

February 15, 2021

Key Messages

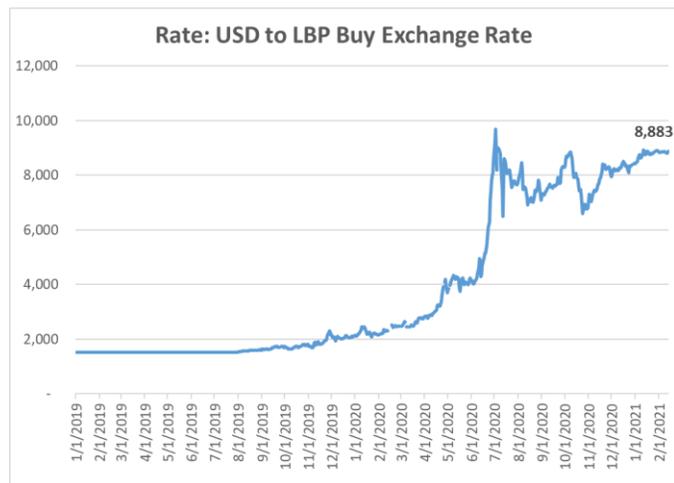
- Lebanon continues to function under a caretaker government, as months of political negotiation have failed to deliver a government. A new government is needed to launch reforms, secure international assistance, and set the country on a path towards recovery from financial and economic crisis.¹
- The COVID-19 pandemic spread rapidly in Lebanon following the holiday season, prompting a strict lockdown in mid-January that halted even basic economic activities such as food shopping.² The lockdown eased slightly as of February 8, but existing controls remain in effect until at least March.
- Protectionist trade restrictions in Russia and Argentina are contributing to rising global food prices.³

Macroeconomic Context

The Lebanese lira (LBP) has roughly stabilized against the U.S. dollar on the informal (black) market in the past month, currently trading at approximately 8,800 LBP : 1 USD. Exchange rate movements continue to reflect Lebanon’s political developments and attempts to form a government, which resumed in February after what was effectively a two-month hiatus.⁴ The informal or market exchange rate stood at approximately 8,883 LBP : 1 USD as of February 13. The official exchange rate remains at 1,508 LBP : 1 USD.

Figure 1 – USD to LBP Buy Exchange Rate

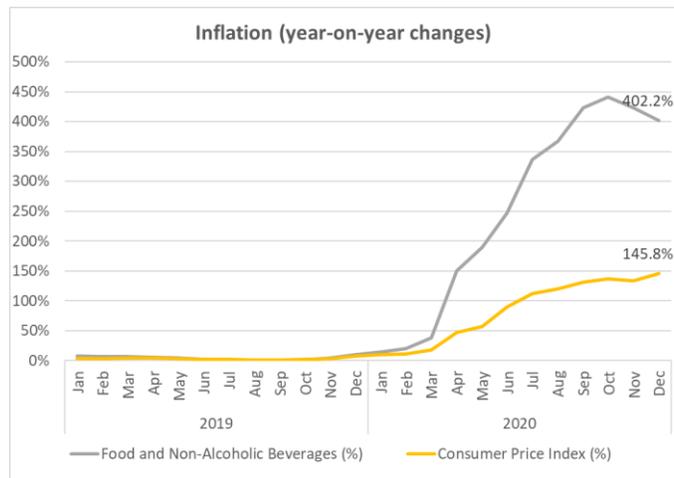
Source: *lirate.com*



Lebanon’s Consumer Price Index (CPI) extended its upward climb in December 2020. The CPI registered a year-on-year increase of nearly 146% between December 2019 and December 2020, which represents a continued increase and the highest figure yet reported since the onset of the country’s latest economic crisis. Prices for food and non-alcoholic beverages increased by approximately 402% over the same period, which represents a deceleration from the previous two months. Notably, the month-on-month increase in the price of food and non-alcoholic beverages was lower than the headline CPI increase between November and December 2020, for the first time since June 2020.

Figure 2 – CPI and Food Price Inflation

Source: *Central Administration of Statistics (CAS)*



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Availability

The outlook for local agricultural production in Lebanon for 2021 is uncertain. Anecdotal evidence predicts that harvests should be lower in 2021 as farmers are reportedly planting less, shifting to reduce or use lower-quality inputs (which is expected to reduce yields), shifting their crop patterns, or exiting the sector altogether.⁵ Weather conditions have been drier and warmer than normal,⁶ which may further affect crop yields.

Wheat production offers a particularly unclear view. The country's subsidy for domestic wheat production – one of its major agri-food policy interventions – has effectively ceased in recent years. This subsidy is not expected to be reinstated in the near future, removing one of the incentives to maintain local production. However, in an interview, Dr. Riad Fouad Saade of CREAL anticipated that wheat production could increase from 2020 production levels (70,000 tons per CREAL estimates), given that wheat is less expensive to produce than vegetable crops such as potatoes.⁷

Focus on Access

Global food commodity prices are surging, according to the latest data from the FAO. FAO's food price index accelerated by 4.3% between December 2020 and January 2021, the highest rate reported since mid-2014. The increase, which is driven by cereals, vegetable oil, and sugar, reflect a combination of international production and trade circumstances, as summarized in the table below.⁸

FAO Price Index	Monthly Increase	Underlying Conditions
Cereals	7.1%	Maize prices rose 11.2%. A tight global supply is due to large purchases by China, a shortfall in U.S. production and stock estimates, and the temporary suspension of maize export registrations in Argentina. Wheat prices increased 6.8%, reflecting both strong global demand and expectations of reduced sales by Russia, which will double its wheat export duty in March 2021.
Vegetable Oil	5.8 %	Excessive rainfall and ongoing shortages in the migrant labor force in Indonesia and Malaysia unexpectedly lowered palm oil production. Labor strikes in Argentina reduced availability of soy oil for export.
Sugar	8.1 %	Concerns over reduced availability are linked to factors including sustained global import demand; worsening crop prospects in the EU, Russia, and Thailand; dry weather conditions in South America; appreciation of the Brazilian real; and higher crude oil prices.
Dairy	1.6 %	Prices rose due to seasonally lower exportable supplies in New Zealand and increased purchases from China ahead of the Lunar New Year holidays.
Meat	1.0 %	Global imports of poultry meat remain strong, while avian influenza outbreaks limited output and exports from some European producers.

Rising global wheat prices are one factor cited by the Lebanese government in raising the government-controlled price of bread twice since the start of the year. The Ministry of Economy and Trade (MOET), which implements a ceiling on the market price of bread, has imposed the two increases of 250 LBP in January and in February, citing rising global wheat prices. With the latest increase, a standard package of bread weighing 930 grams is now priced at 2,500 LBP. At this price, consumption of a package of bread a day – a staple in many Lebanese households – would cost approximately 11% of the country’s monthly minimum wage (650,000 LBP).⁹

Analysis of food price data suggest that the rising cost of diets continues to put pressure on food access in Lebanon. According to the World Food Programme, the cost of the monthly survival minimum expenditure basket (SMEB) in the country rose to approximately 130,000 LBP as of December 2020,¹⁰ or approximately 20% of the monthly minimum wage. The food components within the SMEB are indicated in the table below.

Revised SMEB Food Components		
Bread	White beans	Cabbage
Pasta	Chickpeas	Carrots
Brown bulgur	Powdered milk	Apples
Rice	Sardines	Salt
Potatoes	Eggs	Sugar
Lentils	Sunflower oil	Tea
	Tomato paste	

The increase in the price of subsidized bread reflects the continued debate about the fate and implications of subsidies on basic foods. For example, a leader of the General Labor Union has publicly criticized the government’s actions to eliminate subsidies on basic goods like bread and diesel fuel, which are most felt by the poorest segments of the population.¹¹ However, the cost of maintaining subsidies on basic goods promises to erode Lebanon’s remaining foreign exchange reserves.¹²

Utilization

Adequate nutritional consumption by Syrian refugees living in Lebanon continues to be a serious concern. According to a recent report, the share of households with poor or borderline food consumption doubled from 2019 to 2020.¹³

Stability

Lebanon’s imposition of a strict lockdown from mid-January until February 8 due to rising cases of COVID-19 abruptly led food retailers to close their doors to customers, which significantly destabilized physical access to food. Retailers and consumers were forced to rely on delivery services during this period or to violate the public health measures to secure food.¹⁴ As of February 8, food retailers re-opened to customers on a limited basis in compliance with social distancing requirements.

Sustainability

Lebanon’s ability to produce agricultural commodities and food faces long-term sustainability challenges, according to newly published research and media reports. Poor water quality and insufficient quantities are threatening both agricultural production and public health in the Litani River Basin, which feeds the Bekaa Valley. A recent analysis by Darwish *et al.* (2021) finds that insufficient water management practices contribute to these problems, due to weak governance, capacity, and enforcement of existing laws.¹⁵

Climate change is adding further stress to the country’s outlook for agri-food production, and the effects are already being felt within the country’s wine industry. Climate change has contributed to shifting precipitation patterns and rising average temperatures.¹⁶ The period September-January was the warmest such period on record for Lebanon.¹⁷ The warmer temperatures have proved damaging to the country’s wine producers, leading to a drop in quality grape production and resulting wine volumes in the latest production season. The growing wine industry had been seen as a bright spot within the Lebanese economy given the value-added, export-oriented nature of the sector.¹⁸

Agency

Lebanese citizens have taken to the streets in public protest against the government’s imposition of restrictions linked to COVID-19 and worsening living conditions. The largest protests have been centered in Tripoli, in the north of Lebanon,¹⁹ and confrontations with police and the army have led to injuries and one reported death.²⁰

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¹ Houssari, N. (2021, February 2). Rising Bread Prices in Lebanon gobble up 11 percent of pay. *Arab News*. Available at: <https://www.arabnews.com/node/1802666/business-economy>

² Domat, C. (2021, February 1). Au Liban exsangue, Tripoli s’embrasse contre le confinement. *Ouest France*. Retrieved from: <https://www.ouest-france.fr/monde/liban/au-liban-exsangue-tripoli-s-embrasse-contre-le-confinement-7138499>.

³ Food and Agriculture Organization of the United Nations (FAO). (2021, February 4). Food Prices Increase Sharply in January. Retrieved from: <http://www.fao.org/news/story/en/item/1372486/icode/>

⁴ The Daily Star. (2021, February 13). Lebanese pound exchange rate unchanged. *The Daily Star*. Retrieved from: <https://www.dailystar.com.lb/Business/Local/2021/Feb-13/517313-lebanese-pound-exchange-rate-unchanged.ashx>.

⁵ Sewell, A. (2020, December 30). Lebanon’s domestic agricultural production is faltering, even though import subsidies may be close to an end. Retrieved from: <https://today.lorientlejour.com/article/1246545/lebanons-domestic-agricultural-production-is-faltering-even-though-import-subsidies-may-be-close-to-an-end.html>

⁶ Personal communication with H. Jaafar (2021, February 13).

⁷ Sewell, A. (2020, December 30). Lebanon’s domestic agricultural production is faltering, even though import subsidies may be close to an end. Retrieved from: <https://today.lorientlejour.com/article/1246545/lebanons-domestic-agricultural-production-is-faltering-even-though-import-subsidies-may-be-close-to-an-end.html>

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⁹ Houssari, N. (2021, February 2). Rising Bread Prices in Lebanon gobble up 11 percent of pay. *Arab News*. Available at: <https://www.arabnews.com/node/1802666/business-economy>

¹⁰ The figure refers to the ‘revised’ SMEB for Lebanon, which has been updated to reflect actual consumption patterns of vulnerable populations in Lebanon. The cost of the SMEB (2014 formulation) was approximately 111,500 LBP as of December 2020. World Food Programme. (2021, January 19). Presentation to Food Security Sector Working Group.

¹¹ Houssari, N. (2021, February 2). Rising Bread Prices in Lebanon gobble up 11 percent of pay. *Arab News*. Available at: <https://www.arabnews.com/node/1802666/business-economy>

¹² Habib, O. (2021, February 12). Lebanon’s inflation hits 85% in 2020. *The Daily Star*. Retrieved from: <https://www.dailystar.com.lb/Business/Local/2021/Feb-12/517301-lebanons-inflations-hits-85-percent-in-2020.ashx>.

¹³ Regional Refugee & Resilience Plan (3RP). (2021, February 8). *Regional Strategic Overview 2021-2022*. Retrieved from: http://www.3rpsyriacrisis.org/wp-content/uploads/2021/02/RSO_RegionalStrategicOverview_2021_22.pdf.

¹⁴ Domat, C. (2021, February 1). Au Liban exsangue, Tripoli s’embrase contre le confinement. *Ouest France*. Retrieved from: <https://www.ouest-france.fr/monde/liban/au-liban-exsangue-tripoli-s-embrase-contre-le-confinement-7138499>.

¹⁵ Darwish, T., Shaban, A., Masih, I., Jaafar, H., Jomaa, I., & Simaika, J.P. (2021). Sustaining the ecological functions of the Litani River Basin, Lebanon. *International Journal of River Basin Management*. DOI: 10.1080/15715124.2021.1885421.

¹⁶ Dadouch, S. (2021, February 13). Climate change upends Lebanon’s wine industry. *The Washington Post*. Retrieved from: <https://www.washingtonpost.com/world/2021/02/13/climate-change-is-upending-lebanons-booming-business-boutique-wineries-provisional/?arc404=true>.

¹⁷ Personal communication with H. Jaafar (2021, February 13).

¹⁸ Dadouch, S. (2021, February 13). Climate change upends Lebanon’s wine industry. *The Washington Post*. Retrieved from: <https://www.washingtonpost.com/world/2021/02/13/climate-change-is-upending-lebanons-booming-business-boutique-wineries-provisional/?arc404=true>.

¹⁹ Houssari, N. (2021, February 2). Rising Bread Prices in Lebanon gobble up 11 percent of pay. *Arab News*. Available at: <https://www.arabnews.com/node/1802666/business-economy>

²⁰ Domat, C. (2021, February 1). Au Liban exsangue, Tripoli s’embrase contre le confinement. *Ouest France*. Retrieved from: <https://www.ouest-france.fr/monde/liban/au-liban-exsangue-tripoli-s-embrase-contre-le-confinement-7138499>.