

LEBANON

WHAT HAPPENED?

Government and Central Bank representatives concluded virtual talks with the International Monetary Fund (IMF) without a breakthrough. Tensions among security sector branches surfaced, while Hizbollah deployed drones in Israeli airspace, **provoking Israel to deploy jets** over the capital, Beirut.

WHY DOES IT MATTER?

Without an IMF financial package, Lebanon's economic crisis will likely deepen. Tensions between factions of the security sector – exacerbated by political infighting – raises the **spectre of violent clashes**, while mutual provocations between Israel and Hizbollah could trigger a dangerous, albeit inadvertent, escalation.

JANUARY TRENDS

The Lebanese lira's value continued to diminish, **reaching a record low** and prompting the Central Bank to announce a new initiative aimed at currency stabilisation. Shiite parties Hizbollah and Amal **ended their months-long boycott** of cabinet meetings.

1 ➔ No IMF Rescue Package in Sight

Following mid-February discussions with the government and the Central Bank, the IMF noted that “progress was made” in agreeing on necessary reform areas but “more work is needed to translate them into concrete policies”, suggesting **a deal remains some way off**.

The Central Bank continued to stabilise the lira's exchange rate by injecting hundreds of millions of U.S. dollars into the exchange market, further depleting reserves that financial experts warn could run out in the coming three-six months.

2 ➔ Political Infighting Impacts Security Sector

On 15 February, a judge considered close to President Michel Aoun requested that Central Bank Governor Riyadh Salameh be brought in for questioning over fraud allegations. Internal Security Forces (thought to be loyal to former Prime Minister Saad Hariri) reportedly prevented State Security (headed by an Aoun ally) officers from entering the residency where Salameh was present.

The incident raised the prospect of **clashes between security branches** owing to tensions between political leaders.

3 ⚠️ Hizbollah Tests Israel with Drones

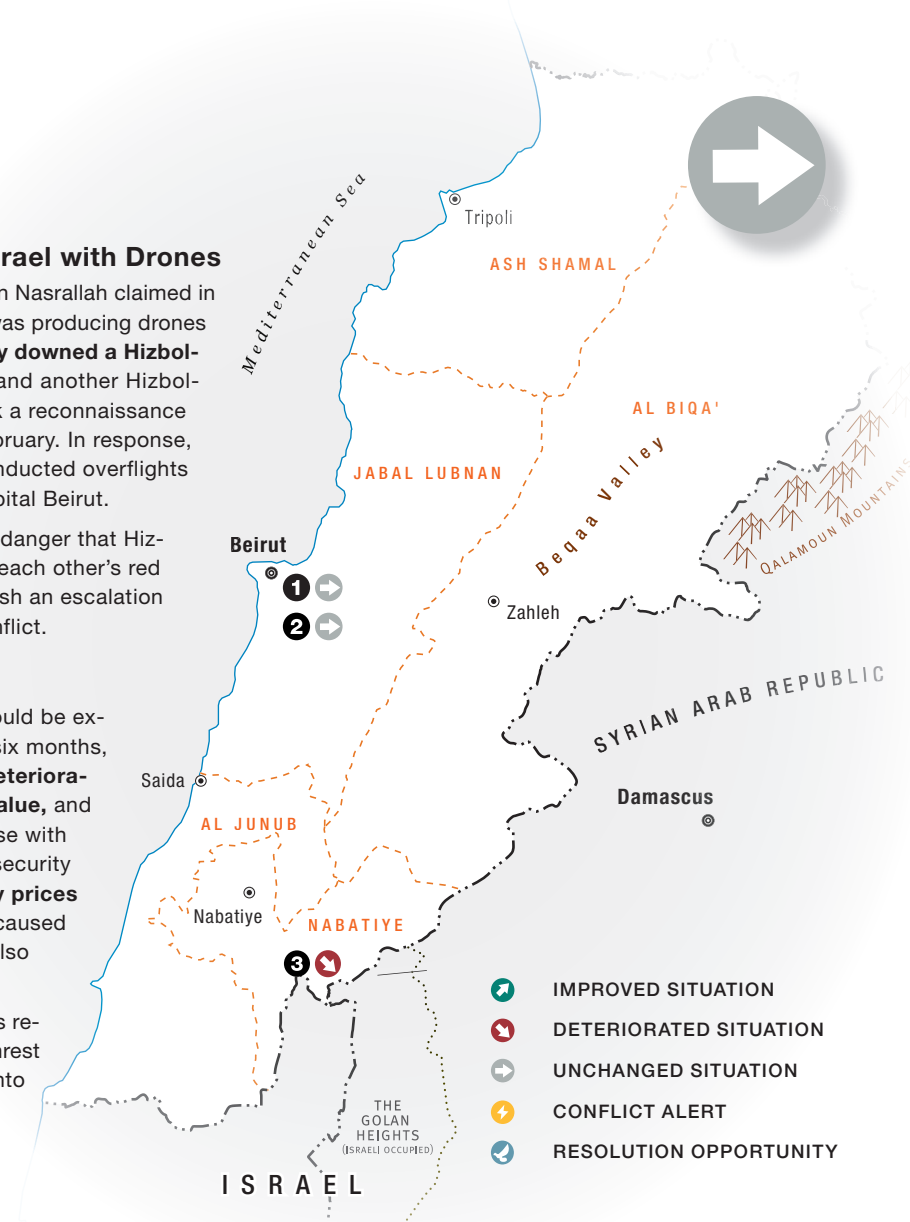
After Hizbollah's leader Hassan Nasrallah claimed in mid-February that the group was producing drones domestically, **Israel reportedly downed a Hizbollah drone** in Israeli airspace and another Hizbollah-operated drone undertook a reconnaissance mission in Israel on 17-18 February. In response, Israeli jets on 19 February conducted overflights and mock raids above the capital Beirut.

The incident underscores the danger that Hizbollah and Israel, by pushing each other's red lines, may inadvertently unleash an escalation that could lead to a larger conflict.

WHAT TO WATCH

Foreign exchange reserves could be exhausted in the coming three-six months, triggering another **massive deterioration of the lira's exchange value**, and further impoverishing Lebanese with lira incomes, not least in the security sector. A **spike in commodity prices** (in particular wheat and fuel) caused by the war in Ukraine would also enhance those dynamics.

The worsening economic crisis remains a significant driver of unrest that has the potential to turn into **deadly violence**.



TRENDS TIMELINE

