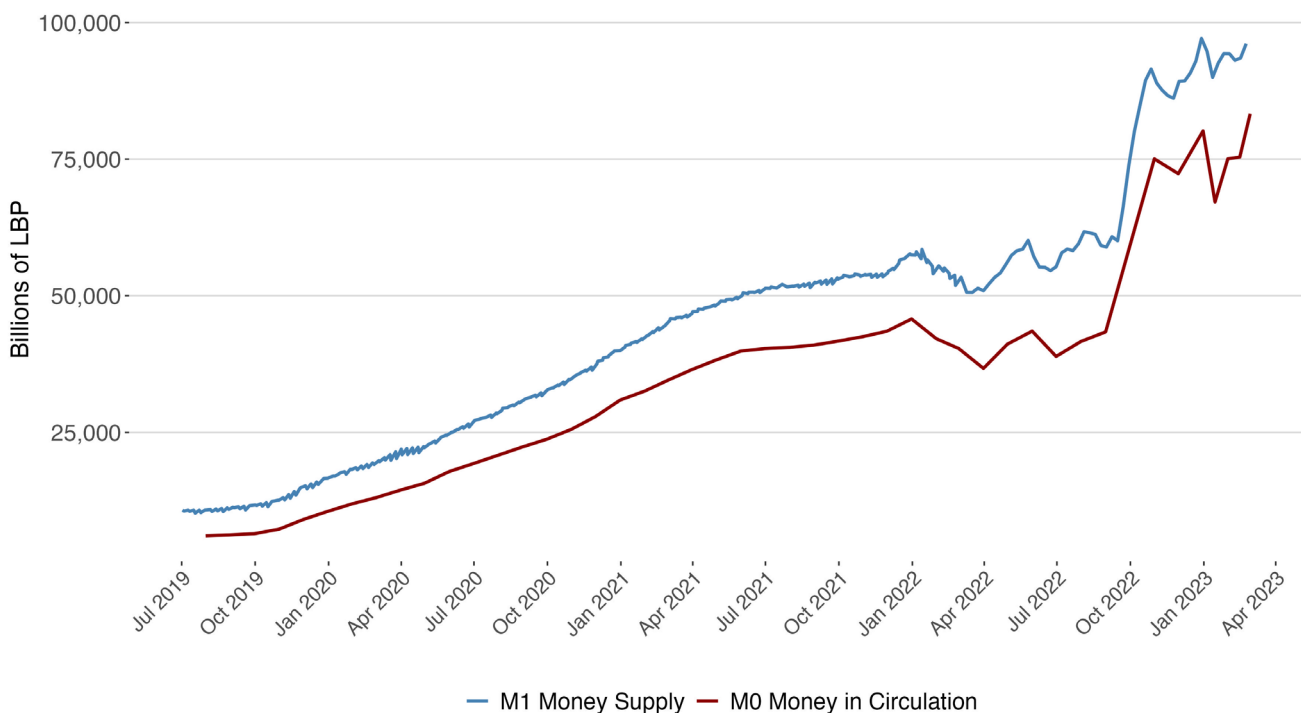
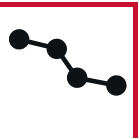


Figure 2: Money Supply and Money in Circulation⁴

² Public sector employees collected their salaries at the Sayrafa rate of LBP 45,400 in February

³ [How BDL cheated clients out of their Sayrafa dollars - L'Orient Today](#)

⁴ Source: [Central Bank](#)



Higher levels of LBP in circulation is likely driven by the need for USD collection by the Central Bank in order to pay public sector employee salaries via Sayrafa. Past instances in which access to Sayrafa access has been expanded were accompanied by immediate LBP appreciation in the parallel market. However, as figure 1 shows, Central Bank interventions via Sayrafa since October 2022 have had a very short-term impact, in each case resulting in days of LBP-USD parallel market exchange rate stability.

Lebanese supermarkets began pricing goods in USD in late February, amid public denunciation of the plan by labor unions and consumer advocacy groups. On February 3, caretaker Minister of Economy and Trade Amin Salam announced that supermarkets would begin dollarizing prices on February 7, while locally procured goods would continue to be priced in LBP. The decision was backed by Syndicates of Importers, Suppliers, and Supermarkets. President of the General Labor Union Bshara Asmar denounced the dollarization measures, argued they are illegal, and claimed that unions and consumer associations were not consulted prior to its implementation.⁵ The union's objections to the plan delayed full dollarization in supermarkets until late February.

Salam stated that he expects supermarket dollarization will increase competition between suppliers and decrease prices by as much as %20. This is based largely on an assumption that vendors will adopt lower USD prices or exchange rates relative to the parallel market rate to attract more consumers. Theoretically, this decision is a step toward reducing price discrepancies and protecting consumers but it does not account for consumers who earn their wages in LBP, including public sector employees whose wages decrease in purchasing power with each dip in the LBP-USD parallel market rate. Under the new regulations, supermarket customers can pay in LBP according to the parallel market exchange rate and supermarkets are allowed to use any platform to determine the parallel rate as long as they display it clearly to customers at entrances and on receipts.

Fuel prices increased to new highs in February as the LBP-USD parallel market exchange rate dipped. Petroleum prices closed the month at LBP 1,638,000 for 98-octane (LBP 531,000 more than the end of January), LBP 1,599,000 for 95-octane (LBP 517,000 more than the end of January), and LBP 1,521,000 for diesel (LBP 403,000 more than the end of January), while cooking gas exceeded LBP 1,000,000 for the first time (LBP 387,000 more than the end of January).

On March 1, caretaker Finance Minister Youssef Khalil and Central Bank Governor Riad Saleme raised the customs dollar exchange rate from LBP 15,000 to LBP 45,000. The decision came as a surprise to most, as the previous LBP 15,000 rate only came into effect in January. According to trade associations, caretaker Prime Minister Najib Mikati supported raising the customs dollar exchange rate, as it provides an extra financial tool to control the amount of LBP in circulation and finance public salaries, which tripled last month.⁶

⁵ [National News Agency](#)

⁶ [Lebanon plans to hike import tariffs for the second time in three months - Reuters](#)

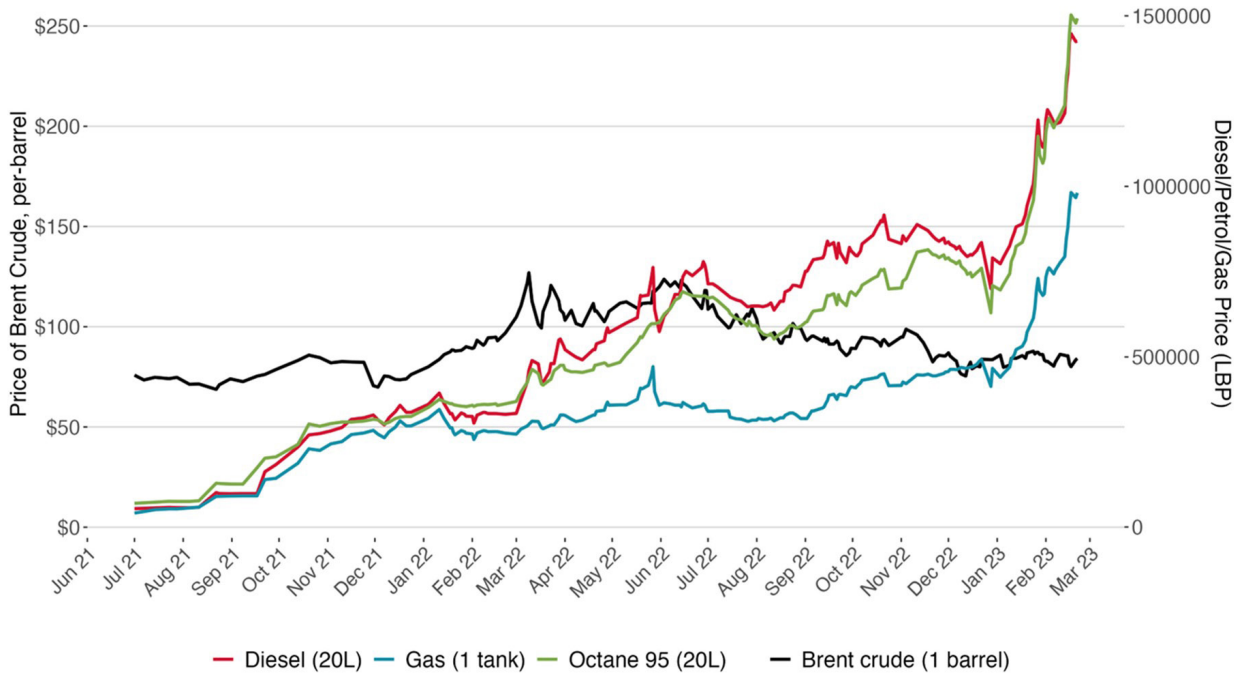
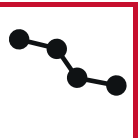


Figure 3: Fuel Prices from June 2021 to February 2023⁷

Commercial banks went on strike following a Court of Cassation ruling that overturned a 2022 Court of Appeal decision denying two depositors access to their USD-denominated accounts. On February 6, the Association of Lebanese Banks (ABL) declared an open-ended strike, days after the Court of Cassation ruling concerning the case of two Fransabank deposit holders. The Court of Cassation ruling overturned a 2022 Court of Appeal ruling, which had blocked a lower judicial decision granting the two depositors access to their frozen funds. ABL claimed that the strike was declared to protest a lack of government support to “recover capital losses” and in response to delays in passing a capital control law.⁸ ABL argues that the Capital Control Law presents an opportunity to restructure and protect the banking sector and fill the legal gaps in those relationships.⁹ Notably, the draft law contains provisions which could shield banks from future prosecution. Banks reopened on February 28, when ABL announced a one-week suspension of the strike.

On February 15, Judge Ghada Aoun issued several commercial banks with a two-day notice to lift banking secrecy on banks officials’ financial accounts and documents.¹⁰ However, caretaker Minister of Interior Bassam Mawlawi ordered that Judge Aoun’s notice be suspended until complaints issued by the suspects are ruled on by the Court of Cassation. On March 1, Public Prosecutor Ghassan Oueidat suspended Judge Aoun’s investigation until complaints filed against her are examined.¹¹

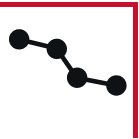
⁷ [Lirarate](#)

⁸ [Court rules against Fransabank - Bank Statement](#)

⁹ [Banks continue to discuss draft law to bring financial order back into balance - LBCI](#)

¹⁰ Judge Ghada Aoun launched a series of prosecutions targeting bankers in March 2022. In her case file, Judge Aoun accuses several banks’ officials of money laundering, among other financial crimes.

¹¹ [Oueidat orders Aoun to suspend proceedings against banks - L'Orient](#)



The Ministry of Finance instituted new tax measures affecting non-resident taxpayers and businesses.¹² Article 29 of the 2022 State Budget article requires non-residents to pay a 7.5% tax on services and 2.25% on property transactions. Additionally, it mandates the payment of company taxes quarterly, instead of year lump sum accumulation. However, the 2022 budget does not clarify at which LBP-USD rate it taxes LBP-dominated revenues.¹³ The ministry pushed this article into effect on February 1, in line with reforms suggested by the IMF in a recent report, which emphasized taxing corporate revenues and property transactions and suggested increasing government revenues by indexing tax rates to inflation.

Analysis:

Sayrafa rate increases appear to have had a limited effect on the LBP parallel market rate and are likely indicative of the Central Bank’s relatively weak control over monetary policy in Lebanon. The dollarization of prices and bills, in addition to the diminishing role of the banking sector and the confidence of collapse in LBP, indicate that Lebanon is heading in the direction of a USD-denominated, cash-based economy. Money velocity - an indicator of business activity, economic growth, and international trade which measures the speed at which money is circulating through the economy - decreased as account transactions slowed and shifted to physical cash delivery. As the rate and total amount of unrecorded or non-official cash transactions increase, so does the potential for tax evasion. This could result in reduced fiscal revenue and hinder the government’s ability to provide public services. In addition to tax evasion, other difficult-to-detect illicit actions, like money laundering and cash smuggling, could also increase.

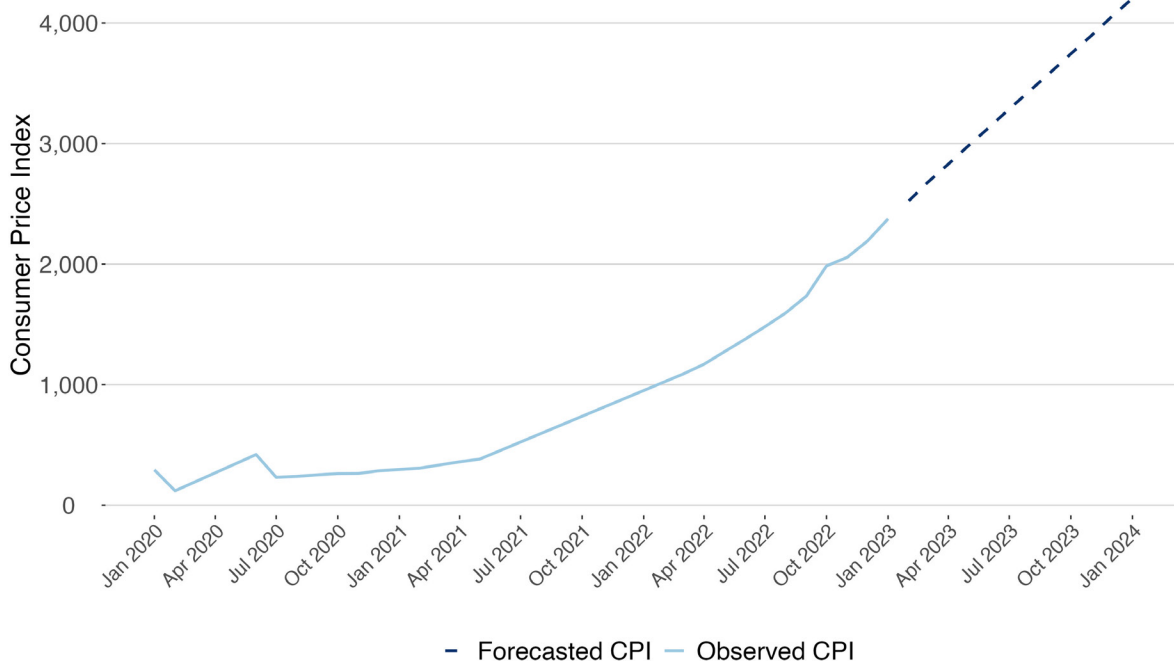
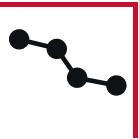


Figure 4: Lebanon’s Consumer Price Index (CPI) from January 2020 to January 2023 with forecasts to January 2024. The LCAT’s predictive model forecasts that CPI will increase by 77% from January 2023 to January 2024. More price forecasts and the associated methodology documentation can be found on the [LCAT Data Analysis Hub](#).

¹² This category includes non-residents, self-employed, small scale businesses, and all individuals not registered with Lebanese tax authorities.

¹³ [State Budget Law 2022 - Ministry of Finance](#)



Currency instability and projected depreciation in March - despite the Central Bank intervention - continues to impose burdens on households in Lebanon. Fuel prices have been directly linked to international commodity prices and LBP depreciation, driving up consumer prices, a trend that is expected to continue in the coming months. Annual inflation in Lebanon reached 123.5% between January 2022 and January 2023 according to the Central Administration of Statistics, and the LCAT's predictive model forecasts that CPI will increase by 77% from January 2023 to January 2024. (see Figure 4)

Figure 5 shows the geographical distribution of food insecurity by district using data from the 2022 MSNA; specifically, the proportion of households that reported difficulties meeting essential food needs and the proportion of households that reported at least one instance of not being able to provide food in the past month.¹⁴ These food security indicators are higher in the north and south of Lebanon, with the districts of Akkar, Tripoli, and Miniyeh–Danniyeh in the top quartile of both indicators.

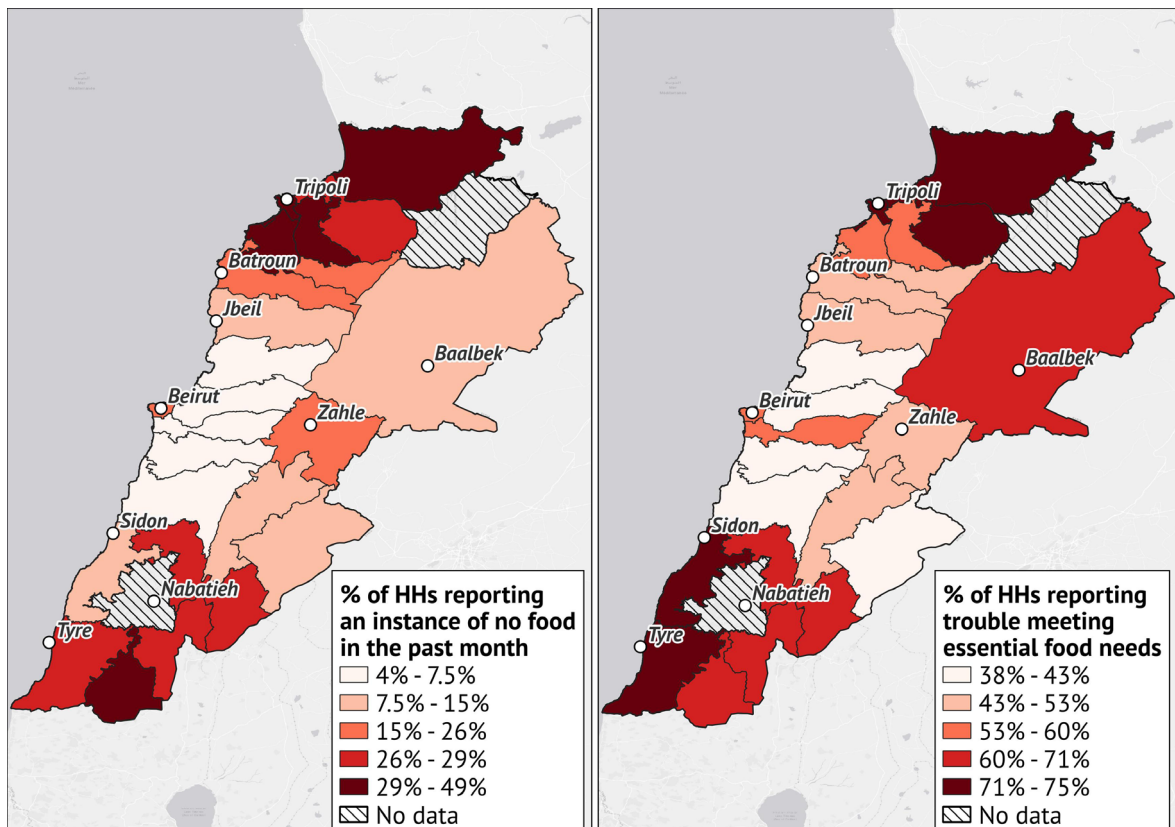
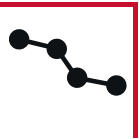


Figure 5: The proportion of households reporting an instance of having no food (left panel) and trouble meeting essential food needs (right panel).

¹⁴ A household had an instance of no food if the household affirmatively responded to any other following indicators: 1) "In the past 4 weeks (30 days), was there ever no food to eat of any kind in your house because of lack of resources to get food?"; 2) "In the past 4 weeks (30 days), did you or any household member go to sleep at night hungry because there was not enough food?"; 3) "In the past 4 weeks (30 days), did you or any household member go a whole day and night without eating anything at all because there was not enough food?"



The relative income of households reporting these indicators, as well as the households in districts classified as IPC-3 phase¹⁵ for comparison purposes, is shown in Figure 6. Households that reported these food insecurity indicators carry a significantly heavier debt burden than households that did not. However, the income-to-expenditure ratio of households reporting and not reporting trouble meeting essential food needs was relatively even, and higher in districts with a Phase 3 IPC classification. This suggests that household budgets are sapped by expenditure categories outside those used in the MSNA,¹⁶ particularly debt payments. Conversely, households that reported at least one instance of not being able to provide food have a much lower income-to-expenditure ratio and therefore fewer available funds to cover expenses. These findings suggest a link between indebtedness and food security; that is, households unable to meet basic needs take on debt to cover food costs, a precarious situation that can be addressed with multipurpose cash assistance.

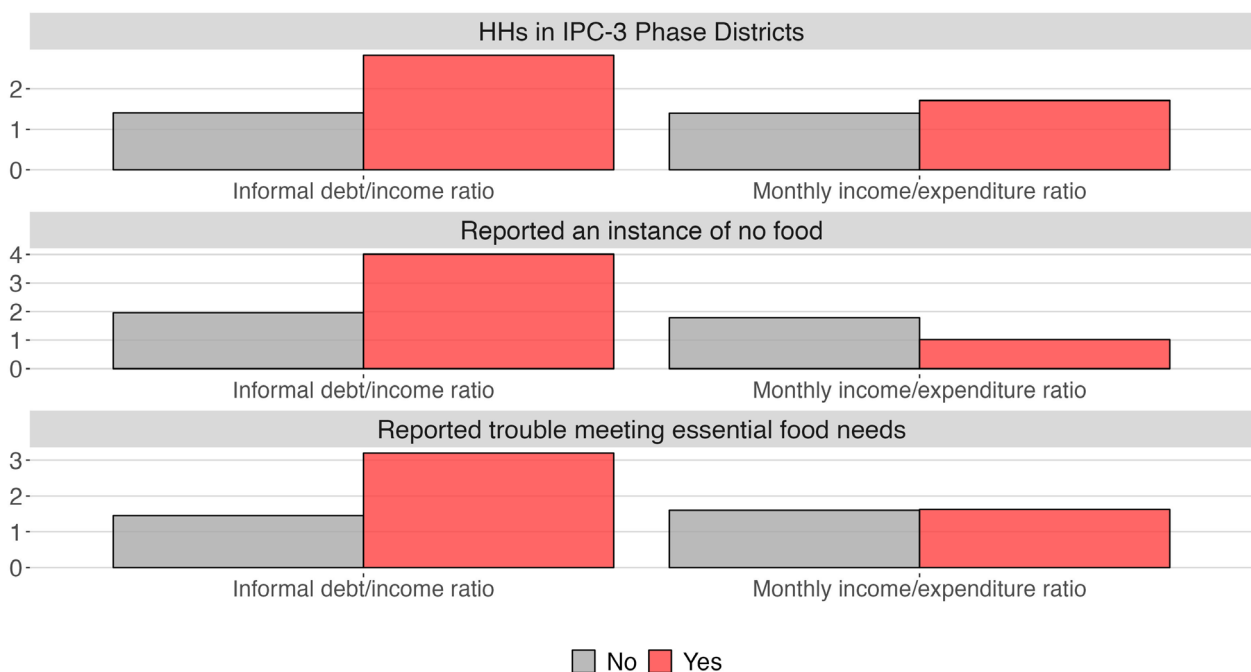


Figure 6: Comparisons of the household income/debt ratio and income/expenditure ratio between households reporting and not reporting an instance of no food or trouble meeting essential food needs.

¹⁵ [Lebanon: Acute Food Insecurity Situation September - December 2022 and Projection for January - April 2023.](#)

¹⁶ Expenditure includes the cost of rent/mortgage, water, medicine, hygiene, cooking fuel, communication, and electricity, and does not include food, education services, and health services.



Photo by Hussam Shbaro/Anadolu Agency

Political Updates:

The cabinet convened twice in February to address urgent matters including education and wheat imports. The first cabinet meeting was held on February 6, after which caretaker Minister of Education and Higher Education Abbas Halabi stated that contractual teachers at the Lebanese University who received their salaries at the end of 2022 will be receiving their January and February salaries “imminently”.¹⁷ He also hinted that teachers associations’ demands for a pay rise remains unaddressed, adding that a decision to increase teachers’ compensation would require approval by the Ministry of Finance. Minister of Information Ziad Makari stated that the treasury allocated LBP 1.5 billion for general expenses to the education sector and an equal amount to the Ministry of Education. The cabinet also approved a USD 8 million credit line to subsidize wheat imports.¹⁸

The cabinet convened again on February 27, when ministers agreed on a daily transportation allowance for public school teachers equal to the cost of 5 liters of petrol. However, ministers also tasked the Ministry of Finance with examining the education budget and determining how financing gaps can be made up, delaying the rollout of the transportation allowance.¹⁹

No parliamentary sessions dedicated to voting for a president were held in February, while an attempt to hold a legislative session failed. February 13 was originally scheduled for an electoral parliamentary session before Parliament Speaker Nabih Berri postponed it. The speaker indicated that the session would not lead to the election of a new president due to the the boycott of 47 MPs, including those affiliated with the Lebanese Forces, Kataeb Party, and Free Patriotic Movement, as well as Independent MPs. Berri also announced that parliament would not hold sessions in which Christian blocs are not slated to participate, in reference to the parliamentary blocs to which the three largest Christian parties that planned not to attend the February 13 session belong.

¹⁷ [Cabinet meeting - February 6, 2023](#)

¹⁸ The credit line to subsidize wheat was allocated from Lebanon’s IMF-issued Special Drawing Rights.

¹⁹ [Cabinet meeting - February 27, 2023](#)



Access to Services:

Public School teachers remained on strike for the second straight month as they pushed for better compensation to offset the depreciating purchasing power of their salaries. Private school teachers waged a one-day strike on February 1, demanding better pay to account for the recent hike in transportation costs and deteriorating living conditions. Private-sector teachers are currently paid 20% of their wages in “fresh dollars,”²⁰ though this is not enough to cover the cost of living and transportation. Dozens of teachers protested in front of the Education Ministry branch in Saida on February 2, demanding improved working conditions.²¹ On February 14, the United Nations Children’s Fund issued a statement warning about the possible negative effects of schools remaining closed, including higher rates of child marriages, child labor, and domestic abuse. The World Bank also released a report that estimated USD 2.5 billion in losses for the Lebanese economy for every year Lebanese children spend outside schools.²²

Bread prices continue to increase, as the first shipment of wheat secured through a World Bank Loan arrived in Lebanon. A shipment of 33,000 tons of wheat arrived in Lebanon on February 11, which was purchased using funds from a World Bank loan.²³ According to the Ministry of Economy, the shipment is sufficient to supply Lebanese for one month, and shipments paid for using the World Bank loan will follow each month until those funds are exhausted.²⁴ Bread prices increased twice in February and closed the month at LBP 17,000 for a small bundle, LBP 29,000 for a medium bundle, and LBP 35,000 for a large bundle. Bread prices are not slated to be dollarized and will still be issued by the Ministry of Economy and Trade, but prices will likely be affected by LBP depreciation and fuel prices. Of note, bread prices across the country vary - despite the imposition of a state-mandated price - and shortages have been reported in the last year.

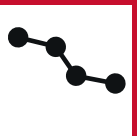
²⁰ Fresh dollars refer to USD which was deposited into the Lebanese commercial banking sector after October 2019, to which account holders have full access for withdrawals or transfers.

²¹ [Meetings at Grand Serail - National News Agency](#)

²² [UNICEF - Press Release](#)

²³ In May 2022, the World Bank established a USD 150 million emergency plan that includes loans for wheat imports. The loan was approved by the Lebanese Parliament last October.

²⁴ [First Shipment of 33,000 tons of Wheat Helps Rebuild Lebanon’s Stock and Ensure Access to Affordable Bread - World Bank](#)



State electricity production increased to between four and five hours per day, though Électricité du Liban's (EdL) new billing mechanism has added to household expenditures.

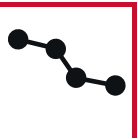
Electricity bills are now charged at a dollarized rate using the Sayrafa rate plus-20% as basis, retroactive to November and December 2022. The Ministry of Energy and Water announced on March 4 that it will use an LBP-USD exchange rate of LBP 43,000, meaning EdL bills will be calculated at a rate of LBP 53,000 (including the 20%). The ministry, however, has yet to announce what rate will be used following the March 1 Central Bank Sayrafa rate hike to LBP 70,000.

Four to five hours of state electricity is not sufficient for households and electricity rate hikes present an additional financial burden for households. This has already prompted thousands of households - many of which already depend on "backup" generators for most of their electricity usage - to cancel their state electricity subscription.²⁵ Such decisions could present additional challenges to the Ministry of Energy and Water, which has failed to implement reforms in the electricity sector or secure alternative means of procuring electricity production and transmission. Central Bank policies will also impact electricity fees, as Sayrafa rates are expected to increase in line with projected LBP-USD parallel market rate depreciation.

On February 2, the World Bank informed a Lebanese Delegation visiting Washington D.C. that a USD 300 million loan to export gas from Egypt and electricity from Jordan had been frozen. According to the World Bank, a lack of government reforms, such as a regulatory board for the electricity sector and the optimization of power supply, were behind the decision. The bank denied that the delay is related to the Caesar Act.²⁶

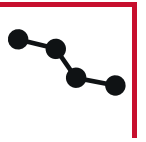
²⁵ [Thousands of Lebanese households unsubscribe from EdL - L'Orient](#)

²⁶ The Caesar Syria Civilian Protection Act of 2019, also known as the Caesar Act, imposes sanctions on the Syrian government and affiliated industries for its "war crimes and human rights violations".



Looking Forward:

- While the Central Bank intervened in the currency market on March 1, resulting in an LBP appreciation, given the limited impact previous efforts have had on stabilizing the currency, it is likely that the LBP will continue to depreciate in March. Continued LBP depreciation will continue to drive dollarization. This in turn will erode the purchasing power of the segments of the population still dependent on the LBP for part or all of their salaries.
- Household LBP costs will continue rise due to dollarization of supermarket pricing and continuous fuel price increases. The Central Bank's decision to increase the Sayrafa rate to LBP 70,000 will drive up the LBP cost of services such as electricity and telecommunications. This in turn will likely pose challenges to EdL as it continues its bill collection under a new, dollarized pricing regime. Moreover, exchange rate arbitrage opportunities available to public sector workers in 2022 are less likely to manifest in the coming months.
- The resumption of cabinet meetings is a somewhat positive sign amid the presidential "vacuum" and parliamentary deadlock. Parliament effectively ceased to function in February with no sessions held to elect a successor to former President Michel Aoun, while an attempt to hold a legislative session was rejected by MPs who deemed such a session illegal. This will continue to have a negative impact on Lebanon's hopes of an IMF bailout, which is dependent on the implementation of reforms.
- Despite some returning to their jobs, most public school teachers remain on strike and the academic year has already been severely disrupted. The cabinet approved a transportation package to compensate teachers for diminishing salary purchasing power but it was been sent to the Ministry of Finance for review and has yet to be implemented. It is unclear whether the state can adequately address the demands of educators, particularly as further LBP depreciation - the core cause of their work stoppage - is expected in the coming months.



Contact

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



ABOUT MERCY CORPS

Mercy Corps is a leading global organization powered by the belief that a better world is possible. In disaster, in hardship, in more than 40 countries around the world, we partner to put bold solutions into action – helping people triumph over adversity and build stronger communities from within. Now, and for the future.

