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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

The Lebanese trade deficit has been narrowing during the past two years, resulting from a faster decline in the value of imports than exports. In 2015, Lebanon recorded a trade deficit of \$15.12B, compared to a higher deficit of \$17.19B in 2014. The 12.04% narrowing of deficit was mainly caused by the bearish oil and gold trends and the depreciation of the currencies of Lebanon's major trading partners against the US Dollar, which benefited the pegged Lebanese Pound. Trade deficit represented 27.79% of 2015's GDP, compared to a higher share of 34.35% in 2014. Exports covered 16.34% of imports in 2015, compared to 16.14% in the previous year.

Looking at total imports, their value plunged 11.83% yearly to \$18.08B in 2015, however with a 1.60% growth in volume to 15.70M tons. The main reason behind the drop in value is the depreciating Euro and Yen, making imports from the European Union and Japan relatively cheaper to the Lebanese residents. Moreover, many European goods became exempted from custom fees in accordance with the European Mediterranean Association Agreement and European Free Trade Association (EFTA) agreement, effective beginning of March 2015. In parallel, the decline in crude oil prices also led to the decline in the value of imports. Worth mentioning that the increase in volume might be associated with the increase in the number of refugees fleeing their country in wartime and the improvement in real income as Lebanon recorded an average deflation rate of 3.75% during 2015.

Mineral products, constituted 19.03%, the largest share of Lebanon's imports in 2015, dropping 29.64% year-on-year (y-o-y) to \$3.44B. Mineral fuels and oils, comprising respective shares of 96.54% 79.79% of the value and volume of mineral products, saw their value decrease by 30.07%, caused by the 49.71% plummet in the price of Brent Crude oil. However, this does not reflect a lower reliance of Lebanon on imported mineral fuels, since from a quantity perspective they increased by 5.71% to 5.99M tons, due to the Syrian and Iraqi refugees. Lebanon imported 21.06% mineral products from Greece, 19.07% from Russia, and 10.68% from Italy. Worth noting that fuel oil is subject to almost 7,000L.L/tank in custom duty and VAT payments.

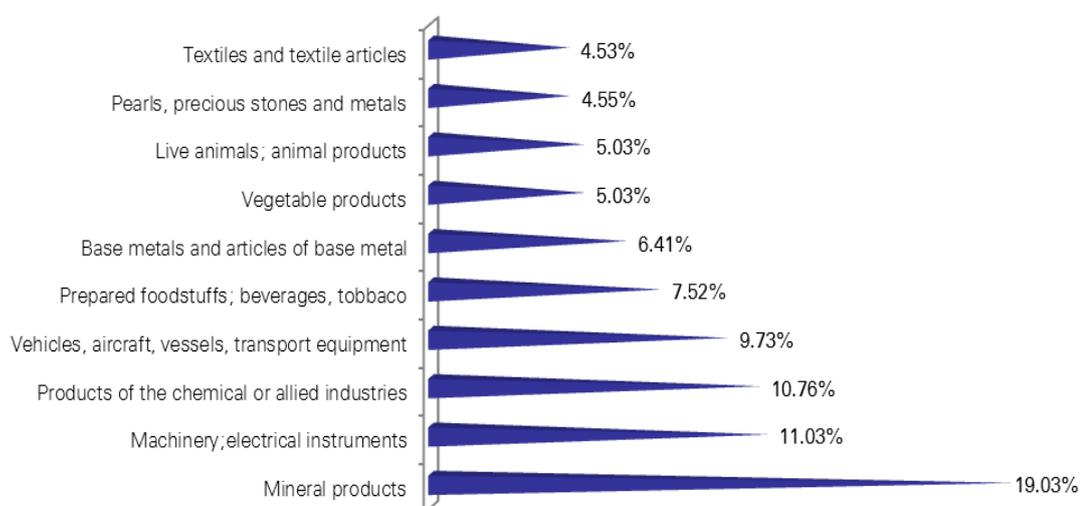
Machinery and electrical instruments came in second with an 11.03% share of imports. Their value decreased by 8.91% to \$1.99B in 2015. Yet, their volume more than doubled from 229,406 tons in 2104 to 490,591 tons. This was mainly derived from cheaper prices of imports of electrical machinery and home appliances as their value decreased by 10.92% and pushing the volume up from 80,543 tons to 341,693 tons in 2015. 27.76% of electrical machinery is imported from China, followed by 11% from Germany and 9.12% from Italy .

Products of the chemical or allied industries, grasping a stake of 10.76% declined 3.30% to \$1.94B, by the end of 2015. Similarly, their volume went down by 1.02% to 486,182 tons. The value of pharmaceutical products represented a 57.85% of chemical products, dropping 1.39% annually. Meanwhile, essential oil (11.72% of the value of chemical products) decreased by 2.33%. Germany is the major supplier of chemical products to Lebanon, with a share of 12.85%, followed by France and the United States with shares of 11.8% and 9.73%, respectively.

Transport vehicles and equipment representing 9.73% of imports, added 16.6% to \$1.76B. Likewise, their volume grew 6.91% to 211,379 tons, in 2015, benefitting from the depreciation of the euro and the yen. 93.63% of total value consists of imports of vehicles, whose volume and value grew by 8.89% and 11.70%, respectively. Due to the economic slowdown, car importers relied on strong marketing and promotional campaigns and after-sale services to improve their sales. 25.29% of vehicles are imported from Germany, 16.10% from Japan, and 15.93% from the United States.

“Prepared foodstuffs, beverages, and tobacco” ranked 5th among imports and took a share of 7.52%, in 2015. Their value declined by 3.80% to \$1.36B in 2015. In contrast, their volume increased by 9.92% y-o-y to 92,240 tons. This can be attributed to the EFTA and the depreciating euro. 9.44% are imported from Turkey, 7.66% from France, and 5.48% from Germany.

Top 10 Lebanese Imports in 2015



Source: Lebanese Customs

Looking at exports, they lost 10.75% to \$2.95B, with a 13.21% drop in volume to 1.94M tons. This could be attributed to the plunging oil prices, which adversely affected the economies of Lebanon's major trading partners, mainly the GCC countries. Moreover, as the Lebanese Pound is pegged to the strengthening dollar, Lebanese exports became less competitive compared to that of countries experiencing depreciation in their currencies. In addition, despite the Lebanese government's initiative to offer facilities to Lebanese exporters by shipping their goods at acceptable rates, Lebanese exports decreased due to the disruptions in trade routes after the eruption of the war in Syria and the rebels' seizure of the Nassib border crossing between Syria and Jordan. For instance, given its renowned importance for land trading, the value of total exports through Masnaa's customs office has substantially dropped from \$737.73M in 2014 to \$275.02M in 2015.

In details, prepared foodstuffs, beverages, tobacco were the major Lebanese exports, taking a share of 16.35% of the total value of exports. Cash inflow of these exports decreased by 6.27% to \$482.71M, however with an 11.20% increase in volume to 369,587 tons, in 2015. The volume and value of prepared vegetables, fruits and nuts, constituting 26.22% of total exports went down by 9.76% and 0.90%, respectively. 15.27% of foodstuffs are exported to Syria, 14.55% to Saudi Arabia, and 12.73% to Iraq.

Pearls, precious stones and metals failed to maintain the 1st rank in 2015, and took a 14.70% share of exports. Their value narrowed by 19.86% to \$434.06M, with a 16.47% decrease in volume to 71 tons. Gold exports represented 54.57% of precious stone and metals exports, while diamonds take a smaller share of 25.63%. 44.23% are exported to South Africa, 25.21% from UAE and 12.27% to Switzerland. In fact, jewelry exports are largely underestimated as a large part of Arab buyers purchase jewelry when they are in Lebanon. Worth noting that according to the European Ministry of Foreign Affairs, Lebanon is the 5th largest exporter of jewelry to Europe, with a 4% share in 2014, up from a share of 0.4% in 2013.

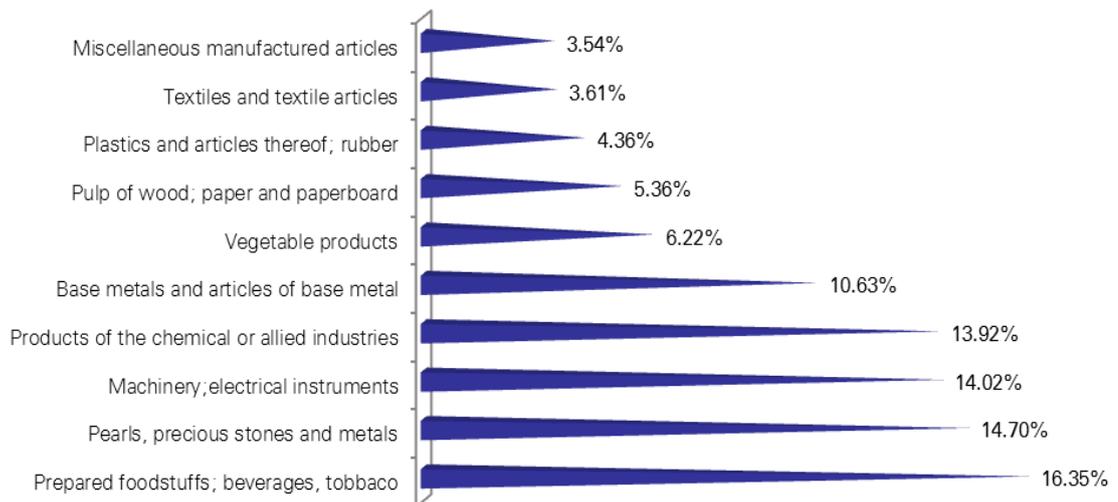
Machinery and electrical instruments came in third with a 14.02% share. The value of these machines decreased 6.91% yearly to \$413.81M, with a 17.61% decline in volume to 54,086 tons. The value of its 2 sub-sections, nuclear reactors and electrical equipment, went down 7.20% and 6.88%, respectively. 15.12% of these exports are sent to Saudi Arabia, 10.57% to Iraq, and 5.23% to United Arab Emirates.

Products of the chemical or allied industries represented 13.92%, increased by 8.31% to \$410.93M, with only a 0.69% inch up in volume to 390,726 tons. The value of essential oils, perfumes and cosmetics took a 31.34% shares of chemical products and grew by 11.93%. In terms of quantity, their volume dropped 5.10% annually. Lebanon sends 12.54% of its chemical products to Iraq, 11.35% to the United Arab Emirates and 10.75% to Saudi Arabia.

Base metals and articles of base metal took a 10.63% stake of total exports. Their value and volume dropped by 15.96% to \$313.72M and 19.55% to 295,345 tons, respectively. Copper and aluminum are the most metals exported from Lebanon, with respective shares of 33.15% and 21.96%. The value of copper exported grew 4.32% compared to 2014, while that of Aluminum decreased by 4.94%.

20.60% of base metals are exported to the Republic of Korea, 13.29% to Turkey, and 10.28% from United Arab Emirates.

Top 10 Lebanese Exports in 2015



Source: Customs

In terms of customs offices, Port of Beirut (PoB) was the main trading hub of the country in 2015 as 72% of the imports and 52% of the exports passed through it. PoB was closely followed by the customs' office of Rafic Hariri International Airport that grasped 19% of Lebanon's imports and 28% of its exports. Tripoli's customs office ranked third in terms of total trade value with imports recording \$1.01B in 2015 (or 9% of the total) and that of exports registering \$257.33M (or 6% of the total) for the same period.

Elevated regional uncertainties and disruptions of political relationships are expected to take a toll on Lebanon's trade balance. The presence of Syrian refugees will exacerbate the trade deficit in 2016 and will put more pressure on the current account deficit. However, the decline in oil prices may continue to pull down imports' value in the first half of 2016, if it remains at the current subdued levels. Finally the economic slowdown in Lebanon's trading partners will reduce exports and will exert pressure on exporters to find alternative markets.

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, Research Assistant
Tel: +961 1 991 784
ana.saadeh@blominvestbank.com

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

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