

LEBANON

WHAT HAPPENED?

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.

WHY DOES IT MATTER?

Lebanon's economic crisis continued to worsen with critically low foreign reserves. The end of the boycott by Hizbollah and Amal affords the cabinet a chance to meet for the first time in months and adopt urgent measures to address the crisis.

DECEMBER TRENDS

The central bank more than doubled the amount of local currency that depositors can receive for U.S. dollars, **triggering fears of inflation** that sent the lira to record lows. French President Macron sought to mediate Lebanon's diplomatic spat with Gulf states.

1 ➔ Currency Slide Prompts Central Bank Intervention

The Lebanese lira continued to depreciate, as the exchange rate approached a record 34,000 to the U.S. dollar on 11 January. The central bank on the same day announced it would provide banks with unlimited dollars to stabilise the official exchange rate.

The cost of the intervention – estimated at around \$100mn per week – **casts doubt on the scheme's sustainability**, particularly in light of the central bank's critically low foreign reserves.

2 ➔ Hizbollah & Amal End Cabinet Boycott

Hizbollah and Amal ended their cabinet boycott, which began 12 October, citing the need to pass the 2022 budget and advance talks with the International Monetary Fund (IMF). The boycott was aimed at getting Judge Tarik Bitar replaced as head of the Beirut port explosion investigation.

Resuming cabinet sessions may enable the government to take temporary measures ahead of elections scheduled for 15 May to alleviate the economic crisis. Progress with the IMF will be critical over the longer term.

3 ➔ Gulf States Announce Conditions to Restore Relations

The diplomatic spat with Gulf states remained unresolved. In early January, Hizbollah's leader Hassan Nasrallah accused Saudi Arabia of spreading extremist ideology and holding the employment prospects of Lebanese citizens working there "hostage". Prime Minister Mikati disassociated the government from the accusations.

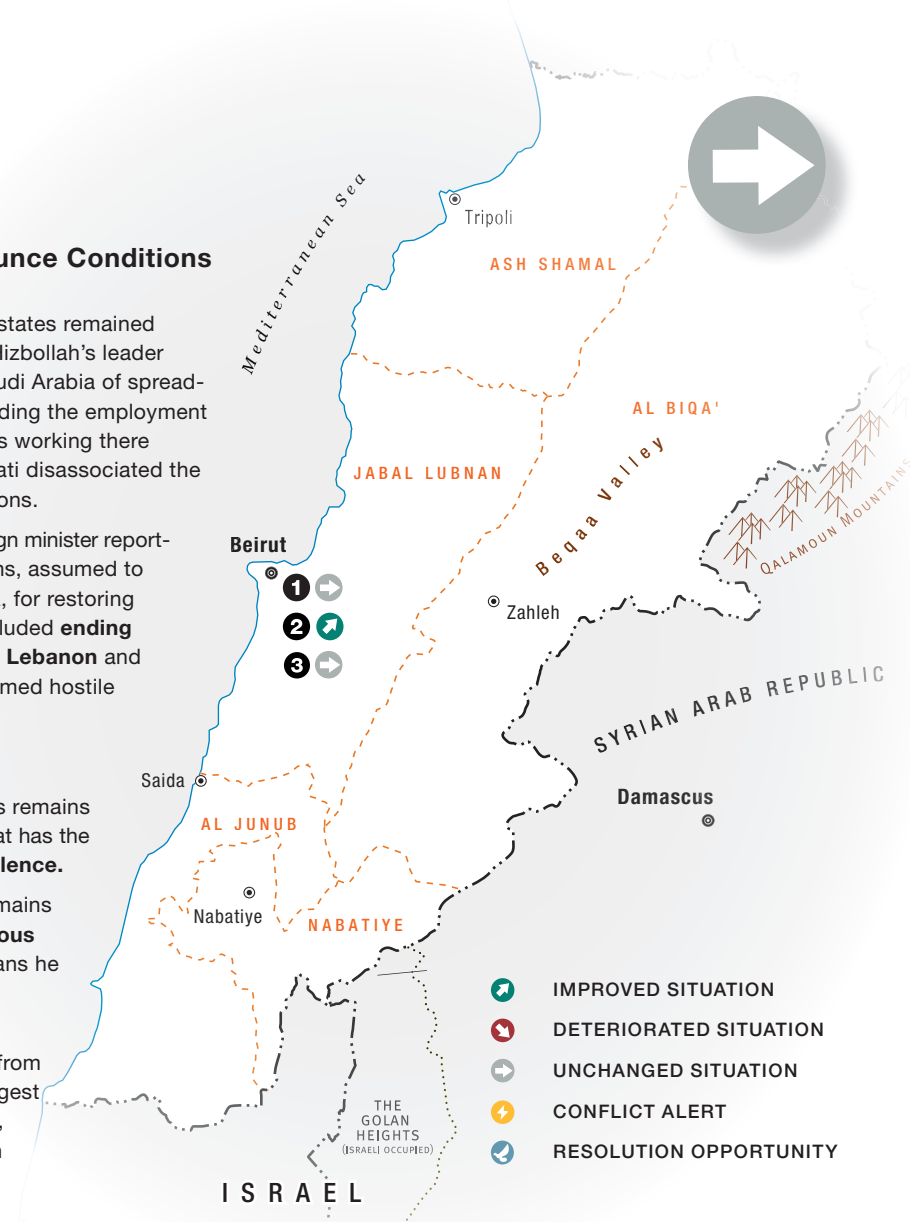
On 27 January, the Kuwaiti foreign minister reportedly conveyed twelve conditions, assumed to be formulated by Saudi Arabia, for restoring relations. These reportedly included **ending Hizbollah's activities outside Lebanon** and banning political activities deemed hostile to Gulf countries.

WHAT TO WATCH

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

Judge Tarik Bitar's position remains precarious as he faces **numerous legal challenges** from politicians he seeks to investigate.

Sunni leader Saad Hariri's 24 January decision to withdraw from politics, and his call for the largest Sunni party, Future Movement, which he leads, to stand down in the upcoming elections scheduled for 15 May, could **complicate future government formation efforts**.



TRENDS TIMELINE

