



WFP Lebanon Market Bulletin

Q2 2019 (April-August) — September Update

Highlights

- The 2019 budget law forecasts a deficit of 7.6% of GDP in 2019, based on the government's estimates
- The Consumer Price Index for Q2 2019 has recorded a year-on-year increase of 3.1%, while food product prices have increased by 4.1% on a national level
- The WFP calculated Food Basket Price, as measured in WFP-contracted shops, has decreased by 1.9% since Q2 2018
- Construction permits issuing decreased by 44.3% in the second quarter of 2019, compared to Q2 2018, decreasing income opportunities for Lebanese labour and Syrian refugees
- The Ministry tightened law enforcement targeting undocumented labour, as the country faces rising tensions against foreign labourers sparked by fears of an economic crisis

Economic situation and outlook

In August 2019, Standard & Poors (S & P) as well as Fitch updated their international ratings of Lebanon. While the former kept the country's rating at "B-" with a "Negative" outlook, the latter devalued it to a "CCC", indicating that measures adopted in the 2019 budget were unconvincing and calling for leaders to "intensify their efforts in order to reduce public spending by 2020".¹ Before S & P and Fitch, Moody's had downgraded the country's sovereign rating to "Caa1" with a "stable" outlook in January 2019.

While the fiscal deficit has narrowed by 18%, to \$2.4bn in the first 5 months of the year, a deficit of 7.6% of GDP is forecasted in 2019.² In addition, heightened fears over the exchange rate and increasing tensions between Israel and Hezbollah have put the Lebanese economy under considerable pressure and sparked concerns over a potential currency crisis.³

Despite this somber outlook, Lebanon is looking at ways to avoid an economic crisis and regain the market's confidence. The Finance Ministry completed preparations for the draft 2020 state budget.⁴

After the approval of 2019 draft budget, ministers approved a series of measures to increase revenue, including raising tax on interest on deposits to 10% (an increase of 3%), income tax will go up for high earners, and imposed a 2% fee on select imported goods.⁵

The cabinet also froze public-sector hiring as well as retirement requests except for the judiciary and raised the number of years civil servants would be eligible for retirement.

Although further fiscal reforms will need to be undertaken, recent announcements of cash flow into Lebanon and the Central Bank in attempt to boost the dollar reserves might improve the business climate and encourage investors.⁶

Interest rates on deposits	6.9% (projection by the end of this quarter)
Budget deficit	7.6% of GDP (2019 forecast)
Food basket price	-1.9% (Q2-2019/Q2-2018) ⁹
Energy price index	6.9% (Q2-2019/Q2-2018) ¹⁰
Construction index	44.3% (Q2-2019/Q2-2018) ¹²

Table 1: Key indicators

Consumer Price Index

The average Consumer Price Index (CPI) for Q2 2019 amounted to 109.6, representing a 3.1% increase from the same period last year (106.3 in Q2 2018).

Breaking it down by Governorate, the highest inflation rate was recorded in the North/Akkar with a rate of 5.2%, followed by Beirut 3.2%, and then Nabatieh (3.1%). In contrast, the lowest inflation rate was observed in Bekaa, with 2.1% between Q2 2018 and Q2 2019.

The year-on-year evolution of the general inflation rate by governorate is shown in the figure below:

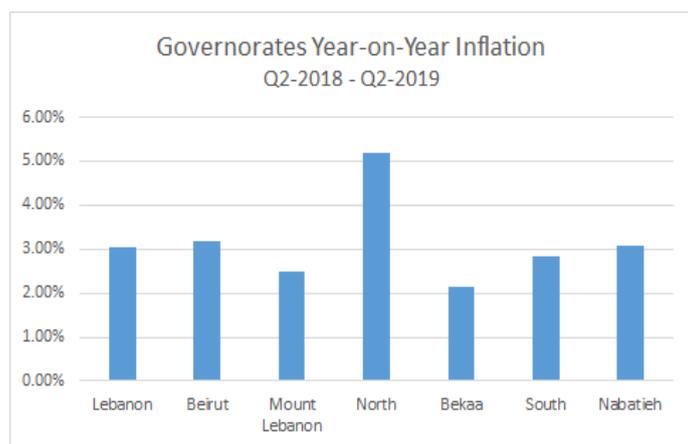


Figure 1: Governorate Inflation Year-on-Year (Source: CAS)⁷

Comparing the general inflation to food prices, it appears that food prices inflated at a higher rate than the general inflation rate.

Food and non-alcoholic beverages prices evolved from 106.97 to 111.38 between Q2 2018 and Q2 2019 as per CAS estimates, representing a 4.1% increase.⁷

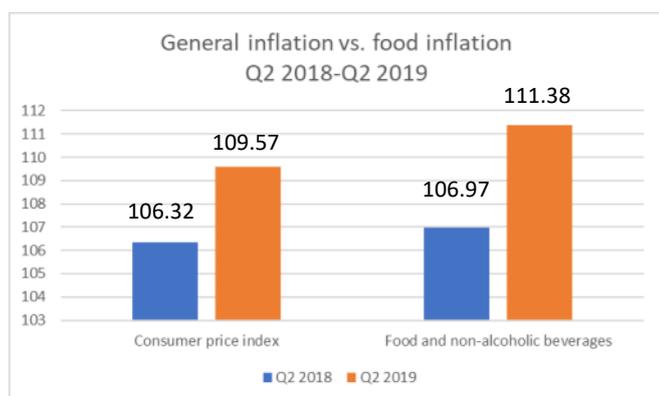


Figure 2: General vs. food inflation (Source: CAS)⁷

Prices of other goods and services such as housing, apparel, transportation, and fuel should, however, be stable or decreasing, with a stabilizing effect on the overall inflation rate.

Food basket price

The WFP VAM price database contains retail prices from 427 WFP contracted shops across Lebanon. Looking at the year-on-year evolution between Q2 2018 and Q2 2019, a 1.9% decrease in the food basket price is observed.⁸

Table 2 shows the price evolution of basic food items on a national level for WFP-contracted shops since Q2 2018. It is calculated based on a Survival Minimum Expenditure Basket (SMEB) of US\$ 87 per person per month. The basic food basket includes rice, sugar, pasta, beans, bulgur, canned meat, vegetable oil and salt, for a total of 2.100 Kcal per person per day.

Food items and weights*	Q2 18 Av.	Q2 19 Av.	Change %
Beans (white) (1.5 KG)	3.06	3.28	7.33
Bulgur (brown) (3.9 KG)	4.19	4.06	-3.05
Canned meat (1.14 KG)	1.46	1.42	-2.32
Oil (sunflower) (0.99 L)	7.08	6.80	-3.95
Pasta (spaghetti) (1.5 KG)	1.10	1.14	3.12
Egyptian rice (6 KG)	7.62	7.38	-3.09
Salt (0.3 KG)	0.14	0.13	-5.72
Sugar (white) (1.5 KG)	1.21	1.14	-5.51
Food basket value (USD)	25.85	25.36	-1.91

Table 2: Food basket cost based on monthly expenses per person⁹

The highest year-on-year increase was recorded in the price of white beans, with a 7.3% increase between Q2 2018 and Q2 2019. This is followed by an increase in pasta prices by 3.1% since last quarter. On the other side, the price of salt decreased by 5.7% and sugar decreased by 5.5% since Q2 2018, followed by rice with -3%. It should however be noted that the difference between the government's inflation figures and WFP database prices could be attributed to the fact that WFP prices concern solely contracted shops, and that most products sold in contracted shops are basic food while CAS numbers reflect the prices of all categories of food and non-alcoholic beverages.

Fuel prices

Regarding non-food items, the price of "water, electricity, gas and other fuels" increased by 2.5% between Q2 2018 and Q2 2019.⁷ From Q2 2018 to Q2 2019, the prices of fuel have decreased by up to 6.8% for Gas, and 4.5% to 4.7% for Diesel and Octane 95/98.¹⁰ Between Q1 and Q2 2019, the prices of fuel have decreased by 3.4% and 4.4% for diesel and gas respectively, while increasing for Octane 95/98 by 11.7%. In June, the Minister of Energy and Water announced that Lebanon would be moving toward using green diesel instead of red diesel as an environmental step.¹⁰

Housing

Rents have increased by 0.3%, compared to 1.2% during the second quarter of last year. Breaking it down by Governorate, the highest inflation was recorded in the North/Akkar with an inflation rate of 7%, followed by Nabatieh (5.7%), and then Beirut (3.3%), while the lowest inflation rate was observed in Mount Lebanon with 1.43% between Q1 and Q2 2019.⁶

While no clear dynamics driving the cost of rent upwards or downwards, it is usually influenced by demand, supply, construction activity and affordability. **Housing demand** regressed in the second quarter of 2019,¹¹ yet the halt of governmental residential loans is pushing rents upwards.

In Q2 2019, **real estate transactions** decreased by 18.7% year-on-year, and construction permits decreased by 16.2% in Q2 2019 compared to Q2-2018.¹² In terms of construction area, permits issuing dropped from a total of 2.08 million m² in Q2 2018 to a total of 1,160 km² in the Q2 2019. This represents a decrease of 44.3% year-on-year.⁹

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Employment

Syrians are only authorized to work in three sectors in Lebanon, namely agriculture, construction and environment. Out of nearly 1 million Syrian refugees officially registered in Lebanon on a national population of 4 million (the world's highest number of refugees per capita), only 1,733 had a valid work permit according to the Lebanese Labour Minister but it is believed that around one third more refugees are present and much more work informally.¹³

With living conditions worsening for the Lebanese population and the government working on approving its first austerity budget, anti-Syrian sentiment rises among public opinion sparked by fears about the negative impact of a prolonged Syrian refugees presence on the country's already fragile economy rise.¹⁴ As a result, labour laws enforcement has been tightened, with the Ministry imposing a July deadline for employers to legalize the situation of foreign employees, among which many Syrian refugees.¹³



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Food and basic needs price information can be found in WFP VAM's online database: dataviz.vam.wfp.org