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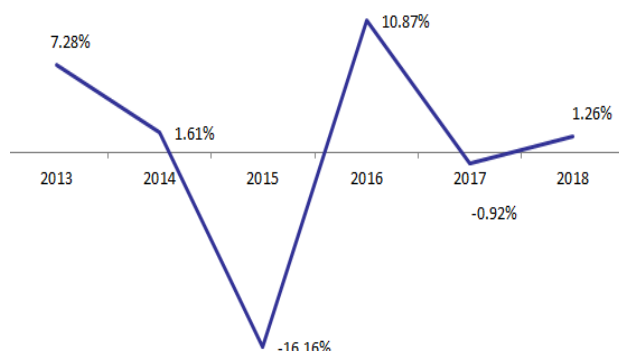
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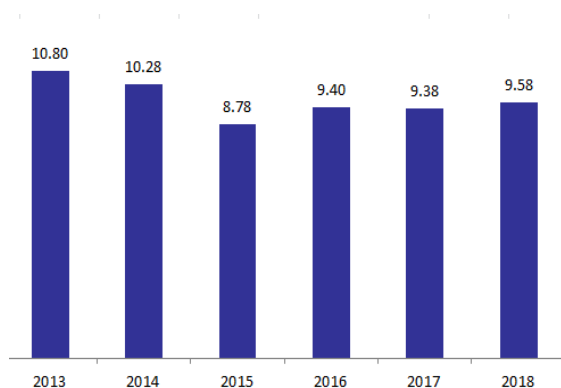
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Trade Deficit Yearly Changes in H1

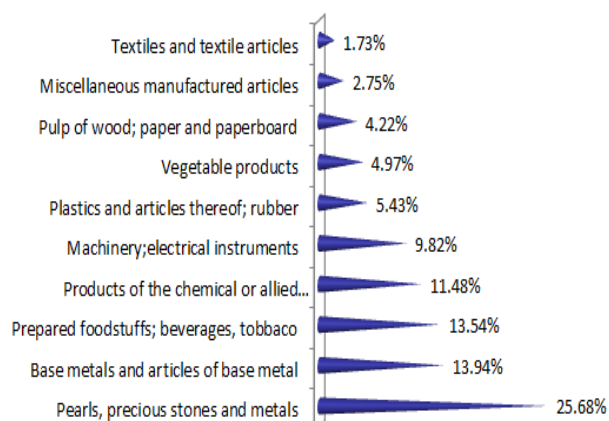


In the first half of 2018, Lebanon has failed to maintain a positive uptrend in its trade activity despite the improving political scene in Lebanon and the region. Lebanon's trade deficit widened in the first 6 months of the year to reach \$8.04B, compared to \$7.94B, during the same period in 2017. Regardless of the promising progress in exports, which grew by a yearly 7.1% to \$1.54B, the wider deficit came as a result of a 2.2% yearly increase in the value of imports to \$9.58B. Moreover, knowing that most of Lebanese imports are of European origin, the appreciation of the Euro against the dollar in the first half of the year mainly explains this rise. Worth mentioning, the trade deficit has increased in absolute terms, yet the exports to imports ratio stood at 16.08% in H1 2017, compared to 15.32% in the previous year, mainly as a result of exports increasing at a faster pace than imports.

Value of Imports in H1 (\$B)



Top Imports in H1 2018



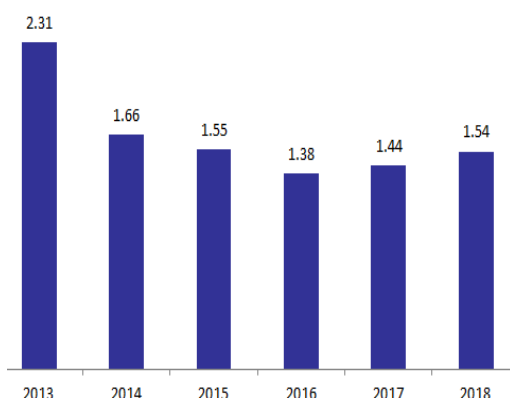
In terms of imports, mineral products continued on leading the list of the most imported products as it remains on being a vital necessity of households as well as manufacturing firms. However, given the fact that Lebanese importers rushed to secure the imports of oil at a VAT of 10% by end 2017, instead of the new 11% in 2018, accompanied with the increase in average oil prices in the H1 2018, the quantity of oil imported in the first half of the year substantially dropped. Oil and its derivatives imports, representing 92% of mineral products, were slashed by half in H1 2018 to reach 2.25M tons and plunged by 30.82% compared to H2 2017, hence leading to a 32.80% decline in value to \$1.4B. Lebanon's main suppliers of mineral products for the first half of the year were Greece (45%), Italy (18%), and Russia (9%).

Secondly, chemical products' imports (11.87% of imported products) substantially rose by 9.7% to \$1.14B as they're directly linked to pharmaceutical products and essential oils. In fact, pharmaceutical products (60% of chemical products) rose by 9.4% to \$622.77M in H1 2018. According to Business Monitor International (BMI) the Lebanese pharmaceutical market will continue to grow over the next few years, as investments in strengthening the country's overall healthcare infrastructure, following international support given in responses to the Syrian refugee crisis, has seen noticeable improvements in healthcare and medicine access. Lebanon imported 14% of chemical products from Germany, 10% from France, and 9% from the US.

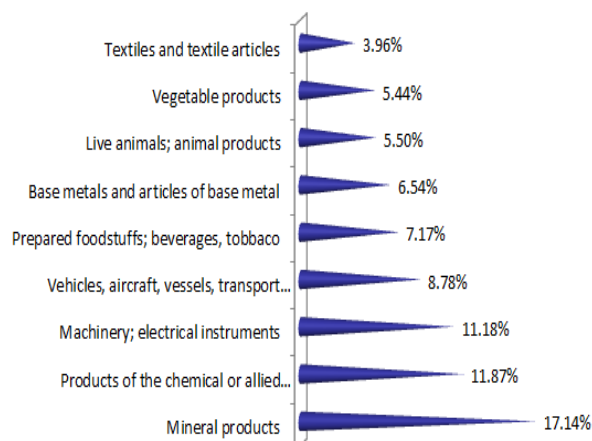
"Machinery and electric instruments" came in third, with a yearly rise of 11.47% to \$1.07B by June 2018, mainly attributed the 1.04% rise in volume. This section is mainly divided into 2 main components: boilers and mechanical appliances, and Electrical machinery and equipment. boilers and mechanical appliances registered a 17.5% y-o-y increase to \$676.53M, and Electrical machinery and equipment escalated from \$385.08M in H1 2017 to \$394.30M in H1 2018. 38% of machinery was imported from China, followed by 13% from Italy, and 7% from Germany.

With the increase in taxes and the weaker purchasing power of the Lebanese, demand for cars has become a secondary concern in Lebanon. As such, transport vehicles and equipment representing 8.78% of imports, fell by 6.30% to \$841.31M. Likewise, their volume dropped by 7.67% y-o-y to 111,438 tons, in 2018. In terms of the top importers, 22% of vehicles are imported from Germany, 20% from the United States, and 14% from Japan.

Value of Exports in H1 (\$B)



Top Exports in H1 2018



As for exports, Pearls and precious stones grasped the largest share of exports during H1 2018. The higher oil prices have paved the way for increasing exports to the gulf countries. In fact, in H1 2017 only 11% of pearls and precious stones were exported to the UAE, as opposed to 31% in H1 2018. Pearls, precious stones and metals, which contributed to a quarter of total exports, saw both their value and volume increase by yearly 17.1% and 41.67% to \$395.42M and 34 tons, respectively. Diamonds' exports have gained momentum this year as they now account for 30% of the exported "Pearls and precious stones" compared to 9% in H1 2017, while gold exports' share have dropped from 80% in H1 2017 to 61% in H1 2018. As such, diamonds exports increased during the first 6 months of the year from \$33.12M to \$117.92, while gold exports' value dropped by 8.21% to \$242.89M, mainly on the back of slightly lower exported volume. Lebanon's main exporting markets are South Africa (37%), the United Arab Emirates (31%), and Switzerland (25%).

Exported quantities of base metals ranked third with a share of 13.94% of total exports. Their value stood at \$214.67M in the first 6 months of the year, 35.3% higher than their value in H1 2017. This came as a result of the 13.2%, 47% and 58% y-o-y rises in aluminum exports, iron and steel, and lead, respectively. Turkey remained the main importer of Lebanese base metals with a share of 30%, followed by the Republic of Korea with 15%, and 12% to Greece.

The hindering of land transport especially through customs' offices bordering Syria has taken its toll on the exports of "Prepared foodstuffs, beverages, and tobacco". The mentioned products registered a 13.20% y-o-y fall to \$208.40M, mainly due to the large drop of Sugars and sugar confectionery from \$46.71M, in H1 2017, to \$13.65M, in

H1 2018. The drop in the agro-industrial products can be linked to the fact that the previous top importer, Syria, has now become one of worst. In H1 2017, 20% of these products were exported to Syria compared to 3% in H1 2018. In the first 6 months of the year, exports to Saudi Arabia ranked first (13%), followed by Qatar (12%), and US (7%).

Chemical products followed in the most exported goods, with a share of 11.48%. in fact, exports escalated by a yearly 19% to stand at \$176.69M in H1 2018. This can be mainly linked to the large increases of the exports of fertilizers (20% of chemical products' exports) and inorganic chemicals (12% of chemical products' exports) from \$21.11M and \$7.17M to \$34.1M and \$20.37M. The main importing countries were Iraq with 11%, followed by Brazil (10%), and Saudi Arabia with 8%.

Trade activity in Lebanon has debilitated throughout the years and has been imposing further pressures on the economy and the dollar-pegged currency. The increases in taxes accompanied by the lingering Syrian war have been of no help in narrowing the deficit. However, Lebanon should make use of its customs' offices bordering Syria and take advantage of the imminent reconstruction in Syria, which could boost investors' appetite as well as Lebanon's growth potential.

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