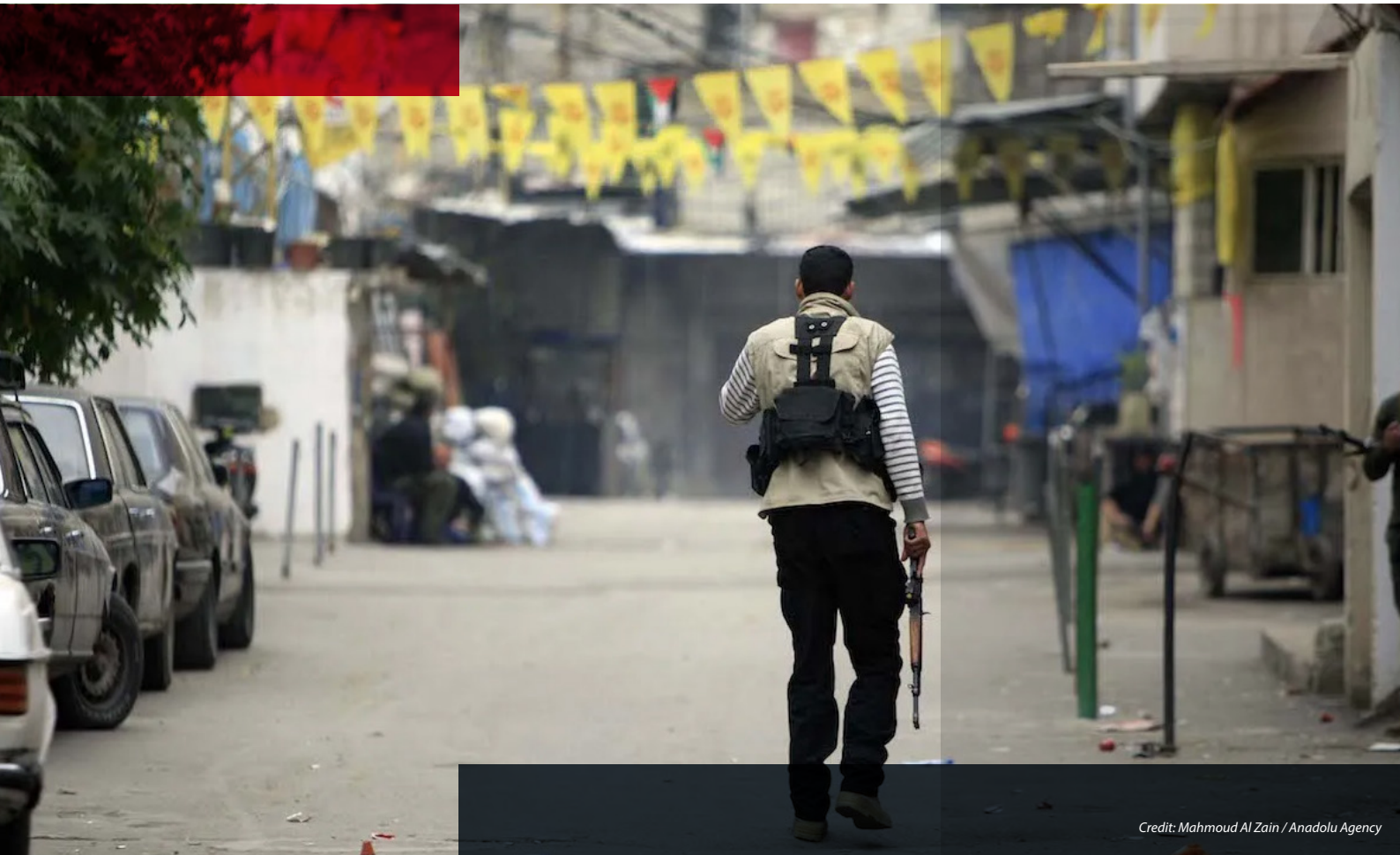


# Lebanon Crisis Update

September 2023 ■ ■



*Credit: Mahmoud Al Zain / Anadolu Agency*

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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:

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- The caretaker cabinet submitted its final version of the 2023 draft budget to parliament and continued its review of the 2024 draft budget in September. The latest version of the 2024 draft budget includes a value-added tax increase from 11% to 12% and introduces US dollar (USD)-denominated payments for state bills, tariffs, and taxes. These would constitute the first official USD transactions between residents and the Lebanese state.
- Efforts to elect a new president are gridlocked as Parliament Speaker Nabih Berri's proposal for a dialogue and subsequent electoral sessions in parliament were rejected by the Lebanese Forces and Kataeb. Both argue that it is unconstitutional for a dialogue to be a prerequisite for participating in electoral sessions. French envoy to Lebanon and ex-Minister for Europe and Foreign Affairs Jean-Yves Le Drian has warned Lebanon that it risks isolation from the international community if a president is not elected soon.
- Tensions along the Lebanese-Israeli border mounted in recent weeks, with two notable incidents reported on September 23 and September 27, when the Lebanese Armed Forces (LAF) and Israeli military deployed smoke bombs in Bastra and the Shebaa Farms. These incidents occurred shortly after a tripartite meeting between representatives of the United Nations Interim Force in Lebanon, the LAF, and the Israeli military to discuss 13 "points of contention" along the shared border.
- One week of heavy fighting between Islamists factions and Fatah in the Ain el Hilweh Palestinian Refugee camp ended when a ceasefire agreement was reached on September 14. Eighteen people were killed in the fighting and 2,550 camp residents were displaced. Damage to, and militants' occupation of, the United Nations Relief and Works Agency-administered schools has delayed the start of the school year for 11,000 students.
- The Ministry of Energy and Water announced that subscribers are now able to settle Électricité du Liban (EdL) bills either in Lebanese pounds (LBP) or USD at an exchange rate of approximately LBP 104,000. The measure should incentivize bill payment in USD, which will help fund EdL maintenance and fuel purchases. EdL also announced that it will cut off electricity to public institutions that do not pay outstanding bills and increase electricity provision to Beirut neighborhoods with fewer than a 10% "network violation rate" as of October 1.



# 2023

## SEPTEMBER

The caretaker cabinet sends the 2023 draft budget to parliament for approval.

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7

Heavy fighting breaks out at the Ain el Hilweh Palestinian refugee camp.

French Envoy and ex-Minister for Europe and Foreign Affairs Jean-Yves Le Drian arrives in Beirut.

11



14



A ceasefire agreement is reached in Ain el Hilweh after 18 people are killed in one week of fighting.

Wildfires engulf 25 hectares of forest in Akkar.

15



20



Qatar's envoy to Lebanon Abu Fahd Jassem al-Thani arrives in Beirut, where he meets with politicians to discuss the nomination of a "consensus" presidential candidate.

The Ministry of Energy and Water announces that Électricité du Liban (EdL) subscribers are able to settle bills in either Lebanese pounds or US dollars.

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EdL announces that it will cut off electricity to public institutions which have outstanding bills to the state electricity provider.

The Joint Palestinian Security Force deploys in Ain el Hilweh.

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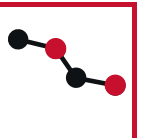


Photo by Joseph Eid/AFP

## Economic Updates:

**Inflation spiked in late summer, continuing a trend of increasing consumer prices since early 2023.** As figure 1 shows, food components of the Consumer Price Index (CPI) have risen most dramatically, doubling since January 2023. Since the summer, healthcare has seen the largest increase in price, followed by food. CPI components that increased the most since the beginning of summer (June 2023) are healthcare (24%), food and non-alcoholic beverages (7.6%), new rent (6.1%), owner occupied homes (5.9%), and transportation (5.8%).

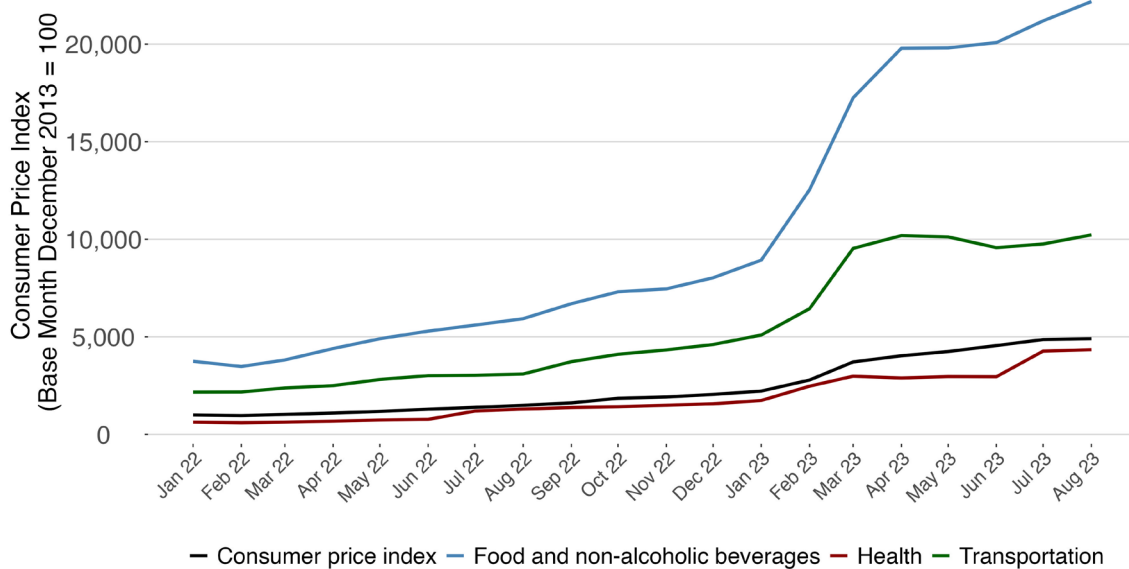


Figure 1: Consumer Price Index (CPI).



**Fuel prices increased in September, largely due to recent oil supply cuts.** Fuel prices closed the month at 1,832,000 Lebanese pounds (LBP) for octane-95, LBP 1,870,000 for octane-98, LBP 1,773,000 for diesel, and LBP 954,000 for cooking gas.

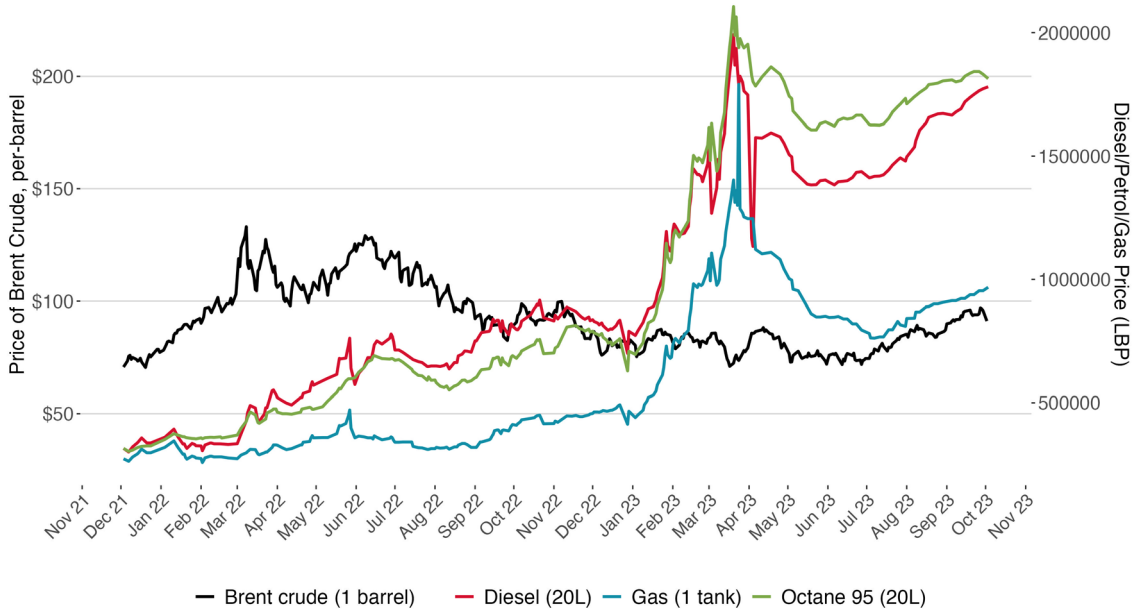


Figure 2: Fuel Prices.

**LBP money supply in circulation (M0) decreased by LBP 450 billion in the first half of September.** This marks the third consecutive month of contractionary policy, and the second since acting Central Bank Governor Wassim Mansouri assumed his new position in late July. Central Bank foreign assets increased by LBP 1 trillion, equivalent to 66 million US dollars (USD) at the official Central Bank exchange rate (LBP 15,000 per USD 1).

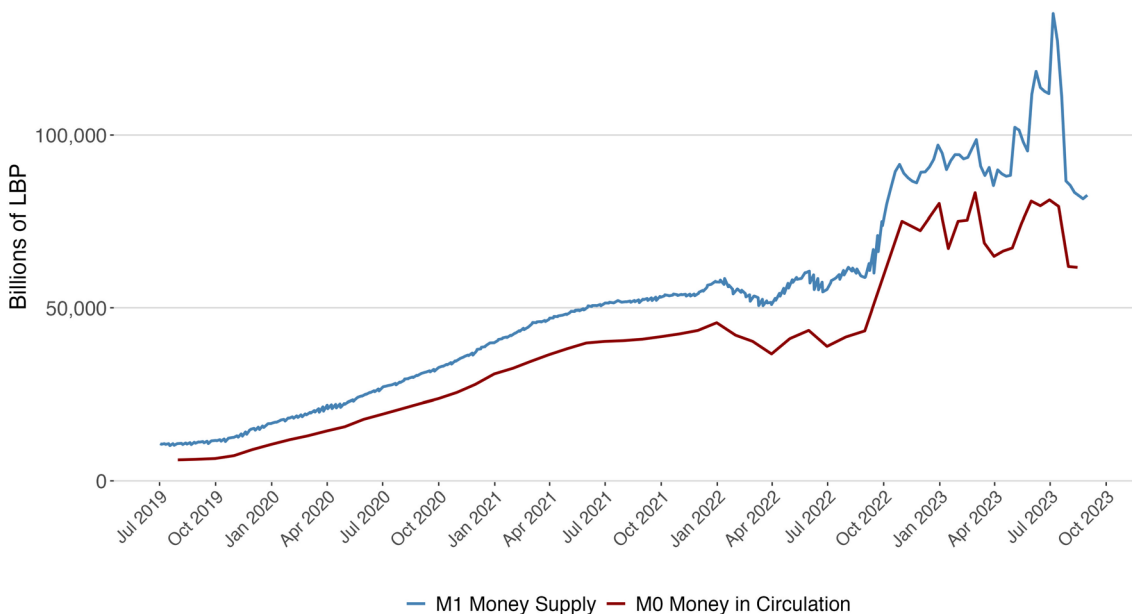


Figure 3: LBP Money Supply.



**On September 7, Minister of Information Ziad Makary announced that cabinet ministers agreed to sanction the implementation of an official Bloomberg-administered foreign exchange platform.**<sup>1</sup> The platform rollout will be completed once the cabinet issues an official decree. Acting Central Bank Governor Mansouri limited access to the current official foreign currency exchange platform “Sayrafa” in August, his first full month of tenure, by barring most entities (individuals and businesses) not already using the platform from accessing it. The Central Bank stopped releasing detailed information about daily transactions on the platform on July 31.

**The caretaker cabinet resumed its review of the 2024 budget draft after forwarding the 2023 draft budget to the parliament on September 7.**<sup>2</sup> Members of parliament noted that the deadline for approving the 2023 budget law passed in August and called on the government to approve both draft budgets ahead of parliament sessions scheduled for the second half of October.<sup>3</sup> In the latest version of the 2024 draft budget, VAT increases from 11% to 12% and state bills and tariffs are paid in USD, including Électricité du Liban (EdL) bills, import customs, and traveler fees. The draft budget requires that the government collect capital income tax in USD, as well as taxes from Casino du Liban and companies contracted to explore for and extract offshore natural gas. These moves are the first such “de-jure” dollarized payments in Lebanon,<sup>4</sup> entailing USD cash transactions from citizens and the private sector to the state.

Notably, the 2024 draft budget does not allocate funding to state construction projects, including for buildings housing public administrative offices, civil service centers, and public schools. The cabinet suggested that these construction projects be delayed until 2025 to reduce the short-term budget deficit, in line with requirements outlined in the International Monetary Fund (IMF) Staff Level Agreement. While construction entails a near-term rise in costs, the current practice of renting buildings for state use requires expenditures in both the near and medium term.

## Analysis and Impact:

Lebanon is well down the path of officially embracing dollarization. At the fiscal policy level, provisions of the 2024 draft budget confirm months of reports that the state will attempt to bolster fiscal revenues by dollarizing taxes and bill collection. Assuming the 2024 budget is passed in its current form (or near to its current form), it would bring Lebanon one step closer to de-jure dollarization, a practice set in motion in late 2022 by indexing taxes, telecom fees, EdL bills, and customs fees to USD based on the Sayrafa exchange rate, which is inching closer to the parallel market rate. Recent EdL bills are calculated at an exchange rate of “Sayrafa+20%”, which is equivalent to LBP 104,000 per USD 1, 17% higher (from the perspective of LBP earners) than the parallel market exchange rate.<sup>5</sup> Following a recent decision by the Ministry of Justice (see Access to Services), subscribers will soon be able to settle their EdL bills in either LBP or USD, a further manifestation of dollarization.<sup>6 7</sup>

<sup>1</sup> Second [Government Cabinet meeting](#) on September 7 2023.

<sup>2</sup> First [Government Cabinet Meeting](#) on September 7 2023.

<sup>3</sup> L'Orient Today, [Kick-off for the 2024 budget, green light for Sayrafa's succession](#) September 7, 2023.

<sup>4</sup> See LCAT's forthcoming report on dollarization in Lebanon, scheduled for publication in October.

<sup>5</sup> The EdL rate is calculated using the Sayrafa exchange rate (LBP 86,000 per USD 1) plus 20%.

<sup>6</sup> L'Orient Today, [EDL is trying to dollarize](#) its prices September 2, 2023.

<sup>7</sup> The Ministry of Energy and Water's latest decision regarding EdL electricity bills in USD was approved by the Ministry of Justice.

Ministry of Energy and Water Statement, [موافقة هيئة التشريع والاستشارات في وزارة العدل توافق على إمكانية دفع المواطنين لفواتير الكهرباء بالدولار الأميركي](#) September 27, 2023



Officializing payment dollarization places an additional burden on vulnerable households, specifically those with LBP-denominated income, and many residents are already protesting high energy bills and refusing to pay them in fresh USD or at a rate that surpasses the parallel market exchange rate.<sup>8</sup> Assuming full implementation of dollarized provisions in the 2024 draft budget and continued demand for USD to meet household consumption needs, overall demand for USD could grow substantially, placing pressure on the parallel market exchange rate, which has been relatively stable since March.

Foreign currency inflows from tourism have contributed to temporary parallel market exchange rate stability, alongside a decrease in imports and reduced demand among importers for foreign currency (See Figure 4). Through August 2023, there was a notable 17.7% decrease in the value of imported goods compared to August 2022. Apart from January, all months show a steady decrease in the value of imported goods. Total exports modestly declined, by 1.5% year-on-year, reaching USD 2.38 billion by August 2023. “Fuel and mineral products” are consistently the largest category of imported goods, comprising 27.1% of total imports, followed by “Pearls, precious stones, and metal” with 14%. Notably, the value of imported “Vehicles, aircraft, vessels, transport equipment” dropped by 55.7%, substantially decreasing from USD 1.39 billion to USD 620 million by August 2023. This drop could be attributed to, at least in part, the increase in the customs exchange rate in 2023, as importers stocked up before the exchange rate was adjusted.

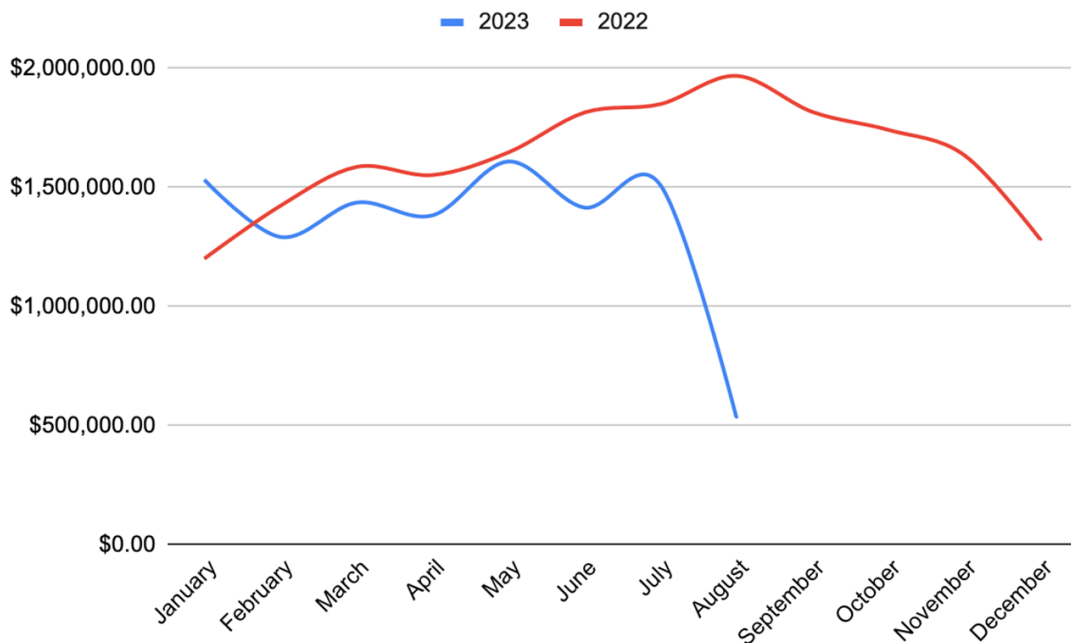


Figure 4: Import Bill in 2023 compared to 2022 (In Thousands).

<sup>8</sup> L NNA, متظاهرون اقتحموا مؤسسة كهرباء لبنان اعتراضاً على الفواتير المرتفعة, September 26, 2023.





## Political Updates:

**Opposition parties rejected calls for a political dialogue ahead of the next round of presidential elections.** Parliament Speaker Nabih Berri announced in late August that he would hold successive electoral sessions if Lebanese political parties agreed to participate in a seven-day dialogue to discuss Lebanon's presidential vacancy.<sup>9</sup> In early October, Berri signaled that the dialogue likely would not go ahead because multiple opposition parties refused to participate. The Lebanese Forces (LF) and Kataeb insist that holding a dialogue as a prerequisite for participating in electoral sessions is unconstitutional.<sup>10</sup> On September 11, French Envoy and ex-Minister for Europe and Foreign Affairs Jean-Yves Le Drian traveled to Lebanon, his third such visit this year. Le Drian stressed that Lebanon is at a critical juncture, risks isolation from the international community, and warned that those responsible for impeding the election process could be held accountable.<sup>11</sup> On September 20, the "five-nation group" (the United States, France, Qatar, Egypt, and Saudi Arabia) met in New York during the United Nations General Assembly to discuss Lebanon's presidential vacuum. On the same day, Qatar's envoy to Lebanon Abu Fahd Jassem al-Thani arrived in Beirut to meet with different political factions and discuss a possible consensus candidate to end the presidential deadlock.<sup>12</sup>

**Heavy fighting broke out at the Ain el Hilweh Palestinian Refugee camp on September 7.** Fighting raged for nearly one week between Islamist groups (including Jund el Cham and Al Shabab) and Fatah, resulting in 18 deaths, hundreds of injuries, and 2,550 displaced households.<sup>13</sup> The fighting largely subsided on September 14 following a successful round of ceasefire negotiations between Fatah, Hamas, and other factions.<sup>14</sup> The terms of the ceasefire include the surrender of Islamist leader Abdul Rahman Farhoud and individuals accused of assassinating Fatah security official Abou Ashraf al-Armoushi, whose death sparked an initial round of fighting in July.<sup>15</sup>

<sup>9</sup> NNA, [يري في الذكرى الـ 45 لتغيب الصدر ورفيقه: تعالوا الى حوار في ايلول لـ 7 أيام ثم نذهب الى جلسات مفتوحة لاحتفال بانتخاب رئيس للجمهورية](#), August 31, 2023.

<sup>10</sup> L'Orient Today, [Berri: I did my part and proposed the dialogue, but they rejected it](#) September 26, 2023.

<sup>11</sup> L'Orient Today, [Le Drian on Lebanon crisis: Fix presidential deadlock or 'be ostracized'](#) September 26, 2023.

<sup>12</sup> L'Orient Today, [Riyadh helps Le Drian initiate the 'third option' transition](#) September 29, 2023.

<sup>13</sup> UNRWA, [Report #11 on the situation in Ein el Hilweh camp, Lebanon-UNRWA-OCHA Joint Sit-Rep](#) September 27, 2023.

<sup>14</sup> UNRWA, [Report #10 on the situation in Ein el Hilweh camp, Lebanon-UNRWA-OCHA Joint Sit-Rep](#) September 19, 2023.

<sup>15</sup> L'Orient Today, [Ain al-Hilweh ceasefire ends, at least 7 dead](#) September 13, 2023.



Under the terms of the ceasefire, the “Joint Palestinian Security Force” – comprising personnel from different Palestinian political factions including Fatah and Hamas – was deployed on September 25. Militants also withdrew from their positions at schools administered by the United Nations Relief and Works Agency (UNRWA) on September 29.<sup>16</sup> The school year for children enrolled at Ain el Hilweh education centers has been postponed, affecting about 11,000 students.<sup>17 18</sup>

**Tensions simmered along Lebanon’s southern border in late October following multiple non-lethal exchanges between the Lebanese Armed Forces (LAF) and Israeli military.** On September 23, the LAF launched teargas as Israeli forces deployed near Bastra.<sup>19</sup> According to the LAF, Israeli forces violated the Blue line – a temporary UN observed demarcation along the Israeli-Lebanese frontier – and LAF soldiers set off smoke bombs while they were escorting a bulldozer to remove Israeli-constructed earthen barriers. A similar event ensued on September 27, when an LAF patrol accompanied workers to remove structures erected by Israeli forces on the northern side of the Blue Line, leading to another non-lethal exchange.<sup>20</sup> These incidents occurred on the heels of a tripartite meeting between representatives of the United Nations Interim Force in Lebanon, LAF, and Israeli military to discuss 13 “points of contention” along the shared frontier on September 12.<sup>21</sup>

**Members of over 30 nongovernmental organizations participating in a “Freedoms March” were attacked in downtown Beirut.** According to organizers, the September 30 demonstration was organized to protest the “accelerating crackdown on civil liberties, including freedom of speech, thought, religion, assembly.” Originally slated to begin in Riad Al Solh square in downtown Beirut and proceed to the Ministry of Interior and Municipalities, the march came to a halt when counter protesters attacked Freedoms March participants.<sup>22 23</sup> Counter-protesters mobilized under the banner of “protect your family” and stated that they aim to protect “correct” family and moral values, including by opposing legalized homosexuality and countering the influence of “unnatural phenomena”. Counterprotesters chanted anti-LGBTQ+ slogans at the Freedoms March crowd and physically assaulted some individuals. Three people were reportedly injured in the ensuing violence.<sup>24</sup> The Internal Security Forces and anti-riot police intervened to escort Freedoms March participants away from the area.<sup>25</sup>

<sup>16</sup> L’Orient Today, [Joint force deploys to UNRWA schools in Ain al-Hilweh, rival fighters exit premises](#) September 29, 2023.

<sup>17</sup> NNA, [هيئة العمل المشترك الفلسطيني: إخلاء المدارس الأونروا في عين الحلوة الجمعة](#) September 26, 2023.

<sup>18</sup> NNA, [الأونروا أعلنت بدء العام الدراسي في مدارسها وتأجيله في صيدا بسبب الاوضاع في عين الحلوة](#) September 26, 2023.

<sup>19</sup> Lebanese Army Statement, [خرق خط الانسحاب وإطلاق قنابل دخانية باتجاه دورية للجيش اللبناني في منطقة بسطرة- الجنوب](#) September 23, 2023.

<sup>20</sup> L’Orient Today, [Lebanese Army says it exchanged smoke-bomb fire with Israel](#) September 27, 2023.

<sup>21</sup> Lebanese Army Statement, [الاجتماع الثلاثي في الناقورة لمناقشة النقاط 13 المتحفظ عليها | الموقع الرسمي للجيش اللبناني](#) September 13, 2023.

<sup>22</sup> NNA, [مواجهات في ساحتي الشهداء ورياض الصلح بين مشاركين ب”مسيرة الحريات” وشبان حاولوا منعهم من التقدم](#) September 30, 2023.

<sup>23</sup> Megaphone News, [In a minute with Nahida Khalil, on the March for Freedoms taking place next Saturday](#) September 28, 2023.

<sup>24</sup> Annahar, [ترقب وجمود ومراوحة عند نقطة الصفر! | النهار](#) October 01, 2023.

<sup>25</sup> NNA, [مواجهات في ساحتي الشهداء ورياض الصلح بين مشاركين ب”مسيرة الحريات” وشبان حاولوا منعهم من التقدم](#) September 30, 2023.



Photo by Hussein Malla/AP

## Environmental Updates:

**Raging wildfires in Akkar burned through almost 25 hectares of forest.** Residents in affected areas were evacuated on September 15 due to the severity of the smoke and the risk of the fire engulfing houses. The wildfires were brought under control by the Civil Defense, residents in the area, and the LAF late in the day.<sup>26</sup> Other fires erupted in Akkar on September 30, but were brought under control by the Civil Defense.<sup>27</sup> A similar fire in Kherbet Bisri, Chouf burned dozens of hectares of land.<sup>28</sup> Uncontrolled wildfires affect the habitat of wildlife in Lebanon, most notably Greek Tortoises in Akkar, which are under the threat of extinction.<sup>29</sup>

**On September 18, caretaker Minister of the Environment Nasser Yassine issued a circular to reduce generator emissions.** The circular is based on studies conducted by the Ministry of Environment, the Lebanese University, and the American University of Beirut on the effect generators have on public health and the environment. The ministry now requires generator owners to install exhaust systems of a designated height and requires that generators be positioned a designated distance from residences. The circular also requires large generators, over 200 kilowatts, to use diesel particulate filters, which should improve air quality. The ministry stated that generator owners who violate the circular will be forced to halt operations.<sup>30</sup>

<sup>26</sup> L'Orient Today, [At least 8 wounded, others evacuated as Akkar wildfire approaches homes](#) September 15, 2023.

<sup>27</sup> NNA, [الوكالة الوطنية للإعلام - سلسلة حرائق أخمدها الدفاع المدني في بلدات عكارية](#), September 30, 2023.

<sup>28</sup> L'Orient Today, [Wildfire burns across brush in Chouf village](#) September 14, 2023.

<sup>29</sup> L'Orient Today, [Lebanon's latest, slowest wildfire victims: Tortoises](#) September 25, 2023.

<sup>30</sup> NNA, [تعميم لوزير البيئة عن مواصفات جديدة ملزمة للحد من التلوث الناتج عن المولدات الكهربائية](#), September 18, 2023.



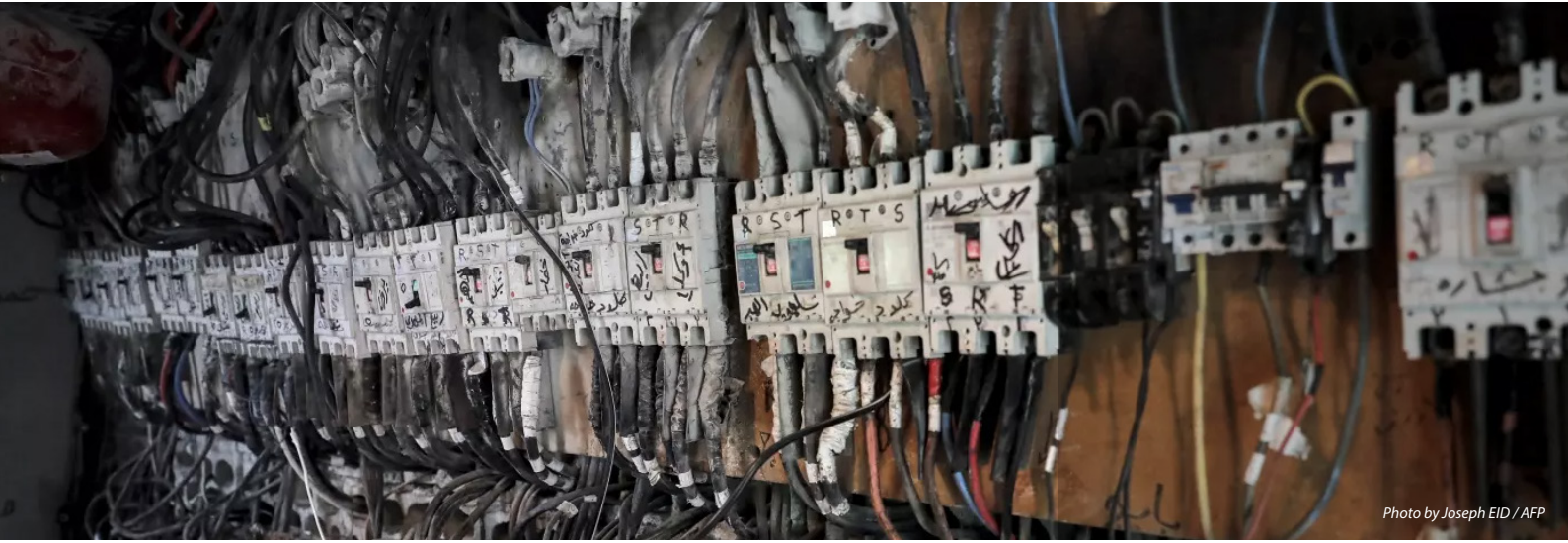
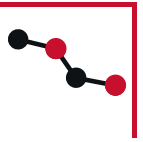


Photo by Joseph EID / AFP

## Access to Services:

On September 27, the Ministry of Energy and Water announced that the Ministry of Justice approved **Électricité du Liban's (EdL) request for consumers to pay either in USD or in LBP**. The new regulations incentivize consumers to pay in dollars because EdL bills are calculated based on an exchange rate of about LBP 104,000, significantly lower (in USD terms) than the parallel market exchange rate of LBP 89,000.<sup>31</sup> Separately, EdL announced on September 25 that it will provide an additional two hours of electricity each day to Beirut neighborhoods<sup>32</sup> with a sub-10% "network violation rate", effective October 1.<sup>33</sup> On September 28, EdL announced that it would cut off electricity to public institutions that do not pay outstanding bills.<sup>34</sup>

<sup>31</sup> Ministry of Energy and Water Statement, [موافقة هيئة التشريع والاستشارات في وزارة العدل توافق على إمكانية دفع المواطنين لفواتير الكهرباء بالدولار الأميركي](#), September 27, 2023.

<sup>32</sup> EdL announced that the following neighborhoods will receive additional electricity provision: Achrafieh, al-Bashura, al-Hikmeh, Karantina, al-Nahr, al-Manara, Commodore, Gemmayzeh, Medawar, Ras Beirut, and Rmeil.

<sup>33</sup> NNA, [مؤسسة "الكهرباء": زيادة التغذية بالتيار اعتبارا من 1 ت 1 للمخارج المكشوف عليها من فرق حملة نزع التعدادات](#), September 25, 2023.

<sup>34</sup> NNA, [EDL says will cut power supply if state institutions fail to pay monthly bills](#), September 28, 2023.



## Looking Forward:

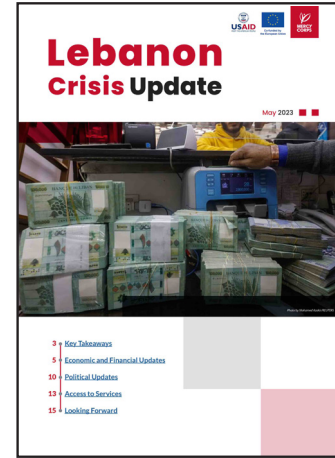
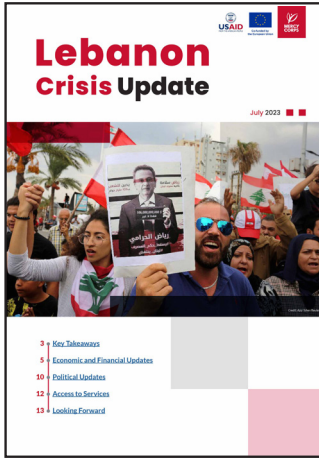
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- The opposition's rejection of Nabih Berri's call for dialogue ahead of another round of electoral parliamentary sessions places the parliament speaker's proposal on ice for the time being. Le Drian's anticipated fourth visit to Lebanon will likely focus on building a consensus around a third candidate, other than Sleiman Frangieh and Jihad Azour. Qatar is also expected to play a more significant role in facilitating discussions among Lebanon's rival political factions and may throw its weight behind a specific candidate. Initiatives by foreign governments could inch things forward, but Lebanon's protracted political stalemate will likely drag on, as political parties appear unwilling to compromise on their preferred candidates, or possibly more important, the deals which undergird the selection of a "consensus" presidential candidate.
- At the macro level, cash inflows during the summer tourism season have contributed to fragile economic stability reflected in the relatively constant exchange rate. However, this USD cash injection has only benefited a narrow layer of businesses, primarily in the tourism and hospitality sectors, with limited penetration in other sectors, meaning that most Lebanese residents have not directly benefited from the trend. In the coming months, increasing demand for USD to supply the imports sector and account for dollarized state taxes and fees will likely apply pressure on the currency market, undermining this fragile stability. Acting Central Bank Governor Mansouri has pledged not to draw on foreign currency reserves to cover the budget, meaning less USD will enter the market via the Central Bank and the government must now assume full responsibility for gathering enough revenues to cover expenditures. The 2024 draft budget estimates that fiscal expenditures will surpass LBP 300 trillion, approximately USD 34 million assuming an LBP-USD exchange rate of LBP 89,000. Since LBP supply is expected to grow alongside greater demand for USD in the medium to long term, it is likely that the parallel market exchange rate and consumer purchasing power will be negatively affected.

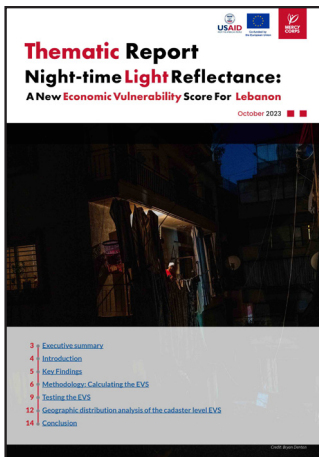




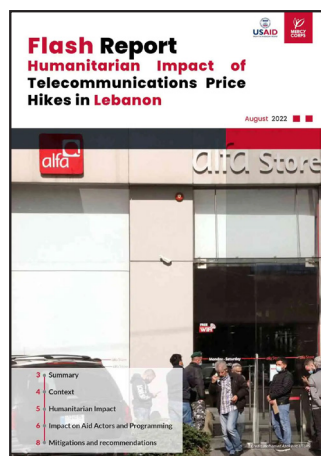
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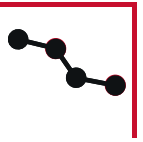


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