

LEBANON

WHAT HAPPENED?

Against an increasingly dire economic backdrop marked by social unrest over shortages, the Central Bank's decision to cut subsidies dramatically worsened the country's fuel crisis. Separately, Israel and Hizbollah exchanged cross-border fire.

WHY DOES IT MATTER?

Economic hardship and confrontation over shortages risk accelerating the erosion of Lebanese state institutions and creating a state of semi-permanent unrest. The escalation between Hizbollah and Israel underscores that while mutual deterrence continues to restrain both sides, the prospect of a wider confrontation still lingers.

LAST MONTH'S TRENDS

Parliament appointed businessman Najib Mikati as PM-designate following Saad Hariri's resignation. The currency's plunging value and rising prices sparked unrest, while the European Union established a sanctions framework targeting those "responsible for undermining democracy".

The fuel crisis dramatically worsened

The Central Bank ended exchange rate subsidies for energy importers, but the ministry of energy initially refrained from adjusting tariffs, causing supply and distribution disruption.

Hospitals warned of medicine and electricity shortages. Gas shortages resulted in numerous incidents. A gas explosion during a raid against suspected fuel smugglers on 14 August killed more than 30 civilians and soldiers.

Residents of the Christian town of Maghdouche and its Shiite neighbour Anqoun clashed over fuel supplies, indicating that resource struggles may acquire a sectarian dimension.

Government-formation talks made modest progress

Throughout August, Mikati and President Aoun engaged in frequent direct negotiations over government formation. Reportedly, the atmosphere remains positive, but no breakthrough had emerged by the end of the month. Differences reportedly persist over which ministers the president can appoint and how many, and Aoun's insistence that the new government should replace the governor of the Central Bank, Riyad Salameh.

Israel and Hizbollah exchanged fire

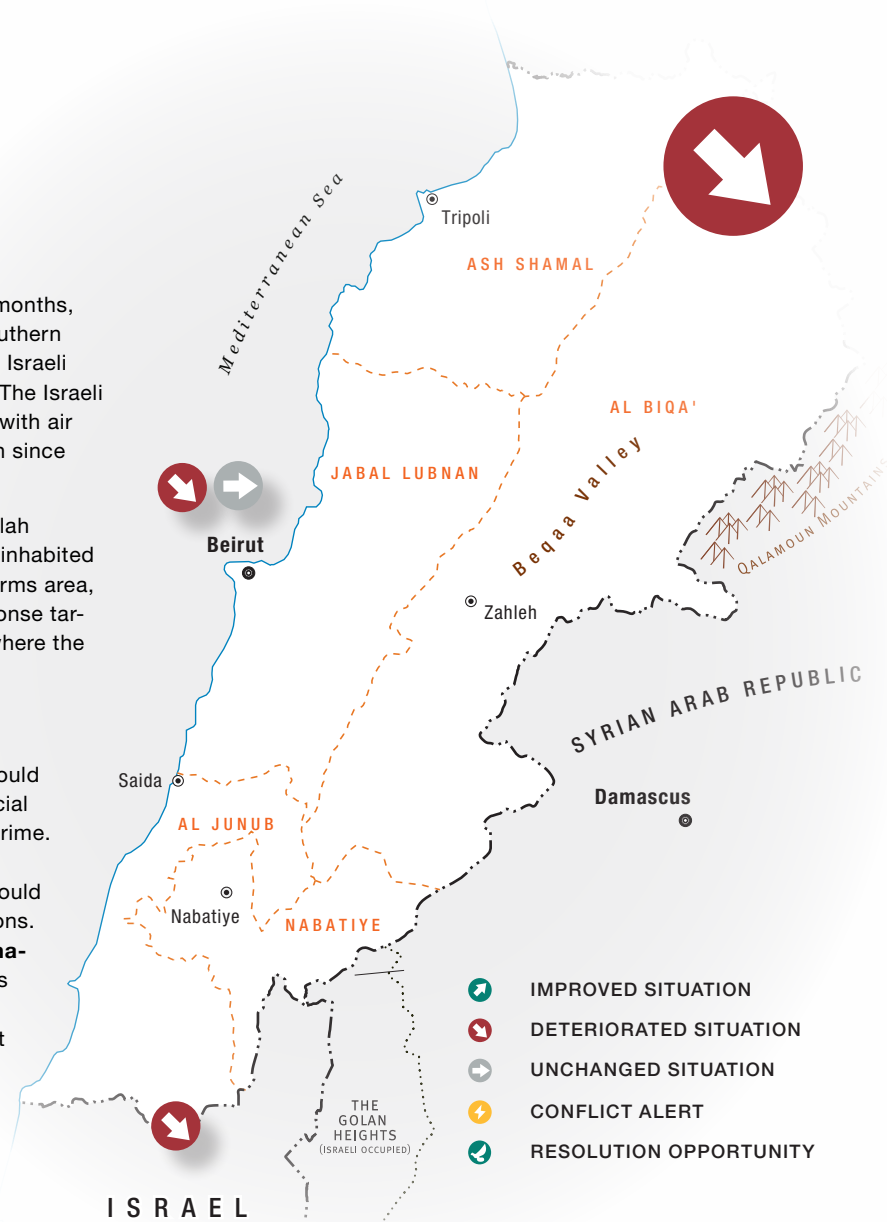
In the fifth such attack in three months, unclaimed rockets fired from southern Lebanon on 4 August struck the Israeli border town of Kiryat Shimona. The Israeli air force retaliated the next day with air strikes – the first inside Lebanon since 2013/2014.

In response, on 6 August Hizbollah launched nineteen rockets at uninhabited areas of the disputed Shebaa farms area, triggering an Israeli mortar response targeting uninhabited areas from where the rockets were launched.

WHAT TO WATCH

Continued **economic decline** could facilitate recurrent rounds of social unrest, violence and mounting crime. This will reinforce trends toward locally organised security that could lead to de facto territorial divisions. Prospects for **government formation** remain uncertain. It appears unlikely that a new government will be empowered to implement significant reforms.

While mutual deterrence continues to hold between Israel and Hizbollah, attacks by unidentified actors add to the risk of **miscalculation** that could trigger a major escalation.



TRENDS TIMELINE

