

# Lebanon feeling the heat of US banking sanctions on Hezbollah

Dalal Saoud

Beirut

Lebanon's problems are dangerously exacerbating with the implementation of a US law imposing banking sanctions on Iran-backed Hezbollah and pitting the country's two most powerful entities – the militant group and the banking sector – against each other.

A powerful explosion that targeted one of Lebanon's top banks, Blom, on June 12th sounded the alarm about the country's financial stability, weak economy and the very existence of the Shia militant group Hezbollah. No one claimed responsibility for the Beirut explosion, which caused considerable damage to the bank's headquarters, but Hezbollah was quickly blamed.

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**Kamel Wazni, a political and economic analyst**

Whether it was a message from Hezbollah to warn banks against proceeding with the implementation of the US sanctions or a "fifth column" seizing the opportunity to tarnish Hezbollah's image, Lebanon is in a crisis situation.

"Obviously this new US law is going to cause a lot of headaches for the Lebanese economy... It is hard to implement it and it is harder not to implement it," said Kamel Wazni, a political and economic analyst.

Lebanon's Central Bank in May started to enforce the Hezbollah

International Financing Prevention Act (HIFPA), which the US Congress passed in December to forbid banks from dealing with the Shia militant group. Any organisation or individual providing significant finances to Hezbollah, listed as terrorist group by the United States, is to be punished.

With Lebanese banks fearing international isolation, 100 accounts were closed – as confirmed by Central Bank Governor Riad Salame – in compliance with a list provided by the United States.

Hezbollah has downplayed the impact of HIFPA, saying it was not using the official financial system for its dealings. However, it complained of "over-zealousness" by some banks in including accounts that need not to be closed – a clear reference to its large number of supporters, sympathisers and, most importantly, its social, medical, cultural and charity institutions that provide services to impoverished areas and the reasons for the group's popularity.

If the sanctions were expanded to include Hezbollah's non-military institutions or other organisations and individuals Washington says are associated with Hezbollah, Wazni said the group "will most probably be fighting it back. It will be harmful for the financial system."

According to economic analyst Adnan Hajj, sanctions are likely to expand and be implemented gradually. "One hundred accounts have been closed but this does not mean there will be no other lists (by Washington to close more accounts)," he said.

Hajj said Hezbollah was trying to put pressure on the Central Bank to not abide by HIFPA "but it cannot. There is no way out."

Hezbollah thus turned to focus on preventing the expansion of the US law and the scope of its implementation.



A Lebanese policeman walks outside the headquarters of Blom Bank in Beirut.

A senior banking source, who asked not to be identified, said HIFPA is not "a positive thing for Lebanon" but the situation "is manageable if all parties agree and work together. Things are clear to Hezbollah."

"There is a well-structured and well-defined mechanism (by the Central Bank to implement the sanctions). It is not easy but with time, it could become a natural (process)," the source said.

He explained that any bank has to provide justification to close an account or refuse to open one for people or institutions it believes violates the HIFPA. The Central Bank is to study any such case within 30 days.

The Central Bank is also to make sure that no "specific group of Lebanese" are targeted, according to the source.

However, such efforts might not be sufficient to appease growing fears.

Wazni expressed concerns that the US sanctions "will go beyond Hezbollah" to target Shias in Lebanon "who control a large sum of money in the banking sector". With no accurate figure available about such deposits, he said "the rumours put them at around \$50 bil-

lion, probably one-third of the total deposits".

"As if you are telling one-third of the population to go and create their own financial system, this will encourage an underground economy that nobody wants in Lebanon and that is very dangerous," he said, warning that the weak Lebanese economy cannot "take any additional shock unless they want us to be like Cuba, a failing country financially".

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**Economic analyst Adnan Hajj**

With Hezbollah resorting to "cash money" distributed heavily after the 2006 Israel war on Lebanon, Wazni said the "US is encouraging an underground economy whose consequences actually work opposite to what the law intended to."

"The dangers are great. All the sectors will be affected (by the sanctions)," acknowledged Hajj.

"What will happen if they are extended to expatriate remittances to Lebanon estimated at \$8.7 billion a year? Lebanese exports will be affected too."

The banking source, however, was more reassuring about the currency stability because of large liquidity reserves and about the banking sector, which "is doing well."

"The banking system proved to be resilient. It is not the first time it faces such a strong shock," he said.

Feeling the heat of the US sanctions, many have decided to keep away from Hezbollah even if this means losing business. For example, a journalist, an occasional guest of Hezbollah-run Al Manar TV's political programmes, is evading such appearances.

Although money will likely keep being funnelled to the Shia militant group directly from Iran's ayatollahs and religious institutions, attention is being shifted to how an alienated Hezbollah will express its dismay politically.

Dalal Saoud is the deputy editor-in-chief of The Arab Weekly and has been reporting on the Arab region since 1990. She is based in Beirut.

## Behind the Blom Bank explosion

Viewpoint



**Mohamed Kawas**

The explosion outside of Lebanese Blom Bank headquarters in Beirut represents the culmination of a crisis caused by the latest

US sanctions on Hezbollah. These are international sanctions that Lebanon's banking system had no choice but to enforce, arousing Hezbollah anger.

Although the group denied responsibility, the explosion comes in line with previous actions by Hezbollah, including explicit threats on social media with ties to Hezbollah towards Blom Bank. Ultimately, there can be little doubt of Hezbollah culpability.

The United States introduced a law in 2014 requiring international banks to take steps to target anybody financing Hezbollah. Known as the Hezbollah International Financing Prevention Act, there had been limited consultation with Lebanese authorities before regulations

governing the law were announced in April.

Lebanon sent Finance Minister Ali Hassan Khalil to Washington to discuss the law and its implications but this was too late for any amendments to be made, particularly given the United States' clear determination to prevent Hezbollah, which it classifies as a terrorist group, from participating in the international banking sector.

No one died in the explosion and security authorities said the aim was likely not to cause civilian casualties but to send a message to Blom Bank and Lebanon's banking system. There was major damage to the outside of the bank, including its lavish glass façade.

Lebanon Central Bank Governor Riad Salameh and Blom Bank Chairman Saad Azhari pleaded against a rush to judgment regarding Hezbollah's involvement and for the authorities' investigation to be allowed to run its course.

Media outlets with ties to Hezbollah issued reports claiming that Azhari, a Syrian national, was seeking to carry out a foreign agenda against Hezbollah for personal gain. These claims were repeated by figures close to Hezbollah even after the explosion, along with allegations that it

was enemies of the "resistance" – code for Hezbollah in Lebanon – that were responsible for the explosion.

Lebanese media also reported that head of Lebanon's General Directorate of General Security Abbas Ibrahim warned the US Treasury Department during his recent visit to Washington of the potential consequences of targeting Hezbollah in this manner.

A few days after the explosion, Salameh announced, in an interview with CNBC, that 100 bank accounts with ties to Hezbollah had been frozen and that as many as 3,000 more accounts could be frozen in the future. Salameh said Lebanon intended to fully comply with the US sanctions, no doubt drawing the ire of Hezbollah.

Hezbollah Secretary-General Hassan Nasrallah initially sought to play down the effects of the US sanctions, claiming that Hezbollah did not keep money in bank accounts and that its financial operations were not tied to Lebanon's banking system. However, news that 100 bank accounts had been frozen and that thousands more could follow, along with the Blom Bank explosion, reveals the extent to which Hezbollah has been hurt by these sanctions.

**The question is: What will Hezbollah do next?**

The group has subsequently sought to try to use Lebanon's Shia community to push back, claiming that the sanctions are specifically targeting Shia money. Some Lebanese newspapers asserted that the country's Shia community could withdraw their funds – totalling billions of dollars – from the banking sector in protest.

The Blom Bank explosion will be pivotal in the forthcoming confrontation between Washington and Hezbollah, diplomatic sources said. This attack was an attack on US decision-making as much as Lebanon's banking system and came just days after a visit to Beirut by US Assistant Treasury Secretary Daniel Glaser. It represents an invitation for the United States to amend its sanctions policy towards Hezbollah and as a warning about what could happen if it does not.

But at a time when the United States is working in synchronisation with the Gulf Cooperation Council, the Arab League and the Organisation of Islamic Cooperation to target Hezbollah and deal with it as a terrorist group, few observers say Washington will change its course. The question is: What will Hezbollah do next?

Mohamad Kawas is a Lebanese writer.

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