



*The most common metric used to measure or assess the size and health of an economy is the Gross Domestic Product or GDP. According to the expenditure approach,  $GDP = C+I+G+NX$ , where  $C$  represents consumption;  $I$ , Investments by businesses;  $G$ , Government spending;  $NX$ , Net Exports of goods & non-factor services.*

*This report aims to explore the “NX” of traded goods. It uses the latest figures provided by the Lebanese Customs to delineate as accurately as possible the performance of Lebanon’s external sector. Therefore, it traces and assesses the trade activity witnessed between the country and the rest of the world (ROW), highlighting the value and volume of top import/export products, their sub-components, and Lebanon’s main trade partners this year.*

*The study then concludes with a call for action to reduce Lebanon’s import (oil) bill and encourage domestic industries, which can revitalize the business cycle and spur sustainable growth within a self-sufficient economy on the long-run.*

*Last but not least, the report sheds the light on the Lebanese Customs as a game changer whose regulations and revenues can assist the government in securing revenues and protecting local produce from foreign competition.*

### 2017 Headwinds and Lebanon’s Trade Deficit

Lebanon’s import bill was inflated owing it to the bullish trend of oil prices that raised the price of a barrel of oil by a yearly 21.29% to \$54.74 by the end of 2017. Meanwhile, the value of exports retreated while their volume increased. In fact, the lower value of exports was a result of external developments afflicting the economies of KSA and South Africa (two of Lebanon’s top export destinations), but exports’ volume was partially supported by the improved activity in the customs offices near the Syrian border. Moreover, the yearly 6.33% contraction in BLOM INVEST’s calculated Nominal Effective Exchange Rate (NEER) reflected an annual depreciation of the US dollar vis-à-vis a basket of currencies, including trade partners’. However, the depreciation impact was minimal, noting that the currencies of Lebanon’s top trade partners are similarly pegged to the dollar.

**Against this backdrop, Lebanon’s trade deficit registered an uptick of 2.98% year-on-year (y-o-y) to reach \$16.21B by the end of 2017.** Inflated imports and the developments in exports fueled the trade deficit, thereby shrinking the exports to imports ratio by 6.55% y-o-y to 14.84% in 2017.

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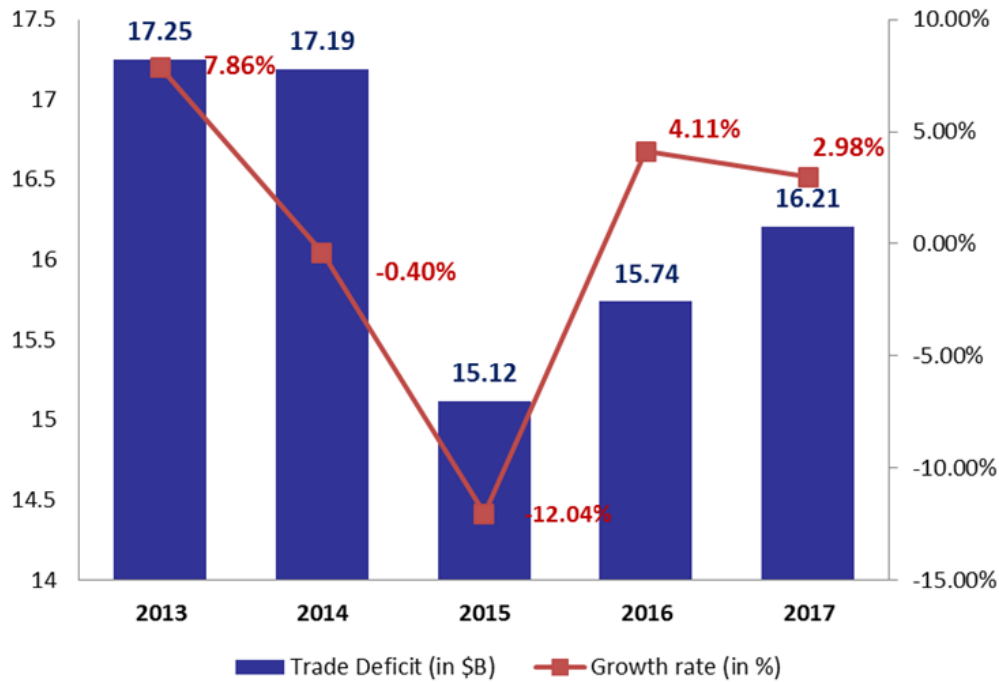
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In details, Lebanon imported \$19.03B worth of foreign products in 2017, up by 1.72% compared to 2016's. Meanwhile, Lebanon's value of exported products narrowed by an annual 4.94%, to stand at \$2.82B by the end of the year.

**Yearly Evolution of the Trade Deficit**



Source: BLOMInvest Bank; Lebanese Customs

## Top Imports

2017 most imported product was **Mineral products** (grasping 62.33% of Lebanon's total imports) whose value climbed from \$3.74B in 2016 to \$7.85B in 2017. In fact, the value of "mineral fuels, oils and their products" (98.76% of total mineral products) more than doubled on the back of the 21.29% surge in the price of Brent Crude oil that ended 2017 at \$54.74 per barrel. Moreover, from a quantity perspective, the volume climbed from 7.68M tons in 2016 to 16.02M tons. This is mainly because the VAT would stand at 11% starting Jan. 2018, so importers rushed to secure the imports of oil at a VAT of 10% by end 2017. In addition, Lebanon's reliance on imported mineral fuels also grew with EDL's increased consumption of fuel oil, especially in August 2017 when the quantity of imported fuel oil rose by 27.8% and the reimbursements to KPC and Sonatrach gas producers shot up by 63.7%.

It is interesting to note that while Lebanon's bulk of mineral products were imported from Greece, Kuwait and Russia in previous years, the USA this year was the lead supplier, constituting 38.4% of Lebanon's imported mineral products, while 16.16% and 10.11% of mineral goods were imported from Greece and Italy, respectively.

**Products of the chemical or allied industries** ranked second with a stake of 16.96% of total imports. The value of these augmented by 5.19% y-o-y to stand at \$2.19B, owing it to the 4.28% annual increase in volume to 535,260 tons in 2017. In details, "pharmaceutical products" (60.32% of total imported chemicals) drove the rise in chemicals, growing by an annual 6.61% to \$1.29B while their volume

marginally rose by 0.61% y-o-y. Therefore, the higher value in 2017 may be a result of, “*the cost of health [which is] generally high in terms of drug pricing*”, as per Business Monitor International’s (BMI’s) Q1 2018 Lebanon report on pharmaceuticals. In its turn, the “cosmetics” sub component (constituting 11.36%) gauged chemical products further, amplifying by 5.71% y-o-y to \$242.53M on the back of a 10.5% uptick in volume to 28,385 tons in 2017.

Germany, France, and the USA were respectively the largest suppliers of chemical products to Lebanon, grasping shares of 14.06%, 12.21%, and 9.33%, respectively.

In turn, the value and volume of **Machinery and electrical instruments** (constituting 15.36% of imports) both climbed by 2.66% and 2.3% y-o-y to \$1.93B and 259,609 tons, respectively, in 2017. In fact, machineries for manufacturing (59.6% of machinery and equipment) drove the total rise in value, adding a yearly 4.9% while the value of household equipment remained almost stable. Nonetheless, the volumes of both types of machinery grew such that manufacturing machineries gained an annual 2.4% to 171,522 tons mainly attributed to the slightly improved investment by private businesses.

The average PMI for 2017 actually stood at 46.6, up from the 45.7 in 2016, which spurred some optimism and improved growth prospects in the Lebanese market. Meanwhile, the volume of household equipment registered a 2.1% yearly uptick to stand at 167,492 tons over the year. In terms of trade partners, China remained the top exporter of electrical machinery with 46.4% of total machinery and equipment during the year. Imports from Italy and Germany followed, each grasping 14.7% and 11.4%, respectively.

Moreover, total new cars’ registration (commercial and passenger) in 2017 witnessed its first “*upward correction*” as per the Association of Lebanese Car Importers (AIA). This boosted the value of **Vehicles, aircraft, vessels, transport equipment** (grasping a stake of 14.96% of imports) by a yearly 6.1% to \$1.88B. Likewise, their volume climbed by an annual 6.9% to 257,282 tons, owing it to total cars adding 2.54% y-o-y, to 39,863 cars by end 2017. However, the AIA emphasizes that the growth was concentrated among low-cost car brands, and it is important to note that total imported cars include both, used and new cars; yet, the latter figures were used until the end-of-year figure of total imported cars is available.

In details, 97.54% of the Vehicles, aircraft, vessels, transport equipment component consisted of “cars and their parts”, which rose by 6.02% y-o-y to \$1.84B and by 6.85% to 252,404 tons. As for Lebanon’s top vehicle exporters, they were mainly Germany (which exported 25.18%), the United States (19.21%), and Japan (14.15%).

### ***Lebanon's Main Imports Come from: (in terms of value)***

Country	Share of Total Imports	Key Products
USA	17.31%	75% are Mineral products or oil; 9% are Cars
China	8.12%	32% machinery; 12% Base Metals
Italy	7.65%	45% oils; 11% manufacturing machinery
Greece	5.93%	92% minerals (oil)
Germany	5.31%	39% cars; 24% chemicals mainly pharmaceuticals
France	4.09%	28% chemicals mainly pharmaceutical; 21% oils.

*Source: BLOMInvest Bank; Lebanese Customs*

## Top Exports

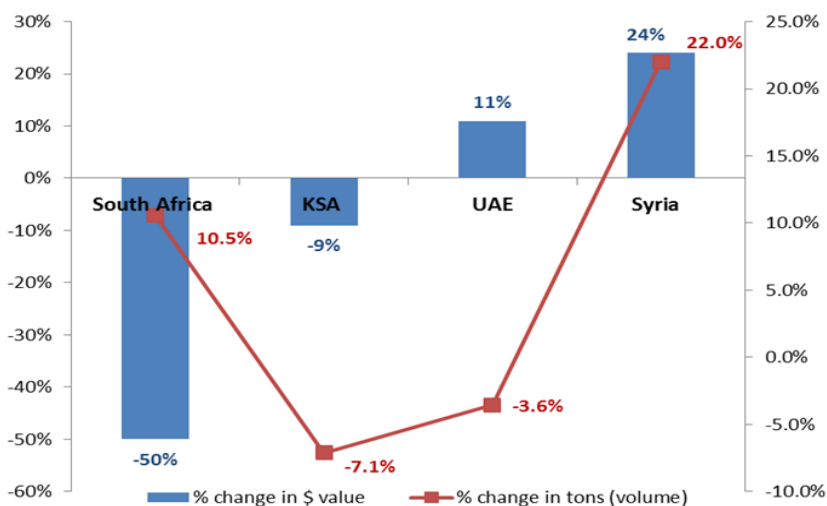
**The value of Lebanese exports in 2017 dropped, but their volume rose as activity in the customs offices near the Syrian borders added.** According to the Customs, Lebanese exports in 2017 lost 4.47% y-o-y in value to settle at \$2.84B, while their volumes gained 16.10% to reach 2.02M tons. The higher volume of exports recorded may be attributed to the gradual, steady regaining of activity in the customs offices located near the Syrian border. As a matter of fact, the volume and value of total exports through Al “Masnaa” customs office recorded annual upticks of 27.16% and 26.23%, totaling 112,500 tons worth \$126.55M in 2017, given the office’s renowned importance for land trading. Meanwhile, the breakdown of transported goods by customs’ office in 2017 also revealed that the Port of Beirut continued to act as an alternative trade route attracting 77% (or 21.3M tons) of imports worth \$17.72B and 51% (or 975,896 tons) of total exports valued at \$1.45M.

**The volume of exports to most top trade partners remained relatively strong.** Despite Lebanon’s improved trade activity near the Syrian border in 2017, and the NEER contracting by an annual 6.33% thereby reflecting a depreciation of the US dollar vis-à-vis the basket of currencies, the volume of Lebanese exports remained high. This may be attributed to the fact that the Lebanon’s main trade partners are Arabs whose currencies are also pegged to the dollar.

### Lebanon Mainly Exports to: (in terms of value)

Country	Share of Total Exports	Key Products
South Africa	11.08%	99% pearls, precious, and semi-precious stones
UAE	9.34%	33% pearls; 20% chemicals (perfumes & cosmetics)
Syria	8.66%	33% prepared foodstuffs (sugars/confectionary); 19% plastics
KSA	8.55%	24% foodstuffs; 15% chemicals (perfumes and cosmetics)
Iraq	6.05%	30% chemicals (perfumes and cosmetics)
Switzerland	4.70%	94% pearls

### Yearly Evolution of Exports to Lebanon's Top 4 Destinations



*Source: BLOMInvest Bank; Lebanese Customs*

Indeed, the volume of exports to Syria and Iraq jumped over the year by 22% and 5.22% y-o-y to 315,353 tons and 87,136 tons, respectively. The UAE recorded a 3.6% slowdown in volume of exports, yet it maintained its yearly 5% share (in terms of volume) of Lebanese goods in 2017, buying 90,285 tons.

**Nonetheless, the decline in the value of exports this year was a result of national disruptions in two of Lebanon's top export destinations: South Africa and the KSA.** In fact, total exports to the "KSA" and "South Africa" contracted on the back of the countries' respective national disruptions. South Africa and the KSA, grasping 11.08% and 8.55% of total Lebanese exports, witnessed yearly declines of 50% and 9% in the value of exports to stand at \$315.09M and \$243.16M, respectively. In the KSA, the developments mainly on the political and economic scenes reduced the country's trade activity, leaving the volume of Lebanese exports to slide by 7.1% y-o-y to 130,077 tons in 2017. Whereas in South Africa, the volume remained high, up by a yearly 10.5%. Nevertheless, the country faced a drought that reached "disastrous highs" in 2017, which may have impacted prices and thus its trade activity.

The top exported products of 2017 ranked as follows: Pearls and precious stones, followed by Prepared foodstuffs, Base metals and articles of base metals and Products of the chemicals -all of which recorded upticks in value except for the Pearls component.

In details, Gold faced several headwinds this year and gold prices concluded 2017 marginally rising by 0.84% y-o-y to \$1,258.5 per ounce. As such, **Pearls, precious stones, and metals** (20.75% of total exports) plunged by 29.26% y-o-y to \$586M in 2017 even though their volume rose from 69 tons in 2016 to 90 tons by end 2017. This can be explained by the 40% and 38.8% annual slumps recorded in the volume and value of "gold exports" (composing 73% of exported pearls and precious stones), to respectively settle at 12 tons worth \$429.74M by end 2017.

Lebanon's main exporting markets for Pearls, precious stones and metals this year were South Africa (53%), Switzerland (21%), and the United Arab Emirates (15%).

As for **Prepared foodstuffs, beverages and tobacco**, they ranked second, constituting 16.22% of the exported goods' value and recorded a growth of 2.83% y-o-y to \$458.17M by Dec. 2017. Nonetheless, their volume slid by a marginal 0.5% y-o-y to 349,067 tons. In details, the volume and value of "prepared vegetables, fruits and nuts" (constituting 24% of prepared foodstuffs) went down by 5.15% and 0.24% y-o-y, respectively. In terms of its export markets, Lebanon exported 18% of Foodstuffs to Syria, 13% to Saudi Arabia, and 8% to Iraq.

In their turn, **Base metals and articles of base metal** (12.05% of total exports) ranked as third most exported product, increasing from \$253.19M in 2016 to \$340.29M in 2017 with their volume also adding 51% to 500,037 tons by end 2017. "Iron and Steel", the main sub-component with a share of 31%, drove the rise in exported base metals as it surged in value by 95.76% to \$104.4M. This was fueled by a 61.44% rise in volume to 403,266 tons and the price effect of the average spot price of Rebar steel 25mm. This last grew from \$481 in 2016 to \$693 in 2017. Similarly, "Copper and articles" (with a stake of 24%) was the second largest component of base metals and recorded a 14.53% y-o-y uptick in value to \$83.08M on the back of a 14.65% increase in volume to end 2017 with 23,412 tons exported. Lebanon therefore exported 29% are exported to Turkey, 16% to the Republic of Korea, and 4% to each of Greece and China.

Lastly, Lebanon's performance in **Products of the chemicals or allied industries** (11.35% of total exports) reflected an exported volume that added 28.48% y-o-y to 298,506 tons. The value of these chemicals reached \$320.5M in 2017, up by 7.43% compared to 2016's level. Even though the value of the sub component "Essential oils, perfumes and cosmetics" (39% of total chemical products) witnessed only an incremental 0.97% y-o-y improvement to \$124.83M, "fertilizers" (16% of chemicals) actually grew in value and volume by 70.02% y-o-y and 51.62% y-o-y to \$50.51M and 187,698 tons, respectively.

The main importers of Lebanese chemical products are United Arab Emirates and Iraq (16% each) and KSA (11.31%).

### Call for Action: Lebanon's Trade Potential

The performance of the Lebanese external sector reflected in 2017 was hampered by a growing oil bill that weighed down on the trade deficit as the price of the commodity surged. Meanwhile, exports shrank in value due to external headwinds particularly in top export destinations; however, the volume of exports showed these performed well in 2017. The performance of the overall external sector though remained weak and below its true potential. From here, the local authorities can largely contribute to internally improve trade activity.

**For instance, Lebanon's import bill may be reduced by slashing hydrocarbon imports when the oil and gas excavations materialize.** Negotiations are currently ongoing regarding excavation plans of oil and gas in Lebanon. This can constitute a breakthrough for the trade activity, especially noting that total oil imports this year amounted to approximately 18M tons worth \$7.85B. Hence, lowering Lebanon's oil imports can also positively impact the current account, as local production would be less expensive and less volatile on the long run.

**The government may also slash the trade deficit by creating opportunities for local market players to boost production and thus exported goods.** This action plan entails the local encouragement of local products and offering them domestic businesses incentives/facilities to invest, produce, expand, and ultimately export their agricultural, industrial, and food productions. The government may further help identify the sectors in which Lebanon has the most potential vis-à-vis its skilled labour and know-how. These sectors can therefore begin to complement the contribution of real estate, construction, and tourism to Lebanon's GDP and help revitalize the business cycle to spur sustainable growth within a self-sufficient economy over the long-run.

**Another suggestion would be to impose quotas or raise tariffs on imported goods.** By doing so, products that are locally produced would be preferred by local customers, thereby encouraging the local production.

**Moreover, Lebanon could benefit from the reconstruction in Syria.** Syria, Lebanon's neighbour and partner, is currently revitalizing its economy which would offer Lebanon a crucial and prime role to contribute to its reconstruction and be actively involved, utilizing its own talent and know-how which would albeit benefit the Lebanese economy.

**Last but not least, the role of the Lebanese Customs can be crucial and a game changer.** The entity's order, discipline, in addition to its governing regulations and profits can assist the government in securing public revenues and ensuring the vigilance in trade activities protects the local produce from foreign competition.

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