



WFP Lebanon Market Bulletin: July to September 2018

Highlights

- Lebanon continues to suffer from a sluggish economy and high fiscal pressure, with a public debt to GDP ratio of 155%¹, the third highest in the world.
- The general inflation rate recorded a level of +1.4% for the period July-September 2018, and +3.4% for the first nine months of the year. The highest increase since beginning of year was recorded in prices for electricity, gas, and other fuels (+9%)².
- Food and non-alcoholic beverages prices increased by +4% since the beginning of year, of which +1.4% in Q3-2018. The highest increase in the first nine months of 2018 was observed in the North, followed by Beirut, and the highest increase in Q3-2018 was observed in Beirut³.
- At the national level, construction permits issuing has dropped by 18% for the first 6 months of 2018 compared to same period of 2017, decreasing income opportunities for Lebanese and Syrian refugees⁴.
- Syrian refugees pay 66% more on rent of non-permanent shelters, paying on average \$58 per month, an increase of \$23 since 2017⁵.
- Lebanon faces a risk of an economic downturn due to a high demand of US Dollar, increasing interest rates, the highest budgetary deficit in years, an increasing trade deficit and increasing cost of public debt.

Current Economic Situation

Lebanon is facing a critical economic and monetary situation widely described as the worst since the 1992 crisis. The slowdown in economic activities combined with a trend of decreased remittances, volatile oil prices world-wide and public deficit are putting Lebanon at risk.

With increased consumer prices and fewer income opportunities, this economic situation has a direct negative impact on the daily lives of vulnerable Lebanese households as well as Syrian refugees. Today Lebanon hosts 1.5 million refugees of which 69% remain below the poverty line⁶.

Key Indicators¹¹

Interest Rates	8.09% on LBP (June 2018: 7.30%) 4.91% on US\$ (June 2018: 4.63%)
Budgetary Deficit	US\$5 Billion (10% of GDP)
Consumer Price Index	107 in July, 107.2 in August, 107.7 in September
Trade Deficit	US\$26 Billion (same as 2017)
Food Basket Price	-2.10% (since Q2-2018)
Energy Price Index	+9% (since beginning of 2018)
Construction Index	-18% (1st Half-2018/1st Half 2017)

General inflation rate: total level of +1.4% in Q3 2018 (July to September)

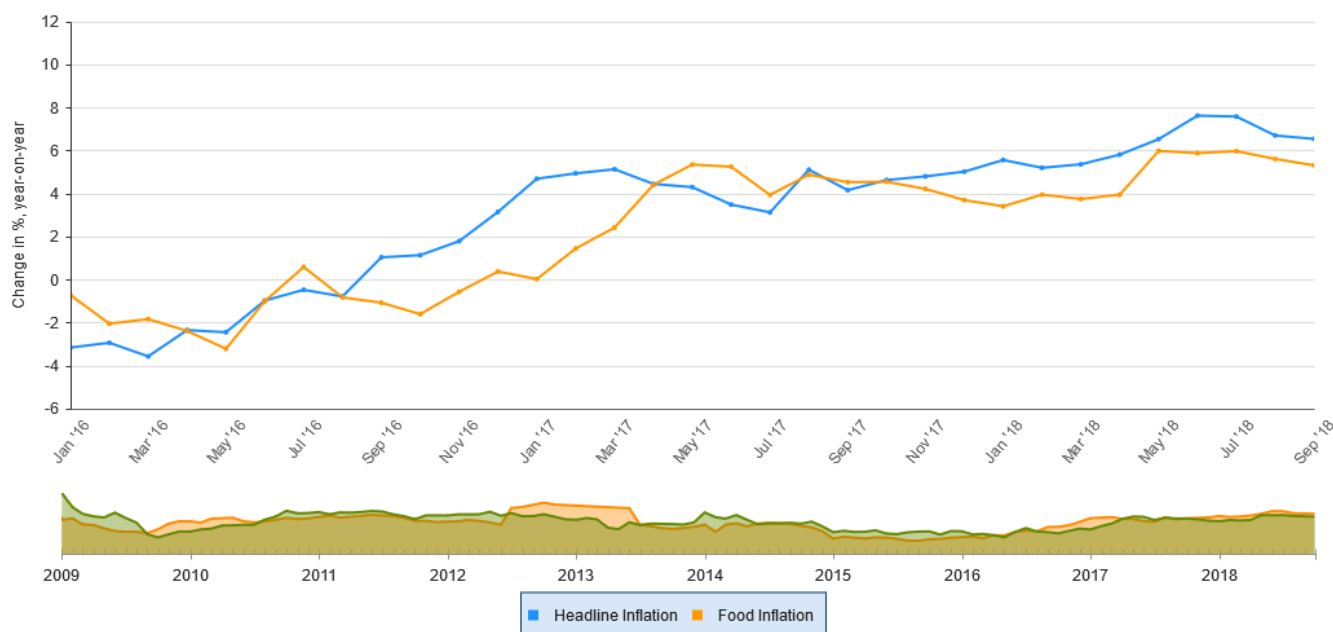


Figure 1: Headline and food inflation between January 2016 and September 2018—above, compare to inflation since 2009—below (Source: WFP, 2018; http://dataviz.vam.wfp.org/economic_explorer/macro-economics/inflation?adm0=141)

As per the WFP VAM price database, food prices have been generally increasing since beginning of 2016. Figure 1 shows the annual change in percentage for headline and food inflation since January 2016.

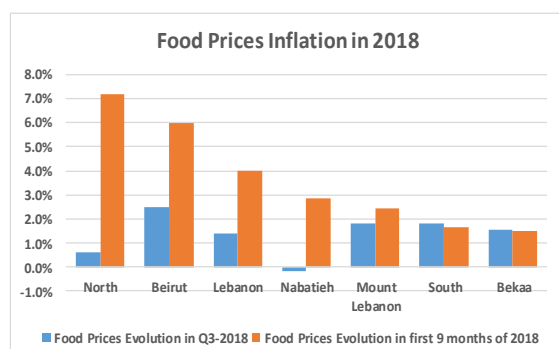
According to the Central Administration of Statistics (CAS), food and non-alcoholic beverages prices increased by +4% since the beginning of year, of which +1.4% in Q3-2018.

At the subnational level, the highest food price increase in the first nine months of 2018 was observed in the North followed by Beirut, and the highest increase in Q3-2018 was observed in Beirut. A slight drop in food prices was recorded in Nabatieh in Q3-2018. Bekaa-Baalbek has recorded the lowest food prices hike in the first 9 months of 2018 with +1.5%.



As per the government's central administration of statistics, prices of food have increased by 4% since the beginning of 2018, and by 1.4% during Q3-2018

Figure 2: Food prices inflation in 2018 (CAS)



Food Basket Price: -2.10%

	Q2-2018 Av.	Q3-2018 Av.	Change %
Egyptian Rice (1 KG)	1,959	1,992	+1.70%
Pasta (1 KG)	1,399	1,391	-0.55%
Bulgur (1 KG)	1,535	1,492	-2.76%
Canned meat (200 G)	1,688	1,688	0.0%
Vegetable Oil (5 L)	10,971	10,556	-3.78%
Sugar (1 KG)	1,262	1,301	+3.12%
White Beans (1 KG)	3,091	3,010	-2.63%
Salt (1 KG)	707	705	-0.33%
Total	LBP22,611	LBP22,135	-2.10%

Figure 3: Food basket price change from Q2-2018 to Q3-2018 (WFP VAM price database, calculated based on retail units)

WFP collects food prices through its retail traders network. The network consists of 460 retail traders throughout the country. Price information is collected on a monthly basis through POS system tracking price changes of basic food commodities. Figure 3 shows the price changes of basic food commodities on a national level between Q2 and Q3 2018. The basic food basket, which includes rice, sugar, pasta, white beans, wheat bulgur, canned meat, vegetable oil and salt, has recorded a decrease in price of two percent in the 3rd quarter, compared to second quarter of 2018.

A slight increase in the prices of sugar (+3.1%) and Egyptian rice (1.7%) was observed in the third quarter of the year compared to the second quarter. This information can be found on WFP's VAM food prices database [here](#).

The Construction sector continues to be slow

The real estate sector in Lebanon is still witnessing a national stagnation, mainly because of the reduced demand, the current economic situation, and the regional challenges. An additional factor has driven demand down is the halt of government-supported housing loans in December 2017 in an attempt to contain the demand on foreign currencies as most housing loans are in LBP.

In numbers, construction permits issuing has dropped from a total of 4.9 million sq. meters in the first half of 2017 to 4.0 million sq. meters in the first six months of 2018. This represents a decrease of 18% year-on-year.

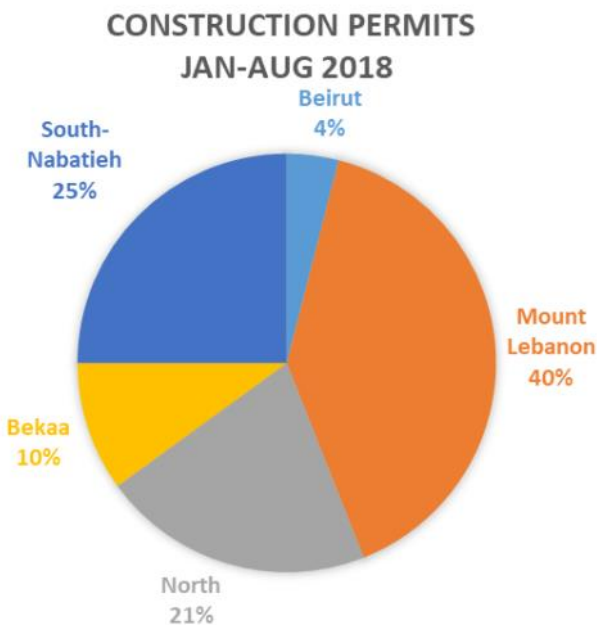
Real estate transactions have also declined from 33,500 during H1-2017 to 27,500 during H1-2018. This represents also an 18% drop in real estate operations. In construction permits' distribution, 40% of permits are in the Mount-Lebanon, while 10% are in Beirut and 25% in South and Nabatieh⁴ (see figure 4).

The latest recession in the construction sector has negatively impacted work opportunities for many Syrian refugees as many of them rely on this sector as major source of income.



Construction permits' issuing decreased from 33,500 to 27,500 in one year

Figure 4: construction permits by governorate (Order of Engineers, Lebanese Real Estate Registry)



Syrian refugees pay more for non-permanent shelter

The Central Administration of Statistics (CAS) stated that inflation in rents was the highest in Nabatieh for the first nine months of 2018 (+8.8%), this is probably due to the construction ascent that the governorate is witnessing since last year, followed by North (+7.1%), then Beirut (+4.6%). Bekaa has the smallest increase of +0.8% in nine months. There are no clear trend expectations in rent prices on the short term, however it has shown much more resilient than actual housing prices (see figure 5).



Cost of renting residential shelter remained unchanged, while rent of non-permanent shelter has increased by 66%

Rents for Syrian refugees remained unchanged in 2018 at an average of US\$182 per unit. This ranged between a +15% increase in Nabatieh and -9% decrease in Baalbek – Hermel⁶.

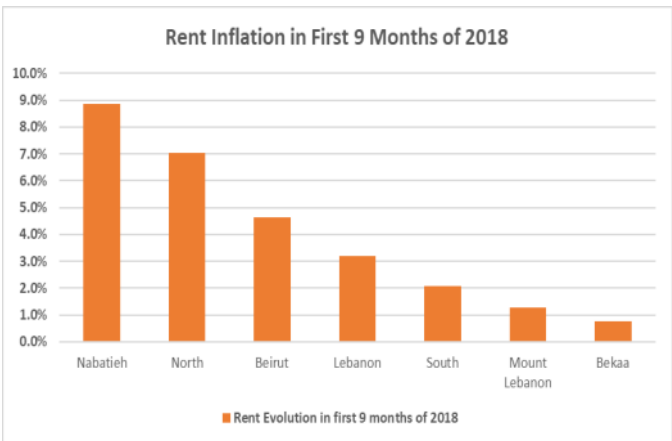
While rent per unit of non-residential units (warehouses, unfinished buildings, farms) has increased to an average of US\$149 by 9% in 2018, rent of non-permanent units (pre-fabricated units, tents) has increased significantly by around 66% to reach an average of US\$58 in 2018. It is unknown what caused this upsurge in rent of non-permanent units (+100% in Bekaa)⁷.

As per VASyR 2018, Syrian refugees spend most of their income on food (40%), and 20% on rent, thus any rent increase is believed to severely impact their access to food.

The real estate market is not expected to pick up anytime soon, especially amongst the domestic and local economic and political challenges. However, the formation of a new government might help in revamping trust and investment appetite.

Moreover, the Lebanese parliament has approved a law to re-launch government-supported housing loans worth of US\$66 million. This is expected to lift the real estate market in modest percentages, especially in small housing units.

Figure 5: Rent inflation in the first nine months of 2018, as per the Central Administration of Statistics (CAS)



Unemployment

Unemployment rate in Lebanon remains high. With absence of updated surveys, latest official unemployment rate recorded 7% in 2017 as per the World Bank. In 2018, some references estimates unemployment amongst youth to exceed 20%, and it can reach 40% in some areas like Tripoli⁸.

Unemployment amongst Syrian refugees' working force has recorded a level of 40%, that is 61% for women, and 35% for men, while 68% of refugees' households have at least one working member (compared to 64% in 2017)⁹.

Lebanon faces economic downturn risks similar circumstances of past crises

Economic growth has been sluggish since 2011 with around two percent real GDP growth per year. World Bank projections for 2018 real GDP growth has been revised downwards to only 1% from a previous 2%. This development is aggravated by high interest payments servicing public debt eating up around 51% of government revenues (highest percentage of government revenues to service the public debt in the world, second is Sri Lanka: 36%, third is Brazil: 35%)¹⁰.

With all the indicators previously mentioned, the Lebanese economy is currently described by different references as risky. Remedies should normally include promotion of investments, especially production, agriculture and tourism, new technologies, through a package of incentives (tax exemptions, lower costs), reform of the state and fighting corruption, and most importantly the reform of the electricity sector which is eating up the state's revenues, and finally accelerating the oil and gas extraction process.

Working on better gender and income equality will definitely boost the economy and investment appetite. The latest opening of Nassib border between Syria and Jordan is expected to result in a positive impact on Lebanese exports to Jordan, to the GCC (Gulf Cooperation Council), and to other countries.

Key international indices ranking of Lebanon

Gender gap 137th out of 144 (2017)

Gini index 129th out of 141 (2014)

Corruption index 143th out of 180 (2017)

The ease of doing business 133th (2018)

*World Economic Forum, Gender Gap Report, 2017 <https://www.weforum.org/reports/the-global-gender-gap-report-2017>

*Gini Index <http://www.lb.undp.org/content/dam/lebanon/docs/Governance/Publications/Assessing%20Labor%20Income%20Inequality%20in%20Lebanon%E2%80%99s%20Private%20Sector.pdf>

*The Corruption Index, Transparency International, 2017 https://www.transparency.org/news/feature/corruption_perceptions_index_2017

*Doing Business 2018, World Bank <http://www.doingbusiness.org/content/dam/doingBusiness/media/Annual-Reports/English/DB2018-Full-Report.pdf>

Sources

¹World Bank, Central Bank, 2018

²Central Administration of Statistics (CAS) 2018 <http://www.cas.gov.lb/index.php/economic-statistics-en?layout=edit&id=185#cpireresults>

³Central Administration of Statistics (CAS) 2018 <http://www.cas.gov.lb/index.php/economic-statistics-en?layout=edit&id=185#cpireresults>

⁴Order of Engineers and Lebanese Real Estate Registry <http://www.oea.org.lb/Arabic/Default.aspx?pageid=7> <https://www.lrc.gov.lb/en>

⁵VASyR 2018

⁶VASyR 2018

⁷VASyR 2018

⁸United Nations, special coordinator for Lebanon Philippe Lazzarini, 2018

⁹VASyR 2018

¹⁰World Bank <https://data.worldbank.org/>

¹¹Sources of the key indicator box: Interest rates: Central Bank of Lebanon, budget deficit: Ministry of Finance, CPI: CAS, trade deficit: Lebanese Customs, food basket: WFP VAM price database, energy price inflation: CAS, construction permits: Order of Engineers



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