

Lebanon

VAM Update on Food Price and Market Trends

December 2020

Highlights

- Since September 2020, the cost of the Food SMEB has been fluctuating between LBP 105,000 and LBP 111,000. The national average stands at LBP 111,457 in December 2020. Beirut and El Nabatieh governorates recorded the most expensive SMEB in December 2020.
- The Consumer Price Index (CPI) witnessed an annual inflation of 133% between October 2019 and November 2020, while Food Price Index (FPI) registered an inflation of 423% – representing an all-time high since CAS started price monitoring on a monthly basis in 2007.
- The monthly average informal exchange rate remained stable at around USD/LBP 8,000 between September 2020 and December 2020. However, a high daily volatility was registered over the past three months, tied directly to the political developments. This is double the rate applied by banks for withdrawals in LBP from dollar denominated accounts (LBP3,900/USD)
- Between January and September 2020, total imports volume decreased by 38 percent compared to the same period in 2019, while total food imports volume (excluding cereals) decreased by 18 percent. The volume of imported cereals slightly increased, at an approximate total of 1 million tons during the reporting period.
- Despite a challenging market environment, local commercial supply chains continue to be able to operate efficiently. However, markets face the possibility of collapse due to increasing risks tied to the removal of subsidies and the LBP banknote liquidity crisis.
- Modifications to the current subsidization mechanism are expected soon. The Central Bank expects to be able to continue the current mechanism for two additional months only. These modifications will likely lead to a further increase in prices for food and essential goods.
- In 2020, an independent group of technical experts from the humanitarian community in Lebanon analysed the minimum and survival expenditure baskets and subsequently recommended a revised composition of the food and non-food items of the baskets to cover the actual consumption patterns of Syrian Refugees. As of 1st of January 2021, WFP Lebanon will be monitoring and reporting on the “new” Food Basket, which stands at LBP 129,605 in December 2020.

Macroeconomic Overview

For the past year, Lebanon has faced an unprecedented situation. A series of multiple and consecutive shocks has worsened the country’s socio-economic, political, and health situation. An ongoing political vacuum has further worsened the situation, jeopardizing the country’s chances of accessing much needed financial assistance. A highly volatile currency, closely tied to the political developments, further fuelled inflation. The Gross-Domestic Product (GDP) is estimated to contract by up to 25 percent by the end of 2020ⁱ. This in turn severely hampers the ability of both Lebanese and refugee population to access basic goods and services.

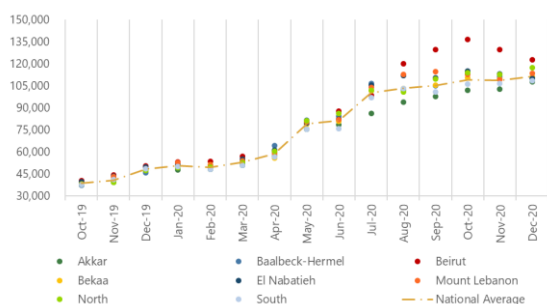
The CPI witnessed an annual inflation of 133% between October 2019 and November 2020ⁱⁱ, while Food Price Index (FPI) registered an inflation of 423% – representing an all-time high since CAS started price monitoring on a monthly basis in 2007. An expected removal/modification of the current subsidization mechanism scheme is in turn expected to potentially further fuel inflation trends. This confirms the strains that households are facing as a result of the economic crisis.



Food Prices (SMEBⁱⁱⁱ)

The (national) average cost of the food Survival Minimum Expenditure Basket (SMEB) registered an increase of 183 percent between October 2019 – the baseline month, prior to the multiple socio-economic shocks affecting the country – and December 2020. In terms of monthly variation (m-o-m), the cost of the food SMEB stabilized in December 2020 at LBP 111,457, a 2.4 percent increase from November 2020. Since the end of September 2020, the cost of the food SMEB has been fluctuating between LBP 105,000 and LBP 111,500. This follows the developments of the informal exchange rate, which witnessed a high volatility during the past three months, however remained nearly stable when comparing the monthly average rates (see exchange rate section).

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



Between October and December 2020 at the governorate level, small increases were registered in Akkar, Bekaa, Mount Lebanon, North and the South. (with a maximum of 5 percent). All other governorates registered a price decrease, with the highest observed in Beirut (down by 5 percent). The cost of the SMEB in Beirut recorded the highest cost in December 2020 at LBP 122,880, higher than the national average by 10 percent. Figure 1 shows that compared to late 2019, variations in the cost of the SMEB across governorates became wider starting July 2020 this year. In December 2020 the SMEB food cost gap between the different governorates has decreased.

Table 1 provides an overview of the food SMEB components prices and month to month variations. Sunflower oil and white beans recorded the highest price (at LBP 52,165 and LBP 8,437). Sunflower oil also recorded the highest increase since October 2019 (up 464 percent), followed by brown bulgur (up 200 percent) and white sugar (up 207 percent).

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

Food SMEB Components	Price	m-o-m variation	
	Dec-20	Nov-20	Oct-19
Beef luncheon meat (200G)	LBP 5,454	4%	188%
Brown bulgur (1Kg)	LBP 5,680	1%	280%
Egyptian rice (1Kg)	LBP 4,072	3%	130%
Salt (1Kg)	LBP 1,416	1%	179%
Spaghetti (1Kg)	LBP 3,224	-1%	207%
Sunflower oil (5L)	LBP 52,165	15%	464%
White beans (1Kg)	LBP 8,437	-2%	172%
White sugar (1Kg)	LBP 3,666	7%	231%

Revised Food Basket Composition

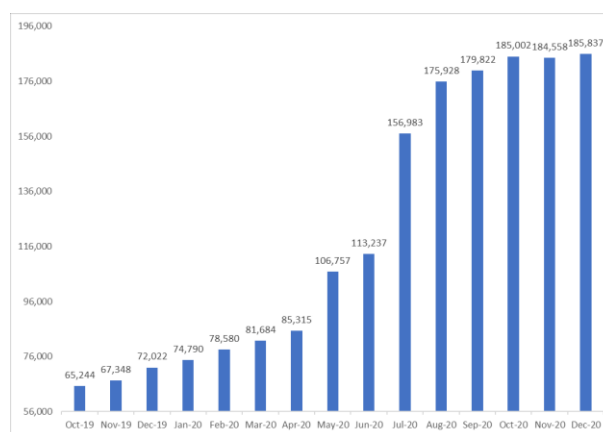
In 2020, an independent team of technical experts from different humanitarian organisations in Lebanon analysed the Minimum Expenditure Basket (MEB) and Survival Minimum Expenditure Basket (SMEB) and recommended the revision of the composition of the SMEB and MEB and their values^{iv} to cover for the actual consumption patterns of Syrian Refugees.

Starting from the 1st of January 2021, WFP will be monitoring and reporting on the “new” food basket. This basket consists of 19 food commodities^v. In October 2020 the cost of the “new” food basket was LBP 125,855 and increased to LBP 129,605 in December 2020.

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

A similar price trend increase was observed for the non-food component of the SMEB between October 2019 and December 2020. The national average cost registered an increase of 185 percent.

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

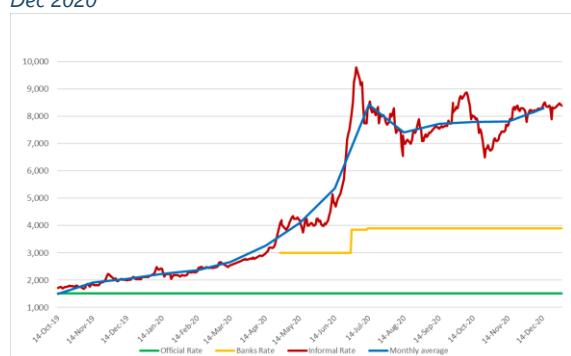


The non-food basket remained nearly stable between October and December 2020 (0.7 percent increase), with the basket registering a cost of LBP 185,837. The component of the non-food SMEB with the highest price increase since October 2019 is bleach (up 372 percent), followed by soap (up 260 percent). Cooking gas registered the smallest price increase (up 58 percent), as it continues to be subsidized by the central bank at the official rate of USD/LBP 1,507.5.

Exchange Rate^{vii}

The informal exchange rate continued to be heavily affected by the political developments during the past three months. At the end of September, following the resignation of the designated Prime Minister, the rate nearly reached USD/LBP 9,000. Around mid-October, it dropped to USD/LBP 6,500, a result of the nomination of a new Prime Minister, as well as the recently introduced limits on LBP cash withdrawals (see market risks section). However, with the ongoing stalling in the government formation, the rate has resumed its depreciation, trading at nearly USD/LBP 8,300 by the end of December 2020.

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



Although the informal rate registered a high daily volatility, the monthly average informal exchange rate remained stable between September and December at around USD/LBP 8,000. This is double the rate applied by banks for withdrawals in LBP from dollar denominated accounts (LBP3,900/USD).

Supply Situation

Between January and September 2020, total imports volume decreased by 38 percent compared to the same period in 2019, while total food imports volume (excluding cereals) decreased by 18 percent^{viii}. The volume of imported cereals increased by 8 percent for an approximate total of 1,014,469mt in 2020 by the end of September.

Table 2: Cereal, food and total imports Jan-Sep 2019 vs. Jan-Sep 2020 in mt

Imports	Jan-Sep 2019	Jan-Sep 2020	% Change
Cereal	936,654	1,014,469	8.31%
Food (excluding cereals)	1,297,589	1,064,586	-17.96%
Total Imports (including food)	15,757,291	9,804,398	-37.78%

Wheat imports, which falls under the cereal category, continues to be subsidized currently by the central bank, which explains the stable import level compared to previous years. Until the end of November, Lebanon imported 588,043 tons of wheat in 2020^{ix}. Between August and November 2020, Lebanon imported 227,471 tons of wheat, compared to 173,490 tons for the same period in 2019, a 31 percent increase that came following the Beirut Port explosion, along with the rush to cover any market shortages that might arise, given the lack of clear data on the available wheat supplies in August 2020.

Results from the weekly assessments conducted by the WFP Retail unit with the network of contracted shops beginning of December showed that retailers in the Northern part of the country had the lowest stock coverage. Thirty-six percent of stores in the North had a stock coverage of less than two weeks, compared with a national average of 18 percent during the same week. Most retailers across the country reported being able to purchase some of the subsidized items at the rate of USD/LBP 3,900. Nearly half of them mentioned that those items are scarce. Eighty-four percent were able to place new orders for such goods, although no clear visibility existed on when they might receive them. Also, among those who received subsidized products, only two percent did receive the full ordered quantities. This comes at a time when subsidized items might be discontinued (see subsidies removal section), which would further lead to a price increase and negatively affect Lebanon residents and Syrian refugees.

Market Risks^x

Despite an increasingly challenging operating environment, Lebanon's local commercial supply chains and retail network continue to be currently efficient. However, the country is facing several key market risks that can potentially lead to further decreasing purchasing power, especially for vulnerable people, as well as to a market collapse. Those risks are:

- Removal/modification of the subsidy system without an appropriate strengthening of the current social safety nets will limit people's access to basic good and services. This is due to the potential price inflation that will take place once the current subsidy mechanism is changed.
- Increased liquidity crisis due to the limits on LBP banknotes withdrawal. In October 2020, the central bank issued new directives limiting the ability of banks to access LBP banknotes^{xi}. This in turn led banks to introduce limits on cash withdrawals in LBP. Such a measure can potentially curb the amount of circulating LBP banknotes (increased by 147 percent since the beginning of the year, nearly 15 trillion LBP in value^{xii}), leading to an artificial strengthening of the LBP value, similar to the one registered when the measure was first introduced in October 2020 (see exchange rate section). Several negative outcomes can be expected for example:
 - First, the commercial sector cannot easily access LBP banknotes which are converted into USD banknotes to be used for imports. This could push merchants to only accept cash payments from their customers.
 - Second, as customers can access a limited amount of LBP banknotes per month, they in turn will have to select on what they spend their limited available banknotes, further deteriorating their purchasing power and ability to access their basic needs. This can lead to a potential decrease in general consumptions, reflected in an additional drop in the GDP percentage and a further shrinkage of the economy – which is already confirmed by the World Bank and IMF^{xiii}.
 - Third, imports will also be affected, as importers will not have access to enough LBP banknotes to be converted to USD and used in the payment of imports and therefore affecting the availability of those goods. Results from WFP's retail unit weekly assessment since the introduction of this measure indicate that contracted shops are facing issues with the newly introduced monthly LBP withdrawal limit. Some shops indicated that they are facing challenges to restock, while others stated that they

might limit their sales to cash customers. In addition, the percentage of suppliers accepting checks or banks transfers from contracted shops further dwindled after the introduction of the withdrawal limits.

Subsidies Removal

The Central Bank Governor recently announced that the Central Bank can keep the current subsidy mechanism^{xiv} for only two more months. Official foreign reserves were estimated to stand at nearly USD 17.9 billion at the end of November 2020, with only USD 800 million available for the subsidization of wheat grains, fuel oil and pharmaceutical products at the official rate, as well as the basket of food items at the banks exchange rate (USD/LBP 3,900). Subsidization will have to stop once the minimum reserve requirements threshold is reached.

The announcement led to a series of governmental consultation at the beginning of December, in order to agree on a set of possible modifications to the subsidies system. Suggestion include limiting the wheat subsidy to the production of Lebanese bread (pita bread), decreasing the percentage of combustible fuel subsidy from 90 percent to 60 percent, decrease the number of products included in the subsidized food basket (around 300 items currently)^{xv}. However, no decisions were taken yet, and consultations are expected to continue before a decision is taken beginning of 2021.



Photo: WFP/Laurent Blime

Conclusion

The price of the basic food basket increased by nearly 189 percent since October 2019, recording a cost of LBP 111,457 in December 2020; however, there was minimal change observed in the cost between September and December 2020, with the price fluctuating between LBP 105,000 and LBP 111,000. This follows a similar trend as the monthly informal exchange rate average, which has been stable around USD/LBP 7,700-7,800, despite daily high volatility. Similarly, the price of the non-food SMEB basket increased by 185 percent since October 2019.

The supply situation continued to follow previously set trends this year. While total imports volume decreased by 38 percent between January and September 2020, compared to the same period in 2019, total food imports volume (excluding cereals) decreased by 18 percent. In 2020, the volume of cereals slightly increased, as Lebanon imported nearly 588,000 tons of wheat till the end of November 2020.

While markets continue to be efficient, despite the further complicated operating environment, key risks with the potential of leading to a market collapse exist, further eroding Lebanon's population purchasing power. Those are mainly related to the removal/modification of the subsidy mechanism, as well as the recent withdrawal limits on LBP banknotes. WFP contracted shops have reported challenges due to

those risks. As the country's foreign reserve have nearly reached the minimum obligatory threshold, a decision is imminent on the modification of the subsidization system, with ministerial consultations taking place since the beginning of December. Any change to the system without appropriate measures to expand and strengthen social safety nets will have a direct impact on food security and the ability of households, especially the most vulnerable, to cover their basic needs.

With the ongoing political vacuum and the absence of comprehensive measures, Lebanon's economic and financial outlook is increasingly dire. WFP further increased the transfer value for food assistance to LBP 100,000 for beneficiaries of the National Poverty Targeting Program (NPTP) in October 2020, and for Syrian beneficiaries in November 2020. However, while those measure might provide potential short-term relief for the most vulnerable, further immediate measures are needed. This is to ensure that the negative impacts of the economic downturn and COVID 19 are minimized as much as possible. WFP, with its partner, also revised the S/MEB food and non-food portions, in order to better represents the actual needs of Syrian beneficiaries. The new food and non-food basket will be used among others for price and market monitoring in 2021, as well as for program planning purposes.

ⁱ IMF projects Lebanon's GDP to contract by 25 percent in 2020, while the World Bank forecast predicts real GDP to decline by 19 percent.

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} [Review of the Survival and Minimum Expenditure Baskets in Lebanon \(wfp.org\)](#), November 2020; presented and discussed to BAWG and FSSWG partners in Lebanon on 16 November 2020;

^v Apples, Bread, Brown Bulgur, Cabbage, Carrots, Chickpeas, Eggs, Lentils, Pasta, Potatoes, Powder Milk*, Rice, Salt

Sardine, Sugar, Sunflower Oil, Tea*, Tomato Paste, White Beans;

^{vi} 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)

(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.

^{vii} [Lebaneselira.org](#) & [Lirate.com](#).

^{viii} Lebanese customs data

^{ix} WFP Shipment Data, November 2020

^x WFP HQ Retail Mission Report, October - November 2020

^{xi} Daily Star, [Link](#)

^{xii} Byblos Bank Lebanon this week Report Issue 661, Link.

^{xiii} World Bank Lebanon Economic Monitor, Fall Edition, Link, & IMF World Economic Outlook, October 2020, [Link](#)

^{xiv} For addition details on the current subsidization mechanism and possible repercussions of the removal, please check VAM August 2020 Markets Update, Link.

^{xv} Daily Star, [Link](#).

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

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