ANALYSIS OF LEBANON'S EXTERNAL SECTOR

Bankmed - Market & Economic Research Division

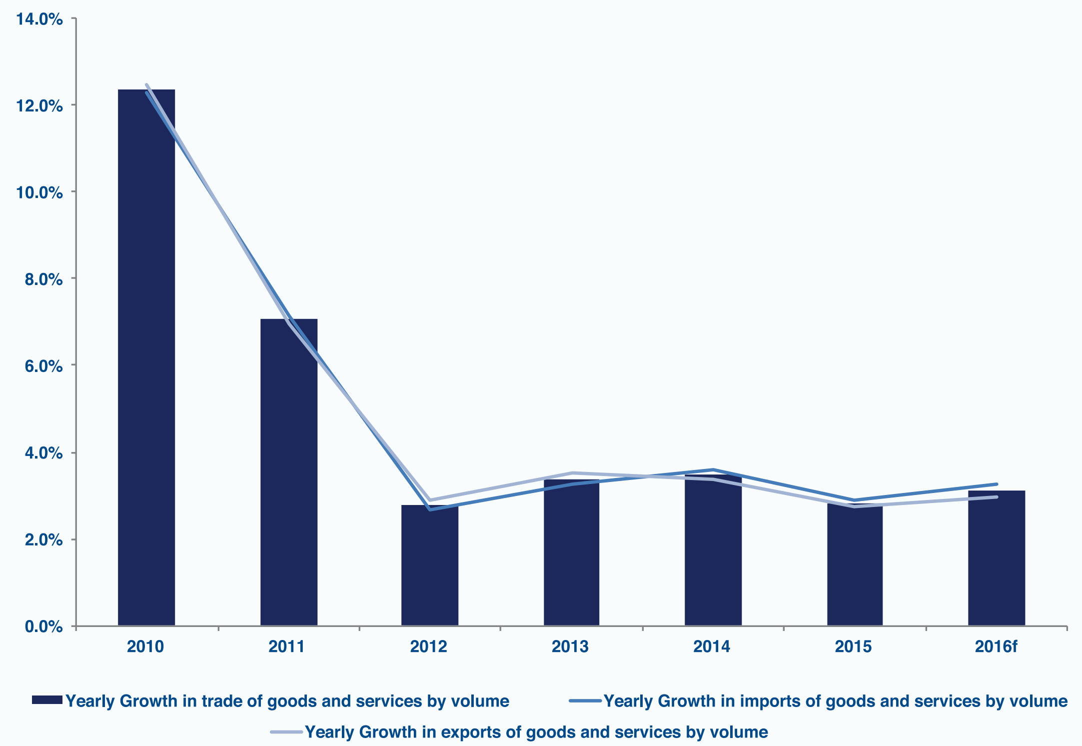
Table of Contents

GLOBAL TRADE

Over the past years, major macroeconomic developments have been affecting the real economic activity across several regions mirroring subdued economic aggregates and weak global growth prospects. The decline in commodity prices coupled with the slowdown and rebalancing in the Chinese economy have hindered global growth and levied large redistributive costs across many countries. Moreover, the uncertainty accompanied by the recent "Brexit" in the United Kingdom and the surrounding geopolitical tensions have contributed to a slowdown in global investment and trade, a decline in capital flows to emerging markets and developing economies, and a subdued outlook for the world economy.

With regard to global trade, growth in the trade of goods and services by volume has recently slowed dropping from 12.5% in 2010 to 2.8% in 2015. Weak import and export volumes, particularly in emerging markets, deceleration of growth in China, and the sluggish global economic activity amid continued geopolitical tensions repressed global trade in 2015.

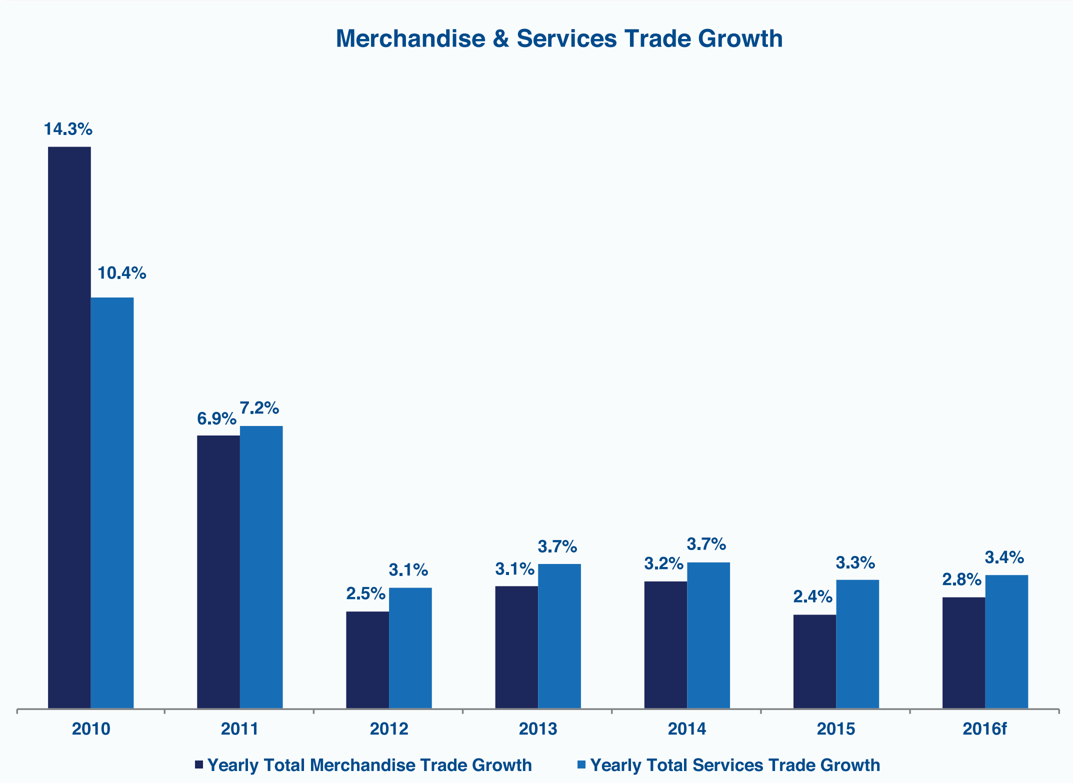
Trade of Goods and Services by Volume



Source: IMF, Bankmed Research

GLOBAL TRADE

Moreover, both merchandise and services trade growth has decelerated over the past five years with services growing at a slightly higher rate.



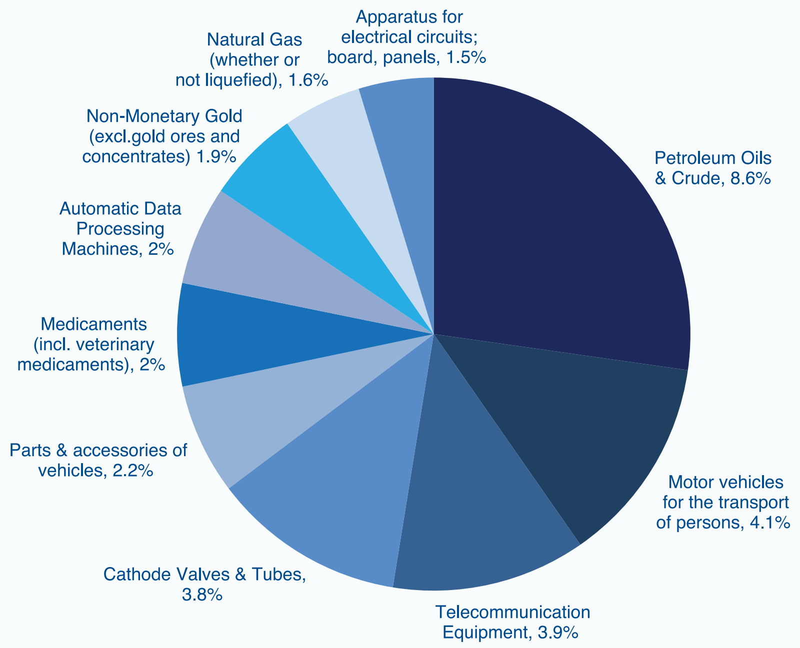
Source: IMF, Bankmed Research

MERCHANDISE TRADE

Merchandise Exports

A closer look on the merchandise trade reveals that petroleum oils and crude oil stand at the top of the world's merchandise exports by product accounting for around 8.6% of total exports, followed by motor vehicles (4.1%), telecommunication equipment (3.9%), and cathode valves and tubes (3.8%).

World's Top 10 Exports by Product
(2015)



Source: UNCTAD STAT, Bankmed Research

MERCHANDISE TRADE

Nonetheless, a detailed analysis on the evolution of the world's top 10 exports by product reveals that the year 2015 witnessed a sharp fall in merchandise exports to record USD 16,521.3 billion when compared to an average of USD 17,754.8 billion in the period 2010-2013 and USD 18,965.1 billion in 2014.

Particularly, petroleum oils and crude oil declined by a yearly 42.8% to reach USD 1,416.3 billion in 2015. This is attributed to the sharp fall in oil prices as a result of abundant oil supply and weak demand from China. Moreover, exports of natural gas also witnessed a 30% plunge in 2015 to reach USD 257.8 billion. The overall 12.9% decline in the world's merchandise exports reveals a strident deceleration in global trade reflecting a weak global demand and a suppressed purchasing power.

Evolution of Top Exports by Product

USD Billion	2010-2013	2014	2015
Petroleum Oils & Crude	2,474.8	2,474.5	1,416.3
% Change		*0.0%*	*-42.8%*
Motor Vehicles for the Transport of Persons	632.1	709.0	682.0
% Change		*12.2%*	*-3.8%*
Telecommunication Equipment	524.4	631.8	637.5
% Change		*20.5%*	*0.9%*
Cathode Valves & Tubes	569.1	628.3	635.0
% Change		*10.4%*	*1.1%*
Parts & Accessories of Vehicles	349.8	386.3	364.4
% Change		*10.4%*	*-5.7%*
Medicaments (incl. veterinary medicaments)	333.3	353.4	338.3
% Change		*6.0%*	*-4.3%*
Automatic Data Processing Machines	347.6	368.6	324.7
% Change		*6.0%*	*-11.9%*
Non-Monetary Gold (excl.gold ores and concentrates)	321.8	317.2	308.0
% Change		*-1.4%*	*-2.9%*
Natural Gas (whether or not liquefied)	336.2	368.8	257.8
% Change		*9.7%*	*-30.1%*
Apparatus for Electrical Circuits; Board, Panels	231.4	259.8	246.2
% Change		*12.2%*	*-5.2%*
Others	11,634.3	12,467.5	11,310.9
% Change		*7.2%*	*-9.3%*
Total	**17,754.8**	**18,965.1**	**16,521.3**
% Change		*6.8%*	*-12.9%*

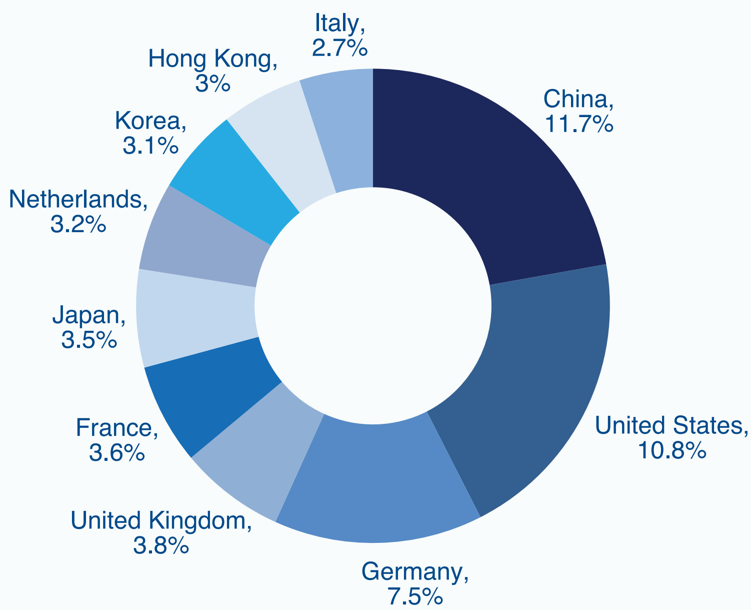
Source: UNCTAD STAT, Bankmed Research

MERCHANDISE TRADE

With regard to the world's top exporter countries, Chinese exports accounted for the highest share of exports of goods and services at 11.7% in 2015 with its top exported products including electronic equipment, machines and engines, furniture, plastics, medical and technical equipment, vehicles, iron and steel products, and clothing and foot wear.

The United States comes second after China with a share of 10.8% in 2015 mainly exporting machines and engines, electronic equipment, aircrafts and vehicles, and oil.

World's Top 10 Exporters
(2015)

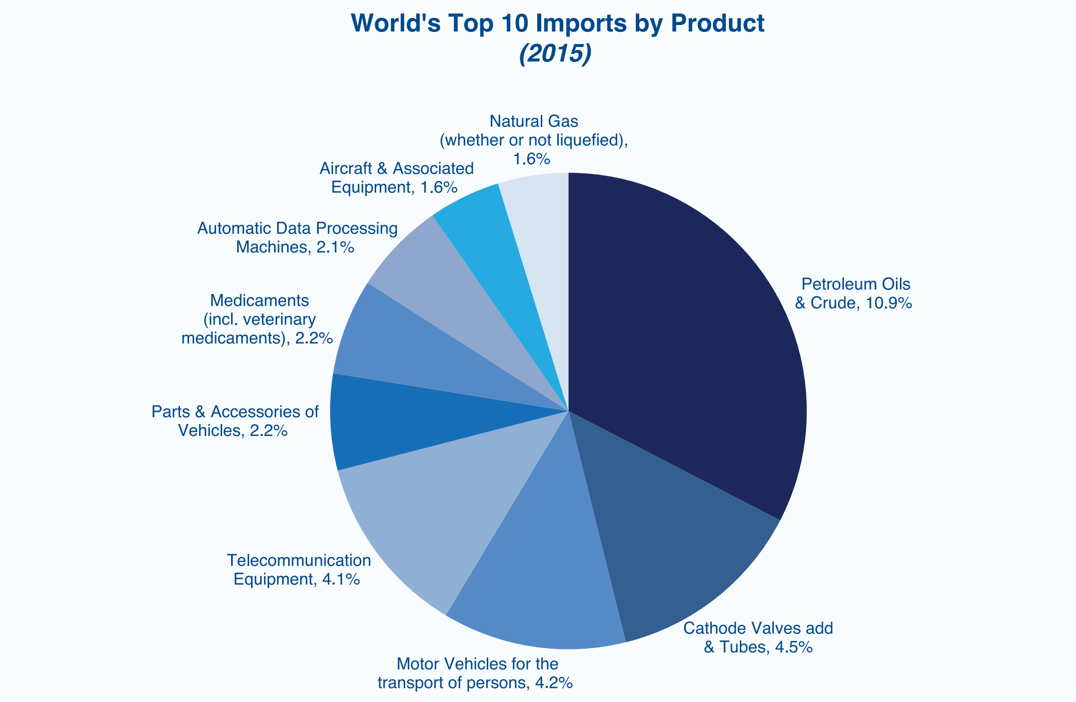


Source: UNCTAD STAT, Bankmed Research

MERCHANDISE TRADE

Merchandise Imports

With regard to merchandise imports, petroleum oils and crude oil also ranked as the world's most imported products in 2015 with a 10.9% share of total merchandise imports. It was followed by cathode valves and tubes (4.5%) as well as motor vehicles (4.2%) and telecommunication equipment (4.1%).



Source: UNCTAD STAT, Bankmed Research

MERCHANDISE TRADE

Similar to the drop in merchandise exports, merchandise imports also witnessed a sharp fall of 11.9% in 2015 to reach USD 16,611.3 billion. Moreover, an analysis of the evolution of imports by product reveals that imports of petroleum products also witnessed a yearly drop of 14.5% in 2015 to reach USD 1,805.9 billion down from USD 2,112.3 billion in 2014 and an average of USD 2,092 billion in the period 2010-2013.

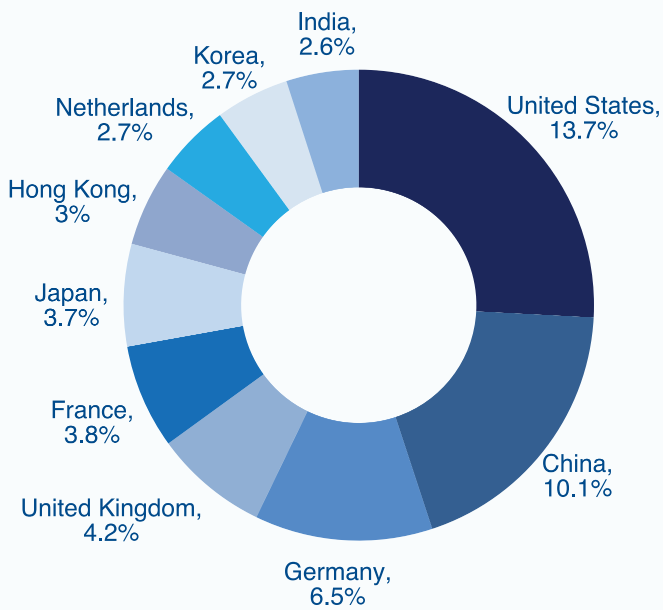
Evolution of Imports by Product			
USD Billion	2010-2013	2014	2015
Petroleum Oils & Crude	2,092.0	2,112.3	1,805.9
% Change		*1.0%*	*-14.5%*
Cathode Valves & Tubes	671.2	744.1	750.4
% Change		*10.9%*	*0.8%*
Motor Vehicles for the Transport of Persons	632.6	707.6	691.8
% Change		*11.8%*	*-2.2%*
Telecommunication Equipment	578.1	675.7	685.3
% Change		*16.9%*	*1.4%*
Parts & Accessories of Vehicles	343.0	387.1	363.6
% Change		*12.9%*	*-6.1%*
Medicaments (incl. veterinary medicaments)	350.9	370.0	361.0
% Change		*5.4%*	*-2.4%*
Automatic Data Processing Machines	360.8	374.0	347.8
% Change		*3.7%*	*-7.0%*
Aircraft & Associated Equipment	183.2	238.4	271.5
% Change		*30.1%*	*13.9%*
Natural Gas (whether or not liquefied)	339.6	362.1	264.7
% Change		*6.6%*	*-26.9%*
Others	12,204.7	12,878.9	11,069.8
% Change		*5.5%*	*-14.0%*
Total	**17,756.0**	**18,851.1**	**16,611.3**
% Change		*6.2%*	*-11.9%*

Source: UNCTAD STAT, Bankmed Research

MERCHANDISE TRADE

As to the world's top importer countries, the United States topped the list with a share of 13.7% of the world's total imports including electronic equipment, machines and engines, vehicles, oil, and pharmaceuticals. China ranked second in the world's top imports with a 10.1% share of total imports where electronic equipment, oil, machines and engines, and medical equipment comprise the bulk of Chinese imports.

World's Top 10 Importers
(2015)



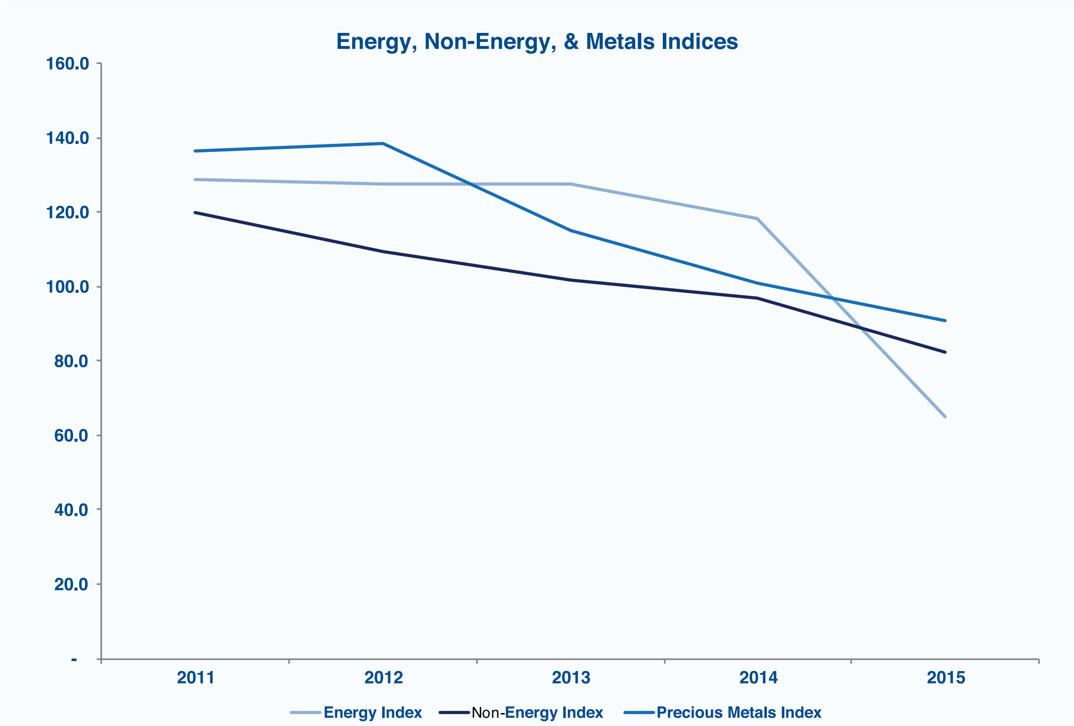
Source: UNCTAD STAT, Bankmed Research

MERCHANDISE TRADE

Commodities' Dynamics

The main reason behind the drop in the value of global exports and imports is attributed to the sharp decline in commodities' prices. A closer look on commodities' indices shows that the energy index witnessed the sharpest fall in recent years which is attributed to the major plunge in oil prices. In particular, the price of crude oil fell from an average of 95.5 USD/barrel in 2011 to an average of 48 USD/barrel in 2015 due to its oversupply and the deceleration in the Chinese economy.

Nonetheless, the non-energy index which includes agricultural products, food, raw materials, fertilizers, as well as metals and minerals also witnessed a decline ever since the fall in oil prices. For instance, iron ore which is one of the main raw materials and a component of the non-energy index witnessed a sharp decline from 154 USD/Dry metric ton unit in 2011 to 52 USD/Dry metric ton unit in 2015. The tightening in the Chinese steel market, which acts as the main driver of iron ore prices, and the current ample supply levels highly contributed to the decrease in prices.



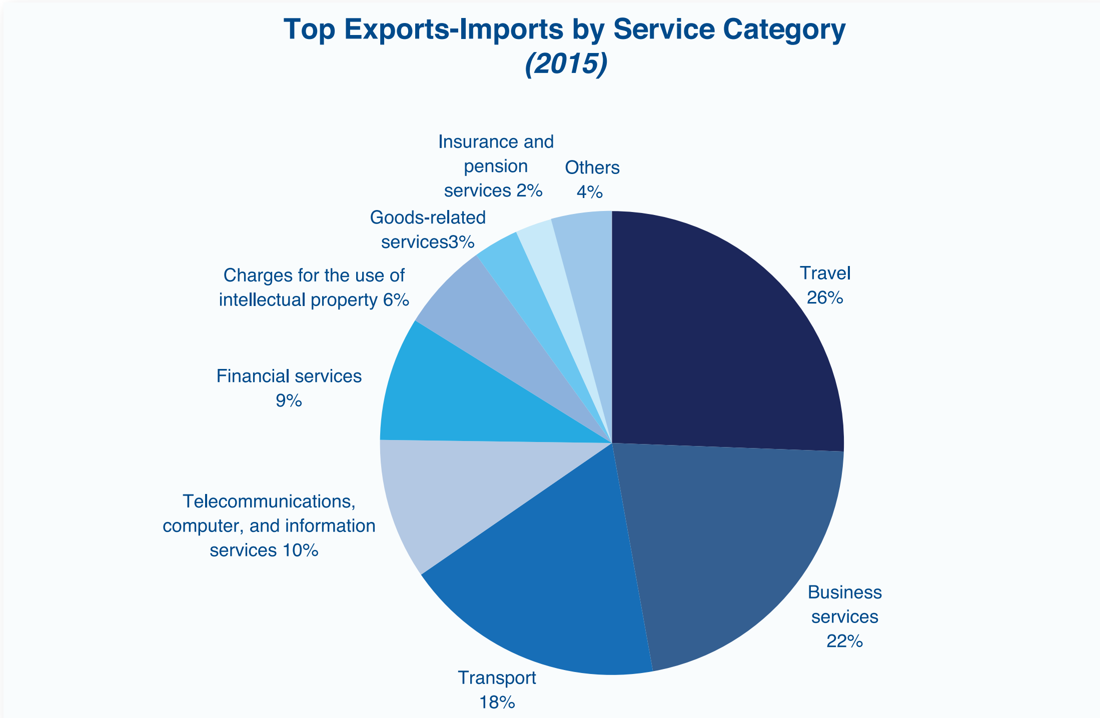
Source: World Bank, Bankmed Research

	Oil Prices (USD/bbl)	Iron Ore (USD/dmtu)	Gold (USD/troy oz)
2010	79.0	145.9	1,224.7
2011	95.5	154.0	1,440.4
2012	97.6	119.4	1,551.7
2013	98.1	127.6	1,330.8
2014	90.9	91.6	1,195.3
2015	48.0	52.8	1,098.6

Source: World Bank

TRADE SERVICES

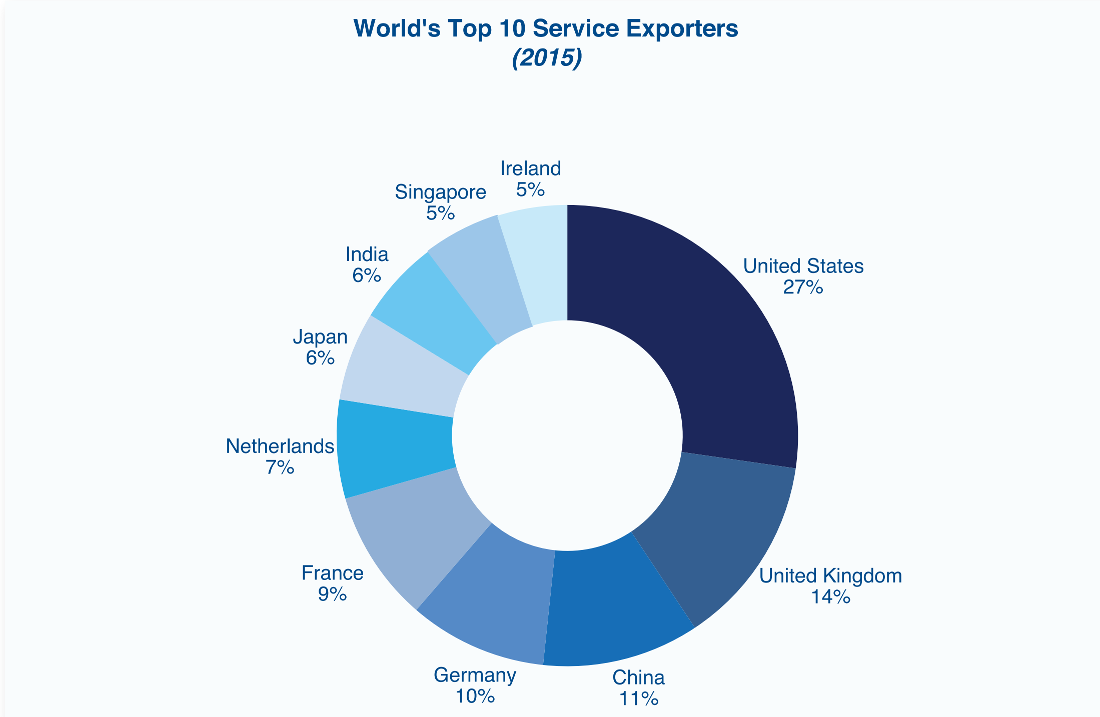
The world's trade by service category reveals that the travel sector make up to 26% of total trade services. It is followed by business services (22%), transport (18%), telecommunications, computer and information services (10%), as well as financial services (9%).



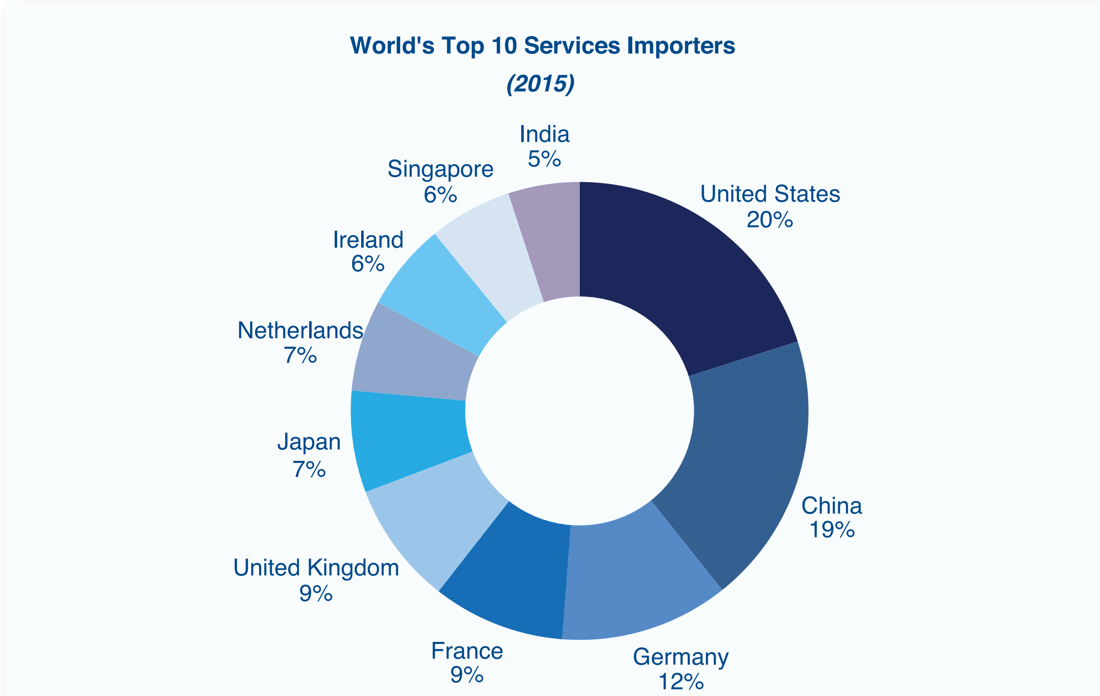
Source: UNCTAD STAT, Bankmed Research

TRADE SERVICES

A closer look on geographical trade services reveals that the United States stands at the top of both the world's service exporters and importers. European countries such as United Kingdom, Germany, France, Netherlands, and Ireland also make up a large share of global trade services.



Source: UNCTAD STAT, Bankmed Research



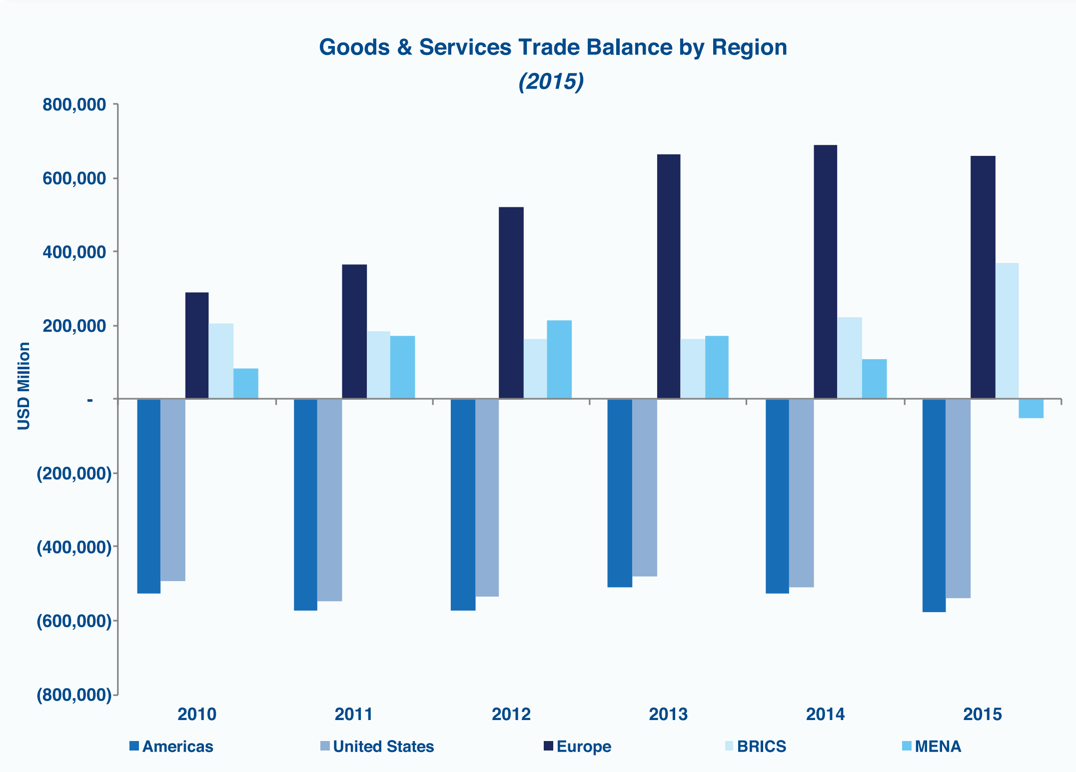
Source: UNCTAD STAT, Bankmed Research

TRADE BALANCE

Goods and services trade balance by region shows that Europe has maintained a trade surplus over the period 2010-2015 and recorded a surplus of USD 661,267 million. It is followed by the BRICS which witnessed a rise in its trade surplus in 2015 in face of depreciation in the Brazilian Real, the Russian Ruble, the Chinese Renminbi, and the South African Rand which, spurred exports in 2015. Within this context and according to the IMF, a 10% real effective depreciation of a currency raised real net exports by an average of 1.5% of gross domestic product. Therefore, a higher trade surplus in the BRICS stemmed from a rise in exports and a fall in import bills.

With regard to the MENA region, lower oil prices took its toll on net exports across oil exporting countries within the region which in turn caused a trade deficit in 2015.

On the other side, America has long suffered from a trade deficit over the period 2010-2015. Moreover, though it is hard to explain the United States' "trade deficit trap", it is fundamentally caused by the lack of competitiveness of US products with respect to foreign rivals coupled with a series of appreciation in the dollar relative to a basket of currencies. Moreover, financial linkages tend to play a role in amplifying the trade deficit where investment opportunities exceed savings by the Americans, driving the country into borrowing from abroad.

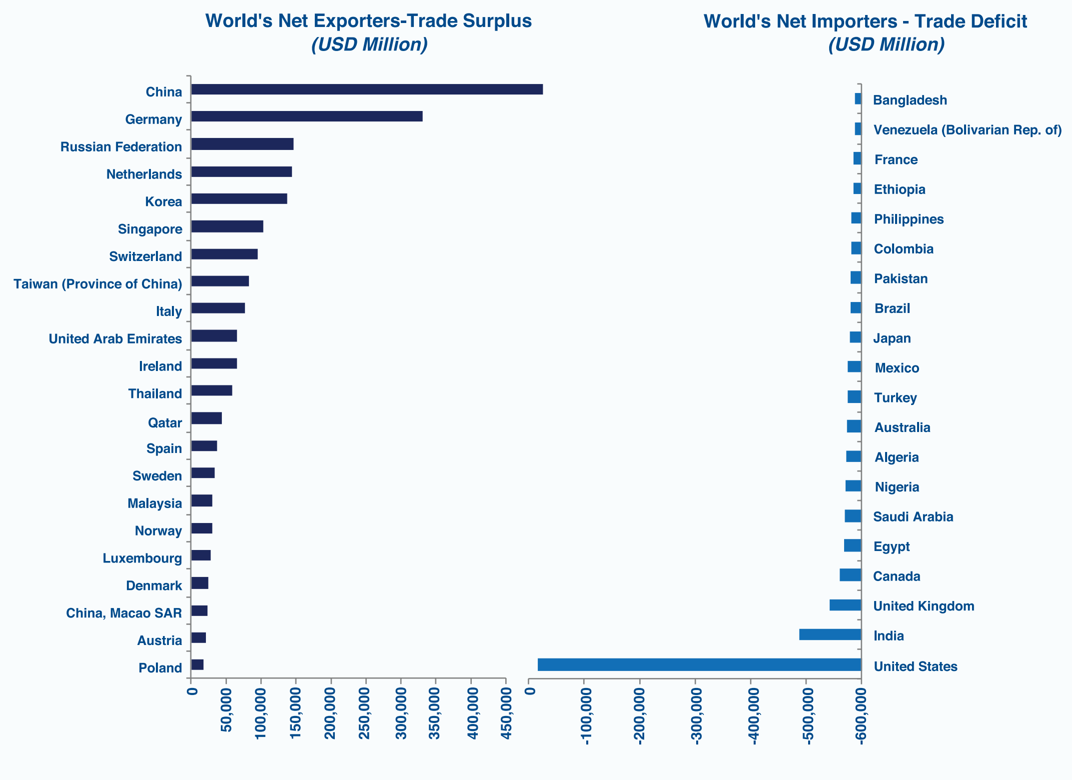


Source: UNCTAD STAT, Bankmed Research

TRADE BALANCE

Analysis of the world's net exporters and importers reveals that China had the highest trade surplus of USD 384,642 million ranking at the top of net exporters in 2015. Second comes Germany with USD 252,820 in trade surplus. It is followed by Russia (USD 111,902 million), Netherlands (USD 109,667 million), and Korea (USD 104,666 million). It is important to note that the United Arab Emirates stood at the 10th position recording a trade surplus of USD 49,775 million. Qatar came in the 14th position with a total trade surplus amounting to USD 33,020 million.

With regard to trade deficit, the United States recorded the highest trade deficit in the world with a total of USD 539,750 million in 2015. It was followed by India (USD 104,561 million) and United Kingdom (USD 54,045 million). Egypt and Saudi Arabia ranked in 5th and 6th position with a total trade deficit of USD 30,142 million and USD 28,448 million in 2015, respectively.

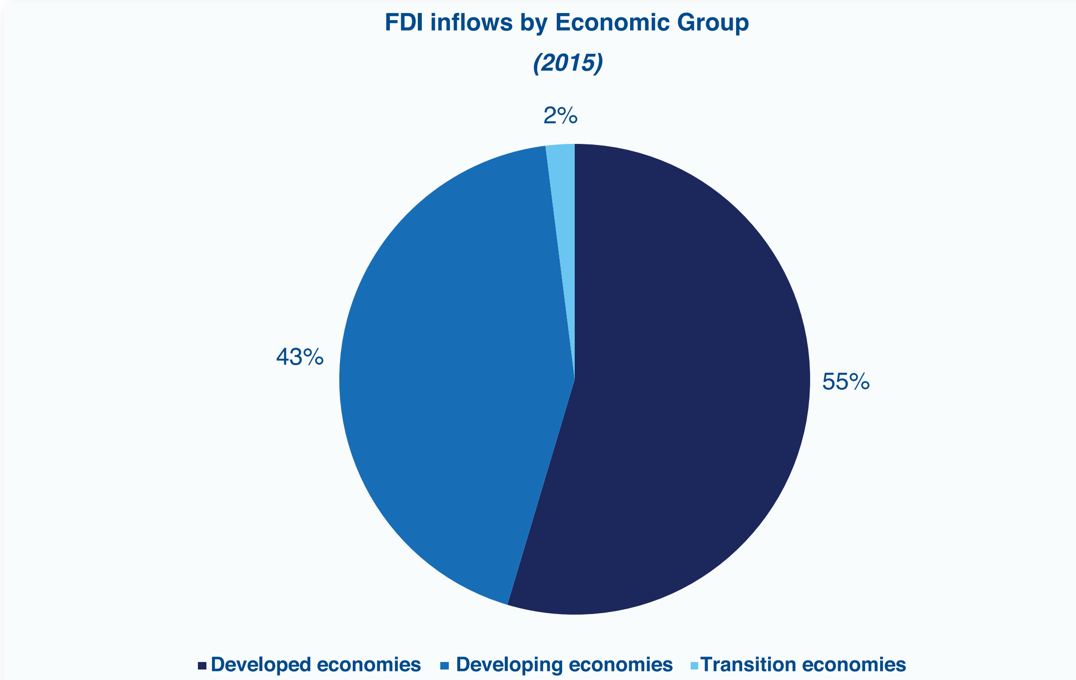


Source: UNCTAD STAT, Bankmed Research

FDI FLOWS

FDI Inflows by Economic Group

Global FDI inflows increased by a yearly 36% in 2015 to reach USD 1.76 trillion, the highest level reached over the period 2010-2015. The principal factor behind this substantial rebound was a yearly 84% surge in FDI inflows targeting developed economies which accounted for 55% of global FDI inflows and reached USD 962,496 million in 2015. Furthermore, developing economies also witnessed record high FDI inflows of USD 764,670 million in 2015 increasing by a yearly 9% and accounting for 43% of global FDI inflows.



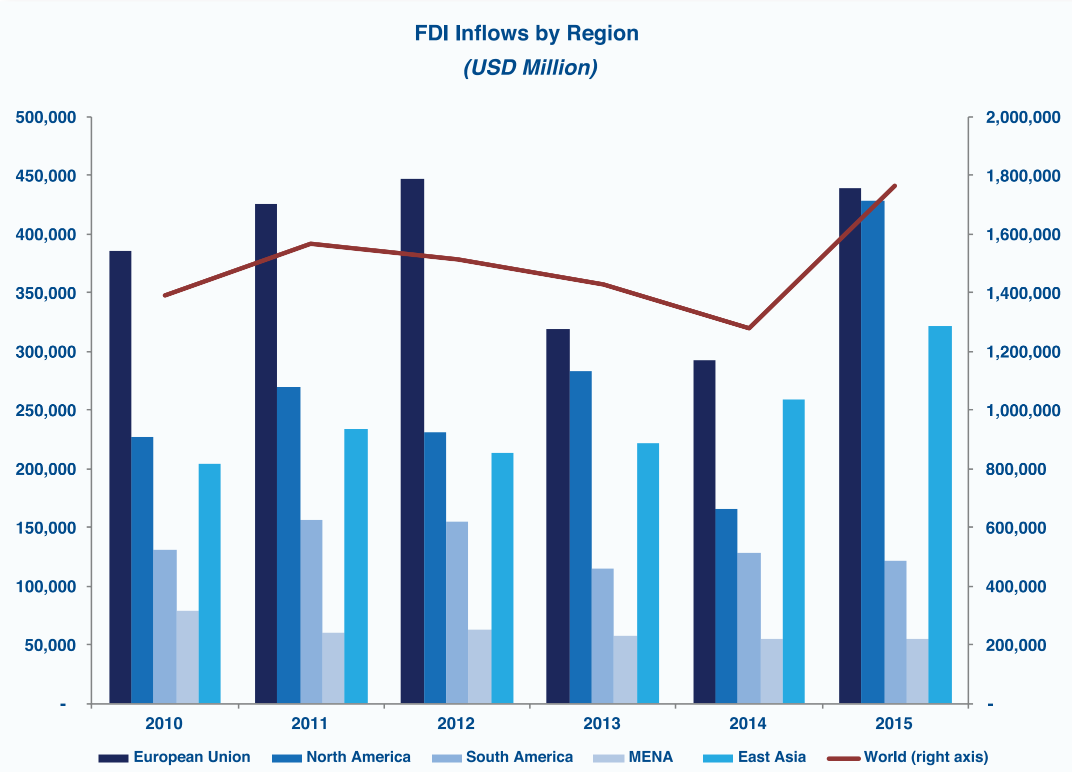
Source: UNCTAD STAT, Bankmed Research

FDI FLOWS

FDI Inflows by Region

In particular, FDI inflows to the North American region witnessed a yearly growth of more than 160% reaching USD 428,537 million in 2015 up from a historically low level of USD 165,120 million in 2014. Moreover, FDI inflows to the European Union recorded a yearly 50% rise to reach USD 439,458 million in 2015. Nonetheless, developing Asia remained the largest FDI recipient region in the world with more than half a trillion US dollars of FDI inflows (USD 540,722 million) in 2015. Specifically, FDI inflows into East Asia accounted for 60% of FDI inflows into Asia and increased by a yearly 16.8% in 2015 reaching USD 322,144 million [1].

[1] East Asia includes: China, Hong Kong, Korea, Taiwan, and Mongolia

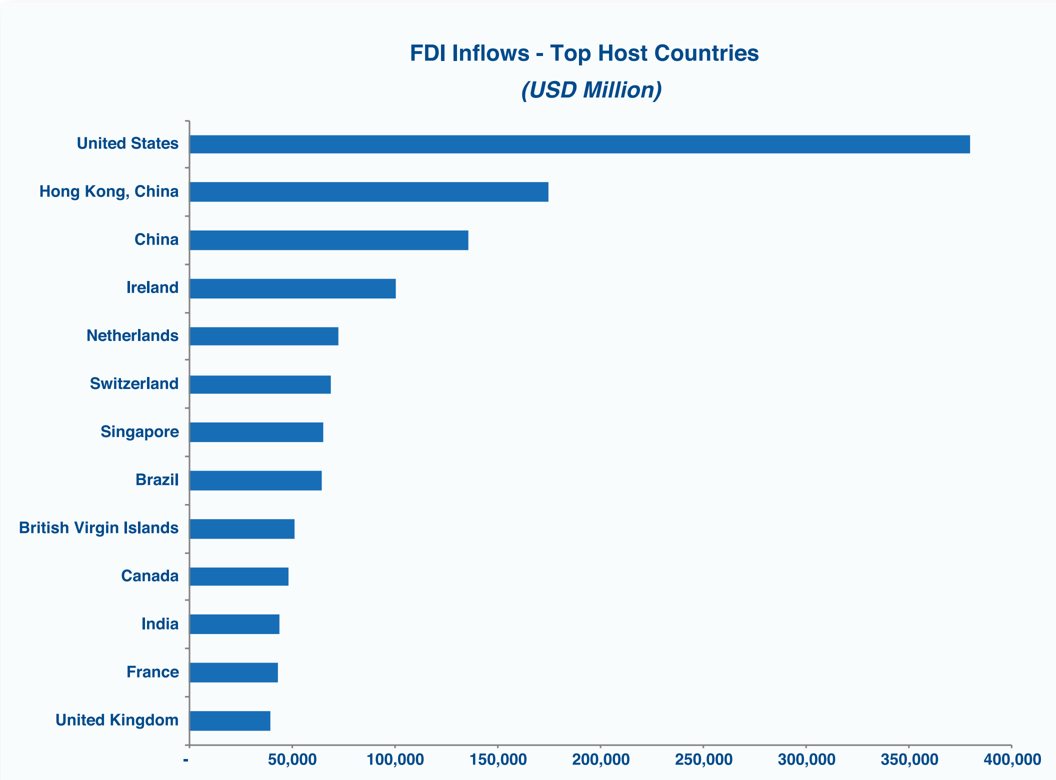


Source: UNCTAD STAT, Bankmed Research

FDI FLOWS

FDI Inflows by Country

Among host economies, the United States ranked as the world's largest recipient of FDI inflows amounting to USD 379,894 million in 2015. It was followed by Hong Kong (USD 174,892 million) and China (USD 135,610 million).



Source: Global Investment Trends Monitor, January 2016 – United Nations

FDI FLOWS

Cross-Border M&As

A closer look on growth rates of the integral composition of FDI inflows reveals that the growth was largely attributed to cross-border merger and acquisitions (M&A) with limited contribution of new greenfield investment projects between countries in productive assets. Moreover, according to the Global Investment Trend Monitor published by the United Nations, a part of FDI flows was related to corporate restructuring which involved large flows in the financial account of the balance of payments and little movement in actual resources.

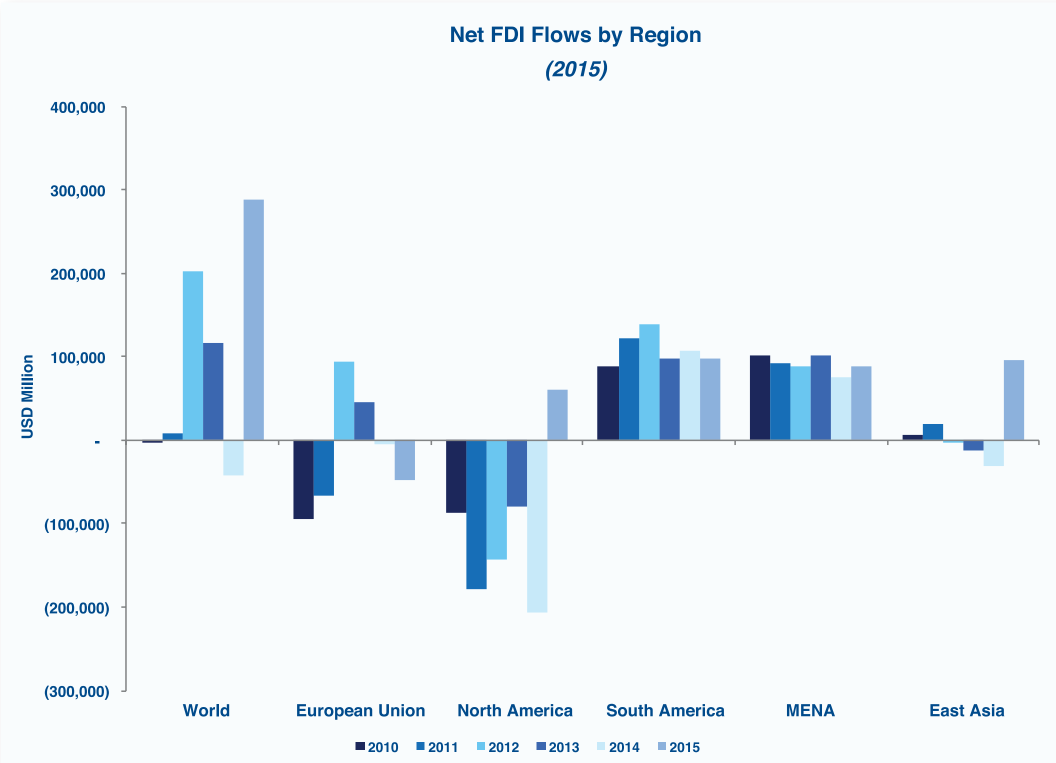
Cross–border M&A registered a yearly 61.4% increase in 2015 while announced greenfield projects merely changed. The decline in the latter, specifically in developing economies, points out to a weakness in growing capital expenditures and new investment projects.

	2014-2015 Growth rate (%)		Announced Greenfield Projects
	FDI Inflows	Cross-Border M&As	
World	**36%**	**61.4%**	**0.9%**
Developed Economies	**84.40%**	**106.4%**	**7.8%**
European Union	50.50%	67.6%	14.2%
North America	160%	449.0%	-1.4%
Developing Economies	**9.50%**	**-43.7%**	**-4.3%**
Africa	-7.20%	303.6%	-19.2%
South America	-5.75%	-60.2%	-23.2%
Developing Asia	15.60%	-60.5%	6.7%
Transition Economies	**-38%**	**120.8%**	**31.8%**

Source: UNCTAD STAT

FDI FLOWS

Furthermore, analysis of net capital flows by region reveals that the Middle East & North African (MENA) region as well as the South American region portrayed consistent net FDI inflows over the period 2010-2015, unlike the EU, North America, and East Asia. As such, excluding another boost in M&A and corporate restructuring, net FDI flows reflect the fragility of the global economy, volatility of financial markets, weak aggregate demand, and economic slowdown in several emerging markets. Additionally, geopolitical risks and elevated regional tensions took their toll on capital expenditures hindering several economies.



Source: UNCTAD STAT, Bankmed Research

REMITTANCES AND CURRENT ACCOUNT BALANCE

According to the World Bank's Migration and Remittances Fact-book 2016, more than 250 million, equivalent to 3.4% of the world population, live outside their countries of birth.

Mexico–United States is the largest migration corridor in the world, followed by Russia–Ukraine, and Bangladesh–India. The United States is the top migrant-destination country in the world, followed by Saudi Arabia, Germany, and the Russian Federation. Nevertheless, the share of migrant workers from population is highest in Qatar (91%), the United Arab Emirates (88%) and Kuwait (72%).

The year 2015 witnessed a weak growth of inflow of remittances in the world affected by global economic slowdown and the appreciation of the US-dollar vis-à-vis other currencies. In developing economies, remittances increased at a mere 0.4% in 2015 – the lowest growth rate since 2010. A weaker Russian Ruble had a significant impact on the dollar value of remittances to Europe and Central Asia noting that a large share of remittances to Central Asia come from Russia. Moreover, the depreciation of the euro contributed to the 1% decline in the dollar value of remittances flows to the MENA region which reached USD 50.3 billion in 2015. It is important to note that the plunge in oil prices had also highly contributed to the slowdown of remittances flows amid a reduction in economic activity in oil-exporting countries, such as Russia and the GCC. Hereby, any acceleration of global remittance flows is driven by a boost in global economic activity and a stabilization of the US-dollar against exchange rates of remittance-source countries.

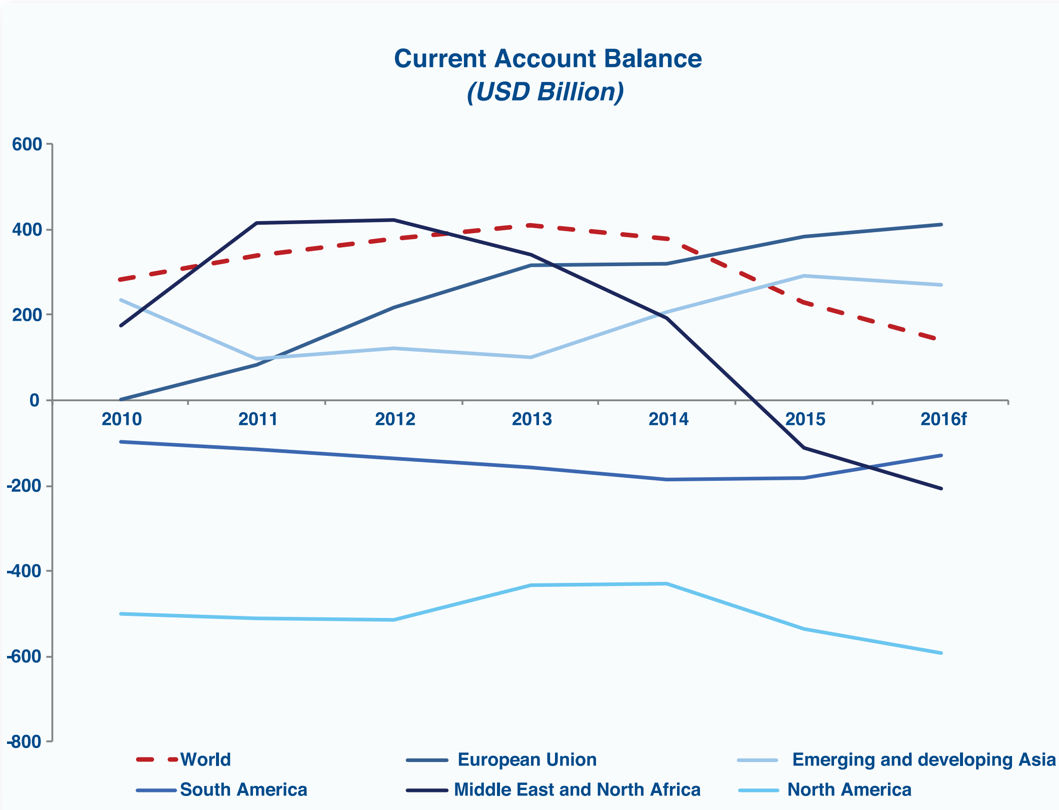
Furthermore, the MENA region witnessed a sharp fall in its current account balance as at mid-2014 when oil prices started to drop. Other regions maintained a steady current account surplus/deficit over the past years.

Inflows of Remittances

USD Billion	2013	2014	2015e
Developing Economies	**416.6**	**429.9**	**431.6**
% Change	*4.9%*	*3.2%*	*0.4%*
East Asia & the Pacific	**113.4**	**121.8**	**127.0**
% Change	*6.8%*	*7.4%*	*4.3%*
Europe & Central Asia	**47.7**	**43.4**	**34.6**
% Change	*18.4%*	*-9.0%*	*-20.3%*
Latin America & the Caribbean	**61.1**	**63.6**	**66.7**
% Change	*2.3%*	*4.1%*	*4.9%*
Middle East & North Africa	**48.8**	**50.8**	**50.3**
% Change	*0.8%*	*4.1%*	*-1.0%*
South Asia	**110.8**	**115.5**	**117.9**
% Change	*2.6%*	*4.2%*	*2.1%*
Sub-Saharan Africa	**34.7**	**34.8**	**35.2**
% Change	*1.1%*	*0.3%*	*1.1%*
World	**573.0**	**592.0**	**581.6**
% Change	*5.3%*	*3.3%*	*-1.8%*

Source: World Bank

REMITTANCES AND CURRENT ACCOUNT BALANCE

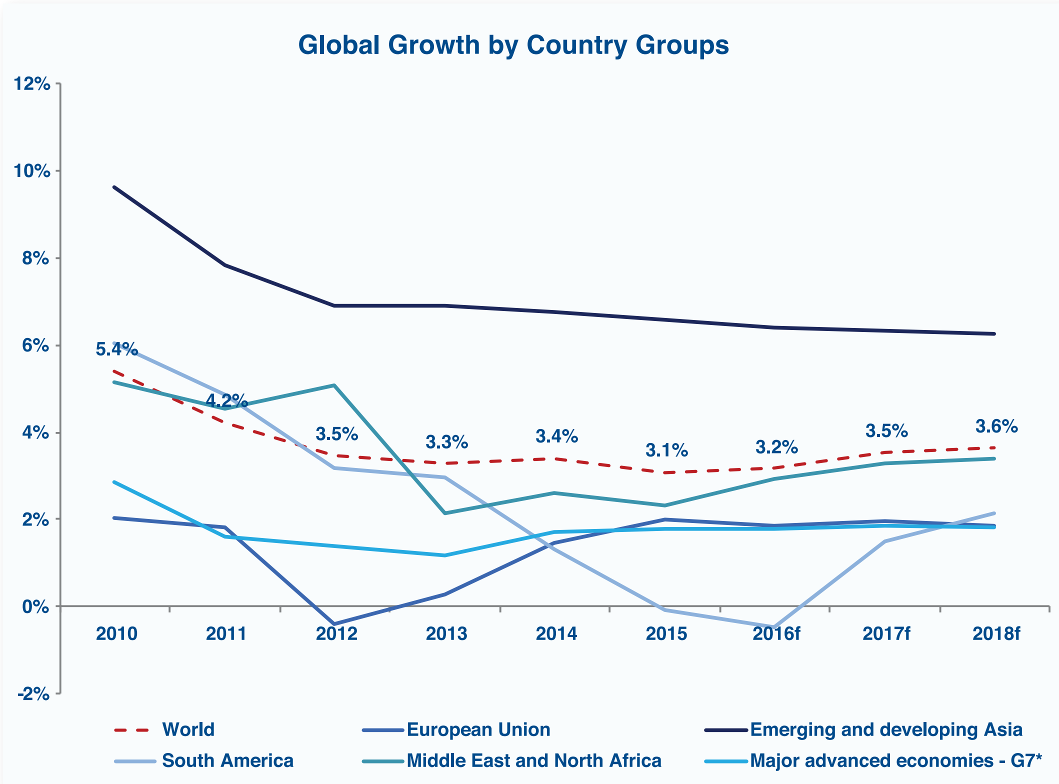


Source: IMF, Bankmed Research

GLOBAL GROWTH OUTLOOK

The extent of economic and political uncertainty has risen across all country groups, especially post to "BREXIT" and ahead of the US elections. As such, growth in major advanced economies shows relative stagnation. Moreover, growth in emerging and developing economies reveals a continued slowdown in real activity. The second highest economic growth is seen in the MENA region and is situated slightly below global growth.

As such, the slowdown in global growth in 2015 and the forecasted slight pick-up over the period 2016-18 reflect the slowdown in global trade amid the rebalancing of the Chinese economy – the world's leading exporter – and the weak growth in commodity exporter country groups.



Source: IMF

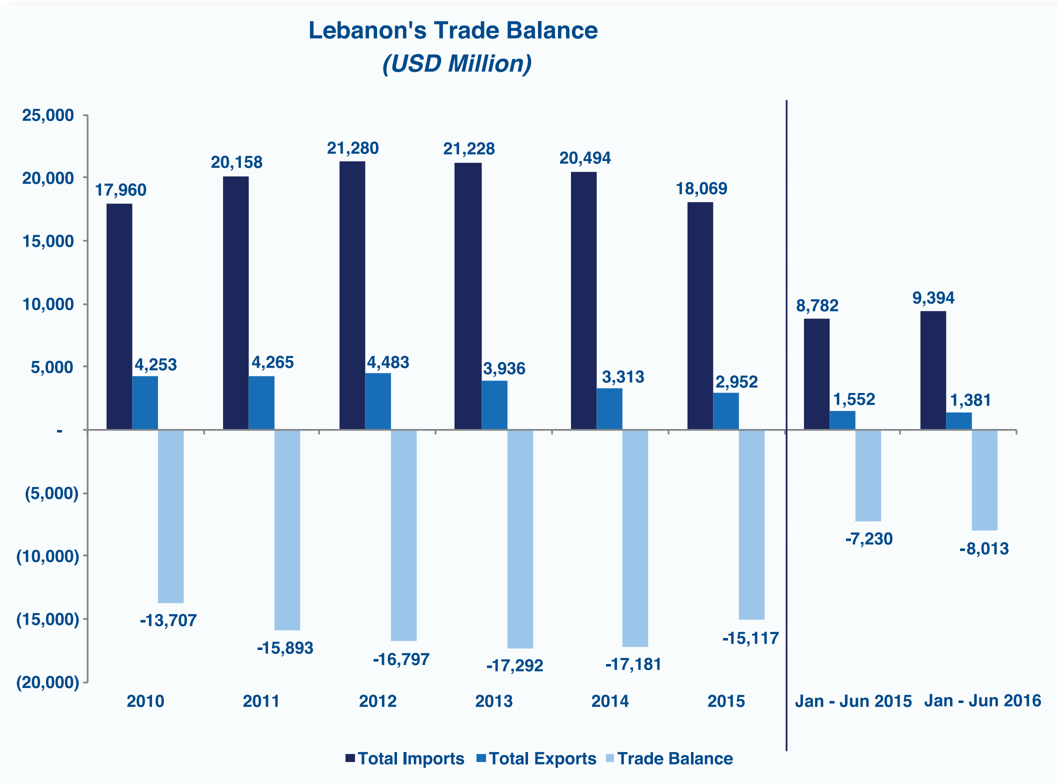
(*):G7 countries are United States, Canada, France, Germany, Italy, Japan, and the United Kingdom.

LEBANON'S TRADE SECTOR

Lebanon's strategic position within the MENA region and in the heart of the Arab World has long shaped its trade sector which constitutes a source of income and employment to its economy. Lebanon operates under a free trade system and a competitive market with a practical commercial approach. The country enjoys one of the lowest imposed import tariffs within the MENA region and benefits from favorable access of its export activities to international markets.

Lebanon is a member of the Greater Arab Free Trade Area (GAFTA) and is also a signatory of the Association Agreement with the European Union (EU). The numerous trade agreements signed with Arab countries and the EU provide Lebanese companies with the opportunity to enhance their economic integration within the region and access markets close to 800 million people.

Nonetheless, over the past five years, the overall trade in Lebanon has been experiencing a worsening deficit. Lebanon's trade has been largely impacted by the Syrian war since 2011 as most exports' and imports' trade routes have been closed, forcing the need for alternative trade routes which in turn resulted in an increased trade bill. Trade deficit recorded a total of USD 15,177 million in 2015 narrowing down by 12% from 2014 due to a decrease in the import bill as a result of lower oil prices and the depreciation of the currencies of Lebanon's major trading partners such as the European Union. Nevertheless, Lebanon's trade balance experienced a yearly 10.8% widening in the first half of 2016 to reach USD 8,013 million.

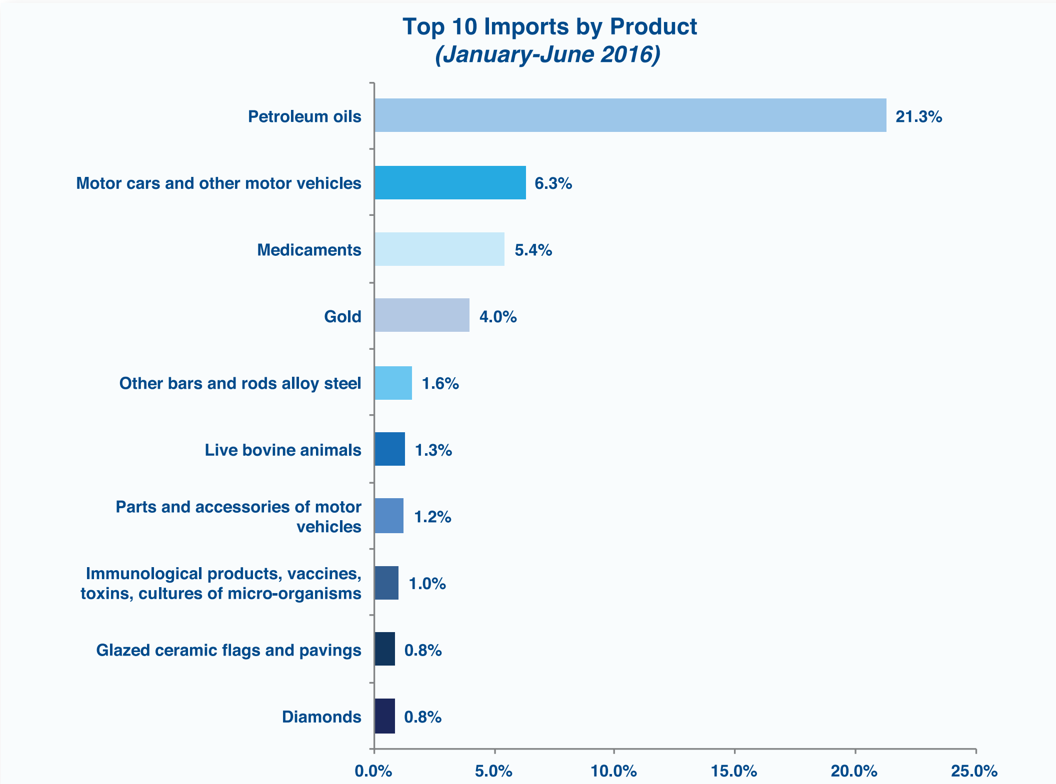


Source: Lebanese Customs, Bankmed Research

LEBANON'S TRADE SECTOR

Merchandise Imports

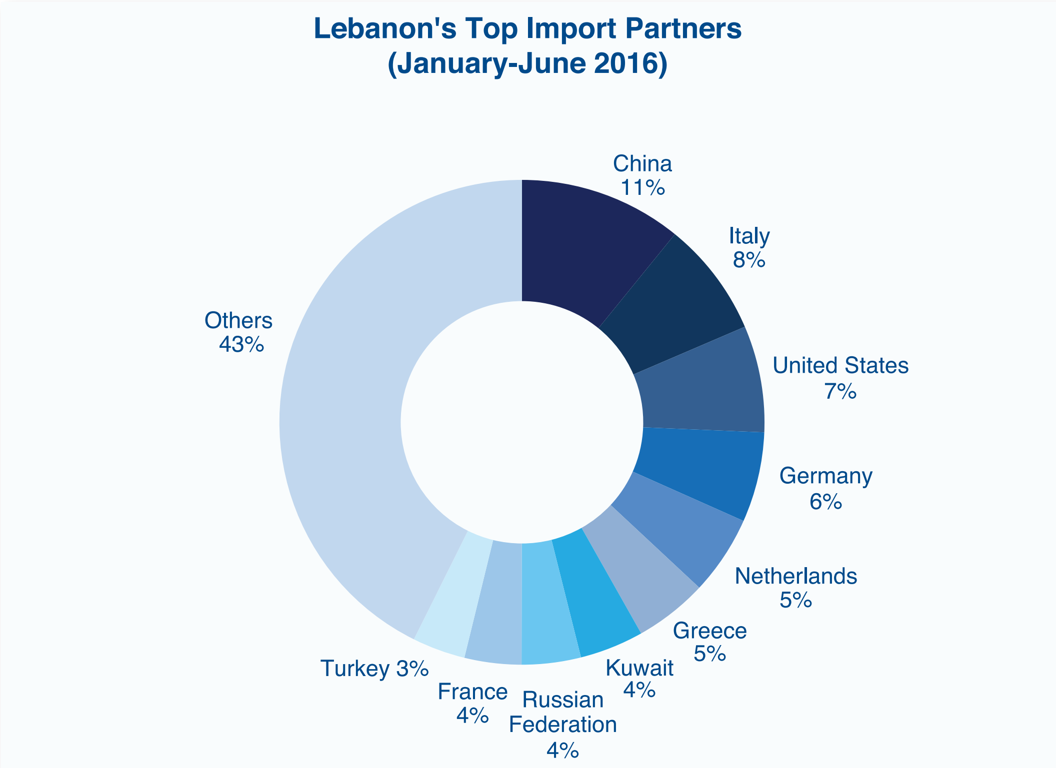
Characterized as a net importer, Lebanon’s import bill reached USD 18,069 million in 2015, dropping by a yearly 11.8%. The fall in Lebanon's import bill is attributed to the decline in oil prices as of mid-2014, since petroleum oils consist the majority of Lebanon’s imports (21.3%). They were followed by motor cars and vehicles (6.3%), medicaments (5.4%), and gold (4%).



Source: Lebanese Customs, Bankmed Research

LEBANON'S TRADE SECTOR

With regard to top imports by country, imports from China took the highest share with 11.8% of total imports. Chinese imports include machinery & electrical instruments, metal products, textiles, plastics and rubber. Italy came second with an 8% share, followed by US (7%), and Germany (6%).



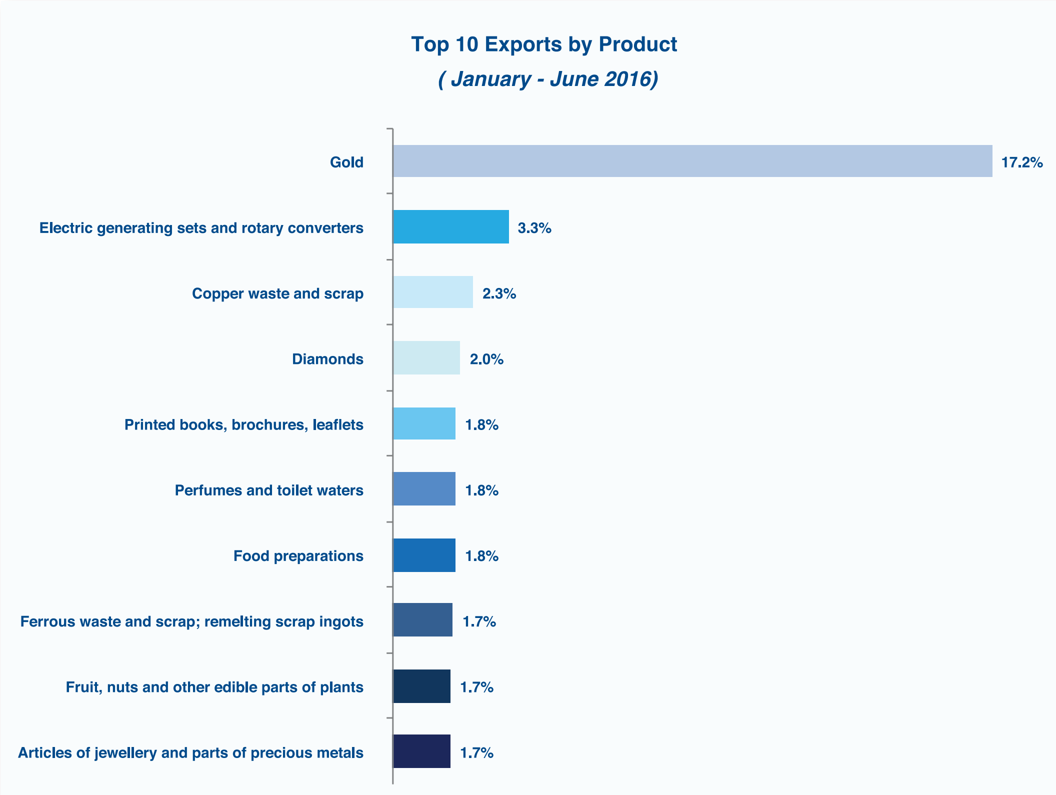
Source: Lebanese Customs, Bankmed Research

LEBANON'S TRADE SECTOR

Merchandise Exports

Lebanon's exports plunged over the last couple of years after the war in Syria aggrevated, reaching USD 2,952 million in 2015 down from USD 3,313 million in 2014 as Syria is the main window of Lebanese products to the Arab world and MENA region. Moreover, since the uprising of the Syrian conflict in early 2011, the value of Lebanese exports declined by more than 30%. What further contributed to this downturn is the fact that exports rely heavily on trade partners in war zones, such as Syria and Iraq. In addition, the lack of adequate natural resources and well-developed export industries also contributed to hindering exports.

Moreover, top Lebanese exports by product in the first half of 2016 included precious stones and metals like Gold and diamonds with a share of 17.2% and 2% of total exports, respectively. In addition, exports included electrical sets (3.3%) as well as printed books (1.8%), perfumeries (1.8%), and food preparations (1.8%).

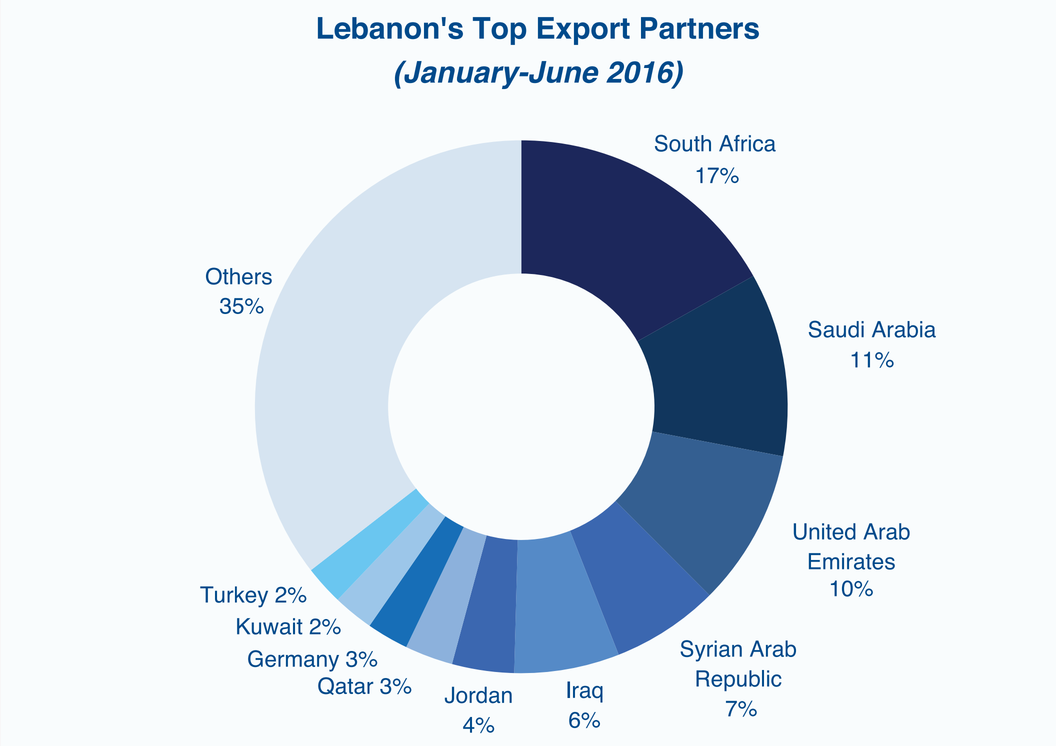


Source: Lebanese Customs, Bankmed Research

LEBANON'S TRADE SECTOR

Merchandise Exports

With regard to top exports by country, exports to South Africa took the lead with 17% in the first half of 2016 including exports of pearls and precious metals, vegetable products, textiles, and plastics and rubber. Moreover, Saudi Arabia remains one of the main trading partners with Lebanon with a share of 11% of total exports which include beverages and tobacco, machinery and electrical instruments, as well as vegetable products. Out of EU countries, exports to Germany took the highest share of 3% in the first half of 2016.

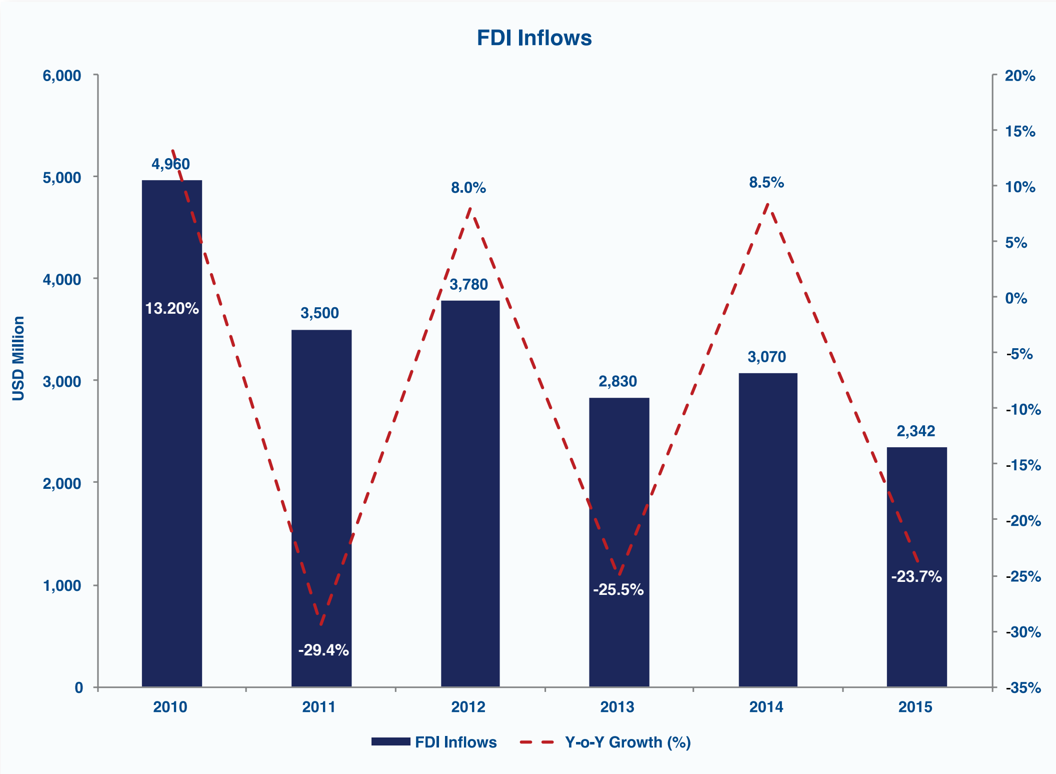


Source: Lebanese Customs, Bankmed Research

LEBANON'S TRADE SECTOR

FDI Inflows

Lebanon's FDI inflows fluctuated over the period 2010-2015 and declined by 23.7% in 2015 to reach USD 2,342 million – the lowest level since 2010. The reason behind this drop is attributed to the political and security instability within the region coupled with the political stalemate in Lebanon and other security challenges in the country. .

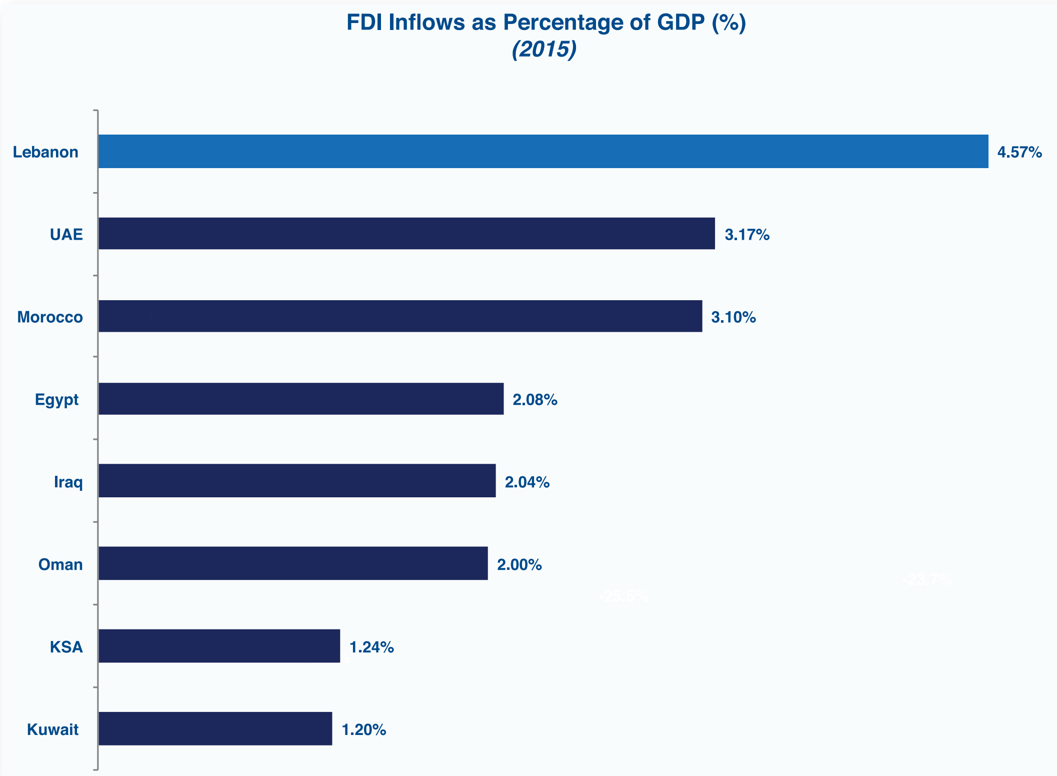


Source: World Bank,, UNCTAD STAT, Bankmed Research

LEBANON'S TRADE SECTOR

FDI Inflows

However, despite these challenges, Lebanon remains on top of the list with respect to the share of FDI inflows to GDP within the MENA region, standing at 4.75% in 2015. Lebanon is ahead of the United Arab Emirates (UAE) with FDI inflows accounting for 3.17% of GDP. As such, Lebanon is considered one of the largest non-oil economies recipient of FDI.



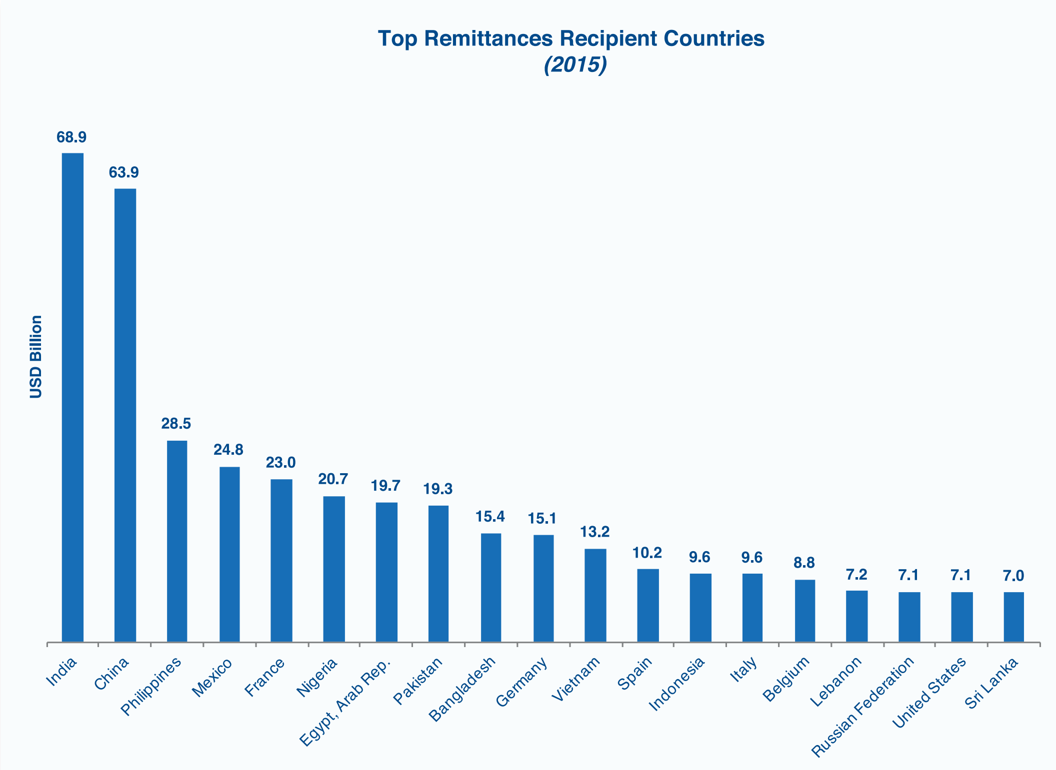
Source: World Bank, UNCTAD STAT, Bankmed Research

LEBANON'S TRADE SECTOR

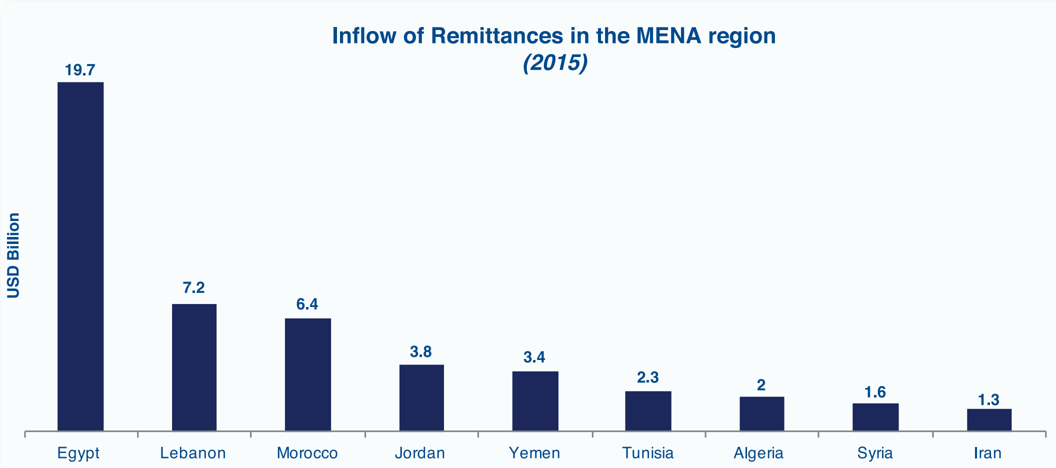
Remittances

Lebanon has long been dependent on inflow of remittances to finance expatriates' families and to fund the Lebanese banking sector. Inflow of remittances amounted to USD 7,163 million in 2015, coming ahead of Russia, United States, and Sri Lanka. Globally, Lebanon ranked in 16th position and is considered one of the top remittances recipient economies.

Regionally, inflow of remittances to Lebanon came second after Egypt in 2015 and ahead of Morocco, Jordan, and Yemen.



Source: World Bank, Bankmed Research

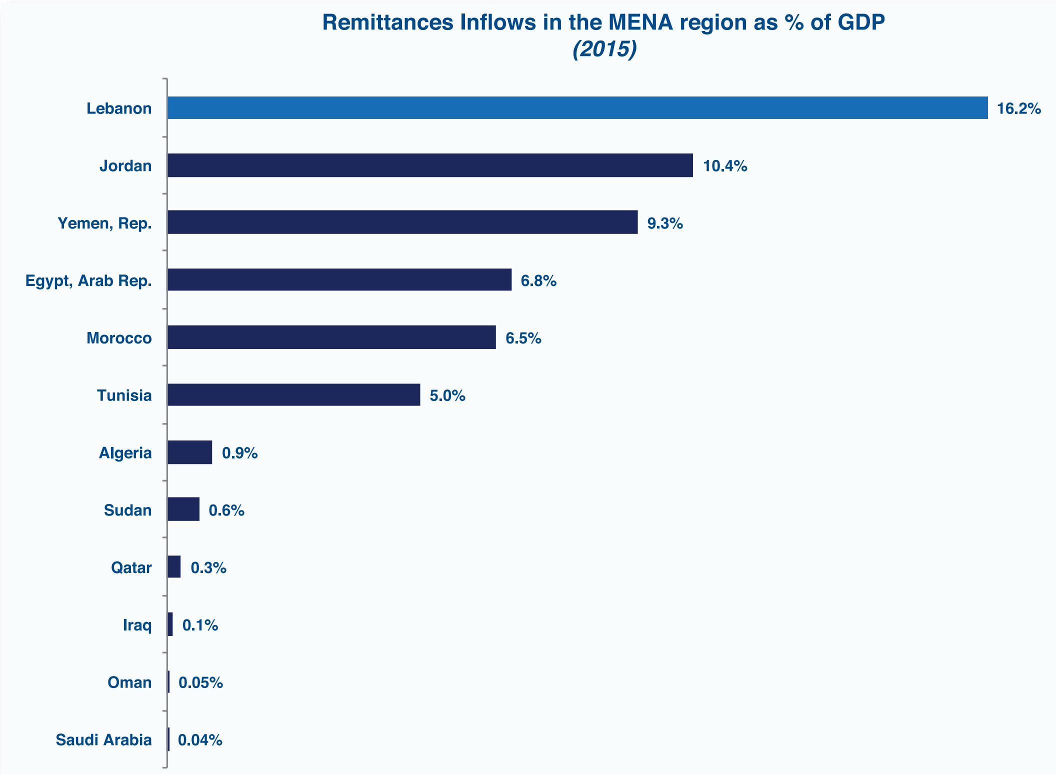


Source: World Bank, Bankmed Research

LEBANON'S TRADE SECTOR

Remittances

Furthermore, with regard to the relative size of the economy, the share of remittances inflows to Lebanon accounted for 16.2% of GDP in 2015, the highest among Arab Countries.

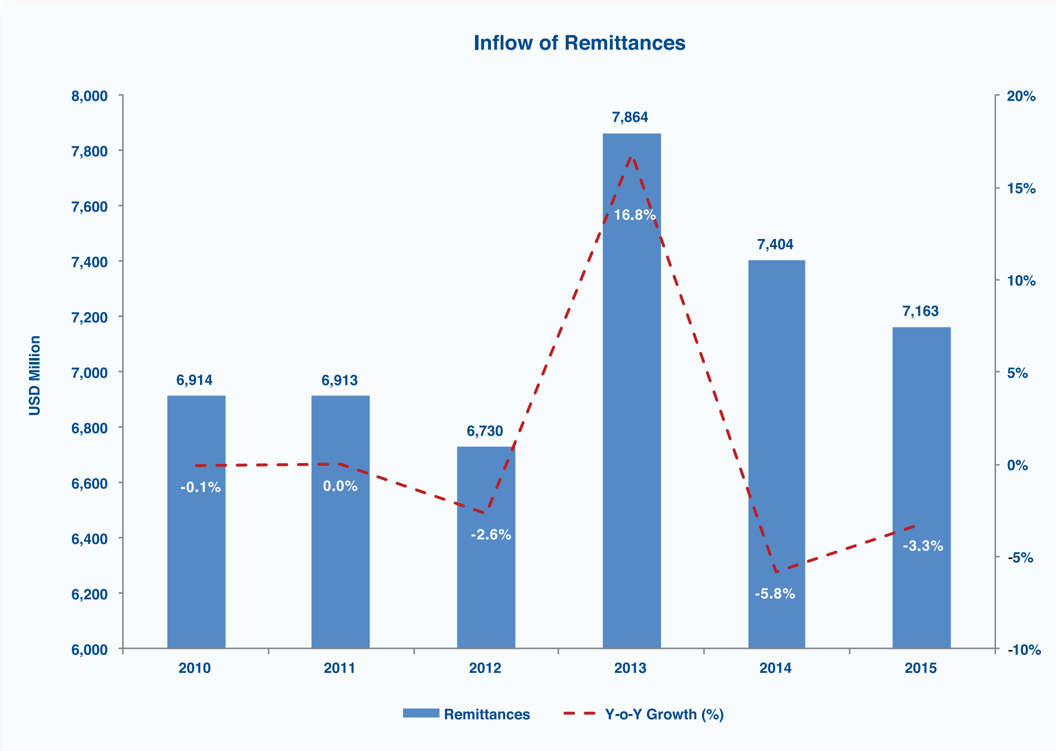


Source: World Bank

LEBANON'S TRADE SECTOR

Remittances

Nevertheless, it is essential to note that the growth of remittances has slowed down since 2014 and further decreased by a yearly 3.3% in 2015. Geopolitical tensions in the region and lower oil prices in the GCC have weighed a toll on the inflows of remittances to Lebanon and negatively impacted the incomes of Lebanese expatriates working in the gulf region.

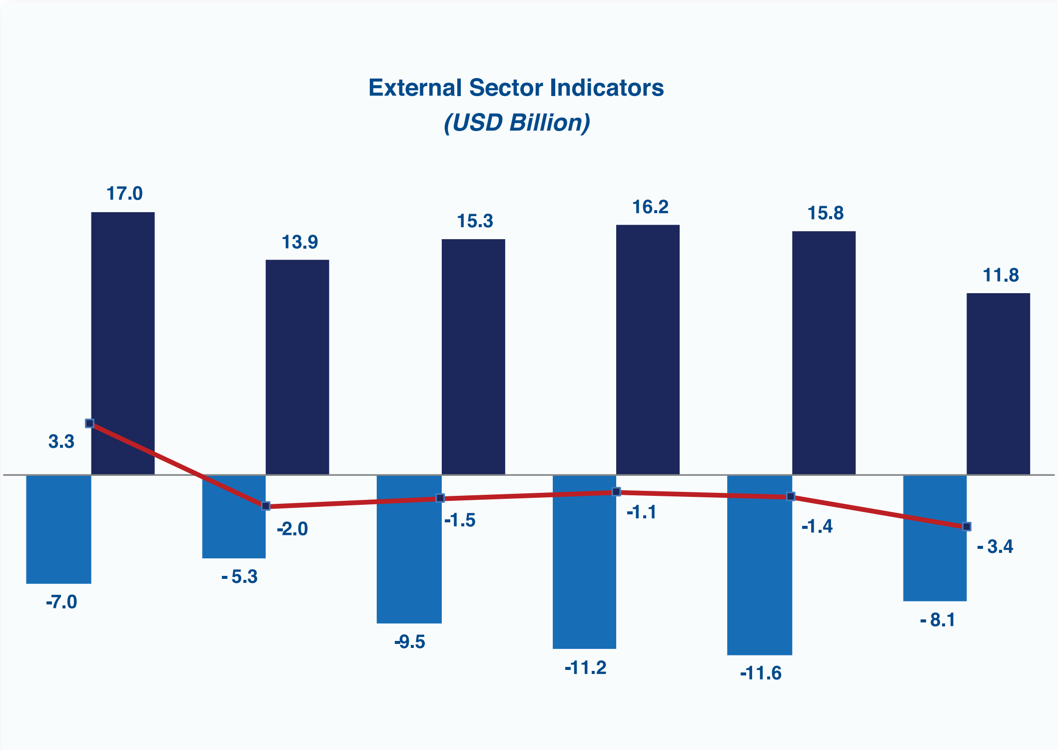


Source: World Bank, Bankmed Research

LEBANON'S TRADE SECTOR

External Sector Indicators

In 2015, Lebanon recorded a current account deficit of USD 8.1 billion narrowing down by a yearly 30% . On the other hand, the balance of payments deficit increased by more than a yearly 140% amid lower net capital flows. Lebanon has enjoyed positive net capital flows over the years reaching USD 11.8 billion in 2015, declining by a yearly 25% from USD 15.8 billion in 2014.



Source: BDL, Lebanese Customs, Bankmed Research

LEBANON'S TRADE SECTOR

Trade and Investment Risk Score

In order to have a comparative regional ranking evaluation, the BMI Trade and Investment Risk Index Score is measured. It is calculated using an average of the following three sub-components scores:

- Economic Openness
- Government Intervention
- Legal

The individual categories and sub-categories are scored out of 100, with 100 indicating lowest risk for trade and investment in a country.

According to the latest 2016 results of the BMI Trade and Investment Risk Index, Lebanon received a modest score of 52.6 out of 100 and positioned itself above the calculated MENA average of 48.8 out of 100, ranking in 11th position out of 19 countries within the MENA region and 91st out of 201 countries globally.

	Economic Openness	Government Intervention	Legal	Trade & Investmen Risk Score
Lebanon Score	65.1	63.1	29.6	52.6
MENA Average	49.6	49.1	47.7	48.8
MENA Position (Out of 19)	3	4	18	11
Global Position (Out of 201)	41	42	166	91

Source: BMI

In terms of economic openness and government intervention, Lebanon received high scores and positioned itself ahead of the MENA average indicating that the Lebanese government operates under laws and regulations favorable to investments by offering:

- Free market economy and liberal financial environment which helps promote FDI
- Low corporate tax rates which acts as an incentive for foreign investors
- High degree of freedom with regard to access to loans and international financial markets

However, Lebanon received a low score relative to the MENA region in terms of legal reinforcement, where the system provides little protection for intellectual properties in addition to burdensome bureaucratic procedures, forcing investors to face high trade and investment risks.

LEBANON'S TRADE SECTOR

Swot Analysis - Lebanon's Trade Sector

Lebanon remains one of the major countries within the MENA region that is open to trade and welcoming to foreign investors. However, Lebanon faces some domestic and regional challenges that are deterring foreign investment over the medium term. Nevertheless, an end to the Syrian war would alleviate Lebanon's strain on infrastructure and services, especially with the return of the Syrian refugees to their home-country. In addition, positive political developments in Lebanon shall leave room for government budgeting towards improving the overall trade and investment climate.

SWOT Analysis: Lebanon Trade Sector

Strengths	Weaknesses
- Free market economy and an open policy towards foreign investment - The banking sector is relatively well developed and capital flows for foreign firms are facilitated by presence of international banks. - Corporate tax rate and interest income tax are low on a global comparison, reducing overall costs.	- The understaffed and overburdened judiciary is unable to efficiently resolve contractual disputes, leading to delays and losses for investors seeking legal course. - Lack of public sector reforms which complicates business deals - Considerable layers of bureacratic processes
Opportunities	**Threats**
- Lebanon is one of the more open economies in the MENA region and the government offers a number of incentives in priority development sectors. - The country boasts historically high FDI inflows and the presence of multi-national firms indicated that procedures are in place to govern foreign investment. - The government is making continued progress towards improving e-services, which will boost bureaucratic efficiency.	- The ongoing civil war in neighbouring Syria is severely hindering political progress and economic growth in Lebanon. - Trade volumes will be restricted due to the lack of demand in major export markets - namely war-torn Syria and Iraq and limited alternative trade routes. - The weak enforcement of intellectual property rights will deter investors in key sectors identified for foreign investment, including IT and healthcare.

Source: BMI, Bankmed Research

CONCLUSION

In conclusion, favorable economic environments and stable geopolitical climates remain the primary boosters of global trade, enhancing global economic integration and positively impacting economic growth across regions.

In the case of Lebanon, the recent drop in oil prices did relieve its trade and current account deficits, but the tension posed by the political and economic instability within the MENA region have weighed on foreign investment and net capital flows affecting its balance of payments. Lebanon remains a country with high degree of economic openness and will benefit from many growth opportunities once the war in neighboring Syria ends.