

September 10, 2021

Key Messages

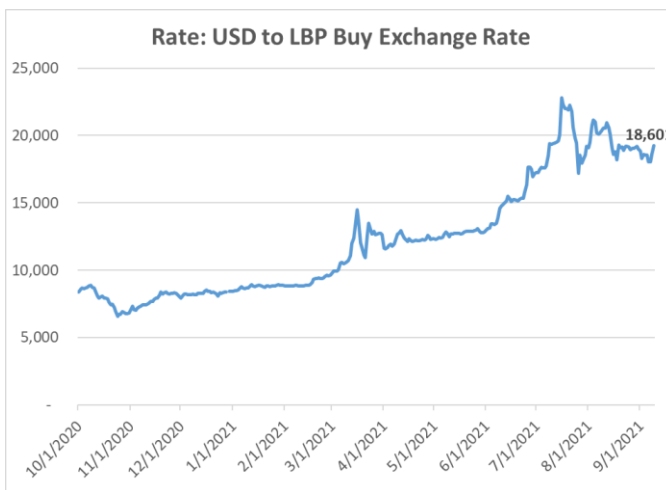
- Lebanon finally has a new government under the leadership of Prime Minister Najib Miqati, who has promised to pursue international support and funds to finance an economic recovery.¹
- Gasoline and diesel fuel shortages continue to limit the electricity supply and disrupt production and transport, affecting both commercial and household activities.² Hours-long queues to secure fuel are widely reported.^{3,4} Efforts to secure fuel imports are highly politicized, and thus far fall short of solving longstanding issues in the electricity sector.^{5,6}
- Fuel subsidies appear set to finally end, following progressive reductions throughout 2021. Officials have repeatedly adjusted the exchange rate at which USD are made available to finance fuel imports.⁷
- The World Food Programme estimates that food prices jumped by 557% between October 2019 and September 2021, triggering coping strategies that reveal serious food insecurity in the country.⁸

Macroeconomic Context

The Lebanese lira (LBP) has stabilized against the U.S. dollar on the informal (black) market over the past month. The lira has hovered around 20,000 LBP : 1 USD throughout the month of August and into early September. Exchange rate movements continue to reflect political developments, including hopes and fears around the formation of a new government.^{9,10} The official exchange rate remains at 1,508 LBP : 1 USD.

Figure 1 – USD to LBP Buy Exchange Rate

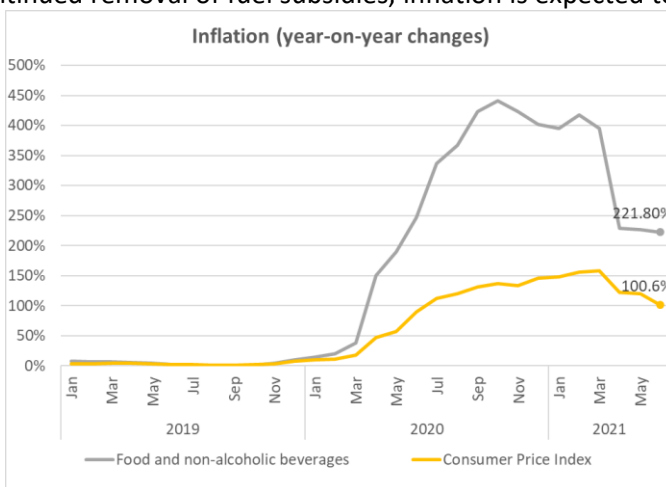
Source: lirarate.com



Lebanon’s Central Administration of Statistics has yet to release Consumer Price Index (CPI) data for the month of July 2021. However, based on the continued removal of fuel subsidies, inflation is expected to remain well above 0% both in month-on-month and year-on-year terms. The latest available data showed that the CPI grew by 100% between June 2020 and June 2021. Prices of food and non-alcoholic beverages increased by approximately 222% over the same period. Increases in the price of food and non-alcoholic beverages have thus far exceeded headline CPI throughout 2021.

Figure 2 – CPI and Food Price Inflation

Source: *Central Administration of Statistics (CAS)*



Availability

Food importers continue to warn of impending shortages, as inflation makes the cost of re-stocking increasingly unaffordable. According to the head of the Syndicate of Importers of Foodstuffs, many companies have already reduced their imports in order to cope with the price volatility. This reduction has become visible to consumers in the form of empty supermarket shelves.¹¹

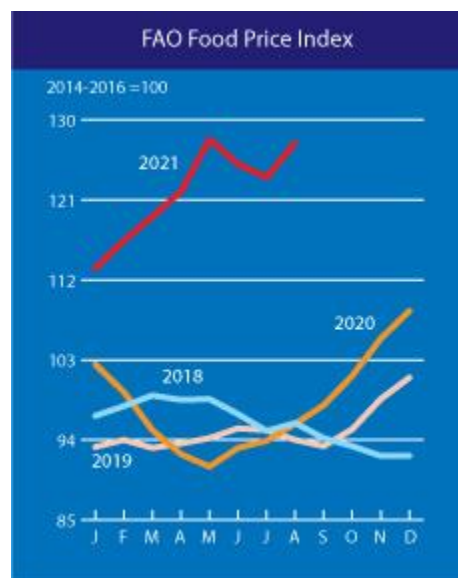
Access

A loss of purchasing power and rising food prices are hampering food access for many Lebanese households. Limited increases in the country's minimum wage have failed to keep pace with rising food prices, and have no effect for individuals who have lost their jobs and incomes. According to the World Food Programme, food prices have risen by 557% between October 2019 and September 2021. As a result, households have had to adopt adverse coping strategies including reducing or skipping meals.¹² Such strategies point to the growing incidence of (severe) food insecurity in the country.

Strong increases in international food commodity prices were reported August, providing unwelcome news for Lebanon's food consumers. The FAO Food Price Index rose by 3.1% between July and August 2021, resuming its upward climb after two months of consecutive decline. The rebound in overall prices is attributed to strong increases in the prices of sugar, vegetable oils, and cereals. With these changes, the Food Price Index is now more than 30% above its level of one year ago. International price movements typically guide domestic price movements, and may further contribute to food price inflation in Lebanon given the country's high dependence on imported food commodities.¹³

Figure 3 – FAO Food Price Index

Source: Food and Agriculture Organization (FAO)



Utilization

The lack of consistent electricity supply has contributed to rising concerns about food safety as producers, distributors, retailers, and households are unable to keep frozen or chilled foods sufficiently cold to prevent spoilage.^{14,15} Concerns over safety and contamination are especially high for dairy, poultry, and meat products, whereas canned or dried foods tend to be safer when stored for longer periods of time. Cases of food poisoning have reportedly risen, which is particularly challenging at a time when shortages of fuel and medicine are straining the healthcare system. Moreover, the effects of food poisoning can be amplified for individuals who are already malnourished – as some experts fear is the case amidst Lebanon's current economic crisis. The most severe cases of food poisoning can result in life-threatening conditions, even death.¹⁶ A growing number of social media postings guiding households on how to purchase, store, and prepare foods to avoid both illness and waste have been observed in recent months.

After an extended wait, the Lebanese government has nominated members to serve on National Food Safety Committee. In early September, caretaker Minister of Public Health Hamad Hassan put forth the names of eight experts in food safety to serve on the body responsible for overseeing food safety in the country. The National Food Safety Committee was established as part of Lebanon’s Food Safety Law, which was adopted in October 2016. The Law increases the number of food safety monitors and emphasizes coordination with private universities to benefit from their laboratories, as well as cooperation with municipalities and training their representatives who report on safety conditions in their respective geographies.¹⁷

Focus on Stability

In early September, Lebanese officials announced that vulnerable families can soon register for a ration card program designed to offset price increases due to the end of public subsidies on imported items. The ration card program will reportedly provide payments of USD 25 person per month (with an additional USD 15 for individuals aged 64+), beginning in October 2021 and continuing for a period of one year.¹⁸ The average per-family monthly payment is estimated at USD 93, and capped at USD 126. Payments are to be made in USD or in LBP at the informal market rate, delivered via electronic cards or money transfers. The total value of the ration card program is estimated at USD 556 million, reaching some 500,000 families. The *Banque du Liban* will initially fund the program; officials have announced that these costs are possibly to be reimbursed either by the World Bank or through Lebanon’s allocation with the International Monetary Fund. Accordingly, the World Bank is to approve an external monitor to oversee the program.^{19, 20}

The ration card program appears to target support to families that are vulnerable to the reduction in subsidies, but not the country’s poorest families who already benefit from the existing National Poverty Targeting Program. The means test for the ration card program excludes families meeting any of the following criteria: annual income exceeding USD 10,000; bank deposits exceeding USD 10,000 in fresh dollars or 50,000 “Lebanese dollars”; annual rent payments exceeding USD 3,500; ownership of more than two cars registered after 2018 or manufactured after 2017; employment of a domestic worker (subject to exceptions); or already receiving assistance through the National Poverty Targeting Program.²¹ Concerns have already been raised that the program will fail to benefit those most in need or will be captured by elites, particularly in the run-up to a general election schedule for May 2022.²²

- *Applications to the ration card program can be made between September 15 and October 15. Applications may be made online at daem.impact.gov.lb, via the Ministry of Social Affairs, or through designated NGOs. The telephone hotline for inquiries is 1747.*

The ration card program is distinct from a World Bank-funded program that would deliver cash assistance to some of the poorest families in Lebanon. Earlier this year, the World Bank approved a USD 246 million loan to create a program to deliver cash assistance to nearly 150,000 families. The government has agreed that payments under this program will be made in USD.²³

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