

Lebanon

VAM Update on Food Price Trends

May 2020

Highlights

- A significant increase of 56.1% was observed in the monthly average countrywide food SMEB¹ basket price between September 2019 and April 2020, from LBP 37,706 to LBP 58,868.
- The prices for vegetable oil and sugar have increased by almost 98% and 94% respectively since October 2019.
- Food imports decreased by 14.4 % between October 2019 and March 2020 compared to the same period in 2018/2019.

Introduction

Lebanon's economy entered a recession in the last quarter of 2019 with a 10% contraction of GDP in that quarter, and estimates of 14% and four percent negative growth in 2020 and 2021, respectively. WFP Lebanon has been monitoring supply trends, food prices² and the unofficial exchange rates since the start of popular protests on 17 October 2019. With the outbreak of the COVID-19 virus in February 2020, prices for essential non food items have been added to the monitoring activities. WFP aims to immediately detect market anomalies as an early warning and to assess 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 price* evolution for the food component of the SMEB between September 2019 and April 2020. The price has been increasing steadily since October 2019. A 19% increase between November and December 2019 and a 11% increase between March and



Figure 1: Monthly average food basket price (September 2019 -April 2020) (LBP); Source: WFP Retail POS Data Warehouse, Lebanon, 2020

April 2020. The cumulative inflation rate between September 2019 and March 2020 reached 56.1%.

The monthly average price for April (LBP 58,868) does not reflect, however, the steady inflation trend at work throughout the month, with the SMEB price reaching LBP 70,202 in the last week of April (see Figure 2).

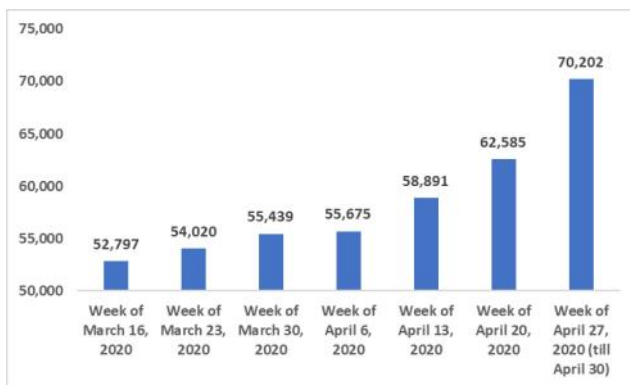


Figure 2: Weekly average food basket price (Week of 16 March 2020– Week of 27 April 2020) (LBP); Source: WFP Retail POS Data Warehouse, Lebanon, 2020

Figure 3 shows the monthly average food SMEB price from October 2019 until April 2020 for each Governorate. The food SMEB continued to increase in all governorates in April 2020, with Baalbeck-El Hermel becoming the most expensive (LBP 64,245 against LBP 37,267 in October 2019), while the Bekaa became the cheapest in April 2020 (LBP 55,868 against LBP 38,992 in October 2019). The WFP food transfer value was adjusted to LBP 50,000 starting from the April distribution cycle, however it remains lower than food SMEB price in all governorates.

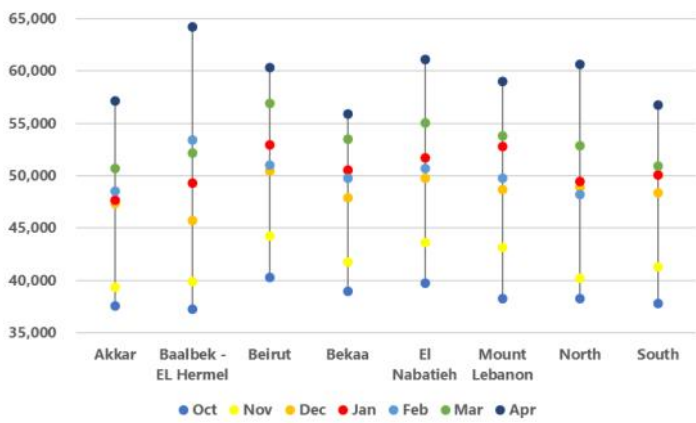
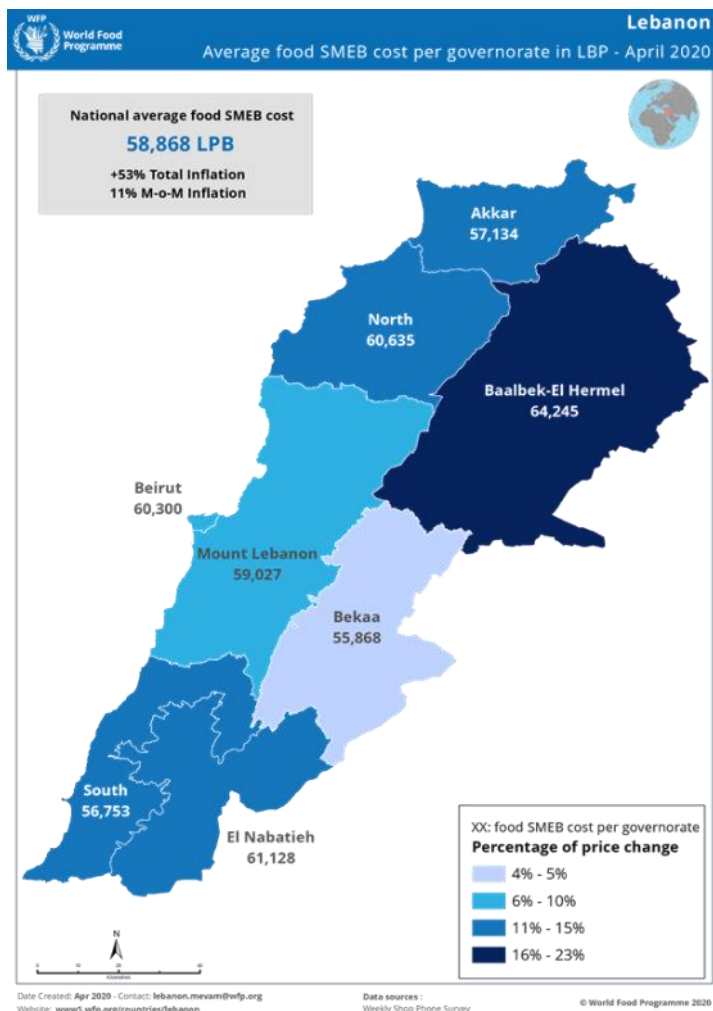


Figure 3: Monthly food SMEB price evolution in LBP by Governorate from October 2019 to April 2020. Source: WFP

Map 1 below shows the monthly food SMEB prices in each governorate (LBP) in April 2020, along with the percentage change in the price for each governorate between March and April 2020. The governorate with the highest month-on-month increases was Baalbek-El Hermel (23%); the lowest was the Bekaa (4%).



Map 1: SMEB food basket prices in each governorate in April 2020 & Monthly average change of SMEB food basket price in % per Governorate – March to April 2020. Source: WFP Retail POS Data.

Figure 4 shows the price evolution for the eight food SMEB commodities from October 2019 to April 2020. Food commodities with the highest price increases from October 2019 to April 2020 were: sunflower oil (98%), followed by white sugar (93.6%), brown bulgur (80.8%), white beans (67.6%), and Egyptian rice (65.3%).

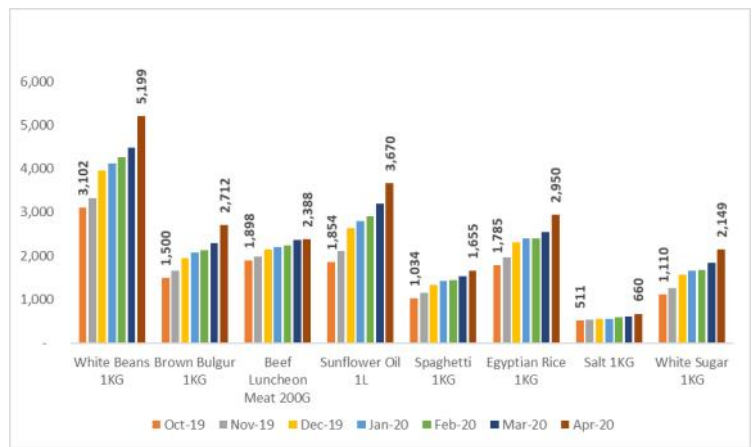


Figure 4: National Average commodity prices (per kg/litre in LBP) between October 2019 and April 2020; Source: WFP

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 customers³. 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 April 2020, the mandatory range products registered an inflation rate of 50.2%, while the top 250 items (by sale value) registered an inflation rate of 60.7% (for Syrian customers) and of 63.1% (for NPTP customers).

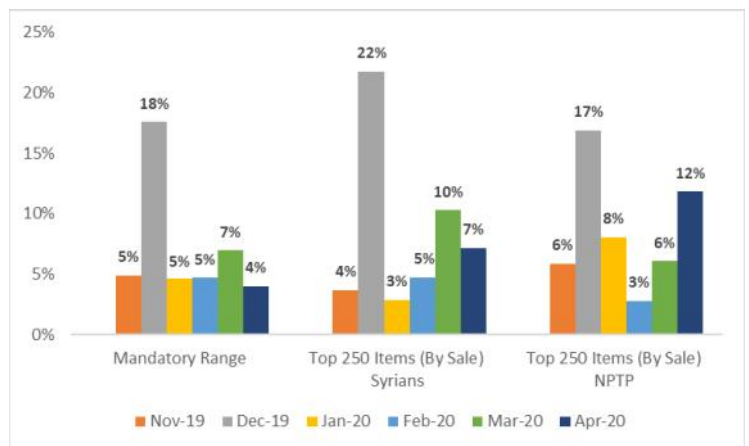


Figure 5: Monthly inflation rate for the mandatory range (250 products), and for the top 250 products purchased by Syrian and NPTP customers (November 2019—April 2020). Source: WFP Retail POS Data.

Overall Inflation (Consumer Price Index—CPI)

The Consumer Price Index (CPI) measures the average change in prices over time paid by consumers for a basket of goods and services. It is constructed using the weighted average of the prices of goods and services that reflects an individual consumption pattern. Lebanon’s Central Administration for Statistics (CAS) calculates the CPI based on data that it collects periodically. The CPI is divided into 12 expenditure categories, each given a respective weight in the overall CPI. Housing related costs such as rent, water, electricity and gas, have the highest weight in the index (28.4%). Food and non-alcoholic beverages, referred to as the Food Price Index (FPI), constitute only 20% of the weight of the

overall CPI. Other notable expenditures included in the index are transportation (13.1%) and health (7.7%).

Inflation rates calculated by CAS (CPI/FPI) and by WFP (SMEB food component) are not directly comparable, as they use different methodologies and different food baskets (See footnote 4 for more details). It should be noted that CAS suspended the publication of the CPI/FPI in March, presumably due to COVID-19 restrictions for data collection, which is a source of concern at a time when price monitoring/control is seen as critical. Figures 6 and 7 show the latest available evolution of the CPI/FPI. The period from October 2019 and onward is the first time that such important annual increases are observed.



Figure 6: Monthly Food and CPI Inflation Rates (October 2019-February 2020) (LBP); Source: Central Administration for Statistics (CAS), 2020, <http://www.cas.gov.lb/index.php/economic-statistics-en>



Figure 7: Annual Food and CPI Inflation Rates development between January 2010 and Feb 2020 ; Central Administration for Statistics (CAS), 2020, <http://www.cas.gov.lb/index.php/economic-statistics-en>

Evolution of Monthly prices of Non Food Items (NFI)

Figure 8 below shows the *monthly average price* evolution of the 11 non food SMEB basket NFIs⁵ between October 2019 and April 2020. The prices for all represented items have been increasing steadily throughout this period, except for the cooking gaz. NFIs with the highest price increase from October 2019 to April 2020 were: bleach (64%), followed by washing powder (58%), sanitary napkins (32%) & soap (32%).

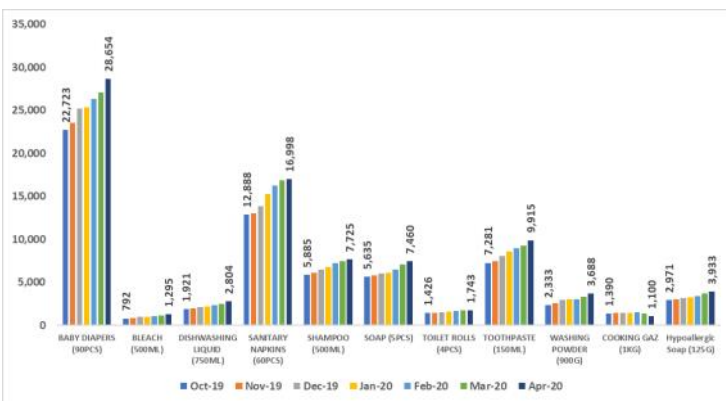


Figure 8 : Monthly average Non Food Items price evolution (October 2019-April 2020) (LBP); Source⁴: WFP Retail POS Data & IPT Fuel Price: <https://www.iptgroup.com.lb/ipt/en/our-stations/fuel-prices>

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 9 shows the *monthly average price* evolution of 10 of those products between January 2020 and April 2020. The highest price increase was for Sada Ethanol 250ML (65.9%), followed by Odex 4L Gallon (50.5%) and Dettol 105G Soap (46.3%).

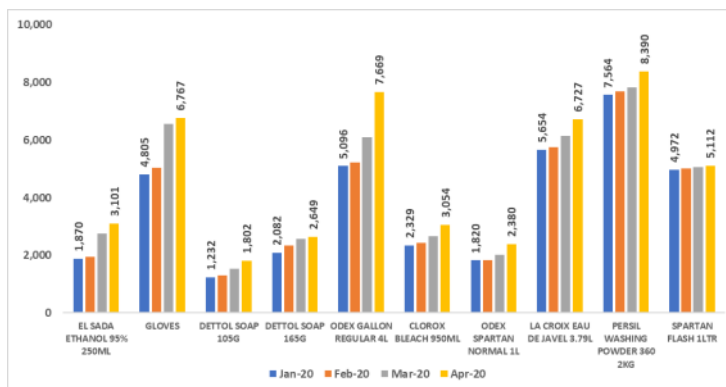


Figure 9: Monthly average price evolution of detergents, disinfectants, and gloves, (January—April 2020); Source: WFP Retail POS Data.

Food Availability

Food availability on the Lebanese market derives from domestic production and from imports, while relying heavily on the latter as a net food importer. Between 2015 and 2019, Lebanon imported about three million tons of food products each year to meet the demand of the domestic market. Domestic cereal production covers, on average, less than 20 percent of consumption needs⁶. The recent scarcity of US dollars and capital control measures have put food availability at risk as food importers have been facing increasing obstacles to make payments on the international market. The latest available data indicate a decrease in food imports. Figure 10 below shows the evolution of the food imports (in tons) and the total imports for the period of October 2019 till March 2020, in comparison with similar periods from previous years, based on the Lebanese Customs published data⁷. Total food imports for the period of October 2019 till March 2020 dropped by 14.4% in comparison with the period of October 2018 till March 2019, while total imports have dropped by 20.4%, when comparing the same

periods. Cereal Imports decreased by 5.9% when comparing October 2019 - March 2020 imports to October 2018 - March 2019 imports.

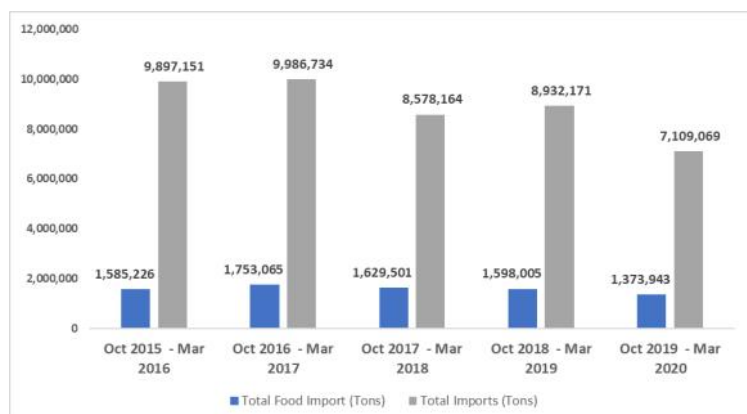


Figure 10: Food imports and total imports (general imports, in tons);

Source: Lebanese Customs data: http://www.customs.gov.lb/Trade_Statistics/Monthly/Monthly_Statistics.aspx

our-stations/fuel-prices

Unofficial exchange rate progression

Figure 11 shows the official and unofficial USD/LBP exchange rate development⁸ between 6 November 2019 and 30 April 2020. During the month of April 2020, the following development have taken place with regard to the exchange rate:

- 3 April: The Central Bank issued two circulars that allowed account holders of under 5 Millions LBP or 3,000 USD to withdraw money from their account in LBP at a rate higher than the official exchange rate. The rate is to be set on a daily basis by a new foreign exchange unit that was created for this purpose. The unit set the parallel market rate at LBP 2,600 on April 6th, however the rate was later revised by the banks to LBP 3,000 from April 27 and onward.
- April 16: The Central Bank issued a circular forcing non-bank financial institutions (MoneyGram, Western Union, OMT, etc.) to pay out incoming US Dollar transfers exclusively in Lebanese Lira at the Central Bank's rate that the new foreign exchange unit will set. The central Bank instructed these financial institutions to transfer all incoming US Dollars to its coffers. The withdrawal rate was set to LBP 3,625 on April 24th, LBP 3800 on April 27th, and LBP 3,200 on April 28th and onward.
- April 21: The Central Bank issued a circular that allowed withdrawing money from dollar denominated accounts (regardless of the total amount of deposits in the account) in LBP at a rate higher than the official exchange rate. The rate was set at LBP 3,000 from April 27 and onward, similar to the small accounts holders rate.
- 27 April: The central bank issued a circular restricting trading at the exchange houses at the LBP 3,200 level. This was followed by the security forces sealing in red wax licensed and unlicensed exchange houses not complying with the announced rate. As a result, licensed exchange houses stopped trading and announced an indefinite strike, while non licensed ones continued to trade at a level well above the LBP 4,000.

By April 30, the following exchange rates were being applied across the country:

- The official exchange rate of LBP 1,507.5
- The exchange rate for withdrawals from dollar denominated accounts from banks : LBP 3,000.
- The exchange rate for withdrawal of money transfer from non-financial institutes in Lebanese Lira: LBP 3,200
- The exchange rate that the central bank has set for exchange houses: LBP3,200
- The black market exchange rate: well above LBP 4,000

The steady deterioration of the unofficial exchange rate was further corroborated by WFP-contracted shops. By the end of April 2020, 90% of interviewed shops reported having to operate with an LBP/USD exchange above LBP 3,750.

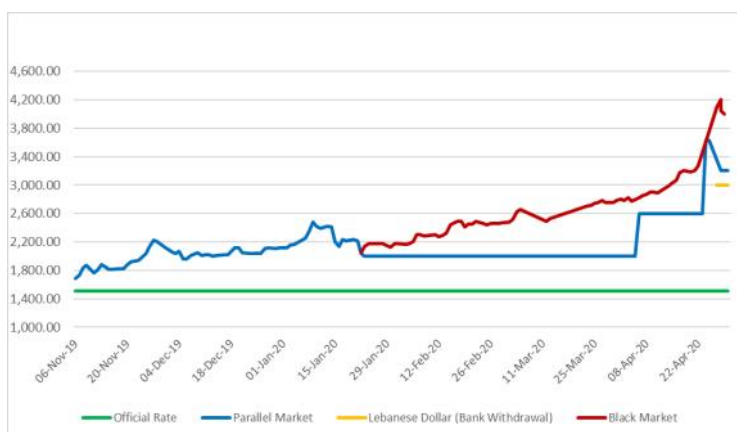


Figure 11: Official and Unofficial USD/LBP Exchange Rate Development between 6th November 2019 and 30 April 2020 (Source: <http://LebaneseLira.org> & <https://lirarate.com/>)

Government of Lebanon Financial Recovery Plan

On April 30, the Lebanese Government approved the Financial Recovery Plan⁹. The approved plan outlines steps to address the losses in Lebanon's financial system, with stated objectives to restore confidence, gather urgent foreign support, and put the country back on a long-term sustainable growth path. According to the plan, the country's real GDP is expected to contract by 13.8% and 4.4% in 2020 and 2021 respectively, with positive economic growth restored from 2022 onward. Inflation is expected to reach 53% and 23.3% for 2020 and 2021 respectively. The government plan is based on a exchange rate estimation of LBP 3,500 for 2020, although no decision to unpeg the official rate was taken yet. Following the approval of the plan, the Government officially requested the assistance of the International Monetary Fund (IMF), in order to secure urgently needed financial assistance, and negotiations were started on May 13.

Conclusion

The price of the food component of the SMEB continues to increase, reaching a cumulative inflation of 56.1% between September 2019 and March 2020. The second highest month to month increase has been recorded between March and April. This increase can be attributed to the COVID 19 measures and steep depreciation of the LBP against the USD on the unofficial exchange rate market. By end of April 2020, one US Dollar was traded above the LBP

4,000 barrier, which is 165% above the official exchange rate.

Food imports have also decreased by 14.4% between October 2019 and March 2020 in comparison with the period of October 2018 till March 2019. This decrease also puts an additional upwards pressure on prices as availability is starting to reduce in the country.

The high price inflation affecting both food and non-food products and services, combined with the loss of income resulting from rising unemployment and salary cuts, continues to reduce households' ability to afford adequate and sufficient food, especially for the poorest and most vulnerable.

The COVID-19 pandemic further exacerbated the economic crisis. Most economic activities have stopped and inflation continued to increase, with the weekly average price evolution of food component of the SMEB increasing by 32.9% from the start of the general COVID-19 mobilization.

In April 2020, WFP increased the transfer value for food assistance to LBP 50,000 to keep up with inflation, and implemented a commensurate increase in the non-food transfer value (new value: LBP 320,000) in May 2020. Based on the average SMEB price measured in April and the continuing upward trend observed throughout the month, WFP recommends that all partners continue to closely review transfer values for assistance to ensure they remain meaningful to cover minimum survival needs.

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. CAS and WFP are using different units of measurement for each item; (ii) Different data collection methodologies apply: WFP collects price data through point-of-sale systems (POS) in 400 contracted shops, while CAS collects prices through price collectors visiting retail outlets throughout Lebanon; (iii) WFP price data is updated daily as shops share their data directly from the POS, while CAS data correspond to the time the data collection visit took place; (iv) WFP and CAS might be tracking different brands and types of commodities under each food group name.
5. For the monitoring of the original 2014 Non-Food Items basket products, WFP is relying on the available price data from WFP contracted shops retail database for nine of those products, 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). For the monitoring of Cooking Gas (1kg), WFP is using the cost of the refill of a 10KG cylinder at the official price and converting it to 1KG, based on data from IPT Fuel Price website data: <https://www.iptgroup.com.lb/ipt/en/our-stations/fuel-prices>. For the Hypoallergic soap (125g per bar), the inflation between the cost of an individual soap as it appeared in the 2014 SMEB basket and the cost that currently appears in WFP retail database was calculated. The percentage increase was then applied to the Hypoallergic soap 2014 SMEB cost in order to estimate its current cost
6. <http://www.fao.org/giews/countrybrief/country/LBN/pdf/LBN.pdf>
7. http://www.customs.gov.lb/Trade_Statistics/Monthly/Monthly_Statistics.aspx
8. <http://LebaneseLira.org> - The black market rate from April 23rd and onward was taken from <https://lirarate.com/>, as LebaneseLira.org stopped reporting a black market rate, due to the high volatility and uncertainty in the exchange rate markets.
9. <http://finance.gov.lb/en-us/EventPdfs/English/The%20Lebanese%20Government's%20Financial%20Recovery%20Plan.pdf>