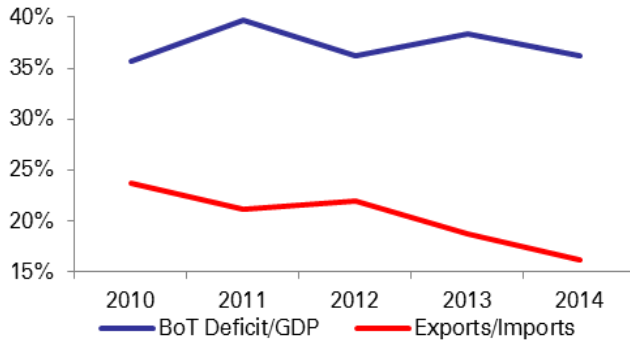




Lebanon's Foreign Trade Performance (%)



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Contact Information

Research Assistant: Lana Saadeh
lana.saadeh@blominvestbank.com

Head of Research: Marwan Mikhael
marwan.mikhael@blominvestbank.com

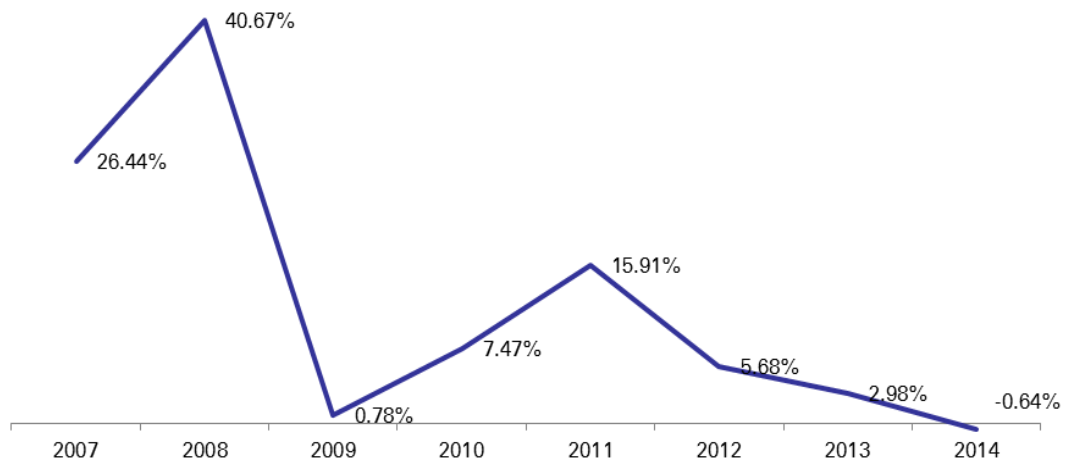
Research Department
 Tel: +961 1 991 784

Source: Lebanese Customs

Situated on the eastern coast of the Mediterranean Sea, in the heart of the Arab world, Lebanon's role in the region, as in the world at large, was principally shaped by trade. In ancient times, the sea provided trade routes for exports of cedars and for commerce in copper and iron during the time of the Ptolemies and the Romans. The country served as a link between the Mediterranean World and East Asia, hence stems its name "the pearl of the middle east".

The above may explain why until our times, Lebanon trade volume constitutes a large portion of our economy.

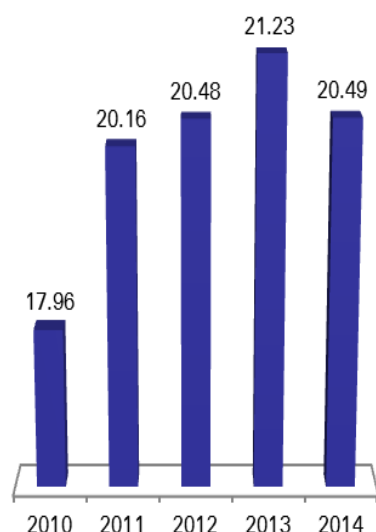
Yearly Evolution of Trade Deficit



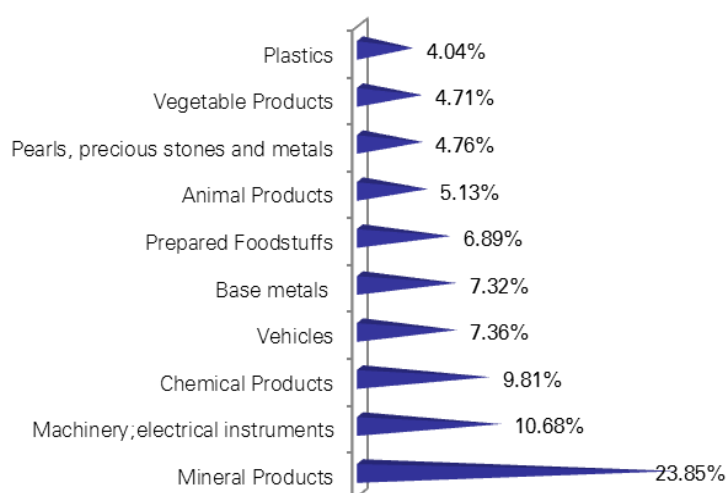
In fact, Lebanon's trade (imports + exports) amounted to 47.68% of 2014's GDP and the trade deficit recorded \$17.19B in 2014, compared to a higher deficit of \$17.30B in 2013. The slight 0.64% narrowing of deficit was mainly the result of bearish oil prices. Trade deficit represented 36.18% of GDP, compared to a higher share of 38.33% in 2013. Exports covered 16.14% of imports in 2014, compared to 18.74% in the previous year.

Total imports declined 3.48% to \$20.49B. The depreciation of the Euro against the US dollar was reflected through the appreciation of the Lebanese Pound that is pegged to the dollar and therefore improved the purchasing power of Lebanese consumers. This can be mirrored by the Nominal Effective Exchange Rate (NEER), which increased 14.61% during 2014 to 147.32 points. However, since this occurred during the second half of the year, it did not have a strong impact on Lebanese imports.

Lebanon's Yearly Imports (\$B)



Top 10 Lebanese Imports in 2014



Source: Lebanese Customs

Lebanon's first-ranked imports consist of "Mineral Products", with a share of 23.85%, dropping 4.36% y-o-y to \$4.89B, in 2014. 97.14% of the mineral products imported are oil and its derivatives, which decreased by a yearly 5.05% to \$4.75B. However, due to the demand inelasticity of oil, the plunge of crude oil by almost 60% in the second half of 2014 caused the volume to inch up faintly by 2.12% to 7.37M tons. Lebanon's main suppliers of mineral products were Greece (15.33%), Russia (14.19%), and Italy (14.13%).

In 2014, due to the slowdown of economic activity, Lebanon imported 15.54% less "machinery; electrical instruments", with a value of \$2.19B. Yet it remained the second most imported component, with a share of 10.68%. The decline is partly due to a drop in prices and partly to the volume that fell by 8.89% to 229,407 tons. In details, both machinery used for manufacturing and equipment for housing decreased 4.60% and 26.90% to \$1.27B and \$921.90M, respectively. China is the main exporter of machinery and electrical instruments to Lebanon, delivering 30.29% of the total, followed by Italy and Germany, with respective shares of 9.38% and 9.29%.

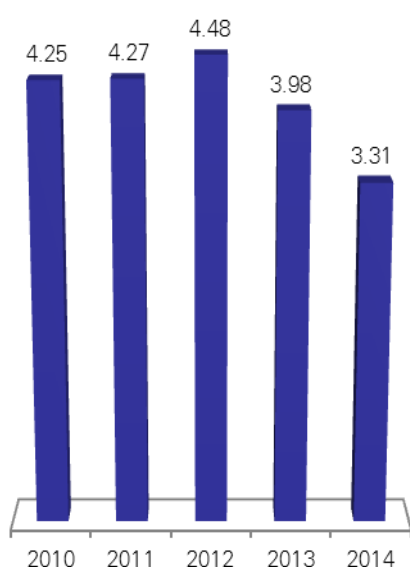
In contrast, chemical products, accounting for a 9.81% share of total Lebanese imports, augmented 3.83% to \$2.01B, with a 3.45% increase in volume to 491,179 tons. Pharmaceutical product and cosmetics amplified 4.55% and 11.82% to \$1.14B and \$233.3M, respectively. Likewise, the volume of pharmaceuticals and cosmetics grew 10.21% and 6.78% to 9,827 tons and 21,971 tons, respectively. The increase in pharmaceuticals may be due to the increase in the number of refugees coming from Syria and Iraq. Lebanon imported 13.10% of chemical products from Germany, 12.46% from France, and 8.50% from the United States.

"Vehicles, aircraft, vessels, transport equipment" ranked fourth, with a 7.36% stake. The value of these goods declined 13.70% to \$1.51B, along with a 24.54% diminution in volume to 197,717 tons. 97.73% of this component consists of cars and their parts, which declined 5.84% to \$1.47B. Worth mentioning that this drop came from a reverse in preference of Lebanese towards new cars, as registered new cars increased 4.62% while that of used cars fell 12.43%. This could be partly attributed to the slowdown in economic growth, and amplified by the new regulation of the central bank, which imposes a 25% down-payment on all car loans. The main exporters of vehicles were Germany (26.77%), Japan (16.08%), and United States (15.05%).

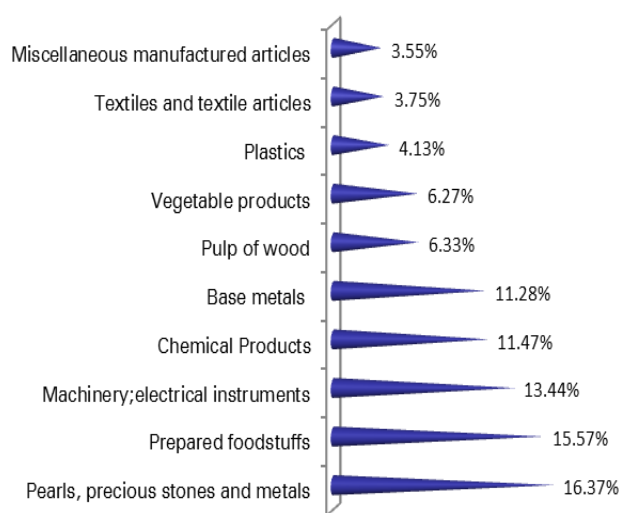
“Base metals and articles of base metals” dropped one place in the rankings from 2013, to the fifth position, with a 7.32% share. These imports lessened 4.59% to \$1.50B. Iron and steel, constituting 54.27% of base metals imported, shrank 5.54% to \$813.67M. The decrease in price of iron and steel led importers to take advantage and stock more of these metals leading to a 0.89% increase in volume to 1.39M tons. Base metals were mostly imported from China (45.16%), Ukraine (7.28%) and Turkey (7.15%).

Looking at Lebanese exports, they declined by 15.95% to \$3.31B, with a 24.17% drop in volume. The main decrease in exports came from mineral products and base metals, with respective plunges in volume of 70.27% and 30.91%. Mineral products witnessed an 87.89% tumble in value to \$43.19M, was mainly due to the difficulties in transportation on the Lebanese-Syrian border, as Lebanon re-exports mineral products to Syria. Lebanese exports were not affected by the depreciation of the Euro, since 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)



Top 10 Lebanese Exports in 2014



Source: Lebanese Customs

“Pearls, precious stones and metals”, the major exports with a share of 16.37%, plummeted 29.63% to \$541.66M, however with a 41.67% increase in volume to 85 tons. Value of gold ingots (67.55%) dropped 34.99% from 2013, to \$365.86M. This was partly due to the 28.57% reduction in volume to 10 tons and partly due to the global decline in the price of gold. Value of articles of tableware grew 45.72% to \$1.35M with the volume growing from 14 tons to 33 tons. Value of jewelry fell 20.17% to \$2.19M however its volume swelled 63.16% to 31 tons. Lebanon mainly exports “pearls, precious stones and metals” to South Africa (54.35%), United Arab Emirates (16.84%) and Switzerland (14.48%).

“Prepared foodstuffs; beverages, tobacco” came in second, with a share of 15.57%. These exports grew 13.78% to \$515.02M. In fact, inflows from vegetables, fruits and nuts augmented 10.16% to \$127.74M, revenues from beverages, spirits and vinegar improved 1.79% to \$101.80M, and that of “miscellaneous edible preparations” increased 17.06% to \$83.15M. Exported wine increased 15.32% to \$16.68M with a 20.28% growth in volume to 3,000 tons. Lebanon exports 14.94% of prepared foodstuffs to Saudi Arabia, 13.94% to Syria, and 12.06% to Iraq.

“Machinery; electrical instruments” ranked third (13.44%), subsiding 12.24% to \$444.55M. ‘Boilers and machinery’ and ‘housing machinery, electrical equipment and parts’ dropped 9.75% and 14.38% to \$223.38M and \$221.77M, respectively. These exports are mainly sent to Iraq (14.47%), Saudi Arabia (12.81%), and Nigeria (6.93%).

The fourth major export, chemical products (11.47%), enlarged 15.28% to \$381.40M. Essential oils, perfumes and cosmetics increased 12.50% to \$115.07M, while fertilizers shrank 0.67% to \$72.62M. Iraq (12.13%), Saudi Arabia (10.51%), and United Arab Emirates (10.42%) are the main receivers of chemical products from Lebanon.

Base metals followed, with a share of 11.28%. These exports decreased by 29.19% to \$373.31M. Scrap 'Copper' and scrap 'iron and steel' sub-components plunged 47.90% and 38.94% to \$99.69M and \$99.15M, respectively. Meanwhile, scrap aluminum exports grew 3.06% to \$72.47M. Base metals are mainly exported to Turkey (23.39%), Republic of Korea (11.99%), and United Arab Emirates (7.53%).

Lebanon is witnessing a period of low economic growth compared to the period 2007-2010, despite the fact that exports of high value added products are increasing as they still do not constitute a large portion of GDP. Hence trade deficit remains large and relies on capital inflows to get financed. A recent development may give a boost to Lebanese exports and that is Russia's decision to ban imports of food items from Europe and the U.S.. Lebanon may capitalize on this and export its agricultural produce to Russia. Moreover, Minister of Foreign Affairs, Gebran Bassil's signature of a free-trade agreement with the Mercosur countries of Latin America, might further boost Lebanon's trade.

For your Queries:

BLOMINVEST BANK s.a.l.

Research Department
Bab Idriss, Weygand Str.
POBOX 11-1540 Riad El Soloh
Beirut 1107 2080 Lebanon

Lana Saadeh
Tel: +961 1 991 784
lane.saadeh@blominvestbank.com

Marwan Mikhael, Head of Research
marwan.mikhael@blominvestbank.com
+961 1 991 782

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