

Lebanon

VAM Update on Food Price and Market Trends

March 2021

Highlights

- In February 2021, the food Survival Minimum Expenditure Basket (SMEB) costs LBP 156,367 (national average), a 12 percent increase compared to January 2021 price level and nearly three times compared to October 2019 (194 percent increase). Preliminary data shows an average price of LBP 163,164 for the first week of March 2021, and LBP 190,662 for the week of 22 March 2021.
- The Consumer Price Index (CPI) witnessed an inflation of 177 percent between October 2019 and February 2021, while Food Price Index (FPI) registered an inflation of 536 percent. According to the Central Administration for Statistics (CAS), inflation rate stood at nearly 85 percent in 2020.
- The informal exchange rate rapidly depreciated over the 1st quarter of 2021. It reached the USD/LBP 15,000 level mid-March 2021, the lowest ever registered rate for the Lebanese Lira. Average monthly rate for March 2021 stood at USD/LBP 11,775.
- Between January and November 2020, total imports volume decreased by 34 percent compared to the same period in 2019, while total food imports volume (excluding cereals) decreased by 14 percent.
- Large scale market disruptions registered in March 2021, with shops and suppliers across the country suspending or limiting temporarily their operation, due to the rapid depreciation of the Lebanese Lira in the informal exchange rate market. Shops resumed operation once a more stable rate emerged.
- No official modifications have yet taken place to the current subsidization mechanism. Price increases have been registered for combustible fuel and bread, even though being subsidized products.
- At the start of 2021, 20 percent of Lebanese, 50 percent of Syrian refugees, and 33 percent of refugees of other nationalities are food insecure. With the latest market developments, these estimates are expected to have increased.
- WFP, with its partners, must explore options and operationalize measures to maintain and augment its capacity to deliver lifesaving assistance in an increasingly challenging environment. These could include exchanging aid dollars at the actual market rate; re-introduce US Dollar as transfer currency; setting up close loop distributions; and preparing expansion contingency plans for the ongoing in-kind assistance to all food insecure households.

Macroeconomic Situation Overview

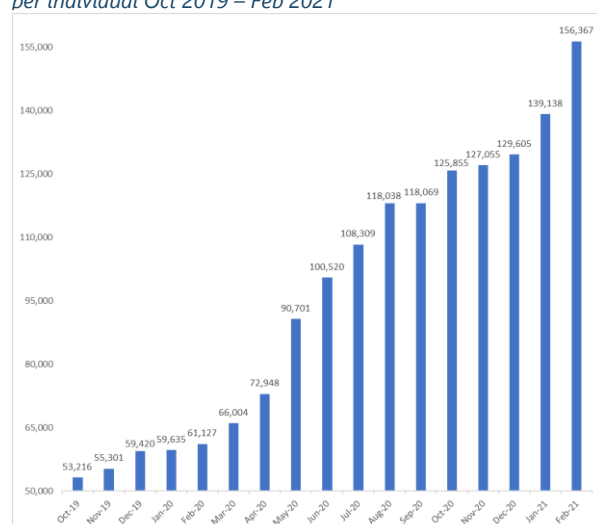
Eight months after the Beirut Port explosion that compounded the economic, political and COVID 19 crisis, the economic situation has worsened. Since the start of the economic crisis, the Lebanese pound has lost around 90 percent of its value, fuelling inflation, erosion of purchasing power, business failures, and spikes in unemployment and poverty rates. The Consumer Price Index (CPI) witnessed an inflation of 177 percent between October 2019 and February 2021, while Food Price Index (FPI) registered an inflation of 536 percentⁱ. According to the Central Administration for Statistics (CAS), inflation rate stood at nearly 85 percent in 2020. Currency in circulation, another trigger for the ongoing inflation, increased a 138 percent by the end of January 2021, compared to the previous yearⁱⁱ. Remittances inflow, a possible coping mechanism for Lebanese residents, dropped as well by 20 percent in the first half of 2020 to USD 3.1 billion, their lowest semi-annual average level since 2007ⁱⁱⁱ.

Expected modification/removal of the current subsidies on key commodities and medicine could potentially further increase inflation trends. Social tensions and civil unrest could once again erupt across the country, as a result of the subsidy removal and decreasing households purchasing power, especially for the most vulnerable. With the Lebanese pound reaching a record low of LBP 15,000/dollar in March, food availability, affordability and access are becoming major concerns, while WFP aid delivery mechanism is increasingly at risk.

Food Prices (SMEB^{iv})

Since the beginning of 2021, WFP started monitoring and reporting on the price^v of the newly revised Survival Minimum Expenditure Basket (SMEB)^{vi}. The (national) average cost of the revised food (SMEB) registered an increase of 32 percent between August 2020 – the date at which the basket was initially set, and February 2021. Between October 2019 – the baseline month, prior to the multiple socio-economic shocks affecting the country – and February 2021, the basket registered an increase of 194 percent. In terms of monthly variation (m-o-m), the cost of the food SMEB in February 2021 stood at LBP 156,367, a 12 percent increase from January 2021. This follows the developments of the informal exchange rate, which witnessed important depreciations since the beginning of the year, reaching the USD/LBP 10,000 level by the end of February 2021 (see exchange rate section).

Figure 1: National monthly variation in the cost of food SMEB – per individual Oct 2019 – Feb 2021



Preliminary data from WFP contracted shops for the month of March 2021 indicate that the cost of the basket has risen sharply, in parallel with the latest registered depreciations in the informal exchange rate market (see exchange rate section). The cost of the basket has risen from LBP 163,154 during the week of March 1, 2021 to LBP 190,662 during the week of March 22, 2021, a 17 percent increase^{vii}. This in turn puts further strains on the affordability of essential food needs, especially for the most vulnerable (including WFP beneficiaries given the limited transfer value for food (LBP 100,000)).

Table 1 provides an overview of the food SMEB components prices and month to month variations. Powder Milk (0.6KG) and Bread (7.02KG) recorded the highest prices between the SMEB commodities (at LBP 19,786 and LBP 17,459). Sunflower oil also recorded the highest increase since October 2019 (up 567 percent),

followed by white sugar (up 442 percent) and eggs (up 335 percent).

Table 1: Retail price of components of the revised food SMEB and m-o-m variations

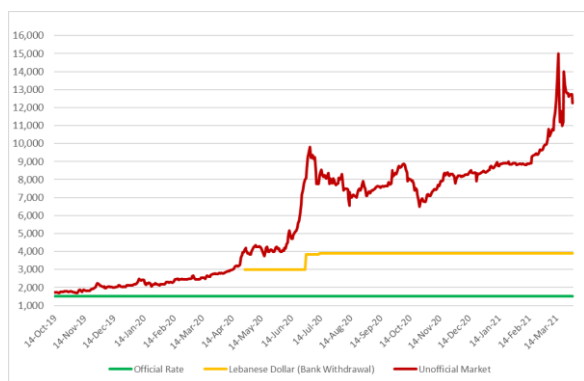
Food SMEB Components (SMEB per Individual Weights)	Price		m-o-m variation	
	Feb-21	Jan-21	Oct-19	
Apples (1.5KG)	LBP 5,946	-31%	197%	
Bread (7.02KG)	LBP 17,459	23%	78%	
Brown Bulgur (1.95KG)	LBP 13,558	13%	327%	
Cabbage (2.7KG)	LBP 3,691	-31%	22%	
Carrots (0.6KG)	LBP 2,718	0%	239%	
Chickpeas (0.9KG)	LBP 7,954	51%	179%	
Eggs (0.45KG)	LBP 4,611	4%	335%	
Lentils (0.75KG)	LBP 6,265	23%	255%	
Pasta (1.8KG)	LBP 16,443	0%	189%	
Potatoes (2.1KG)	LBP 4,200	-16%	100%	
Powder Milk (0.6KG)	LBP 19,786	12%	324%	
Egyptian Rice (2.4KG)	LBP 13,992	16%	280%	
Salt (0.12KG)	LBP 196	16%	162%	
Sardine (0.45KG)	LBP 12,989	1%	222%	
Sugar (0.6KG)	LBP 2,966	6%	442%	
Sunflower Oil (0.51L)	LBP 6,683	4%	567%	
Tea (0.12KG)	LBP 6,601	-3%	240%	
Tomato Paste(0.6KG)	LBP 6,709	-5%	115%	
White Beans (0.3KG)	LBP 3,601	29%	271%	

Exchange Rate^{viii}

With the start of 2021, the informal exchange rate resumed its rapid depreciation. This comes following a mostly stable period of dealing around the USD/LBP 8,000 level during the last quarter of 2020, when comparing the monthly average rates. The rate was heavily affected as well by developments on the political scenes, such as the daily news regarding the formation of a new government. In January 2021, the rate registered an average of USD/LBP 8,792. This increased to USD/LBP 9,120 in February 2021. However, at the beginning of March 2021, the rate broke the USD/LBP 10,000 mark and continued its rapid deterioration, reaching USD/LBP 15,000 on March 15, 2021, the highest ever registered rate for the Lebanese Lira. As hopes for the formation of a new government rose and dropped during the latter part of March, the informal market rate continued fluctuating between USD/LBP 11,000 and USD/LBP 14,000 rates, before being traded between USD/LBP 12,000 and USD/LBP 13,000 for the rest of the month. The monthly average rate in March 2021 reached USD/LBP 11,775. This is 202

percent higher than the current withdrawal rate in LBP from USD denominated banks account (USD/LBP 3,900), and 89 percent higher than the applied humanitarian exchange rate of USD/LBP 6,240.

Figure 3: Official and informal exchange Rate, Oct 2019 – Mar 2021



Following those developments, and in order to control the rate depreciation, the Central Bank decided to allow commercial banks to conduct currency exchanges, using the “Sayrafa” platform. This platform was previously designed for that purpose and launched back in June 2020. It was initially used exclusively by official exchange houses, to record transactions selling some of the injected subsidized dollars in the market by the central bank at the rate of LBP 3,850-3,900. No indication exists however on the rate that the platform will be using moving forward, and if it will be following the real market exchange rate, based on actual demand and supply forces. The Finance Minister later indicated that the platform rate is expected to hover around USD/LBP 10,000. In a series of circulars, the Central Bank required banks to register on the platform by April 16, indicating that the full launch is not expected before mid-April 2021^{ix}. The new platform is also not expected to meet all types of demand, but mainly to provide dollars to traders for import operations not covered by the central bank. This means that the informal market will likely remain active.

Supply Situation

Between January and November 2020, total imports volume in metric tons (mt) decreased by 34 percent, compared to the same period in 2019, while total food imports volume in mt (excluding cereals) decreased by 14 percent^x. The volume of imported cereals increased

by 3 percent, for an approximate total of 1,212,510 mt in 2020 by the end of November.

Table 3: Cereal, food and total imports Jan-Nov 2019 vs. Jan-Nov 2020 in mt – Lebanese Customs Data

Imports	Jan – Nov 2019	Jan – Nov 2020	% Change
Cereal	1,180,479	1,212,510	3%
Total Food (excluding cereals)	1,541,782	1,320,066	-14%
Total Food (including cereals)	2,722,261	2,532,576	-7%
Total Imports (including Food)	18,445,961	12,255,956	-34%

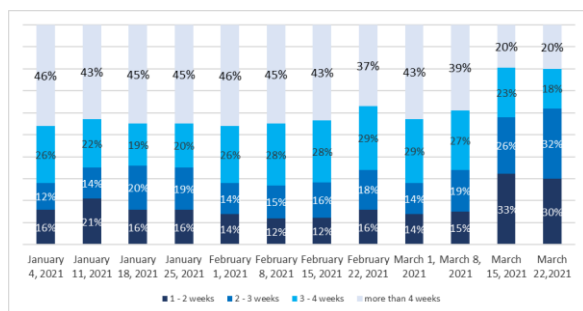
Wheat imports, which falls under the cereal category, continues to be currently subsidized by the central bank. This explains the stable import level in 2020 compared to the previous year. In the period following the Beirut Port Blast in August 2020 and until the end of February 2021, Lebanon imported 309,571 tons of wheat, compared to 323,913 for the same period the previous year (a four percent decrease)^{xi}.

Markets and supply chains have mostly continued to operate efficiently in January and February 2021, despite the COVID-19 lockdown measures and the increasingly challenging operating environments. Results from the weekly assessments conducted by the WFP Retail unit with the network of contracted shops provided an additional layer of information on the market stock evolution. Stock coverage remained nearly stable throughout most of the first quarter of 2021. While some challenges were faced during the stricter lockdown period (January 12 to March 1, 2021) in the delivery of goods, especially fresh products, no considerable change in the stock coverage was registered in January and February 2021.

However, in March 2021, large scale disruptions were witnessed. This came following the rapid depreciation of the informal exchange rate (reaching the USD/LBP 15,000, see exchange rate section). Shops across the country closed their doors or reduced operation hours, until a more stable market rate emerged. This limited the physical access of beneficiaries to shops, including those receiving unrestricted cash assistance. Suppliers as well had to temporarily halt orders delivery, with the exception to customers paying cash in USD, further fuelling the liquidity crisis at the retail level. All shops and suppliers resumed operation later during the week, once a more stable informal exchange rate emerged, allowing them to update their price lists.

With customers bulk buying as much as possible, in anticipation of further price increases, along with the suppliers delivery pause during the week of March 15, 2021, a drop in the percentage of shops having more than two weeks of stock coverage was registered (67 percent based on the week of March 15, 2021 results, versus 85 percent the previous week). By the week of March 22, 2021, the number slightly improved to 70 percent. In a statement on a talk show on March 18, 2021, the head of the syndicate of food importers indicated that the available stocks can cover the market needs for two month, a positive indicator, although no details were shared on what those stocks include^{xii}.

Figure 4: Evolution of the weekly stock coverage in WFP contracted shops Jan 2021 – Mar 2021



As the discussions intensifies regarding subsidies removal/modification (see subsidies section), shops across the country witnessed several social tensions incidents, with Lebanese customers fighting over the available subsidized products and Syrian beneficiaries being denied access to such goods. Based on the results from WFP's retail unit weekly assessment on March 22, 2021, 68 percent of the contracted retailers across the country reported having subsidized items at the rate of USD/LBP 3,900 in their stocks. However, 65 percent mentioned that those items are scarce. 42 percent were able to place new orders for such goods, yet only six percent of those that did place orders received the full ordered quantities.

Subsidies Removal

While no official decision has been taken regarding the modification/removal of the current subsidization mechanism, additional details have emerged on the currently available foreign reserves, as well as the proposed modification scenarios. The Finance Minister announced that remaining reserves are around USD 16 billion, of which USD 1 to 1.5 billion can be used for subsidies^{xiii}. This would cover two to three months of

subsidization at the current rate (USD 500 million per month). The Finance Minister also indicated that certain products will be removed, including certain food commodities, from the basket of subsidized food items, as well as lowering the fuel subsidy. Already, the Ministry of Economy & Trade released an updated list of items in the basket of subsidized food commodities, as well as agricultural and industrial raw materials, on March 24, 2021^{xiv}. The new list^{xv} substantially cuts the number of items included under the subsidized industrial material components to only 4 items, from around 80 items in the previously updated list, back in November 2020.

In December 2020, the ministerial consultations that took place drafted four different scenarios to replace subsidies with a ration/financial support card for vulnerable families. Details of those plans were recently shared by the media (albeit not officially)^{xvi}. Under all four plans, the electricity sector maintenance is to be subsidized by USD 250 million, while the public sector will receive USD 600 million. The currency of disbursement for the cards was not specified as well. The scenarios are:

- Financial support card at an average rate of USD 165 per family (exact amount depends on family size). No subsidies for combustible fuel, food items, or raw material for agriculture or industrial products.
- Financial Support Card, at a rate of USD 140 per month (regardless of family size). Combustible fuel and wheat subsidized (each for different periods).
- Financial Support Card, at a rate of USD 108 per month (regardless of family size). Combustible fuel, wheat and food basket subsidized (each for different periods).
- Financial Support Card for gasoline only, covering both public and private transportation. Combustible fuel, wheat and food basket subsidized (each for different periods).

The plans were also previously sent to the parliament, who requested that the government consolidate and share one scenario.

Bread Price Developments

Lebanese bread (pita bread), which benefits from the current subsidization mechanism on wheat, witnessed

several price and weight fluctuations over the past few months. The large package price was initially increased in February 2021 to LBP 2,500 (for a package of 870 grams), before being further increased to LBP 3,000 on March 23, 2021 (for a package of 960 grams). This represented a 100 percent increase since June 2020, the first-time bread prices were raised from LBP 1,500. However on March 31, 2021 the Ministry of Economy & Trade lowered back the price to LBP 2,500 (for a package of 905 grams), indicating that this came following the approval of the Central Bank to fully cover the import subsidization of wheat, rather than the current 85 percent^{xvii}.

Fuel Price Developments

Combustible fuel, another component heavily tied to the subsidization mechanism, have been witnessing large weekly price increases since the beginning of December 2020. The price of a 20L tank of Gasoline (95 Octane) increased by 62 percent between December 2020 and end of March 2021. A 20L tank of diesel price increased by 69 percent for the same period, while the price of a 10KG cylinder of cooking gas increased by 45 percent^{xviii}. The current subsidization mechanism of 90 percent of the price of combustible fuel is expected to be lowered soon. The Directorate General of Oil has also recently announced that the prices of combustible fuels will now be updated twice per week (on Monday & Thursday) rather than the previous weekly update (on Wednesday), in order to keep up with developments in the informal exchange rate market^{xix}.

Food Security Implications

As food & other basic commodities prices continue to rise sharply, especially with every additional Lebanese Lira depreciation in the informal markets, people's ability to access food is eroded on a daily basis. Beginning of 2021, 20 percent of Lebanese, 50 percent of Syrian refugees^{xx}, and 33 percent of refugees of other nationalities are estimated to be food insecure. With the latest markets development, these estimates have increased.

Unemployment, another key reason for people's lack of income, and ultimately ability to purchase/cover essential needs, has been rising over the past year. WFP surveys found unemployment rates for both Lebanese and Syrians to be 39 percent in 2020^{xxi}. In parallel, the

debt level of Lebanese, Syrian refugees and refugees of other nationalities increased, and the top reason for borrowing money was to buy food.

As inflation and unemployment rates continue to rise, so does poverty. This in turn will lead to further deterioration in the food security status of Lebanon's residents. Two pieces of evidence support this linkage; First, among Syrian refugees, the increase in food insecurity goes in line with the increase in poverty (odds ratio equals to 0.74). Ninety-two percent of food insecure households are extremely poor; and while not all extremely poor households are food insecure, this is because these extremely poor households spend their money on food with little money left to spend on other basic needs. Second, the increase in the share of food expenditure out of total expenditures observed in 2020 for all residents of Lebanon. This is also a warning signal how poverty led to increased food insecurity over the course of 2020 and will continue to do so.

In March 2021, the updated WFP/WB/UNHCR report titled '*Compounding Misfortunes*'^{xxii} suggests that, the poverty of Lebanese - using the international poverty line - could increase by up to approximately 30 percentage points between 2020 and end of 2021.

Humanitarian assistance has also been constrained by the crisis. The high inflation led to several increases of the transfer value in 2020. Due to political and social constraints, and until the large-scale Emergency Social Safety Net (ESSN) programme for Lebanese is launched, WFP and other humanitarian partners are not able to further adjust cash assistance values. Based on the preliminary food SMEB prices for the week of March 22, 2021 (LBP 190,662), the food transfer value today covers only 52 percent of the food basket needs. Moreover, resources that could be used to further assist vulnerable populations are being lost in the currently applied exchange rate system. Due to the low humanitarian exchange rate (USD/LBP 6,240), in comparison with the actual market value, WFP and its partners are losing almost half of donor money.

Conclusion

In 2020, triggered by the economic crisis, COVID 19 and political in-action, the overall inflation and depreciation have eroded people's purchasing power and the ability to meet their basic needs. This has led to an increase in

food insecurity amongst all populations living in Lebanon. The deteriorating trend is continuing in the first half of 2021 and will likely continue throughout 2021 if urgent measures are not taken to address this situation. Prices as well have continued to increase in the first quarter of 2021, while a decreasing trend of supplies continues to be registered.

Furthermore, humanitarian assistance has also been constrained by these factors. Throughout 2020, regular increase of the transfer value for food and essential goods was required to keep up with the high inflation. However, further increases are currently not possible until the ESSN program for Lebanese is launched; The low humanitarian exchange rate, 47 percent below the actual average market value from March 2021, means that development and humanitarian community are losing highly needed resources, that could be used to support additional vulnerable households.

With the ongoing political vacuum and the absence of comprehensive measures, Lebanon's economic and financial outlook in 2021 remains extremely grim. For the first time, markets in Lebanon are also showing signs of inefficiencies. WFP contracted shops have

reported major challenges, not tied solely to the liquidity crisis, and putting more and more beneficiaries at risk. These developments also are putting WFP's and partners delivery mechanism at jeopardy.

WFP and partners are exploring options to operationalize measures to maintain and augment their capacity to deliver lifesaving assistance in an increasingly challenging environment. These include advocating with the GoL/Central Bank to be able to exchange dollars for assistance at the actual market rate, or to re-introduce the US dollar as the transfer currency. Other potential solutions are looking at scaling up in-kind food assistance and/or setting close loop systems to secure and protect food supply chains and mitigate exchange rate losses. All options under review aim at leveraging local market mechanisms and capacity, whenever possible, and take into account protection considerations for beneficiaries.

i CAS CPI & FPI Data

ii Lebanon This Week – Issue 674 – Byblos Bank

iii Lebanon This Week – Issue 668 – Byblos Bank

iv The revised SMEB food basket is based on a monthly ration per person of 7.02 kg of bread, 1.8 KG of pasta, 1.95 brown bulgur, 2.4 KG of rice, 2.1 KG of potatoes, 0.75 KG of lentils, 0.3 KG of white beans, 0.9 KG of chickpeas, 0.6 KG of powder milk, 0.51L of sunflower oil, 0.6 KG of sugar, 0.6 KG of tomato paste, 0.45 KG of eggs, 2.7 KG of cabbage, 1.5 KG of apples, 0.12 KG of salt, 0.12 KG of tea, 0.6 KG of carrots, and 0.45 KG of canned sardine.

v Based on the WFP retail database price data, 2019-2021, as of 1 April 2021, subject to changes. Further revisions to the previously published prices might take place in the future.

vi The full SMEB and Minimum Expenditure Basket (MEB) were previously reviewed in 2020 by an independent team of technical experts from different humanitarian organizations in Lebanon, and recommended the revision of the composition of the SMEB and MEB and their values to cover for the actual consumption patterns of Syrian Refugees. Full Report: "[Review of the Survival and Minimum Expenditure Baskets in Lebanon \(wfp.org\)](#), November 2020"

vii Results are based on around 60 percent of contracted shops that have reported their prices for the selected weeks at the time of calculation

viii [Lebaneselira.org](#) & [Lirarate.com](#).

ix Daily Star & Business News

x Lebanese customs data – Imports General – Net Weights

xi WFP Shipment Data, Beirut & Tripoli Ports - February 2020

xii MTV "It's About Time" Talk Show

xiii Bloomberg

xiv LBC News

xv List of Subsidized Food items /Agricultural & Industrial raw materials

xvi LBC News

xvii LBC News

xviii IPT Fuel Price

xix LBC News

xx "[Hunger Hotspots: FAO-WFP early warnings on acute food insecurity - March to July 2021 outlook](#)"

xxi [mVAM \(Nov/Dec 2020\)](#) and [VASyR 2020v](#)

xxii Update to the Study 2021 COMPOUNDING MISFORTUNES