Beirut Port Explosion: Impact on Key Economic and Food Security Indicators

August 2020
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Highlights

- The economic outlook for 2020 reveals a severe contraction in GDP by 13.9 percent together with an alarming indebtedness level (forecasted at 168 percent of GDP) and further widening of fiscal deficit.
- Forecasts for 2021 confirm the persistence of the economic crisis as GDP is seen to contract by 2.4 percent, public debt to be 160 percent of GDP and fiscal balance to be -10.6 percent of GDP.
- The explosion on August 4th destroyed the port of Beirut, the country’s main entry point for goods imported via sea – covering 80 percent of Lebanon’s maritime shipping traffic. WFP contracted shops in the surroundings of the port of Beirut were not severely affected, as they are mostly located in the areas that were only partially damaged by the explosion.
- Spiralling food inflation rates combined with strong currency depreciation and displacement of nearly 300,000 inhabitants are main risk factors affecting the purchasing power of households.
- Markets or grocery stores remain the main source of food for most Lebanese households (more than 94 percent), even in the aftermath of the explosion.
- The effects of the explosion at the port of Beirut on the Lebanese economy and supply chains are seen to worsen an already deteriorating socio-economic situation, which is likely to result into a further increase in the number of the poor and extreme poor (45 percent of the population according to the World Bank).
- Taking into account poverty estimates, the deteriorating macroeconomic situation, spiralling inflation and reduced capability of households to stockpile, WFP estimates immediate cash assistance is needed for approximately 150,000 of the 300,000 people estimated to be directly affected by the explosion, including displaced children, women, older persons in urgent need for shelter food and other basic needs.
- Due to the volatility of the currency and high inflation rates, constant food security and price monitoring needs to continue to ensure that necessary programmatic changes (e.g. transfer value adjustments) are immediately implemented.
Overview of Food Security Prior to August 2020

Lebanon has been experiencing several compound shocks of civil unrest, financial crisis, and COVID-19 pandemic since mid-October 2019. These shocks resulted into a deterioration of the socio-economic conditions of the population and refugees in country. On August 4th, Beirut port explosion – causing 138 deaths and 6000 injuries – exacerbated the socio-economic situation in the country.

Before August, WFP already foresaw an increase in the number of Lebanese and refugees requiring assistance to maintain their lives and livelihoods by end of 2020. In this respect, WFP conducted several remote surveys to assess food insecurity among Lebanese and refugees at the early stage of COVID-19 spread. Results show that the pandemic and related containment measures have pushed nearly one out of every three Lebanese into unemployment, while one fifth of the population saw their salary being reduced. This was reflected on the worry about having enough food to eat where fifty percent of Lebanese, 63 percent of Palestinians and 75 percent of Syrians felt worried they would not have enough food to eat.

Beirut and Mount Lebanon were among the most affected governates by the compound shocks before the explosion. In Beirut, one out of five Lebanese reported using emergency coping strategies to cope with food shortages. This was higher than all other governorates except Akkar and North. Out of those who lost their jobs since COVID-19 pandemic, 34 percent were found to be residing in Mount Lebanon. Currently, the population in these two governorates are expected to have higher levels of vulnerability; while other areas will be influenced by the longer-term impact of the explosion.

WFP continues to monitor the impact of the compound shocks in Lebanon through different monitoring systems. The current analysis is a desk review of the already available data combined with rapid field assessments. Further in-depth analysis of the impact of the explosion in the port of Beirut on food security of the vulnerable in Lebanon has already begun.

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1 Thanks to Mohamed Salem, RAM Staff, HQ for this section and for input on other sections
2 See WFP sitrep, 18 August 2020
3 Assessing the Impact of the Economic and COVID-19 crisis in Lebanon, June 2020
Impact on key macro-economic indicators

1. GDP

Economic conditions remain dismal amid the COVID-19 outbreak, social instability and a currency crisis. The explosion that occurred on August 4th – accounting for the third consecutive shock in a row experienced by Lebanon since October 2019 – is likely to exacerbate further the already deteriorating socio-economic conditions of the country. Due to the above-mentioned reasons – without taking into consideration the impact of the explosion on the economy –, economic growth was seen plummeting this year at 13.9 percent and to further contract in 2021 by 2.4 percent. The economic recovery is expected only starting 2022 moving forward. Nevertheless, the forecasted annual variation in GDP for 2020 and upcoming years might be subjected to further contraction once factoring in the impact of the explosion.

Figure 1: GDP (annual variation), 2015 - 2023

2. Public debt and fiscal balance

Lebanon has a services-oriented economy, mainly based on banking and tourism. Following war, the government had to pledge most of its resources towards continuous and constant reconstruction efforts, which have mainly been financed through internal and external borrowing\(^4\). This has led to a growing public debt and budget deficits, amounting to 126,582 LBP Billion in May 2020\(^5\).

\(^4\) Encyclopedia Britannica
\(^5\) Ministry of Finance Public Debt Directorate
In addition, economic conditions have deteriorated significantly since mid-October 2019 due to spiralling inflation, the COVID-19 pandemic and socio-political instability after the country defaulted on its debt for the first time ever in March 2020. For the above-mentioned reasons – without factoring in the impact of the explosion –, the level of public indebtedness and fiscal deficit for 2020 was seen staying extremely elevated (168 percent of GDP and 11.4 percent of GDP, respectively), and to remain high in the years to come. The level of indebtedness of the country and fiscal deficit are likely to further increase due to the amount of investment required to rebuild the port of Beirut and the areas surrounding. The consequences of the loss of functionality of Lebanon’s primary port and knock-on-effect for the rate of imports for essential commodities into Lebanon are also of concern.

**Figure 2: Public debt (% of GDP), 2015 - 2023**

![Public debt (% of GDP), 2015 - 2023](image)

**Figure 3: Fiscal balance (% of GDP), 2015 - 2023**

![Fiscal balance (% of GDP), 2015 - 2023](image)

*Source: WFP RBC VAM Market Team/FocusEconomics*
3. Trade and port supply chain

Lebanon is a net food importer at a deficit of USD 2.1 billion in 2019; moreover, 80 percent of cereals consumption is met through imports. Following the financial crisis and the pandemic, the alarming public debt, wide fiscal deficit and contracted GDP growth forced the country to decrease both general and food imports. In the first half of 2020, there was an annual decrease of 41.6 percent in the unloaded total imports weight at the port of Beirut and a 14.6 percent decrease in the unloaded imports weight of food and beverages. Forecasts confirm the persistence in trade deficits at USD -10.1 billion in 2020 and USD -9.6 billion in 2021.

*Figure 4: Merchandize trade balance (USD billion), 2015 - 2023*

The explosion came to burn around 15,000 MT of imported grains (wheat, corn & barley), which are most probably non-edible anymore, hereby leaving the country with less than one-month reserve of grains. The Minister of Economy announced in a series of tweet on August 12th that Lebanon consumes a total of 35,000 tons of flour per month, that the current stock of mills of flour was 32,000 tons, and that ships carrying 110,000 tons of wheat will be arriving in the coming two weeks.

With the partial destruction of the port of Beirut – Lebanon's main port – only the port of Tripoli is considered as an alternative to partially compensate imports. It is located 80 Km to the north and

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6 Trademap and WFP CO analysis
7 Lebanon customs and WFP CO analysis
8 Reuters
9 Statement by the Minister of Economy: Source: Twitter
handles around 16 percent of Lebanon’s maritime shipping traffic (against nearly 80 percent of the port of Beirut)\(^\text{10}\). Moreover, the provision of goods to the whole country – grains in particular – through Tripoli port will lead to costlier and lengthier processes (an extra six dollars per tonne to reach Beirut\(^\text{11}\)), affecting supply chains and timely availability of grains. However, it was reported by the Minister of Economy that 12 out of the 16 port container cranes did not sustain any damage, and that the container terminal is still functioning\(^\text{12}\).

**Impact on households’ physical access to markets - Beirut**

Fourteen shops contracted by WFP are in the surroundings of the port of Beirut, mainly in the areas that were partially damaged by the explosion. Despite the proximity to the site of the explosion, the explosion did not severely affect these shops and they are functioning well (see map 1).

*Map 1: WFP contracted shops within areas with possible damage*

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\(^{10}\) Lebanon customs and WFP CO analysis

\(^{11}\) Statement by the president of one of Lebanon’s private mills. Sources: Reuters, MTV & Naharnet.

\(^{12}\) Statement by the Minister of Economy. Source: Twitter
Impact on households’ economic access to food\textsuperscript{13}

1. Monthly variation in parallel exchange rate – October 2019 to date

Socio-political instability and depressed economic activity due to the pandemic have all contributed to the widening of the divide between the official and parallel exchange rate, which, in turn, led to an increase in general price level observed since mid-October 2019. During the first three months of the financial crisis (end of 2019), the gap between the two exchange rates was relatively narrow; however, it started to widen since March 2020 as the country defaulted on its debt for the first time ever, while it also repressed economic activity due to the implementation of a lockdown to curb the COVID-19 contagion. Lack of political unity associated with deteriorated economic conditions contributed to further increasing the divide between the two exchange rates, which reached 431 percent in July 2020.

Figure 5: Official and informal exchange rate, October 2019 - July 2020

\begin{figure}[h]
\centering
\includegraphics[width=\textwidth]{figure5.png}
\caption{Official and informal exchange rate, October 2019 - July 2020}
\end{figure}

Source: WFP Lebanon CO

In the aftermath of the explosion, the informal rate recorded a small increase at LBP 8,600, before decreasing starting August 6\textsuperscript{th} and stabilizing around LBP 7,500 from August 7\textsuperscript{th} onward. An additional decrease was registered starting August 11, with the rate reaching LBP 6,500 on August 13\textsuperscript{th} afternoon, before rising back up and stabilizing around LBP 7,000-7,200 from August 14\textsuperscript{th} onward.

\textsuperscript{13} Thanks to Abdallah Souhani, Market / Food Security Analyst in WFP Lebanon CO for inputs and analysis in this section and other sections.
2. Monthly variation in the cost of the SMEB – October 2019 to date

Due to the compound effect of socio-economic instability, economic crisis and COVID-19, the average cost of the survival minimum expenditure food basket (SMEB)\(^\text{15}\) has recorded an upward trend since the start of public unrest, showing an increase by 160 percent (from LBP 38,514 in October 2019 to LBP 100,269 in July 2020). The highest month-on-month increase (up 34 percent) was observed between April and May 2020, followed by the increase observed between June and July (up 22.9 percent).

\(^{14}\) WFP RBC VAM Market Team/FocusEconomics

\(^{15}\) The SMEB food basket is based on a monthly ration per person of 6 kg of rice, 3.9 kg of bulgur, 1.5 kg of pasta, 1.5 kg of white beans, 1.5 kg of sugar, 0.9 litres of sunflower oil, 0.3 kg of salt and 1.2 kg of canned meat
At the governorate level, Beirut has recorded the most expensive SMEB for seven times throughout the past ten months, mainly between October 2019 and March 2020 and, later, in June.

**Figure 8: Change of monthly food SMEB price, October 2019 – July 2020**

Despite preliminary data collected in the aftermath of the explosion show minimal variations in the cost of SMEB, it is likely that the it will become more expensive in the following months in line with the forecasted increase in inflation rates and instability of the currency. The inability of the Banque du Liban to support subsidized food and fuel imports will also exacerbate this trend in the near future. With the resignation of government, the International Monetary Fund (IMF) has no counterpart to discuss about a possible recovery plan. In this respect, cash injection to central bank is unlikely to occur before end of the year.

Source: WFP Lebanon retail price data
3. Households' main source of food and capability of stockpiling

Markets or grocery stores remain the main source of food for most Lebanese households, even in the aftermath of the explosion, suggesting that markets across the country are still operational and well supplied with goods.

*Figure 9: Main source of food, pre vs. post-explosion*

<table>
<thead>
<tr>
<th>Source</th>
<th>Market</th>
<th>Own production</th>
<th>Gifts</th>
<th>Humanitarian assistance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pre-blast</td>
<td>91%</td>
<td>3%</td>
<td>5%</td>
<td></td>
</tr>
<tr>
<td>Post-blast</td>
<td>94%</td>
<td>3%</td>
<td>3%</td>
<td></td>
</tr>
</tbody>
</table>

*Source: mVAM*

Half of the surveyed households reported to currently have stocks of food; however, the proportion of households estimating their stocks could last for longer than a month has decreased by 24.7 percent compared with pre-explosion level, while the proportion of households reporting their stocks to last for less than a week has slightly increased (up 5.9 percent).

*Figure 10: Estimated duration of stocks*

<table>
<thead>
<tr>
<th>Source</th>
<th>&lt; 1 week</th>
<th>1 week</th>
<th>2 - 3 weeks</th>
<th>1 month</th>
<th>&gt; 1 month</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pre-blast</td>
<td>13.9%</td>
<td>23.6%</td>
<td>27.3%</td>
<td>18.9%</td>
<td>16.3%</td>
</tr>
<tr>
<td>Post-blast</td>
<td>14.7%</td>
<td>22.6%</td>
<td>30.1%</td>
<td>20.3%</td>
<td>12.3%</td>
</tr>
</tbody>
</table>

*Source: mVAM*

Being markets the main source of food and considering the reduced capacity of households to stockpile due to loss of jobs, reduction in income and skyrocketing prices, any disruption/delay in

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16 Data on households’ stocks and main source of food are preliminary findings from the ongoing mVAM survey covering the entire country – hereby subject to change. The pre vs. post explosion comparison is done by disaggregating calls based on the day of the answer to the call (prior to August 4th vs. post August 4th). This report does not provide any disaggregation by governorate as the number of respondents to calls post-August 4th is not large enough to provide significant results. Further insights on the impact of the explosion will be made available by RBC as soon as mVAM data collection and analysis are finalized.
supply chains and related reduction in quantity of food available on markets are likely to affect households access to food, hereby food security.

4. Unemployment and income

Other than price fluctuations and currency volatility, households' purchasing power and related economic access to food and other essential needs has also been threatened by lack or loss of jobs and reductions in income occurred in the past ten months. The below section analyses the labour force through two different lenses; web-based survey and national-level estimates.

4.1 The results of the web-based surveys targeting Lebanese and Syrian and non-Syrian refugees:

According to the web-based survey conducted between the April and May 2020, the pandemic (including containment measures) and economic downturn already affected the employment status of Lebanese, Syrian refugees and Palestinians. Approximately 30 percent of Lebanese respondents reported losing their jobs since the outbreak of COVID-19. The situation was even more pronounced for Syrian refugees and Palestinians, with 52 percent of Syrian respondents and 38 percent of surveyed Palestinians reporting to have lost their jobs. In addition, more than one in five Lebanese respondents who didn't lose their job

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Figure 11: Employment status by respondent nationality- changes amid the pandemic

Source: WFP web-based survey, April-May 2020

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17 The self-administered web surveys were able to capture a total of 2,418 Lebanese. In addition, 887 Syrian refugees and 165 Palestinian refugees were also interviewed at national level bringing the total sample size of this survey to 3,470 completed responses. Responses were collected within 4 weeks, from 20 April to 18 May 2020 using the online technology. For further information, please check the full report at this link.
reported reductions in their salaries, followed by 21 percent of Palestinian refugees and 18 percent of Syrian refugees.

When considering the impact of COVID-19 on economic sectors, results revealed that the restaurants and services have been hardly hit, followed by construction as well as the arts, entertainment, accommodation and tourism. In terms of cohorts, the Lebanese have been the most affected.

4.2 National-level estimates of unemployment rate based on economic groups and research units.

On the front of the national level estimates, based on published rates for the period 2015 to 2019 from EIU, Euromonitor Int., Oxford Economics (among others), unemployment is expected to sharply increase to 11.8 percent by end 2020 – without factoring in the impact of the explosion. Given the relatively high importance of the informal sector in Lebanon and the Arab region, the situation could be even worse than what the outlook suggests, with even higher number of unemployed. In addition, workers employed in the informal sector have no access to either social protection or unemployment insurance, hereby more vulnerable to socio-economic shocks18.

An increase in the number of unemployed is concerning as it is likely to lead to an increase in the number of Lebanese with deteriorated purchasing power, hereby hampering economic access to food – being markets the main source of food across the whole country. Despite a slight decrease forecasted for 2021, the unemployment rate is foreseen to remain as high as 11 percent, higher than the 6 percent average of 2015-2019.

Figure 12: Unemployment rate, 2015-2023

Source: WFP RBC VAM Market Team/FocusEconomics

18 Regional Emergency Response to mitigate the impact of COVID-19, UNESCWA
Estimated immediate needs

Food security in Lebanon was cause of serious concern even before the explosion at the port of Beirut, with hyper price inflation impacting households’ ability to access food since October 2019. According to the World Bank’s latest estimates – prior to the explosion –, 1.7 million of the 3.8 million Lebanese population are poor, half of whom (841,000) are extremely poor. The COVID-19 lockdown further aggravated the impact of the economic crisis. The impact of measures taken to limit the spread of COVID-19 almost completely halted economic activity, with a direct impact on the unemployment rate across Lebanon. A WFP web-based survey conducted between April and May 2020 to assess the impact of the COVID-19 crisis in Lebanon, found food has become a major source of concern – with 50 percent of Lebanese respondents saying over the month prior to the survey they felt worried about not having enough food to eat. The same survey found that, due to COVID-19 containment measures and the economic crisis, one third of Lebanese respondents were unemployed and one in five saw salaries being reduced. For the above-mentioned reasons, WFP was seeing the number of food insecure and economically vulnerable people (Lebanese as well as refugees) to increase by the end of 2020.

The effects of the explosion at the port of Beirut on the Lebanese economy and supply chains are seen to worsen an already deteriorating socio-economic situation, which is likely to result into a further increase in the number of the poor and extreme poor. It is expected that the explosion will make Lebanese as well as migrant workers and refugees increasingly reliant on negative coping strategies and curtail their access to food.

It is key to note here that at time of writing, WFP is in the process of bringing in wheat flour into the country. Therefore, the below recommendations are separate from the very considerable supply chain emergency operations that are ongoing:

1. For the above-mentioned reasons and considering the impact of the explosion, WFP estimates immediate cash assistance is needed for approximately 150,000 of the 300,000 people estimated to be directly affected by the explosion, including displaced children, women, older persons in urgent need for shelter food and other basic needs. This figure

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19 World Bank: Targeting Poor Households in Lebanon, April 2020
20 WFP: Assessing the Impact of the Economic and COVID-19 Crises in Lebanon, June 2020
21 IRC: What do People in Beirut Need after the Explosion?, August 2020
is based on the existing percentage of poverty in Lebanon; (45%, source: World Bank\(^\text{22}\)) and applying it to the total amount of people directly affected by the events of August 4\(^{th}\).

2. Due to the volatility of the currency and high inflation rates, constant food security and price monitoring needs to continue to ensure that necessary programmatic changes (e.g. transfer value adjustments) are immediately implemented.

3. With respect to the medium term, it can be noted here that the current WFP cash-based programme covers approximately 800,000 Syrian refugees and 105,000 Lebanese. At time of writing several key assessments are ongoing (mainly, WFP VAM surveys and other assessment leaded by the World Bank). Further data and information are expected to be available soon from these assessments would necessarily help inform on how the ongoing cash programme can be utilized to fight against the increase in food insecurity.

Notes on forecasts (macroeconomic indicators)

All real and external sector data are from the Ministry of Finance and the Banque du Liban. In detail:

- Fiscal balance, as % of GDP. Source: Ministry of Finance
- Public debt as % of GDP. Source: Ministry of Finance.

All projections are based on consensus forecast. Fiscal balance, public debt as percentage of GDP projections are based on evolution of 2020 and 2021 forecasts during the last 18 months. Please, contact WFP RBC VAM Markets Team for further details.

Sources

- Official and informal exchange rates are provided by WFP Lebanon CO analysis based on data retrieved through [Lebanese Lira](#) and [Lira Rate](#). Reported rates for informal market are the average of the buy and sell rates
- Data on retailers and cost of the SMEB are provided by WFP Lebanon CO price monitoring
- Data on households’ stocks and main source of food are preliminary findings from the ongoing mVAM survey – hereby subject to change
- For forecasts on macroeconomic indicators, please contact WFP RBC VAM Markets Team.

\(^{22}\) World Bank estimates
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