

July 2, 2022

Key Messages

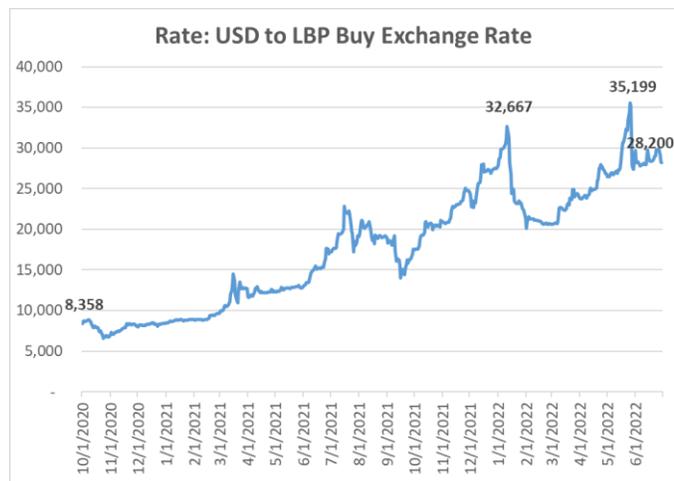
- Following Lebanon’s parliamentary elections that took place in May, Najib Mikati has been re-named prime minister. PM Mikati must now propose a new cabinet of ministers, a process which is expected to take several months as different political factions maneuver for power. The cabinet formation may be especially complicated as the term of President Aoun is set to end on October 31 of this year.¹
- After his re-appointment, PM Mikati has called for Parliament to advance reforms needed to secure a four-year, \$3 billion assistance package from the International Monetary Fund. However, key issues remain including how to apportion \$70 billion in losses in Lebanon’s financial sector.^{2, 3, 4}
- Independent audits of the *Banque du Liban* and its foreign exchange position are set to begin from late June. Donors have demanded the audits to expose the central bank’s past financial transactions and improve transparency, before they will release funds to help Lebanon’s economic recovery.⁵ The *Banque du Liban*’s foreign currency reserves – used to finance imports and defend the value of the Lebanese lira – continue to decline, standing at \$11 billion as of mid-June.⁶
- Lebanon’s ongoing economic and financial crisis continues to erode living conditions for much of the population. Real wages have fallen, costs are soaring, and savers have lost significant value of deposits locked into the country’s commercial banks. As a result, poverty is rising and much of the population – including highly skilled workers – reports a desire to emigrate.^{7, 8}
- Lebanon’s government has signed an agreement with Egypt and Syria to secure 650 million cubic meters of natural gas per year. This volume of natural gas should allow *Electricité du Liban* to generate an additional four hours of power per day to the public grid, which remains subject to extended blackouts. The World Bank has yet to approve the agreement, for which it will provide financing.⁹
- The FAO Food Price Index (FFPI) declined in May, settling just below March’s record-high level.¹⁰
- COVID-19 is resurgent in Lebanon as the more infectious omicron variant is spreading quickly.¹¹

Macroeconomic Context

In June, the Lebanese lira (LBP) has recovered some of its losses against the U.S. dollar on the informal (black) market that were recorded in the previous month, reaching approximately 28,000 LBP : 1 USD by month’s end. The lira averaged approximately 28,600 LBP : 1 USD throughout the month of June, as compared to 29,055 LBP : 1 USD the previous month. Since the start of this year, the *Banque du Liban* has intervened to boost the lira against the USD,^{12, 13} however these efforts have proven costly and not durable.¹⁴ The official exchange rate remains at 1,508 LBP : 1 USD.

Figure 1 – USD to LBP Buy Exchange Rate

Source: lirarate.com

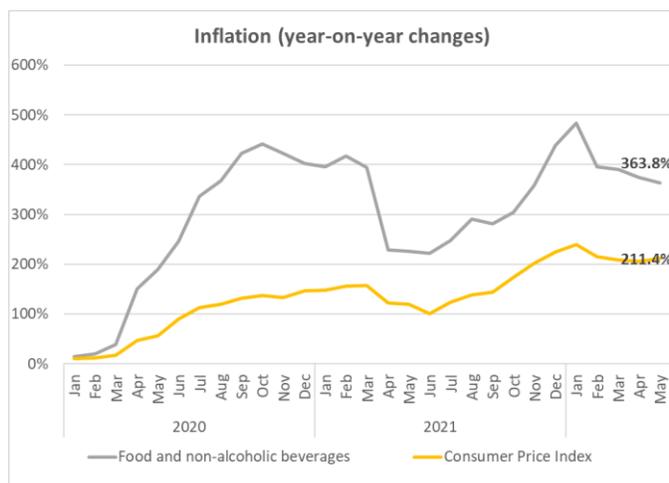


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The pace of change in consumer prices remained stable in May 2022, while that of food prices decelerated. The Consumer Price Index (CPI) increased by approximately 211% between May 2021 and May 2022. Prices of food and non-alcoholic beverages increased by approximately 364% over the same period. Both of these figures are near but below the all-time high rates reported in January 2022. The month-on-month changes in both the CPI and in the price of food and non-alcoholic beverages (April 2022 to May 2022) continued to increase, with increases for food and non-alcoholic beverages outpacing the increase in CPI.

Figure 2 – CPI and Food Price Inflation

Source: Central Administration of Statistics (CAS)



The *Banque du Liban* plans to issue higher denominations of currency notes, which should make it easier to spend LBP in cash form. The central bank requires legal approval from the Parliament to issue higher value currency notes.¹⁵

Availability

As a net importer of agricultural and food commodities, Lebanon faces lower supply and higher costs largely as a result of the ongoing war in Ukraine and related sanctions on Russia. Taken together, Ukraine and Russia supply significant volumes of wheat, barley, corn, and sunflower oil to global markets; Russia is also the world's largest producer of fertilizer. However, the war in Ukraine has blocked millions of tons of grain shipments from ports along the Black Sea to export markets, including in the Middle East. Lebanon is particularly affected, relying on Ukraine for more than 60% of its wheat imports and Russia for a further 10%.¹⁶ Alternative transport corridors are available to only a fraction of the blocked commodities, and at significantly higher costs. Stalled efforts to negotiate the shipment of food commodities is time-sensitive, as more crops are due to be harvested this summer and require storage space. Meanwhile, Russia has argued that international sanctions on banking and shipping are effectively halting their exports of food and fertilizers. As farmers face a scarcity of fertilizers, their crop yields are set to fall. Without a resolution to restore the flow of agricultural and food commodities, the FAO expects that 181 million people across 41 countries will face worsening hunger or even a food crisis this year.¹⁷

Lebanon's food imports declined in the first four months of 2022, as compared to the same period in 2021. The World Food Programme (WFP) reports that food imports declined by 13% by volume between these periods. These declines were driven principally by lower imports of live animals, animal and vegetable fats, and cereals. Nevertheless, the level of food stocks within WFP partner retail shops was stable in May 2022 as compared to previous months.¹⁸

Domestically, water quality in Lebanon's Lake Qaraoun has deteriorated in recent weeks. Lake Qaraoun is an important source of irrigation water for producers in the Bekaa Valley, the country's agricultural heartland. Experts cite rising water temperatures and the inflows of untreated sewage water from the Litani River as the causes of the declining water quality.¹⁹ Poor water quality can adversely affect

agricultural production and reduce the quality and safety of foods produced for human or animal consumption.

Access

In early May, the World Bank approved a \$150 million loan to Lebanon to finance the purchase of wheat imports. The additional imports were intended to stabilize the price of bread for consumers over a period of approximately nine months.²⁰ The wheat is intended to be delivered to bakeries in areas of Lebanon marked by higher poverty and refugee populations. The Red Cross is to monitor the wheat deliveries, though mill owners have nevertheless expressed concern about smuggling.²¹ At the time the loan was announced, the Lebanon Wheat Supply Emergency Response Project required cabinet and parliamentary approval.²² Mill owners have expressed concern that this loan will facilitate the removal of public subsidies for wheat imports: The loan agreement includes a capacity building component to support the Ministry of Economy and Trade’s “capacity to manage the gradual transition from the current wheat subsidy system to a more market-oriented system.”²³

For the second month in a row, the FAO Food Price Index (FFPI) declined in May, slightly below the record-high level reported in March of this year. The FFPI fell by 0.6% between April and May 2022. However, the FFPI remains nearly 23% above its level of May 2021. The FAO has attributed the decline to dropping prices of vegetable oil, dairy, and sugar prices; these more than offset rising prices of cereals and meat. Food commodity prices have been impacted by production conditions, the conflict in Ukraine, and export bans imposed by selected countries (some temporary, others still in place).²⁴ International price movements typically guide domestic price movements. As a result, any further increases may pass-through to food price inflation in Lebanon given the country’s high dependence on imported food commodities.²⁵

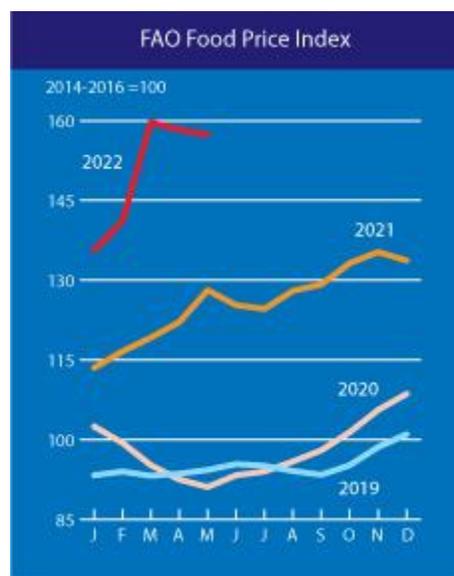


Figure 3 – FAO Food Price Index

Source: Food and Agriculture Organization (FAO)

The cost of the survival minimum expenditure basket (SMEB) continues to rise, jumping by 14% between April and May 2022. Rising prices of selected vegetables and sunflower oil have driven the latest increases. The SMEB, which is now estimated at LBP 792,000 per capita, has reached a new record as a result. The SMEB has increased by more than 1,300% between October 2019 and May 2022.²⁶

Utilization

The United States Food and Drug Administration has seized food items of Lebanese origin amid food safety concerns, potentially limiting the country’s agri-food exports. Sesame tahini was seized due to contamination with *Salmonella* bacteria. According to food safety expert Dr. Ismat Kassem, the product was produced by a company located in Koura, North Lebanon. Another *Salmonella* bacteria contamination case was similarly reported in dried mint produced by a company in Saida, South Lebanon. Alarming, five similar cases in the last two years in different countries were also seized.²⁷ *Salmonella* within food

products can be a serious cause of infection leading to illness and death among consumers. Persistent food safety violations could limit food exports directly and indirectly through damage the reputation of Lebanon's agri-food industry.

The United Nations Special Rapporteur on Extreme Poverty and Human Rights has warned that Lebanon's economic crisis will result in a lost generation of children, due to the adverse effects on its children's nutrition, growth, and education. Oliver De Schutter specifically cited reductions in the quantity of food consumed by children, as a means for households to cope with insufficient funds to purchase food.²⁸

Sustainability

Lebanon's caretaker Minister of Agriculture has supported the launch of the Healthy Ecosystems for the Development of Rangelands Project (HERD). Caretaker Minister Abbas Hajj Hassan joined the launch of the HERD Project, where he stressed the importance of returning to Lebanon's heritage and its preservation in order to enhance food security. Under the HERD Project, the Ministry of Agriculture has launched awareness and guidance programs to encourage rangeland and pasture management as a historically important profession that remains essential to food availability in Lebanon and which can reduce the import of fodder.²⁹

Agency

High levels of multidimensional poverty were reported even before the onset of Lebanon's economic crisis, restricting the agency of many households over their food choices, practices, and behaviors. The Central Administration of Statistics (CAS) published the first official Multidimensional Poverty Index (MPI) for Lebanon in 2022, relying on 2018-2019 data that reflects conditions prior to the economic and financial crisis. According to the MPI, 53.1% of all residents of Lebanon were multi-dimensionally poor and 16.2% of residents were defined as extremely poor as of 2019. Multidimensional poverty rates were higher among children, among female-headed households, and within the Akkar and Bekaa governorates.³⁰ Available estimates suggest that the MPI has increased significantly since 2019, to 82% as of 2021.³¹ The MPI builds on 19 indicators across five dimensions, including education, health, financial security, basic infrastructure, and living standards.³²

Following a visit to Lebanon, the United Nations Special Rapporteur on Extreme Poverty and Human Rights has issued a report accusing the Lebanese government of human rights violations and a failure to guarantee an adequate standard of living to its population. Oliver De Schutter's visit to Lebanon took place from November 1-12, 2021. In his report to the UN Human Rights Council, De Schutter wrote, "The Lebanese State, including its Central Bank, is responsible for human rights violations, including the unnecessary immiseration of the population, that have resulted from this man-made crisis."³³ The government thus bears responsibility for the ongoing economic crisis, and the resulting increases in food and nutrition insecurity and poverty among all residents (not only Lebanese citizens).

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Lebanon Food Security Portal – Food Security Brief #27

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