

26 One of the world's worst economic collapses, now compounded by the Ukraine crisis: What's next for Lebanon?

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High food prices and supply disruptions triggered by the Russia-Ukraine war are hitting Middle Eastern and North African (MENA) countries like Egypt, Sudan, and Yemen hard, partly due their heavy dependence on wheat imports. But in the region, Lebanon – already in the midst of one of the world's worst economic collapses since the 1850s – is uniquely vulnerable to food security impacts from the Russia-Ukraine conflict.

A recent World Bank report calls Lebanon's current crisis "The Great Denial" – referring to an ongoing breakdown of government services, civil society, and the economy.

Over the past decade, the country of 6.8 million has seen one crisis after another. From 2011 onward, the Syrian civil war sent 1.5 million refugees across the border. Starting in 2019, the collapse of the immense Ponzi scheme at the heart of Lebanon's banking sector led to the steady decline of the Lebanese pound.¹¹ Then came the economic stagnation of the COVID-19 pandemic, and then the devastating double explosion at the port of Beirut on August 4, 2020. In addition to killing more than 200 and injuring 7,000, the explosions destroyed businesses and the port infrastructure, including immense wheat silos. As a result of these multiple crises, 61% of people in Lebanon reported challenges in accessing food and other basic needs at the end of 2021, compared with 41% at the end of 2020, according to the World Food Program (WFP).

Now, the war in Ukraine is almost certainly driving that figure higher. In this post, we look at the continuing toll of Lebanon's economic crisis, how impacts from the Russia-Ukraine conflict are further compounding food insecurity, and some potential policy responses.

Economic crisis

Lebanon's current financial crisis is almost unprecedented in its severity. While the last year has been particularly dreadful in terms of economic stability, the country has not recorded economic growth since 2017. Its GDP in constant US dollars has declined at an alarming rate: -1.7% in 2018, -7.1 % in 2019, and -22% in 2020. At the same time, the large influx of Syrian refugees led to a population increase of 30% in 10 years. Thus GDP per capita has declined dramatically: adjusted for purchasing power parity, it fell from \$16,000 in 2017 to \$12,100 in 2020, a drop of 25%, with even more pessimistic estimates for 2021 and 2022. In this context, poverty has surged – more than three-quarters of Lebanon's population was estimated to live in poverty at the end of 2021, including one-third below the extreme poverty line.

¹ It is still officially pegged to the US dollar at a rate of LL1,500 per USD but now hovers around LL24,000 in the black market. There are various exchange rates formally recognized by the Government (<https://www.bdl.gov.lb/news/more/8/564/21>).

Figure 1: Applied exchange rate: Lebanese pounds per US dollar



Note: Exchange rate based on market prices. Officially, the Lebanese pound is pegged to the USD at 1 USD = 1,507.5 LBP
Source: Lirarate.org

Meanwhile, government revenue plunged by about 40% in four years (in constant US dollars) – limiting its capacity to respond to the crisis and forcing it to rely on domestic or external debt to act. At the same time, public trust in the country's monetary authority has evaporated; the current governor of the Central Bank of Lebanon is targeted by numerous corruption investigations.

As a result of all these factors, trust in the Lebanese currency has vanished. The effective exchange rate has collapsed by nearly 95% in two years (Figure 1) and domestic inflation has skyrocketed: annual consumer price inflation in February 2022 reached 215%. Food price inflation is nearly double that figure at 396%.

Beyond food products, even day-to-day consumption goods have become luxury items; the cost of a gallon of diesel fuel represents half of the Lebanese monthly minimum wage (675,000 pounds or US\$25 at the current exchange rate).

Exchange rate depreciation is a major concern, compounding the rise in global food prices (+34% in 12 months). The collapse of the Lebanese pound means that food imports are actually 180% more expensive in local currency than one year ago.

Figure 2: Daily per capita calorie consumption in Lebanon, by origin and product, average 2018-2020

● Domestic ● Americas ● Asia ● Europe ● Middle East and N. Africa ● Ukraine & Russia ● Other regions

(1) Wheat and derivatives, 37.5% of daily intake



(2) Other food products, 27.8% of daily intake



(3) Oilseeds and vegetable oils, 16% of daily intake



(4) Sugar products, 14.4% of daily intake



(5) Other cereals and derivatives, 4.4% of daily intake

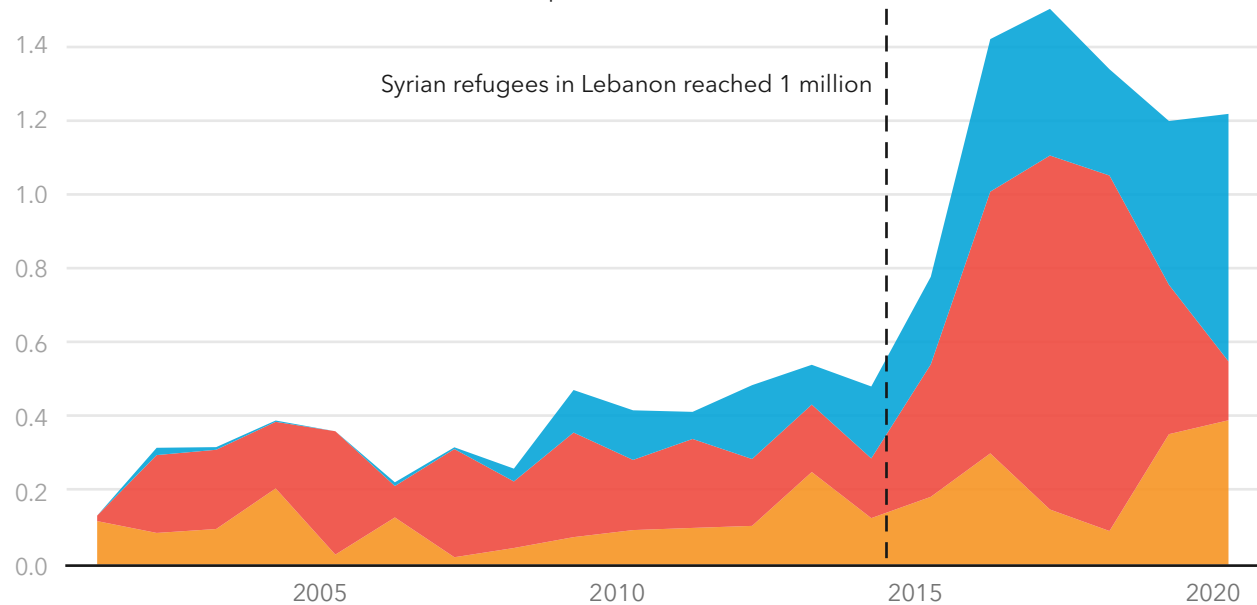


Note: For vegetable oils, the domestic value includes cooking oils processed locally, even if the oilseeds are imported (soybean case)

Source: IFPRI based on FAOSTAT & COMTRADE

Figure 3: Lebanon's wheat imports, million metric tons, by exporter

● Russian Federation ● Ukraine ● Other exporters



Source: COMTRADE

Why the war in Ukraine matters for Lebanon's food supply

Like other countries in the Eastern Mediterranean, Lebanon depends heavily on food imports from Russia and Ukraine. Over 25% of total calories consumed by the average Lebanese household originate from those two countries, either through wheat-based products or sunflower oil. Wheat accounts for 38% of total calorie consumption and wheat imports over 80% of total wheat consumption. In recent years, between 70% and 90% of imported wheat has originated from Russia and Ukraine (Figure 2).

Wheat imports averaged about 1.2 million metric tons during 2019–2021 – a tenfold increase over 1999–2001 (though the level actually represents a decline since 2017 due to the deteriorating economic situation and declining purchasing power) (Figure 3). Lebanon's wheat storage capacity also significantly declined due to the destruction of silo facilities in the 2020 port explosion. The decision to demolish the damaged silos has just been made and future actions aiming to replace the 100,000 metric ton capacity lost have not yet been initiated. Current Lebanese grain stocks are low, estimated at only 30–40 days.

Lebanon also depends heavily on sunflower oil imports from Russia and Ukraine. Sunflower oil accounts for over two-thirds of vegetable oils consumed by Lebanese households.

Limited options for the Lebanese government

Unlike some other MENA countries such as Egypt, where a government authority (the General Authority for Supply Commodities) procures imports of what are deemed "strategic" commodities such as wheat, until recently Lebanon had a purely commercial practices-based procurement system in place, with millers the key agents and drivers of the supply chain. But in response to skyrocketing inflation, the government began procuring wheat on an intermittent basis to keep bread prices low. This direct involvement has now mushroomed: government outlays represent a reported 90% of the cost of wheat, a total of \$390 per ton.

This policy will be difficult to sustain over time. Lebanon was already struggling to buy wheat in March due to lack of available funds, so the government was waiting for the opening of a credit line (for \$26 million) by the Central Bank to purchase Indian wheat (50,000 tons, or about one month of consumption). In order to address these foreign exchange shortages, the government recently negotiated a World Bank emergency loan to cover the financing of about six months of wheat imports.

Low wheat prices also encourage smuggling abroad. This means it is crucial to clamp down on contraband wheat and bread, which defeat the purpose of public subsidies and waste already-limited government funds.

Given these problems, Lebanon should consider reverting to a policy of non-intervention in wheat imports as early as possible. As the government prepares to reduce subsidies, it should review and reassess subsidy levels to ensure fairness and reduce waste. In the medium and long terms, the government should be supported in building institutional capacity and a comprehensive social safety net. One of the focuses should be on targeted safety net interventions, including existing programs, in support of equitable food consumption and nutrition security for the poor.

Meanwhile, supplies are tight. To manage the lower availability of wheat and lower prices, the government has tried to deter the use of wheat for so-called luxury goods like cakes and croissants. But during Ramadan, which ended May 1 – with the custom of consuming such sweets for iftar, the evening meal – the measure was highly unpopular.

In addition to these challenges, disruptions in milling operations increased in early April. One factor was that the last shipment received from Ukraine, in December 2021, was damaged by humidity and moisture.

To alleviate these issues, Lebanon is also looking beyond some of its traditional wheat suppliers like India and other sellers such as the United States and Kazakhstan. But this diversification strategy may be hampered by the increasing number of countries enacting export restrictions (for example, Türkiye; follow the evolution of the situation on IFPRI's Food and Fertilizer Export Restrictions Tracker), along with increasing competition from countries like Egypt for wheat imports. A recent World Bank report recommends strengthening the Ministry of Economy and Trade to better monitor international wheat prices and assess offers being made and negotiated for imports into Lebanon.

Lebanon also has some potential to increase its domestic wheat production, particularly for bread. The government should explore supporting such efforts through research and other market-friendly means.

Finally, since the port explosion, "just-in-time" wheat import scheduling has been implemented to ensure that the relatively small-scale storage capacity at mills is not overwhelmed. The discussions surrounding the reconstruction of the silos also offer the country the opportunity to reconsider its storage policy or study the feasibility of assigning a regional vocation to the rebuilt silos, as the entire region could benefit from a coordinated policy on strategic storage of wheat and grains in general. With adequate supplies, mills are also capable of producing beyond national/local needs and could look into the possibility of export to neighboring countries.

Conclusion

The situation in Lebanon shows the many ways macroeconomic conditions are critical in determining how well a country responds to food system shocks. A "perfect storm" of domestic economic and political crises, a large refugee influx, and rising food and energy prices has struck the country. To prevent food insecurity from reaching intolerable levels and triggering significant social unrest, Lebanon does not have the resources to address the crisis systematically, or by itself; it must rely on regional and global support and ad hoc solutions. As part of such immediate support, the International Monetary Fund is currently discussing a macroeconomic stabilization program and the World Bank is discussing a loan to import wheat.

Unfortunately, such ad hoc solutions are not sustainable over the medium or long term. Still, they may be essential to at least make it through some of the immediate deadlines for the country. There are upcoming legislative and presidential elections in succession. Food riots would disturb both. Avoiding this outcome requires a combination of upstream measures such as ensuring wheat supply for the coming few months, and downstream ones such as ensuring equitable distribution of bread (and food in general) through safety net interventions.

These immediate interventions require international solidarity and direct international assistance that should not attempt to interfere with the domestic political process. However, more profound and long-term solutions will need to rely on internal actors and political determination. Many in Lebanon see some hope for more sustainable and effective solutions to the economic crisis in the upcoming opportunity for renewal of the country's leadership. Could a private-public solution to the wheat supply problem, exacerbated by Russia's invasion of Ukraine, show the way to addressing Lebanon's longer-term problems?