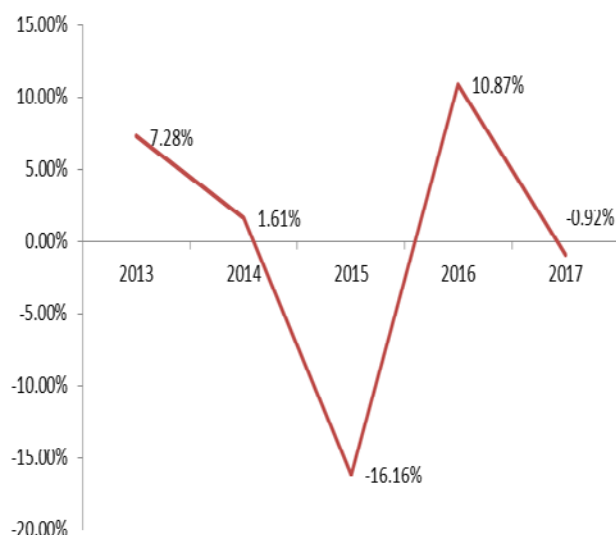




Yearly Evolution of Trade Deficit by H1



Source: Lebanese Customs

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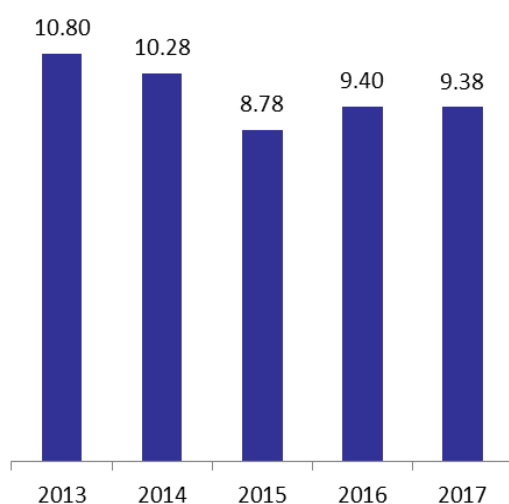
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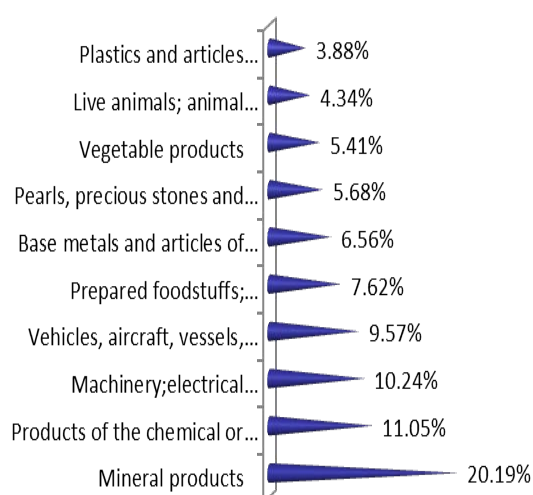
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Lebanon's Yearly Imports by H1 (\$B)

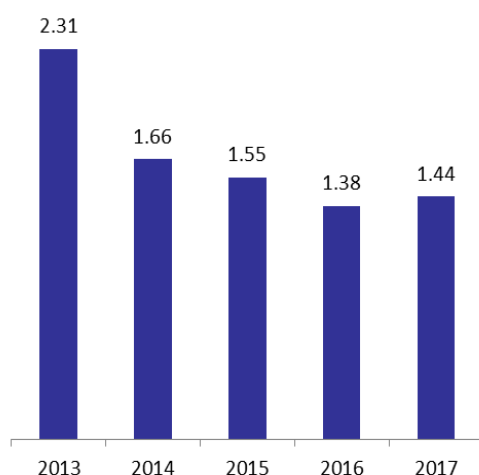


Source: Lebanese Customs

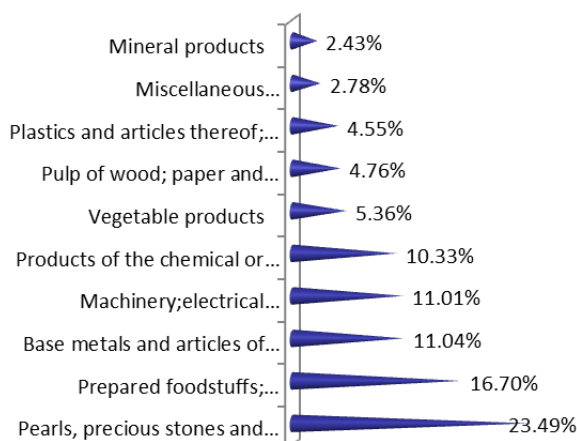
10 Most Imported Products



Lebanon's Yearly Exports by H1 (\$B)



10 Most Exported Products



Source: Lebanese Customs

Despite the fact that Lebanon is situated in at the heart of the Middle East and the crossroads of three continents, the service-driven country has long been witnessing a large trade deficit. Lebanon's trade deficit reached \$7.94B in H1 2017, compared to \$8.02B, during the same period in 2016. The slight narrowing in the trade deficit came on the back of a 0.19% yearly decline in the value of imports to \$9.38B and a 4.03% increase in the value of exports to \$1.44B. Moreover, the exports to imports ratio stood at 15.32% in H1 2017, compared to 14.70% in the previous year.

Imports: Losing Ground on Higher Oil Prices

Starting with imports, demand for energy remained the vital necessity of local individuals and institutional entities. Therefore, mineral products maintained their leading rank amongst imports to Lebanon with 20.19% of the total, representing almost 8% of the GDP in 2016. However, oil and its derivatives, representing 98% of mineral products, dropped by 4.82% to 3.95M tons accompanied with an 11.54% decline in value to \$1.84B. In fact, EDL fuel imports contracted by 64% (\$ 664M) in January – May 2017 when compared to the same period of 2016. Lebanon's main suppliers of mineral products for the first half of the year were Greece (35%), Russia (17%), and Kuwait (11%).

Moreover, chemical products' imports witnessed a minimal change as they're directly linked to pharmaceutical products and essential oils, which witnessed slight increases.

Pharmaceutical products (60% of chemical products) rose from \$618.36M in H1 2016 to \$622.77M in H1 2017. Business Monitor International (BMI) expects that total expenditure on pharmaceuticals in Lebanon, including prescription and over-the-counter medicines, to increase to \$2.84B over the 2016-2026 period, hence rising at compounded annual growth rate (CAGR) of 5.1%. As for essential oils (12% of chemical products), they rose by a marginal 0.34% to stand at \$116.25M. Lebanon imported 14% of chemical products from Germany, 12% from France, and 9% from the US.

“Machinery and electric instruments” came in third, with a yearly rise of 2.85% to \$960,976 by June 2017, mainly attributed the 4.27% rise in volume. This section is mainly divided into 2 main components: boilers and mechanical appliances, and Electrical machinery and equipment. The former registered a 1.77% y-o-y increase to \$575.73M, and the latter escalated from \$364.18M in H1 2016 to \$385.08M in H1 2017. 31% of machinery was imported from China, followed by 10% from Italy, and 8% from Germany.

Transport vehicles and equipment representing 9.57% of imports, added 5.37% to \$897.83M. Likewise, their volume grew 9.96% y-o-y to 120,691 tons, in 2017. However, new cars’ registrations registered a marginal 0.53% drop to 23,599 cars by June 2017, which reveals a rise in imported used cars. Given the large demand for European cars, 26% of vehicles are imported from Germany, 18% from the United States, and 14% from Japan.

Exports: Promising Improvement in the First Half

Pearls and precious stones remained in the lead with further growth in the first half of 2017, despite increasing competition from Arab and European markets. In fact, pearls, precious stones and metals, which contributed to a quarter of total exports, saw both their value and volume increase by yearly 11.21% and 33.33% to \$337.63M and 24 tons, respectively. The rise can be mainly justified by the increase in gold exports (80% of pearls, precious stones and metals), which recorded a 10.91% yearly rise to \$264.36M. Lebanon’s main exporting markets are South Africa (56%), Switzerland (26%), and the United Arab Emirates (11%).

Agro-industrial products, specifically “Sugars and sugar confectionery”, were the main drivers behind the rise in “Prepared foodstuffs, beverages, and tobacco”, in H1 2017. The mentioned products registered a 3.20% y-o-y jump to \$240.03M, mainly due to the large escalation of Sugars and sugar confectionery from \$25.82M, in H1 2016, to \$46.71M, in H1 2017. Exports to Syria ranked first (20%), followed by Saudi Arabia (12%), and Iraq (8%). Moreover, the lingering Syrian war, which interrupted Syria’s trade

activities, still positively impacts the Lebanese exports of food and agricultural products, as demand of foreign markets shifted from Syrian products to Lebanese. Moreover, the war has also greatly impacted the customs' offices that border the 2 countries. As such, Port of Beirut ranked first in the customs office for the export of "Prepared foodstuffs, beverages, and tobacco".

Exported quantities of base metals ranked third with a stake of 11.04% of total exports. Their value reached \$158.72M in the first 6 months of the year, 23.86% higher than their value in H1 2016. This came as a direct result of the 75.21% y-o-y rise in iron and steel, which offset the 23% drop in aluminum exports. 28% were exported to Turkey, 17% to the Republic of Korea, and 4% to Greece.

Nonetheless, the plunge in Machinery and electrical instruments, which accounts for 11.01% of exports, weighed down on the total. In fact, Machinery and electrical instruments decreased by 12.87% y-o-y to \$158.18M in H1 2017, compared to \$181.55M in H1 2016. While electrical equipment and parts marginally rose by 0.67%, the foreign demand for boilers and machinery exports fell by 24.67% to \$72.51M. The main importing countries were Iraq with 13%, followed by Saudi Arabia and Syria with 10%, each.

In conclusion, trade activity witnessed slight, but insufficient, improvement in the first half of the year. However, the continuing spillovers of the Syrian war as well as the rise on import taxes on some products will debilitate the trading activity. Moreover, the fact that Lebanon mainly relies on only 2 customs' offices, Port of Beirut and the Rafic Hariri Airport, decreases its capability to reach its full trading potential and make use of locally produced goods, as other offices, such as Port of Tripoli, can benefit the trading activity.

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