



MONTHLY FISCAL AND EXTERNAL TRADE DEVELOPMENTS REPORT MAY 2002

Section 1: Fiscal overview

For the period Jan-May 2002, the **total deficit** summed up to LL 1,565 billion or 41.4 percent of expenditures as compared to a total deficit of LL 1,407 billion or 42.6 percent of expenditures during the comparable period of last year. The LL 158 billion increase in the total deficit was mainly due to higher debt service expenditures and treasury payments.

As to the monthly outcome, the May 2002 total deficit amounted to LL 152 billion, the lowest amongst the year's monthly deficits. This is attributed to the increase in budget revenues, which recorded a five-

month high compared to the first four months of 2002. Moreover, budget expenditures decreased by LL 300 billion when compared to the previous month, while treasury payments amounted to LL 50 billion, being at a record low level since the beginning of the year.

For the first five months of 2002, a **primary surplus** of LL 332 billion, equivalent to 8.5 percent of expenditures was achieved compared to a primary surplus of LL 254 billion, or 7.7 percent of expenditures during the comparable period of last year.

Table 1. Summary of Fiscal Performance

(LL billion)	2001 May ¹	2002 May	2001 Jan-May	2002 Jan-May	change 2001-2002	% change
Budget revenue	408	465	1,752	2,043	291	16.6%
o/w customs revenue	128	118	617	640	23	3.7%
o/w Value Added Tax ²	0	64	0	295	295	
Budget expenditures	767	600	2,887	3,063	176	6.1%
o/w Debt service	383	369	1,661	1,887	226	13.6%
Budget deficit/surplus	-359	-135	-1,134	-1,020	114	
in % of budget expenditures	-46.8%	-22.5%	-39.3%	-33.3%		
Budget primary deficit/surplus	24	234	527	867	340	
in % of budget expenditures	3.1%	39.0%	18.3%	28.3%		
Treasury receipts	44	33	142	169	27	19.0%
Treasury payments	137	50	414	714	300	72.5%
Total budget and treasury receipts	452	498	1,894	2,212	318	16.8%
Total budget and treasury payments	904	650	3,301	3,777	476	14.4%
Total cash deficit/surplus	-452	-152	-1,407	-1,565	-158	
in % of total expenditures	-50.0%	-23.4%	-42.6%	-41.4%		
Primary deficit/surplus	-69	-217	254	322	68	
in % of total expenditures	-7.6%	-33.4%	7.7%	8.5%		

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

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

² Value Added Tax collected during the month of May 2002, represents the VAT collected at customs (please see Section 6).

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Section 2: Revenue outcome

Total revenue during Jan-May 2002 amounted to LL 2,212 billion, compared to LL 1,894 billion for the same period last year, showing an increase of LL 318 billion or 16.8 percent. As for the month of May 2002, total revenue were consistent with the increasing trend of Feb-Apr 2002 and amounted to LL 497 billion, ranking first compared to previous months of this year. This was mainly due to the performance of income and property taxes.

Budget revenue during the first five months of 2002 were equivalent to LL 2,043 billion and were up by 16.6 percent compared to the same period last year. This increase was mainly due to the introduction of the Value Added Tax on February 1, 2002. Budget revenue during May 2002 amounted to LL 465 billion, exceeding the outcomes achieved in previous months. This is attributed to initial revenue from the settlement of tax regularization and to the collection of income taxes from financial institutions which takes place during May each year. Deadlines for both income tax collection from financial institutions and tax regularization were extended to June 10 and October 4 respectively.

Tax revenue for the period Jan-May 2002 amounted to LL 1,505 billion exhibiting an increase of LL 323 billion or 27 percent compared to the same period last year. As for tax revenue collected during May 2002, it amounted to LL 366 billion, ranking first among the outcomes of the first five months of 2002. This increase is attributed to a number of factors, among which are the following:

- ☒ **Taxes on income, profits, and capital gains** were equal to LL 138 billion during May 2002, compared to LL 80 billion during January, and an average of LL 29 billion during the period Feb-Apr 2002 (As mentioned earlier, taxes on income of financial institutions was collected in May).
- ☒ **Taxes on property** during the period Jan-May 2002 amounted to LL 110 billion, exhibiting an

increase of 21 percent over the same period last year mainly owing to the 42 percent increase in revenue from built property taxes and the 16 percent improvement in revenue from real estate registration fees. This enhancement can be attributed to the implementation of the new real estate law that decreased foreigners' real estate registration fees and facilitated the procedures for foreigners to acquire real estate. As for property taxes collected in May 2002, they amounted to LL 23 billion compared to an average of LL 21 billion during the first four months of the year and recorded a five-month high compared to previous months of 2002.

- ☒ **Taxes on domestic goods and services** for the period Jan-May 2002 amounted to LL 367 billion compared to LL 85 billion during the same period last year, due to the introduction of Value Added Tax on February 1, 2002, which resulted in the collection of LL 295 billion during the first four months of implementation. As for the monthly outcome, revenues from taxes on domestic goods and services were equal to LL 141 billion compared to LL 197 billion for the year's previous month. The reason behind this discrepancy lies in the quarterly collection of VAT from internal declarations, which took place during April.
- ☒ **Taxes on international trade** increased by 3.7 percent over the comparable period of 2001, amounting to LL 642 billion, despite the 6 percent decrease in the value of imports during the period Jan-May 2002 compared to the same period last year. Nevertheless, taxes on international trade were low during May 2002, amounting to LL 118 billion compared to an average of LL 130 billion during the first four months of 2002. This is attributed to the lower absolute amount of goods imported during May compared to previous months.

Table 2. Tax Revenue

(LL billion)	2001 Jan-May	2002 Jan-May	change	% change
Tax revenue	1,182	1,505	323	27.1%
Tax on income, profits, & capital gains	309	306	3	-0.9%
Tax on property	91	110	19	20.9%
Domestic taxes on goods & services	85	367	282	331.8%
Taxes on international trade	619	642	23	3.7%
Other tax revenue	78	80	2	2.6%

Source: MOF, DGF

Note: Revenue from excise taxes is included within the customs revenue figure.

Non-tax revenue totaled to LL 538 billion during the period Jan-May 2002, compared to LL 568 billion during the same period of last year, hence representing a decrease of LL 30 billion or 5.3 percent. This is mainly attributed to LL 14 billion decrease in income from public institutions and government property, in part due to the LL 2 billion, LL 5 billion, and LL 13 billion decrease in revenues from Casino du Liban, national lottery, and telecom respectively. Moreover, there has been a LL 16 billion decrease in administrative fees and charges. As for the

monthly outcome, non-tax revenue amounted to LL 99 billion during May 2002, lower than the average of the first four months of 2002 which amounted to LL 108 billion. This decrease is attributed to the lower amount of transfers received from the Telecom sector (LL 50 billion during May 2002). In this respect, the government expects to receive, pursuant to Budget Law 2002, an amount equal to LL 670 billion for the year 2002, which is not evenly distributed over different months of the year.

Table 3. Non-tax Revenue

(LL billion)	2001 Jan-May	2002 Jan-May	change	% change
Non-tax revenue	568	538	-30	-5.3%
Income from public institutions and government property	355	341	-14	-3.9%
Administrative fees & charges	173	157	-16	-9.2%
Penalties & confiscations	5	7	2	40.0%
Other non-tax revenue	35	33	-2	-5.7%

Source: MOF, DGF

Note: Non-tax revenue is included within budget revenue.

Table 4. Income from public institutions and government property

(LL billion)	2001 Jan-May	2002 Jan-May
Income from public institutions and government property, o/w	355	341
Casino du Liban	10	12
National Lottery	10	5
Telecom	300	287
Central Bank	21	20

Source: MOF, DGF

Section 3 : Expenditure outcome

Total expenditures (budget and treasury) for the period Jan-May 2002 amounted to LL 3,777 billion compared to LL 3,301 billion during the same period last year, representing an increase of LL 476 billion or 14.4 percent, while total expenditures, during May 2002 were low compared to previous months of the year, amounting to LL 650 billion, mainly due to the reduction in treasury expenditures.

Budget expenditures summed up to LL 3,063 billion during the period Jan-May 2002 exhibiting an increase of LL 183 billion or 6 percent over the comparable period of 2001. The main reason behind the increase in budget expenditures was the increase in debt service cost and specifically that on foreign debt. Foreign debt service amounted to LL 462 billion during the period Jan-May 2002 compared to LL 216 billion during the same period last year showing an increase of LL 246 billion, due to coupon payments worth USD 125 million on Eurobonds issued during

February, April, May, and September 2001. On a monthly basis, budget expenditures during May 2002, (expenditures excluding debt service, and debt service expenditures) amounted to LL 600 billion, compared to an average of LL 615 billion during the first four months of the year. This is due to the lower amount of coupon payments during May compared to earlier months.

Personnel cost (wages, salaries, and related benefits, end of service and retirement) amounted to LL 1,245 billion during the period Jan-May 2002. Wages, salaries, and related benefits, decreased by LL 58 billion or 6.7 percent, while retirement and end-of service expenditures increased by LL 49 billion or 12.8 percent. During May 2002, personnel cost amounted to LL 183 billion recording a five-month low, attributed to the decrease in end-of-service costs compared to the previous month.

As for **treasury expenditures**, they amounted to LL 714 billion during the period Jan-May 2002 compared

to LL 414 billion during the comparable period of last year representing an increase of LL 300 billion or 72.5 percent. The LL 305 billion increase in spending from previous years' appropriations was the main reason for the increase in treasury expenditures. While expenditures from previous years' appropriations were relatively high during the first three months of 2002

(complementary period, according to public accounting law), they reverted back to normal levels in April and May, resulting in lower treasury payments, equaling LL 50 billion in May 2002 compared to an average of LL 165 billion during the first four months of the year.

Table 5. Expenditures

(LL billion)	2001 Jan-May	2002 Jan-May	change	% change
Total expenditure	3,301	3,777	476	14.5%
Budget expenditure	2,887	3,063	176	6.1%
Expenditure excluding debt service	1,225	1,177	-48	-3.9%
Debt service	1,661	1,887	226	13.6%
Domestic debt	1,445	1,425	-20	-1.4%
Foreign debt	216	462	246	113.8%
Treasury expenditure	414	714	300	72.5%
o/w Transfers to municipalities	10	91	81	810.0%
Previous years' appropriations	51	356	305	598.0%

Source: MOF, DGF

Table 6. Personnel cost

(LL billion)	2001 Jan-May	2002 Jan-May	change	% change
Personnel cost, of which:	1,254	1,245	-9	-0.7%
Wages, salaries, and related benefits*	870	812	-58	-6.7%
Retirement and end-of service	384	433	49	12.8%

Source: MOF, DGF

* 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.

Treasury's transfer to **Electricité du Liban** (part of treasury payments) decreased from LL 165 billion during the period Jan-May 2001 to LL 142 billion during the comparable period this year. No transfers were made for EDL's expropriations payment this year compared to approximately LL 25 billion made

during Jan-May 2001. During May 2002 transfers to EDL amounted to LL 9.5 billion compared to approximately LL 25 billion in April, mainly due to lower debt service expenditures paid by the government on behalf of EDL.

Table 7. Transfers to EDL

(LL billion)	2001 Jan-May	2002 Jan-May	change
EDL	165.2	142.3	-22.9
Debt service	79.4	142.3	62.9
Fuel	61.1		-61.1
Expropriations	24.7	-	-24.7

Source: MOF, DGF

Section 4 : Evolution of public debt

Gross public debt amounted to LL 45,156 billion, representing an increase of LL 2,433 since December 2001. This increase is mainly due to the LL 2,195 billion increase in foreign debt. USD 1 billion 10.25 percent notes due 2005 were issued on March 5. This transaction was a debt replacement with no increase in the stock of public debt since the bonds were subscribed to entirely by the Banque du Liban for the purpose of replacing USD 1 billion equivalent of its portfolio of treasury bills denominated in Lebanese pounds. 86 percent of the domestic securities replaced

had an initial maturity of 24 months and carried an interest rate of 14.14 percent and hence interest rate savings of approximately 4 percent. On May 15, the government issued another Eurobond for USD 350 million 10.5 percent, the proceeds of which were earmarked to settle outstanding dues to contractors. This transaction was also a debt replacement, since the bonds were initially subscribed to by the Central Bank in exchange for an equivalent amount of Lebanese Pound denominated Treasury Bills of 24-month maturities. The contractor dues are being settled on monthly installments beginning May 2002.

Table 8. Public Debt

(LL billion)	2001 Dec	2002 May	change	% change
Total debt	42,723	45,156	2,433	5.7%
Domestic debt	28,214	28,451	237	0.8%
Foreign debt	14,509	16,704	2,195	15.1%
a. Bilateral & multilateral	2,087	2,112	25	1.2%
b. Other foreign debt	12,423	14,593	2,170	17.5%
<i>of which Eurobonds</i>	11,788	13,958	2,170	18.4%
Net domestic debt	26,301	26,709	408	1.6%
Net total debt	40,810	43,414	2,604	6.4%

Source: MOF, DGF

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

Certain figures differ from previously published data due to the implementation of the DMFAS system (debt management system).

Section 5: Evolution of external trade

During May 2002, exports and imports amounted to USD 97 million and USD 517 million respectively. Exports ranked first among the outcomes of previous months of 2002, maintaining the increasing pattern since the beginning of the year. Imports picked up starting April and May after two months of low imports. As mentioned in earlier reports, imports

during February and March were low due to the exceptionally level of imports during January, prior to the introduction of the VAT. Average imports during Jan-May 2002 were 6 percent lower than Jan-May last year, amounting to USD 568 million compared to USD 534 million. As a result of the increase in exports and decrease in imports, the trade balance improved by approximately 10 percent.

Table 9. External Trade

(USD million)	2001 Jan-May	2002 Jan-May	% change
Exports	328	400	22.3%
Imports	2,847	2,671	-6.2%
Trade deficit	-2,519	-2,271	9.8%

Source: MOF, Directorate General of Customs (DGC)

Sources of imports: During May 2002, imports from European countries ranked first with a share of 42 percent, followed by imports from the Arab countries and the United States, each with a share of 10 and 7 percent respectively, maintaining their ranks of April, March and February.

On a country level, Germany ranked first with total imports of USD 51 million, approximately 10 percent of total imports. Italy ranked second with a share of 9 percent, while the United States ranked third with a share of 7 percent. Imports from Italy were mainly composed of mineral products and textiles, while those from Germany primarily consisted of animal products, and machinery and mechanical equipment. Vegetable products and prepared foodstuff dominated imports from the United States. As for imports from

the Arab countries, Syria ranked first while Saudi Arabia followed.

Destination of exports: During May 2002, Lebanese products were mainly exported to the Arab countries, while the European countries ranked second followed by the United States.

On a country level, Switzerland ranked first with a total amount of USD 21 million, followed by the UAE and Saudi Arabia with exports of approximately USD 9 million each. Pearls, precious or semi-precious stones were mainly exported to Switzerland; prepared foodstuffs, and pulp of wood, paper and paperboard dominated Lebanese exports to Saudi Arabia, while exports to the UAE were mainly composed of textile articles, and pearls, precious or semi-precious stones.

Table 10. Regional Distribution of Imports and Exports

Imports				
(USD million)	2001		2002	
	Jan-May	% share	Jan-May	% share
Total	2,847	100%	2,671	100%
Arab Countries	370	13%	327	12%
European Union	1,244	44%	1,153	43%
United States	217	8%	212	8%
Switzerland	107	4%	82	3%
Other	909	32%	897	34%

Exports				
	2001		2002	
	Jan-May	% share	Jan-May	% share
Total	328	100%	400	100%
Arab Countries	138	42%	167	42%
European Union	68	21%	59	15%
Switzerland	32	10%	67	17%
United States	19	6%	23	6%
Other	71	21%	84	20%

Source: MOF, DGC

Composition of imports: During May 2002, mineral oils and fuels ranked first among all imported items with an amount of USD 75 million equal to the monthly average achieved during the first four months of 2002, and constituting 28 percent of total imports. This was also the most imported item during the period Jan-May 2002. Machinery and mechanical appliances imports amounted to USD 47 million,

ranking second, and were followed by transport equipment and pharmaceutical products, each with a share of 9 percent of total imports. Transport equipments' share declined by 2 percent when compared to the same period of last year, due to the sharp decrease in the import level of ships, boats, and aircrafts.

Table 11. Imports Distribution by Product

(USD million)	2001		2002	
	Jan-May	% share	Jan-May	% share
Mineral products	452	16%	389	15%
Machinery and mechanical appliances	398	14%	380	14%
Products of the chemical	243	8%	272	10%
Transport equipment	300	11%	244	9%
Prepared foodstuffs	200	7%	191	7%
Other goods	1,254	44%	1,195	45%
Total	2,847	100%	2,671	100%

Source: MOF, DGC

Composition of exports: During May 2002, pearls and precious material exports amounted to USD 29 million, ranking first among Lebanese exports. Electronic devices, and vegetable exports followed, each with a share of 5 percent and 4 percent respectively. The increase in exports during the period Jan-May 2002 was mainly due to the increase in the exports of pearls, precious or semi-precious stones, and chemical products. Pearls, precious or semi-precious stones exports increased from a level of USD 59 million during the period Jan-May 2001 to USD

100 million during Jan-May 2002, thereby increasing their share of total exports from 18 to 25 percent. Moreover exports of chemical products increased from USD 31 million during the period Jan-May 2001 to USD 43 million in the same period this year, increasing their share of total exports from 9 percent to 11 percent of total exports. Exports of machinery and mechanical appliances, electronic machines and devices decreased by approximately 26 percent, with exports of specialized machinery increasing by 38 percent.

Table 12. Exports Distribution by Product

(USD million)	2001		2002	
	Jan-May	% share	Jan-May	% share
Pearls, precious or semi-precious stones	59	18%	100	25%
Machinery and mechanical appliances	47	14%	45	11%
Products of the chemical	31	9%	43	11%
Prepared foodstuffs	32	10%	37	9%
Base metals and articles of base metals	28	9%	33	8%
Other exports	131	40%	142	36%
Total	328	100%	400	100%

Source: MOF, DGC

Section 6: Development on the VAT front

VAT Registration: The number of taxpayers registered and accepted at the VAT, increased from 7,211 on February 1 to 8,067 on July 16, representing an 11.8 percent increase. Mount Lebanon has the highest number of registered taxpayers, while Beirut

and North Lebanon follow. The percentage of registered taxpayers remained approximately the same across the above mentioned regions with Beirut, Mount Lebanon, and North Lebanon having shares of 38, 48 and 5 percent respectively of total registered taxpayers.

Table 13. VAT Statistics

	2002 Feb 1	2002 July16
Number of tax payers registered and accepted	7,211	8067
<i>Mandatory registrations</i>	6,371	6,680
<i>Voluntary registrations</i>	840	1,387
Number of field visits to tax payers	1,107	6,329*
Number of lectures organized outside the administration	90	112
Number of visitors to the internet site	4,143	14,398
Number of issued decrees and decisions	30	51

Source: MOF, VAT Directorate

* As of April 1, 2002, field visits to taxpayers were replaced by audit visits on April 22, 2002.

Table 14. Number of Tax Payers Registered by Region

	2002		2002	
	Feb 1	Share	July 16	Share
Beirut	2,693	37.3%	3,062	38.1
Mount Lebanon	3,614	50.1%	3,923	48.6
North Lebanon	328	4.6%	389	4.8%
South Lebanon	267	3.7%	329	4.0%
Bekaa	258	3.6%	299	3.7%
Nabatieh	51	0.7%	65	0.8%
Total	7,211	100%	8,067	100%

Source: Directorate of the VAT

VAT Revenue during the period Feb-May 2002 amounted to LL 253 billion. The top five sources of VAT receipts at customs were mineral products (23

percent of total), machinery and mechanical appliances (16 percent of total), transports equipment, prepared foodstuffs, and textiles (please refer to Table15).

Table 15. VAT Revenue Collected At Customs (Five Largest Contributing Items)

billion LL	2002	
	Jan-May	Share
VAT customs collection , of which	253	100%
Mineral products	59	23%
Machinery and mechanical appliances	40	16%
Transports equipment	29	12%
Prepared foodstuffs	26	10%
Textiles	22	9%
Others	77	30%

Source: Directorate of the VAT

For further information, please visit the Ministry's website www.finance.gov.lb

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