

# Lebanon's Tipping Crises Converge

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The medium-intensity conflict that has pitted Hezbollah on Lebanese territory against the Israeli army across the border since the day after 7 October is moving beyond the border zone in which it has been confined for almost seven months, at the risk of turning into open war. The intensification of Hezbollah fire against the neighbouring territory, and the depth of Israeli strikes in Lebanon, have given rise to fears that the fragile balance of deterrence could spin out of control. Despite the (relative) containment of the conflict, its impact on Lebanon has been acute. While the country has been mired in a political and institutional vacuum and a crippling socioeconomic crisis for over four years, further escalation could become catastrophic for its population.

## The Far-Reaching Impact of the Israel-Hezbollah Conflict

Military operations unfolding along Lebanon's southern border have escalated from low- to medium-intensity fighting since October 2023. The bulk of the fighting has been confined to the border region, with both sides targeting combatants for the most part. Hezbollah is mainly firing at military outposts and bases; it also periodically launches rockets and drones into emptied civilian areas. The Israel Defense Forces have directed their fire at key Hezbollah infrastruc-

ture, arms depots and personnel, particularly the estimated 10,000 Radwan special forces that were deployed along the border when the crisis began. In addition, the IDF has responded to occasional Hezbollah escalation by operating more deeply (up to 110 kilometres) inside Lebanon, striking drone factories, anti-aircraft batteries and other strategic targets in the Beqaa Valley and elsewhere.

The cumulative losses over seven months, however, have been profound. The violence has exacted a significant toll in south Lebanon, displacing tens of thousands of civilians from border towns as well as claiming civilian casualties. According to the International Organization for Migration (IOM), over 90,000 people have been displaced since October, with mounting concerns over the limited access to health, social, economic or psychological services. More than 28% of the displaced are renting apartments across the country, resulting in rental price pressures in some regions such as Mount Lebanon, Beirut and Chouf. In addition, the death toll is rising exponentially. Hezbollah reports it has lost close to 250 of its fighters, and the civilian death toll is approaching 50. Throughout the fighting, the Israeli military has reported strikes on more than 4,500 Hezbollah targets in Lebanon. However, collateral damage has included over 800 acres of residential, agricultural and industrial neighbourhoods. Israel's use of white phosphorus in its attacks risks causing long-term and potentially irreversible damage to south Lebanon's environment, agriculture and economy, potentially rendering the region uninhabitable.<sup>1</sup>

Despite being largely contained in the south, the ongoing conflict's impact is felt across the country. Ac-

<sup>1</sup> White phosphorus ignites when exposed to the oxygen in the air at temperatures above 30°C and produces streaks of dense white smoke mixed with phosphorus oxides. The fiery fragments continue to burn – on vegetation, buildings or right through human flesh – until they are fully oxidized or deprived of oxygen.

According to the latest World Bank Lebanon Economic Monitor (released in December 2023), the spillover effects from the ongoing conflict pose yet another major shock to Lebanon's precarious growth model. Before the current conflict, economic growth was projected to expand in 2023, for the first time since 2018, by 0.2%. The economy seemed to have found a temporary bottom following years of sharp contraction.<sup>2</sup> With the onset of the current conflict and in the absence of broader economic stabilization, Lebanon's economy is now projected to be back in recession by 2024. The inflation rate, which has been in triple digits since 2021, is projected to go on accelerating, further exacerbating the precarity of living conditions for the poorest and most vulnerable segments of the population. Before October 2023, preliminary data from the 2022-2023 Lebanon Household Survey suggested that around three out of every five households considered themselves poor or very poor. Lebanon's reliance on tourism receipts (estimates vary between 25% and 41% of GDP) makes it particularly vulnerable since the conflict has already jeopardized touristic activity.<sup>3</sup> Additionally, the damage to the agricultural sector will affect exports. Given that the south contributes to 25% of agricultural production, including olives, tobacco, almonds, wheat, barley, citrus fruits, bananas, milk and olive oil, among others, their total exports, valued at USD 94 million per year, will suffer. According to research published by The Policy Initiative (TPI), a Beirut-based think tank, the expected losses in foreign currency inflows, as a result, are expected to total at least USD 1.6 billion.

### **The Israel Conflict Triggers Further Political Polarization**

The current episode of violence along Lebanon's southern borders comes within a highly charged and precarious operating environment, constraining its ability to respond effectively to internal and external challenges. Lebanon remains embroiled in cascad-

ing crises that have befallen the country since 2019, when its economy spiralled into near-total collapse. Since then, Lebanon has endured multiple crises, including the Covid-19 pandemic, the August 2020 Beirut port blast and Ukraine conflict-related food shortages and price hikes in 2022, all leading to a multi-layered socioeconomic meltdown that has resulted in record poverty rates, food insecurity, brain drain and the collapse of public services. Over the past three years, Lebanon has witnessed one of the world's largest wealth destructions per capita since 1850. Its real GDP contracted by at least 58% in two years, and its currency lost 90% of its value. Lebanon has also been in the throes of a presidential vacuum since November 2022. The Parliament has repeatedly failed to elect a president, leaving the country adrift with a caretaker government with limited executive powers, an interim central bank governance and delayed legislative action in parliament.

### **Over the past three years, Lebanon has witnessed one of the world's largest wealth destructions per capita since 1850**

Most notably, legislation about restructuring the banking sector and the upfront allocation of financial losses in the insolvent financial system remains elusive. Four years into the crisis, the banking sector, whose balance sheet continues to be severely impaired, is unable to perform its financial intermediation functions.<sup>4</sup> Despite promising prospects of identifying quality reservoirs of hydrocarbon resources, prospective revenues from oil and gas, which, if they materialize, would, in any case, be years in coming, are expected to be dwarfed by the size of the losses in the financial sector.

The political stalemate and institutional deadlock reflect a chronic polarization amidst Lebanon's ruling elites, the recent Israel-Hezbollah conflict serving as

<sup>2</sup> Tepid growth was predominantly caused by volatile drivers: a growth in consumption due to a stronger summer tourism season; sizable inflow of remittances; increasing dollarization of salaries; and signs of stabilization in private sector activity.

<sup>3</sup> Lebanon's tourism revenues accounted for 25.6% of total current account receipts in 2022.

<sup>4</sup> The Central Bank, under a new acting government, has initiated limited but encouraging reforms – none of which, however, include fundamental changes to bank supervision or the conduct of monetary and exchange rate policies.

another potential trigger for dangerous sectarian conflict.<sup>5</sup> The presidency and central bank governor – two top posts reserved for Maronite Christians – have been vacant since October 2022 and July 2023, respectively, due to a standoff between Shiite (Hezbollah) and Christian (Lebanese Forces or LF) political parties over choosing successors. This has been accompanied by several episodes of violence between supporters from both groups, including a deadly shootout in September 2023 and the recent assassination of Christian Lebanese Forces' politician, Pascal Sleiman, in April 2024.<sup>6</sup> Criticism of Hezbollah from Lebanon's Christian community has spiked in recent months, particularly after fighters from the group were accused of trying to fire rockets at neighbouring Israel from a Christian village along Lebanon's southern border. It reflects swelling anger among Hezbollah's critics over the group's controversial arsenal, which outguns the army. For Hezbollah and its supporters, giving up weapons goes against the Taif Accords that ostensibly ended the Lebanese Civil War in 1989, and that, in Hezbollah's view, fundamentally validates its role as a resistance force. However, beneath the recent revival of political and sectarian fault lines, the ruling elites, who have lost much of their legitimacy having failed to address the overlapping economic and political crises, are expecting Hezbollah's defining role in the Gaza conflict to eventually reap political and economic rewards for Lebanon in a prospective regional diplomatic negotiation pact. So, both Hezbollah's allies and rivals in Lebanon are anticipating some form of recompense as part of a forthcoming regional peace settlement, of which the current domestic violence serves as a space for negotiating larger spoils.

### What's Next?

While the danger of sudden escalation remains high, it would seem that Hezbollah and Iran still prefer to avoid full-scale war for the time being – partly to pre-

serve the group's potent military capabilities, but also to deter Israeli attacks on Iran itself, including against the State's accelerating nuclear programme.

## Israel has realized that the pre-7 October status quo in south Lebanon is no longer tenable

As the country grapples with binding economic, political and social crises, it is unlikely to be able to address the humanitarian, economic, infrastructure, social and environmental effects of a significant escalation of the conflict. The situation will likely worsen living conditions, threatening to plunge the country into a humanitarian emergency. Nonetheless, Israel has realized that the pre-7 October status quo in south Lebanon is no longer tenable. The terms of the last ceasefire between Lebanon and Israel, which lasted for almost two decades, have expired because of this round. Something will have to give, whether a new status quo is established through negotiation or by force of arms – the question is when and under what circumstances.

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<sup>5</sup> More than a dozen sects coexist in a precarious balancing act in Lebanon, reflected in a power-sharing system that reserves government posts by religion.

<sup>6</sup> Several attacks against Syrians were also reported across the country due to their alleged involvement in the kidnapping and assassination of Christian leaders. Several political parties have called for the Syrians to return home as a result, and several Lebanese civilians have taken it upon themselves to give ultimatums for Syrians to vacate their residences and shops.