Thematic Report

Lebanon import bill signals no pivot toward essential commodities

September 2024

Credit: AFP

The Lebanon Crisis Analytics Team (LCAT) provides reactive and in-depth context analysis to inform the aid community in Lebanon. The information and analysis contained in this report is therefore strictly to inform humanitarian and development actors and associated policymaking on Lebanon.

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Executive Summary

Import dependency renders Lebanon's economy vulnerable to external factors such as supply chain disruptions, global market shocks, and regional conflict, which humanitarian and development actors must take into account when planning programming or emergency responses. Building on a similar LCAT report from last year, we analyze Lebanon's 2023 imports to determine whether they indicate a continuation of last year's trends or whether import practices are shifting. We show that Lebanon maintains a bloated import-to-GDP ratio, luxury items continue to comprise an outsized share of imports compared to the pre-crisis era, and the share of essential imports has decreased over the same period.

Key Takeaways

- Lebanon is extremely dependent on imports: the country's import-to-GDP ratio reached 91.4% in 2023.
- The import bill is heavily skewed toward luxury items, with precious stones and gold comprising 14% of total imports.
- Imports of essential goods and pharmaceuticals continued to decline in 2023, which is indicative of the country's worsening economic and social crises.
- Lebanese residents are increasingly using precious items as a store of value and a medium for lending.
- Humanitarian and development actors should monitor import trends to better tailor their responses and programming, with a particular focus on essential commodities and how regulations affect trade dynamics.

Introduction

In a report published last year,[1] LCAT examined the impact of import imbalances on Lebanon's economy in 2022. We observed disparities between essential goods and luxury item imports since 2019, a decline in pharmaceutical imports, a shift toward importing cheaper foodstuffs, and a significant increase in Lebanon's imports-to-GDP ratio. Building on that effort, this year's report also analyzes how the monetary crisis has affected import practices. We also present a ten-year trade deficit comparison and review Lebanon's import partners.

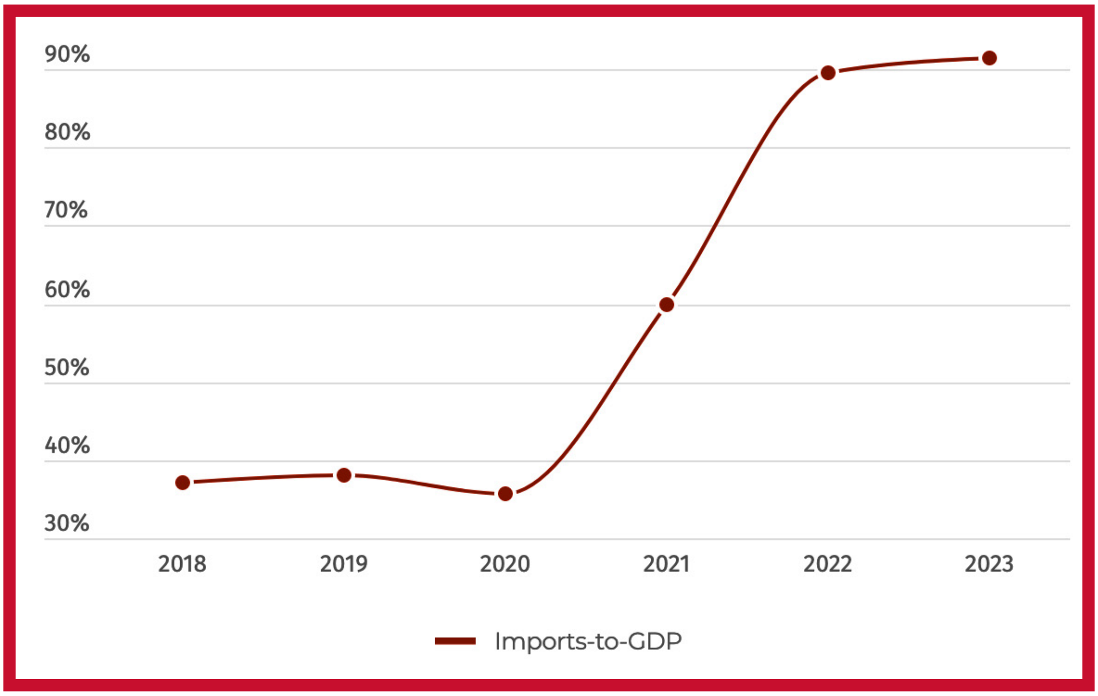


***Figure 1**: Import-to-GDP ratio 2018-2023 (in percentages)*

[1] Mercy Corps Lebanon, Lebanon's Import Bill: Jewelry Before Baby Formula July 3, 2023

Our analysis of Lebanon's imports in 2023 echoes the findings of the previous report, which concluded that imports were heavily skewed toward luxury items. As in 2022, we observed a steady drop in imports of essential goods and pharmaceutical products. Lebanon's 2023 import bill totalled 18.13 billion dollars (USD) and its import-to-GDP ratio reached 91.4% (see Figure 1).[2] Prior to the financial crisis this ratio hovered around 30%, which was already considered high at the time.

Methodology

The authors analyzed 10 years of customs data (2014 to 2023) from the Lebanese Customs Authority website and conducted a longitudinal comparison of imports to identify trade patterns and trends. The selected dataset spans the runup to the economic collapse and the crisis period. The authors also conducted a desk review of publications from the World Bank and the United Nations, as well as Lebanese and international media reports.

Background

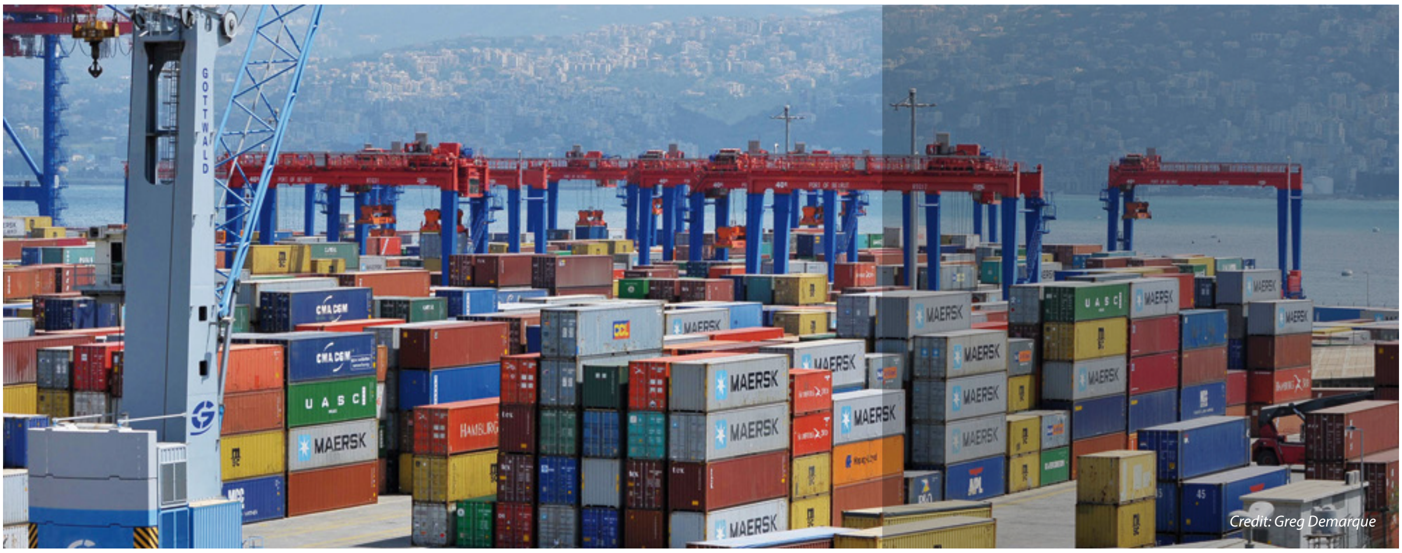
In May 2023, the Lebanese government increased the customs exchange rate[3] to 86,000 Lebanese pounds (LBP) per 1 US dollar (USD), just short of the parallel market exchange rate at the time. Since the advent of the economic crisis, importers had been paying customs taxes in LBP at a rate that was not regularly adjusted in line with the parallel market exchange rate, resulting in low import taxes, benefiting consumers. When the LBP 86,000 rate was introduced, consumer prices rose as importers passed on the higher import costs to wholesalers and vendors. Notably, the customs rate adjustment was implemented amid several regional and global developments that also affected imports and consumer prices, including the Ukraine war and the Yemen-based Ansarallah movement targeting commercial shipping in the Red Sea, starting in November 2023.[4]

Lebanon's reliance on imports is a key driver of inflation and currency depreciation and exposes the economy to global economic shifts and shocks, including commodity price fluctuations, recessions and inflation in other countries, and exchange rate volatility. Since 2019, the LBP has plummeted in value, leading to skyrocketing prices for essential goods, many of which are imported, driving up the cost of living and plunging a significant portion of the population into poverty. Importers, forced to contend with an effectively insolvent banking sector and a severe shortage of foreign currency, now demand cash payments in USD, straining the limited supply of hard currency.

[2] Values compiled using customs data and GDP estimates from World Bank, Lebanon Economic Monitor (LEM) Fall 2023 In the Grip of a New Crisis 2023

[3] The customs exchange rate is used to calculate the value of imports in LBP. It determines the amount of customs duties, taxes, and other fees levied on imported goods.

[4] Houthi forces are targeting commercial ships in the Red Sea that they claim are registered in or are linked to companies in Israel. Consequently, shipping costs have increased, either due to increased insurance premiums or electing to sail along the safer – but longer and more expensive – alternative routes. CNBC, Red Sea crisis fuels shipping costs, delays – and inflation worries January 3, 2024



Import Dependency

One factor driving Lebanon's import dependency is low economic productivity and its small export sectors. Although the country's export sectors appear to show signs of recovery – accounting for some 15% of the GDP in 2023 compared to 6% to 7% prior to 2019 – Lebanon's exports-to-GDP ratio rose because GDP dropped by 70% between 2019 and 2023. The real value of exports was, in fact, largely stable during that period. Lebanon has run a trade deficit since 2014, when it stood at USD 17.53 billion, its largest since the end of the civil war. Its smallest trade deficit was recorded in 2020 (USD 7.27 billion) corresponding with the sharp drop in imports.

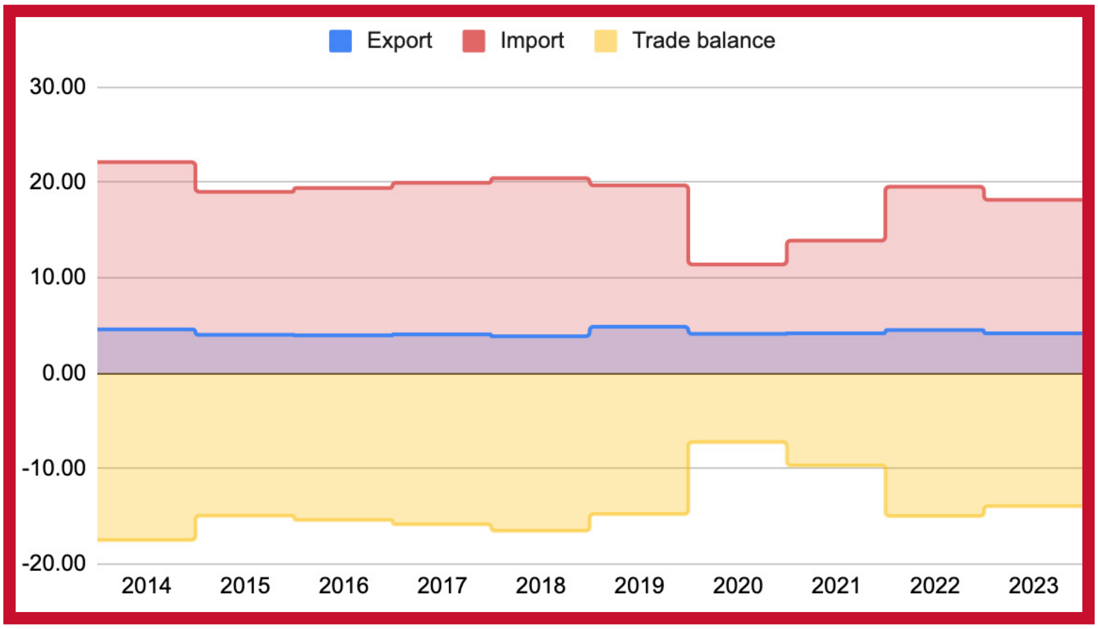


***Figure 2**: Lebanon's imports, exports, and trade deficit by value (in billions of USD) from 2014-2023.*

Lebanon's trade openness – the combined value of exports and imports relative to GDP – has also fluctuated in recent years. It reached 48.54% in 2018 and increased to about 112.35% by 2023. This shift was primarily caused by an increase in imports in concert with a plunge in GDP.

Imports peaked at USD 22.08 billion in 2014 (Figure 2). The most notable decrease occurred in 2020, when imports dropped to USD 11.35 billion due to the Covid-19 pandemic and the onset of the monetary and banking crises. Between 2014 and 2023, export receipts were comparatively much smaller, reaching a low of USD 3.83 billion in 2018 and a high of USD 4.83 billion in 2019. In 2023, Lebanese exports totalled USD 4.14 billion.

Import partners: mapping dependency

While Lebanon imports goods from some 110 countries worldwide (Figure 3), in 2023 its import profile was highly concentrated. The top 15 import partners collectively accounted for approximately three-quarters (73.43%) of Lebanon's imports. China was Lebanon's top import partner, accounting for 11.52% of total imports, closely followed by Greece at 9.81%, mainly fuel.[5]

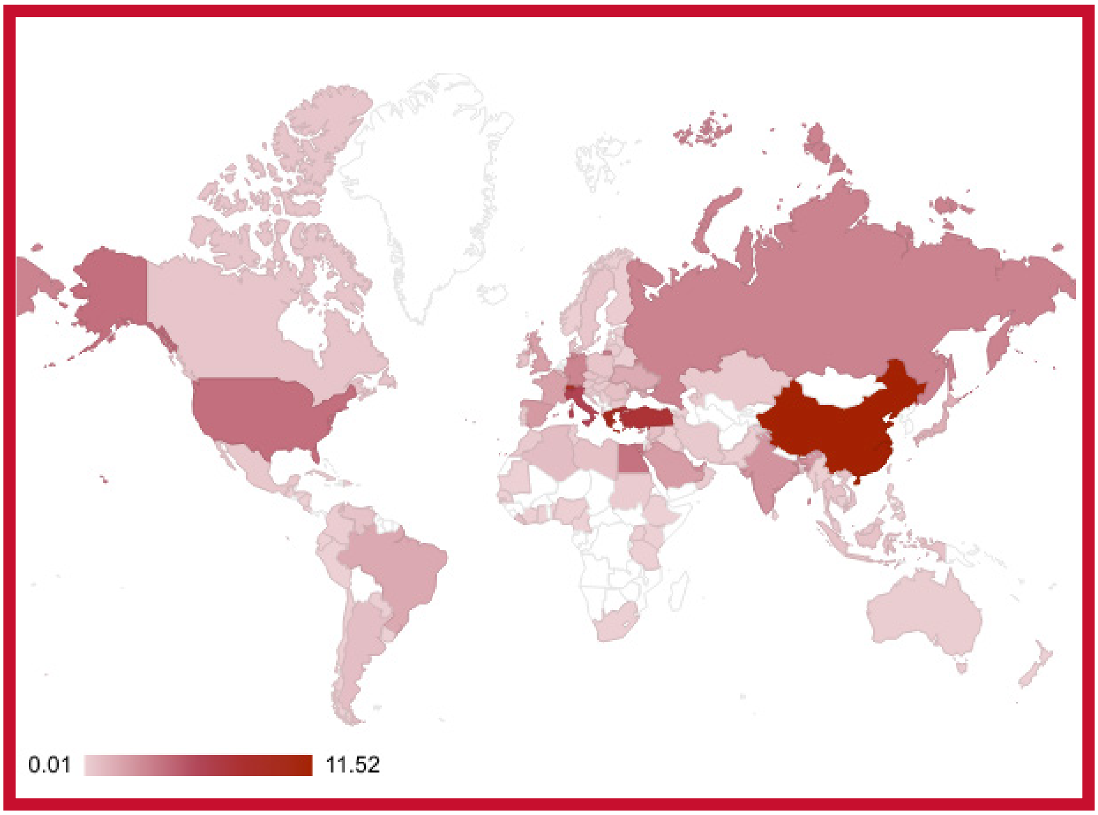


***Figure 3**: Lebanon's imports partners by value shares in percentages in 2023.*

[5] Switzerland ranked third at 9.67%, followed by Turkey at 7.61%, Italy at 6.18%. The United States came sixth, contributing 4.06%, after which came Egypt and Russia, respectively, with shares of 3.88% and 3.23%. Germany, the United Arab Emirates, India, Cyprus, Spain, Saudi Arabia, and the United Kingdom followed, with shares ranging from 2% to 3%. Finally, France, Belgium, the Netherlands, and Jordan (15th place), are major importers of processed food and vegetables.

Import Composition

Import categories offer some insights into Lebanon's economy and wealth disparity. These were largely stable between 2014 and 2023 (Figure 4). Imports of vehicles and transport equipment dropped by 6.81% compared to 2022, likely due to an adjustment of the customs dollar exchange rate in May 2023. Prepared foodstuffs and beverages fluctuated between 6.4% and 9.5% of total imports annually from 2014 to 2023, reflecting a reliance on imported food products to meet consumer demand, due to limited competitiveness of domestic food production and the agro-industrial sector.

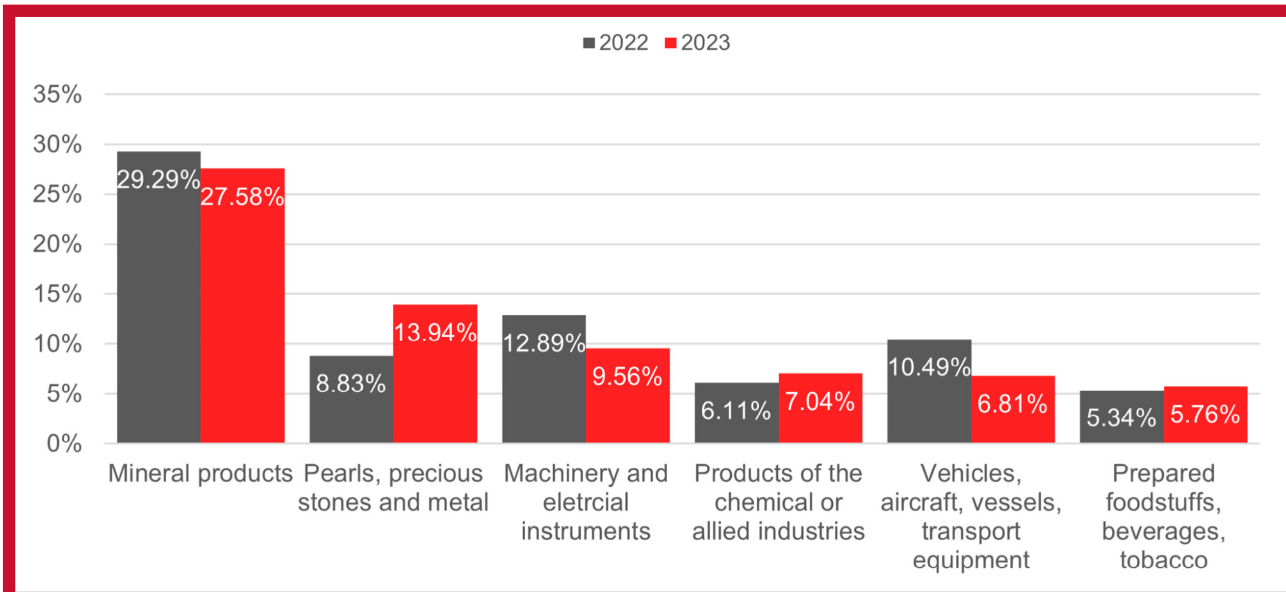


Figure 4: *Breakdown of top import categories in 2022 and 2023 (from official customs data).*

As in previous years, the largest import category in 2023 was mineral products (27.58% of total imports), primarily due to Lebanon's sizable energy imports. "Pearls, precious stones, and metals" were the second-most imported items in 2023 (13.94%), surpassing machinery and vehicles that ranked second in 2022. In 2023, machinery and electrical instruments were ranked third (9.56%), followed by chemical products (7.04%).

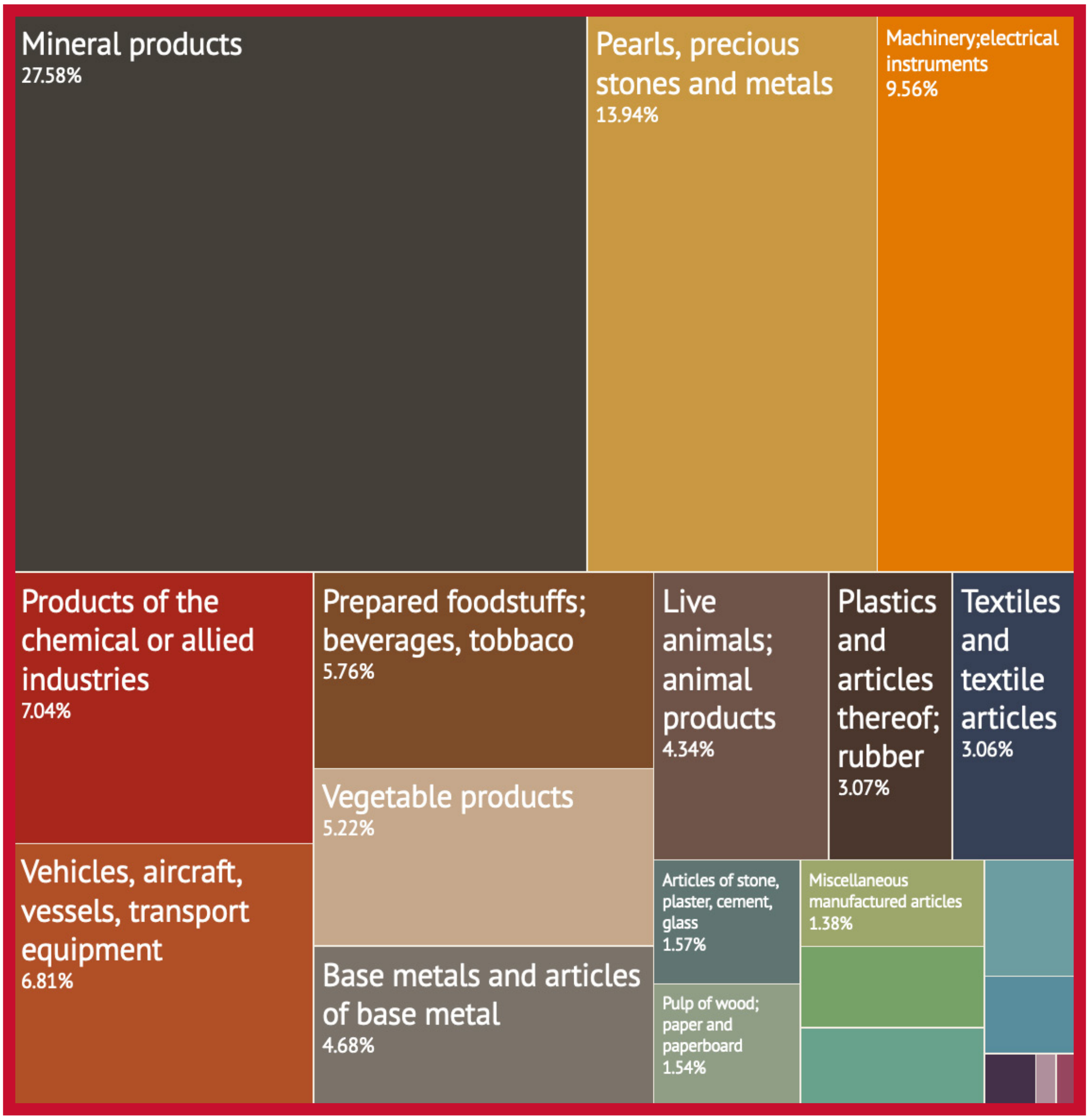


***Figure 5**: Import categories in 2023 (in percentages).*

The surge in "Pearls, precious stones, and metals" imports in 2023 compared to 2022, while striking, is not reflective of greater wealth or spending power. Notably, most households, particularly vulnerable ones, have limited access to these commodities.[6] The substantial share of Lebanon's 2023 import bill taken up by luxury items highlights the power that a small segment of the population with substantial wealth has over import practices amid broader economic and social collapse. For example, "Pearls, precious stones, and metals" accounted for 13.94% of all imports, compared to pharmaceutical products accounting for only 3.43%. The surge in demand for these luxury items might indicate a shift in saving mechanisms, amid a marked drop, and in some cases complete loss of confidence in the banking system.[7] The resulting excess supply of luxury items may also signal expanded money laundering amid a concurrent expansion of the informal cash economy.[8]

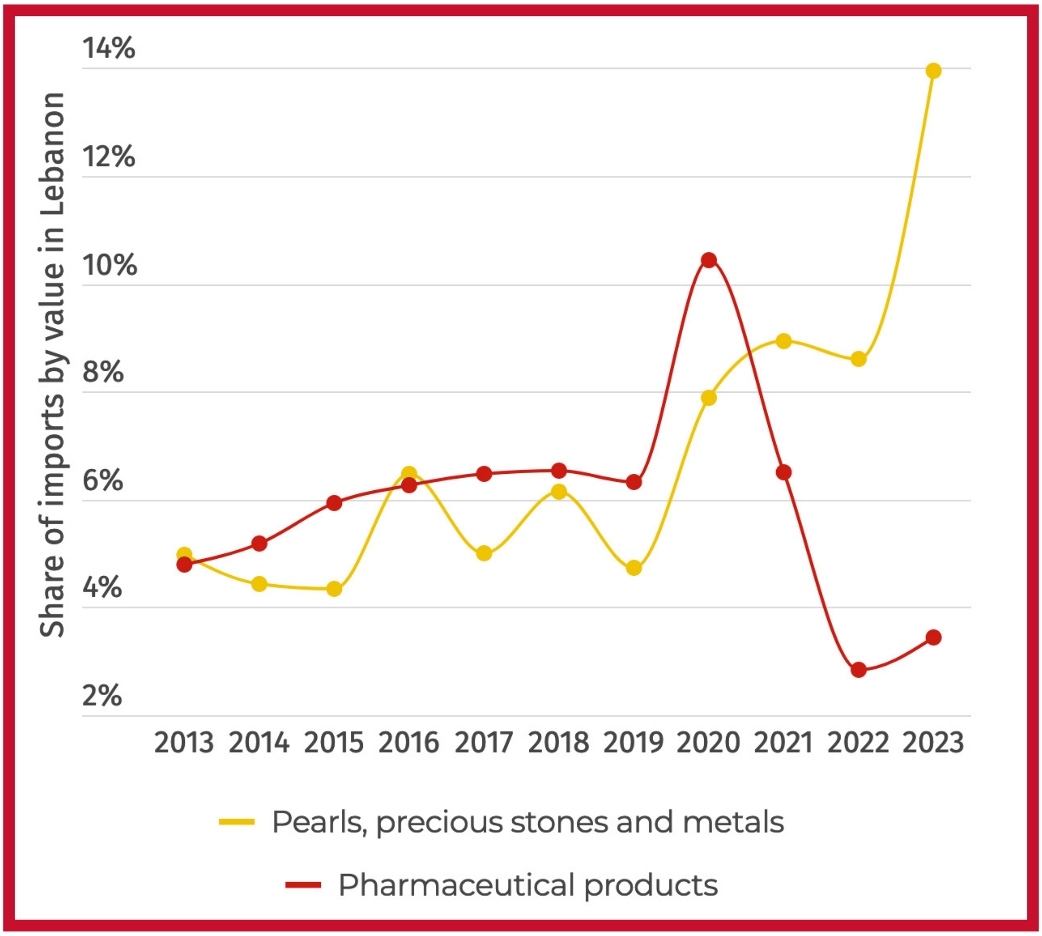


***Figure 6**: Imports of precious material versus pharmaceutical products.*

[6] Most low-wage earners are informally employed as low-skilled day laborers. These workers are likely underpaid in Lebanon's dollarized economy, especially day laborers compensated in LBP. According to the ILO, about one-third of day laborers were remunerated in LBP in early 2024. Low-wage earners paid in USD are also more likely to receive twice the daily rate of low earners paid in LBP. The latest [World Bank report] on poverty suggests that USD earners generally have better financial security and purchasing power. Mercy Corps Lebanon, [March Crisis Update] April 8, 2024

[7] L'Orient Today, [The Lebanese are buying more gold amid crisis] July 16, 2024

[8] Given their unique and rare nature, gold, precious materials, and luxury collectibles are one of many means to store wealth, offering their holders wealth mobility and liquidity. The increased demand and supply of such goods, in light of the observed deterioration of government sovereignty, raises concerns about possible money laundering networks in the shadow of the nuanced precious metals market due to its "lower law enforcement visibility". In a cash economy, "purchased gold can be used to make untraceable gold-based payments for illicit goods and services."
Financial Action Task Force, [Money laundering and terrorist financing risks and vulnerabilities associated with gold] July 2015

Notably, pearls, precious stones, and metals, including gold, represented the top export category. However, Lebanon consistently imported more “Pearls, precious stones, and metals” in value terms than it exported between 2013 and 2023, except for 2019 and 2020 (See Figure 7). This trend suggests that a substantial portion of luxury items imported into Lebanon remained there or were smuggled abroad.

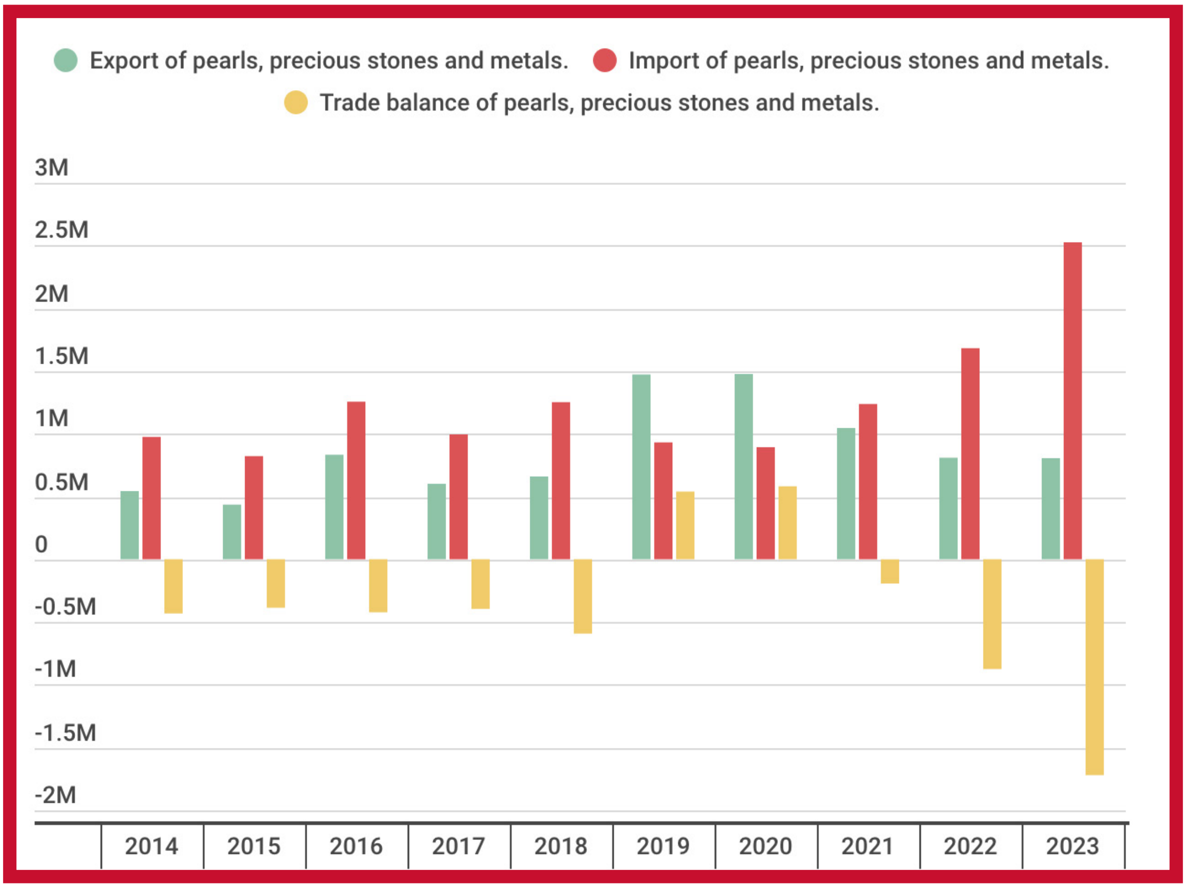


***Figure 7**: Trade balance of pearls, precious stones and metals in Lebanon (in thousands of USD).*

More imported precious stones and metals remained in Lebanon in 2022 and 2023, in comparison to pre-crisis years (Figure 7). Trade data from 2014 to 2017 showed that no more than USD 0.5 billion in precious metals remained in Lebanon annually. By 2023, the amount of precious stones and metals that remained in Lebanon topped USD 1.5 billion. This relative “excess” is indicative not only of a preference for precious metals as a means of storing wealth, but also of an expansion of the practice of gold-backed lending. By using their precious assets as collateral, households can obtain gold-backed loans, which are informal, largely untrackable, and, since they are unregulated by the government, risky.[9]

[9] CGAP, Gold Backed Loans: Unlocking Liquidity for the Poor? December 12, 2011

Even though gold-backed loan borrowers run the risk of falling victim to predatory practices, the practice became more widespread following the collapse of the Lebanese financial sector in 2019. Informal lenders often do not properly assess the financial status of low-income borrowers and/or even might seek to exploit them, namely by seizing precious items put up as collateral. In many cases, the collateral represents a sizable portion of a low-income household's savings, meaning that defaulting on loan obligations can severely harm a household.

Al-Qard Al-Hassan, an example of "formalizing" gold in the cash economy

Established by Hezbollah in 1987 as a charity and non-profit organization, and a US-sanctioned financial entity since 2021, Al-Qard Al-Hassan (AQAH) provides loans and other services in line with Islamic finance principles. The most common type of loan offered by Qard al-Hassan is the gold-backed loan. Individuals are allowed to withdraw cash loans in exchange for personal gold and jewelry deposited in their accounts. Since Islamic finance law, by which AQAH abides, requires a 0% interest rate, the value of the collateral – in this case deposited gold – must exceed that of the requested loan. Such loans must not exceed a value of USD 6,000 and cannot extend beyond a period of 30 months. In 2021, according to Daraj media, "About four out of five dollar loans are backed by gold deposits". The remaining loans are issued through other zero-interest means, such as guaranteeing the borrower through other depositors in AQAH or wealthy individuals.[10]

[10] Daraj, Hezbollah's "Bank:" US Sanctions, Gold, and Black Market Rate May 19, 2021

Implications for Humanitarian and Development Actors

Lebanon's import dependency, lack of economic productivity, and crippled financial sector threaten the livelihoods of vulnerable residents and their ability to access basic necessities. Compounding this, regional conflict has inflated shipping and trade costs, driving up the Lebanese consumer price index in early 2024,[11] despite LBP/USD exchange rate stability and dollarization for over one year.[12] The minimum wage stands at about LBP 18 million, equivalent to only USD 200 at the LBP/USD 89,700 exchange rate.[13] This falls far short of covering the Survival Minimum Expenditure Basket, which reached USD 414 by July.

The potential for major import disruptions is particularly acute in Lebanon. A military escalation between Hezbollah and Israel that shuts down Lebanese airspace or leads to a naval blockade could prove devastating to the economy in both the short and long term. In a worst-case scenario, domestic tensions could rise if access to essential items such as food is constrained, particularly if Beirut's port or airport are damaged. Such an outcome could spur a new inflationary cycle, possibly leading to hyperinflation, and the emergence of black markets, further marginalizing the most vulnerable households and preventing them from accessing basic necessities.

[11] Corps Lebanon, May Crisis Update June 7, 2024
[12] The LBP-USD exchange rate stabilized in April 2023 at about LBP 89,000 per USD 1. Moreover, the Ministry of Economy has formalized dollarized consumer pricing, a process that began by authorizing supermarkets to display prices in dollars in February 2023. However, currency stability and dollarization has not halted increases in the CPI. Year-on-year inflation surpassed 50% in May 2024 according to CPI data collected by CAS.
[13] Mercy Corps Lebanon, April Crisis Updates May 10, 2024

Aid actors are therefore advised to monitor import trends. As noted earlier in this report, broad indicators such as the trade deficit and trade openness may not fully reflect the wellbeing of the economy. Therefore, more category-focused monitoring is needed to better understand how import trends and partnerships with major exporting countries affect specific import categories, namely those which have a direct effect on aid distribution and development initiatives. Building on the information presented in this report, we suggest particular attention be paid to the following:

- Luxury imports, namely whether they continue to comprise an outsized portion of the import bill.

- Rates of essential commodity imports, as stagnation in this category could limit market availability, drive up prices, and risk food security under conflict/blockade/sanction scenarios.

- More broadly, import and export composition, partnerships, and major trade routes. As noted above, such monitoring can reveal deep dependencies and vulnerabilities in Lebanon's import sustainability .

- Changes in customs and import policies and regulations. Shifting import trends and dynamics could reflect not only gaps and imbalances in the economy but also responses to changing policies and regulations.

- Whether commercial banking services continue to degrade, further complicating importers' access to foreign currency.

As of the writing of this report, a wider conflict between Hezbollah and Israel appears more likely than at any other time since October 2023. Rapid and severe escalation would immediately affect imports, either severely restricting them or – should Israel impose a blockade as it did in 2006 – cutting them off altogether. The ensuing price hikes – particularly of food, medicine, and fuel – would have the greatest impact on vulnerable individuals and communities. Therefore, aid actors should closely monitor imports of essential items, and in particular their share of Lebanon's import basket. Such monitoring is vital, even if conflict can be avoided, as Lebanon will remain an import-dependent state for the foreseeable future.

In keeping with our mandate, LCAT will monitor the situation and publish updates as warranted.

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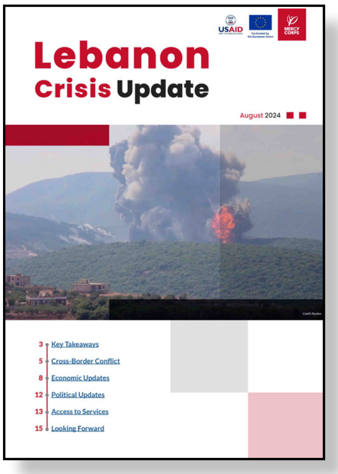
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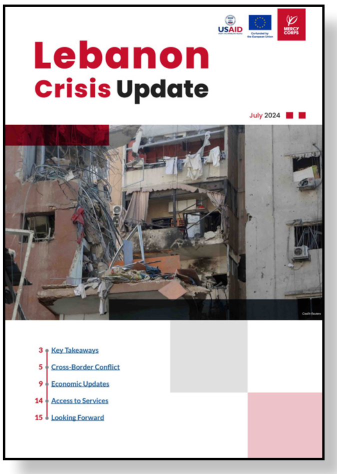
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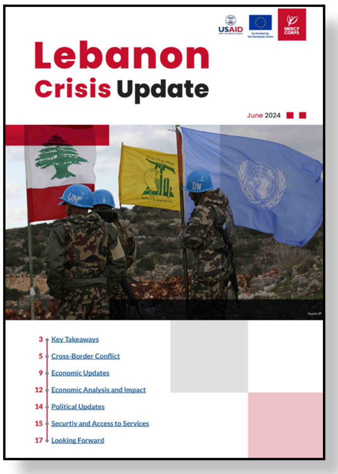
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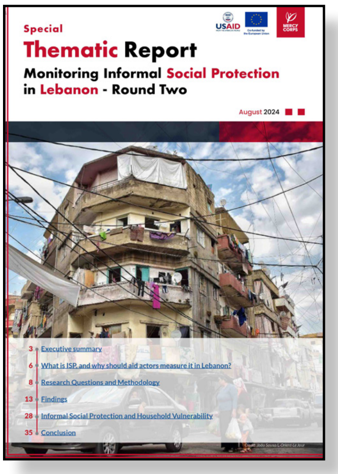
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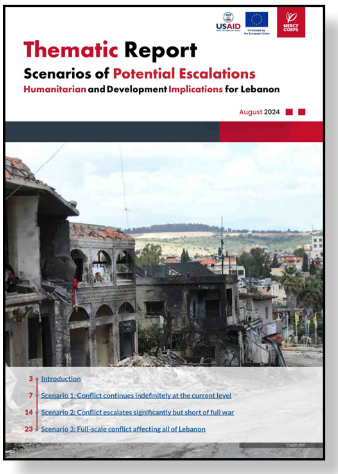
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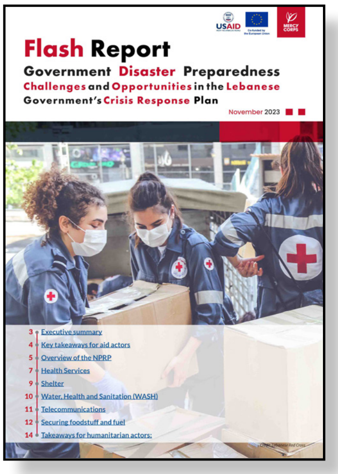
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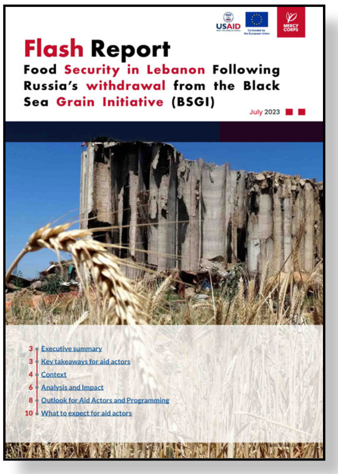
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