

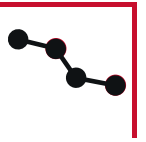
# Lebanon Crisis Update

June 2023 ■ ■



Credit: AP/Hussein Malla

- 3 ● [Key Takeaways](#)
- 5 ● [Economic and Financial Updates](#)
- 10 ● [Political Updates](#)
- 11 ● [Access to Services](#)
- 13 ● [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:

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- The Lebanese pound (LBP) parallel market exchange rate has been largely stable for three consecutive months and averaged LBP 93,500 per 1 US dollar (USD) in June. Daily average Sayrafa transactions increased in June compared to May, a key driver of LBP parallel market rate stability.
- The Central Bank of Lebanon amended Circular 158 to allow commercial bank depositors to withdraw only USD 400 per month from USD-denominated accounts, as opposed to the previous iteration of the circular that allowed depositors to withdraw both USD 400 and the same amount in LBP at the official exchange rate of LBP 15,000. The amended circular effectively ceases forced volume haircuts on USD-denominated accounts but depositors remain subject to withdrawal limits.
- On June 9, the International Monetary Fund (IMF) expressed concern over how Lebanon's worsening crisis and political deadlock have delayed the implementation of reforms necessary to unlock state financial assistance. In a subsequent report, the IMF recommended new financial reforms, including proportional haircuts on depositor accounts by writing off accumulated interest on deposits.
- Lebanon's parliament failed to elect a president for the 12th time on June 14, after candidates Suleiman Frangieh and Jihad Azour did not secure a needed two-thirds of votes in the first round. Quorum was lost before reaching the second voting round, when the threshold is reduced to a simple majority. France is attempting to break the political stalemate in Lebanon by sending an envoy to engage with individuals from different political factions in Lebanon.
- Several Ogero telecommunications central stations shut down in early June after allocating USD 13.25 million to Ogero for fuel provision and maintenance. Électricité du Liban (EDL) also announced that select neighborhoods in Beirut will receive two more hours of electricity per day.



## JUNE

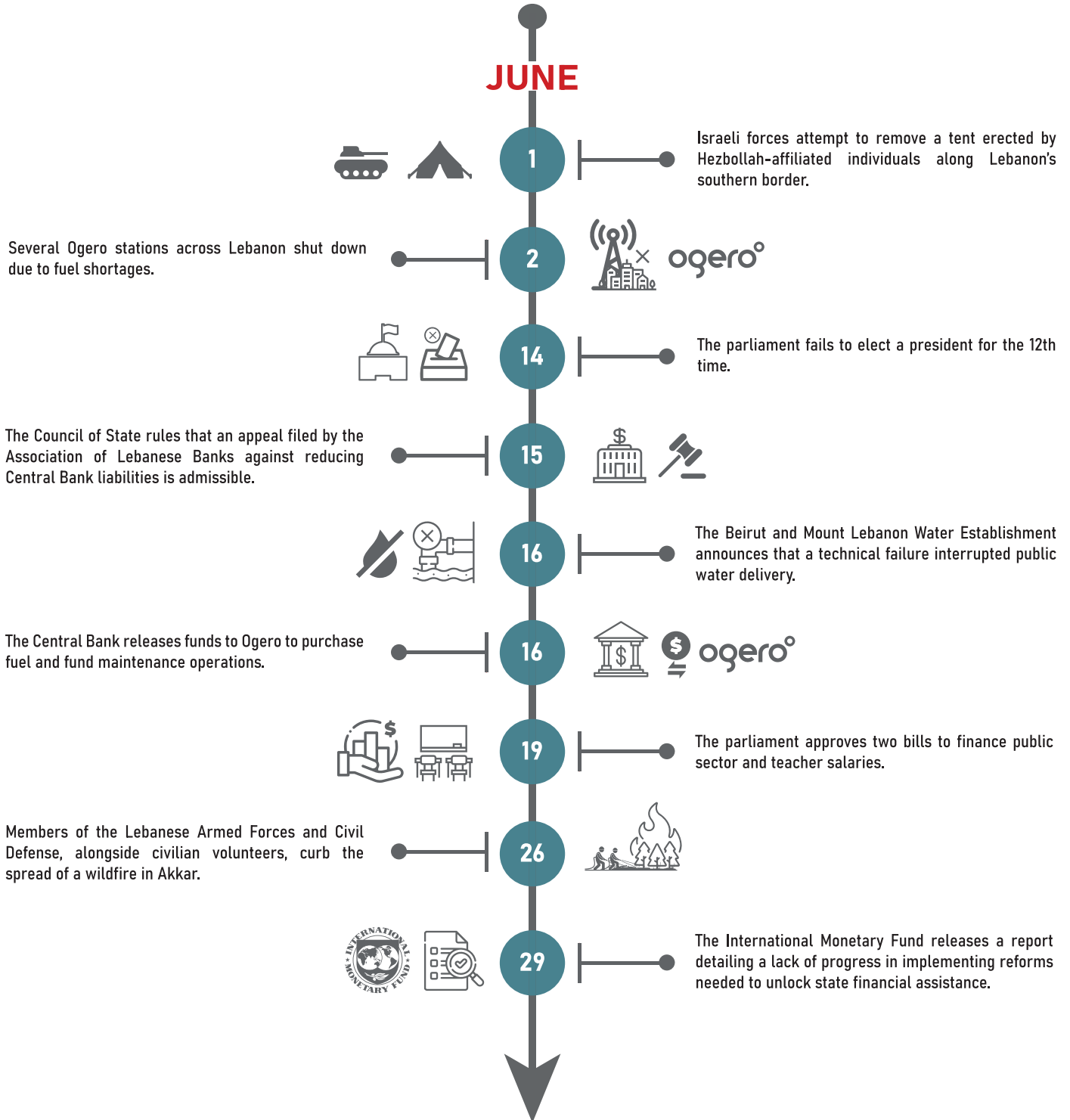




Photo by AP

## Economic and Financial Updates:

The US dollar (USD) - Lebanese pound (LBP) parallel market exchange rate was largely stable for the third-straight month and averaged LBP 93,500 per USD 1 in June. Parallel market exchange rate stability stems from a surge of transactions on the Central Bank-administered USD-LBP exchange platform Sayrafa. Figure 1 shows that daily Sayrafa transactions surpassed USD 200 million in mid-June, while in May the highest daily transaction amount was approximately USD 150 million. The number and total amount of daily Sayrafa transactions have steadily increased since late March and early April, enabling the Central Bank to expand its share of market demand for USD.

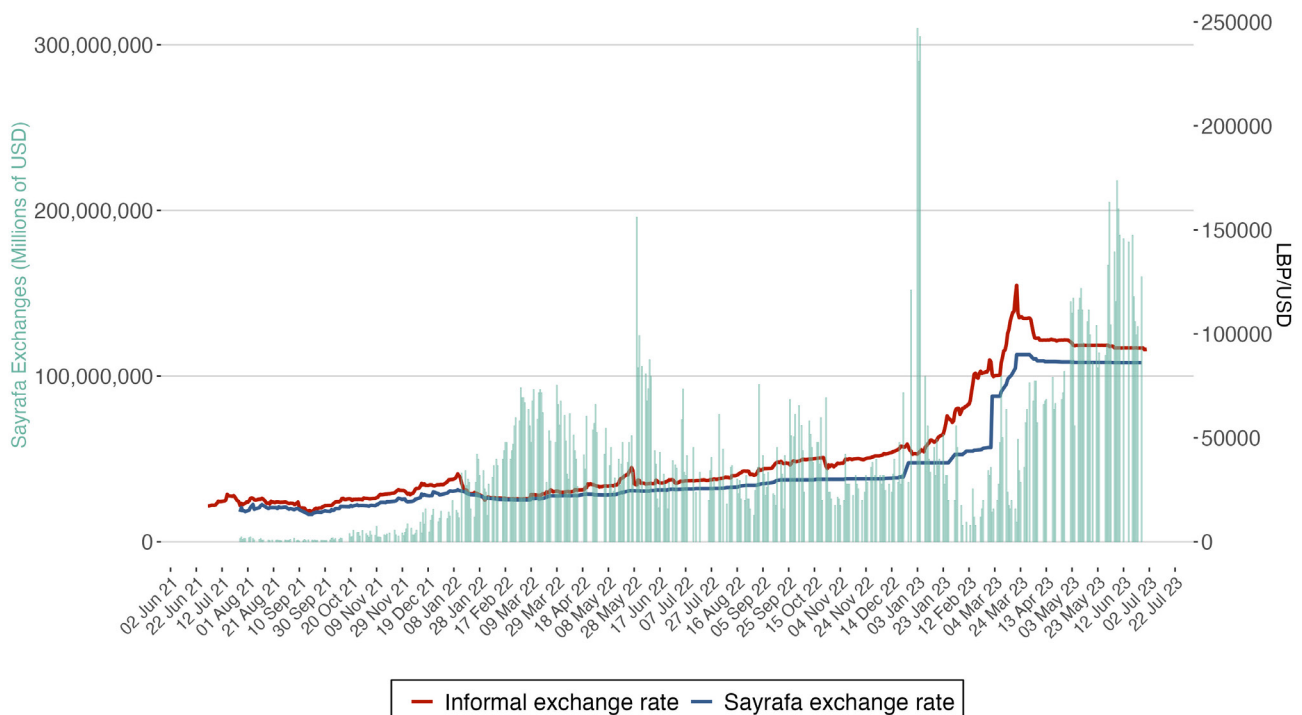


Figure 1: Sayrafa Transactions Volume.





Since the start of 2023, the Central Bank has incentivized wider use of Sayrafa by allowing greater access to the platform, namely by expanding the range of eligible beneficiaries and increasing daily transaction ceilings.<sup>1</sup>

**LBP in circulation (M0) slightly increased to 81.2 trillion by the end of June.** Notably, the Central Bank Foreign Assets account decreased by USD 104 million in the second half of the month, likely to finance Sayrafa transactions. This is a marked departure from March to April, when the Central Bank balance sheet did not register a similar decrease.

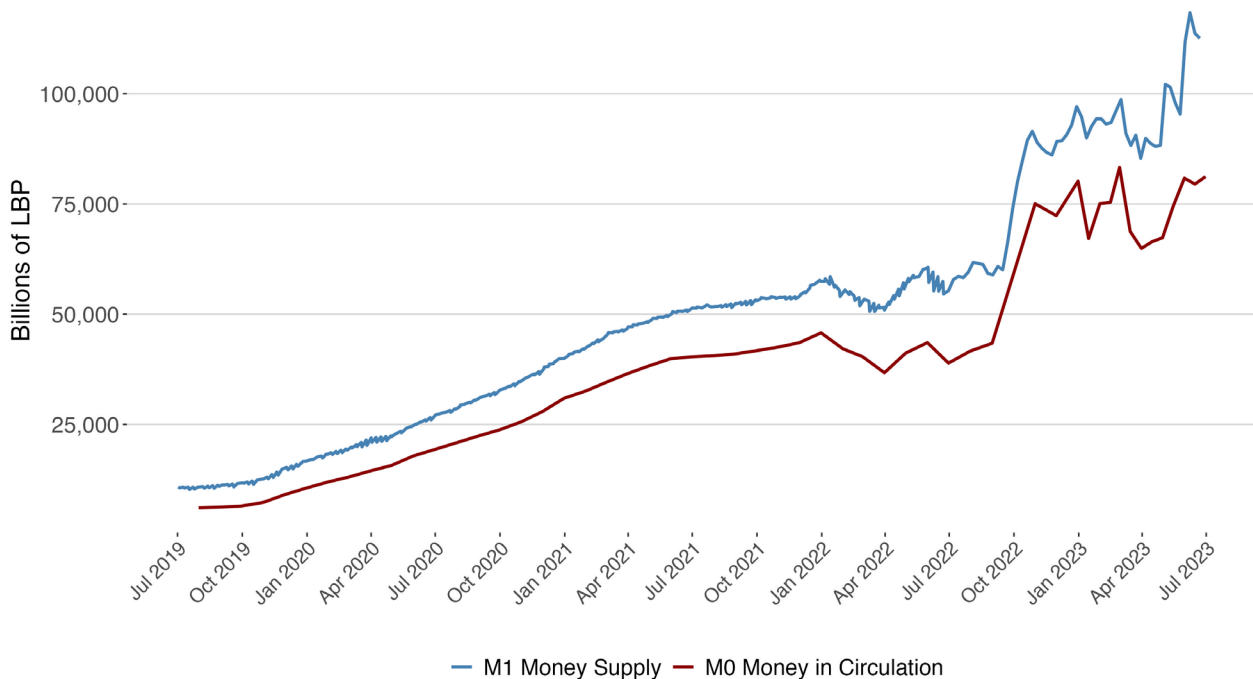


Figure 2: Currency in Circulation and Money Supply.

**The International Monetary Fund (IMF) issued a report on Lebanon’s progress in implementing structural reforms needed to secure a state financial assistance package.** On June 9, IMF Spokesperson Julie Kozack expressed concern over the worsening Lebanese crisis and political deadlock delaying the implementation of stipulated reforms.<sup>2</sup> Kozack’s statement was issued about one week after caretaker Minister of Finance Youssef Khalil insisted that there has been significant progress toward securing an IMF agreement.<sup>3</sup> The minister highlighted progress on exchange rate unification and 2023 budget projections but did not comment at length on other required reforms, such as financial sector restructuring and passing a capital control law. On June 29, the IMF released a report focusing on Lebanon’s commercial banking sector, which asserted that immediate action should be taken to account for losses and a lack of reform in the sector. The fund suggests that proportional haircuts be implemented by writing off accumulated interest – inflated by Central Bank policies prior to 2019 – on deposits from 2008 to 2021.<sup>4</sup> According to the analysis, 40% of the trapped deposits could be recovered by implementing the proposed plan.

<sup>1</sup> BDL originally extended Sayrafa access to businesses, before including individuals and public sector workers, who were able to use the platform to withdraw their salaries.

<sup>2</sup> L’Orient Today, [IMF says Lebanon needs urgent economic reforms to stop deepening crisis](#) June 9, 2023.

<sup>3</sup> NNA, [Khalil: measures taken in cooperation with IMF form foundation for structural transformation](#) June 1, 2023.

<sup>4</sup> IMF, [Lebanon: 2023 Article IV Consultation-Press Release; Staff Report; and Statement by the Executive Director for Lebanon](#), June 29, 2023.



**Fuel prices slightly fluctuated in June.** Diesel and gasoline prices closed the month at LBP 1,437,000 for diesel, LBP 1,666,000 for Octane-95, and LBP 1,707,000 for Octane-98. The price of cooking gas decreased to LBP 795,000.

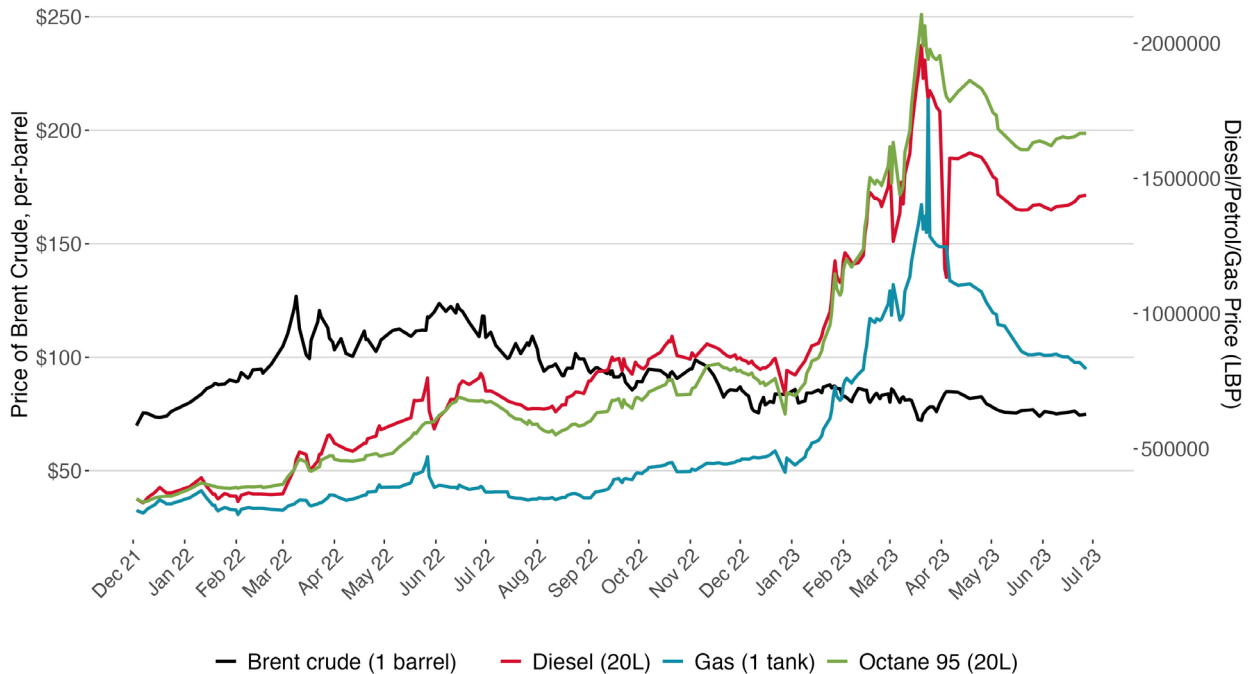


Figure 3: Fuel Prices.

**On June 15, the Council of State ruled that an appeal filed by the Association of Lebanese Banks against reducing Central Bank liabilities is admissible.** The decision focuses on a May 2022 government decree that significantly reduced Central Bank USD liabilities incurred in the wake of Lebanon’s financial and economic crash, namely USD-dominated commercial bank deposits that the Central Bank cannot service due to a lack of requisite liquidity. The government decree aligns with IMF reform requirements but effectively reduces the financial losses sustained by the financial sector. Removing liabilities from the Central Bank balance sheets would transfer additional liability for losses to commercial banks.<sup>5</sup>

**On June 19, the parliament approved two bills to cover an increase in civil servant salaries and pensioner benefits.** One bill mandates the release of USD 400 million (at the parallel market rate) to cover existing expenses and transport allowances for civil servants. The second bill releases funds to cover public teacher bonuses and transportation allowances, a key demand among educators who went on strike in April.<sup>6,7</sup> This decision precedes approval of the 2023 annual budget, which caretaker Prime Minister Nijab Mikati claims will be completed soon.<sup>8</sup>

**On June 23, the Financial Action Task Force (FAFT) – a global money laundering and terrorist financing watchdog – decided not to place Lebanon on its updated grey list.<sup>9</sup>** Lebanon was not mentioned during a press conference following the FAFT meeting, despite anticipation that Lebanon was going to be added to the international financial crime watchdog list of countries.

<sup>5</sup> In such cases, bankruptcies trigger procedures entailing asset liquidation (including shareholder assets) to secure clients’ deposits. Extreme financial shock cases require government interventions to implement restructuring, merging, and capital controls.

<sup>6</sup> L’Orient Today, [Lebanese Parliament approves funding for civil servant pay rise](#) June 19, 2023.

<sup>7</sup> Teachers have so far not issued a statement about the June decision.

<sup>8</sup> NNA, [ميفاتي: موازنة 2023 جاهزة وسندعو إلى جلسات حكومية متتالية لإقرارها](#), June 19, 2023.

<sup>9</sup> Reuters [Lebanon stays off money laundering watchlist](#) June 23, 2023.



According to a Reuters report published in May, an initial assessment by FAFT's Middle East and North Africa section qualified it to be placed on the organization's grey list. Lebanon reportedly lobbied to increase its national financial score in May and June. Countries on the FAFT list are determined to have not implemented necessary measures to combat money laundering and terrorism financing.<sup>10</sup>

**The Central Bank reportedly decided to amend circular 158, removing one form of a haircut on USD-denominated depositor accounts at commercial banks.** While the Central Bank has yet to make an official announcement, local media reported that the meeting resulted in changing the withdrawal amount enabled by circular 158.<sup>11</sup> Previously, USD-denominated account holders could withdraw USD 400 in cash and the same amount in LBP cash at the official exchange rate of LBP 15,000. The new amended version only allows withdrawals of USD 400 cash. This effectively removes one type of haircut on depositor accounts, though depositor's access to their accounts remains heavily limited.

## Analysis and Impact:

Once again, disagreement over the distribution of financial losses estimated at over USD 70 billion is blocking the implementation of a comprehensive economic recovery plan for Lebanon. The Council of State's June decision is notable for two reasons. Procedurally, the ruling is unusual because the council does not typically review the validity of governmental actions. According to local media, an exception was made because the decision would affect the legal status of banks and depositors.<sup>12</sup> More substantially, the ruling suggests that the Lebanese judiciary could grant formal legitimacy to Lebanese commercial banks' grievances over the distribution of losses. This development does not bode well for long-term reform. The May 2022 government decree was an essential cornerstone of structural reforms laid out in the staff-level agreement signed between the IMF and Lebanese authorities in April 2022. Without its enforcement, the Central Bank must bear a greater portion of the losses on its own balance sheets, weakening its ability to pay off existing debts and invest in the economy.

June's ruling is further evidence that the executive and judicial branches could lack the political will to enforce the types of reforms agreed upon in the IMF staff level agreement. Lebanon's ruling classes appear to be continuing an unofficial plan of pushing losses onto depositors, who receive a "haircut" every time they withdraw LBP cash from a USD-denominated account at a disadvantageous rate. A recent report by a Beirut-based think tank The Policy Initiative describes this process as a "shadow plan" designed to stall the IMF deal and transfer financial losses to depositors.<sup>13</sup> A similar analysis was carried out two years ago by The Badil, published by the local think tank Triangle, highlighting the degree of stasis in reform efforts.<sup>14</sup> The decision to fund public salaries through credit without incorporating it in a well-formulated 2023 budget is another example of delaying reforms. In this context, Kozack's remarks criticizing sustained political deadlock are unsurprising. The chasm between the IMF spokesperson's statement and Khalil's claim of significant progress toward reform encapsulates the growing dissonance between official government statements and actions.

<sup>10</sup> Reuters, [Exclusive: Lebanon set to be grey-listed by financial crime watchdog](#) May 23, 2023.

<sup>11</sup> Annahar, [التعميم 158 بوقف الهيركات على الودائع... كيف؟](#), June 27, 2023.

<sup>12</sup> Hage Boutros, Philippe, [Recovery plan: Lebanese banks' appeal deemed admissible by Council of State](#), L'Orient le Jour, June 23, 2023.

<sup>13</sup> The Policy Initiative, [The Shadow Plan: How Lebanese Elites are Sabotaging their Country's IMF Lifeline](#) June 13, 2023.

<sup>14</sup> See, for example: [The Badil, Driving Disaster: Lebanon's Shadow Financial Plan](#). June 2, 2023.





Short-termism at the macro reform level finds its analogue in an equally fragile informal monetary policy. The LBP’s relative stability in the parallel exchange market throughout June is largely due to the unprecedented scale of exchanges conducted on the Sayrafa platform. Unlike earlier this year, when the Central Bank purchased large quantities of USD through Sayrafa, the Central Bank can now rely on increased market purchases to maintain some control over the local currency. Nevertheless, banking on Sayrafa is hardly a long-term strategy and cannot indefinitely replace standard monetary policies such as open market operations. It is likely that the Central Bank will continue to rely on expanded Sayrafa purchases to stabilize the LBP throughout the summer, despite the end of Riad Salameh’s term as Central Bank governor. While it is still unclear who will succeed Salameh, some local media sources have suggested that First Deputy Governor Wassim Mansouri will take up the bank’s top position.<sup>15</sup>

## Money Velocity:

Some 2 million tourists and expatriate Lebanese are expected to visit Lebanon this summer – the highest such number of foreign visitors since 2019 – increasing the amount of USD in circulation.<sup>16</sup> As the following figure shows, the USD value of LBP in circulation has been steadily shrinking since 2020. LBP circulation in June averaged LBP 80 trillion,<sup>17</sup> which is equivalent to approximately USD 875 million, less than 10% of the World Bank’s estimate of the size of Lebanon’s total cash economy in 2022.<sup>18</sup> Consequently, LBP banknote velocity is robust, suggesting that when LBP money supply expands, the lira’s value will likely not be adversely affected. Central Bank Sayrafa intervention policies depend on adding LBP to the market and increased LBP money supply is needed to cover fiscal expenditures.

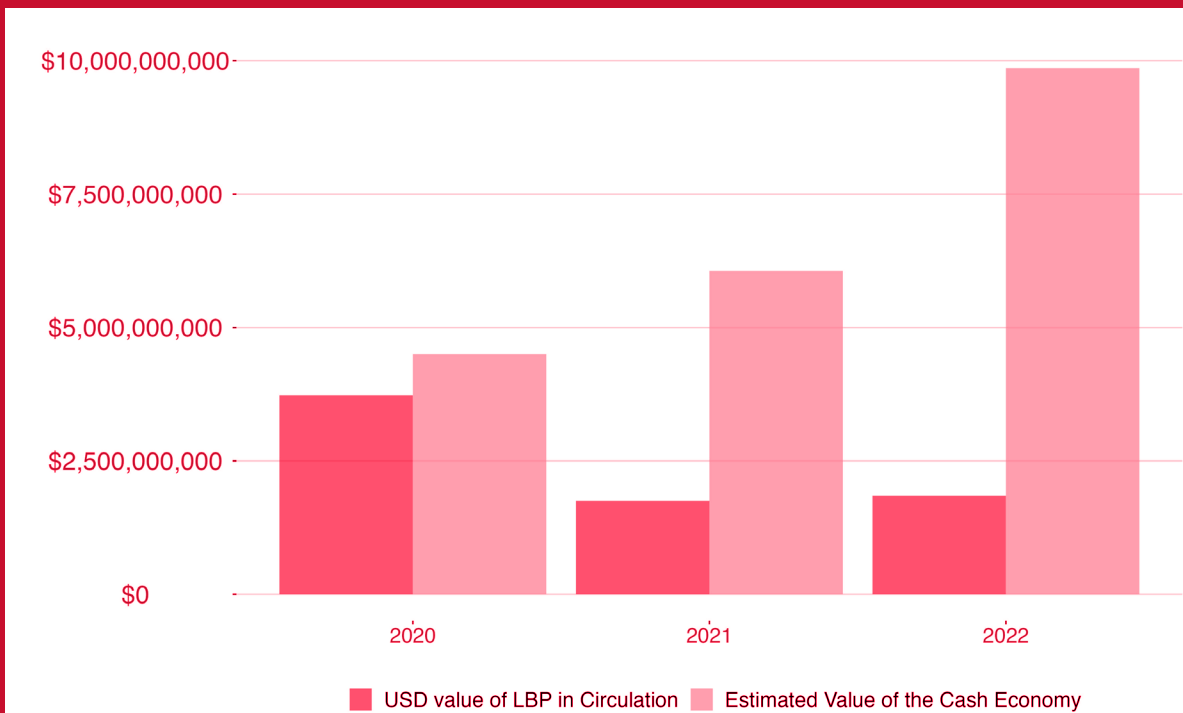


Figure 4: Estimated size of the cash economy in Lebanon, including the USD value of LBP in circulation at the end of each year (from BdL balance sheets).<sup>19</sup>

<sup>15</sup> LBCI, [Uncertainty surrounds succession plans for Lebanon’s Central Bank Governor Riad Salameh](#) June 28, 2023.

<sup>16</sup> Hamadi, Ghadir, [What’s drawing two million visitors to Lebanon this summer?](#) L’Orient Today, June 23, 2023.

<sup>17</sup> BdL, [Interim Balance Sheet](#) June 15, 2023.

<sup>18</sup> World Bank, [Lebanon: Normalization of Crisis is No Road to Stabilization](#) May 16, 2023.

<sup>19</sup> World Bank, [Lebanon: Normalization of Crisis is No Road to Stabilization](#) May 16, 2023;

Banque du Liban Balance Sheets: December 2020, December 2021, December 2022.



## Political Updates:

**The parliament failed to elect a president for the 12th time on June 14.** While all 128 MPs were present for the electoral session, neither Jihad Azour (59 votes) nor Suleiman Frangieh (51 votes) secured a two-thirds majority in the first round, and quorum was lost prior to reaching the second round of voting when the threshold for victory reduces to an absolute majority. A date for the 13th electoral session has yet to be set. While past French efforts failed to break the political stalemate, including backing Frangieh for president, French President Emmanuel Macron's envoys are now publicly engaging with figures from across the Lebanese political spectrum to secure a broad political agreement. French Minister for Europe and Foreign Affairs Jean-Yves Le Drian, who heads the French delegation, said in late June that he will return to Lebanon to facilitate discussions among various parties.<sup>20</sup>

**Israeli forces targeted Lebanese citizens with non-lethal weapons amid a spate of incidents along Lebanon's southern frontier.** On June 1, the Israeli military attempted to remove a tent erected by Hezbollah-affiliated individuals along the border in the Chebaa Farms region, prompting the Lebanese Armed Forces (LAF) to be put on high alert. While the Israeli military claims that the tent was positioned on Israeli land and should be removed, the LAF claimed the tent was on Lebanese territory.<sup>21</sup> On June 7, a Lebanese villager in Kfar Chouba attempted to prevent Israeli forces from digging trenches on his land, located along the border. The individual remained in front of the the Israeli bulldozer until he was removed by bystanders and United Nations Interim Force in Lebanon (UNIFIL) soldiers. On June 9 protestors from the area gathered in Kfar Chouba to support him and threw rocks at an Israeli bulldozer, prompting Israeli military forces to disperse them using tear gas.<sup>22</sup> UNIFIL initiated contact with both sides in an effort to reduce tensions and limit further violations along the Blue Line. On June 26, Hezbollah claimed that it downed an Israeli drone in Lebanese airspace along the border.<sup>23</sup>

<sup>20</sup> L'Orient Today, [Le Drian ends his visit by warning that 'time is against Lebanon'](#) June 24, 2023.

<sup>21</sup> NNA, [استنفار في صفوف الجيش ردا على تهديدات العدو بإزالة خيمة ركزت بمحاذاة حدود بسطرة واليونيفيل تجري اتصالات للجم حال التوتر](#) June 1, 2023.

<sup>22</sup> NNA, [أهالي العرقوب رشقوا آلية معادية في خراج كفرشوبا والعدو رد بإطلاق القنابل الغازية](#) June 11, 2023.

<sup>23</sup> LBCI, [Hezbollah says shot down Israel drone in south Lebanon](#) June 26, 2023.



Photo by LBCI

## Access to Services:

**Électricité du Liban (EDL) announced that select neighborhoods in Beirut will receive two additional hours of electricity provision per day, increasing the daily total from four to six hours.** Neighborhoods receiving additional hours of electricity have a sub-10% rate of “violations” recorded by EdL. Violations include illegal connections to the electrical grid, using grid cables for purposes other than intended usage, and damaging grid cables.<sup>24</sup> Twenty-two neighborhoods are slated to receive additional electricity provision, most of which are considered less vulnerable than other areas in Beirut.<sup>25</sup> The announcement came on the heels of EdL workers halting their week-long strike that began on June 13. The EDL board promised to deliver on worker demands, including changing its insurance provider, increasing financial benefits, and reducing electricity fees for EDL employees.<sup>26 27</sup>

**On June 21, caretaker Minister of Education Abbas Salim al-Halabi announced that the Intermediate Certificate Exams (Brevet) would be canceled.** The Ministry of Interior and Municipalities informed the cabinet that there are logistical impediments to ensuring that security forces can be deployed at different examination centers, resulting in the cabinet’s decision to forgo the exams. The Union of Middle School Teachers called for the decision to be reversed, as Brevet exams are used to assess whether students are adequately prepared to begin high school. Funds have already been allocated for Baccalaureate official exam logistics and security, and the exams should begin on July 10.<sup>28</sup>

**On June 16, the Establishment of the Water of Beirut and Mount Lebanon (EBML) announced that an EdL technical failure hindered public water delivery.** Pump failures in Dbayeh and Jeita and inoperable wells in Damour, Nehme, and Meshref halted water provision in Beirut and central and coastal Mount Lebanon.<sup>29</sup>

<sup>24</sup> NNA, [كهرباء لبنان: زيادة التغذية الكهربائية بدءاً من الأربعاء المقبل لمخارج كشفت عليها فرق حملة نزع التعديلات](#), June 26, 2023.

<sup>25</sup> EdL announced that the following neighborhoods would receive additional electricity provision: Ras Beirut, Al Manara, Koreitem, Ain El Tineh, a portion of Hamra, Sadat Street, Al Raoucheh, UNESCO, Solidaire, Al Achrafieh, Sioufi, Karm El Zeitoun, Al Geitawi, Al Nahr, Hotel Dieu, Al Nasra, Mar Mitri, Mar Mikhael, Al Adliyah, Badaro, Ras El Nabeh, and Carantina.

<sup>26</sup> NNA, [عمال ومستخدمو كهرباء لبنان علقوا إضرابهم بعد إبداء مجلس الإدارة إيجابية بمطالب النقابة](#), June 23, 2023.

<sup>27</sup> NNA, [اعتصام أمام مركز مؤسسة كهرباء لبنان في مشغرة احتجاجاً على تعرفه الكهرباء المرتفعة](#), June 26, 2023.

<sup>28</sup> NNA, [EDUCATION MINISTER SAYS 2023 BREVET EXAMS CANCELLED, FUNDS FOR SECONDARY EXAMS SECURED](#) June 21, 2023

<sup>29</sup> EBML, [مؤسسة مياه بيروت وجبل لبنان تأسف لانقطاع المياه بسبب انقطاع الكهرباء](#), June 6, 2023



The water shortage spanned from June 14 through June 20, when electricity from the Bsalim EBML station was used to restore water flow to affected areas.<sup>30</sup> Often affected by electrical outages and a lack of resources for maintenance, water networks are likely to face further interruptions.

**Fuel shortages in early June resulted in several Ogero central stations shutting down across Lebanon before funds were allocated to the state telecommunications company.**<sup>31</sup> Caretaker Minister of Finance Youssef Khalil stated that funds for Ogero maintenance and fuel provision were released in early May but the USD 13.25 million payment from the Central Bank was released on June 16. Caretaker Minister of Telecommunications Johnny Corm stated that the delay was due to the removal of a senior accountant at the Ministry of Finance.<sup>32</sup>

**On June 26, members of the Lebanese Armed Forces and Civil Defense, alongside civilian volunteers, curbed the spread of a wildfire that started in Akkar on June 24.** While no casualties were recorded, about 95 hectares of land were burned. Efforts to increase awareness of fire risks are essential as Lebanon enters its wildfire season.<sup>33</sup>

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<sup>30</sup> L'Orient Today, [Water supply in Metn, Achrafieh and Bourj Abi Haidar temporarily restored](#) June 20, 2023.

<sup>31</sup> L'Orient Today, [New Ogero transmission stations shut down due to lack of fuel](#) June 2, 2023

<sup>32</sup> L'Orient Today, [Ogero receives \\$13.25 million for fuel oil purchases, maintenance](#) June 16, 2023

<sup>33</sup> L'Orient Today, [Massive Akkar wildfire extinguished, more than 90 hectares burned](#) June 26, 2023.





# Looking Forward:

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- Basic service interruptions, including water and telecommunications, are placing an additional burden on households and businesses. Increased dependency on alternative sources of water add to households' financial burdens and may, in certain instances, result in unsafe water use, leading to the proliferation of waterborne diseases. Additionally, telecommunications access disruptions affect businesses and households alike, while also increasing the risk of disruptions in humanitarian and development agency outreach. The re-emergence of these issues comes as little surprise given the political deadlock, which has halted meaningful and sustainable structural planning and development.
- The amount of votes Azour received demonstrated his viability as a presidential candidate. However, a date for the 13th electoral parliamentary session has yet to be set and will likely be postponed until after August, meaning the political stalemate is slated to persist until a regional and internal agreement on a consensus candidate can be reached. The "presidential vacuum" will further delay needed economic reforms, international support, and legislation.
- Three events in June signal that political power brokers favor "smoothing" financial losses over time and via volume haircuts as opposed to implementing structural reforms. Delays in implementing a year-old governmental decree, allowing an appeal against it, and amending existing Central Bank circulars – all while exchange rates remain ununified – are examples of this "plan" in action. The latest IMF press statements suggest the international lender is growing tired of reminding Lebanese leaders about their commitments under the staff level agreement. Further delays in implementing reforms, especially those needed to unlock IMF financial assistance, negatively affect Lebanon's economic outlook.
- Based on the pattern of foreign cash inflows in 2022, this summer promises to bring foreign currency and increased business activity.<sup>34</sup> However, LBP money supply will also likely increase due to LBP injections needed to issue new banknotes and fiscal expenditures. Robust velocity of LBP cash, which occupies a smaller share of the total cash economy, would potentially absorb these early injection shocks. This could prompt the Central Bank to explore aggressive strategies to collect foreign currency and exploit the temporarily USD inflow.

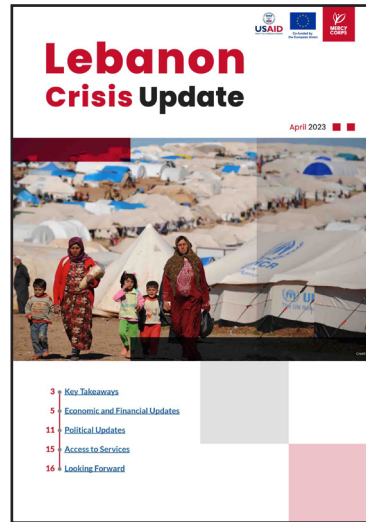
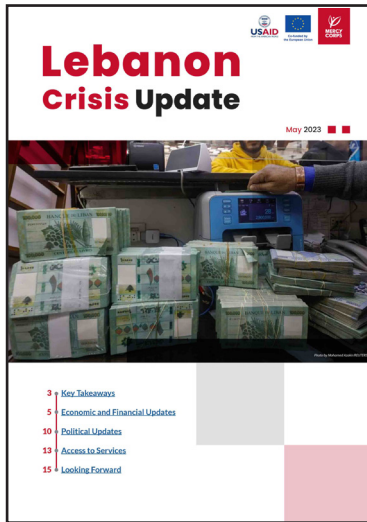
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<sup>34</sup> IMF, [Lebanon: Staff Concluding Statement of the 2023 Article IV Mission](#) March 23, 2023



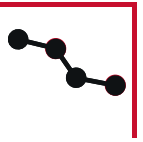


# Latest Monthly Reports



# Latest Thematic Reports





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