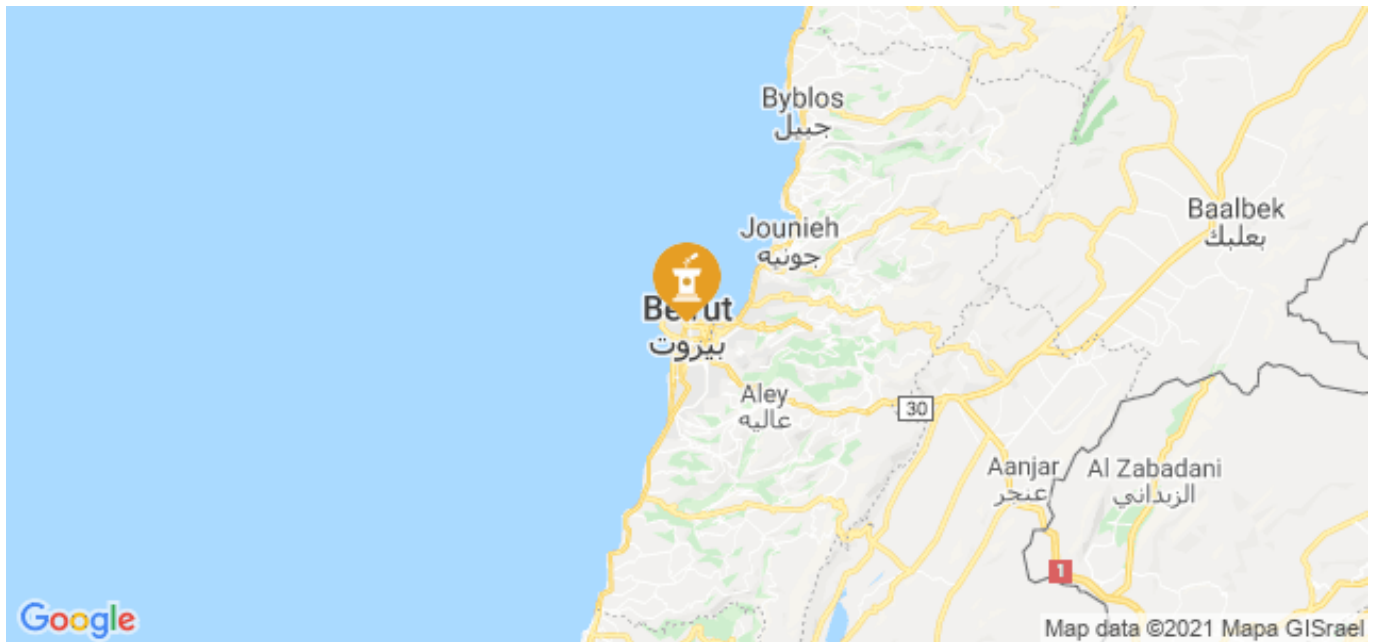




Politics



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Lebanon Analysis: President Aoun, PM Mikati announce formation of new government on September 10; major political, economic reforms remain unlikely

Executive Summary:

- On September 10, President Michel Aoun announced the formation of a new Lebanese government following an agreement reached with new Prime Minister (PM), Najib Mikati, over his proposed cabinet. This is an important breakthrough following a 13-month political deadlock and socio-economic turmoil.
- This development will lead to partial political stability over the coming weeks. However, until significant reforms are undertaken by the Lebanese government, which will be difficult to implement due to the continued sectarian political interests at the heart of the cabinet, international support will be limited to emergency financial aid.
- A resumption of civil unrest and armed altercations between citizens over essential goods is therefore probable over the coming months as Lebanese citizens become increasingly disillusioned with the government's likely failure to enact reforms that are required to unlock international aid and bring about economic growth.
- **It is advised to conduct business-essential travel only to Beirut due to continued political instability and the risk of civil unrest. Those operating or residing in Lebanon are advised to remain vigilant of the elevated risk of violent crime due to the shortage of basic goods and commodities.**

New Cabinet Composition

- On September 10, Lebanese President Michel Aoun (Free Patriotic Movement) announced the formation of a new government headed by billionaire businessman, Najib Mikati, who will serve as Prime Minister (PM). Caretaker PM Hassan Diab subsequently submitted his resignation.
- The cabinet is made up of 24 ministers. In line with Lebanon's sectarian-based quota system, 12 of them are Christian and 12 of them are Muslim.



PM Najib Mikati

Born: 1955 to a Sunni family in Tripoli

Past experience:

- Two-time PM in 2005, 2011-2013; Minister of Public Works and Transport 1998-2003
- Co-founder of a **telecom company**, sold his stake for over 3 billion USD

COMPOSITION OF THE CABINET: KEY PORTFOLIOS

- Finance Minister: **Youssef Khalil**: Served as a senior official at the Central Bank of Lebanon, affiliated with the Shiite Amal Movement
- Minister of Economy: **Amin Salam**: Corporate lawyer and economist, chosen by PM Mikati
- Minister of Public Works and Transport: **Ali Hamieh**: Reportedly selected by Hezbollah
- Foreign minister: **Abdallah Bouhabib**: Former Lebanese Ambassador to the US from 1983 to 1990
- Health Minister: **Firass Abiad**: Chairman of Lebanon's main dedicated COVID-19 and largest public hospital
- Interior Minister: **Bassam Mawlawi**: Previously headed the North Lebanon criminal court

Subsequent Events and Reaction

Subsequent political developments

- Mikati vowed to work to halt Lebanon's ongoing economic collapse. He stated that he would call on international bodies to ensure that the Lebanese population's "basic everyday needs" are met. He also reaffirmed that state subsidies must be cut and pledged that parliamentary elections will be held as planned in May 2022.
- On September 13, Mikati held the first cabinet meeting and stated that the government does not have a "magic wand" and that the situation remains extremely challenging.
- On September 11, the political committee of President Aoun's Free Patriotic Movement (FPM) stated that its vote of confidence for the government would be conditional upon Mikati's official policy statement, which should be "reformist".
- On September 10, Saad Hariri, leader of the Sunni-dominated Future bloc and a [former PM-designate](#), voiced his support for PM Mikati.
- On September 11, George Kordahi, the designated Minister of Information, reportedly criticized political analysts voicing negative forecasts on the new government and stated his intent to set up a committee to approve media content before it is aired. Civil society groups denounced this statement.

Economic developments

- Following the announcement of the agreement between Mikati and Aoun, the Lebanese Pound (LBP) strengthened to 15,600 against the USD, its highest rate in the past four months.
- On September 13, Hezbollah leader, Hassan Nasrallah, stated that the first shipment of Iranian fuel reached Syria's Baniyas Port on September 12. It is reportedly slated to be transported on-ground and reach Lebanon's Beqaa Valley on September 16 and be distributed to the rest of Lebanon.

Reaction of international actors

- French President Emmanuel Macron has characterized this development as an “essential step” in taking necessary “emergency measures” and called upon Lebanon’s politicians to commit to reforms.
- Ned Prince, spokesperson of the US Department of the State, urged the Lebanese government to “work on concrete reforms to address Lebanon’s deteriorating economic situation” and voiced Washington’s readiness to offer support.
- Joseph Borrell, the High Representative of the EU for Foreign Affairs and Security Policy, stated that PM Mikati will have to tackle “current economic, financial and social crises, implement long-overdue reforms and prepare for elections in 2022.” The EU also urged Beirut to reach an agreement with the International Monetary Fund (IMF).
- On September 13, Lebanon’s Central Bank stated that it would receive 1.135 billion USD on September 16 from the IMF as part of the IMF’s Special Drawing Rights (SDRs), which the institution maintains to supplement member states’ foreign exchange reserves. This does not constitute a bailout linked to political or economic reforms.

Background

President Aoun’s September 10 announcement of a new government brings to an end a 13-month political stalemate since former PM Hassan Diab’s resignation over the [August 4, 2020](#) explosion at the Port of Beirut. The subsequent political deadlock over the past year, characterized by abandoned efforts to form a government by former PM [Saad Hariri](#) and the failure of Lebanon’s political leadership to agree upon a cabinet, has resulted in an unprecedented economic crisis. The Lebanese Pound (LBP) has lost over 90 percent of its value against the USD over the past year. This subjected a large proportion of Lebanon’s population to poverty and led to chronic shortages of basic goods, including fuel, medication, and foodstuffs, with international organizations recently warning of an [imminent collapse](#) of the country’s basic infrastructure. Throughout the past months, these developments have exacerbated civil unrest across Lebanon. Several protests have targeted high-profile politicians, as shown most notably by an [August 15](#) attempt to storm the Beirut residence of PM-designate Mikati. There have also been frequent armed clashes between residents over scarce supplies at fuel stations or food distribution centers. International pressure on Lebanon’s political class has increased as well, as shown by the EU’s July 30 adaptation of a legal framework to impose sanctions on Lebanese government officials “hampering the formation of a government.”

Assessments & Forecast:

Government formation to politically stabilize Lebanon over short-term but lack of meaningful reform to hinder long-term stability, economic recovery

1. The agreement between Aoun and Mikati over the latter’s proposed cabinet line-up constitutes a significant breakthrough, particularly in consideration of the year-long

deadlock. It is likely that the development was a result of the Lebanese political leadership's fear of an imminent collapse of Lebanon's institutions in the absence of at least a nominal step towards political stability. It is also likely the outcome of increasing diplomatic pressure and negotiations between Lebanese officials and major foreign powers, including the US, EU members states, and Iran, which holds significant sway in Lebanon due to the influence of its proxy, Hezbollah.

- 2. FORECAST:** As also shown by the cautious welcoming of the new government by Western-affiliated states and entities that back more meaningful political, economic, and financial reforms, this development is liable to partially stabilize Lebanon in the political arena over the coming weeks. PM Mikati will likely receive time and verbal support from the international community to try and enact essential economic policies. However, until significant reforms are undertaken by the Lebanese government, international support will be limited to emergency financial aid similar to the IMF's slated transfer of funds to the Central Bank on September 16, which while constituting an effort to prop up the bank in the short-term that shows confidence in the new government in its timing, is not a long-term financial bailout. More meaningful structural reforms are required to unlock much-needed funds from Western-aligned foreign actors, such as the US, the EU, France, and Saudi Arabia. These reforms include a restructuring of Lebanon's foreign debt, an independent audit of the Central Bank of Lebanon, an overhaul of the country's public sector, fundamental reforms to the electricity sector, and the establishment of bodies to combat endemic corruption and independently investigate the Port of Beirut explosion.

Risk of resurgence of violent unrest, armed criminal feuds to remain high in absence of more significant reforms

1. Over the coming weeks and months, Mikati will have to prove his willingness and ability to deliver economic reforms to secure more substantial financial assistance both by individual states and international bodies, such as the IMF and the World Bank. His pledge to cut subsidies, including for fuel and medicine, conforms with reform demands by the international community, thus highlighting his awareness that such concessions are essential to receive support by external actors. However, it is unlikely that Mikati will be able to implement and sustain additional reforms throughout his premiership. Without more significant economic growth and a major financial bailout, the cutting of subsidies will further exacerbate the locals' lack of access to essential goods, many of whom have fallen below the poverty line. Should Mikati take such measures, this will increase the risk of a resurgence of violent anti-government protests and armed criminal activity.
- 2. FORECAST:** Lebanon's predominantly sectarian-based political factions will likely continue to favor securing their own interests and will therefore possibly block reform attempts regarded as detrimental to their respective constituencies. While most designated cabinet members are nominally technocrats, the fact that most of them are backed by political parties will constrain their ability to act independently. Despite the preliminary agreement on the proposed cabinet, it is likely that the allocation of the portfolios will cause friction between rival political blocs over the coming months. For instance, the fact that the Minister of Public Works and Transport, who will oversee the distribution of significant funds within the context of the reconstruction of Beirut following the August 4 explosion, is backed by Hezbollah, will likely cause discontent among anti-Hezbollah parties. This is indicated by the long-standing objection to such a portfolio allocation by former PM Hariri and his Sunni Future Bloc. Hariri is reported as describing this scenario as "scaring off Arab investors and possibly trigger[ing] US sanctions." Similarly, the appointment of Youssef Khalil, a former high-ranking Central Bank official, as Finance Minister is liable to prevent a significant reform of the institution, which is pivotal to economic recovery in Lebanon. This is because Khalil can be expected to refrain from undertaking much-needed reforms targeting personnel who are his colleagues and their policies as he has a vested interest.
- 3. FORECAST:** Lebanon's public may welcome the formation of a new government over the

short-term as long as it entails the prospect for international assistance, and thus, an improvement of the country's precarious socio-economic conditions. However, as such a scenario is unlikely over the coming months, anti-government sentiments will remain high. In this context, the criticism among civil society activists of Information Minister Kordahi's September 11 statement highlights the potential for a speedy disillusionment with the new government, which will be largely perceived as dominated and influenced by the political elite. Overall, a resurgence of anti-government protests and violent altercations between citizens may be recorded over the coming months.

Iran to continue to present itself as savior of Lebanon, attempt to transfer fuel to country

FORECAST: In line with its actions over recent weeks, Iran will continue to attempt to present itself, and in turn its proxy Hezbollah, as the savior of Lebanon by dispatching additional supplies of fuel and potentially other goods to the country. Using Hezbollah as a conduit, Tehran will seek to gain influence as the crisis continues, irrespective of reforms implemented by the government. It will thus present its support as unconditional in contrast with Western institutions that condition their financial assistance on domestic reform. However, Iran itself is experiencing a severe economic crisis and remains subject to extensive international sanctions. It will thus be unable to provide significant supplies or funds to shore up Lebanon's infrastructure, solve its energy crisis, or bolster its economic institutions. Regardless, Tehran's support is likely to bolster its position among segments of Lebanese society who affiliate themselves with Hezbollah, primarily the Shiite community.

Recommendations:

1. It is advised to avoid nonessential travel to Beirut and Tripoli due to continued political instability and risk of civil unrest. Remain vigilant of the elevated risk of violent crime due to the shortage of basic goods and commodities.
2. In Beirut, remain cognizant of frequent demonstrations, particularly around central Beirut's Riad al-Solh and Martyrs' squares as well as in front of government ministries and the Central Bank of Lebanon building. Protesters frequently block central thoroughfares, causing traffic disruptions and clashes with security forces.
3. Avoid nonessential travel to Beirut's southern Dahiyeh neighborhood as Hezbollah activists and infrastructure are concentrated in the area. Anti-Western sentiments are thus generally higher and there is also an increased potential for security incidents.
4. Across Lebanon, travelers are advised to keep identification and travel documents on their person at all times due to the prevalence of Lebanese military or Hezbollah checkpoints. When coming in contact with a security checkpoint, comply with the instructions of security personnel, regardless of their affiliation, and avoid behavior that may be viewed as threatening. Photographing military sites and checkpoints is prohibited and may lead to arrest.
5. Refrain from expressing public support for Israel or being in possession of material that may be perceived as linked to Israel. Abstain from engaging in politically-oriented conversations surrounding Israel, the US, Iran, and the overall political situation in Lebanon.