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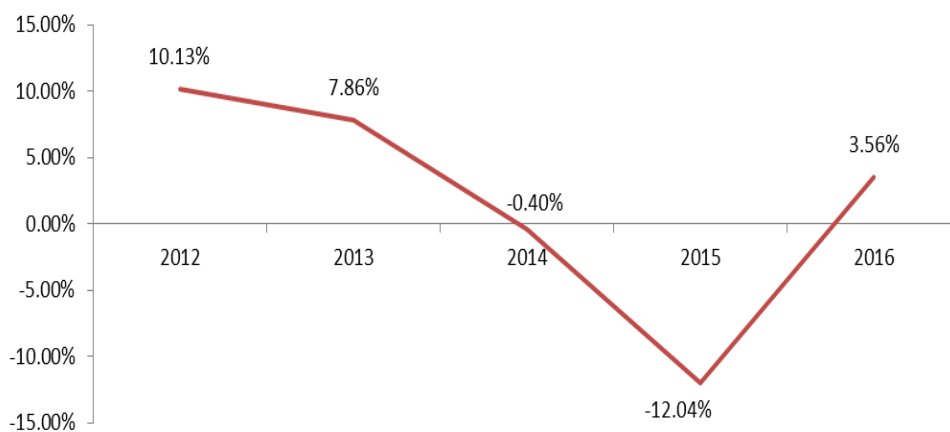
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The rate of contraction of Lebanon's trade deficit that started in 2014 and 2015 failed to continue in 2016, due a faster rise in imports than exports. In details, the deficit has registered a 3.56% yearly rise to stand at \$15.65B by December 2016, despite lower oil prices and depreciating currencies. Moreover, trade deficit represented 30.18% of 2016's GDP, compared to a lower share of 27.79% in 2015.

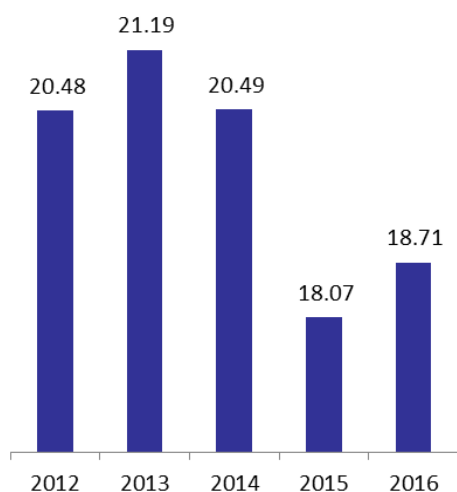
Yearly Evolution of Trade Deficit



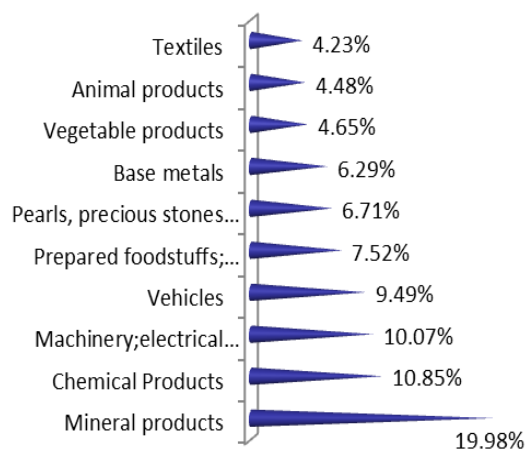
Source: Lebanese Customs

In terms of imports, the devaluation of several currencies against the US dollar positively impacted the purchasing power of Lebanese consumers and led to the increase of imports' value and volume. This was reflected by the Nominal Effective Exchange Rate (NEER), which rose by an annual 8.44% during 2016 to 118.41 points. Worth noting that BLOMINVEST Research department has recalculated the NEER, taking 2015 as the base year and the updated weights of Lebanon's major trading partners. Moreover, imports' value rose by 3.54% to \$18.71B, as the total volume grew by 10.66% to 17.37M tons.

Lebanon's Yearly Imports (\$B)



Most Imported Products



Source: Lebanese Customs

Oil and its derivatives were behind the large increase of "Mineral Products" due to increasing number of refugees as well as some smuggling to the Syrian territories. Hence, "Mineral Products" value increased by 8.71% y-o-y to \$3.74, in 2016. Moreover, oil and its derivatives, constituting 43.67% of the mineral products' volume, escalated by a yearly 28.27% to 7.59M tons. As such, this increase in volume was translated into an 8.20% yearly rise in value of oil imports to \$3.72B, constituting 98.21% of mineral products' imports value. Lebanon's main suppliers of mineral products were Greece (26.67%), Kuwait (14.22%), and Russia (14.19%). Low price inelasticity

Nonetheless, pharmaceutical and healthcare products were behind the increase in chemical products in Lebanon. Chemical products, accounting for a 10.85% share of total Lebanese imports, augmented by 4.41% to \$2.03B, with a marginal increase in volume to 486,402 tons. As such, this was mainly due to the pharmaceutical products and cosmetics which amplified 7.9% and 11.30% y-o-y to \$1.21B and \$229.43M, respectively. In its report, BMI identified four key reasons that explain why pharmaceutical spending is large in Lebanon. First, the private

sector represents around 90% of Lebanon's hospitals and pharmacies which in turn facilitates the prescription of high-value pharmaceuticals. Second, prices are not competitive since more than 50 pharmaceutical importers in Lebanon operate with fixed mark-ups. Third, Lebanon's medical tourism segment is highly developed and fourth, Lebanon is highly dependent on high-value imported pharmaceuticals. Lebanon imported 13.10% of chemical products from Germany, 12.46% from France, and 8.50% from the United States.

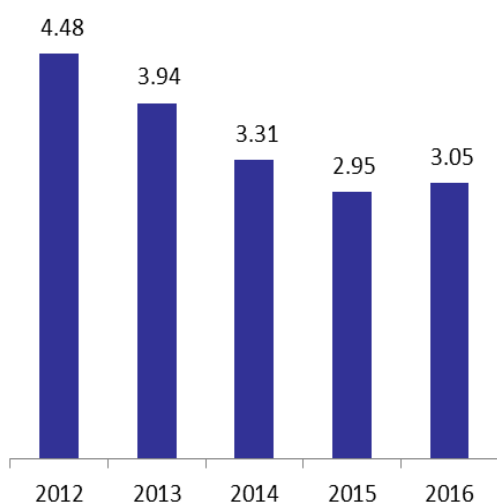
"Machinery and electrical instruments" declined due the slowdown in the real estate sector and also the decline in investments. In reality, private sectors' business conditions continued to deteriorate, in 2016, with an average PMI of 45.7, compared to 48.4 in 2015. "Machinery and electrical instruments", grasping a share of 10.05%, witnessed a 5.49% yearly drop in value to \$1.88B. Moreover, this drop in value can be attributed to the plunge in volume, where the volume was slashed by half to reach 238,116 tons. In details, both machinery used for manufacturing and equipment for housing decreased 6.23% and 4.96% to \$1.10B and \$780.45M, respectively. China was the main exporter of machinery and electrical instruments to Lebanon, delivering 30.81% of the total, followed by Italy and Germany, with respective shares of 10.16% and 7.76%.

The demand of cars has been on the rise for the past years. Consequently, "Vehicles, aircraft, vessels, transport equipment" followed, with a 9.49% share. Their value slightly rose by 0.99% to \$1.78B, accompanied by a 12.16% growth in volume to 237,078 tons. In fact, 97.57% of this component consists of cars and their parts, which rose by 5.25% to \$1.73B and 12.27% to 232,835 tons. Although there is a difference between imported and registered cars, there is no doubt that imports of used cars increased substantially in order to offset the decline in the imported new cars. The main exporters of vehicles were Germany (25.34%), United States (18.39%), and Japan (16%).

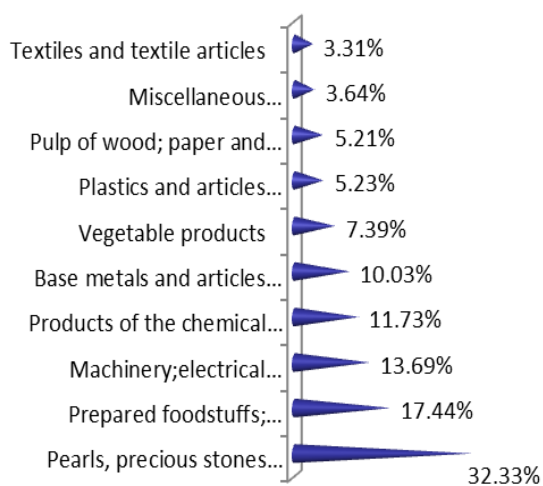
"Prepared foodstuffs, beverages, and tobacco" ranked fifth, taking up to 7.52% of the total imported value, in 2016. Both their value and volume increased by 3.62% and 4.82% to \$1.41B and 1.03M tons, respectively, in 2016. "Miscellaneous edible preparations" rose by 8.35% to stand at \$213.34M, while beverages dropped by 6.14% to \$116.89M. 9.34% are imported from Turkey, 7.48% from Brazil, and, 6.97% from France.

As for exports, the difficulties in land transportation due to the lingering Syrian war weighed down on exports' volume, yet their value increased. This was translated by the rise in Aerial transportation, as the Rafic Hariri Airport grasped a share of 39% in 2016, compared to 28% in 2015. Even though air shipping cost more, the weight of transported products are usually lighter than that of products delivered by land or sea. Thus, exports rose by 3.65% to \$3.05B, with a 14.54% drop in volume. Moreover, despite the fact that some of the major currencies depreciated, most of Lebanon's exports destinations are in the Middle East, with their currencies mostly pegged to the US Dollar.

Lebanon's Yearly Exports (\$B)



Most Exported Products



Due to the rise in gold prices and volume of exports during the year 2016, "Pearls, precious stones and metals" exports' value doubled to \$828.53M, despite their volume dropped by a 15.49% to 60 tons. Even though gold exports accounted to less than 32% of exported volume, the value of gold exports (79.28% of precious stones and metals) significantly rose from \$236.56M in 2015 to \$702.01M in 2016, as it is considered one of the most precious metals. However, the value of exported diamonds fell from \$111.25M to \$52.29M. Lebanon's main exporting markets for "pearls, precious stones and metals" are South Africa (54.35%), United Arab Emirates (16.84%) and Switzerland (14.48%).

Even though food and beverages consumption maintained its upbeat, lower exports of water triggered down the overall section of "Prepared foodstuffs; beverages, tobacco" in 2016. These exports fell by 7.40% to \$447M. In fact, the value and volume of "beverages, spirits and vinegar" dropped respectively by 22.90% and 26.11% to reach \$66.25M and 66,593 tons, end of the year, as inflows from "Waters, including mineral waters and aerated water" (44.15% of beverages) plunged by 41.90% to reach \$27.93M. Lebanon exported 17.12% of prepared Foodstuffs to Syria, 13.06% to Saudi Arabia, and 7.66% to Iraq.

"Machinery; electrical instruments" ranked third (13.69%), dropping 15.19% to \$350.67M. 'Boilers and machinery' and 'housing machinery, electrical equipment and parts' dropped 18.03% and 20.75% to \$169.93M and \$163.66M, respectively. These exports are mainly sent to Saudi Arabia (11%), Iraq (9.46%), and Syria (6.90%).

Fading appetite for Lebanon's chemical products was depicted by the end of 2016. Hence, chemical products (11.73%), followed in the 4th place, yet with a decreased volume and value of 42.67% and 26.84% to 225,584 tons and \$300.67M, respectively. Essential oils, perfumes and cosmetics fell by 4.01% to \$123.64M, and soap and washing preparations shrank 7.91% to \$27.84M. The main importers of Lebanese chemical products are United Arab Emirates (15.87%), Iraq (15.23%), and Jordan (9.18%).

Similarly, Base metals (10.03% of total exports) also witnessed a negative performance this year, yet it maintained its rank as the as fifth most exported product. Exports fell by 18.05% to \$257.10M, as "Copper", the main sub-component with a share of 33.15%, plunged by 30.24% to \$72.54M, and "Aluminum" fell by 28.61% to \$49.18M. 18.54% are exported to Turkey, 15.53% to the Republic of Korea, and 4.57% to Greece.

In conclusion, trade activity remained weak in 2016, which mainly resulted from the low oil prices hand in hand with the continuing spillovers of the Syrian war, whether in terms of land transport or consumption burdens of refugees. Given that the Lebanese pound is pegged to the dollar, regional and international uncertainties affecting global currencies will keep on impacting Lebanon's imports and exports in the coming period.

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