

LEBANON

WHAT HAPPENED IN AUGUST?

Prime Minister Mikati and President Aoun restarted consultations on forming a cabinet after a weeks-long pause, but **without a breakthrough**. Meanwhile, the economic crisis deepened. There were hopes of a U.S.-mediated deal to resolve a long-running maritime dispute with Israel.

WHY DOES IT MATTER?

Negotiations to form a new cabinet, which is crucial for carrying out reforms to unlock international financing, are becoming drawn-out. If not resolved, the **maritime dispute could become a flashpoint** between Hezbollah and Israel, and also be politicised in Lebanon.

JULY TRENDS

Tensions rose over the maritime border dispute; Hezbollah accused the U.S. mediator of procrastinating and Israel reportedly deployed **a large military and civilian convoy** near the border. Mikati and Aoun continued to haggle over the formation of the next cabinet.

➡️ 1 ➡️ No breakthrough in talks on new cabinet

Efforts to form a government following the 15 May parliamentary elections made no progress. On 17 August, Mikati and Aoun held a new round of consultations on a new cabinet. Earlier consultations broke off after Mikati's proposal failed to break the deadlock in late June.

The pair reportedly disagree on the allocation of ministries to different sectarian communities. With negotiations becoming prolonged, the **prospect of popular unrest** could rise should no compromise be found and as the economic crisis deepens.

➡️ 2 ➡️ Economic troubles continued to deepen

After intermittent bread shortages triggered fights at bakeries nationwide in July, August saw civil servants conducting open-ended strikes to protest their heavily devalued wages, bringing most state institutions to a standstill.

In mid-August, **pressure on the Lebanese lira rose** again. The exchange rate moved from 31,000 lira to one U.S.-dollar on 10 August, to 34,000 to one on 20 August. Political paralysis continued to delay the passage of reform legislation required to unlock International Monetary Fund (IMF) financial support.

➡️ 3 ➡️ Lebanon and Israel inched toward maritime border deal

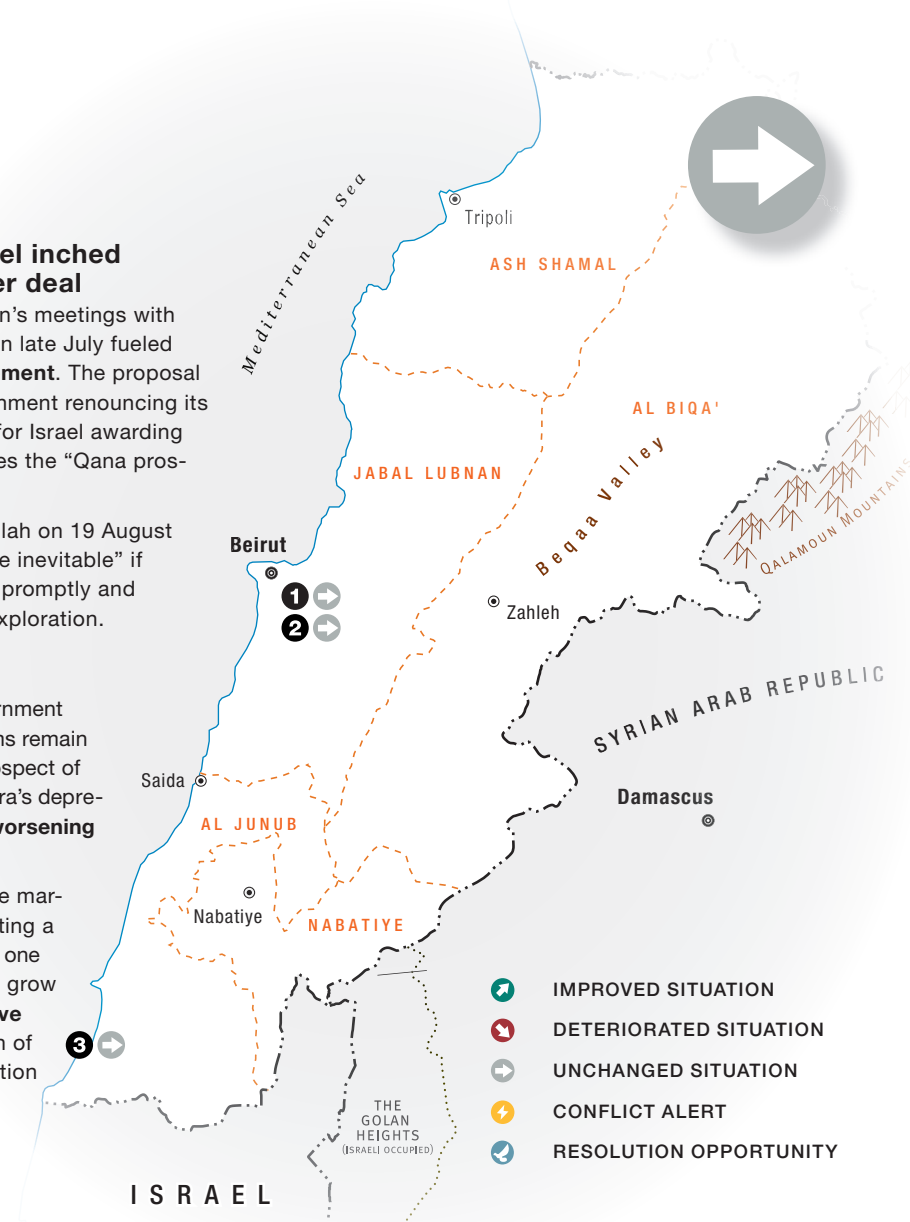
U.S. mediator Amos Hochstein's meetings with Lebanese and Israeli leaders in late July fueled **hopes of a negotiated settlement**. The proposal reportedly includes the government renouncing its expanded claim in exchange for Israel awarding Lebanon a pocket that includes the "Qana prospect" gas deposit.

Hezbollah chief Hassan Nasrallah on 19 August warned that "escalation will be inevitable" if negotiations do not conclude promptly and allow Lebanon to begin gas exploration.

WHAT TO WATCH

The failure to form a new government means crucial economic reforms remain unimplemented, raising the prospect of popular unrest. The Lebanese lira's depreciation will continue to cause **worsening shortages and price hikes**.

Negotiations continue over the maritime deal, with reports suggesting a final agreement is close. Yet if one cannot be reached, the risk will grow of **Hezbollah taking aggressive steps** to deter any resumption of Israeli-sponsored gas exploration at the disputed Karish field.



TRENDS TIMELINE

