

**FRAGMENTS OF LEBANON:
SECTARIANISM AND THE FINANCIAL CRISIS**

by **Francesco Mazzucotelli**

Introduction

Lebanon's current economic meltdown is in many ways the painful consequence of a patron-client political system, tinged with sectarian narratives and claims, that has squeezed the resources of the state in exchange for short-term loyalty and the social reproduction of its elites. The nexus between political institutions, loci of power, the banking system, and political representation of economic interests is helping to problematize our understanding of sectarianism, and escape the often inane debate on its primordial or instrumental nature¹. Recent research has cast light on the political economy of sectarianism through its systems of alternative welfare², or the spatial dimension of sectarianism through its provision of everyday services in urban neighborhoods³. The current economic crisis offers venues for further discussion on the link between sectarian power-sharing, rentier economy, and neopatrimonialism.

University of Pavia.

¹ In this article, by "sectarianism" I mean a system of power-sharing along confessional lines that is predicated upon formal and informal arrangements. This includes, but is not limited to, the allocation of parliamentary seats, the electoral law, and the cabinet make-up. For an extensive essay on the social formation of the Lebanese oligarchy and the connection between economic interests and political parties, see F. TRABOULSI, *Social Classes and Political Power in Lebanon*, Beirut, Heinrich Böll Stiftung Middle East, 2014.

² Sectarianism clientelism in the provision of scholarships and access to healthcare is thoroughly studied in M. CAMMETT, *Compassionate Communalism: Welfare and Sectarianism in Lebanon*, Ithaca, Cornell University Press, 2014.

³ J.R. NUCHO, *Everyday Sectarianism in Urban Lebanon: Infrastructures, Public Services, and Power*, Princeton, Princeton University Press, 2017.

Sectarianism in Lebanon has been interpreted either as a byproduct of modernization in the late Ottoman period⁴, a political paradigm born in opposition to the *tanzimât* attempt at restructuring the ailing Empire⁵, or as the hybrid conjunction of parochial and colonial interests⁶. The use of sectarian frameworks as the primary reference in the analysis of the politics and history of the country has, however, been questioned as a possible case of “imaginative geographies” that reflect the perceptions and projections of external observers⁷. Sectarianism is an emotionally charged term that has been overused, sometimes without a clear distinction between discourses, emotions, and actual policy-making⁸. In fact, an assessment of sectarian narratives and practices should consider their specific spatial and temporal context, with particular attention being paid to the management of social order and conflict⁹. Current theories on sectarianism and the sectarianization of political discourses can be positioned within a continuum, with primordialist and instrumentalist approaches at both ends. The former consider religious allegiance as the source of identity and political processes in the region¹⁰, while the latter look at sectarianism as a discourse of legitimization that is constructed around the distribution of power and resources¹¹. Gause argues that sectarianism should not be understood as the persistence of primordial, intangible and unchangeable identities, but rather as an effect of the failure of different state-building processes

⁴ The concept of “modernity of sectarianism” is theorized in U. MAKDISI, *The Culture of Sectarianism: Community, History, and Violence in Nineteenth-Century Ottoman Lebanon*, Berkeley, University of California Press, 2000.

⁵ A. BEYDOUN, *Identité et temps social chez les historiens libanais contemporains*, Beyrouth, Publications de l’Université Libanaise, 1984.

⁶ K. FIRRO, *Inventing Lebanon: Nationalism and State under the Mandate*, London, IB Tauris, 2003.

⁷ E. DAVIS, *Memories of State: Politics, History, and Collective Identity in Modern Iraq*, Berkeley, University of California Press, 2005.

⁸ M. DARWICH, T. FAKHOURY, *Casting the Other as an Existential Threat: The Securitisation of Sectarianism in the International Relations of the Syria Crisis*, in “Global Discourse”, n. 4, 2016, pp. 712-732.

⁹ R. VISSER, *Ethnicity, Federalism and the Idea of Sectarian Citizenship in Iraq: A Critique*, in “International Review of the Red Cross”, n. 868, 2007, pp. 809-822.

¹⁰ G. ABDO, *The New Sectarianism: The Arab Uprisings and the Rebirth of the Shi’a-Sunni Divide*, Oxford, Oxford University Press, 2016.

¹¹ N. HASHEMI, D. POSTEL, *Sectarianization: Mapping the New Politics of the Middle East*, Oxford, Oxford University Press, 2016.

in the region over the last two centuries¹². Hinnebusch also considers how the construction of identity-based politics and transnational sectarian narratives through the politicization of everyday interactions often serves the interests of global and regional actors who try to modify the balance of power in contested territories¹³. In this perspective, processes of sectarianization are often interwoven with different forms of neopatrimonialism, where various sectarian patrons and identity entrepreneurs use state resources in order to secure the loyalty of their clients or a huge section of their constituency.

This article considers the 2020 economic crisis in Lebanon against the backdrop of the fragility of the state, the inability of the neopatrimonial sectarian system to deliver good governance and sound answers to the problems of the country, as well as the limits of desectarianization attempts¹⁴.

On 7 March 2020, the Lebanese cabinet announced its decision to default on a US\$ 1.1 billion Eurobond maturity. Amid the Covid-19 pandemic, the clash between Prime Minister Hassan Diab and the Governor of the Banque du Liban (BdL), Riad Salameh, led to a collapse of the unofficial exchange rate of the Lebanese pound with the US dollar, resulting in violent clashes and attacks against banks in different parts of the country. On 1 May, the Prime Minister and the Minister of Finance requested the intervention of the International Monetary Fund, fueling anxieties and tensions amongst the competing factions of a fragmented political landscape. The crisis can hardly be separated from the political stalemate that has paralyzed the country over the last two decades, blocking any form of strategic plan or investment, and poses open questions on the long-term sustainability of the current sectarian system.

The fragility of the Lebanese state has been often conveniently explained through external factors, including the plight of Syrian refugees due to the ongoing civil conflict in Syria¹⁵, or a result of frac-

¹² F.G. GAUSE III, *Beyond Sectarianism: The New Middle East Cold War*, Brookings Doha Center Analysis Paper, n. 11, 2014.

¹³ R. HINNEBUSCH, *The Sectarianization of the Middle East: Transnational Identity Wars and Competitive Interference*, in "POMEPS Studies", n. 21, 2016, pp. 71-75.

¹⁴ J. NAGLE, *Beyond Ethnic Entrenchment and Amelioration: An Analysis of non-Sectarian Social Movements and Lebanon's Consociationalism*, in "Ethnic and Racial Studies", n. 7, 2018, pp. 1370-1389.

¹⁵ The conditions and consequences of the displacement of Syrian refugees in Lebanon are not discussed in this article, although these stressors are still placing a

tious politics along religious lines, often without an appreciation of nuances and intra-confessional rivalries. This article frames the current economic crisis in the country at the intersection between the collapse of a rentier system, dependent upon the economy of the Gulf¹⁶, and the legitimization crisis of the existing political leadership. The combination of these two factors creates a poverty trap for the majority of the population, which remains vulnerable to sectarian mechanisms of clientelism, discipline and control, and fuels the resentment of an impoverished middle class (the “middle-class poor” described by Bayat)¹⁷, which is at the forefront of street protests and political mobilization.

1. *In the Shadows of Sectarianism*

The protests in the summer of 2015 foreshadowed in many ways the demonstrations of October 2019. They reiterated some of the arguments of the anti-sectarian, mostly left-wing mobilization of 2011 that echoed some slogans of the wider Arab uprisings and campaigned for the “downfall of the sectarian regime”. The 2015 demonstrations were sparked by the failure of the Lebanese government, stalled by cross-vetoing and “not in my backyard” politics, to find a solution to the crisis caused by the closure of some landfill sites and the accumulation of piles of stinking garbage along the streets. As all the alternative proposals had been rejected on the basis of petty parochial arguments with sectarian overtones, protestors denounced the collusion of private interests (in that case, waste management companies) and the govern-

tremendous burden on the Lebanese social compact, in particular as they particularly affect marginal and vulnerable sectors of Lebanon’s society. For a comprehensive, if slightly outdated, analysis with charts and figures, see *Vulnerability Assessment of Syrian Refugees in Lebanon – VASyR 2017*, UNHCR, 15 December 2017. Available at: <https://data2.unhcr.org/en/documents/details/61312> (last accessed: 15 May 2020).

¹⁶ For a full analysis of Lebanese post-war economy and Gulf rentierism see H. BAUMANN, *The Causes, Nature, and Effects of the Current Crisis of Lebanese Capitalism*, in “Nationalism and Ethnic Politics”, n.1, 2019, pp. 61-77.

¹⁷ The connection between the impoverished urban middle class and the 2010-11 uprisings in many countries of North Africa and the Middle East was first theorized by Asef Bayat in January 2011. See A. BAYAT, *A new Arab street in post-Islamist times*, in “Foreign Policy”, 26 January 2011. Also A. BAYAT, *Life as Politics: How Ordinary People Change the Middle East*, Stanford, Stanford University Press, 2013.

ment of Lebanon, lack of transparency and accountability, and the asphyxiating role played by sectarian political parties¹⁸.

Earlier forms of anti-sectarian activism had been challenged by deeply entrenched sectarian discourses and practices in post-war politics, the obscuration of gross social and economic inequality, pervasive forms of securitization that framed political dissent as a threat to domestic peace, the lack of a shared definition of secularism, and the risk that any project to abolish the sectarian system might be appropriated by one of the sectarian political parties¹⁹.

The 2015 protests, gathered around the ubiquitous “You Stink” banner, eroded the legitimacy of the political status quo and challenged some more soft-spoken sectarian discourses. In retrospect, the protests were less of a movement against sectarianism in the name of abstract secularism than an inter-sectarian mobilization that cut across different confessional and economic strata of society in the name of falling living standards. The demonstrations signaled how dissatisfaction and anger could not be contained any longer in strict sectarian boundaries, even though sectarian narratives, selective perceptions of threat and victimhood, resentment, and lack of mutual trust continued to inform political strategies and positioning²⁰.

The political salience of the materiality of everyday life challenged narrow understandings of sectarian community (*ta’ifa*) and redefined practices of identity as negotiated experience and group membership. Personalist leadership, often formed at the intersection of private interests dependent on the economy of the Gulf and sectarian patronage, showed its limits. This was particularly evident in the case of the Hariri family, which failed to maintain its political clout despite a thick conglomerate of influential relations, international business interests, “close advisors and distant clients”²¹. A similar story is shown in the

¹⁸ M.-N. ABIYAGHI, M. CATUSSE, M. YOUNES, *From isqat an-nizam at-ta’ifi to the Garbage Crisis Movement: Political Identities and Antisectarian Movements*, in R. DI PERI, D. MEIER (eds.), *Lebanon Facing the Arab Uprisings: Constraints and Adaptation*, London, Palgrave Macmillan, 2017, pp. 73-91.

¹⁹ T. FAKHOURY, *Lebanon Against the Backdrop of the 2011 Arab Uprisings: Which Revolution in Sight?*, in “New Global Studies”, n. 1, 2011, pp. 1-11.

²⁰ M.-N. ABIYAGHI, M. CATUSSE, M. YOUNES, *From isqat an-nizam at-ta’ifi to the Garbage Crisis Movement: Political Identities and Antisectarian Movements*, cit..

²¹ W. VLOEBERGHES, *The Hariri Political Dynasty after the Arab Spring*, in “Mediterranean Politics”, n. 2, 2012, pp. 241-248.

case of Najib Miqati, perhaps the main political competitor of the Hariri family²².

Despite being a political party with a very high level of ideological engagement, based on a distinctly Shi'i interpretation of world history and politics²³, and strict internal discipline, even Hezbollah was faced with a barrage of disillusionment among its constituency precisely because of its perceived association with sectarian, corrupt politics²⁴.

The failure of sectarian identity politics and the rise of inter-sectarian mobilization by no means should be assumed as a sign of a complete demise of sectarian languages and practices. In addition to localized outbursts of sectarian violence, mechanisms of self-enclavization, identity-based introversion (*"repli identitaire"*) and exclusion continued to take place, especially in contexts of chronic neglect or increased poverty²⁵. The deterioration of the economy, the spillover from the Syrian civil war, the weakness of political leaderships and the failure of many religious institutions to provide solid moral guidance contributed to the rise of feelings of alienation, which in turn fed processes of Islamist radicalization and the spread of neighborhood gangs²⁶.

Among the Christian constituency, widespread anxieties about the eruption of jihadist violence in the Middle East and the demographic balance between Christians and the Muslim majority were intercepted

²² A businessman turned politician, Najib Miqati made his fortune in the telecommunications sector between Beirut, Western Africa, Dubai, Monte Carlo, and Geneva, before establishing his power base in the northern city of Tripoli. See B. DEWAILLY, *Transformations du leadership tripolitain: le cas du Nagib Mikati*, in F. MERMIER, S. MERVIN (eds.), "Leaders et partisans au Liban", Paris-Beyrouth, Karthala-IFPO-IISMM, 2012, pp. 165-185.

²³ F. MAZZUCOTELLI, *Les "printemps arabes" au miroir du Hizb Allāh*, in "Orient Moderno", n. 2, 2014, pp. 357-381. Also see E.C. CALABRESE, *Militier au Hezbollah. Ethnographie d'un engagement dans la banlieue sud de Beyrouth*, Paris-Beyrouth, Éditions Karthala/IFPO, 2016.

²⁴ F. MAZZUCOTELLI, *Rebordering the Lebanese Shi'i Public Sphere*, in R. DI PERI, D. MEIER (eds.), *Lebanon Facing the Arab Uprisings: Constraints and Adaptation*, London, Palgrave Macmillan, 2017, pp. 55-69.

²⁵ M. KORTAM, *Jabal Mohsen : stratégies de privatisation et d'appropriation communautaire de l'espace public*, Civil Society Knowledge Center, 1 August 2015.

²⁶ Among the body of recent works on processes of radicalization, see R. LEFÈVRE, *The Sociopolitical Undercurrent of Lebanon's Salafi Militancy*, Carnegie Middle East Center, 27 March 2018. On the spillover of the Syrian civil war and the phenomenon of street militias, see T. GADE, *Conflit en Syrie et dynamiques de guerre civile à Tripoli, Liban*, in "Maghreb – Machrek", n. 4, 2013, pp. 61-84.

by the rise of a peculiar form of Lebanese Christian ethno-nationalism, predicated upon claims of historical continuity, land rootedness, and precedence over non-Christians²⁷. This religious nationalism, which echoes past discourses on Lebanese Christian exceptionalism and insulation from the rest of the region, is feeding informal practices of segregation and discrimination against Muslim residents, Syrian refugees, South Asian and African migrant workers, and the LGBT community²⁸.

On 31 October 2016, Michel Aoun was elected as the new President of the Republic, after 45 failed attempts to achieve the necessary parliamentary quorum and a 29-month vacuum at the head of the state. His election, based on a delicate compromise among the two major blocs in Parliament, paved the way for the designation of Saadeddine al-Hariri as the new Prime Minister, who took office on 18 December 2016. The new arrangement did not unlock the impasse related to the international alignment of the country, and the general election, which was originally slated for 2013, was eventually held only on 6 May 2018 under a new electoral law based on proportional representation and the confessional allocation of seats.

The shortcomings of the sectarian power-sharing system and the political stalemate may lead to inconsistent governance, lack of strategic thinking, and nepotism, but should not be assumed as a sign of complete state failure. Public foundations such as CDR, which played a central role in the transfer of property rights to private developers in post-war reconstruction schemes²⁹, are still important centers of power, while public service ministries remain prime patronage instruments for sectarian politics through the selective distribution of resources and jobs. Meanwhile, BDL managed to retain its role as “probably the key institution of post-war capitalism in Lebanon”³⁰, as the next section will show.

²⁷ M. FELSCH, *The Rise of Christian Nationalism in Lebanon*, in M. FELSCH, M. WÄHLISCH, *Lebanon and the Arab Uprisings: In the Eye of the Hurricane*, London, Routledge, 2016, pp. 70-86.

²⁸ F. MAZZUCOTELLI, *Destra cristiana in Libano, l'offensiva è virulenta*, in “il manifesto”, 31 August 2019.

²⁹ F. MAZZUCOTELLI, *La Piazza dei Martiri di Beirut: l'isola che non c'è*, in “Storia Urbana”, n. 139, 2013, pp. 95-133.

³⁰ H. BAUMANN, *The Causes, Nature, and Effects of the Current Crisis of Lebanese Capitalism*, cit..

2. *Bursting the Bubble*

Lebanon's banking system has long been at the core of its laissez-faire economic policy. The liberalization of currency and capital markets in 1948 placed Beirut at the center of regional financial services. The banking sector thrived on the arrival of Palestinian capital after the 1948 war and the choice of Beirut as the new base of the Palestinian bourgeoisie³¹. A strict secrecy law in 1956 helped to attract Egyptian and Syrian capital, which was targeted by Nasserist nationalization schemes and by the onset of the Baath Party rule in Syria after 1963³². The abundant influx of oil money from the Gulf in the early 1970s brought the ratio between bank deposits and national income from 20% in 1950 to 122% in 1974³³. After 1959, the administration led by President Fouad Chehab launched a state-driven project in order to improve infrastructure and foster economic development in the peripheral and poorest areas of the country. This plan recognized the risks of uneven development and increased inequality in the distribution of wealth, overlapping with local and sectarian fault lines. The project was however marred by piecemeal implementation, and the election of Charles Helou as President in 1964 saw a return to more habitual patterns of laissez-faire, clientelism, and nepotism in the public sector. The new administration navigated between the will to reassure an anti-statist oligarchy and the need to maintain a minimal state as a facilitator for economic growth³⁴.

Samir Makdisi offers a convincing assessment of the limits of economic development in the lead-up to the civil war. The first period of the conflict actually preserved some prosperity, and it was only after the devastating

³¹ For an overview of the role played by Palestinian capital in Lebanon, in particular through the notorious collapse of Intra Bank in 1966, see J. MARSHALL, *The Lebanese Connection: Corruption, Civil War, and the International Drug Traffic*, Stanford, Stanford University Press, 2012, in particular pp. 49-58.

³² On this, and for a glimpse on the economic relations between Lebanon and Syria, see S. AITA, *L'économie de la Syrie peut-elle devenir sociale ? Vous avez dit : "économie sociale de marché" ?*, in B. DUPRET, Z. GHAZZAL, Y. COURBAGE, M. AL-DBIYAT (eds.), *La Syrie au présent. Reflets d'une société*, Arles, Actes Sud, 2007, pp. 541-579. Also see this data set: <https://twitter.com/RosalieBerthier/status/1250380083853959168/photo/2> (last accessed: 15 May 2020).

³³ As stated in J. TIERNEY, *The Diaspora, Debt, and Dollarization: Unraveling Lebanon's Resilience to a Sovereign Debt Crisis*, in "Jadaliyya", 25 November 2015.

³⁴ Among the vast production on this period, see F. TRABOULSI, *A History of Modern Lebanon*, London, Pluto Press, 2007, pp. 139-150.

Israeli invasion in 1982 that public debt started spiraling out of control³⁵. The US dollar began to be used as a medium of economic exchange as the inflation rate rose in the late 1980s. It was however the massive post-war reconstruction scheme, especially the grandiose plans for the reconstruction of Beirut Central District, that sparked an irreversible debt crisis. The dollarization of the economy was never reversed, and the 2002 donors conference known as Paris-II focused on the stabilization of the exchange rate between the local currency and the US dollar, and ultimately on the consolidation of then-Prime Minister Rafiq al-Hariri. In the late 2000s, international press coverage praised the Lebanese central bank and hailed “the good track record of the monetary authorities in managing the country’s formidable public debt”³⁶, or celebrated the financially conservative policy of BDL and the “surprising economic success” of the country despite the ongoing political stalemate and the effects of the 2007–08 global financial crisis³⁷. The obscurity of macro-economic data, notably in the absence of reliable figures for government budgets³⁸, baffled many analysts, who could hardly explain how a stable currency, solidly pegged to the US dollar, unusually high interest rates on bonds and deposits denominated in Lebanese pounds, a large and profitable banking system could be maintained in a country that had scarce export, relied on the importation of raw material, and was hindered by a string of ineffective caretaker cabinets. It is only recently, after dataset were released or leaked³⁹, that a clearer picture is starting to emerge. The trope of Lebanon’s economic resilience, predicated on the supposed dynamism of the entrepreneurial environment and the banking sector in opposition to the gridlock of local politics, became what Julia Tierney defines as “an excuse for dysfunctionality”. Tierney considers the nexus between the remittances of the Lebanese diaspora (particularly in the Gulf countries and West Africa) and their investment in

³⁵ S. MAKDISI, *The Lessons of Lebanon: The Economics of War and Development*, London, IB Tauris, 2004.

For an overview of the informal economy and the role of militias, see F. TRABOULSI, *L'économie politique des milices: le phénomène mafieux*, in “NAQD” n.1, 2004, pp. 169-202.

³⁶ *Lebanon’s bankability*, in “The Economist”, 3 April 2009.

³⁷ *Bucking the Trend*, in “The Economist”, 23 April 2009.

³⁸ R. BARTHIER, *Grand Theft Lebanon*, in “Synaps Network”, 14 April 2020.

³⁹ A group of self-described “software engineers keen to enhance transparency” started to release batches of data in March 2020 via Twitter. See <https://twitter.com/shinmimlam> (last accessed: 15 May 2020).

Lebanon's sovereign debt. The influx of the "diaspora dollars" is at the heart of a cycle of involvement of Lebanese private banks in the public debt, at the expense of productive investments and the improvement of infrastructure. Remittances from the diaspora accounted for 15.5% to 26.5% of Lebanon's GDP in the period between 2004 and 2014⁴⁰, and Tierney estimates that half of the deposits in Lebanese private banks were invested in sovereign debt, which offered very interesting rates. Lebanese sovereign debt was held predominantly by BDL, and local commercial banks, which consequently became highly exposed to the capacity of the government to pay back its debt. That many commercial banks were connected to politicians in power (who behaved simultaneously as financial decision-makers and bank shareholders)⁴¹ only reinforced an element of crony capitalism in a circulatory financial system between sovereign debt and bank deposits.⁴²

The political economy of real estate investments, which has been abundantly studied in the last years, reinforced the connection between Gulf-based and Beirut-based capital, the position of Lebanon as "a capital sink" for Middle Eastern capital, and the semi-peripheral status of Beirut in the system of global cities thanks to its function of provider of advanced services⁴³. Material and symbolical reasons contributed to a seemingly limitless expansion of the real estate sector after 2005. Its overgrowth was however accompanied by a spike in dollar-denominated prices that made housing beyond the reach of many ordinary

⁴⁰ Data on GDP are taken from the World Bank Open Data: <https://data.worldbank.org/indicator/NY.GDP.PCAP.KD.ZG?locations=LB>. Selected economic indicators for the period from 2014 to 2018 can be gathered from the *IMF Country Report 17/19*: <https://www.imf.org/~media/Files/Publications/CR/2017/cr1719.ashx> (last accessed: 15 May 2020).

⁴¹ Relations between bankholders and political elites are mapped in J. CHAABAN, *I've Got the Power: Mapping Connections between Lebanon's Banking Sector and the Ruling Class*, Economic Research Forum Working Paper 1059, 2016. <https://erf.org.eg/publications/ive-got-the-power-mapping-connections-between-lebanons-banking-sector-and-the-ruling-class/> (last accessed: 15 May 2020).

⁴² J. TIERNEY, *The Diaspora, Debt, and Dollarization: Unraveling Lebanon's Resilience to a Sovereign Debt Crisis*, cit..

⁴³ H. MAKAREM, *From Gulf to Amman via Beirut: Transnational Networks and Neoliberal Urban Developments in the Arab World*, in "Storia Urbana", n. 161, 2018, pp. 15-28. On the relation between real estate development, power negotiation, identity, and symbolical dimensions of space, see A. SAWALHA, *Reconstructing Beirut: Memory and Space in a Postwar Arab City*, Austin, University of Texas Press, 2011. See also A. ARSAN, *Lebanon: A Country in Fragments*, London, Hurst & Co., 2018, pp. 209-258.

Lebanese⁴⁴, in a country where the poverty rate reached 27% in 2012⁴⁵. While high returns on savings and deposits, the peg to the US dollar, and relatively accessible consumer loans and credit provided some temporary relief to the purchasing power of an impoverished middle class⁴⁶, the 1997 decision from the BDL to set a fixed exchange rate of 1507.5 Lebanese pounds per one US dollar reinforced dysfunctional dynamics. On the one hand, it made importing a variety of goods more profitable than producing them locally. On the other hand, it reinforced a rentier mechanism of investments focused on Lebanese financial products and the real estate sector⁴⁷. The significance of the peg became clearer when the spillover from the civil war in Syria, the slowdown in investments and direct foreign aid from the Gulf countries (mostly as a way to punish Hezbollah for their involvement in the conflict)⁴⁸, and a diminished inflow of foreign currency contributed to “sluggish” real GDP growth after 2011, with volatile economic activity as a result of frequent political shocks⁴⁹.

In May 2016, an opaque swap operation saw the Ministry of Finance and BDL exchange sovereign bonds denominated in Lebanese pounds for Eurobonds denominated in US dollars, which were subsequently sold to selected Lebanese private banks. The latter could also exchange US dollars in order to buy sovereign bonds denominated in Lebanese pounds, and then convert this investment back into US dollars at an unchanged rate⁵⁰. While companies trading in Lebanese treasury bonds mushroomed after 2008⁵¹, the Lebanese government started to emit Eurobonds denominated in US dollars in order to finance maturing debt bonds. Different tranches

⁴⁴ For a graphic rendition of the real estate speculative bubble, notably after 2005, see: <https://twitter.com/RosalieBerthier/status/1250380097170944000/photo/2> (last accessed: 15 May 2020).

⁴⁵ See Figure 6 in *Lebanon Economic Monitor*, The World Bank, 2017. Available at: <http://documents.worldbank.org/curated/en/568551493132224115/pdf/114552-v1-WP-PUBLIC-4-26-7AM-47p-LEM-Spring-2017.pdf> (last accessed: 15 May 2020).

⁴⁶ R. BARTHER, *Abracada...broke: Lebanon's Banking on Magic*, in “Synaps Network”, 2 May 2017.

⁴⁷ R. BARTHER, *Grand Theft Lebanon*, cit..

⁴⁸ This chart is particularly revealing: <https://twitter.com/RosalieBerthier/status/1250380083853959168/photo/3> (last accessed: 15 May 2020).

⁴⁹ See Figures 1 and 2 in *Lebanon Economic Monitor*, p. 11.

⁵⁰ R. BARTHER, *Abracada...broke: Lebanon's Banking on Magic*, cit..

⁵¹ See this chart: <https://twitter.com/RosalieBerthier/status/1250380097170944000/photo/3> (last accessed: 15 May 2020).

carried yields around 7%⁵². In what has been called the “great Lebanese Ponzi scheme”⁵³, the Lebanese treasury offered growing returns on each successive offer of Eurobond, mainly in order to pay back the interests on pre-existing debt, while the debt-to-GDP ratio reached a staggering 160% in 2016⁵⁴. Yields on Eurobonds in turn allowed banks to offer attractive spreads and therefore lure foreign deposits that were vital in order to maintain the peg. In January 2017, the sovereign debt exposure of Lebanese commercial banks reached 60.7%, rendering them particularly exposed to Forex sovereign debt⁵⁵.

In its 2017 report, the IMF emphasized the need for urgent action and warned about the risks of snowballing debt and of a possible collapse of the peg, estimating that the system needed an annual 6% increase in the inflow of deposits in US dollars in order to remain sustainable⁵⁶. In February 2018, on the eve of a long-delayed parliamentary election (originally scheduled for 2013 and then postponed under security concerns and technical pretexts), the IMF warned again about a “very difficult” fiscal situation, low growth, persistent external imbalances. The report criticized the increasing expansion of “unconventional financial operations” endorsed by BDL, notably stressing how, since summer 2016, the central bank had offered “large incentives to domestic commercial banks to invest in BDL’s dollar-denominated term deposits”. These operations were deemed “regressive”, as they did not have positive effect on growth. Even though the public budget was almost entirely absorbed by interests on pre-existing debt, salaries and pensions, the 2018 IMF report called for “strong fiscal adjustment and structural reform”, concluding that, in a context of domestic low growth and rising global interest rates, Lebanon’s debt was “unsustainable under the baseline scenario”⁵⁷. Among the other reasons of concern were the account gap, estimated around 25% at the end of 2018, and its impact on

⁵² *Lebanon issues \$3B in eurobonds*, in “The Daily Star”, 22 March 2017.

⁵³ L. MOUNZER, *The Great Lebanese Ponzi Scheme*, in “The New York Times”, 2 December 2019.

⁵⁴ See Figure 7 in *Lebanon Economic Monitor*, p. 15.

⁵⁵ *Lebanese Economic Monitor*, p. 21.

⁵⁶ *IMF Country Report 17/19*.

⁵⁷ *Lebanon: Staff Concluding Statement of the 2018 Article IV Mission*, IMF, 21 February 2018. Available at: <https://www.imf.org/en/News/Articles/2018/02/12/ms021218-lebanon-staff-concluding-statement-of-the-2018-article-iv-mission> (last accessed: 15 May 2020).

BDL reserves in a context where systemic sustainability was predicated upon the inflow of foreign deposits in US dollars and the ability of the Lebanese government to maintain its unblemished record of solvability. In February 2019, however, credit rating agencies estimated that the fiscal deficit for 2019 and US\$ 2.6 billion of Eurobond maturities could be covered without drawing on foreign exchange reserves only if bank deposit inflows of US\$ 6.5 billion could be assured during the year⁵⁸. Meanwhile, the US\$ 11 billion amount pledged at the CEDRE conference for international donors, held in Paris in April 2018⁵⁹, was conditional upon the implementation of the structural reforms devised by IMF reports and statements, including the introduction of a robust anti-corruption regulatory framework, the enhancement of transparency in the revenue and customs administrations, and a major overhaul of the grossly inefficient *Électricité du Liban* (EDL) utility⁶⁰. All these measures ran into stern opposition. The reference to customs management euphemistically implied a tougher approach to counterfeit goods and smuggling in Lebanon, questioning state capacity in borderlands control⁶¹. EDL, on the other hand, had become the embodiment of poor governance, corruption, and entanglement with entrenched clientelist interests⁶². None of these measures were considered in the lead-up to the elections, which were held on 6 May 2018, and during the painfully long negotiations that led to the formation of a new cabinet, headed by Saadeddine al-Hariri, on 31 January 2019. In April 2018, then-Finance Minister Ali Hasan Khalil warned that printing more money to finance the debt would worsen inflation, while high deposit rates, coupled with rising non-performing loan ratios, negatively impacted on access to loans. High-profile cases of bankruptcy in the real estate sector and the decline of tourism, largely due to security concerns and a sharp decline of incoming visitors from the Gulf, were highlighted as factors of imminent concern. Even more alarming was the sheer drop

⁵⁸ M. JONES, *The dire debt numbers facing Lebanon's new government*, in "Reuters", 4 February 2019.

⁵⁹ See <https://www.diplomatie.gouv.fr/en/country-files/lebanon/news/article/lebanon-cedre-conference-06-04-18> (last accessed: 15 May 2020).

⁶⁰ *Lebanon: Staff Concluding Statement of the 2018 Article IV Mission*.

⁶¹ J. MOUAWAD, *Lebanon's border areas in the light of the Syrian war: New actors, old marginalisation*, RSCAS Research Project, 2018.

⁶² *Lebanon's insoluble electricity crisis*, in "The Monthly", 10 July 2018. Available at: https://monthlymagazine.com/article-desc_4752_ (last accessed: 15 May 2020).

of remittances from the Lebanese diaspora in the Gulf, which decreased by 7% in 2017, in part as a result of an economic downturn in the region, and in part as a consequence of the labor market reforms in Saudi Arabia and other Gulf Cooperation Council member states, which now tend to favor nationals over immigrant workers⁶³. Threats of expelling Lebanese nationals working in Saudi Arabia and disinvesting from Lebanon had been voiced during the crisis between Saudi Arabia and Lebanon in November 2017, largely fueled by Saudi exasperation at the pivotal role played by Hezbollah in domestic and regional politics⁶⁴.

The state's failure to cater for basic needs and a soaring unemployment rate, which hit 25% (and 37% among those under the age of 25)⁶⁵, fueled massive dissatisfaction with Lebanon's economy and political system. Surveys of public opinion invariably registered widespread discontent, remarkably intersectional in nature, as negative assessments were shared regardless of age group, religious affiliation, or geographical distribution across the country⁶⁶. On 30 April 2019, anticipated austerity measures, including reductions to pensions and cuts to salaries of state employees, were met by a three-day strike called by the CGTL trade union. The proposals were put on hold as political bickering continued⁶⁷. On 18 October 2019, after a string of wildfires that revealed the inadequacy of state resources, the government proposed to levy new taxes on cigarettes and voice calls via WhatsApp. This last proposal, in particular, seemed to be summing up the vexing nature of austerity proposals and acted as catalyst of the underlying frustration for the overall situation⁶⁸.

Shortages of US dollars in Lebanese commercial banks were reported as of early October, prompting importers of basic goods and fuel to de-

⁶³ M. ALAMI, *Lebanon's Perfect Financial Storm*, Carnegie Endowment for International Peace, 17 October 2018.

⁶⁴ H. GHADDAR, *Saudi Arabia's War on Lebanon*, The Washington Institute Policy Analysis, 13 November 2017.

⁶⁵ G. HAMADI, *Unemployment: The paralysis of Lebanese youth*, in "Annahar", 2 August 2019.

⁶⁶ Charts and figures can be seen in M. MORDECAI, *Protests in Lebanon highlight ubiquity of WhatsApp, dissatisfaction with government*, Pew Research Center, 19 November 2019.

⁶⁷ H. SHAWISH, *How did Lebanon become the third most indebted nation?*, in "BBC", 25 October 2019.

⁶⁸ *Lebanon protests: How WhatsApp tax anger revealed a much deeper crisis*, in "BBC", 7 November 2019.

mand to be paid in US dollars and causing price spikes at groceries and petrol stations. The impending collapse unfolded in the following three weeks, when the banking system was officially closed and most economic activity came to a standstill. In the absence of formal capital control mechanisms, earlier reports speculated that US\$ 800 million had left Lebanon between 15 October and 7 November⁶⁹, while the figure was later put at US\$ 2.3 billion⁷⁰. While ordinary depositors were severely limited in the access to their savings by haphazard and draconian measures taken by each single commercial bank, capital flight occurred among senior civil servants and major shareholders, prompting a 30% drop in the value of the Lebanese pound against the US dollar⁷¹.

The magnitude of the crisis won't probably be entirely realized until three different accounting firms perform an audit on the highly secretive reserves of BDL⁷². A reason of particular concern is the US\$ 63 billion currency mismatch in the balance sheets of Lebanese commercial banks and BDL, which means that significant private savings in US dollars are only available in Lebanese pounds, whose value the central bank no longer has the means to defend. The shortage of US dollars and the almost total paralysis of the banking sector are alarming because of their impact on the real economy, which was further affected by the lockdown measures that had to be applied during the Covid-19 pandemic. GDP is expected to fall 13.8% in 2020, after a 6.9% decline in 2019. The free fall of the Lebanese pound during the lockdown is resulting in a mechanism of hyperinflation, which is now projected at 53% in 2020, and a drastic contraction of purchasing power among a large part of the population⁷³. With an unofficial exchange rate on the informal market that plunged to more than 4,000 Lebanese pound per one US dollar on 24 April 2020, there is concrete evidence of a dra-

⁶⁹ As mentioned in *For An Emergency Economic Rescue Plan For Lebanon*, Carnegie Middle East Center, 10 November 2019. Available at: <https://carnegie-mec.org/2019/11/10/for-emergency-economic-rescue-plan-for-lebanon-pub-80307> (last accessed: 20 May 2020).

⁷⁰ *Lebanon prosecutor grill bankers over capital flight*, AFP / France 24, 2 March 2020.

⁷¹ *Cash-strapped Lebanon to probe 'suspicious' capital flight*, AFP / France 24, 26 December 2019.

⁷² P. HAGE BOUTROS, *Comment vont se dérouler les négociations avec le FMI*, in "L'Orient-Le Jour", 13 May 2020.

⁷³ S. AL-ATTAR, *Le douloureux sauvetage de l'économie libanaise*, in "Le Commerce du Levant", 30 April 2020.

matic rise of the levels of poverty and unemployment even among the middle class⁷⁴, in addition to the already vulnerable categories like Syrian and Palestinian refugees, and female domestic migrant workers⁷⁵.

3. *Sectarianism's New Clothes*

Claudio Magris writes that “familiarity with the cast of *Mitteleuropa* and its rehearsals on scene suggests not to give credit to irreversible destinies, but rather to the uncertainty principle”⁷⁶. The same might be argued about the Middle East, and Lebanon in particular. At a time when the Lebanese system had entered a vigorous anti-sectarian challenge and the new technocratic cabinet led by Hassan Diab was considering its first moves, the Covid-19 pandemic reshuffled the scenario. The government had a slow response in the implementation of lockdown measures, also as a consequence of the rough relations between President Michel Aoun and the Lebanese Armed Forces, which were called to maintain public order. In many parts of Lebanon, sectarian parties claimed the prerogatives of the state, providing emergency aid, food and sanitation, often ridden with party logos, and erected impromptu checkpoints⁷⁷. Under a humanitarian disguise, these parties deployed practices and symbols of governmentality, and tried to reassert their dominance over traditional strongholds. In conjunction with the great degree of arbitrariness displayed by municipalities in the implementation of lockdown measures, these shows of force contributed to the reappearance of territorial sectarian borders⁷⁸.

At the same time, as the one-time rescue package devised by the cabinet could not stop the meltdown of the economy, forms of assistance based on confessional and clientelist connections became the only life-

⁷⁴ A.-B. HOFFNER, *Les Libanais étranglés par l'effondrement de leur monnaie*, in “La Croix”, 24 April 2020.

⁷⁵ J. LAFONDE SALEH, *Au Liban, les employées de maison prises au piège de la crise*, in “La Croix”, 10 May 2020.

⁷⁶ C. MAGRIS, *Danubio*, Milano, Garzanti, 2018, p. 312.

⁷⁷ B. EL-HALABI, *Between Famine and a Pandemic: Lebanon Is a Ticking Time Bomb*, ISPI Commentary, 9 April 2020.

⁷⁸ J. MOUWAD, *How Lebanon's political parties are using coronavirus to seize back control*, in “Middle East Eye”, 13 April 2020.

line for many stranded families across the country⁷⁹. Sectarian parties often grasped the opportunity to pose as the champions of the underprivileged and the deprived, even though none of these parties has ever challenged either the clientelist system that is causing cycles of dependence from aid or the neoliberal paradigm that has oriented pre- and post-war policies in Lebanon⁸⁰.

In May 2020, the cabinet led by Prime Minister Hassan Diab is considering some drastic measures in order to address the financial crisis. The government plan would allow the owners of smaller deposits to withdraw part of their savings in US dollars and exchange them into Lebanese pounds, at an exchange rate that is significantly higher than the still official one, but lower than what is practiced on the informal currency exchange market. This proposal has been likened to an indirect “haircut”, because the value of these assets will be reduced when small savers change back their money into US dollars or because of the inflation rate. The haircut might however be a first step in the de-dollarization of Lebanon’s economy and the reduction of the existing currency mismatch, at a time when the cabinet considers that the financial engineering and the cumulated loss of BDL are not sustainable and affect the credibility of Lebanon’s financial system among foreign investors and international donor⁸¹.

In a context where foreign governments and religious institutions still provide political shielding, the Prime Minister faces an uphill battle for his plans of debt restructuring. The weakness of the cabinet, which is dependent on a narrow parliamentary majority in a context of ongoing sectarian bickering, leaves many observers hopeless that the reform package will address the monetary and fiscal policies that were adopted since the end of the civil war. Reforms that would tackle clientelism, such as the privatization of EDL, the fight against counterfeiting and smuggling, or the creation of an independent anti-corruption authority are going to be met with a deluge of criticism, just like any cut of jobs or salaries in the public sector, and the revision of pension schemes for public employees and the military⁸². Unpopular austerity measures will be implemented,

⁷⁹ N. MAUCOURANT ATALLAH, *Qui sont les bénéficiaires de l’aide aux plus démunis ?*, in “Le Commerce du Levant”, 1 May 2020.

⁸⁰ M. CALCULLI, *Will Hezbollah Survive Lebanon’s Crisis?*, ISPI Commentary, 13 March 2020.

⁸¹ S. AL-ATTAR, *Le douloureux sauvetage de l’économie libanaise*, cit..

⁸² A. VOHRA, *The Death of Lebanon’s Middle Class*, in “Foreign Policy”, 21 May 2020.

if ever, with feeble parliamentary support and in a domestic context where the poverty rate was estimated at 48% by the end of 2020, and might prove way higher once the effect of the pandemic is factored in⁸³. The cabinet led by Hassan Diab is now considering a bail-in scheme, where creditors would be required to bear some of the burden by having a part of their debt written off. This plan would partly draw some lessons from measures that were implemented in the 2013 Cypriot financial crisis, and is considered by the cabinet as more appealing than a bail-out, which would need an injection of capital through the intervention of the IMF or the privatization of state assets⁸⁴. On the one hand, a no bail-out hypothesis can effectively grant the international support that is needed in order to stabilize Lebanon's economy and shield the country from severe recession and hyperinflation. On the other hand, the privatization of state assets presents many downsides. Specifically, it might "amount to fire sales" in the current environment, and a transfer of "monopoly power to an oligopolistic private sector" with political connections⁸⁵. Unsurprisingly, most sectarian leaders stepped in to criticize the bail-in option and defend the "sacredness" of deposits against an alleged "economic suicide". In fact, a bail-in option, which would entail a conversion of a part of larger savings into a participation to bank losses, would expose the intricate connections between politics and the banking system, the shady deals disguised behind the opaqueness of secrecy laws, and the definition of legal responsibilities in case of failure. For the ruling elite, the best option, albeit a short-sighted one, seems therefore to maintain the existing parameters while the internecine fight for short-term power goes on⁸⁶.

Conclusions

The paradox of Lebanon's predicament lies in the fact that the persistence of the financial crisis appears to reinforce the foundations of its sectarian

⁸³ S. AL-ATTAR, *Le douloureux sauvetage de l'économie libanaise*, cit..

⁸⁴ M. MAHMALAT, *Les enjeux et risques de la sacralisation des dépôts par la classe politique*, in "Le Commerce du Levant", 30 April 2020.

⁸⁵ *For An Emergency Economic Rescue Plan for Lebanon*, cit..

⁸⁶ M. MAHMALAT, *Les enjeux et risques de la sacralisation des dépôts par la classe politique*, cit..

system and its clientelist networks. As Baumann writes, “the post-war economic model pits the rentiers against the rest”⁸⁷, but the rest largely depends on the rentiers for its own survival through patronage. After being strongly shaken by the demonstrations during the last months of 2019, the sectarian elites are now seizing the unexpected opportunities created by the aftermath of the Covid-19 pandemic, with its related social and economic effects, in order to maintain their stranglehold on power and increase the dependence of an impoverished population on a network of patron-client channels. Most commercial banks still have major shareholders who are linked to the existing political elites. The dense connection between sectarian politics and private interests is best shown by an economic system that revolves around rent-creation mechanisms such as real estate speculation and public debt management.

In the absence of a copious injection of liquidity from abroad, the absence or the delay of much-needed economic and political reforms might translate into a further impoverishment of a large portion of the population. At particular risk is its middle class, whose malaise will fuel further political instability. The forms and effects of such contentious politics, particularly in its double confrontation with rentier capitalism and sectarianism, remain hard to predict.

Riassunto - L'attuale crisi finanziaria libanese è per molti versi il risultato di un sistema politico clientelare, rivestito di narrazioni e di rivendicazioni confessionali, che ha utilizzato le risorse pubbliche in cambio di un instabile supporto. L'articolo prende in considerazione il default del marzo 2020 nel quadro del dibattito sulla fragilità dello stato libanese e la natura del sistema confessionalista. La fragilità delle istituzioni pubbliche libanesi è stata spesso convenientemente spiegata come l'effetto di fattori esterni, ultimo tra i quali il fardello rappresentato dai rifugiati della guerra civile siriana, o come il risultato delle frammentazioni religiose. L'articolo inquadra la crisi in corso all'intersezione tra il collasso di un sistema neopatrimoniale di rendite legate alle

economie del Golfo e la crisi di legittimità delle *élites* politiche locali. La combinazione di tutti questi fattori esaspera i meccanismi di impoverimento della maggioranza della popolazione, e particolarmente della sua classe media, che rimane esposta a meccanismi confessionali di clientelismo, disciplina e controllo. Il paradosso dell'attuale crisi è che essa sta rafforzando le fondamenta del sistema che è all'origine dei meccanismi di indebitamento e di insostenibilità finanziaria. Dopo essere state messe sotto pressione dalle manifestazioni di piazza negli ultimi mesi del 2019, la pandemia di Covid-19 sta offrendo alle *élites* politiche la possibilità di riaffermare il proprio controllo egemonico sui propri territori e settori sociali di riferimento.

⁸⁷ H. BAUMANN, *The Causes, Nature, and Effects of the Current Crisis of Lebanese Capitalism*, cit..