

Lebanon

VAM Update on Food Price Trends

August 2020

Highlights

- The economic situation continues to deteriorate due to the on-going simultaneous fiscal, financial, and monetary crises, compounded by the COVID-19 pandemic and the port explosion in Beirut on 4 August 2020. The steep inflation due to the currency depreciation and possible removal of subsidies on key basic commodities pose additional downward pressures on the economic market outlook.
- The Food SMEB has recorded its highest price in August 2020 at LBP 103,300 (up 168 percent since October 2019). The variation between the cost of the SMEB observed in July and August was up 3 percent, suggesting that food prices are high but somehow stable. Beirut and Mount Lebanon are the governorates recording the most expensive SMEB. The price of the non-food SMEB increased by 170 percent since October 2019. The non-food SMEB recorded an increase of 12 percent between July and August 2020.
- The informal exchange rate slightly appreciated between July and August (at LBP 7,420/USD in August, against LBP 3,900/USD applied by the banks. No major changes in the exchange rates used by suppliers of contracted shops were observed in the weeks immediately following the port explosion.
- In the first half of 2020, total imports volume decreased by 41 percent compared to the first half of 2019 (H12019), while total food imports volume (excluding cereals) decreased by 17.6 percent. The volume of imported cereals slightly increased, at an approximate total of 660,000 tons in the first half of 2020.
- The planned removal of import subsidies is expected to put additional strain on households' purchasing power if cost is entirely passed on to consumers, with the price of bread potentially increasing by 50 to 209 percent and that of fuel by 350 percent.

Macroeconomic Overview

Lebanon has been affected by multiple and consecutive shocks since mid-October 2019. Volatility of the currency, spiralling inflation and the severe slowdown of economic activity due to COVID-19 are further worsening an already deteriorated economic outlook. The port explosion further exacerbated the economic situation, not only in the city of Beirut, but in the entire country. GDP is estimated to contract by 13.9 percent by the end of 2020. In addition, fiscal deficit is estimated to widen further, while level of indebtedness is seen to reach alarming levels by the end of 2020 (forecasted at -11.4 and 168 percent of GDP, respectively)ⁱ.

The economic crisis keeps on adding a strain on households as the Consumer Price Index (CPI) witnessed an annual inflation of 112.4% between July 2019 and July 2020ⁱⁱ, while Food Price Index (FPI) registered an inflation of 336.2% – representing an all-time high since CAS started price monitoring on a monthly basis in 2007.



Food Prices (SMEBⁱⁱⁱ)

The (national) average cost of the food Survival Minimum Expenditure Basket (SMEB) registered an alarming increase of 168 percent between October 2019 – the baseline month, prior to the multiple socio-economic shocks affecting the country – and August 2020. The cost of the SMEB increased by 2.7 percent (from LBP 101,624 on August 3rd to LBP 104,367 on August 31st).

Even in terms of monthly variation (m-o-m), the cost of the food SMEB stabilized in August 2020 at LBP 103,300, showing a 3 percent increase from July 2020. It is worth mentioning that the July SMEB recorded the second highest monthly increase of the year (up 23 percent, from LBP 81,600 in June to LBP 100,270 in July), making affordability of basic commodities and access to basic needs more and more challenging.

At the governorate level, Beirut and Mount Lebanon recorded the highest m-o-m increase between July and August (up 21.6 percent and up 8.8 percent, respectively). The cost of the SMEB in Beirut has recorded its maximum level at LBP 120,082, higher than the national average by 16 percent. Figure 1 shows that compared to late 2019, variations in the cost of the SMEB across governorates have become wider, mainly in July and August.

Table 1 provides an overview of the price of components of the SMEB and month to month variations. Sunflower oil and white beans recorded the highest price (at LBP 35,389 and LBP 8,562). Sunflower oil also recorded the highest increase since October 2019 (up 282 percent), followed by brown bulgur (up 254 percent) and spaghetti (up 225 percent).

Figure 1: Monthly variation in the cost of SMEB by governorate

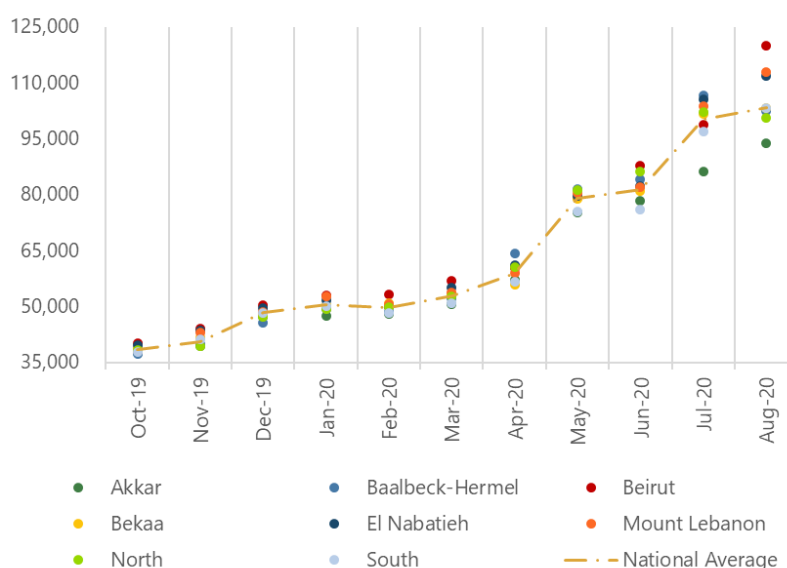


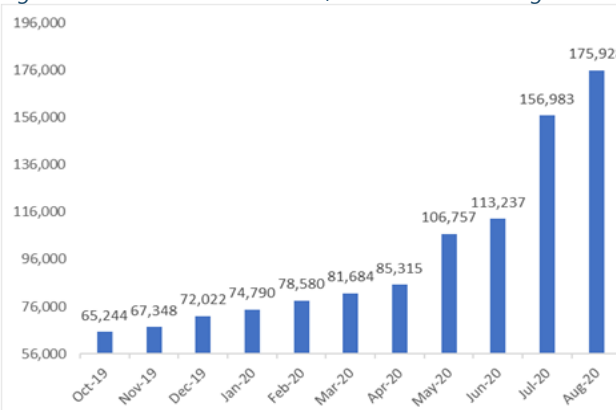
Table 1: Price of components of the SMEB and m-o-m variations

| Food SMEB Components | Price | m-o-m variation | |
|---------------------------|------------|-----------------|--------|
| | Aug-20 | Jul-20 | Oct-19 |
| Beef luncheon meat (200G) | LBP 5,046 | 4% | 167% |
| Brown bulgur (1Kg) | LBP 5,300 | -1% | 254% |
| Egyptian rice (1Kg) | LBP 3,968 | 5% | 124% |
| Salt (1Kg) | LBP 1,476 | 4% | 191% |
| Spaghetti (1Kg) | LBP 3,411 | 0% | 225% |
| Sunflower oil (5L) | LBP 35,389 | 3% | 282% |
| White beans (1Kg) | LBP 8,562 | 3% | 176% |
| White sugar (1Kg) | LBP 2,908 | 9% | 163% |

Non-Food Items Prices (Non-Food SMEB^{iv})

The price of the non-food SMEB registered an increase of 12 percent between July and August. The highest monthly increase was registered between June and July 2020 (up 38 percent). Between October and August, the basket increased by 170%. The component of the non-food SMEB with the highest price increase is bleach (up 338 percent), followed by washing powder (up 256 percent) and liquid dishwashing (up 249 percent), between October and August. Cooking gas registered the smallest price increase (up 6 percent), driven by the drop in the global combustible fuel prices.

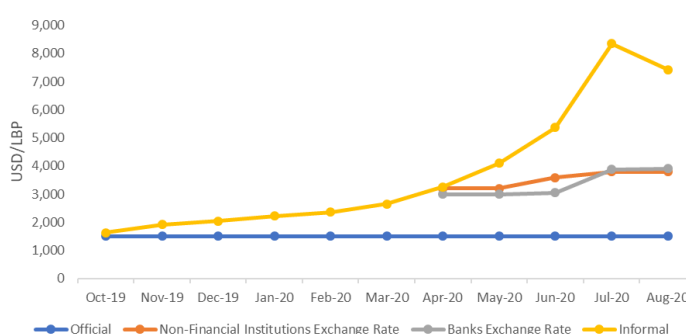
Figure 2: Non-Food Basket Cost, October 2019 - August 2020



Exchange Rate^v

After reaching nearly LBP 10,000/USD at the beginning of July 2020, the informal exchange rate dropped, recording a monthly average of LBP 7,420/USD in August 2020, which is 90 percent higher than the rate applied by banks for dollar denominated accounts (LBP3,900/USD). One potential reason for the decrease was the Beirut airport reopening at the beginning of July and the related return of expatriated Lebanese and foreigners to the country. This allowed for a constant injection of USD notes in the money market with no restrictions and gave residents the chance to receive fresh remittances from abroad, given that transfers through non-financial institutions, such as OMT and Western Union, were being paid in LBP, at a rate more than 50 percent lower than the informal exchange rate applied in July.

Figure 3: Official and informal exchange Rate, Oct 2019 - Aug 2020



Following the Beirut port explosion on August 4th, the currency slightly depreciated, however, it became more volatile on August 6th after the Central Bank of Lebanon's – Banque du Liban (BDL) – circular allowing for non-financial institutions to resume paying out incoming transfers in USD notes. The rate registered a minimum price of LBP 6,500/USD during the week of August 10th, before rising again and trading at a rate between LBP 7,000 and 8,000/USD for the rest of the month.

Supply Situation

Table 2: Cereal, food and total imports H1 2019 vs. H1 2020 in mt

| Imports | H1 2019 | H1 2020 | % Change |
|--------------------------|------------|-----------|----------|
| Cereal | 641,422 | 658,512 | 2.7% |
| Food (excluding cereals) | 949,316 | 781,922 | -17.6% |
| Total Imports | 10,356,778 | 6,085,929 | -41.2% |

In the first half of 2020, total imports volume decreased by 41 percent compared to the first half of 2019, while total food imports volume (excluding cereals) decreased by 17.6 percent in H1 2020 against H1 2019^{vi}.

The volume of imported cereals slightly increased at an approximate total of 660,000 in H1 2020. This includes

wheat imports, currently subsidized, which explains the stable import level compared to previous years. The economic downturn seems to currently mostly affect manufactured products and non-food related raw material imports.

Results from the weekly assessments conducted in August showed that 22 percent of contracted retailers have reported disruptions in the supply of ordered food commodities. In July, the proportion was even higher, with 38 percent of retailers experiencing disruptions, a result of the sharp volatility of the informal exchange rate during that month, which was higher in July than in August (see also figure 3).

Following the Beirut port explosion, WFP's retail unit conducted a rapid wholesaler assessment during the second week of August. Out of the 52 wholesalers that were reachable, 39 percent reported that they have a stock coverage of over two months, 50 percent reported having a stock coverage of 1 to 2 month, and only 11 percent indicated that their current stock coverage is for less than a month. This seems to suggest that the country is not suffering from immediate shortages of food, notwithstanding the damaged port infrastructure.

Potential impact of import subsidies removal on wheat and fuel prices

The potential decision of the BDL to remove subsidies on the price of wheat grains, fuel oil and pharmaceutical products in the next 3 months - is seen to aggravate burden on households, especially the most vulnerable. Between September and November 2020, the BDL is planning to use only USD 2.3 billion out of the USD 19.8 billion foreign currency reserve to subsidize basic commodities – corresponding to a monthly reduction of USD 700 million^{vii}.

Currently, the BDL subsidizes commodities through the official fixed exchange rate of LBP 1,515/USD, instead of the actual informal rate. By applying the official rate, the BDL subsidises 85 percent of the final price of wheat grain and 90 percent of the final price of fuel^{viii}. This means that the removal of subsidies can potentially lead to further escalations in general price levels, if the costs of subsidies removal is completely passed on to consumers.

The comparative price analysis presented in the below sections shows how prices could change once subsidies are removed^{ix}. The analysis focuses on wheat grains and fuel, with prices converted in USD; the exchange rate applied is the informal average rate for the month of August 2020 (LBP 7,420/USD), which better reflects the fluctuation of prices in the country.

Wheat

Subsidies removal could lead to an increase in wheat prices by up to 209 percent. The increase in the price of wheat grain will lead to an increase in the price of bread –wheat flour being one of its main ingredients.

To date, a 900g loaf of bread costs LBP 2,000. Once subsidies are removed, and holding all other factors constant, price of 900g of bread might increase to any of the two proposed scenarios below^x:

- A percentage increase in the price of bread equal to the expected percentage increase in the price of wheat, in which case the price of a package of 900g could increase by three times to LBP 6,180.
- A nominal increase in the price of the bread package equal to the nominal increase in the price of wheat after the removal of the subsidy, LBP 1,109, in which case the price of the package of 900g would cost LBP 3,109, which would be 1.5 times more expensive.

Fuel^{xi}

Once subsidies are removed and by applying the informal exchange rate, price of fuel could potentially increase by 351 percent. In detail, diesel price is foreseen to increase from LBP/L 810 to LBP/L 3,651, the price of cooking gas is expected to rise from LBP/Kg 1,480 to LBP/Kg 6,671, while price of Gasoline 95 will increase from LBP/L 1,225 to LBP/L 5,552. The increase in fuel price is expected to put an additional strain on the economy, as it will

rapidly push up prices of food and non-food items, as transport costs are a main input cost included in the final price of commodities and necessary to agricultural and industrial production.

Conclusion

The port explosion on 4 August has exacerbated an already deteriorating economic situation. Currency depreciation, the related price increases and possible removal of subsidies on key basic commodities pose additional risks to an already dim economic outlook. The price of the basic food basket recorded its highest cost in August 2020 at LBP 103,300, up 168 percent since October 2019; however, there was minimal change (3 percent) between the observed costs between July and August, suggesting that food prices are high but stabilized for the moment except for Beirut. Similarly, the price of the non-food SMEB basket increased by 170 percent since October 2019, while recording an increase of 12 percent between July and August 2020.

The supply situation remains mixed. While during the first half of 2020, total imports volume decreased by 41 percent compared to the first half of 2019, total food imports volume ((excluding cereals) decreased by 17.6 percent. The volume of imported cereals slightly increased at an approximate total of 660 thousand tons.

The potential removal of subsidies is expected to put additional strain to the overall economy, but more importantly to households if costs will be entirely passed on to consumers. This removal is likely to result into a further escalation of food and non-items prices, with bread potentially costing between LBP 3,109 and LBP 6,180 for a package of 900g. This will have a direct impact on food security and might be a risk to social stability in the country.

The economic outlook presented in this update does not warrant to an improvement of the situation, but rather a worrying future prospect. Over the past few months, WFP increased the transfer value for food assistance several times, reaching LBP 70,000 from July onward. WFP also increased the non-food transfer value to LBP 400,000 from July onward. Yet, the transfer value remains lower than the average SMEB prices measured in August 2020 and the expected steep inflation that will follow the planned removal of the current subsidies. WFP with its partner will continue to advocate to adjust the transfer values based on the latest basket costs to ensure that vulnerable population receive a meaningful assistance. Furthermore, WFP, along with the Government of Lebanon and partners, must continue to strengthen and expand the social safety net schemes in Lebanon, to ensure that the negative impacts of the economic downturn on the most vulnerable households are buffered as much as possible.

ⁱ Source: WFP RBC VAM Market Team/FocusEconomics.

ⁱⁱ Latest available.

ⁱⁱⁱ 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.

^{iv} WFP is currently monitoring a non-food basket based on the following products: baby diapers (90 pieces), dishwashing liquid (750 ml), disinfectant fluid (500 ml), soap (5 x 125g), 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 hypoallergic soap (125g per bar) are not included due to lack of data. In the calculations, the cost of the refill of a 10 Kg cylinder at the official price was used and switched to 1 KG, based on [IPT Fuel Price](#). For hypoallergic soap: the cost was estimated based on the registered inflation between the cost of an individual soap in the 2014 SMEB basket and the current costs recorded in WFP retail database.

^v Sources : Lebaneselira.org & Lirarate.com.

^{vi} Lebanese customs data

^{vii} Source: Daily Stars.

^{viii} Lebanese Central Bank Circular 561, [Link](#).

^{ix} The comparative price analysis is an estimation that uses the final prices of those commodities (including taxes) to calculate the potential prices once subsidies are removed. For a more accurate estimations, local taxes need to be deducted first.

^x It is worth noting that the production of 900 grams of bread requires nearly 700 grams of wheat flour, meaning approximately 1 kg of wheat. The two scenarios assume that the increase in wheat price is the only factor contributing to the increase in price of bread.

^{xi} Current combustible fuel prices used in the above calculations are based on the official prices for 20 litres of Gasoline 95 and Diesel and 10 KG of Gas LPG (cooking gas) for the week of September 2nd and converted to the above used measurement unit. Prices were downloaded from [IPT Fuel price](#) website.

