



WFP Lebanon Market Bulletin

Q1-2019 — June Update

Highlights

- Although the formation of the cabinet has been concluded at the beginning of the year, fiscal and monetary pressures persisted in the first quarter of 2019, putting the country at high economic and monetary risks.
- The general inflation rate has recorded a level of 1.2% during the first quarter of 2019, compared to 1.1% during the same period of 2018. The highest inflation rate was observed in the North governorate at 1.9%, while the lowest was recorded in Bekaa at 0.5%.
- In Q1-2019, food prices increased by 2.3% on a national level, mainly in the North (3.3%) and in Nabatieh (3.1%). Inflation in cost of utilities and fuel recorded a level of 1.1%, while rents have increased by 0.8%, the highest increase in rents was observed in Bekaa (2.4%).
- Construction permits issuing went down by 28% in the first quarter of 2019, compared to the Q1-2018, decreasing income opportunities for Lebanese labour and Syrian refugees.
- In April 2019 the Higher Defence Council has given a deadline (10th of June 2019) to Syrian refugees living in hard structures (housing units comprising concrete) to settle their situation. This will incur these families (estimated at 15,000 individuals) additional expenses.

Current economic situation

While the formation of the new cabinet has given a push of confidence to the Lebanese economy in the first quarter of the year, and accelerated the process of the CEDRE conference credit line of US\$11 billion, the country is witnessing a heavy political debate over the national budget, and how to obtain additional income and squeeze expenses.

Lately, Moody's has downgraded Lebanon's credit from a previous B3 in December to a Caa1, reflecting a more pessimistic view of the economy and country's long term investments¹.

Interest rates continue to rise on both LBP and USD deposits, reflecting slowness in the economy, coupled with higher demand on USD in the foreign exchange markets.

On a positive note, the long-delayed budget plan will decrease the deficit to 7.5% of GDP, compared to 11% in 2018 budget².

Internationally, Lebanon was ranked 106th among 115 countries, and last among 12 Arab League countries, on its Energy Transition Index for 2019³. It also ranked Lebanon in 30th place among 32 upper middle-income countries (UMICs) in the survey. Lebanon's global rank declined by three places since 2018⁴.

Key Indicators*

Interest rates on deposits	8.8%	on LBP (Dec 2018:8.3%)
	5.7%	on US\$ (Dec 2018:5.2%)
Budget deficit	7.5%	of GDP (2018:11%)
Food basket price	-3%	(Q1-2019/Q1-2018)
Energy price index	+1.1%	(Q1-2019/Q4-2018)
Construction index	-28%	(Q1-2019/Q1-2018)

Inflation in Q1-2019

As per the government's Central Administration of Statistics (CAS), the general inflation rate has recorded a level of 1.2% during the first quarter of 2019, compared to 1.1% during the first quarter of 2018. Food prices increased by 2.3% on a country level, and by 3.3% in the North in the first quarter, and prices of fuel and utilities increased by 1.1%⁵.

Last year, the inflation in the prices of food was very alarming in Lebanon, as the CAS figures have recorded an increase of 6.3%, the highest in six years. Figure 1 shows the share of food inflation to the general inflation rates across the Lebanese governorates. It is clear that the inflation food component is the highest in all regions.

Rents have increased by 0.8%, compared to 1% during the first quarter of the last year. Breaking it down by governorate, the highest inflation was recorded in the North/Akkar with an inflation rate of 1.9%, followed by Beirut (1.7%), then Nabatieh (1.4%). The lowest inflation rate was observed in Bekaa/Baalbek-Hermel with 0.5%⁶.



On a national level, prices of food have increased by 2.3% in the first quarter of 2019

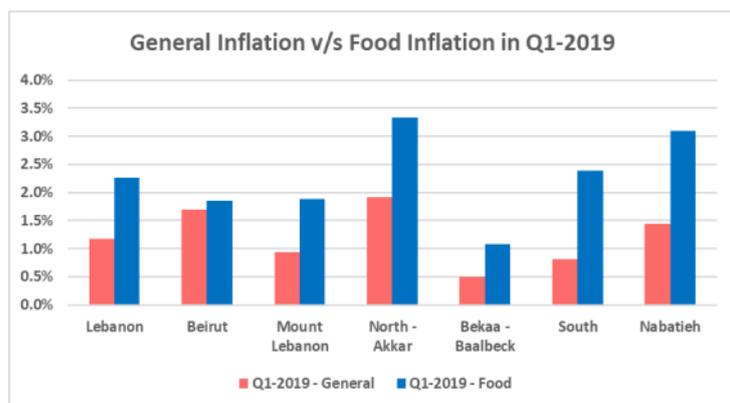


Figure 1: General level of inflation v/s food prices inflation during Q1-2019 (Source: CAS)

Food prices as per the WFP VAM database, based on retail prices in WFP-contracted shops across Lebanon, have been stable. Prices have reflected a slight drop in basic food products in the first quarter of 2019, compared to the same quarter of last year. The price of vegetable oil has decreased by 12% year-over-year, and prices of sugar have decreased by 9%. The price of pasta has decreased by 4.4%. To note that the variance between the government's

inflation figures and WFP database prices change could be attributed to: i) the control and follow-up by WFP on selling prices in contracted shops, and ii) the fact that most products sold in WFP-contracted shops are basic food, while the CAS numbers reflect the prices of all categories of food and non-alcoholic drinks.



WFP Food Basket

Food item and weight	Q1-2018 Av.	Q1-2019 Av.	Change %
Egyptian rice (6 KG)	US\$7.52	US\$7.46	-0.8%
Pasta (1.5 KG)	US\$1.27	US\$1.21	-4.4%
Bulgur (3.9 KG)	US\$4.05	US\$3.89	-3.8%
Canned meat (1.1 KG)	US\$6.31	US\$6.19	-2.0%
Vegetable oil (1 L)	US\$1.58	US\$1.39	-11.9%
Sugar (1.5 KG)	US\$1.32	US\$1.20	-8.8%
White beans (1.5 KG)	US\$3.13	US\$3.08	-1.7%
Salt (0.3 KG)	US\$0.14	US\$0.14	0.0%
Total in US\$	US\$25.31	US\$ 24.56	-3%

Figure 2: Basic food items price change from Q1-2018 to Q1-2019 (WFP VAM price database, weights are based on monthly expenses per person, 2,100 Kcal per day)

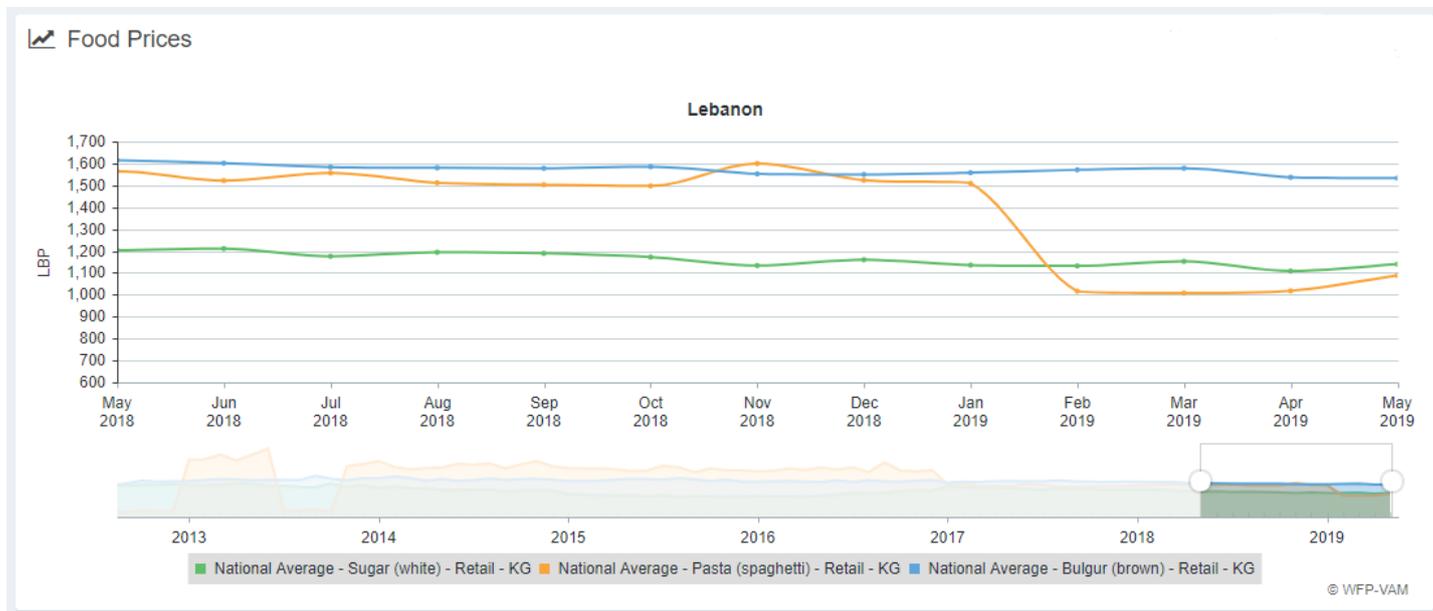


Figure 3: The price of three main commodities (Sugar, Pasta, and Bulgur) for the last 12 months (Source: WFP VAM retail database)

Methodology: WFP collects food prices through its retail traders network. The network consists of 460 retail traders across Lebanon. Price information is collected monthly via a point of sales system tracking price changes of basic food commodities. Figure 2 shows the price changes of basic food commodities on a national level between Q1-2019 and Q1-2018, calculated on a SMEB basis (Survival Minimum Expenditure Basket, US\$87 per person, per month). The basic food basket, which includes rice, sugar, pasta, beans, bulgur, canned meat, vegetable oil and salt, has recorded a decrease in price of two percent in the first quarter of 2019, compared to the same period of 2018⁷.

Real Estate and construction

The real estate sector remained under stress in the first quarter of 2019, following a tough year. In Q1-2019 real estate transactions decreased by 15% from Q1-2018, while construction permits decreased by 28% in the first quarter, compared to the first quarter of the last year⁸. The recession in the construction market is affecting employment for Lebanese poor populations as well as for vulnerable Syrian refugees. Construction permits issuing has dropped from a total of 2.2 million sq. meters in Q1-2018 to a total of 1.6 million sq. meters in the first quarter of 2019. This represents a decrease of 28% year-on-year⁹.

The major decrease in construction activities was observed in the North, with 49% drop from Q1-2018, followed by Nabatieh (42%), and Bekaa (41%). The only governorate that witnessed an increase in construction activities was Beirut, with 26% increase. On average, agriculture and construction were reported to be the top two sectors employing half of the Syrian refugees' labour force, with construction alone employing 32% of Syrian refugees' male labour¹⁰.



Construction permits' issuing decreased by 28% in Q1-2019 year-on-year basis

Agriculture

Exports of agricultural products have increased by 11.4% in the first two months of 2019, compared to an increase of 6.1% during the same period of last year. Agricultural products imports have decreased by 0.3% in the first two months of 2019¹¹. This reflects a remarkable growth in Lebanese exports, especially after the long-awaited opening of The Nassib border between Syria and Jordan in late 2018, which helped Lebanon increase exports to Jordan and the Gulf Cooperation Council countries (GCC).

The agriculture sector has employed 24% of the working force amongst the Syrian refugees in Lebanon in 2018¹². Agriculture is the third biggest sector in Lebanon after services/trade and industry. In 2017, agriculture has employed 11% of the labor force and contributed to 5% of the country's gross domestic product (GDP)¹³. As per the FAO, 64% of Lebanese surface is considered agricultural, and 14% of total land is considered arable.

Vegetables make the biggest product group in the sector, making up to 63% of the sector, of which one fourth is potato, followed by fruits accounting 31% of the total production. Main fruits grown are apples, citrus, grapes, and bananas. Other produces are tobacco and cereals. The North governorate comprises 31% of the total agricultural holdings in Lebanon, followed by Bekaa (20%), and Mount-Lebanon (19%)¹⁴.



Exports of agricultural products have increased by 11.4% in the first two months of 2019

The Cost of housing rent

On average, and as per the Central Administration of Statistics (CAS), rents in Lebanon have increased by 0.8% in the first three months since the beginning of the year. This ranged between 2.4% in Bekaa/ Baalbeck-Hermel, and a minus 0.5% in South (figure 4). This is very similar to last year first quarter's inflation, when rents increased by 1% in the Q1-2018¹⁵.

While no clear dynamics driving the cost of rent upwards or downwards, it is usually driven by demand, supply, construction activity, and affordability. The continuous halt of governmental residential loans is still pushing rents upwards.



Rents in Lebanon have increased by 0.8% in the first quarter of 2019, compared to 1% in the first quarter of 2018

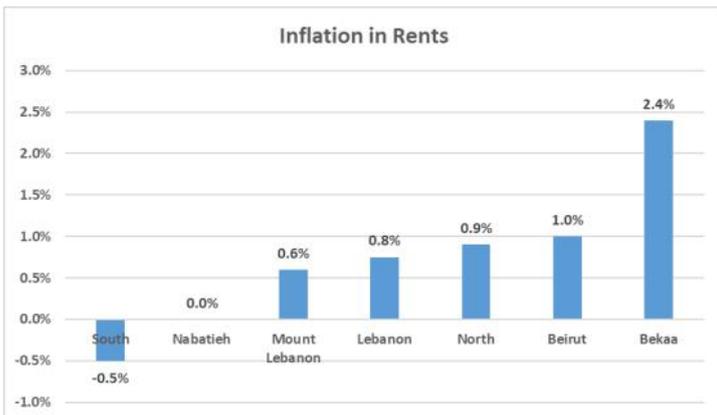


Figure 4: rents inflation in Q3-2019 (Source: CAS)

Fuel prices

Following the decline in fuel prices by the end of 2018, prices have picked up in the first quarter of 2019 in line with rising world's oil prices. The cost of diesel oil recorded LBP18,400 for the 20 liters. This represents a 9% increase in three months.

Diesel oil is widely used for heating from November

to March amongst Syrian refugees and Lebanese especially in the mountains.

The cost of cooking gas has also increased in the first three months of 2019, and recorded a 14.3% hike compared to the end of December 2018¹⁶. Figure 5 shows the evolution in the prices of the three basic fuel categories impacting the daily lives of poor Lebanese population, as well as Syrian refugees.



The cost of heating diesel oil increased by 9% in three months compared to the beginning of the year

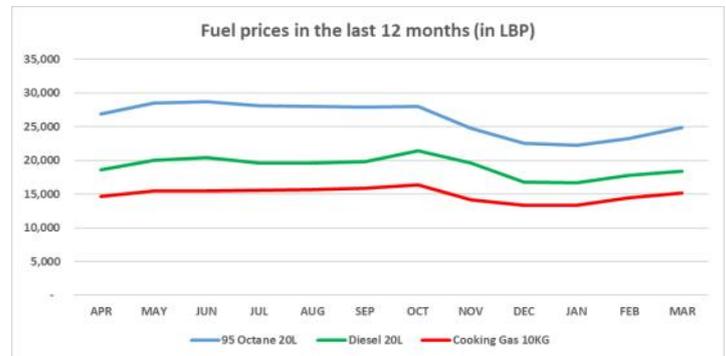


Figure 5: The evolution of fuel prices through the last year (IPT)



The potential impact of additional taxation on vulnerable population

In an attempt to increase public revenues by US\$1.9 billion in order to ease the public deficit in the new planned budget, the government will most likely to impose new taxations that, as per experts, will impact the consumer mostly regardless of the income status. Most of the planned taxation will be on services and products, imported goods and administrative transactions and services. Another 3% taxation will target the pension salaries of ex-public servants¹⁷. On a different note, the Retail Index published by Fransabank, recoded a 5% decrease in activity in Q1-2019 compared to Q1-2018, and 8% decrease from Q1-2017¹⁸ (Figure 6).

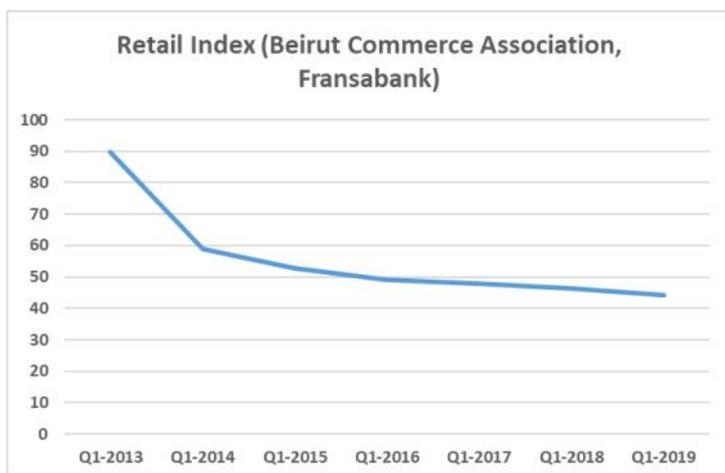


Figure 6: The Fransabank and Beirut Commerce Association Consumer Index

Sources

* The sources of the Key Indicators table are: 1- Interest rates on deposits: Lebanese Central Bank, 2- Budget deficit: Ministry of Finance and The Daily Star, 3- Food basket prices: WFP VAM and retail database, 4- Energy prices: Issa Petroleum Trade, 5- Construction index: Lebanese Order of Engineers

1- Nasdaq news, January 11th, 2019 <https://www.nasdaq.com/article/lebanon-dollarbonds-tumble-after-debt-rescheduling-report-20190111-00382>

2- <http://www.dailystar.com.lb/News/Lebanon-News/2019/May-22/483739-cabinet-and-2019-budget-finally-at-the-finish-line.ashx>

3- Bank Byblos, Lebanon This Week, May 27th - June 1st 2019. The Energy Transition Index (ETI) allows the assessment of 114 countries' energy systems within this framework, by providing benchmarks across two broad areas: system performance and transition readiness

4- Bank Byblos, Lebanon This Week, May 27th - June 1st 2019.

5- Central Administration of Statistics (CAS)

6- Central Administration of Statistics (CAS)

7- WFP VAM and retail price database

The economic outlook

The economic outlook on the short and medium terms is still uncertain and considered very risky by many sources. The public debt is still eating up to more than one third of the government's revenues, with no clear plan of debt restructuring.

On a positive note, the government has approved the electricity reform plan in April 2019. The plan aims to boost generation capacity while reducing state subsidies that have led to one of the world's heaviest public debt burden. The plan, which is divided into many phases, includes increasing generation capacity, reducing losses in transmission and eventually raising consumer electricity tariff¹⁹. This will help in restoring trust, coupled with some attempts of reforms in fighting corruption and making public process, bidding, and recruitment more transparent.

Note: food and basic needs prices information can be found on WFP's VAM food prices database [here](#)

8- The Lebanese Land Registry <https://www.lrc.gov.lb/en>

9- The Lebanese Order of Engineers <http://www.oea.org.lb/Arabic/Default.aspx?pageid=7>

10- VASYR 2018

11- Bank Audi Economic Data 2019 <https://www.bankaudi.com/group/audi-research>

12- VASYR 2018

13- The Investment Development Authority of Lebanon (IDAL) www.investinlebanon.gov.lb

14- The Investment Development Authority of Lebanon (IDAL) www.investinlebanon.gov.lb

15- Central Administration of Statistics (CAS)

16- Issa Petroleum Trade, 2019 <https://www.iptgroup.com.lb/ipt/en/home>

17 and 18: Fransabank and Commercial Association of Beirut, 2019 https://www.alakhbar.com/PDF_Files/3773/pdf/28_29_20190603.pdf

19- REUTERS <https://www.reuters.com/article/lebanon-economy/update-2-lebanese-government-approves-electricity-plans-pm-idUSL8N21Q57L>



For further information, please contact the VAM Lebanon Team:

Lebanon.MEVAM@wfp.org