Lebanon's Trade Activity in 2013 highlights a Hectic Year

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Contact Information

Research Analyst: Mirna Chami

mirna.chami@blominvestbank.com

Head of Research: Marwan Mikhael

marwan.mikhael@blominvestbank.com

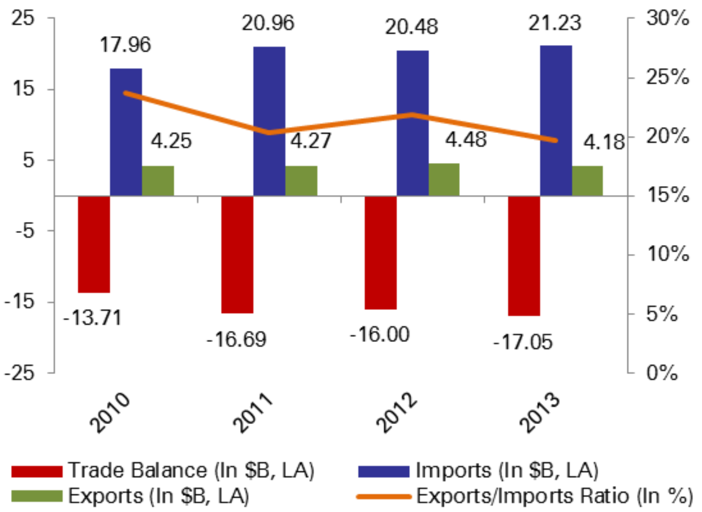
Research Department

Tel: +961 1 743 300 ext: 1285

Despite a strategic location in the Middle East and accustomed free trades, circumstances remain against Lebanon becoming the region's hub in terms of international trade, investment and tourism. Lebanon's economic structure reflects the features of a service-driven economy coupled with a structural trade deficit used to be basically offset by capital inflows, remittances from Lebanese expatriates and tourism. This was clearly perceived in 2013's negative trade balance, which accounted for 38.1% of the Gross Domestic Product (GDP) revealing a moderate integration of Lebanon in the international trade activity compared to other economies.

2013 was indeed another traumatic year to Lebanon. Following a slower expansion in 2012, trade deficit re-expanded by 6.6% year-on-year (y-o-y) in 2013 to touch the $17.05B, on account of higher imports and lower exports. In details, exports covered 19.69% of imports by December 2013 edging down from 2012's ratio of 21.90%.

Lebanon's Foreign Trade Performance



Source: Lebanese Customs

The high dependence on imports maintained its upward trend to match a higher demand for re-export activity, as well as to accommodate the surge in domestic consumption. Accordingly, imported goods edged up by 3.7% y-o-y to amount for $21.23B.

On another note, Lebanese imports went from 37% of GDP in 2003 to almost half of its GDP (48%) in 2013. However, a lower proportion of domestic demand was satisfied by imports as the import penetration rate decelerated from 35.2% in 2012 to 34.4% in 2013. This means that a substantial portion of 2013's imported goods was not allocated for serving the growing local demand but for re-export purposes mainly to the war-ridden Syria.

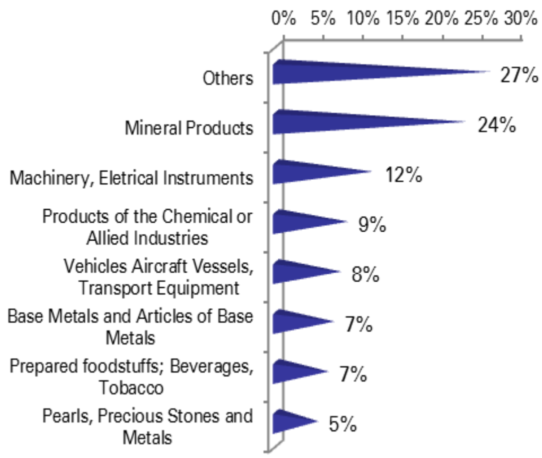
Upon closer look, demand for energy remained the vital necessity of local individuals and institutional entities. Therefore, oil and its derivatives maintained their leading rank amongst imported products to Lebanon with 24% of the total, representing almost 11.4% of the GDP in 2013. Oil imports charged Lebanon $5.11B in 2013 compared to a higher figure of $5.23B in 2012. Similarly, mineral products' volume followed suit with a yearly decrease of 13% in 2013, but preserved their substantial 44% share of the total.

Industrial categories showed higher figures in terms of imports. Machinery & mechanical appliances edged up 6% in volume and 25% y-o-y in value to $2.59B. Imported chemical products saw their volume broadening by a yearly 12%, while their value inched up by 11% to $1.94B. In addition, vehicles, aircraft, vessels and transport equipment recorded a 15% yearly increase in value to $1.75B for a 28% surge in volume.

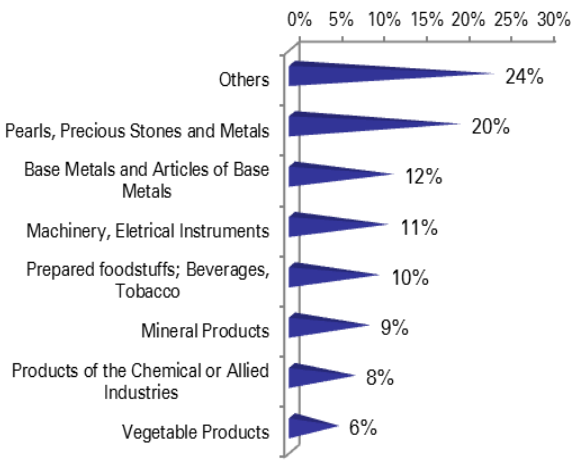
Imported goods for direct consumption products also showed numerous upticks in 2013. The Syrian crisis enhanced demand for first-necessity products especially food. Accordingly, prepared foodstuff, beverage and tobacco, which accounts for 6.7% of 2013's total imports, increased both in value by 0.7% y-o-y to $1.41B and in quantities by 11.0%. Imports of vegetable products (at 4.4% of the total) followed suit and added 6.6% to $922.83M. Live animals and animal products (including animal and vegetable fats and oils) also rose by an average of 7.2% to $1.81M, accounting for 8.5% of total imports.

In 2013, Lebanon reshuffled its main sources of imports. China made its first appearance in four years in the top 5 exporting countries to Lebanon, grasping the lion share in 2013 with 10.2% of the total. Italy preserved its 2nd rank for the third consecutive year with 5.9%, trailed by Russia and the United States with a similar share of 5.6% stake. Russia's exports to Lebanon were higher by 18% y-o-y, while the US moved to the 4th place after topping the list for 2 consecutive years in 2011 and 2012.

Total Imports Breakdown in 2013



Total Exports Breakdown in 2013



Source: Lebanese Customs

Exported Lebanese products faced more obstacles in 2013 mainly due to the neighboring war in Syria and the regional turmoil. Exports fell by 6.8% in 2013 to register for $4.18B compared to 2012's level of $4.48B. Therefore, the degree of reliance of local producers on demand from foreign markets seemed to be deteriorating in 2013 mainly due to the internal and regional uprisings. This was exposed in the export propensity index that showed a very low figure in 2013 at 9%, revealing a first-time decrease in 4 years from the static 11% rate.

In fact, the 2013 decrease in exports' value appears to be almost solely attributed to the performance of the precious metals' industry. Exports of major industrial elements, first-necessity products and oil derivatives to Syria improved but failed to compensate for the fallback of the precious metals activity.

The breakdown of exports by items indicates that jewelry topped the list with 20% of the total value in 2013. However, volume and value of exported pearls and precious metals were cut in half in 2013. This is mainly due to more intense competition worldwide and lower demand in some Arab and European markets.

Industrial products showed an overall positive performance in 2013. Exported quantities of base metals stood in the 2nd rank with a 12% stake of total imported goods. Their total value reached $502.01M, up from $470.73M in 2012. Machinery and electrical instruments were the 3rd highly exported products in 2013 with an 11% share of the total. Their value marginally changed from $478.33M to $478.00M, while their total exported volume slipped at a fastest pace of 1.4% from 2012's quantity.

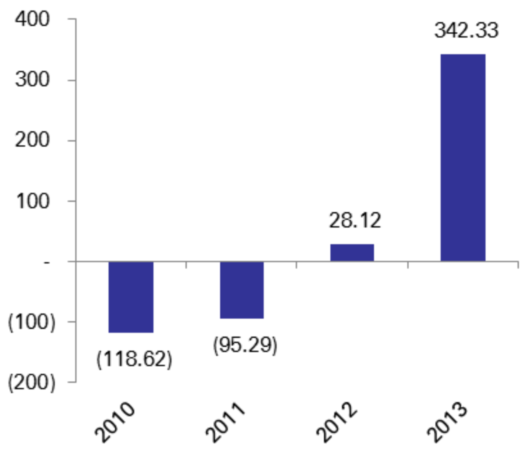
Regarding oil products, they accounted for 9% of total exports in 2013 posting a yearly twofold increase to $387.12M partly on higher oil prices as their volume increased at a slower pace of 1.5% from 2012. Yet, the Syrian demand for oil derivatives was satisfied through Lebanon due to the war negative repercussions on the Syrian gates and ports.

As for major export destinations, the ailing Syria remained the number one importer of Lebanon's exports for the second sequential year, holding the lion's share of 14.7% in 2013. Turkey came second with 11.3%, while Iraq advanced from the 5th rank in 2012 to the 3rd position with a 4.8% stake.

On a positive note, Port of Beirut's (PoB) has done record business in 2013 contrasting with other economic entities. Total container activity (including transshipment) increased by 7.25% y-o-y to 1,117,334 TEU in 2013. Imported and Exported merchandise passing through the port grew by 14.44% y-o-y to 8.27M tons. This could be explained by the fact that the disruption of trade routes due to the Syrian war boosted activity at PoB. The latter became a major alternative shipping hub especially for the delivery of fuel oil and oil derivatives into war-ridden Syria.

Yet, total revenues at the PoB were contradictory with the port's customs revenues that posted negative performance over 2013. In fact, PoB's total revenues revealed a 25.39% y-o-y rise to $219.11M, while total customs revenues (Customs and Value Added Tax) shed by an annualized 2.3% to $2.47B. This may be explained by the fact that shipped goods could be mainly constituted of products not subject to customs and VAT taxes like basic necessities which witnessed higher demand in 2013 following the growing number of Syrian refugees.

Lebanon's Trade Balance with Syria (In $M)



Source: Lebanese Customs

In another context, 2013's trading activity between Lebanon and Syria remained in favor of Lebanon. This shift in the trading activity that started in 2012 was enhanced by the escalation of war in Syria making Lebanon the sole open land border to import goods and necessities into Syria. In fact, balance of trade between Lebanon and its troubled neighbor switched from a negative $95.29M in 2011 to a positive $28.12M in 2012 as exports to Syria overrode imports. In 2013, the balance enhanced even more on the side of Lebanon and reached $342.33M. The main drivers were the surge in Syria's need for oil following the sabotage of the majority of its energy plants and the increasing demand of direct consumption products. Exports to Syria thus increased by 78% to reach $523.65M while imports tumbled by 32% to $181.31M.

Prospects of the trade sector in Lebanon remain related to the overall economic growth and to the political stability of the country. Spillover effects of the 3-Year war in Syria were also much significant in previous years despite that the war carried some new dynamics to the country's economy. Looking into 2014, figures in January revealed a continuing trend of a broadening deficit. Over the long term, the discovery of oil and gas off the Lebanese shore should be followed by meticulous projects to start extraction the earlier possible. This action could alter Lebanon's trade structure towards a healthier scheme.

For your Queries:

BLOMINVEST BANK s.a.l.
Research Department
Verdun, Rashid Karameh Str.
POBOX 11-1540 Riad El Soloh
Beirut 1107 2080 Lebanon

Tel: +961 1 743 300 Ext: 1283
research@blominvestbank.com

Mirna Chami, Research Analyst
mirna.chami@blominvestbank.com
+961 1 743 300 Ext: 1285

Marwan Mikhael, Head of Research
marwan.mikhael@blominvestbank.com
+961 1 743 300 Ext: 1234