



غرفة التجارة والصناعة والزراعة  
Chamber of Commerce Industry  
and Agriculture  
of Beirut and Mount-Lebanon في بيروت وجبل لبنان

# THE LEBANESE ECONOMY IN 2017

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# INTRODUCTION

Geo-political adversities continue to take a toll on the economy as the level of real GDP growth barely maintains positive grounds. It's about time policy-makers put aside their political disputes and realized that they've got a bigger fish to fry.

Despite the slight increase in aggregate output growth during 2017 which reached a mere 1.5 percent in real terms, economic growth has been on downward path since 2012. A number of challenges are straining economic growth namely, the political unrest, the lack of administrative and fiscal reforms and not to mention the skyrocketing public debt which ratio to GDP stood at 154 percent in 2017.

After an unprecedented surplus of \$1.24 billion in 2016, balance of payments recorded a deficit of \$155.7 million in 2017. This drop in the balance of payments is primarily due to a reduction in foreign currency reserves as the net flow of foreign currencies hit a deficit during the same period. This reaffirms the view that last year's surplus in the balance of payments was simply owed to a surge in foreign currencies and not to an improvement in overall economic activity.

The current account and trade deficits widened furthermore to reach \$12.4 billion (24 percent of GDP) and \$16.7 billion, respectively. This year saw some improvement in consumer expectations, a leading indicator of economic performance, though still in the neutral area of the scale.

Reinstating macro-economic growth is contingent essentially on stability on both the political and the security fronts given the impact that stability has on investor and consumer expectations, and hence on the level of overall aggregate demand.

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# **ECONOMIC REPORT - 2016**

## **PART I – THE MACRO ECONOMY**

- A. Indicators of Economic Performance**
- B. Money and Banking**
- C. Public Finance**
- D. Foreign Trade**

## **PART II – SECTORS OF ACTIVITY**

- A. Agriculture**
- B. Industry**
- C. Construction and Real Estate**
- D. Tourism**

## A. Indicators of Economic Performance

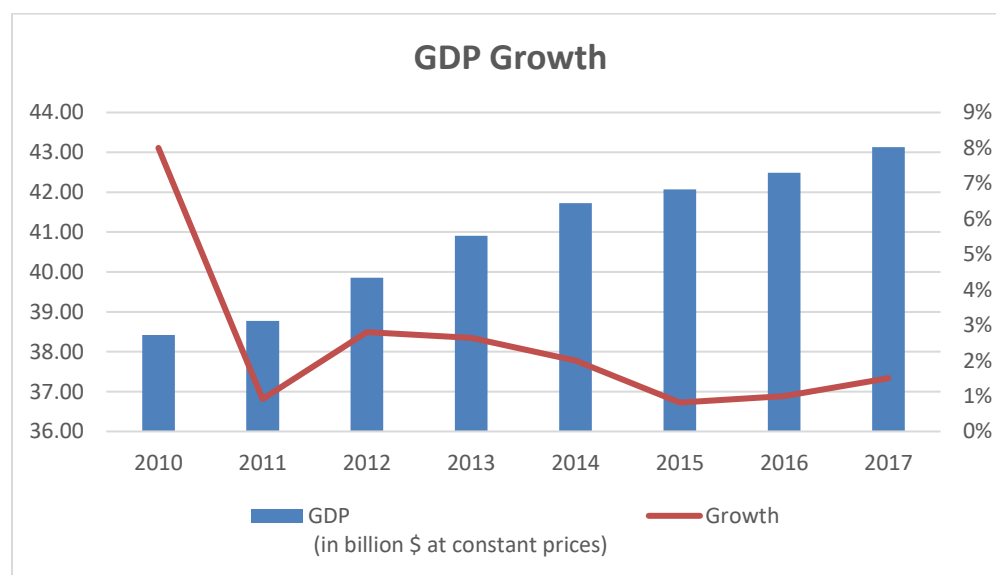
### 1. Gross Domestic Product

Gross Domestic Product (GDP) slightly increased in 2017 and reached \$51.5 billion at current prices. In real terms, GDP growth stood at nearly 1.5 percent compared with a mere one percent in 2016.

In the wake of the four years of heady growth from 2007 to 2010 during which the measure of economic activity expanded at an average pace of more than 13 percent a year, economic growth barely remained in positive territory over the past couple of years.

<i>in billion \$ at current prices</i>	<b>GDP</b>	<b>Growth</b>
<b>2010</b>	38.4	8%
<b>2011</b>	40.1	4.3%
<b>2012</b>	43.9	9.5%
<b>2013</b>	46.0	4.9%
<b>2014</b>	47.8	4.0%
<b>2015</b>	49.5	3.4%
<b>2016</b>	50	2.0%
<b>2017</b>	51.5	3.0%

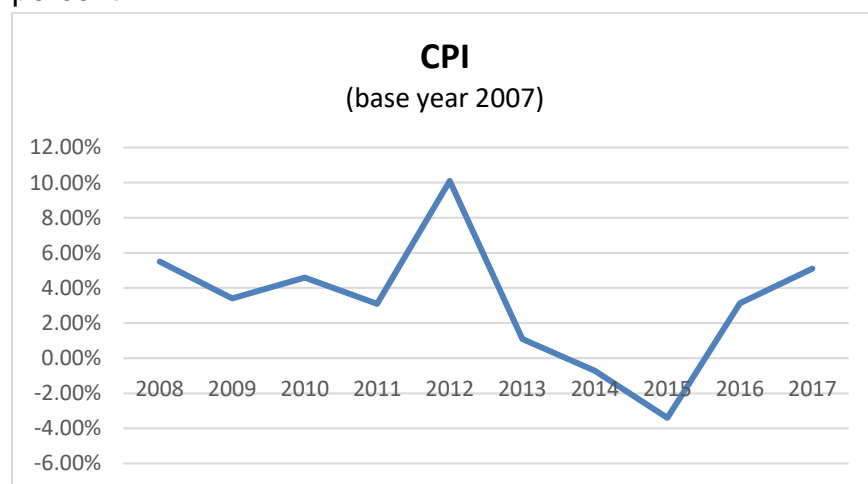
Source: IMF



## 2. Inflation

The Consumer Price Index computed by the Central Administration of Statistics shows that the prices of goods and services monitored for the purposes of the index increased by 5.1 percent in 2017 compared to a 3.1 percent increase in 2016.

Over the past decade, the index rose by an average of three percent.



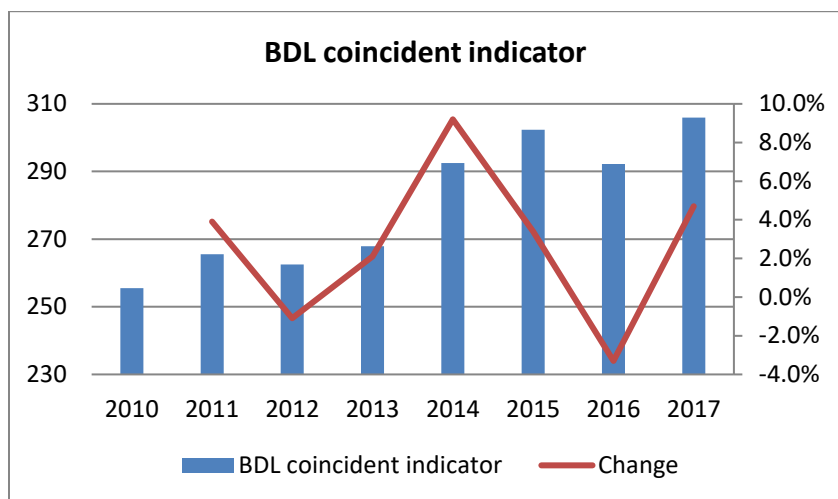
	CPI (base year 2007)
2008	5.5%
2009	3.4%
2010	4.6%
2011	3.1%
2012	10.1%
2013	1.1%
2014	-0.71%
2015	-3.4%
2016	3.14%
2017	5.10%

## 3. Growth indicator

The Central Bank's coincident indicator, a synthesized gauger of economic activity, increased by almost five percent in 2017; compared to a 3.3 percent decrease witnessed in 2016.

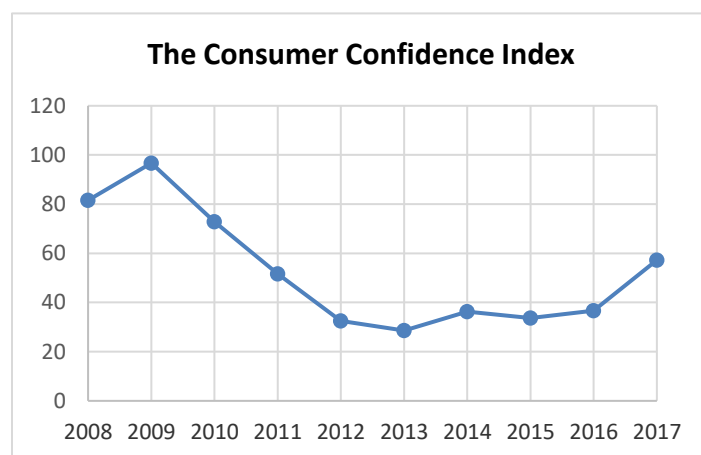
Though not a leading indicator of GDP growth, this concurrent indicator reflects minor growth dynamics within the economy over the short term.

	BDL coincident indicator	Change
2010	255.5	
2011	265.5	3.9%
2012	262.5	-1.1%
2013	267.9	2.1%
2014	292.5	9.2%
2015	302.3	3.4%
2016	292.2	-3.3%
2017	305.9	4.7%



#### 4. Consumption

The Consumer Confidence Index<sup>1</sup>, a leading indicator that captures consumer perception about their financial situation and about economic prospects in general, has been on a downward path over four years in a row but has picked up during the past couple of years.



The index trend over the past seven years reflects consumers' pessimistic outlook towards general economic conditions; but has nonetheless surged by 55.9 percent in 2017 to reach 57.2, compared to a nine percent growth in 2016. However, this index remains 41 percent lower from its highest value registered in 2009.

Consumption being the largest component of GDP, factors that undermine consumer spending expectedly reduce the rate of growth of aggregate demand and hence GDP growth. From here stems the importance of measuring households' expectations about future prospects of the economy, for these expectations will become a self-fulfilling

<sup>1</sup> Prepared by Byblos Bank and the American University of Beirut.

prophecy. If consumers have negative expectations, they will more likely restrain their consumption and hence pull down GDP growth but if they are positive about future economic conditions, this will translate in an increased consumption and by the same stroke a surge in economic growth.

## 5. Foreign Direct Investments

According to the UNCTAD World Investment Report 2018, the value of foreign direct investment (FDI) remained unchanged from last year's value and stood at \$2.6 billion in 2017. As a percentage of GDP, FDI inflows remained nearly unchanged with a negligible 0.1 decrease from their value in 2016.

Year	FDI inflows (in billion \$)	FDI inflows % of GDP
2010	3.7	9.6%
2011	3.2	8%
2012	3.1	7.1%
2013	2.7	5.9%
2014	2.9	6.1%
2015	2.3	4.6%
2016	2.6	5.1%
2017	2.6	5.0%

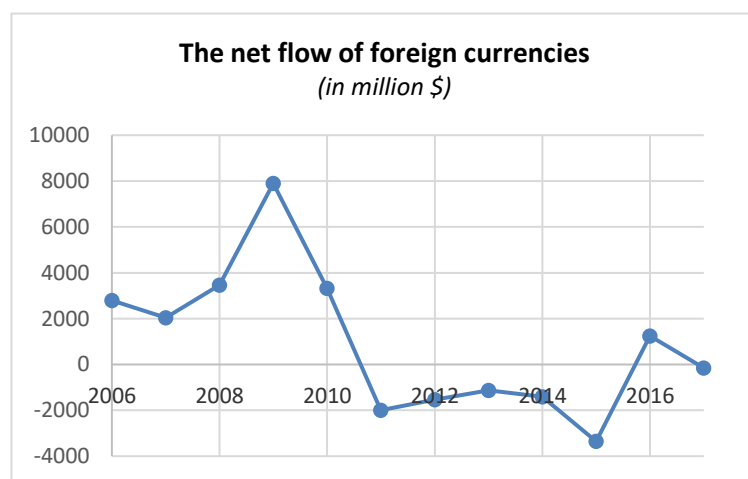
Source: UNCTAD, World Investment Report 2017

FDI inward stock reached around \$61 billion by end of 2016, a 38.6 percent increase from its value in 2010. Outflows of FDI amounted to \$773 million in 2016 as opposed to \$662 million in 2015.

FDI inward stock reached around \$64 billion by the end of 2017, a 43 percent increase from its value in 2016. Outflows of FDI amounted to \$567 million in 2017 a considerable drop (27 percent) from their value in 2016.

## 6. The net flow of foreign currencies

The net flow of foreign currencies to the banking sector showed a negative balance of \$156 million in 2017, compared with a surplus of \$1.24 billion last year. This shortfall comes after a five-year streak of deficits between 2011 and 2015 that had reached a record low balance of negative \$3.35 billion in 2015.





Should the cumulative deficit in the flow of foreign currencies – a proxy measure of the balance of payments bottom line – continue on an upward path, as the deficit hits \$208 million in the first six months of 2018, worries of an unchecked deterioration of the balance of payments situation will heighten.

The net flow of foreign currencies												
(in million \$)	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
<b>Central bank</b>	246.6	-830.8	7,282.60	8,693.10	3,201.10	2270.7	581	1,846	3,815	-473	3,866	1,609
<b>Banks</b>	2,545.00	2,867.40	-3,821.10	-794	123.4	-4266.9	-2119	-2,973	-5,222	-2,881	-2,628	-1,766
<b>Balance</b>	<b>2791.6</b>	<b>2036.6</b>	<b>3461.5</b>	<b>7899.1</b>	<b>3324.5</b>	<b>-1996.2</b>	<b>-1538</b>	<b>-1,128</b>	<b>-1,407</b>	<b>-3,354</b>	<b>1,238</b>	<b>-156</b>

## B. Money and Banking

### 1. The Central Bank

Foreign assets held by the Bank of Lebanon remained near their historic high of 2012 and reached \$47.8 billion in 2017, up seven percent from their value in 2016.

The foreign currency component of the Central Bank's foreign assets forms 39.5 percent of the Bank's balance sheet, whereas the gold component represents nearly 13 percent of the balance sheet.

Foreign assets held by the Bank of Lebanon											
(in billion \$)	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
<b>Foreign Assets</b>	17.42	25.09	35.72	41.61	45.21	45.28	42.81	43.35	40.49	44.73	47.77
Gold	7.64	8.03	10.06	13.01	14.4	15.31	11.10	10.95	9.85	10.71	11.96
Foreign Currencies	9.78	17.06	25.66	28.6	30.81	29.97	31.71	32.40	30.64	34.03	35.81

The securities portfolio is the second largest part of the Bank's balance sheet and constitutes more than 33 percent of assets. That portfolio which represents the Central Bank's holdings of public debt instruments expanded by almost nine percent in 2017 as opposed to a broad 33 percent increase in 2016. This portion of the public debt, is in the nature of high-powered money injected into the system; as such, it contributes to the building of destabilizing pressures. However, and to the extent that change in the volume of this 'monetized' portion of the public debt stems from a policy decision, it

would constitute a flexible instrument of liquidity management at the disposal of monetary authorities.

On the liabilities side, deposits of banks and financial institutions grew by 16 percent in 2017 compared to a 14 percent surge in 2016, to reach the equivalent of approximately \$97 billion. These deposits currently constitute around 82 percent of the Central Bank's total liabilities.

<b>The balance sheet of the Bank of Lebanon</b>											
<i>(in billion LL)</i>	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>
<b>Assets</b>											
Foreign Assets	26,257	37,830	53,851	62,724	68,163	68,267	64,547	65,356	61,033	67,436	72,011
Claims on Private Sector	297	305	333	350	380	380	401	449	451	412	422
Loans to Banks and Financial Institutions	1,690	1,543	1,803	1,136	2,099	2,438	3,466	6,361	7,574	9,645	19,185
Claims on Public Sector	406	362	293	218	140	55	0	0	0	0	0
Securities Portfolio	13,303	13,933	15,525	17,681	19,847	24,990	23,846	29,314	36,924	49,039	53,435
Fixed Assets	435	409	412	404	358	387	379	342	331	327	361
Unclassified Assets	6,247	6,038	8,812	11,868	14,986	19,096	23,462	27,371	13,345	10,012	14,775
<b>TOTAL</b>	<b>48,635</b>	<b>60,420</b>	<b>81,029</b>	<b>94,381</b>	<b>105,973</b>	<b>115,613</b>	<b>116,100</b>	<b>129,194</b>	<b>119,658</b>	<b>136,870</b>	<b>160,189</b>
<b>Liabilities</b>											
Currency in Circulation outside BDL	2,191	2,498	2,730	3,088	3,283	3,638	3,983	4,254	4,706	5,285	5,662
Deposits of Banks and Financial Institutions	28,295	37,507	51,950	59,559	69,752	77,111	82,033	97,979	109,914	125,741	146,240
Liabilities to the Private Sector	206	28	36	45	42	49	50	68	80	46	42
Public Sector Accounts	3,364	6,995	8,932	9,312	7,985	8,908	11,033	9,123	8,154	8,312	8,892
Valuation Adjustment	3,041	3,602	6,761	11,170	13,285	14,708	8,426	8,146	6,401	7,707	9,726
Securities Other than Shares	3,015	3,015	3,015	3,015	3,015	3,015	2,605	1,867	0	0	0
Foreign Liabilities	531	671	594	353	329	326	328	325	321	320	497
Special Long-term Liabilities	3,184	2,682	2,520	2,503	2,503	2,202	1,900	1,598	1,297	844	844
Capital Accounts	2,715	2,411	3,342	4,280	4,556	5,080	5,134	5,174	5,340	5,429	5,540
Unclassified Liabilities	2,093	1,011	1,149	1,056	1,223	576	608	661	824	565	826

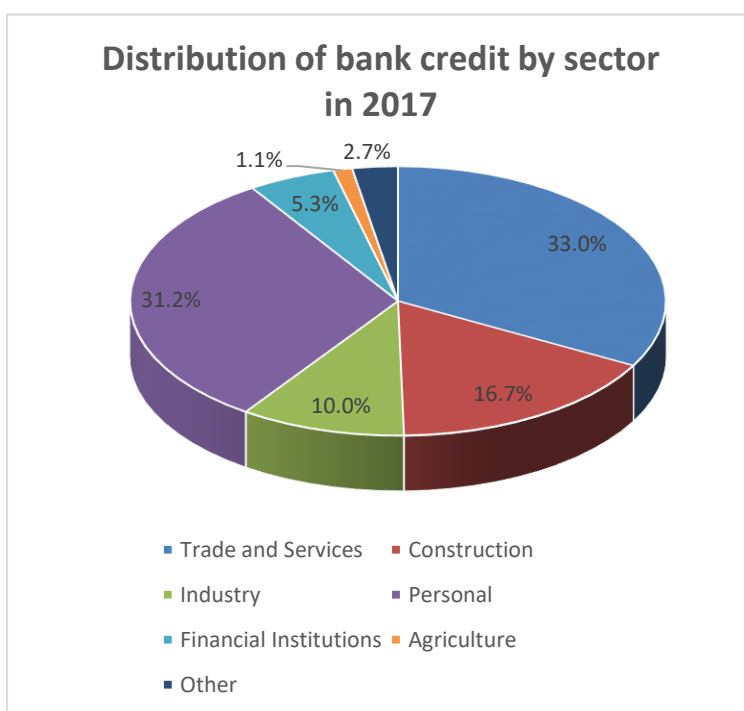
## 2. Money supply

In 2017 almost all measures of money supply (except M<sub>2</sub>) grew at higher growth rates compared to 2016. The growth rate of the M<sub>1</sub> measure of money supply was the highest, it grew by almost five percent, but 2.5 times less than its last year's growth rate. M<sub>2</sub> growth rate witnessed a four percent decrease in 2017 compared with 4.8 percent in 2016, M<sub>3</sub> grew by 4.2 percent in 2017 compared with 7.4 percent in 2016. M<sub>4</sub> grew at nearly four percent, three percent lower than its last year's growth rate.

		Money supply (in billion LL)									
	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
M1	3,578	4,269	4,840	5,728	6,138	7,104	7,620	8,301	9,042	10,159	10,655
growth	7.71%	19.31%	13.38%	18.35%	7.16%	15.74%	7.27%	8.93%	8.93%	12.35%	4.88%
M2	24,831	37,325	51,489	59,402	58,643	65,077	68,749	73,400	78,620	82,428	79,113
growth	5.76%	50.32%	37.95%	15.37%	-1.28%	10.97%	5.64%	6.77%	7.11%	4.84%	-4.02%
M3	90,197	103,506	123,732	138,910	146,576	156,797	167,571	177,397	186,360	200,192	208,613
growth	12.40%	14.76%	19.54%	12.27%	5.52%	6.97%	6.87%	5.86%	5.05%	7.42%	4.21%
M4	95,810	109,412	131,085	146,821	154,365	164,679	176,807	187,826	197,369	210,989	219,354
growth	13.32%	14.20%	19.81%	12.00%	5.14%	6.68%	7.36%	6.23%	5.08%	6.90%	3.96%

### 3. Sectoral distribution of bank credit

The sectoral distribution of bank credit underwent a radical structural change in the past decade. Personal loans granted mainly to finance all forms of consumer spending were multiplied by a factor of 7 in the period from 2000 to 2012 and by a factor of 11 in the period from 2000 to 2017. Their share in total bank credit more than doubled to account for almost a third of total bank credit to the private sector. In 2017 personal loans increased by over eight percent from their value in 2016 and account for 31.2 percent of total bank credit to the private economy.



This increase in personal loans reflects banks' preference for this high-interest, fully-secured type of lending.

Bank lending to other sectors of activity fell in relative terms from 2000 to 2017. Loans to the trade and services sectors still take up the largest portion of bank credit, but these loans constitute nearly 33 percent of the total in 2017 compared with nearly 44 percent in the year 2000. The fall in the share of loans to construction and industry was also significant, as the adjoining tables show.

<b>Distribution of bank credit by sector</b>												
<i>(in billion LL)</i>	<b>2012</b>	<b>%</b>	<b>2013</b>	<b>%</b>	<b>2014</b>	<b>%</b>	<b>2015</b>	<b>%</b>	<b>2016</b>	<b>%</b>	<b>2017</b>	<b>%</b>
<b>Trade and Services</b>	25,318	34.8%	27,501	34.5%	29,373	34.0%	30,287	33.7%	31,346	32.4%	34,110	33.0%
<b>Construction</b>	12,037	16.5%	13,840	17.3%	14,471	16.7%	15,470	17.2%	17,414	18.0%	17,267	16.7%
<b>Industry</b>	8,455	11.6%	9,007	11.3%	9,320	10.8%	9,533	10.6%	9,517	9.8%	10,304	10.0%
<b>Personal</b>	19,235	26.4%	22,207	27.8%	24,911	28.8%	26,447	29.4%	29,662	30.6%	32,332	31.2%
<b>Financial Institutions</b>	5,000	6.9%	4,315	5.4%	5,171	6.0%	4,934	5.5%	5,169	5.3%	5,452	5.3%
<b>Agriculture</b>	685	0.9%	824	1.0%	994	1.1%	1,021	1.1%	1,146	1.2%	1,183	1.1%
<b>Other</b>	2,003	2.8%	2,082	2.6%	2,214	2.6%	2,245	2.5%	2,527	2.6%	2,846	2.7%
<b>Total</b>	<b>72,733</b>		<b>79,776</b>		<b>86,454</b>		<b>89,937</b>		<b>96,781</b>		<b>103,495</b>	

#### 4. The Beirut Stock Exchange

Trading activity on the Beirut Stock Exchange (BSE) declined in 2017. The value of shares traded decreased by 30.4 percent and reached 83.9 million compared to 120.5 million in 2016.

	<b>Shares Traded</b>	<b>Market Cap</b>	<b>Value Traded</b>
	<i>(million shares)</i>	<i>(\$ billion)</i>	<i>(\$ million)</i>
<b>2016</b>	120.5	11.9	971.6
<b>2017</b>	83.9	11.5	752.5

The market's capitalization fell slightly to \$10.5 billion, down nearly 3.4 percent from its value in 2016.

The BSE is still underdeveloped and bank credit remains practically the sole source of investment financing. This deprives business enterprises of an alternative, non-bank, source of financing. At the enterprise level, the existence of such source would enable businesses to make decisions leading to an optimal debt-to-equity mix. At the level of the economy, developed capital markets help render the investment environment more attractive and competitive.

At the present, only 10 companies are listed on the BSE, two of which are industrial enterprises constituting around 0.3 percent of total market capitalization, down from nine percent in 2005.

The minimal presence of the industrial sector in the BSE is primarily due to the fact that Lebanese enterprises are mostly family-owned and are hence reluctant to expand their ownership base and relinquish decision-making.

## C. Public Finance

	Fiscal performance										
<i>(in billion \$)</i>	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
<b>Total Public Revenues</b>	5.8	7	8.43	8.41	9.33	10.14	9.42	10.88	9.58	9.92	11.62
<b>Total Public Expenditure</b>	8.35	9.92	11.39	11.31	11.67	13.53	13.64	13.95	13.53	14.87	15.38
<b>Deficit Spending</b>	2.55	2.92	2.96	2.89	2.34	3.39	4.22	3.07	3.95	4.95	3.76
<b>Deficit Spending / Total Expenditure</b>	30.5%	29.4%	26.0%	25.6%	20.1%	25.0%	30.9%	22.0%	29.2%	33.3%	24.4%
<b>Debt service</b>	3.28	3.52	4.04	3.91	3.75	3.98	3.79	4.19	4.46	4.77	5.18
<b>Total Expenditure (excl. debt service)</b>	5.07	6.4	7.35	7.4	7.92	9.55	9.85	9.76	9.07	10.1	10.2
<b>Primary surplus(+), deficit (-)</b>	0.73	0.6	1.08	1.02	1.41	0.59	-0.43	1.12	0.51	-0.18	1.42
<b>Revenues growth rate</b>	20%	21%	20%	0%	11%	9%	-7%	15%	-12%	4%	17.1%
<b>Expenditures growth rate</b>	6%	19%	15%	-1%	3%	16%	1%	2%	-3%	10%	3.4%

### 1. A worsening fiscal strain

Over the past decade, public expenditure almost doubled to reach the equivalent of \$15.38 billion by the end of 2017, whereas public revenues were multiplied by a factor of 1.8 in that period and reached the equivalent of \$11.62 billion.

The budget deficit reached \$3.76 billion in 2017, the third largest budgetary shortfall of the decade after a peak of \$4.95 billion reached in 2016. Between 2004 and 2017, public revenues grew at an annual average rate of 7.7 percent compared with public expenditure growth at an annual average rate of 6 percent. Public revenues grew considerably in 2017 with a growth rate of 17 percent whereas public expenditure were up by only 3.4 percent.

In the ten-year period to 2017, total public expenditure excluding debt service nearly doubled, whereas debt service grew by 58 percent in the same period. The ratio of public expenditure to GDP remained confined to a range of 30 to 35 percent throughout the decade under review, while the ratio of debt service to GDP fell markedly from 16 percent in 2003 to nine percent in 2016.

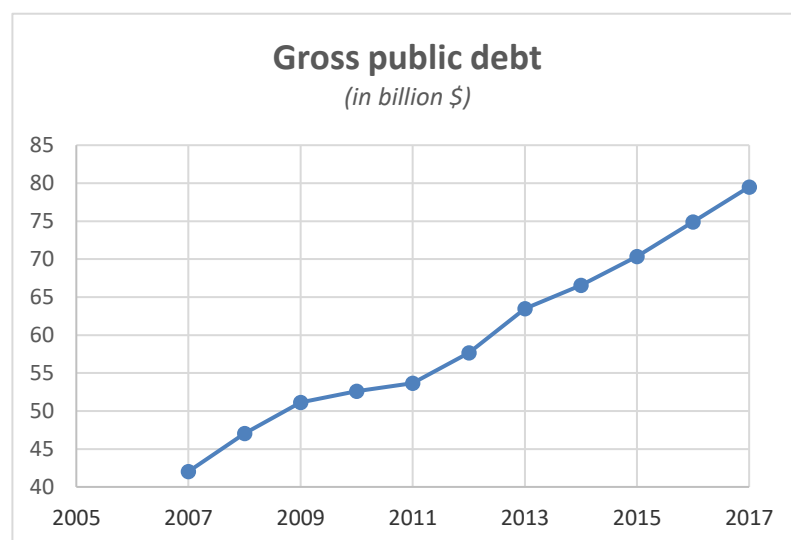
## 2. Public debt metrics and management

The gross public debt reached the equivalent of \$79.5 billion at the end of 2017; its ratio to GDP slightly increased from the previous year from 148 percent to 154 percent.

The ratio of gross public debt to GDP does not constitute a measure of the economy's ability to maintain a particular level of indebtedness. The setting of the debt-to-GDP ratio as a fiscal-policy

target has hitherto lent acceptance to the presumption that a decrease in this ratio is an indicator of improvement in public finances. In fact, a reduction in that ratio may be the result of GDP growth, rather than any direct fiscal-policy achievement. Furthermore, the ratio offers no gauge of the extent to which the burden of heavy public indebtedness is disabling fiscal policy's role and impact in economic management.

Public sector deposits, which constitute the difference between the gross public debt and its net valuation, have grown over the past decade to reach the equivalent of \$10.2 billion in 2017, that is close to 13 percent of the gross debt.



The public debt (in billion \$)				
	Gross public debt	Public sector deposits	Net public debt	Gross public debt / GDP
2007	42.03	3	39.03	168%
2008	47.06	5.52	41.54	156%
2009	51.15	6.98	44.17	148%
2010	52.6	7.57	45.03	137%
2011	53.66	7.3	46.36	134%
2012	57.68	8.56	49.12	131%
2013	63.49	10.27	53.22	138%
2014	66.57	13.24	53.33	139%
2015	70.33	8.77	61.56	142%
2016	74.9	9.5	65.4	148%
2017	79.5	10.2	69.1	154%

## D. Foreign Trade

### 1. The trade balance

Lebanon's recurrent merchandise trade deficit grew deeper by 6.4 percent compared with last year, to hit a total of \$16.7 billion in 2017.

Over the past ten years, the shortfall in merchandise trade exchange grew at a yearly average of nine percent. The 2017 deficit, which is the largest during the past three years, is almost three times larger than that of 2003.

Lebanon's trade exchange (in million \$)				
	Exports	Imports	Balance	Coverage
2003	1,524	7,168	-5,644	21.26%
2004	1,747	9,397	-7,650	18.59%
2005	1,880	9,340	-7,460	20.13%
2006	2,283	9,398	-7,115	24.29%
2007	2,816	11,815	-8,999	23.83%
2008	3,478	16,137	-12,659	21.55%
2009	3,484	16,242	-12,758	21.45%
2010	4,253	17,964	-13,711	23.68%
2011	4,265	20,158	-15,893	21.16%
2012	4,483	21,280	-16,797	21.07%
2013	3,936	21,228	-17,292	18.54%
2014	3,313	20,494	-17,181	16.17%
2015	2,952	18,069	-15,117	16.34%
2016	2,977	18,705	-15,728	15.92%
2017	2,843	19,582	-16,739	14.52%

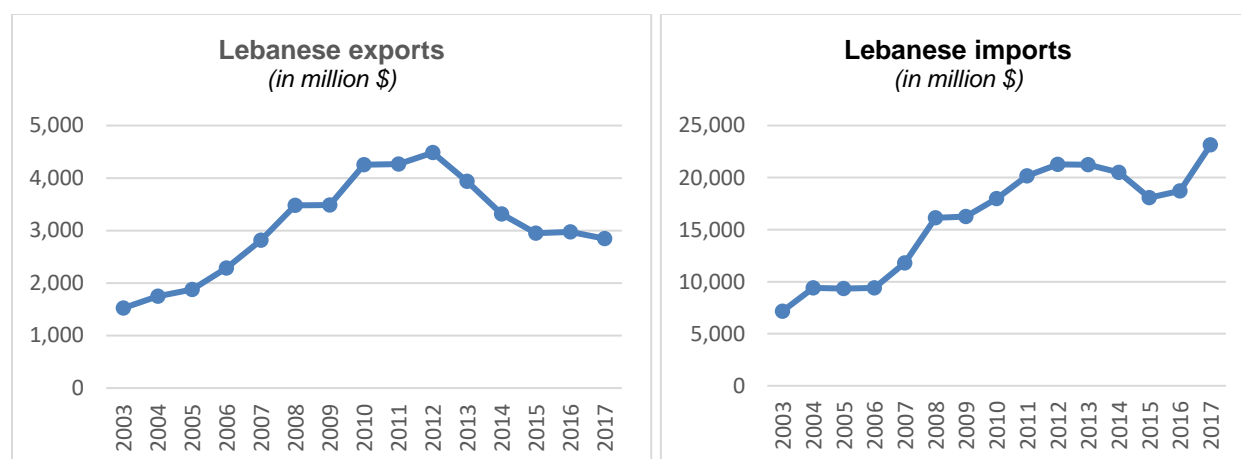
In 2017, the country's imports were valued at nearly \$19.6 billion, up 4.7 percent compared with the value of imports in 2016.

Over the past decade, the value of imports was multiplied by a factor of 1.2.

Total value of exports has been on a downward path for the past eight years to reach a low of \$2.8 billion in 2017 for that period. Exports are down 4.5 percent from their total value in 2016 and 1.6 times from a record high of \$4.5 billion in 2012.

Import coverage, the ratio of exports to imports, fell to 14.5 percent in 2017, a 1.4 percent decrease compared with the previous year, but perceptibly lower than the 2010 coverage ratio of 23.7 percent. At its highest, export coverage had exceeded 24 percent in 2006.

Higher prices of oil and food imports contributed to broadening the trade deficit in 2017.



## 2. Main suppliers

China maintains the same rank as Lebanon's largest supplier in 2017 with imports from that country totaling \$1.8 billion, or 9.5 percent of total imports in 2017.

Italy ranked second among Lebanon's largest suppliers with imports from that country totaling \$1.77 billion, which accounted for approximately nine percent of Lebanon's import bill in 2017.

The United States ranked third in the list of Lebanon's largest suppliers in 2017. Imports from the United States were valued at approximately \$1.4 billion in that year and accounted for 7.4 percent of total imports.



The value of imports from Lebanon's ten largest suppliers added up to \$10.96 billion in 2017, that is 56 percent of total Lebanese imports.

<b>Lebanon's largest suppliers</b>					
<b>2016</b>			<b>2017</b>		
<i>(in thousand \$)</i>			<i>(in thousand \$)</i>		
<b>1</b>	China	2,094,106	<b>1</b>	China	1,879,110
<b>2</b>	Italy	1,408,954	<b>2</b>	Italy	1,770,426
<b>3</b>	United States	1,184,073	<b>3</b>	United States	1,442,313
<b>4</b>	Germany	1,161,072	<b>4</b>	Greece	1,372,593
<b>5</b>	Greece	1,074,134	<b>5</b>	Germany	1,228,796
<b>6</b>	Egypt	773,644	<b>6</b>	Turkey	777,173
<b>7</b>	Russian Federation	718,575	<b>7</b>	France	766,503
<b>8</b>	France	715,669	<b>8</b>	Russian Federation	746,274
<b>9</b>	Turkey	664,739	<b>9</b>	Spain	555,205
<b>10</b>	Netherlands	645,804	<b>10</b>	United Kingdom	447,132
<b>Total</b>		<b>10,440,770</b>	<b>Total</b>		<b>10,985,525</b>

### 3. Main export markets

Lebanon's ten largest export markets took up more than 62 percent of total exports in 2016; the five largest markets accounted for nearly 43 percent of total exports.

South Africa was the largest single best destination for Lebanese exports, these were valued at \$315.1 million and accounted for 11 percent of the total in 2017. The UAE ranked second with \$265.7 million in exports to that country, representing nine percent of the total, and the Syrian Arab Republic ranked third with \$246.2 million worth of exports constituting more than eight percent of the total.

<b>Lebanon's largest export markets</b>					
<b>2016</b>			<b>2017</b>		
<i>(in thousand \$)</i>			<i>(in thousand \$)</i>		
<b>1</b>	South Africa	628,269	<b>1</b>	South Africa	315,094
<b>2</b>	Saudi Arabia	266,662	<b>2</b>	United Arab Emirates	265,674
<b>3</b>	United Arab Emirates	238,671	<b>3</b>	Syrian Arab Republic	246,245
<b>4</b>	Syrian Arab Republic	198,871	<b>4</b>	Saudi Arabia	243,162
<b>5</b>	Iraq	161,701	<b>5</b>	Iraq	172,043
<b>6</b>	Jordan	99,615	<b>6</b>	Switzerland	133,562
<b>7</b>	Switzerland	94,121	<b>7</b>	Turkey	119,525
<b>8</b>	Qatar	75,719	<b>8</b>	Qatar	98,625
<b>9</b>	Kuwait	75,589	<b>9</b>	Kuwait	91,788
<b>10</b>	Turkey	71,502	<b>10</b>	Jordan	89,419
<b>Total</b>		<b>1,910,720</b>	<b>Total</b>		<b>1,775,137</b>

#### 4. Main imports

The share of mineral fuels imports in total imports in 2017 reached 22 percent; their value added up to \$4.3 billion. Over the past 17 years, the share of fuel imports increased by some 24 percentage points from 17.74 percent of total imports in 2001. Greece, the United States, Italy and the Russian Federation are the three main suppliers of mineral fuels to Lebanon.

<b>Main imports 2017</b>	
<i>(in million \$)</i>	
Mineral fuels	4,301
Chemical products	2,135
Machinery	1,934
Vehicles	1,883
Prepared foodstuffs and beverages	1,375
Base metals	1,277
Jewelry	996
Vegetable products	980
Live animals and animal products	885
Textile	787
<b>Total</b>	<b>16,553</b>
<b>Total imports</b>	<b>19,582</b>

Chemical imports ranked second to the tally of main imports, with a value of \$2.14 billion and a share of 11 percent of total imports. Machinery ranked third, with imports valued at \$1.93 billion constituting 9.8 percent of total imports.

The ten largest items accounted for 85 percent of total imports in 2017, and the three largest accounted for 43 percent of the total.

## 5. Main exports

Jewelry exports have retained pride of place in 2017, as they were valued at \$586 million, that is 21 percent of the total compared to \$828 million in 2016. Over the past decade, jewelry has been the main Lebanese export item; its value grew nearly five times since 2000.

Exports of prepared foodstuffs and beverages came second, with a value of \$458 million and a share of 16 percent in total exports.

The ten largest items of exports accounted for 93 percent of total exports in 2017.

<b>Main exports 2017</b>	
<i>(in million \$)</i>	
Jewelry	586
Prepared foodstuffs and beverages	458
Base metal	340
Chemical products	320
Machinery	317
Vegetable products	179
Plastic	150
Paper and cardboard products	142
Miscellaneous manufactures articles	80
Textiles	67
<b>Total</b>	<b>2,639</b>
<b>Total exports</b>	<b>2,843</b>

# **ECONOMIC REPORT - 2016**

## **PART I – THE MACRO ECONOMY**

- A. Indicators of Economic Performance**
- B. Money and Banking**
- C. Public Finance**
- D. Foreign Trade**

## **PART II – SECTORS OF ACTIVITY**

- A. Agriculture**
- B. Industry**
- C. Construction and Real Estate**
- D. Tourism**

## A. Agriculture

Exports of agricultural produce were valued at \$179 million in 2017, down 5.3 percent compared with their previous year's value. Over the past five years, the value of exported agricultural produce decreased by 17 percent, but the share of these exports in total exports remains at around stable 6.3 percent.

Agricultural imports increased to \$980 million, up 12.7 percent compared with their value in the year before. Agricultural imports reached their peak this year after the decrease witnessed in 2016; however, their share in total imports decreased to five percent, down from 16 percent in 2010.

The trade deficit in agricultural produce keeps on widening as it increased by a broad 17.8 percent in 2017 compared with last year's deficit, while import coverage amounted to 18.3 percent.

Trade exchange in agricultural produce						
Agricultural Exports				Agricultural Imports		
	Value (in million \$)	Change	Share in total exports	Value (in million \$)	Change	Share in total imports
<b>2017</b>	179	-5.3%	6.3%	980	12.73%	5.00%
<b>2016</b>	189.1	2.9%	6.7%	869.3	-4.43%	4.44%
<b>2015</b>	183.7	-11.4%	6.2%	909.6	-5.86%	5.03%
<b>2014</b>	207.4	-3.8%	6.3%	966.2	4.70%	4.71%
<b>2013</b>	215.7	26.0%	5.5%	922.8	6.36%	4.35%
<b>2012</b>	171.2	6.6%	3.8%	867.6	2.10%	15.50%
<b>2011</b>	160.6	4.2%	3.8%	849.6	18.70%	15.80%
<b>2010</b>	154.1	28.3%	3.6%	715.6	13.80%	15.90%
<b>2009</b>	120.1	-8.1%	3.4%	628.9	-10.40%	15.20%
<b>2008</b>	130.7		3.8%	702.1		14.20%

<b>Trade exchange in agricultural produce</b> <i>(continued)</i>			
	<b>Balance</b> <i>(in million \$)</i>	<b>Change</b>	<b>Import coverage</b>
<b>2017</b>	-801.2	-17.8%	18.27%
<b>2016</b>	-680.2	-6.30%	21.75%
<b>2015</b>	-725.9	-4.34%	20.20%
<b>2014</b>	-758.8	7.31%	21.47%
<b>2013</b>	-707.1	1.54%	23.37%
<b>2012</b>	-696.4	1.10%	19.70%
<b>2011</b>	-689	22.70%	18.90%
<b>2010</b>	-561.5	10.40%	21.50%
<b>2009</b>	-508.8	-11.00%	19.10%
<b>2008</b>	-571.4		18.60%

Exports of food products increased by a mere 0.5 percent compared with their value in 2016 whereas imports increased by 4 percent. The trade deficit in food products is still sustained and amounted to \$2,771 million in 2017.

<b>Trade exchange in food products</b>			
<b>Exports</b>			
	<b>Value</b> <i>(in million \$)</i>	<b>Change</b>	<b>Share in total exports</b>
<b>2017</b>	691.5	0.5%	24%
<b>2016</b>	687.8	-6.1%	23%
<b>2015</b>	732.3	-6.3%	25%
<b>2014</b>	781.2	7.0%	24%
<b>2013</b>	729.8	7.0%	19%
<b>2012</b>	614.1	5.7%	14%
<b>2011</b>	581	12.2%	14%
<b>2010</b>	518	18.4%	12%
<b>2009</b>	437.4	-2.1%	13%
<b>2008</b>	446.9		13%

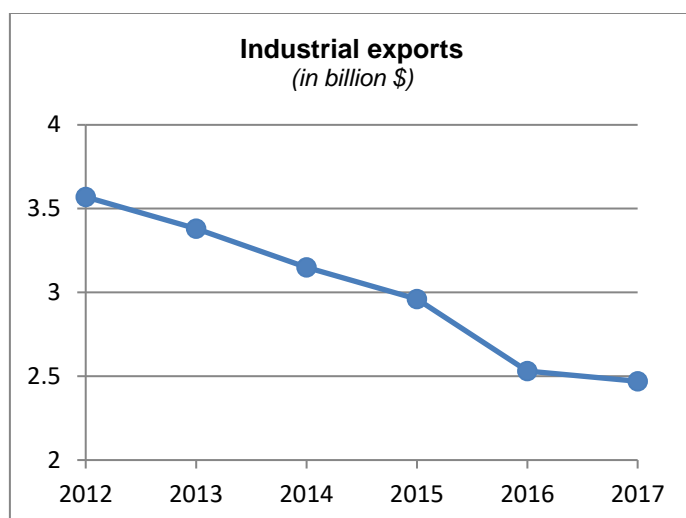
<b>Trade exchange in food products</b>			
<b>Imports</b>			
	<b>Value</b> <i>(in million \$)</i>	<b>Change</b>	<b>Share in total imports</b>
<b>2017</b>	3,403	4%	17%
<b>2016</b>	3,272.3	-2.04%	17%
<b>2015</b>	3,340.4	-7.61%	18%
<b>2014</b>	3,615.7	5.60%	18%
<b>2013</b>	3,423.9	4.10%	16%
<b>2012</b>	3,289.20	3.40%	16%
<b>2011</b>	3,181.30	11.60%	16%
<b>2010</b>	2,851.80	15.40%	16%
<b>2009</b>	2,470.90	8.00%	15%
<b>2008</b>	2,287.80		14%

<i>(in million \$)</i>	<b>Balance</b>	<b>Import coverage</b>
<b>2017</b>	-2,711.5	20%
<b>2016</b>	-2,584.5	21%
<b>2015</b>	-2,608.1	22%
<b>2014</b>	-2,834.5	22%
<b>2013</b>	-2,694.1	21%
<b>2012</b>	-2,675.1	19%
<b>2011</b>	-2,600.3	18%
<b>2010</b>	-2,333.8	18%
<b>2009</b>	-2,033.5	18%
<b>2008</b>	-1,840.9	20%

## B. Industry

The value of industrial exports in 2017 fell by 2.4 percent to reach \$2.47 billion, down from \$2.53 billion in the year before. The share of these exports in total exports increased slightly to 87 percent from 85 percent. The value of imported industrial machinery was up 9.3 percent to \$257.4 million in 2017.

	<b>2017</b>	<b>2016</b>	<b>2015</b>	<b>2014</b>	<b>2013</b>	<b>2012</b>
<b>Industrial exports</b> <i>(in billion \$)</i>	2.47	2.53	2.96	3.15	3.38	3.57
<b>Share in total exports</b>	87%	85%	100%	95%	86%	80%
<b>Imports of industrial machinery</b> <i>(in million \$)</i>	257.4	235.5	243.4	269.4	300.4	288.1



### **Compliance with international norms and standards**

The industrial sector's compliance with internationally accepted or imposed product specifications as well as compliance with regulations pertaining to production processes is proving too costly and constraining for the activity to remain competitive and hence viable.

Compliance with product standards and specifications is an on-going course that would in the near future give rise to the need for an integrated conformity assessment chain at cluster level.

Internationally-sanctioned regulations pertaining to production process and environmental regulations in particular would over the medium term constitute an additional and costly constraint on industrial production. Whole industries would be compelled to re-tool and invest in new machinery and equipment. Technical support would be needed in this context, and also support in the form of financing and export credit guarantees to finance the purchase of technologically advanced machinery.

Manufacturing enterprises should be given incentives – mainly financial – to induce them to seek the establishment of joint ventures with their more advanced counterparts in developed countries. Joint ventures may indeed constitute a lifeline to local manufacturing concerns and this for four basic reasons: (i) joint ventures are a prime vehicle for technology transfer, (ii) they open up financing options that are otherwise



unavailable on the local market, (iii) they are catalysts to raising the level of proficiency of both management and labor, and (iv) they open up new markets through the joint marketing efforts of partners within the venture. Industrialists would also benefit from access to training facilities, which supports their bid to upgrade the array of skills – technical, administrative, financial, marketing, entrepreneurial – required to raise the activity's competitiveness.

### **The sector according to the latest census**

According to the Ministry of Industry's 2007 census published in 2010, the Lebanese industrial sector comprises 4033 establishments of which 70 percent were established before 2000.

The sector is characterized by the prevalence of small-size establishments as more than half of total industrial units employ between five and nine workers. Conversely, 41 percent of enterprises are medium size, employing from ten to 49 workers, whereas only three percent hire more than 100 workers.

As for labor, a total of 74,743 workers (permanent, seasonal and outworkers) are employed by industrial establishments. Gross industrial output was valued at \$6.8 billion, 31 percent of which being the sector's value added which represents eight percent of 2007 GDP.

#### **Main indicators of the industrial sector**

Number of establishments	4033
Workforce	82,843
Industrial output	\$6.8 billion
Output per worker	\$82,087
Intermediate consumption	\$4.7 billion
Value-added	\$2.1 billion
Value-added /GDP	8.4%
Value-added/output	30.9%
Fixed assets	\$4 billion
Machinery/ fixed assets	45.5%
Value-added/fixed assets	51%
Gross fixed capital formation (GFCF)	\$296 million
GFCF./ assets (in %)	7.4%
Total salaries	\$548.2 million
Yearly salary per employee (in \$)	\$7,335

Industrial firms owned an aggregate of \$4 billion in fixed assets, which consist mainly of machinery used for production (45.5 percent of the total), followed by buildings (24 percent) and land (20 percent).

Information technology is obviously not a critical production factor for Lebanese industries as computers constitute one percent of total fixed assets in most industrial concerns.

Equipment for environmental protection does not exceed one percent of total fixed assets, which could limit the ability of Lebanon to compete globally if compliance with environmental standards became a prerequisite for access to world markets.

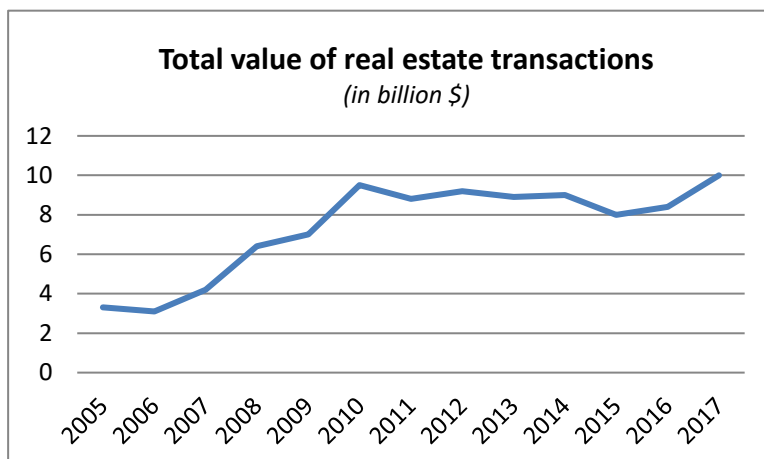
Overall, industrial investment in assets was restrained and the ratio of gross fixed capital formation to assets stood at 7.4 percent.

Industrial enterprises are concentrated in three main regions: Mount Lebanon, North Lebanon and the Bekaa. Mount Lebanon hosts about 50 percent of all industrial units, which produce 67 percent of the sector's value added and retain 61 percent of total workforce.

Ten major industries constitute 86 percent of total establishments; they produce 91 percent of aggregate value added, employ 87 percent of the industrial workforce, and carry out 95 percent of yearly investments.

## C. Construction and Real Estate

The total value of real estate transactions carried out in 2017 has reached a peak value of \$10 billion, an increase of 18 percent on the previous year's total.



The number of real estate transactions increased significantly in 2017 and reached 73,541, a 14.5 percent

increase compared to 2016. This increase comes after a couple of years of stagnation in terms of real estate transactions.

The average value per transaction rose, to reach a record of 135,979, more than double the 2007 average.

High real estate prices are sustained mainly due to the scarcity of land and soaring construction of luxurious residences. Lebanese residents account for the largest portion of demand for property, forming nearly 60 percent of total real estate demand. This demand is fueled by diaspora remittances exceeding \$2000 per capita yearly, the highest level in the MENA region and among the highest worldwide.

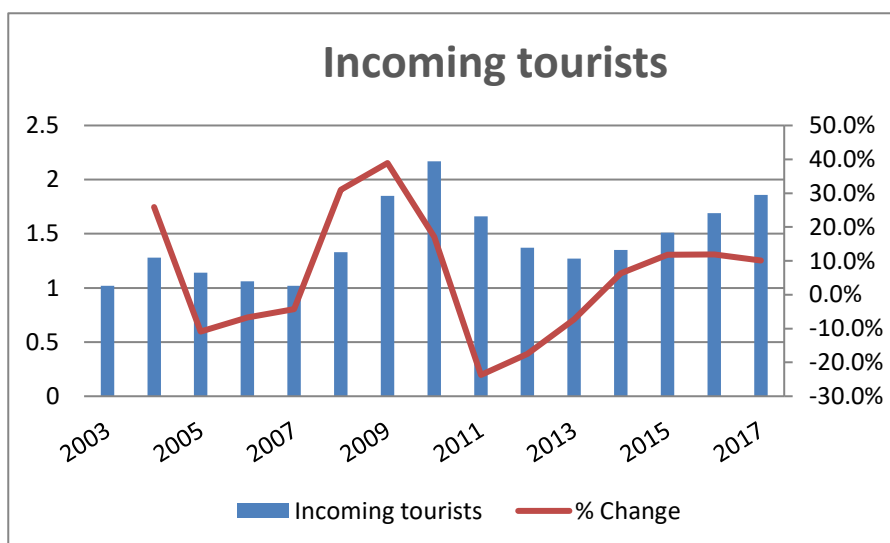
Construction activity continues to recede in 2017 with a four percent decline in construction permits compared to the previous year. Cement deliveries also dropped by nearly 4 percent in 2017.

	<b>Construction Permits</b> <i>(in million m<sup>2</sup>)</i>	<b>Cement Deliveries</b> <i>(in million tons)</i>	<b>Number of real estate transactions</b>	<b>Total value of real estate transactions</b> <i>(in billion \$)</i>	<b>Average value per transaction</b> <i>in \$</i>
<b>2005</b>	9.3	2.8	50,057	3.3	65,845
<b>2006</b>	8.7	3.4	49,051	3.1	63,607
<b>2007</b>	9	3.9	65,681	4.2	63,565
<b>2008</b>	16.1	4.2	80,018	6.4	80,519
<b>2009</b>	14.3	4.9	81,509	7.0	85,365
<b>2010</b>	17.6	5.2	94,202	9.5	100,614
<b>2011</b>	16.1	5.5	82,984	8.8	106,527
<b>2012</b>	14.7	5.3	74,569	9.2	123,107
<b>2013</b>	12.9	5.9	69,186	8.9	128,639
<b>2014</b>	13.5	5.5	70,795	9	127,128
<b>2015</b>	23.3	5	63,386	8	126,211
<b>2016</b>	12.2	5.3	64,248	8.4	130,743
<b>2017</b>	11.7	5.1	73,541	10	135,979

## D. Tourism

After a regional turmoil that has taken its toll on Lebanon's tourism sector during the period between 2011 and 2013, touristic activity improved during the past three years. The number of incoming tourists has been on an upward path to reach 1.86 tourists in 2017, up 10.1 percent from last year's value. In 2017, the number of incoming tourists stood at 83 percent of the peak level recorded in 2010.

The number of tourists from Arab countries increased by 7.3 percent in 2017, though still 37.3 percent lower from the value reached in 2010. In 2012, the number of Arab tourists had declined by over 21 percent following a record decrease of 35 percent in 2011.



Incoming tourists from Arab countries constituted almost a third of the total in 2017, down nearly ten percentage points on their share in the 2010 total.

The number of European tourists visiting Lebanon registered the highest share of total tourists as they form 34 percent of the total. Their number increased by 13 percent from last year's value.

Arab and European tourists visiting Lebanon thus account for two thirds of incoming tourists.

	Incoming tourists (in million)	% change
2003	1.02	
2004	1.28	25.90%
2005	1.14	-10.90%
2006	1.06	-6.70%
2007	1.02	-4.30%
2008	1.33	31.00%
2009	1.85	38.90%
2010	2.17	17.10%
2011	1.66	-23.70%
2012	1.37	-17.50%
2013	1.27	-7.30%
2014	1.35	6.30%
2015	1.51	11.85%
2016	1.69	11.92%
2017	1.86	10.06%

Incoming tourists by origin							
	Arab countries	Europe	Asia	America	Africa	Other	Total (in million)
2009	785,985	453,522	264,021	232,694	42,007	72,852	1.85
2010	894,724	549,481	373,490	248,725	39,399	62,170	2.17
2011	581,597	485,707	245,462	222,671	61,319	58,295	1.66
2012	458,069	444,824	127,290	221,174	61,263	53,225	1.37
2013	402,080	433,990	117,693	209,580	64,792	46,227	1.27
2014	460,822	447,668	113,597	224,621	55,613	52,326	1.35
2015	480,723	505,284	122,400	264,041	85,187	60,292	1.51
2016	522,922	564,499	125,418	296,831	103,193	75,494	1.69
2017	561,273	639,624	136,600	327,536	109,230	82,532	1.86
share in total 2017	30.23%	34.45%	7.36%	17.64%	5.88%	4.44%	
change 2017 / 2016	7.33%	13.31%	8.92%	10.34%	5.85%	9.32%	

According to the World Travel and Tourism Council (WTTC) the tourism sector's direct contribution to GDP stood at 6.6 percent in 2017 and totaled \$3.4 billion. The sector's total contribution to GDP, which includes indirect and induced contribution in addition to capital investment, reached 18.3 percent and was valued at \$9.4 billion.

Jobs created or directly supported by the tourism sector totaled 131,500, whereas total jobs directly or indirectly linked to the activity were put at 365,500.

Investments made in the sector are estimated at \$1.4 billion.

WTTC forecasts			
	2017	2018	2018-2028
	(in billion \$)	real growth	forecast annual growth
Direct contribution to GDP	3.4	plus 6.2%	5.6%
Total contribution to GDP	9.4	plus 5.2%	5.2%
Direct contribution to employment (jobs)	131,500	plus 2.8%	2.8%
Total contribution to employment (jobs)	365,500	plus 5.8%	2.4%
Capital investment	1.4	plus 0.5%	3.3%