

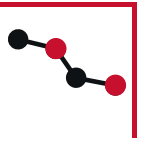
Lebanon Crisis Update

July 2023 ■ ■



Credit: Aziz Taher/Reuters

- 3 ● [Key Takeaways](#)
- 5 ● [Economic and Financial Updates](#)
- 10 ● [Political Updates](#)
- 12 ● [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:

- Central Bank Vice Governor Wassim Mansouri was named acting Central Bank governor after the cabinet failed to select a successor to former Central Bank Governor Riad Salameh. Prior to taking on his new position, Mansouri and three other vice governors called for the government and parliament to engage more directly with the Central Bank, in addition to proposing a mechanism by which Lebanon could float its national currency, the Lebanese pound (LBP).
- Central Bank foreign assets dipped in July due to an unprecedented USD 608 million decrease on its balance sheet amid a marked reduction in LBP money supply. On August 1, the new Central Bank leadership announced that it would limit new access to the official exchange platform Sayrafa, in a move which could loosen the Central Bank's influence over the parallel market exchange rate.
- Caretaker Finance Minister Youssef Khalil submitted a draft budget, introducing new taxes on tobacco, alcohol, travel, and private generators – all of which were suggested by the International Monetary Fund in their January report on tax reforms – in addition to raising vehicle-related fees. Despite higher projected revenues, the proposed 2023 budget would result in an 18.79% deficit.
- French Minister for Europe and Foreign Affairs Jean-Yves Le Drian paid an official visit to Lebanon, during which he met with representatives of multiple political parties regarding Lebanon's political deadlock and stalled presidential elections. The meetings focused on determining various political factions' preferred presidential candidate profile and ensuring that political parties will have their MPs participate in electoral sessions in September.
- Heavy fighting broke out at the Ein el-Hilweh refugee camp near Saida in late July, prompted by tit-for-tat assassinations and assassination attempts targeting Fatah and Islamist paramilitary figures. The fighting carried into early August, forcing thousands of people to flee the camp.
- Tensions are high between Hezbollah and Israel along Lebanon's southern border following Israel's construction of a barrier around the northern half of Ghajar, a village which sits along the frontier, and Hezbollah's erection of tents along a disputed section of the Blue Line.



JULY

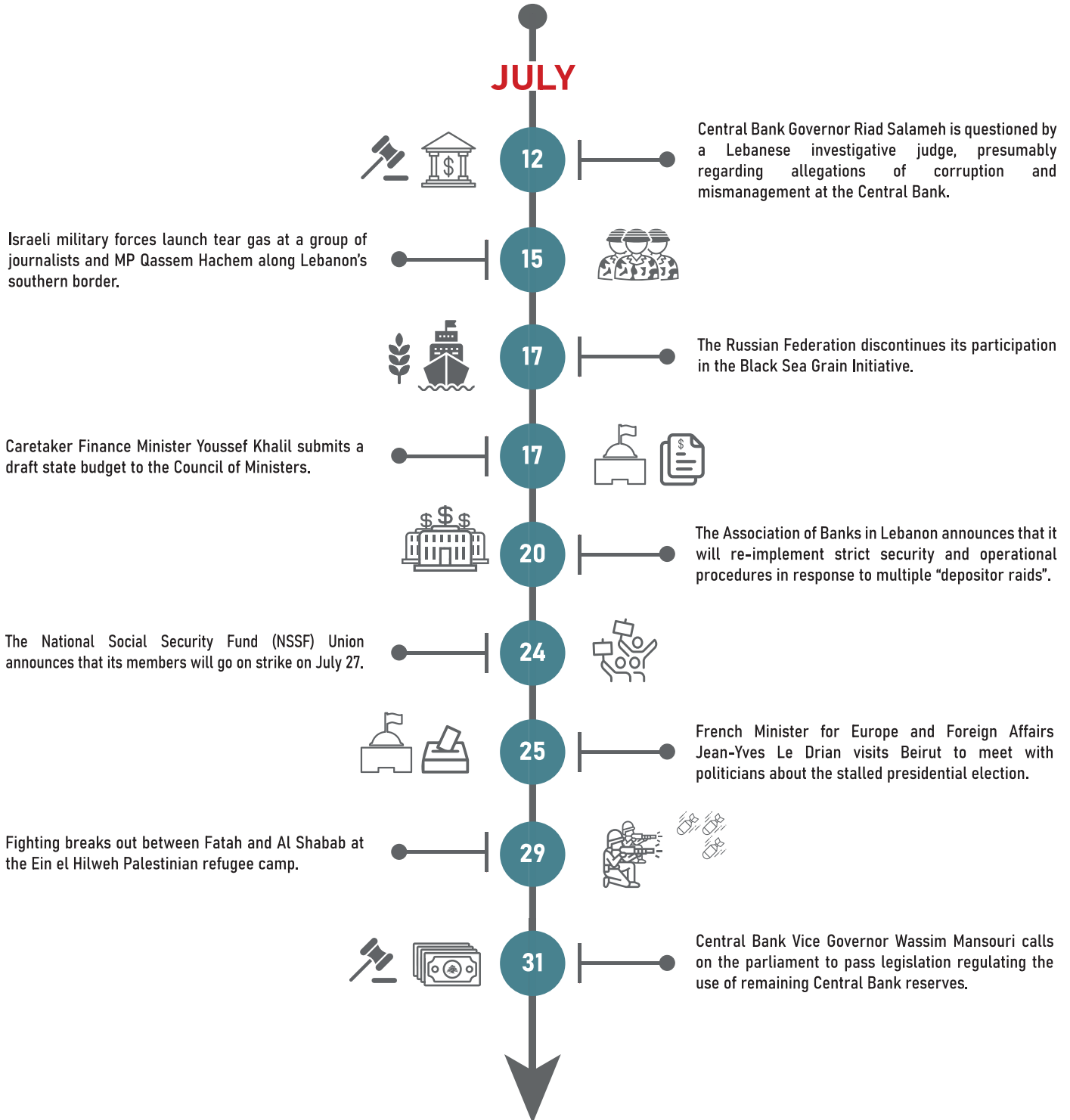




Photo by Hassan Ammar/AP

Economic and Financial Updates:

Wassim Mansouri assumed the role of acting Central Bank governor on August 1, after the cabinet failed to officially anoint a successor to former Central Bank Governor Riad Salameh.¹ Mansouri and three other vice governors previously threatened to resign on July 7, at which time they demanded that the cabinet take decisive action to avoid a leadership vacancy at the Central Bank. Later in the month, on July 24 and July 26, the four vice governors met with Najib Mikati, as the deadline for Salameh's departure drew near.² At the meeting, Mansouri presented the vice governors' plans for administering monetary policy in Lebanon, which includes creating a new official currency trading platform and potentially officially floating the Lebanese pound (LBP). By July 27, Lebanon's opposing factions had yet to reach an agreement on who should succeed Salameh, who officially left on July 31, paving the way for Mansouri to legally take up his new position.

Prior to taking on his new role, Mansouri called for enhanced coordination between the Central Bank and the government and parliament. Mansouri stated on July 31 that a law should be passed by the parliament before the Central Bank leadership allocates reserves to fund government spending, namely expenditures on remaining subsidies and public sector salaries.³ The Central Bank vice governors previously issued a statement that the parliament should pass stalled legislation, including the 2023 Budget Law, Capital Control Law, and legislation to restructure the commercial banking and financial sector,⁴ all of which are requirements to unlock International Monetary Fund (IMF) state financial assistance.

Central Bank foreign reserves decreased by 517 million US dollars (USD) in July, amid a marked reduction in LBP money supply in the second half of the month. Despite a USD 91 million increase in the first half of July, Central Bank foreign assets decreased by USD 608 million in the second half of the month, marking the largest monthly decrease in reserves in the last two years. Simultaneously, the Central Bank reduced LBP money supply by about 25%, taking about LBP 20 trillion out of circulation.

¹ Hezbollah, Marada Movement, and Free Patriotic ministers boycotted the session, citing the cabinet's inability to appoint a new Central Bank governor during the presidential vacuum and under a caretaker cabinet.

² L'Orient Today, [Riad Salameh's succession: Cabinet meeting canceled over lack of quorum](#), July 27, 2023.

³ L'Orient Today, [Mikati meets with four BDL vice governors](#), July 24, 2023.

⁴ NNA, [منصوري: موجودات المركزي محدودة وتمويل الدولة يجب أن يتوقف ورواتب القطاع العام مستمرة وفق صيغة](#), July 31, 2023.

⁵ NNA, [منصوري: موجودات المركزي محدودة وتمويل الدولة يجب أن يتوقف ورواتب القطاع العام](#), July 31, 2023.

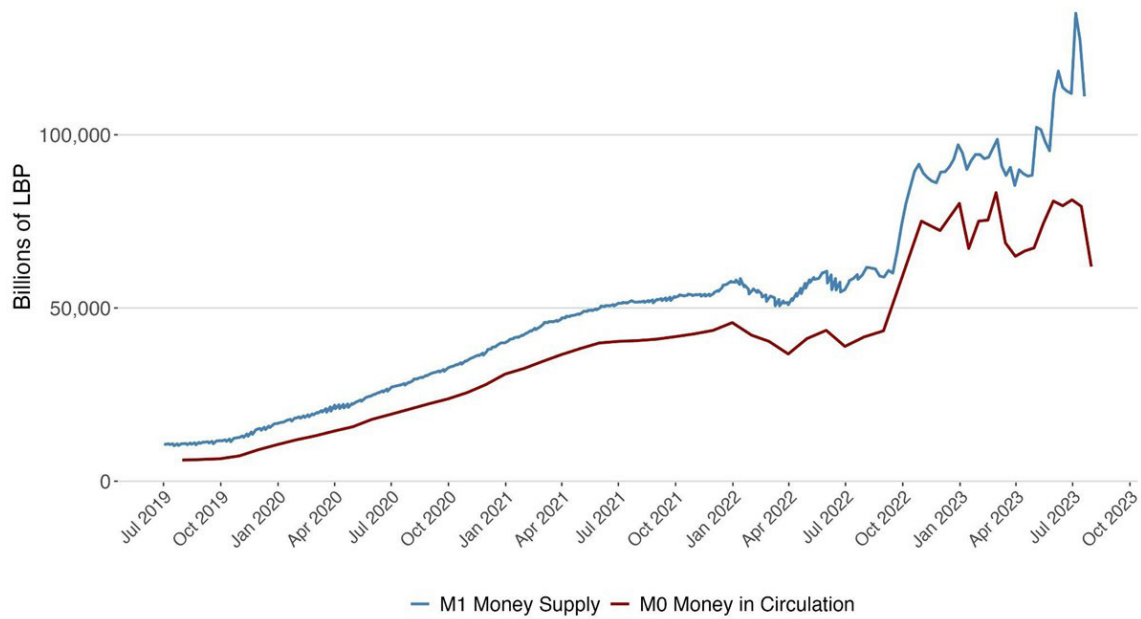


Figure 1: Money Supply.

Access to Lebanon’s official currency exchange platform Sayrafa was tightened on August 1, with transactions limited to existing deposit account holders and individuals collecting public sector salaries. The decision to limit access is the first major Sayrafa policy adjustment in 2023 and contrasts with statements made by Salameh in mid-July that Sayrafa access would not be cut off. Figure 2 shows that the volume of Sayrafa transactions swiftly decreased in the second half of July, averaging about USD 50 million per day by the end of the month.

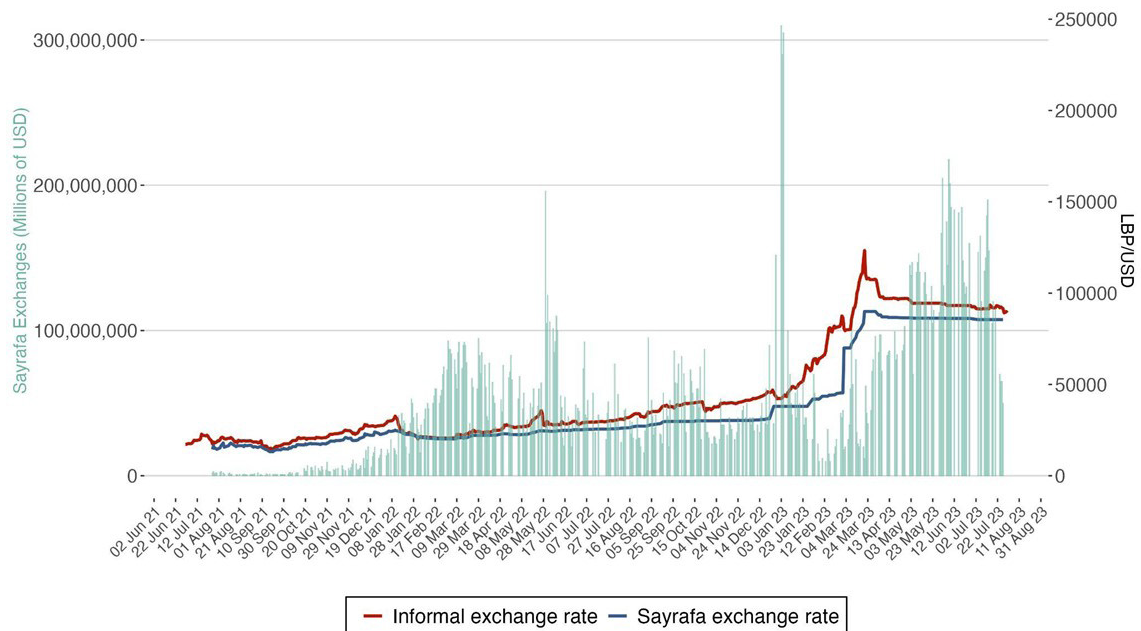


Figure 2: Sayrafa Transactions Volume.

The LBP-USD parallel market exchange rate appreciated in late July following a brief depreciation mid-month. On July 15, the parallel market exchange rate fell to LBP 99,000 per USD 1, though it rebounded to LBP 92,000 the following day.



The exchange rate then fluctuated around LBP 93,000 per USD 1 for 10 days and closed the month at LBP 89,300. Supermarket dollarized prices should decrease in line with rate fluctuations because they are adjusted on a regular basis in line with the parallel exchange rate.⁵

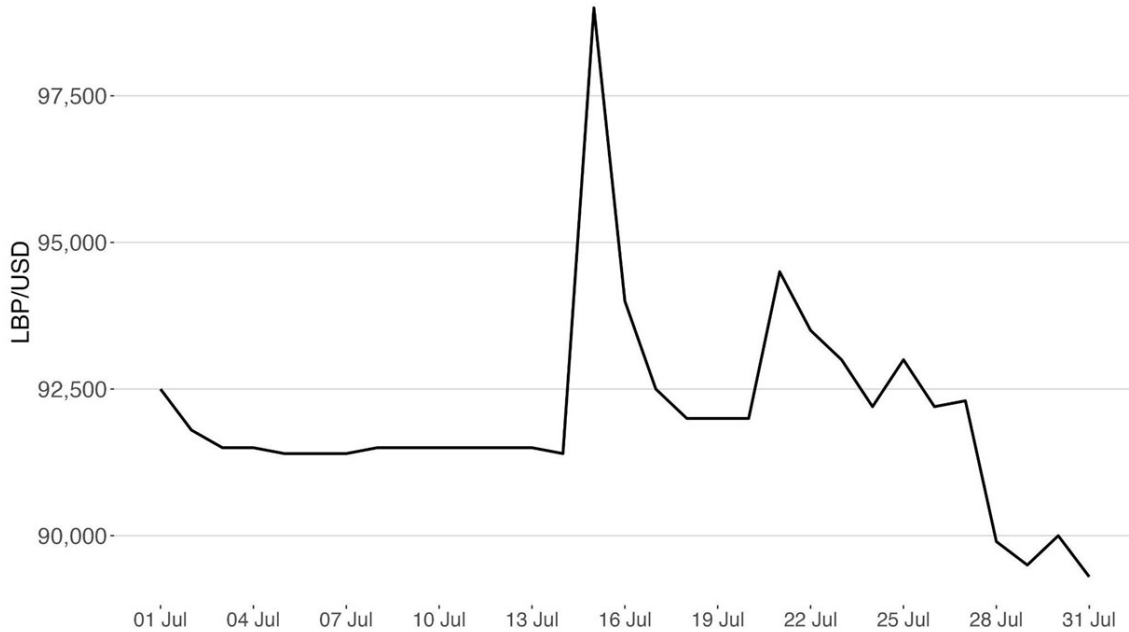


Figure 3: LBP/USD Parallel Market Exchange Rate.

Local fuel prices increased in July primarily due to a slight rise in Brent crude oil prices. Fuel prices closed the month at LBP 1,712,000 for Octane-95, LBP 1,750,000 for Octane-98, LBP 1,497,000 for diesel, and LBP 842,000 for cooking gas.

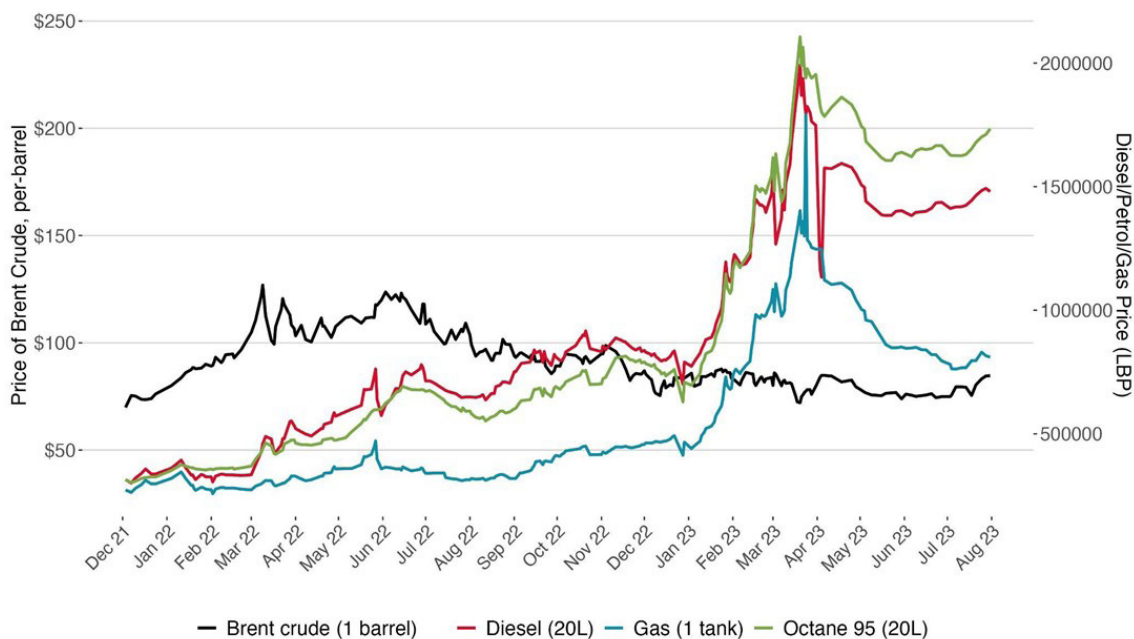


Figure 4: Fuel Prices.

⁵ LBCI, Minister of Economy issues dollar pricing decision, March 2, 2023



On July 17, Caretaker Finance Minister Youssef Khalil submitted a draft state budget to the Council of Ministers. The draft budget levied new taxes on locally produced tobacco and alcohol, travel fees, and private generators, in addition to minor adjustments to income tax brackets.⁶ In early 2023, the IMF stressed the need to swiftly implement both measures to shore up state revenue collection.⁷ Moreover, it increased the tax on obligatory car mechanic checkup fees, registration fees, and driver license fees. Despite an increase in projected revenues, expenditures also increased compared to the 2022 Budget Law. According to projections, the proposed 2023 budget would result in an LBP 34,184 billion deficit, equivalent to approximately 18.79% of total expenditures.⁸

In response to several “depositor raids”, the Association of Banks in Lebanon (ABL) announced on July 20 that it would “return to precautionary and strict measures”. ABL did not specify what the measures would entail, but noted that commercial banks will be operating at minimum capacity at specific branches, while others may close for an undisclosed amount of time, during which ATMs would operate at limited capacity.⁹ The ABL announcement follows multiple depositor raids, including an incident in which an individual held up a branch of Credit Bank in Chhim with a hand grenade on July 18 and eventually received their deposit.¹⁰ Separately, two depositors threatened staff at a Byblos Bank branch in Sin El Fil on July 20,¹¹ and a depositor held up a branch of BBAC in Hemmana on July 21.

Analysis and Impact:

From April 2023 through the first half of July, Central Bank foreign asset reserves were relatively stable in comparison to the two years prior, over which period reserves steadily decreased at an unsustainable rate. Parallel market stability through early July stemmed in large part from the Central Bank purchasing USD from the market and re-distributing it via Sayrafa. The swift drop in foreign assets by the end of July, in combination with eliminating approximately one-quarter of the LBP in circulation, suggests that the Central Bank used foreign reserves to heavily finance Sayrafa transactions as opposed to supplying USD for the platform using other sources, such as buying from currency traders.

The new acting Central Bank governor’s reported proposal for “floating” the LBP could free the Central Bank from needing to intervene in currency markets to maintain the exchange rate. While existing beneficiaries are able to take advantage of Sayrafa under the new Central Bank regime, limiting new subscriptions could shrink the volume of transactions and hence the impact of the platform on the parallel market exchange rate. Nevertheless, it is still the only official platform on which one can exchange currency, in addition to being a prominent exchange channel for the formal economy and aid actors in Lebanon as well as a source of USD cash for public employees whose salaries are denominated in LBP. Sayrafa restrictions, particularly if expanded in absence of other open and official money exchange channels, would tighten humanitarian sector exchange options for tax finances and procurement, specifically when conducting exchanges of large amounts of USD to LBP.

⁶ The first bracket now includes salaries below LBP 70 million per year, while the last include salaries exceeding LBP 2.44 billion per year.

⁷ IMF, [Lebanon: Technical Assistance Report on Putting Tax Policy Back on Track](#), January 13, 2023.

⁸ L’Orient Today, [Budget 2023: What’s on the menu this year?](#), July 19, 2023.

⁹ L’Orient Today, [ABL announces ‘precautionary measures’ following return of bank hold-ups](#), July 20, 2023.

¹⁰ NNA, [الوكالة الوطنية للإعلام - انتهاء اقتحام المصرف في شحيم والمودع يسلم نفسه للقوى الأمنية](#), July 18, 2023.

¹¹ NNA, [الوكالة الوطنية للإعلام - Two depositors storm Byblos Bank branch in Sin el Fil](#), July 20, 2023.



When the volume of transactions on the Sayrafa platform decreases, it causes the difference between the Sayrafa rate and the parallel market rate to increase. This, in turn, results in losses for large exchange operations that rely on the platform to pay taxes or withdraw direct cash support in the national currency.

| Date | August 4, 2023 | February 28, 2023 |
|---------------------------------------|----------------------|----------------------|
| Parallel Market LBP/USD Exchange Rate | LBP 89,500 per USD 1 | LBP 87,522 per USD 1 |
| Sayrafa Rate (on the same date) | LBP 85,500 per USD 1 | LBP 45,400 per USD 1 |
| Rate Difference in LBP | LBP 4,000 per USD 1 | LBP 42,122 per USD 1 |
| Rate Difference in Percentage | 4.47 % | 48 % |

Table 1: Value Losses Upon Sayrafa Exchange.

The widest gap between the Sayrafa and parallel market exchange rates was recorded on February 28. Any amount of USD exchanged on the only legal official platform on that date lost about half (48%) of its value. While future policies on the official exchange platform(s) and possibly floating the exchange rate remain open questions, it is worthwhile to consider the effects that previous parallel market depreciation has had in relation to “official” rates. If a similar scenario were to unfold again, NGOs, aid actors, and businesses would run the risk of losing value on USD transactions conducted on state-sanctioned platforms.



Photo by REUTERS

Political Updates:

Heavy fighting in the Ein el Hilweh Palestinian refugee camp forced thousands of people to flee over the course of a nearly week-long battle. On July 29, fighting broke out between the Islamist Al Shabab and Jund Al Sham groups with Fatah at the largest Palestinian refugee camp in Lebanon, home to some 60,000 Palestinian refugees. Clashes broke out following the attempted assassination of a leading member of Al Shabab¹² and the subsequent deadly ambush of Fatah security official Abou Sharaf al Armoushi and his bodyguards.¹³ Fighting intensified thereafter, resulting in over 10 deaths, prompting thousands of residents to flee the camp. The United Nations Relief and Works Agency for Palestinian Refugees issued a statement calling on groups to cease fighting and announced that it had halted services in the camp until further notice.¹⁴ Save the Children estimates that some 20,000 people have been displaced, 12,000 of whom are children.¹⁵

Tensions remained high between Hezbollah and Israel along Lebanon's southern border. Two concurrent developments in late June and early July were behind the cross-border friction, namely the construction of a barrier around the northern half of the village of Ghajar¹⁶ and Hezbollah erecting tents along a disputed section of the Blue Line. Diplomatic efforts were exerted throughout July to ease tensions, though a string of violent events occurred along the border throughout the month, including Israeli forces tear gassing a group of journalists interviewing MP Qassem Hachem as they passed near the Blue Line on July 15. Days later, on June 20, residents of Kfar Chouba used a bulldozer to open a road that was closed by Israeli construction work along the border. As residents approached the border, Israeli forces launched smoke bombs at them, prompting an intervention by the Lebanese Armed Forces and the United Nations Interim Force in Lebanon.¹⁷

¹² NNA, [الوكالة الوطنية للإعلام - توتر في مخيم عين الحلوة أثر محاولة اغتيال ناشط إسلامي](#), July 29, 2023.

¹³ NNA, [الوكالة الوطنية للإعلام - تسارع ذروة الاشتباكات في عين الحلوة بعد مقتل العرموشي ومرافقيه وجرح جندي من الجيش](#), July 30, 2023.

¹⁴ UNRWA, [Ongoing armed violence in southern Lebanon refugee camp leaves 11 killed and dozens injured among Palestine Refugees](#), July 31, 2023.

¹⁵ Save the Children Press Release, [Lebanon: At least 12,000 children displaced in Ein el-Hilweh camp as violence enters its fifth day](#), August 3, 2023.

¹⁶ Ghajar is a village located along the Lebanese-Israeli frontier, which was first occupied by Israeli forces in 1967 and officially annexed in 1981. After the Israelis withdrew from Lebanon in 2000, Ghajar's northern half remained a part of Lebanon, separated by a fence from the Israeli occupied part. During the 2006 Lebanon War, Israel took control of the northern half of the village.

¹⁷ NNA, [الوكالة الوطنية للإعلام - توتر شديد بين الجيش وقوات الاحتلال على محور بلدة كفرشوبا بعد إطلاقها قنابل دخانية باتجاه أهالي البلدة](#), July 20, 2023.



The European Parliament passed a resolution asserting that Syrian refugees cannot safely return to their home country, drawing criticism from multiple Lebanese political parties.

The 16-point document addresses delays in the presidential election, the breakdown in essential services, food security, and the continued presence of refugees in Lebanon.¹⁸ The 13th point of the resolution, which asserts that “the conditions are not met for the voluntary, dignified return of refugees in conflict-prone areas in Syria” drew condemnation from parties across the Lebanese political spectrum. The resolution also called on the EU to send an administrative advisory mission to support and draw up a plan for reviving Lebanon’s crumbling essential services, in addition to calling for the European Public Prosecutor’s Office to investigate suspected misuse of waste management programs funded by the EU. Additionally, the European Parliament highlighted delays in the Beirut Port explosion investigation and proposed that sanctions be imposed on entities which impede legal inquiries and electoral processes.

French Minister for Europe and Foreign Affairs Jean-Yves Le Drian paid an official visit to Lebanon, where he met with multiple parties concerning the presidential deadlock.¹⁹

Le Drian’s visit from July 25 to July 27 was preceded by a July 17 meeting in Doha, at which Saudi Arabia, Qatar, the United States, and Egypt offered their support for Le Drian’s plan to revive consultations over electing Lebanon’s next president. Negotiations over electing Lebanon’s next head of state are expected to begin in September. Le Drian suggested that discussions should exclusively focus on determining the profile of each faction’s preferred candidate and securing parties’ commitments to participate in forthcoming presidential electoral sessions.²⁰

Central Bank Governor Riad Salameh appeared for questioning before an investigative judge, reportedly in connection with alleged forgery, money laundering, illicit enrichment, and tax evasion.

On July 12, Salameh answered questions posed by Investigative Judge Abou Samra in Beirut and appeared again at a separate hearing on July 18.²¹ Following the second round of questioning, Abou Samra initially decided to postpone his probe into Riad Salameh, pending the questioning of witnesses from the banking sector.²² Judge Helena Iskandar, the head of the Legal Department at the Ministry of Justice, contested the decision and submitted a request to Abou Samra asking him to continue his investigation of Salameh without waiting to question other witnesses.²³

¹⁸ European Parliament, [JOINT MOTION FOR A RESOLUTION on the situation in Lebanon | RC-B9-0323/2023 | European Parliament](#), July 11, 2023.

¹⁹ NNA, [الوكالة الوطنية للإعلام - French Foreign Ministry: Le Drian's visit seeks consensus over Lebanese presidency](#), July 24, 2023.

²⁰ L'Orient Today, [Le Drian shifts approach to ending deadlock on Lebanese presidency](#), July 27 2023.

²¹ L'Orient Today, [Salameh hearing postponed to July 18](#), July 12, 2023.

²² L'Orient Today, [Salameh questioned in Beirut in second corruption hearing](#), July 18, 2023.

²³ L'Orient Today, [Raja Salameh and Marianne Hoayek's hearing postponed due to power cut](#), July 25, 2023.



Access to Services:

On July 24, the National Social Security Fund (NSSF) union announced its intention to go on strike. The statement outlined NSSF employees' demands for better working conditions, higher wages, expanded health coverage, and education stipends. The union's executive council announced that if the NSSF board of directors fail to comply with the listed demands, employees would only work on Tuesdays and Wednesdays as of August 1.²⁴ As wages of civil servants are still paid in LBP, other administrative bodies are likely to follow suit, crippling administrative and executive processes.

²⁴ NNA, [الوكالة الوطنية للإعلام - مستخدمو الضمان: التوقف عن العمل الخميس كخطوة تصعيدية](#), July 14, 2023.

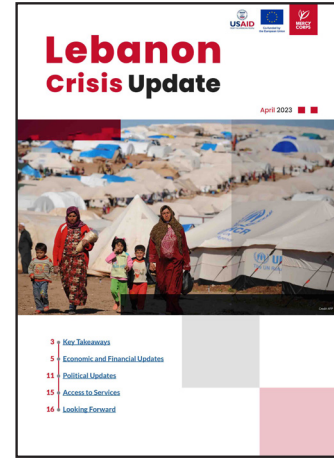
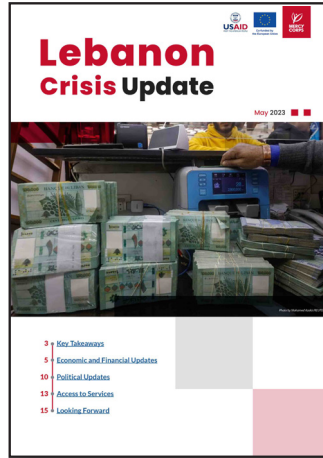
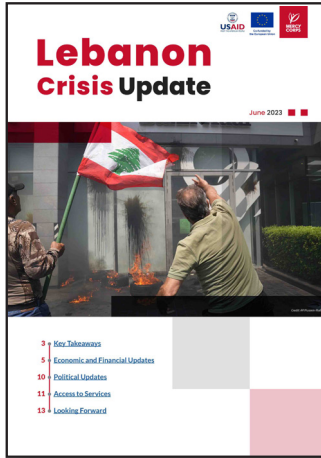


Looking Forward:

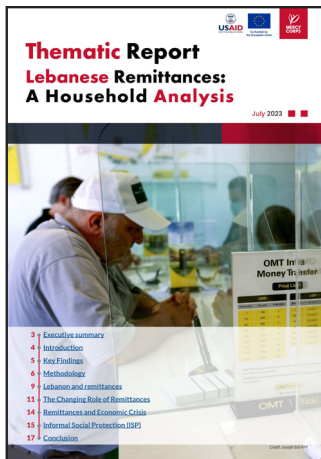
- Reduced working days by NSSF staff will likely negatively affect social security beneficiaries, causing delays in issuing payments and insurance claims. Workers at other administrative bodies may follow suit, causing further disruptions and delays in administrative and executive processes.
- Based on his recent public statements, acting Central Bank Governor Wassim Mansouri is seeking a closer working relationship with the government and parliament. While this will ensure that “representative institutions” play a greater role in formulating and implementing monetary policy, such a move would also “spread out” responsibility for using what remains of Central Bank foreign asset reserves. This pronounced policy change is a marked departure from Mansouri’s predecessor, who appeared to expend considerable FX to maintain LBP exchange stability in his final month.
- Heavy fighting in Ein el Hilweh risks further escalation, possibly beyond the confines of the camp itself, with experts fearing that combatants are acting as proxies for opposing interests in Lebanon. The clashes are putting the lives of about 60,000 Palestinian refugees in jeopardy, in a camp where residents already suffer from poverty and other vulnerabilities. Thousands of camp residents have sought safety from the clashes outside the camp itself, meaning relevant aid actors must intervene to offer support, particularly shelter and medical facilities.
- If Sayrafa usage and volumes are curtailed further in the absence of another tool to inject USD into the market, it would likely lead to severe LBP depreciation and greater demand for USD. While this outcome is not expected in the near term, aid actors and NGOs should consider how such a scenario would affect Lebanon’s most vulnerable residents with limited access to USD and deteriorating LBP salaries, in addition to aid and NGO operations. Most humanitarian organizations continue to rely on Sayrafa to conduct large exchange operations required for tax payments to the Ministry of Finance and procurement transactions in LBP. To ensure aid delivery continuity and sound financial and tax management, institutions should consider alternative exchange options.



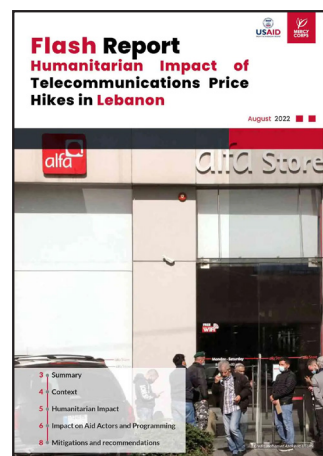
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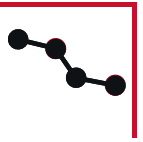


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