



MONTHLY FISCAL AND EXTERNAL TRADE DEVELOPMENTS REPORT FEBRUARY 2002

Section 1: Fiscal overview

The **total deficit** during the first two months of 2002 amounted to LL 611 billion or 43 percent of expenditures compared to a total deficit of LL 263 billion or approximately 25 percent of expenditures during the comparable period of last year. The main underlying reasons behind the LL 348 billion increase in the total deficit were LL 96 billion of higher debt service

expenditures and LL 210 billion of additional spending on previous years' appropriations (included as part of treasury payments in table 1). A **primary surplus** of 9.6 percent of expenditures was achieved during January-February 2002, compared to a primary surplus of 36.7 percent during the comparable period of last year.

Table 1. Summary of Fiscal Performance

(LL billion)	2001 Feb ¹	2002 Feb	2001 Jan-Feb	2002 Jan-Feb	change 2001-2002	% change
Budget revenues	315	291	750	734	-16	-2.1%
<i>o/w customs revenues</i>	111	75	244	262	18	7.4%
<i>o/w Value Added Tax²</i>	0	46	0	46	46	
Budget expenditures	466	490	883	1,072	189	21.4%
<i>o/w Debt service</i>	338	307	651	747	96	14.7%
Budget deficit/surplus	-152	-199	-133	-338	-205	
in % of budget expenditures	-32.5%	-40.6%	-15.1%	-31.5%		
Budget primary deficit/surplus	186	107	518	408	-110	
in % of budget expenditures	39.9%	21.9%	58.7%	38.2%		
Treasury receipts	23	44	48	75	27	56.3%
Treasury payments	69	144	178	349	171	96.1%
Total budget and treasury receipts	337	335	798	809	11	1.4%
Total budget and treasury payments	536	634	1,060	1,421	361	34.1%
Total cash deficit/surplus	-198	-299	-263	-611	-348	
in % of total expenditures	-37.0%	-47.2%	-24.8%	-43.0%		
Primary deficit/surplus	139	7	389	136	-253	
in % of total expenditures	26.0%	1.1%	36.7%	9.6%		

Source: Ministry of Finance (MOF), Directorate General of Finance (DGF)

Note: ¹ The figures for February 2001 have been adjusted from previously published data. Adjustments have been introduced to both the revenues and expenditures items, whereby, tax deductions are now included as revenues and added to expenditures as disbursements. Hence, revenues and expenditures are now recorded on a gross basis.

² Value Added Tax represents the VAT collected at customs.

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Section 2: Revenue outcome

Total revenues during the period January-February 2002 amounted to LL 809 billion, compared to LL 798 billion for the same period of last year, indicating an increase of LL 11 billion or 1.4 percent.

Budget revenues amounted to LL 734 billion during the first two months of 2002 and were approximately 2 percent less than budget revenues achieved during the comparable period of 2001. This decline was mainly attributed to the performance of non-tax revenues, specifically, revenues from the telecom monopoly. Meanwhile, tax revenues improved, mainly fueled by two related factors: the introduction of the Value Added Tax in February 1, 2002, preceded by a high level of imports and hence high customs revenues in the three months that paved the way for the VAT's introduction.

Tax revenues (as part of budget revenues) increased from LL 430 billion during the first two months of 2001 to LL 515 billion this year. This increase is ascribed to a number of factors, among which are the following:

- ☒ **Taxes on income, profits, and capital gains** amounted to approximately LL 90 billion during January-February 2002, compared to around 79 billion during the equivalent period of 2001, an increase equivalent to LL 11 billion, or approximately 14 percent. The increase in income tax revenues was caused by two major reasons, namely (a) on-going proceeds that are still being collected through installments from large taxpayers that were audited in 2001, and (b) improved compliance by taxpayers following last year's audit operations. It is noteworthy that receipts from tax regularization have already started to kick-in, albeit in insignificant amounts that are expected to gradually increase until end of June, the date of the tax regularization's deadline.
- ☒ **Taxes on property** amounted to approximately LL 43 billion during the first two months of 2002, compared to LL 40 billion in the comparable period of 2001, indicating an increase of LL 3 billion, or 7.5 percent, mainly owing to the 12 percent improvement in real estate registration fees. This progress occurred as a result of the implementation of the new real estate law (please refer to the 2001 yearly report), which facilitated the procedures for foreigners to acquire real estate and decreased foreigners' real estate registration fees. As a result, the Council of Ministers is regularly issuing decrees allowing foreign ownership of real estate.
- ☒ **Taxes on domestic goods and services** amounted to LL 85 billion during the first two months of 2002, compared to LL 34 billion during the comparable period of last year, representing an increase of around LL 51 billion. This increase is mainly attributed to VAT receipts in the amount of LL 46 billion collected at customs during the first month of the VAT's implementation. VAT receipts are expected to grow in forthcoming months when import levels return to their standard pre-VAT levels and inventory levels decline. It is to note that, VAT revenues will only incorporate collections at imports for the months of February and March. In accordance with the law, total VAT revenues will only become comprehensive by the end of April 2002 (quarterly basis) since it is only at the end of each quarter that VAT collected at sales points will be added to VAT collected at imports.
- ☒ **Taxes on international trade** amounted to LL 262 billion during the first two months of 2002, compared to LL 244 billion during the same period of last year. Customs receipts in February 2002 were lower than the amount achieved in each of February 2001 and January 2002, given the high level of January imports, prior to the introduction of the Value Added Tax (please refer to the January 2002 monthly report).
- ☒ **Other tax revenues** amounted to LL 36 billion during the first two months of 2002. In comparison, they have increased by 9 percent over last year's amount, namely, LL 33 billion. The LL 3 billion increase was due to higher revenues from stamp duty fees. The deadline for the professional flat tax has been fixed for the end of September. Until then, the professional flat tax is not expected to yield its full amount.

Table 2. Tax Revenues

(LL billion)	2001 Jan-Feb	2002 Jan-Feb	% change
Tax revenues	430	515	19.8%
Tax on income, profits, & capital gains	79	90	13.9%
Tax on property	40	43	7.5%
Domestic taxes on goods & services	34	85	250%
Taxes on international trade	244	262	7.4%
Other tax revenues	33	36	9.1%

Source: MOF, DGF

Note: (1) Tax revenues are included within budget revenues, (2) Revenues from excise taxes are included within the customs revenue figure.

Non-tax revenues (as part of budget revenues) amounted to LL 219 billion during the period January – February 2002, compared to LL 319 billion during the similar period of last year. The main underlying reasons for the LL 100 billion decline in non-tax revenues were the following:

- ☒ **Entrepreneurial and property income** amounted to LL 152 billion during the first two months of 2002 compared to LL 228 billion last year (please refer to Table 4). This was mostly due to lower transfers from the surplus of the Ministry of Post and Telecommunications, which amounted to LL 120 billion during January-February 2002 (of which LL 70 billion was transferred in February) compared to LL 190 billion during January-February 2001.

As mentioned in the January 2002 report, telecom receipts transferred to the treasury do not adhere to a regular schedule, which may imply irregularities in their revenue stream. Lower lottery revenues also contributed to lower entrepreneurial and property income.

- ☒ **Administrative fees and charges** amounted to LL 51 billion during the first two months of the year compared to LL 75 billion during the previous year. The shortfall was mainly due to lower consular fees and road taxes, which have only started to be collected in the third week of February, following the 2002 budget law's ratification.

Table 3. Non-tax Revenues

(LL billion)	2001 Jan-Feb	2002 Jan-Feb	% change
Non-tax revenues	319	219	-31.3%
Entrepreneurial & property income	228	152	-33.3%
Administrative fees & charges	75	51	-32.0%
Penalties & confiscations	2	2	0.0%
Other non-tax revenues	14	14	0.0%

Source: MOF, DGF

Note: Non-tax revenues are included within budget revenues

Table 4. Entrepreneurial and Property Income

(LL billion)	2001 Jan-Feb	2002 Jan-Feb
Entrepreneurial & property income, of which	228	152
Casino du Liban	4	3
National Lottery	8	1
Telecom	190	120
Central Bank	21	20

Source: MOF, DGF

Section 3: Expenditure outcome

Total expenditures (budget and treasury) for the period January-February 2002 amounted to LL 1,421 billion compared to LL 1,060 billion during the comparable period in 2001.

Budget expenditures amounted to LL 1,072 billion during January-February 2002 and were approximately LL 189 billion or 21 percent higher than expenditures during the first two months of 2001. **Non-interest expenditures** during the first two months of 2002 accounted for LL 92 billion of the increase in budget expenditures, whereas, **debt service expenditures**, for the same period accounted for the remaining LL 97 billion.

The increase in debt service expenditures was caused by large amortizations on Lebanese Pound treasury bills falling due in January 2002. The debt service bill for February 2002 was LL 307 billion, compared to LL 338 billion in February 2001 and LL 441 billion in January 2002. Foreign debt s

ervice expenditures in February 2002 amounted to LL 143 billion compared to only LL 23 billion in January.

Personnel cost (composed of wages & salaries and related benefits, end of service, and retirement) increased by LL 30 billion, or approximately 8 percent during the first two months of 2002 over the comparable period in 2001. Similar to the outcome in January 2002, high retirement and end-of-service payments falling due in February constituted the prime cause for the increase in the personnel bill.

As for **treasury expenditures**, they amounted to LL 349 billion during the period January-February 2002 compared to LL 178 billion in the comparable period of 2001. Increased spending from previous years' appropriations was the main underlying factor for this increase. In February 2002, LL 123 billion was spent on previous years' appropriations, compared to LL 158 billion a month earlier.

Table 5. Expenditures

(LL billion)	2001 Jan-Feb	2002 Jan-Feb	% change
Total expenditures	1,060	1,421	34.1%
Budget expenditures	883	1,072	21.4%
Expenditures excluding debt service	232	324	39.7%
Debt service	651	747	14.7%
Domestic debt	545	581	6.6%
Foreign debt	106	166	56.6%
Treasury expenditures	178	349	
o/w Municipalities	7	9	
Previous years' appropriations	49	281	

Source: MOF, DGF

Table 6. Personnel cost

(LL billion)	2001 Jan-Feb	2002 Jan-Feb	% change
Personnel cost, of which:	386	416	7.8%
Wages, salaries, and related benefits*	266	253	-4.9%
Retirement and end-of service	120	163	35.8%

* Includes Council of the South, Lebanese University, Displaced Council, Council for Reconstruction and Development, and the Educational Center for Research and Development.

Note: Personnel cost numbers are based on liquidated payment orders.

Transfers to **Electricité du Liban** (part of treasury payments) during the period January-February 2002 were confined to debt service payments, made by the treasury on behalf of EDL, for the company's foreign obligations.

Total transfers to EDL during the first two months of 2002 amounted to LL 15.2 billion compared to LL 45.8 billion during the first two months in 2001, a decrease of approximately LL 31 billion.

Table 7. Transfers to EDL

(LL billion)	2001 Jan-Feb	2002 Jan-Feb	change
EDL	45.8	15.2	-30.6
Debt service	27.8	15.2	-12.6
Fuel	-	-	-
Expropriations	18.0	-	-18.0

Source: MOF, DGF

Section 4: Evolution of public debt

Gross public debt amounted to LL 43,460 billion at the end of February 2002, increasing by LL 765 billion or 1.8 percent during the first two months of 2002. Approximately 95 percent of the growth in gross public debt is attributed to the growth in domestic currency debt, which increased by 2.6 percent since the beginning of

the year. Foreign debt, on the other hand, increased by only LL 39 billion or 0.3 percent, equivalent to the amount of accrued interest on outstanding Eurobonds. No Eurobonds were issued during January and February 2002, compared to USD 200 million issued in February 2001.

Table 8. Public Debt

(LL billion)	2001 Dec	2002 Feb	change	% change
Total debt	42,695	43,460	765	1.8%
Domestic debt	28,214	28,940	726	2.6%
Foreign debt	14,481	14,520	39	0.3%
Net domestic debt	26,301	26,991	690	2.6%
Foreign debt	14,481	14,520	39	0.3%
Net total debt	40,782	41,512	730	1.8%

Source: MOF, DGF

Note: Net public (and domestic) debt represent total (and domestic) debt less public sector deposits with the Central Bank and commercial banks.

Certain figures differ from previously published data due to exchange rate adjustments introduced as part of a debt management software.

Section 5: Evolution of external trade

Both imports and exports have increased during the first two months of 2002 when compared to the same period of last year (please refer to the table 9). Imports for the period January-February 2002 amounted to USD 1,108 million and were approximately 2.5 percent higher than imports in January-February 2001. Exports for the same period summed up to USD 139 million and were 13 percent above the same period of the preceding year.

The reason behind the improvement in imports can be attributed to the exceptionally high level of imports achieved in January (USD 703 million). While the anticipated introduction of the VAT had positively affected the January import level, its actual implementation in February 1, 2002 has negatively affected the

import level during that month. Indeed and as was previously expected, the import level in February 2002 has recorded a decrease of 20 percent when compared to the level achieved in February 2001.

The higher level of exports for the January-February period can be explained by the 30 percent increase in the level of exports of February 2002 (USD 77 million) when compared to February 2001.

Even though both imports and exports increased during the period extending from January to February 2002 when compared to the same period of last year, the absolute increase in imports was superior, leading to a 1 percent increase in the trade deficit, which amounted to USD 969 million by the end of February 2002 .

Table 9. External Trade

(USD million)	2001	2002	% change
	Jan-Feb	Jan-Feb	
Exports	123	139	13.0%
Imports	1,081	1,108	2.5%
Trade balance	-958	-969	1.1%

Source: MOF, Directorate General of Customs (DGC)

Sources of imports: Imports from Lebanon's main trading partners, specifically Arab countries, European Union countries, and the United States maintained their shares of total imports for the period January-February 2002 compared to their shares for the period January-February 2001 (please refer to Table 10). However, their growth rates when compared to the previous year differed; whereby imports from Arab countries and the United States increased by 26 and 30 percent respectively, imports from the European Union countries decreased by 3 percent.

On a country level, Italy ranked first with a share of almost 10 percent of total imports followed by the United States with a share of 9 percent and Germany with a share of 8 percent. Imports from Italy consisted primarily of mineral products. Imports from the United States were mainly composed of tobacco products, as well as machinery and electrical appliances. Transport equipment predominated imports from Germany. As for imports from Arab countries, Saudi Arabia ranked first, with imports for the period January-February 2002 increasing by approximately 51 percent. The main imported goods from Saudi Arabia consisted of mineral fuels, oils, and distillation products.

Destination of exports: The shares of Lebanon's most important export partners remained in line with the previous year's level. Arab countries continued to be the major destination of Lebanese exports with a share of 45 percent, whereas exports to the European Union constituted 16 percent, with a decrease of 8 percent comparing to the period January-February 2001 (please refer to Table 10). It is noteworthy that the 68 percent increase in Lebanon's exports to other countries was mainly attributable to the 237% rise in Lebanon's exports to Switzerland. Indeed, Switzerland ranked first with a share of 15 percent of total exports, Saudi Arabia ranked second with a share of 11 percent of total exports, the United Arab Emirates (UAE) and Syria ranked third with shares of 8 percent each.

Exports to Saudi Arabia were mainly composed of machinery, paperboard, and related articles in addition to fruits while exports to the United Arab Emirates and Switzerland were primarily composed of pearls, precious or semi-precious stones. The share of the United States has declined from 8 percent in the first two months of 2001 to 5 percent during the same period of this year. This decline in exports to the United States was due to lower tobacco exports.

Table 10. Regional Distribution of Imports and Exports

Imports				
(USD million)	2001		2002	
	Jan-Feb	% share	Jan-Feb	% share
Total	1,081	100%	1,108	100%
Arab Countries	131	12%	165	15%
European Union	465	43%	452	41%
United States	79	7%	103	9%
Other	406	38%	388	35%

Exports				
(USD million)	2001		2002	
	Jan-Feb	% share	Jan-Feb	% share
Total	123	100%	139	100%
Arab Countries	61	50%	63	45%
European Union	24	20%	22	16%
United States	10	8%	7	5%
Other	28	23%	47	34%

Source: MOF, DGC

Composition of imports: The implementation of the Value Added Tax starting February 1 2002, has affected the level and behavior of imports. Whereas the level of imports was relatively high in January in anticipation for the introduction of the VAT, their level was the lowest since 1995 in February 2002 (USD 405 million). Mineral products ranked first among the imported items with a share of approximately 16 percent of total imports (please refer to table 11). Imports of these products increased by 13

percent over the imported amount for the period January-February 2001. Machinery and mechanical appliances ranked second, with a share of 15 percent, increasing by 14 percent over the import level for the period January-February 2001. Products of the chemical and transport equipment (mainly cars), ranked third with a share of around 9 percent each. However, transport equipment decreased by 10 percent comparing to the period January-February 2001.

Table 11. Imports Distribution by Product

(USD million)	2001		2002	
	Jan-Feb	% share	Jan-Feb	% share
Mineral products	155	14%	175	16%
Machinery and mechanical appliances	150	14%	171	15%
Products of the chemical	91	8%	100	9%
Transport equipment	109	10%	98	9%
Prepared foodstuffs	70	6%	75	7%
Other goods	506	47%	489	44%
Total	1,081	100%	1,108	100%

Source: MOF, DGC

Composition of exports: The increase of exports during the period January-February 2002, is mainly due to higher exports of pearls, precious or semi-precious stones. This item remained the primary export of Lebanon, with a share of 25 percent in January-February 2002, increasing by more than 111 percent over exports in January-February 2001.

Machinery and mechanical appliances, and products of the chemical ranked second with a share of 12 percent each. But, while machinery and mechanical appliances decreased by 15 percent over the exports of January-February 2001, products of the chemical increased by 45 percent. Base metals and articles of base metals, and prepared foodstuffs ranked third with shares of approximately 8 percent each.

Table 12. Exports Distribution by Product

(USD million)	2001		2002	
	Jan-Feb	% share	Jan-Feb	% share
Pearls, precious or semi-precious stones	16	13%	35	25%
Machinery and mechanical appliances	20	16%	17	12%
Products of the chemical	11	9%	16	12%
Base metals and articles of base metals	10	8%	11	8%
Prepared foodstuffs	15	12%	11	8%
Other exports	51	41%	49	35%
Total	123	100%	139	100%

Source: MOF, DGC

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