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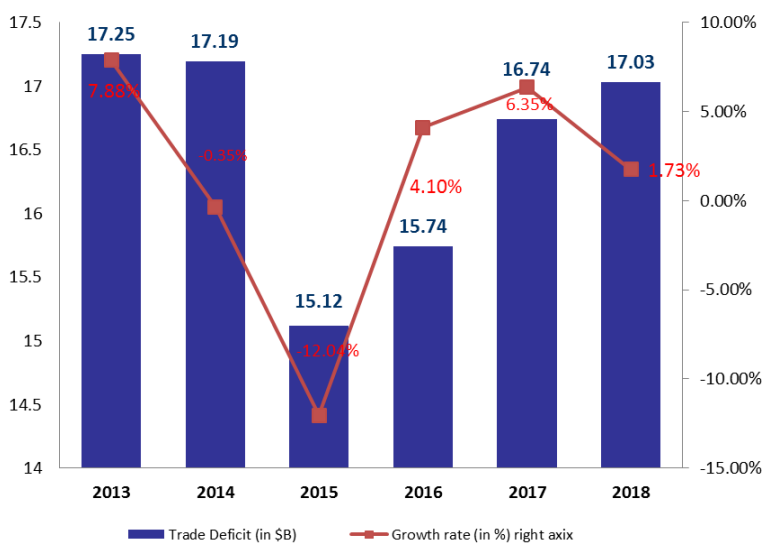
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Lebanon's economy is heavily based on consumption and since the main supply-side sectors of the economy such as real estate, trade, and public administration do not produce the consumption goods in demand, the goods needed are therefore imported which lead to the important current account deficit. In fact, Lebanon's trade deficit registered an increase of 1.73% year-on-year (y-o-y) to reach \$17.03B by the end of 2018. Although exports grew by a yearly 3.83% to stand at \$2.95B by the end of the year, the wider deficit came as a result of a 2.03% yearly increase in the value of imports to \$19.98B. Worth mentioning that the volume of imports declined yearly by 16.44% to reach 15.85M tons by the end of 2018. The rise in the total value of import can be linked first to the yearly appreciation of the Euro against the dollar (4.51% by 2018) since more than 50% of Lebanese imports are of European origin and to the 28.34% yearly rise in average oil price to \$71.69 per barrel in 2018. Moreover, the exports to imports ratio stood at 14.8% by December 2018, compared to 14.52% in the previous year, mainly as a result of exports increasing at a faster pace than imports.

Yearly Evolution of the Trade Deficit



Source: BLOMInvest Bank; Lebanese Customs

Lebanon remained highly dependent on imported goods, yet the degree of reliance seemed to be reduced. In fact, the import penetration rate decreased from 27.61% in 2017 to 27.10% this year. The decrease in import penetration¹ rate in 2018 is mainly reflecting a softening domestic demand especially with the decline in the volume of total imports. This could be due to a marginal substitution on the local market in favor of Lebanese products on the expense of imports.

In terms of imports, mineral products continued on leading the list of the most imported products (grasping 20.86% of the total) as it remains on being a vital necessity of households as well as manufacturing firms. Its value decreased by 3.08% to settle at \$4.17B in 2018. In details, the value of "mineral fuels, oils and their products" (97.56% of total mineral products) declined by 3.3% to reach 4.06B in 2018. In fact, Lebanese importers rushed to secure the imports of oil at a VAT of 10% by end 2017, instead of the new 11% in 2018, accompanied with the increase in average oil prices in the 2018, the quantity of "mineral fuels, oils and their products" imported dropped yearly by 27.72% to 6.56M tons by 2018. Lebanon's main suppliers of mineral products 2018 were Greece (38.73%), Italy (14.11%), and US (10.68%).

"Machinery and electric instruments" (11.62% of imported products) came in the second place and witnessed an important rise by 20.05% to \$2.32B by the end of 2018, noting that its volume declined by 5.82%. This section is mainly divided into 2 main components: "Nuclear reactors, boilers, machinery", and "Electrical machinery and equipment". These components recorded a 6.8% and 39.5% y-o-y increase to \$1.23B and \$1.09B, respectively. 34.24% of machinery was imported from China, followed by 9.30% from Italy, and 6.97% from Germany.

"Products of the chemical or allied industries" ranked third with a stake of 11.07% of total imports. The value of these grew by 3.63% year-on-year (y-o-y) to stand at \$2.21B, although its volume decreased by 4.01% to 506,809 tons in 2018. In details, "Pharmaceutical products" (60.07% of total imported chemicals) drove the rise in chemicals, growing by an annual 3.2% to \$1.33B while their volume shrank by 2.39% y-o-y. In its turn, the "Essential oils; perfumery, cosmetic" sub component (constituting 11.49%) boosted chemical products further, growing by 4.9% y-o-y to \$254.33M. Germany, France and USA were respectively the largest suppliers of chemical products to Lebanon, grasping shares of 14.28%, 11.09%, and 9.13%, respectively.

"Vehicles, aircraft, vessels, transport equipment" are considered to be cyclical industries and sensitive to business cycles, their revenues are therefore lower in periods of economic downturn and contraction. Given, the difficult economic situation in Lebanon, "Transport vehicles and equipment" representing 8.30% of imports, dropped by 11.90% to \$1.66B. Likewise, their volume slumped by 12.87% y-o-y to 220,918 tons, in 2018. In terms of the top importers, 22.19% of vehicles value are imported from Germany, 20.66% from the United States, and 13.95% from Japan.

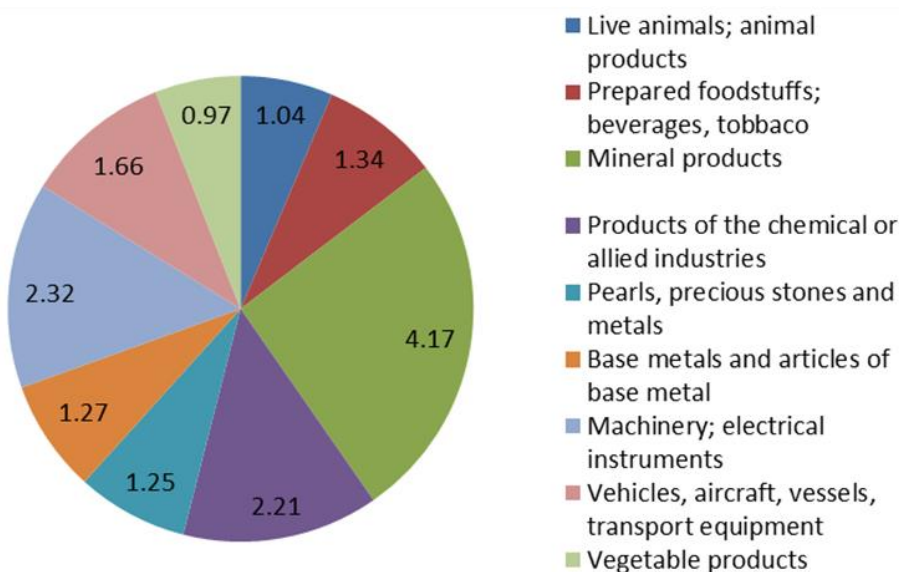
"Prepared foodstuffs, beverages, and tobacco" ranked fifth, taking up to 6.68% of the total imported value, in 2018. Both their value and volume decreased by 2.87% and 8.50% to \$1.33B and 884,185 tons, respectively, in 2018. "Preparations of cereals, flour, starch or milk" and "Miscellaneous edible preparations" rose by 3.5% and

Import Penetration Rate= Imports/ (GDP – Exports + Imports)*100 ¹

6.8% to stand at \$288.31M and \$230.57M. 8.08% are imported from France, 7.36% from Germany, and 7.26% from Turkey.

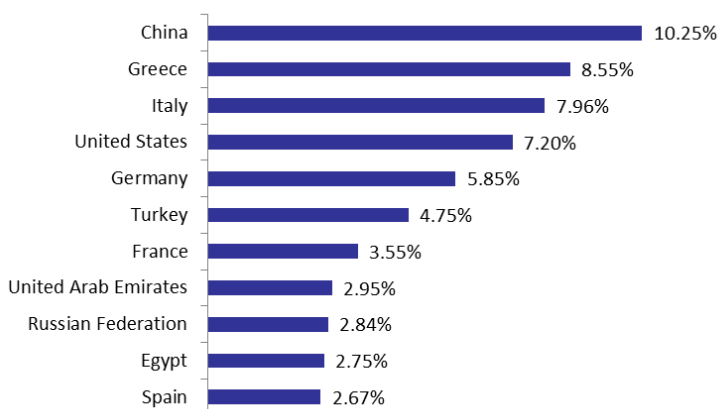
In term of Customs' offices, Port Of Beirut (grasping the highest share of total import activity 71.91%) registered a 1.36% yearly increase in import activity to stand at \$14.36B by 2018. Moreover, the import activity in Rafic Hariri Airport (representing 20% of the total) and Tripoli office (6.47% of the total) also grew by 10.90% and 0.81% to reach \$3.99B and \$1.29B, respectively.

Top Imports in 2018 (\$B)



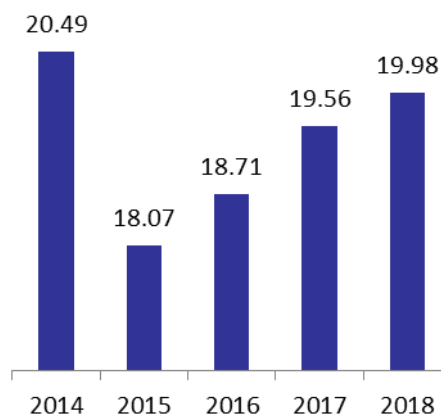
Source :Lebanese Customs

Top importing Countries in 2018



Source :Lebanese Customs

Value of Imports in (\$B)



As for exports, "Pearls, precious stones and metals" grasped the largest share of exports (21.95% of the total) during 2018. The value of "Pearls, precious stones and metals" exports' rose yearly by 10.59% to \$648.04M, despite that their volume drop by a 42.31% to 45 tons. In fact, the value of "Gold (including gold plated with platinum)" (representing 44.65% of this category) shrank yearly by 32.66% to \$289.37M as its volume declined from 12tons in 2017 to 7 tons in 2018. However, "Diamonds" exports have gained important share this year as they now account for 44.25% of the exported "Pearls and precious stones" compared to 13.89% in 2017. As such, diamonds exports increased during the year from \$81.41M to \$286.76M. Lebanon's main exporting markets are the United Arab Emirates (45.53%), South Africa (26.52%) and Switzerland (17.85%).

"Prepared foodstuffs, beverages and tobacco" came second, constituting 12.96% of the exported goods. Its value and volume witnessed a yearly drop of 16.47% and 31.16% y-o-y to \$382.73M and 206.779 tons by December 2018. In details, the value of "Prepared vegetables, fruits and nuts" and "Beverages, spirits and vinegar" (constituting 27.35% and 15.53% of prepared foodstuffs respectively) went down by 3.3% and 1% y-o-y, respectively. In terms of its export markets, Lebanon exported 12.93% of Foodstuffs to Saudi Arabia, 7.65% to Iraq, and 7.24% to Qatar.

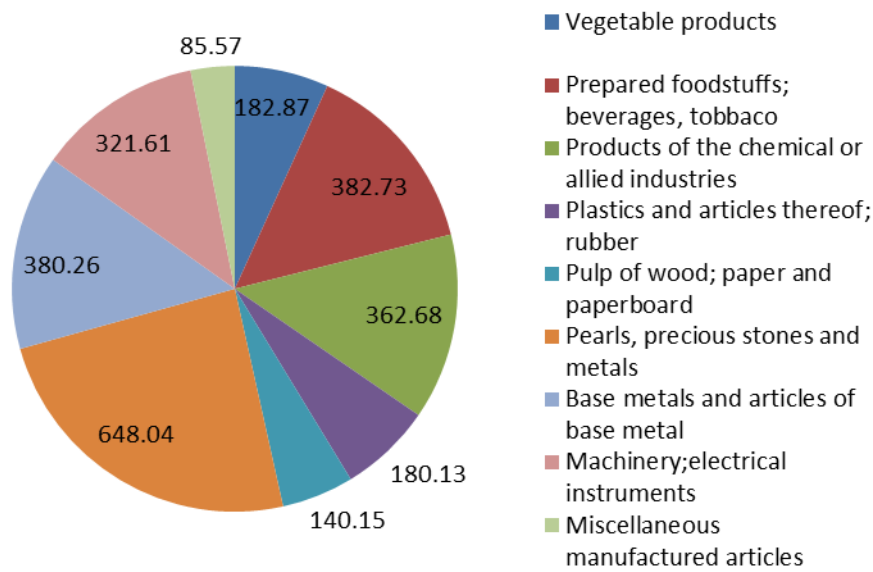
In their turn, "Base metals and articles of base metal" (12.88% of total exports) ranked as third most exported product, increasing from \$340.27M in 2017 to \$380.26M in 2018 with their volume remaining relatively unchanged at 500,394 tons by end 2018. "Iron and Steel", the main sub-component with a share of 32.41%, drove the rise in exported base metals as it surged in value by 18% to \$123.24M. Similarly, "Copper and articles" (with a stake of 24.65) was the second largest component of base metals and recorded a 12.8% y-o-y uptick in value to \$93.75M. Lebanon therefore exported 25.64% to Turkey, 14.84% to the Republic of Korea, and 8.98% to Spain.

"Products of the chemicals or allied industries" followed in the most exported goods, with a share of 11.07%. In fact, exports jumped in term of value and volume by a yearly 13.30% and 23.34% to stand at \$362.67M and 359,222 tons respectively, in 2018. This can be mainly linked to the large increases of the exports' value of fertilizers (18.2% of chemical products' exports) and inorganic chemicals (10% of chemical products' exports) from \$50.51M and \$17.75M to \$66M and \$36.24M. The main importing countries were UAE with 14%, followed by Iraq (11.84%), and Saudi Arabia with 9.90%.

As for the Customs' offices export activity, Port of Beirut (grasping 50.58% of the total), Rafic el Hariri airport (grasping 32.69% of the total) and Tripoli office (grasping 8.47% of the total) recorded a yearly increase by 2.97%, 7.32% and 13.02% to settle at \$1.49B, \$964.96M and \$249.89M, respectively.

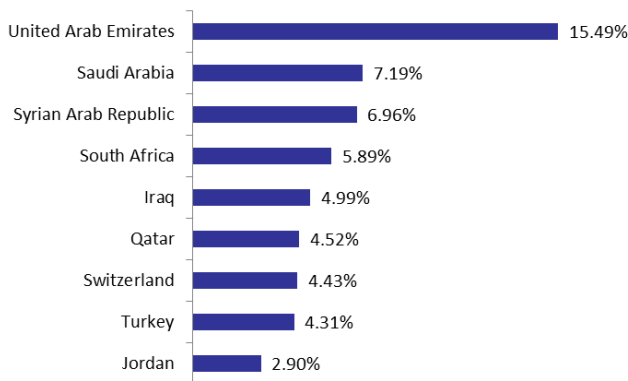
As the war in Syria had come to its final stages in 2018, the export activity through Masnaa and Abboudieh border has improved, rising yearly by 21.27% and 42.53% to \$153.47M and \$26.49M, respectively in 2018. Worth mentioning that the activity through the above borders has deteriorated since the start of the war in Syria in 2011. In details, the activity in Masnaa and Abboudieh dropped by 80% and 93.56% by 2017 compared to 2010. Moreover, the amelioration in Masnaa and Abboudieh borders in 2018 have negatively affected Arida Border with its activity declining yearly by 79.53% to \$20.15M in 2018.

Top Exports in 2018 (\$M)



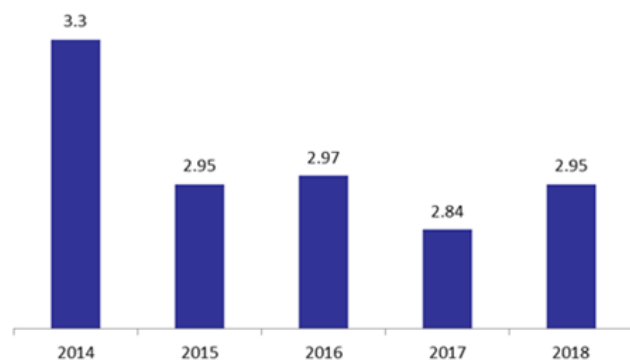
Source :Lebanese Customs

Top Exporting Countries in 2018

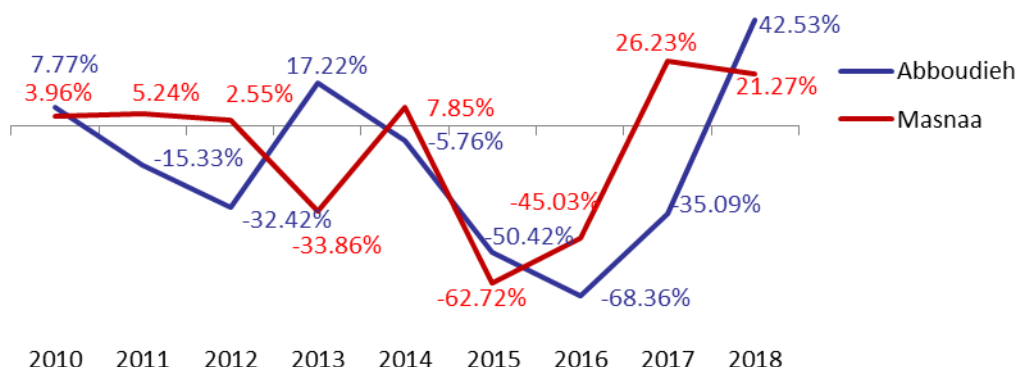


Source :Lebanese Customs

Value of Exports in (\$B)



Yearly activity change in Abboudieh and Masnaa Borders



Source :Lebanese Customs

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. However, since 2011 the overall trade in Lebanon has been experiencing a worsening deficit due mainly to the Syrian war as major exports' trade routes have been closed. In 2019, the country can seek many opportunities in order to improve its trade deficit. First, in October 2018 the Nassib-Jaber border crossing between Syria and Jordan reopened reviving a trade link worth billions of dollars. In fact, before it closed in April 2015, most exports from Lebanon and Syria passed through the Nassib border crossing to Jordan and the Gulf countries beyond it. Moreover, on December 2018 the Lebanese carrier, Middle East Airlines has decided to sign a \$300 million contract with British motor-maker Rolls-Royce for the installation of new Rolls-Royce Trent 7000 engines in four new Airbus A330-900neo. The deal with Rolls Royce, that is known as one of the world's leading industrial technology companies, was ranked as the largest bilateral deal between Lebanon and Britain.

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