Lebanon
VAM Update on Food Price Trends
April 2020

Highlights

- A significant increase of 40.1% was observed in the monthly average countrywide food SMEB\(^1\) basket price between September 2019 and March 2020, from LBP 37,706 to LBP 52,839.
- The prices for vegetable oil and sugar have increased by almost 72% and 66% respectively since October 2019.
- In March 2020, the transfer value for food assistance (LBP 40,500) continued to be below the observed food SMEB basket price in all governorates. Adjustment of the transfer value for food assistance to LBP 50,000 took place in April 2020.

Introduction

Since the worsening of the economic crisis and the start of popular protests on 17 October 2019, WFP Lebanon has been monitoring supply trends, food prices\(^2\) and the unofficial exchange rate between the Lebanese Pound (LBP) and the USD. With the outbreak of the COVID-19 virus, prices for hygiene products such as detergent, gloves & disinfectant have been added. The aim of this monitoring is to immediately detect market anomalies as an early warning and to better understand the impact of the multiple crisis on vulnerable households in Lebanon.

Evolution of Food Prices (SMEB Food Component)

Figure 1 below shows the monthly average food SMEB price evolution for the food component of the SMEB between September 2019 and March 2020. The price has been increasing steadily since October 2019. The month-on-month inflation between February and March 2020 was 6.4%, while the cumulative inflation rate between September 2019 and March 2020 reached 40.1%.

Figure 2 below shows the monthly average food SMEB price from October 2019 until March 2020 for each Governorate. The food SMEB continued to increase in all governorates in March 2020, with Beirut remaining the most expensive (LBP 56,945 against LBP 40,272 in October 2019), while Akkar was still the cheapest in March 2020 (LBP 50,699 against LBP 37,533 in October 2019). While the current food transfer value for assistance (LBP 40,500 until end of March 2020) was slightly higher than the food SMEB price in all governorates before 17 October (see also previous markets updates), in March 2020, it continued to be below the food SMEB price in all governorates.

Figure 3 shows the price evolution for the eight food SMEB commodities from September 2019 to March 2020. Food commodities with the highest price increases from October 2019 to March 2020 were: sunflower oil (72%), followed by white sugar (66%), brown bulgur (53%), spaghetti pasta (48%) and white beans (45%).
Evolution of Food Prices (Mandatory Range and Top Products Purchased)

Figure 5 below shows the monthly inflation rate for WFP’s mandatory range of 250 food products, a set of items that every WFP-contracted shop must carry as part of its offering to its customers. It also shows the monthly inflation rate of the top 250 food products (by sale value) bought by Syrian beneficiaries and by beneficiaries of the National Poverty Targeting Programme (NPTP). Between October 2019 and March 2020, the mandatory range products registered an inflation rate of 44.4%, while the top 250 items (by sale value) registered an inflation rate of 51.2% (for Syrian customers) and of 46.8% (for NPTP customers).

Adjustment of Food Transfer Values

The market price of the SMEB food component was measured in 2014 and adjusted in 2015 to determine the transfer value for food assistance, namely USD 27 corresponding to LBP 40,500 at the official exchange rate. Due to both price stability since 2016 and reluctance to revisit the SMEB composition/price, this transfer value has remained unchanged until March 2020, as the amount was sufficient to cover the food basket.

Since the beginning of the crisis in October 2019, the price of the SMEB food component has been increasing steadily, reaching an average of LBP 49,521 for the months of December 2019, January 2020 and February 2020—that is 22 percent higher than the transfer value of LBP 40,500. The price of the SMEB food component is not expected to return to its previous level in the short to medium term, due to the strong correlation between food price inflation and the de facto devaluation of the LBP against the USD, which is unlikely to be reversed. To ensure that NPTP beneficiaries and assisted Syrian refugees could continue to afford the SMEB and meet their minimum survival food needs, the transfer value was increased from LBP 40,500 to LBP 50,000, effective April 2020.

Evolution of Monthly prices of Non Food Items (NFI)

Figure 6 below shows the monthly average price evolution of nine NFIs between October 2019 and January 2020. These nine commodities were selected based on the non-food SMEB basket composition, which includes a total of 11 commodities (the nine commodities represented in figure 7, in addition to hypoallergenic soap and cooking gas) and on the available price data from WFP contracted shops retail database. The prices for all represented items have been increasing steadily throughout this period. NFIs with the highest price increase from October 2019 to March 2020 were: bleach (46%), followed by washing powder (43%), sanitary napkins (31%) & dishwashing liquid (30%).

Evolution of Monthly Prices of Disinfectant, Detergents & Gloves

With the outbreak of the COVID-19 virus, WFP started monitoring the price evolution of a number of detergent, gloves & disinfectant that are demanded by customers in WFP-contracted shops. Figure 7 shows the monthly average price
evolution of 10 of those products between January 2020 and March 2020. The highest price increase was for Ethanol 250ML (46.6%), followed by Gloves (36.9%) and Dettol 105G Soap (23.9%).

Unofficial exchange rate progression

Figure 8 below shows the official and unofficial USD/LBP exchange rate development between 6 November 2019 and 31 March 2020. On March 5th, the Central Bank issued a circular forbidding exchange houses of trading at a value higher than 30% from the official exchange rate of LBP 1507.5. A small drop in the rate was registered, with a minimal implementation of the circular by exchange houses, which continued trading at higher rates. With the announcement of the mobilization on 16 March, the black market rate resumed its increase, reaching the 2800 LBP by the end of March, 85% above the official exchange rate of LBP 1507.5. The steady deterioration of the unofficial exchange rate was further corroborated by WFP-contracted shops. By the end of March 2020, 95% of interviewed shops reported having to operate with an LBP/USD exchange above LBP 2,500, up from 20% of shops in February 2020.

COVID-19 Potential Economic Implications

While it is still difficult to predict the extent of the COVID-19 virus spread, for Lebanon, the economic consequences will likely be as devastating as the pandemic itself. Global economic downturn will have severe implications, being a trade-dependent country with weak macro-economic fundamentals. Lebanon has high levels of public debt and will struggle to mobilize enough resources to respond to this crisis, as meeting current debt obligations will take away critical resources. With limited foreign currency reserves, Lebanon will also struggle to finance imports, as replenishing state revenues are dwindling amidst a shutdown of the whole economy for several weeks to contain the spread of COVID-19.

In March 2020, Lebanon stopped all payments (capital and interest) of its public debt. Foreign currency reserves (estimated at 29 billion USDs in January 2020)\(^5\), will have to be rationed to cover the import of basic needs, such as food, fuel, medicines and medical equipment, including the needed medical equipment to respond to the COVID-19 outbreak.

The Ministry of Finance in Lebanon expects the real GDP to further contract by 12% in 2020, and could be worsened by the additional impact of the Coronavirus outbreak, which brought any little economic activity to a halt, further exacerbating income losses, unemployment and dwindling the State revenues. Inflation was forecasted at 27%, a number that might have to be revisited, as the currency depreciation continues.

Conclusion

The price of the food component of the SMEB has continued to increase since the beginning of the crisis, reaching a cumulative inflation of 40.1% between September 2019 and March 2020. This is the result of the steep depreciation of the LBP against the USD on the unofficial exchange rate market, which was trading at LBP 2,800 by the end of March 2020 (85% above the official exchange rate).

The high food price inflation combined with inflation affecting non-food products and services, and with loss of income resulting from rising unemployment and salary cuts, has reduced households’ ability to afford adequate and sufficient food, especially for the poorest and most vulnerable. The onset of the COVID-19 pandemic further exacerbated the crisis, by putting to a halt any little economic activity that was still ongoing and accelerating inflation.

The increase of the transfer value of food assistance in April 2020 to LBP 50,000 helps to ensure that NPTP beneficiaries and assisted Syrian refugees could continue to afford the food component of the SMEB and meet their minimum survival food needs. However, as the Lira devaluation continues, and food prices inflation rises, further adjustment to the transfer value will most likely be required, in order to ensure that beneficiaries are still able to access food.

Footnotes

1. The SMEB food basket is based on a monthly ration per person of 6 kg of rice, 3.9 kg of bulgur, 1.5 kg of pasta, 1.5 kg of white beans, 1.5 kg of sugar, 0.9 litres of sunflower oil, 0.3 kg of salt and 1.2 kg of canned meat. See also Annex 3 of the VASyR 2018 at: https://www.unhcr.org/lb/wp-content/uploads/sites/16/2018/12/VASyR-2018.pdf
2. For the price data collection and analysis methodology, please visit: https://docs.wfp.org/api/documents/WFP-0000110413/download/
3. The 250 mandatory range items are a set of products that every WFP-contracted shops must carry as part of its offering to its clients. These include dairy & chilled products, frozen food, canned food, flour, grains and dried vegetables, coffee, milk, tea, oils, pastas, rice, salts, peppers, herbs and spices, sauces and spreadable products.
4. WFP is currently monitoring a non-food basket based on the following products available in the database, which only covers 9 out of 11 items of the original 2014 Non-Food Items basket namely : baby diapers (90 pieces), dishwashing liquid (750 ML), disinfectant fluid (500 ML), soap (5 x 125 G), sanitary napkins (6 x 10 pieces), shampoo (500 ML), toilet rolls (4 pieces), toothpaste (2 x 75 ML) and washing powder (0.9 KG). Cooking Gas (1kg) and Hypoaallergnic soap (125g per bar) are not included due to lack of data.

For further information, please contact the VAM Lebanon Team: Lebanon.MEVAM@wfp.org

More food and basic needs price information can be found here: dataviz.vam.wfp.org

Figure 8: Official and Unofficial USD/LBP Exchange Rate Development between 6th November 2019 and 31st January 2020 (Source: http://LebaneseLira.org)