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Lebanon's inflation hits 85 percent in 2020

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BEIRUT: Lebanon's inflation in 2020 soared to 84.8 percent, the highest since 1992.

The Central Statistics Department figures for CPI for full-year 2020 show that the average inflation (Average price index 2020/Average price index 2019) was 84.8 percent, while the end-of-year inflation (December 2020 relative to December 2019) stands at 145.8 percent.

"The main drive for inflation is related to the Lebanese pound's sharp depreciation on the parallel market causing corollary inflationary spikes. The reasons behind currency depreciation and corollary inflation are actually multiple," Marwan Barakat, chief economist and head of the Economic Research department at Bank Audi, told The Daily Star.

He added that the reasons behind these figures revolve around the increased political uncertainties leading to a gradual loss of confidence and exchange market concerns.

"Then rises the significant money creation in Lebanese pound with currency in circulation almost tripling over the past year, moving from LL10 trillion at end-2019 to LL30 trillion at end-2020, amid large fiscal deficits with direct monetization on behalf of the Central Bank," Barakat explained.

He indicated that this excessive money creation has put pressure on the parallel exchange market and fueled inflation, especially that it is coupled with a local shortage of US dollars amid declining inflows and consecutive balance of payments deficits.

"A containment of the monetary drift looking forward is conditional upon a positive confidence shock related to political and economic management and a parallel decline of Lebanon's excessive money creation through the containment of Lebanon's external and fiscal deficits, with a parallel containment of the State's financing needs at largely," Barakat said.

Nassib Ghobril, chief economist at the Byblos Bank Group, commented on the results, saying, "The cumulative surge in inflation in 2020 is due in part to the inability of authorities to monitor and contain prices, as well as to the deterioration of the Lebanese pound's exchange rate on the parallel market, which has encouraged opportunistic wholesalers and retailers to raise the prices of consumer goods disproportionately."

The prices of furnishings & household equipment surged by 7.6 times in December 2020 from the same month last year, followed by prices at restaurants & hotels (+7.1 times), prices of clothing & footwear (+6.6 times), prices of food & non-alcoholic beverages, as well as of alcoholic beverages & tobacco (+5 times each), the cost of miscellaneous goods & services (+3.7 times), the cost of recreation & entertainment (+3.3 times), and transportation costs (+3.1 times). In addition, the cost of communication increased by 86.7 percent year-on-year in December 2020, followed by the prices of water, electricity, gas & other fuels (+33.2 percent), health care costs (+17.4 percent), actual rent (+13.8 percent), the cost of education (+10.3 percent), and imputed rents (+8 percent). Also, the distribution of actual rents shows that old rents grew by 16.2 percent and new rents increased by 12.1 percent year-on-year in December 2020.

Ghobril added that "containing inflation is part of the responsibilities of monetary policy through interest rates, which Banque du Liban managed to do until 2019. But this tool is currently not available due to the prevailing crisis."

In parallel, the CPI grew by 8.1 percent in December 2020 from the previous month, compared to a month-on-month rise of 0.5 percent in November 2020. The cost of transportation jumped by 44 percent month-on-month in December 2020, due to the increase in the prices of new cars, followed by the prices of clothing & footwear (+16.6 percent), the prices of water, electricity, gas & other fuels (+9.5 percent), prices of alcoholic beverages & tobacco (+7 percent), the cost of recreation & entertainment (+5 percent), prices at restaurants & hotels (+3.7 percent), the cost of miscellaneous goods & services (+2.8 percent), actual rent (+2.2 percent), prices of food & non-alcoholic beverages (+2.1 percent), imputed rent (+1.4 percent), the cost of furnishings & household equipment (+0.7 percent), and communication costs (+0.4 percent). Also, health care and education costs were nearly unchanged month-on-month in December 2020. According to Central Statistics Department figures, inflation in Lebanon in 2019 stood at 2.9 percent, 4.55 percent in 2018, 4.48 percent in 4.88 percent in 2017, -0.82 percent in 2016, -3.7 percent in 2015 and 1.8 percent in 2014.

Lebanon became the first country in the Middle East to suffer hyperinflation in July of 2020, according to economists.

Consumer prices have registered an increase of 400 percent over the last 12 months due to the sharp devaluation of the pound.

Consumer groups warn that the prices of bread, fuel oil and pharmaceuticals are expected to soar even higher once BDL's subsidies come to an end.

Bank Audi advised the Lebanese authorities to seek foreign financial assistance to contain the negative effects on the population in case the subsidy program came to an end.

In its fourth quarter 2020 report on the performance of Lebanon's economy, Bank Audi said the first 2021 challenge is to put the monetary situation on a sustainable path given the retreat in BDL's liquid FX reserves to below $18 billion amid noticeable financing needs in foreign currencies and that are estimated at no less than $7 billion per annum.

It added that the state is currently facing a tough paradox of double-edge sword: Either it decides to stop the subsidy, which means hyperinflation and additional socio-economic pressures on households as the prices of wheat, gasoline and pharmaceuticals would be inflated by 400 percent if fully left to the black market.

"This means an additional 100 percent rise to the overall CPI which has already reported 111 percent on annual basis in December," the report added.

The other option is to decide to continue subsidizing which means putting at stake the required FX reserves (i.e it would dig into the $17 billion of required reserves of banks in FX) and ultimately put at stake the customers FX deposits at banks.