



## The Lebanese “Groundhog Day” of overlapping crises: Does it ever end?

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*As white smoke was coming out two years ago to signify the formation of a new Hariri government in Beirut, the dangers of an economic collapse, and protracted political and social instability were looming over the country. Now, as white smoke came up again with the formation of Najib Mikati’s government last September, several converging crises have brought the country to its knees. The galloping economic breakdown, precipitated by the effects of the COVID-19 pandemic and last year’s blast in Beirut’s port has created asphyxiating conditions that put Lebanon in completely uncharted waters.*

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Since 2019, Lebanon has been plunged into a crisis the World Bank characterizes as one of the top three most severe globally since the mid-19th century. The numbers since the Lebanese banking system's collapse are dizzying; in the last two years, the Lira has lost nearly 90 percent of its value, and the country's output has dropped from 55\$bn in 2017 to 33\$bn in 2020. Apart from the dramatic shrink on the peoples' purchasing power, in a country that relies almost exclusively on imports, the sharp currency depreciation has caused an unprecedented energy crisis, which in turn results in acute food and medicine shortages.<sup>1</sup> Electrical grid outages have become a daily phenomenon particularly during the summer and the diesel that is used in such cases for power generators simply does not suffice. Hezbollah-organized deliveries of Iranian fuel, while celebrated, is also a non-sustainable solution in the mid and long term. Since the Banque du Liban (BdL) officially stopped subsidizing oil last August, apart from the regular households, food stores and hospitals find themselves at the forefront of the crisis. The cases of food poisoning have risen to alarming levels. Hospitals are also operating beyond their limits relying mostly on sporadic deliveries from the army to fuel their generators, and on NGOs and charities for medicines and equipment. In addition, last year's reports set the number of migrating doctors and nurses to around 2.500. All these while the UN estimates put multidimensional poverty above 80 percent, including the over 1 million Syrian refugees that make Lebanon the country hosting the most refugees per capita in the world.<sup>2</sup> The current situation, though, is not the result of recent events. The banking sector's breakdown, which is responsible for the above mentioned, has been paralleled by researchers to the final stages of a Ponzi scheme. For long, the BdL has kept a policy of high-interest rates to attract foreign investment, which in turn gave it the ability to lend the state amounts beyond its proper capacity. In combination to the increasing regional instability since 2012 and the gradual recovery of the American and European economies that played their role in the following capital flight, the Lebanese financial system collapsed.<sup>3</sup>

However, it takes two to tango and the country's economic debacle is neither an achievement of the Lebanese banking sector alone, nor did it come out of the blue. For years, successive governments failed to decidedly confront the economic problems, including the BdL exclusive say in the charting of the state's financial policies. Doing so, would entail a serious fight against clientelism and endemic corruption in resource allocation. This would be 'suicidal' for the political and economic elite given that it would also mean the crippling of the mechanisms used to ensure public support. Therefore, the majority of the economic measures enacted by the previous governments have been 'regressive' and not designed to structurally purge the state and its institutions of deeply embedded pathogenies. The power sector -which accounts for 45 percent of Lebanon's public debt- is left unreformed since the end of the civil war, while the BdL remains virtually unchecked and phenomenally secured from the possibility of a dully needed forensic audit.<sup>4</sup> Instead, raising the VAT and attempting to introduce a so-called 'Whatsapp Tax' represent credible examples of this policy. The latter also sparked the unprecedented post-civil war demonstrations in late 2019 that led to the resignation of PM Hariri. His successor, Hassan Diab vowed to proceed with reforming the public sector and the economy and to engage in talks with the IMF for a bailout that is deemed the only viable exodus from the economic crises.<sup>5</sup>

However, the shocks on the economy from the coronavirus lockdowns, the collapse of the talks with the IMF largely due to the banking sector's non-cooperation, and the August 2020 blast of Beirut's port led to Diab's resignation shortly after. That meant another time-consuming round of cabinet formation talks. Yet, notwithstanding the formation of a new government under Najib Mikati, there is little hope -if any- about the prospects of Lebanon's recovery. The PM has committed to setting the stage for reforms and re-opened the talks with the IMF to present a recovery plan before the scheduled March 2022 elections. However, deep reservations are expressed by both the public and experts about Mikati's capacity to deliver such outcomes given his legacy as a member of the long-established Lebanese elite. And even if he does manage to agree on a plan with the IMF, its implementation will be passed to whichever government comes out of the next elections and whenever it will be formed.<sup>6</sup> Moreover, there is no guarantee that the banking sector will continue to cooperate with the IMF in case of a rescue plan.

To make matters worse, last October, Saudi Arabia's decision to start a diplomatic row with Beirut over some Houthi sympathizing comments by the Lebanese Information Minister, only rubs salt into the wound. The Kingdom's blanket ban on Lebanon's imports further burdens the country's asthmatic commercial and industrial sectors. The Saudis' demand for the minister's resignation was quickly succeeded by the demand for the Lebanese state to compel Hezbollah to sever its support of the Houthis in Yemen. To be sure, the returning prospects of bullying Lebanon into dealing with the most powerful foreign-funded and institutionalized political and paramilitary organization in the world are not exactly great. In fact, it probably plays in favor of Hezbollah's and Iran's image of resistance.<sup>7</sup> In the meantime, however, as no effective solution is fathoming on the economic problems and the economic-related sub-crises, the port's blast aftermath presents another cause of concern.

The Beirut port blast that occurred on August 2021 left 219 dead, more than 300.000 homeless, and multimillion dollars estimated damages. It also certainly left an enormous psychological scar on the population that translated to an unprecedented determination for accountability. Yet, regardless of the strong public support for the judicial investigation, this has progressed at a slow pace. Fadi Sawan, the first judge who was tasked with the probe was removed under political pressure, after he charged several former ministers and Diab himself with criminal negligence. Now his successor, judge Tarek Bitar, is facing the same problems down the road. Until now the probe has been suspended three times due to lawsuits filed against Bitar, while many of those summoned have failed to attend the hearings.<sup>8</sup> And while the judge enjoys overwhelming support by the families of the victims and a large part of society, dangerous social and sectarian polarization is ante portas as his critics accuse him of politicizing the investigation.

In October, a demonstration staged by Hezbollah and Amal to ask for Bitar's removal ended in blood after sharpshooters allegedly members of the Lebanese Forces (LF) -a former civil-war Christian militia now turned into political party- opened fire as the crowd was entering a Christian neighborhood. The main areas of Beirut affected by the blast were indeed Christian, and within a sectarian context, many Christians indeed consider that the stored ammonium nitrate was directly linked to Hezbollah. Although such accusation is speculative at least, such violent responses to protests give a sectarian hue. However, be it an attempt to deny culpability, or a way to protest of its innocence, Hezbollah's armed demonstrations within Beirut against Bitar, do not send a message of sobriety either. Even if the situation does not derail, Lebanon is locked in a dangerous state where miscalculations over demonstrations of power may bear catastrophic results.<sup>9</sup> Whatever the motives behind the attack on Hezbollah's demonstration, the move may have an appeal on Christians oppose Hezbollah. What is more, it puts pressure on Lebanon's Christian President Michel Aoun and his Free Patriotic Movement, which is the major Hezbollah's ally in Lebanese politics. Aoun and his son-in-law Gebran Basil -who is rumored to claim the 2022 presidency - have tried to maintain some balances by reiterating their support of the judicial investigation against provocative actions while implicitly blaming Samir Gagea, the leader of the LF. So did the Prime Minister regarding Bitar's role. Nevertheless, paying lip service in support of the investigation does not solidify its course. On the contrary, while sectarian 'damage control' is undertaken, Bitar's jurisdiction is constrained. Only recently, the Maronite Patriarch Bechara Boutros Al-Rai announced that a deal was reached between political leaders, under which, high-profile individuals related to the investigation would be examined by a separate judicial body, the Supreme Council. Bitar will accordingly resume investigating lower-level officials.<sup>10</sup> If the deal materializes, and the investigation continues to be hindered, the frustration to the investigation's supporters will be major and its ramifications will probably crystalize both on the upcoming ballots and the street.

Under such conditions, it is remarkable that the country has not yet experienced mass demonstrations the likes of 2019. The most credible explanation of this lies with the fact that the sentiments of fatigue and despair are translated once again to a mass exodus of the young and skillful in search for jobs overseas.<sup>11</sup> This is not to say though that social unrest is a distant scenario. The unwillingness of a large part of the elites to confront structural corruption and unaccountability has led the majority of the Lebanese to give up hope of economic recovery. Furthermore, it certainly justifies the

Lebanese deep distrust of the political establishment and the electoral process outcomes. Therefore, in the scenario that Lebanon's ever-worsening 'Groundhog Day' ends with the country's economy self-rebalanced at a much lower level, none will be able to predict how the popular dynamics will emerge nor the extent to which the establishment will be able to recalibrate or crumble into creating a vicious circle of instability. In a more optimistic scenario, although far less likely, the current government reaches a deal with the IMF while simultaneously manages to put an end to the crisis with the Saudis. Followingly, the government that results from the upcoming elections implements IMF's rescue plan thus unlocking more of the desperately needed foreign funding, which is currently reserved on conditions of reform. Yet, such a concrete plan of reforming the political and economic establishment has to unfold without disturbing any sensitive sectarian chords; this is the biggest challenge to come -if it does.

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