

August 6, 2021

## Key Messages

- Najib Miqati has been designated as prime minister, the third candidate for the role following the resignation of Prime Minister Hassan Diab in August 2020. Lebanon remains under Diab’s caretaker government, until Miqati forms a government that meets with the approval of President Aoun.<sup>1</sup>
- A shortage of imported fuel has limited electricity produced from both the public grid and private generators, which are widely used for household, commercial, and municipal purposes. In late July, Lebanon and Iraq signed a deal to provide four months’ worth of heavy fuel oil used to power the public grid, in exchange for goods and services.<sup>2</sup>
- No determination of culpability has been made, one year after the massive explosion at the Port of Beirut that killed and injured hundreds and caused extensive damage to large sections of the city.<sup>3</sup>

## Macroeconomic Context

The Lebanese lira (LBP) has been highly volatile against the U.S. dollar on the informal (black) market over the past month. The lira reached a historical record of 23,000 LBP : 1 USD on July 16, recovering slightly to 21,000 LBP : 1 USD as of August 5. Exchange rate movements continue to reflect political developments, including hopes and fears around the formation of a new government.<sup>4, 5, 6</sup> The official exchange rate remains at 1,508 LBP : 1 USD.

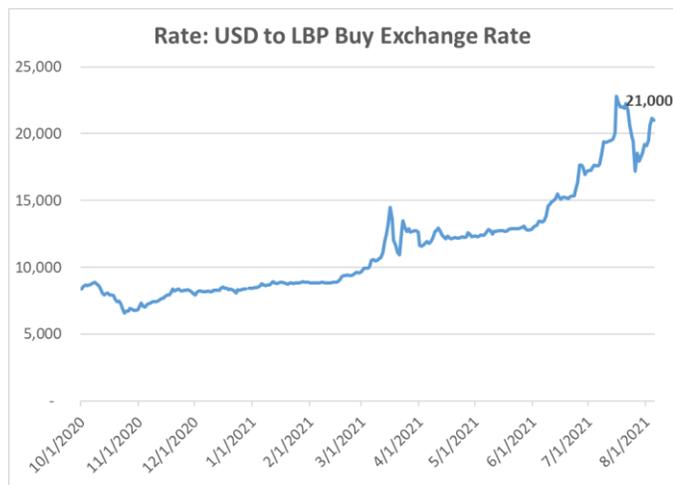


Figure 1 – USD to LBP Buy Exchange Rate

Source: [lirarate.com](http://lirarate.com)

Nevertheless, the Lebanese lira is significantly undervalued as compared to the U.S. dollar, according to the Big Mac Index published by *The Economist*. The Big Mac Index is an illustrative measure of the theory of purchasing-power parity (PPP), which holds that exchange rates should move to equalize the price of an identical basket of goods and services – in this case, a McDonald’s Big Mac sandwich – in any two countries over the long term. This analysis, which was published in July 2021, reported that a Big Mac cost 37,000 LBP in Lebanon and 5.65 USD in the United States, implying an exchange rate of 6,549 LBP : 1 USD. This rate was significantly off the black market rate (reported at 22,000 LBP : 1 USD). According to the analysis, the Lebanese lira is the most undervalued currency among all currencies analyzed.<sup>7</sup>

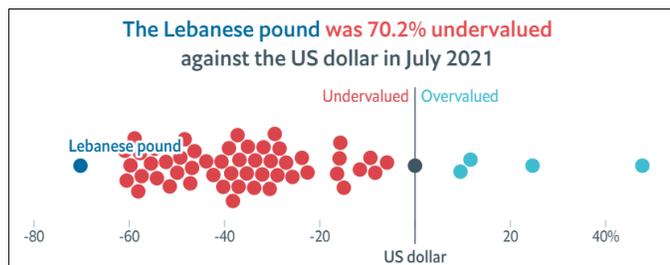


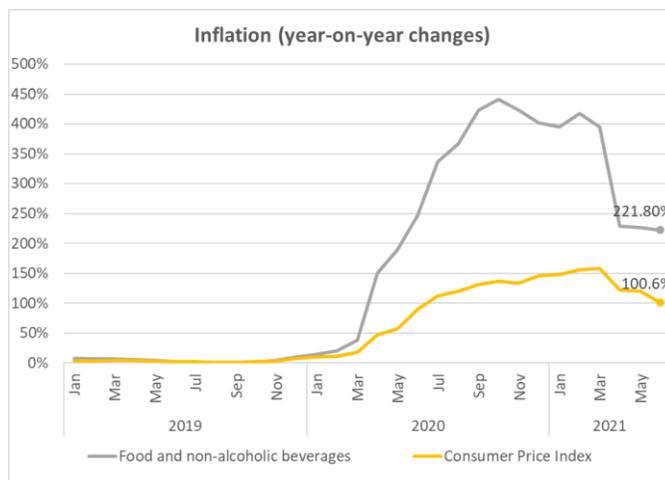
Figure 2 – Big Mac Index

Source: *The Economist*

**Lebanon’s Consumer Price Index (CPI) reported continued increases in June 2021, with year-on-year changes exceeding 100% for the 12<sup>th</sup> month in a row.** The CPI registered a year-on-year increase of approximately 100% between June 2020 and June 2021, slightly down from the comparable figure reported in May 2021. Prices of food and non-alcoholic beverages increased by approximately 222% year-on-year in June, a small deceleration from May’s figures. Month-on-month increases in the price of food and non-alcoholic beverages continue to exceed headline CPI, as they have throughout 2021.

**Figure 3 – CPI and Food Price Inflation**

Source: Central Administration of Statistics (CAS)



## Availability

**A lack of fuel oil in Lebanon has raised concerns that farmers may be unable to irrigate their fields during a critical time in the production season, with negative implications for local food production as well as food exports.** Farmers typically use fuel oil (*mazout*) to power their irrigation pumps. The lack of fuel oil is being keenly felt by farmers who need to irrigate their crops during the height of the summer production season, including producers of potato, onion, horticultural crops, and tree crops. Crops like potato are an important part of the local diet<sup>8</sup>, as well as a major cash crop destined for the export market.<sup>9</sup> Irrigation has also become complicated due to a lack of available water, as Lebanon’s water pumping and distribution system has also been adversely affected by the lack of fuel.<sup>10</sup> As a result of these pressures, some farmers have reportedly abandoned selected fields to focus the remaining energy and water resources on a smaller production area, while other farmers have abandoned the current production season altogether.<sup>11</sup>

## Access

**Food access remains under significant pressure as Lebanese households face continued increases in food prices.** Analysis from the Lebanon Crisis Observatory at the American University of Beirut finds the average family of five now pays at least 3.5 million LBP monthly for food, more than five times the minimum wage (675,000 LBP).<sup>12</sup>

**International food commodity prices continued to decline in July, but remain more than 30% above their level of one year ago.** The FAO Food Price Index fell by 1.2% between June and July 2021, extending the trend to two months of consecutive decline in the headline index. The reduction was driven by lower prices for cereals, dairy products, and vegetable oils, while meat and sugar prices increased. These global food price trends are welcome news, insofar as they reduce additional inflationary pressures within Lebanon.<sup>13</sup>

## Utilization

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**The lack of fuel and disruption to water systems has raised concerns over food safety and quality.** As of early July, households have been asked to reduce water consumption in response to pressure on the country's water pumping and distribution systems.<sup>14, 15</sup> UNICEF has warned that most water pumping in Lebanon will gradually cease between late August and early September, putting more than four million people at risk of losing access to safe water. Without the public water supply system, households may be forced to buy water from private suppliers, which could raise the cost of water by 200% a month according to UNICEF. Households are expected to face trade-offs in allocating available water to meet needs including sanitation, hygiene, and cleaning and cooking food.<sup>16</sup>

## Stability

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**Planned efforts to provide additional support to Lebanon's most vulnerable households face continued delays.** A 246 million USD loan from the World Bank intended to provide a social safety net to the most vulnerable households, has reportedly been delayed as a result of administrative blunders. Elsewhere, the planned ration card to support Lebanon's poorest households received legal approval from the Parliament, but awaits action by the Cabinet to finalize the implementation mechanisms<sup>17</sup>; it is not immediately clear if the caretaker Cabinet can take the necessary actions, or if this must await the installation of a new Cabinet.

## Sustainability

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**Recently published research has shown how an optimized version of Lebanon's dietary patterns can reduce the impact on the environment, at no additional cost to consumers.** The optimized diet reflects higher intakes of whole grain bread, dark green vegetables, dairy products, and legumes; but reduces the intake of refined bread, meat, poultry, added sugars, and saturated fat as compared to current national consumption. These shifts would reduce environmental impacts in the form of associated water use (by 6%) and greenhouse gas emissions (by 22%). The research article by Hwalla *et al.* was published in the journal *Frontiers in Nutrition*.<sup>18</sup>

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<sup>1</sup> Reuters. (2021, July 28). Lebanon's Mikati hopes to form government soon. *Reuters*. Retrieved from: <https://www.reuters.com/world/middle-east/lebanons-mikati-says-he-hopes-form-government-near-future-2021-07-28/>.

<sup>2</sup> Al Jazeera. (2021, July 24). Cash-strapped Lebanon signs fuel deal with Iraq to ease crisis. *Al Jazeera*. Retrieved from: <https://www.aljazeera.com/news/2021/7/24/crisis-hit-lebanon-strikes-fuel-deal-with-iraq-to-ease-shortage>.

<sup>3</sup> Houssari, N. (2021, July 9). Families of Beirut port blast victims demand accountability. *Arab News*. Retrieved from: <https://www.arabnews.com/node/1891521/middle-east>.

<sup>4</sup> Chehayeb, K. (2021, July 15). Lebanon's PM-designate Saad Hariri resigns and crisis escalates. *Al Jazeera*. Retrieved from: <https://www.aljazeera.com/news/2021/7/15/lebanon-pm-designate-saad-hariri-resigns-as-crisis-escalates>.

<sup>5</sup> The Daily Star. (2021, July 28). Lebanese pound up on new govt hopes. *The Daily Star*. Retrieved from: <https://www.dailystar.com.lb/Business/Local/2021/Jul-28/522149-lebanese-pound-up-on-new-govt-hopes.ashx>.

<sup>6</sup> The Daily Star. (2021, July 27). Lebanese pound dips after wild rally. *The Daily Star*. Retrieved from: <https://www.dailystar.com.lb/Business/Local/2021/Jul-27/522120-lebanese-pound-dips-after-wild-rally.ashx>.

<sup>7</sup> The Economist. (2021, July 21). Burgernomics: The Big Mac index. *The Economist*. Retrieved from: <https://www.economist.com/big-mac-index>.

<sup>8</sup> Potatoes contribute approximately 6.5% of the daily energy intake of Lebanese adults. See: Nasreddine et al. (2005). Food Consumption Patterns in an Adult Urban Population in Beirut, Lebanon. *Public Health Nutrition*. doi: 10.1079/PHN2005855.

<sup>9</sup> Potato was Lebanon's top-produced crop by volume in 2018, and accounted for 7.6% of all crop exports. See: IDAL. (n.d.). Agriculture. *IDAL*. Retrieved from: [https://investinlebanon.gov.lb/en/sectors\\_in\\_focus/agriculture](https://investinlebanon.gov.lb/en/sectors_in_focus/agriculture).

<sup>10</sup> Khraiche, D. (2021, July 9). Lebanese Power Stations Shut Down as Crisis Deepens. *Bloomberg*. Retrieved from: <https://www.bloomberg.com/news/articles/2021-07-09/lebanese-power-stations-shut-down-as-crisis-deepens>.

<sup>11</sup> Hameye, R. (2021, July 29). The Bekaa Valley in the Midst of the Diesel Crisis: Spoilage “Wholesale and Retail”. *Al-Akhbar News*. Retrieved from: <https://al-akhbar.com/Community/312478>.

<sup>12</sup> Ramadan, T. (2021, July 21). With Lebanon edging closer to hyperinflation, a family of five now pays five times the minimum wage for food each month. *L'Orient Today*. Retrieved from: <https://today.lorientlejour.com/article/1269156/with-lebanon-edging-closer-to-hyperinflation-a-family-of-five-now-pays-five-times-the-minimum-wage-for-food-each-month.html>.

<sup>13</sup> FAO. (2021, August 5). The FAO Food Price Index fell again in July. *FAO World Food Situation*. Retrieved from: <http://www.fao.org/worldfoodsituation/foodpricesindex/en/>.

<sup>14</sup> Khraiche, D. (2021, July 9). Lebanese Power Stations Shut Down as Crisis Deepens. *Bloomberg*. Retrieved from: <https://www.bloomberg.com/news/articles/2021-07-09/lebanese-power-stations-shut-down-as-crisis-deepens>.

<sup>15</sup> Sakr, E. (2021, July 9). Lebanon's crisis intensifies as fuel and medicine shortages worsen. *The National*. Retrieved from: <https://www.thenationalnews.com/mena/lebanon/2021/07/09/lebanons-crisis-intensifies-as-fuel-and-medicine-shortages-worsen/>.

<sup>16</sup> UNICEF. (2021, July 23). Water supply systems on the verge of collapse in Lebanon: over 71 per cent of people risk losing access to water. *UNICEF*. Retrieved from: <https://www.unicef.org/press-releases/water-supply-systems-verge-collapse-lebanon-over-71-cent-people-risk-losing-access>.

<sup>17</sup> Ramadan, T. (2021, July 21). With Lebanon edging closer to hyperinflation, a family of five now pays five times the minimum wage for food each month. *L'Orient Today*. Retrieved from: <https://today.lorientlejour.com/article/1269156/with-lebanon-edging-closer-to-hyperinflation-a-family-of-five-now-pays-five-times-the-minimum-wage-for-food-each-month.html>.

<sup>18</sup> Hwalla *et al.* (2021). Promoting Sustainable and Healthy Diets to Mitigate Food Insecurity Amidst Economic and Health Crises in Lebanon. *Frontiers in Nutrition*. doi: 10.3389/fnut.2021.697225.