REPUBLIC OF LEBANON
MINISTRY OF FINANCE

# PUBLIC FINANCE QUARTERLY REPORT
## Ministry of Finance
## QI 2003

- **Fiscal Overview**: Total deficit for the first three months of the year reached LL 935 billion, LL 7 billion less then the deficit registered during the first quarter of 2002. Total deficit came down to 39 percent of expenditures compared to 44 percent of expenditures during Jan-March 2002. The first quarter of 2003 achieved a primary surplus of LL 52 billion, LL 30 billion more then the primary surplus of the first three months of 2002. (section 1).

- **Revenue and Expenditure**: Total receipts for the first three months of the current year amounted to LL 1,486 billion; of which LL 971 billion were generated from tax revenue and LL 396 billion from non-tax revenue sources of the budget; both of which recorded around a 21 percent increase over the amounts generated during the first quarter of 2002. On the other hand, total spending reached LL 2,421 billion, adding LL 255 billion over the first three months' spending of the preceding year. The increase is attributed in large part to treasury spending on municipalities and on previous budget years' appropriations. It is noteworthy that, as of the end of March 2003, and in line with the government's expenditure rationalization objective, budgeted spending was kept at its previous year's level. (sections 2 and 3).

- **Public Debt**: The stock of debt (gross domestic debt) reached LL 49,408 billion as of March 2003, a 4.5 percent increase in stock as of December 2002. However, due to a 60 percent increase in public sector deposits during the first three months of the year, net domestic debt maintained its December 2002 level, and cumulated at LL 44,651 billion. This represents a 2 percent reduction in stock as of November 2002, prior to the Paris II conference. Gross domestic debt amounted to LL 25,517 billion, an 8 percent increase over the stock of debt in December 2002 (due to the issuance of zero percent Treasury bills in return for the cash contribution of the commercial banks of March 2003). The stock of foreign debt increased by 8.7 percent since December 2002, reaching LL 23,892 billion (equivalent to 48 percent of total debt), mainly due to Eurobonds issuances in the context of the Paris II conference, and the surplus of new funds over maturing debt.(refer to section 4).

- **Trade**: The trade balance marked a USD 1,302 million deficit, or a 5 percent improvement compared to the first three months of 2002. Underlying the improvement in the trade balance stands a 60 percent rise in exports (namely gold jewelry). Imports witnessed a 4 percent increase, attributed in large to increased imports of fuel, and to a certain extent, increased imports of chemical and vegetable products. (section 5).

- **Revenue Enhancement Projects** Three Articles pertaining to capacity building at the MOF and to revenue enhancement through the enlargement of the income tax base were ratified with the 2003 Budget Law. Article 44 entitles the Minister of

Finance to designate different declaration centers for separate income taxes, enabling the creation of a Large Taxpayers' Unit for treating, handling and auditing large taxpayers' income tax declarations. Article 21 calls for the increase in the frequency of payment of income tax on wages and salaries, resulting in lower tax arrears; and Article 51 by which a new 5 percent tax on interest income was implemented, (an income source that was so far outside the scope of taxation), paving the way for the future implementation of the Global Income Tax. The DASS project which aims at reforming the withholding tax on wages and salaries by building an exhaustive database on private sector and public sector labor force, together with the adoption of the Taxroll (the provision of tax identification number for each individual taxpayer) are two steps further implemented in preparation for the Global Income Tax. (section6).

- **Privatization:** On May 15, 2003 the Higher Privatization Council after deliberation with the technical committee announced the names of the participants in the tender-auction of the two mobile networks (section 7).

The national accounts for 1997 were published by the Ministry of Economy and Trade on May 19, 2003. The 1997 GDP figure will now be used as a base for the computation of the Lebanese economic account series for 1998-2002. The result is a GDP of LL 24,108 billion for 1997, compared to the IMF estimate of LL 22,880 billion. The breakdown of GDP by major sectors is as follows: agriculture 6.3%, manufacturing 13.5%, construction 9.4%, services 22.6%, trade 21.3%, transport and communication 5.3%, housing 8.5%, non-market services 11.6%, and energy and water 1.5% of GDP.

## Section 1. Fiscal Overview

On January 28, 2003, Parliament ratified the FY 2003 Budget Law, which aims at strengthening fiscal discipline and adjustment through a variety of revenue and expenditure measures, and through the numerous schemes designed to alleviate the burden of debt financing. Capitalizing on the success of the Paris II Conference that was held in November 2002, and which provided Lebanon with USD 4.4 billion of concessional financing (USD 3.1 billion for debt rescheduling and USD 1.3 billion of project financing), the 2003 Budget Law targets a 7 percentage points reduction in the deficit to GDP ratio, and a 4 percent of GDP increase in the primary budget surplus.

Pursuing its efforts towards fiscal consolidation that also materialized in the 2002 end-year fiscal results, the first quarter of 2003 witnessed a **primary surplus** of LL 52 billion compared to LL 22 billion for the first quarter of 2002. **Total deficit** (budget and treasury operations) amounted to LL 935 billion, LL 7 billion less then the total deficit of the first quarter of 2002. This improvement stems from the budgetary performance, and more precisely, from the budget revenues that increased by almost 22 percent from the first quarter of 2002, owing to the January 2003 collection of the VAT (VAT collection in 2002 started in February). **Budget deficit** pushed down by 46 percent, reaching LL 278 billion, or 17 percent of budget expenditures, compared to 31 percent of budget expenditures in Jan-Mar 2002 (LL 513 billion). This is due to enhanced revenue collection and increased fiscal discipline.

**Table 1.** Summary of Fiscal Performance

| (LL billion) | 2002 Mar | 2003 Mar | 2002 Jan-Mar | 2003 Jan-Mar | change 2002-2003 | % change |
|---|---|---|---|---|---|---|
| Budget revenue | 389 | 417 | 1,123 | 1,366 | 243 | 21.7% |
| Budget expenditure | 564 | 624 | 1,636 | 1,644 | 9 | 0.5% |
| *o/w Debt service* | *217* | *336* | *964* | *987* | 23 | 2.4% |
| **Budget deficit/surplus** | -175 | -207 | -513 | -278 | 235 | -45.8% |
| in % of budget expenditure | -31.0% | -33.1% | -31.4% | -16.9% | | |
| **Budget primary deficit/surplus** | 42 | 130 | 451 | 709 | 258 | 57.1% |
| in % of budget expenditure | 7.4% | 20.8% | 27.6% | 43.1% | | |
| Treasury receipts | 25 | 49 | 101 | 120 | 19 | 18.6% |
| Treasury payments | 181 | 242 | 530 | 777 | 246 | 46.4% |
| Total budget and treasury receipts | 414 | 466 | 1,224 | 1,486 | 262 | 21.4% |
| Total budget and treasury payments | 745 | 867 | 2,166 | 2,421 | 255 | 11.8% |
| **Total cash deficit/surplus** | -331 | -400 | -942 | -935 | 7 | -0.8% |
| in % of total expenditure | -44.4% | -46.2% | -43.5% | -38.6% | | |
| **Primary deficit/surplus** | -114 | -64 | 22 | 52 | 30 | 138.7% |
| in % of total expenditure | -15.3% | -7.4% | 1.0% | 2.2% | | |

## Section 2. Revenue Outcome

**Total revenue** for QI 2003 amounted to LL 1,486 billion, compared to LL 1,224 billion for the same period of 2002. Of this LL 262 billion increase in total revenue, LL 243 billion resulted from an increase in budget revenues, and LL 19 billion from treasury receipts.

**Treasury receipts** amounted to LL 120 billion by end of March 2003; LL 36 billion of which were generated by Municipalities, LL 43 billion from guarantees and LL 8 billion from deposits.

During the first quarter of 2003, **budget revenue** (tax and non-tax revenue) reached LL 1,366 billion, a 21.7 percent increase over the first quarter of 2002, owing to improved revenue collection on both tax and non-tax fronts.

**Tax revenue** (as part of budget revenue) registered LL 971 billion compared to LL 793 billion for QI 2002. This 22 percent increase in the tax revenue figure captures to a certain extent the effect of the various revenue enhancement structural reforms that the Ministry of Finance has implemented, most especially the impact of an annualized VAT (i.e. the January 2003 collection of VAT).

**Taxes on income, profits, and capital gains** amounted to LL 130 billion, registering approximately a 6 percent increase from the first quarter of 2002. Income Tax on Profits and Income Tax on Salaries and Wages increased equally by around 9 percent from their QI 2002 levels. The increase in Income Tax on profits accounts in part for installments of regularization dues[1]. Revenues from the 5% tax on interest income, which became operational with the ratification of Article 51 of Budget Law 2003, and was effective as of February 2003, are not included in this quarter revenue figures since the collection for the months of February and March started in April.

**Tax on property** totaled LL 74 billion for the first three months of 2003. The LL 5 billion increase over the first three months of 2002 are partly attributed to the assessment proceeds (the assessment schedule for 1999 and 2000 were issued during the third quarter of 2002, and approximately LL 23 billion are outstanding for collection in 2003[2]).

**Domestic Taxes on goods and services** amounted to LL 622 billion for the first quarter of 2003, compared to LL 357 billion for the equivalent period of 2002. The January 2003 collection of VAT explains this spur in revenues from domestic taxes on goods and services from QI 2002 to QI 2003. In fact, **VAT** collection for Jan-March 2003 reached LL 316 billion compared to LL 111 billion for the first quarter of 2002 *(as previously mentioned, the first quarter collection of VAT in 2002 excluded the month of January)*. Of this total amount of VAT collected during QI 2003, around LL 119 billion pertains to QIV of 2002 internal operations (amounts were declared and collected in January 2003), and LL 197 billion represent the VAT collected at imports during the first three months of the present year (*computed on cash collection basis of the fiscal performance which may slightly differ from the amount recorded from custom declaration forms* in Table 4.). Total Revenues from **excises** reached LL 270 billion in Jan-Mar 2003 (*please refer to Table.3*), rising by 33 percent from Jan-Mar 2002. Of that total amount of revenues collected from excisable items, only LL 1.7 billion are collected internally, levied mostly on alcoholic beverages, (*please note that excises on*

[1] Proceeds from tax regularization installments, due for 2003, are imbedded within declaration forms of Income Tax on profits.

[2] Actual collection figures for property tax assessment dues are not yet available.

*cement and on non alcoholic beverages were replaced by VAT*).

**Taxes on international trade-custom duties** (*please refer to Table 4*) for the first three months of 2003 generated LL 100 billion, recording almost half the amount registered during the comparable period of 2002. **Excises collected at imports**[3] amounted to LL 269 billion, marking a 37 percent increase from the first quarter of 2002, and owing to increases in revenues from fuel and tobacco by 48 and 77 percent respectively. This is due to the process of reclassification of customs into excises which took place in phases starting mid 2002 (note that quarterly comparison of the first two quarters of 2002/2003 would still capture this reclassification process before the full year effect neutralizes it). On the other hand, excise revenues from cars declined by 23 percent when compared to QI of 2002, explained by a 19 percent drop in imports of transportation vehicles (*please refer to the trade section*). This is further reflected in an almost 20 percent decline in car registration (*a component of other taxes on goods and services*) compared to QI of 2002.

From an overall perspective, the increase in revenues from excises could not offset the decrease in revenues from customs, resulting in LL 24 billion less revenues from international trade (exclusive of VAT). Combined revenues from customs and excises reached LL 369 billion, receding by 6 percent, despite a 4 percent increase in imports for Jan-Mar 2003 compared to Jan-Mar 2002 (*please refer to Table 11*). This is explained by the fact that the increase in imports stems mainly from an increase in imported fuel prices, therefore inflating imports (in USD values) for equivalent volumes imported, noting that customs and excises are levied on liters of fuel imported and not on USD values. The increase in the import of other products, namely chemical and vegetable products did not have any substantial impact on revenues from trade (higher duties and excises being rather levied on cars and equipments which witnessed a decline in imports when compared to the similar period of 2002).

**Other tax revenue** recorded a 5 percent decrease during the first three months of 2003 compared to the same period of 2002, reaching LL 45 billion and representing in whole, revenues from stamp duties. Note that the professional tax (which was ratified in 2001) did not come into effect yet in terms of collected proceeds to the Treasury.

[3] Total revenues from excises (whether collected internally or at customs) are classified within *Domestic taxes on Goods and Services* in Table 3, Tax Revenue. The component of excises which is collected on imported goods at customs (the main excisable items at imports being fuel, cars and tobacco) is further highlighted in Table 4 as revenues from trade.

**Table 2.** Total Revenue

| (LL billion) | 2002 Jan-Mar | 2003 Jan-Mar | % change |
|---|---|---|---|
| **Budget revenue** | **1,123** | **1,366** | **21.7%** |
| Tax revenue | 793 | 971 | 22.4% |
| Non- Tax revenue | 330 | 396 | 19.8% |
| **Treasury receipts** | **101** | **120** | **18.6%** |
| **Total Revenue** | **1,224** | **1,486** | **21.4%** |

**Table 3.** Tax Revenue

| (LL billion) | 2002 Jan-Mar | 2003 Jan-Mar | % change |
|---|---|---|---|
| **Tax revenue** | **793** | **971** | **22.4%** |
| **Tax on income, profits, & capital gains** *of which*: | 122 | 130 | 6.1% |
| Income Tax on Profits | 54 | 59 | 9.5% |
| Income Tax on Wages and Salaries | 57 | 62 | 8.7% |
| Income Tax on Capital Gains | 8 | 6 | -26.9% |
| 5% Tax on interest income | - | - | - |
| **Tax on property** | 69 | 74 | 7.7% |
| **Domestic taxes on goods & services**, *of which* | 357 | 622 | 74.3% |
| Excises* | *203* | *270* | 33.1% |
| Value Added Tax** | *111* | *316* | *185%* |
| Other taxes on goods and services *of which* | *36* | *33* | *-9.9%* |
| *Private car duties* | *23* | *18* | *-19.9%* |
| *Passenger departure Tax* | *13* | *14* | *9.7%* |
| **Taxes on international trade *(Customs)*** | 197 | 100 | *-49.2%* |
| **Other tax revenue** *of which* | 48 | 45 | -5.4% |
| Fiscal stamp fees | 48 | 45 | -5.4% |
| Professional tax | - | - | |

*Source: MOF, DGF - *Excise figure represents the total amount of excises collected; internally (mostly from alcoholic beverages) or at customs (from imports of fuel, tobacco and cars). ** VAT figure represents the total amount of VAT collected from internal operations and on imports of merchandise at customs*

**Table 4.** Revenues Collected at Customs from Import of Merchandise

| (LL billion) | 2002 Jan-Mar | 2003 Jan-Mar | % change |
|---|---|---|---|
| **Revenues from International Trade** | **507** | **579** | **14.2%** |
| Revenues from customs and excises | 393 | 369 | -6.2% |
| Custom duties | 197 | 100 | -49.2% |
| Excise,* *of which* | 196 | 269 | 37.3% |
| *Petroleum Tax* | *129* | *190* | *47.9%* |
| *Tobacco Tax* | *27* | *47* | *77.3%* |
| *Tax on cars* | *39* | *30* | *-23.2%* |
| Revenues from VAT,** *of which* | 114 | 210 | 84.2% |
| *VAT on fuel* | *25* | *67* | *168%* |
| *VAT on machineries appliances* | *18* | *28* | *55.6%* |
| *VAT on transport equipment* | *12* | *21* | *75%* |
| *VAT on prepared foodstuff* | *13* | *20* | *53.8%* |

*Source; MOF- DGF and DGC*
**Excise figures in this table consider solely those levied at imported items. ** VAT figure in this table represents the amount collected from the import of merchandise, and is based on customs declaration forms which may differ from the VAT figures recorded in the fiscal performance (on cash basis)*

**Non-tax revenue** (as part of budget revenue) amounted to LL 396 billion compared to LL 330 billion for the first quarter of 2002. The main underlying reason for this 20 percent rise in non-tax revenue pertains to increased revenues from the post and telecommunication sector.

**Income from public institutions and government property** reached LL 289 billion during the first quarter of 2003 compared to LL 220 billion during the same period of last year. Of this amount, LL 238 billion stemmed from the telecom budget surplus, which marked a 30 percent rise over the first quarter of 2002. This is due to the transfer of the mobile revenues in full to the treasury as of September 2002, when the BOT contracts with the two mobile network operators were terminated (note that according to the original contract, the share of the treasury from the revenues of the two cell phones was supposed to increase to 40 percent from 20 percent, starting with the second half of the year 2002).

**Administrative fees and charges** totaled LL 88 billion, marking a 2 percent increase over the amount collected in the first quarter of 2002**.** Approximately half of the proceeds from **administrative fees** stemmed from vehicle control fees (LL 30 billion), which witnessed a 7 percent increase from the first three months of 2002. The effect of the increase in the rate of road usage fees in the 2003 Budget Law largely explains the LL 2 billion extra proceeds over QI 2002. Revenues collected from Passport/ Public Security fees witnessed no change from QI 2002, generating equally LL 20 billion**.** The overall proceeds from administrative fees, however, dropped by 3 percent from QI 2002 due to LL 4.4 billion less proceeds from notary fees, driving license fees and other fees. **Administrative charges** reached LL 10 billion by March 2003, a 13 percent rise from March 2002, owing mostly to increased registration in the Lebanese University and to increased revenues from port authorities.

**Table 5.** Non-tax Revenue

| (LL billion) | 2002 Jan-Mar | 2003 Jan-Mar | % change |
|---|---|---|---|
| **Non-tax revenue** | **330** | **396** | **19.8%** |
| **Income from public institutions and government property** *of which* | 220 | 289 | 31.1% |
| Income from non-financial public enterprises | *190* | *253* | *32.8%* |
| *Revenue from Casino Du Liban* | *5* | *9* | *74.5%* |
| *Revenue from Port of Beirut* | - | - | - |
| *Budget Surplus of National Lottery* | *2* | *6* | *175%* |
| *Transfer from the telecom surplus* | *183* | *238* | *30.2%* |
| Income from public financial institutions (Central Bank) | *20* | - | *-100%* |
| Property income (namely rent of Beirut International Airport) | *9* | *33* | *282%* |
| **Administrative fees & charges** *of which* | 86 | 88 | 1.8% |
| Administrative Fees | *66* | *64* | *-2.8%* |
| *Notary fees* | *4* | *3* | *-6.8%* |
| *Passport fees/ public security* | *20* | *20* | *0%* |
| *Vehicle control fees* | *28* | *30* | *6.8%* |
| *Judicial fees* | *4* | *5* | *14.9%* |
| *Driving license fees* | *4* | *3* | *-27.8%* |
| Administrative Charges | *8* | *10* | *13.2%* |
| Permit fees (mostly work permit fees) | *8* | *11* | *44.3%* |
| **Penalties & confiscations** | 4 | 1 | -72.0% |
| **Other non-tax revenue** (mostly retirement deductibles) | 20 | 18 | -9.5% |

*Source: MOF, DGF*

## Section 3: Expenditure Outcome

**Total expenditure** (budget and treasury) for the first three months of 2003 reached LL 2,421 billion as opposed to LL 2,166 billion for the comparable period in 2002. The 12 percent increase in expenditure over Q1 2002 is attributable in large part to a rise in treasury expenditures.

**Budget expenditure** amounted to LL 1,644 billion during Q1 2003, maintaining its Jan-Mar 2002 level.

**Non-interest expenditure** receded by 2 percent from its first quarter 2002 level, amounting to LL 657 billion as of the end of March 2003. Personnel cost (being the major component of non interest spending) marked a 6 percent decline (please refer to Table 7) as of QI last year. In fact, whereas retirement and end-of-service compensation pulled up by 3 percent to reach LL 304 billion; the wages bill witnessed an 11 percent reduction from QI of 2002 (cumulating at LL 500 million). However, it is important to note that the spending on wages and salaries did not actually depart from its QI 2002 level, since some wage payments (namely related benefits) were effected through previous years budgets and recorded in treasury spending.

**Debt service** expenditures during QI 2003 amounted to LL 987 billion, 2 percent over the amount spent in the comparable period of 2002, and accounting for 60 percent of total budget expenditures. Major developments took place on the debt front since November of 2002 (*please refer to the Debt section*), whereby costly LBP denominated domestic debt was retired and replaced with lower interest, longer maturities debt, resulting in 13.6 percent savings in domestic debt servicing in QI 2003 compared to QI of 2002. On the other hand, the debt transactions (mainly Eurobond issuances) conducted in the context of the Paris II conference increased the stock of foreign debt as of December 2002, resulting in 66 percent more spending on foreign debt service when compared to QI 2002. In fact, the change in the composition of debt service spending from QI of last year (the ratio of domestic debt service to foreign debt service decreased from 80/20 to 67/33), reflects the change in the composition of the stock of debt since Paris II, whereby the ratio of domestic debt to total debt decreased from around 60 percent prior to PII to 53 percent by end of March 2003.

The increase in spending (12 percent) during the first quarter of 2003 stems from **treasury payments** (LL 777 billion for QI 2003 as opposed to LL530 billion for QI 2002), pertaining in large part to previous budget years' appropriations that reached LL 462 billion compared to LL 351 billion for the first three months of 2002. As previously mentioned, this increase is explained by spending on benefits to employees that were effected from previous years budget and recorded in treasury expenditures. Part of this 46 percent increase in treasury payments as of QI 2002, is further attributed to LL 75 billion extra payments to Electricité Du Liban (advances for fuel purchases), and LL38 billion payments to municipalities over the QI 2002 level.

**Table 6.** Expenditures*

| (LL billion) | 2002 Jan-Mar | 2003 Jan-Mar | % change |
|---|---|---|---|
| **Total expenditures** | **2,166** | **2,421** | **11.8%** |
| Budget expenditures | 1,636 | 1,644 | 0.5% |
| Expenditures excluding debt service | 672 | 657 | -2.2% |
| Debt service | 964 | 987 | 2.4% |
| Domestic debt | 770 | 665 | -13.6% |
| Foreign debt | 194 | 322 | 66.2% |
| Treasury expenditures *of which* | 530 | 777 | 46.4% |
| Municipalities | 9 | 47 | 414.7% |
| Previous years' appropriations | 351 | 462 | 31.5% |

*Source: MOF, DGF- * Expenditure figures do not account for the payments in January 2003 of LL 280 billion (temporary acquisition of assets), effected to the two mobile licensees due to the early termination of their management contracts.*

**Table 7.** Personnel Cost*

| (LL billion) | 2002 Jan-Mar | 2003 Jan-Mar | % |
|---|---|---|---|
| **Personnel cost,** *of which:* | **857** | **805** | **-6%** |
| Wages, salaries, and related benefits** | 561 | 500 | -11% |
| Retirement and end-of service indemnities | 295 | 304 | 3% |

*Source: MOF, DGF*
** Personnel cost figures are extracted from the gross amount based on the liquidated payment orders of the budget execution.*
***Include wages and salaries for the Council of the South, Lebanese University, Displaced Council, Council for Reconstruction and Development, and the Educational Center for Research and Development.*

**Table 8.** Treasury Transfers to EDL

| (LL billion) | 2002 Jan-Mar | 2003 Jan-Mar | % change |
|---|---|---|---|
| **EDL** | **108** | **166** | **54.2%** |
| Debt service* | 108 | 91 | **-15.3%** |
| Treasury advances for fuel purchase | 0 | 75 | **100%** |
| Expropriations | 0 | 0 | **0%** |

*Source MOF*
* Includes principal, of which LL 39 billion was paid in January 2003 to settle a maturing loan initially issued for fuel purchases

## Section 4: Evolution of Public Debt

**Public Sector Outstanding Debt as of end-March 2003**
Amounts expressed in LL billion

| | 2001 | 2002 | | 2003 | % change | % change |
|---|---|---|---|---|---|---|
| | | | | | Mar 03- | Mar 03- |
| | Dec-01 | Nov-02 | Dec-02 | Mar-03 | Nov 02 | Dec 02 |
| **Total debt** | **42,637** | **48,241** | **47,274** | **49,408** | **2.4%** | **4.5%** |
| **Domestic debt** | **28,214** | **28,989** | **25,302** | **25,517** | **-12.0%** | **0.8%** |
| o/w Zero coupon T-bills | | | | 911 | | |
| **Foreign debt** | **14,423** | **19,252** | **21,972** | **23,892** | **24.1%** | **8.7%** |
| a. Bilateral and Multilateral | 2,046 | 2,158 | 2,214 | 2,248 | 4.2% | 1.5% |
| b. Paris II related FX debt* | | | 4,251 | 6,116 | | |
| c. Market Eurobonds | 11,477 | 16,122 | 14,611 | 14,529 | -9.9% | -0.6% |
| d. Other foreign Debt** | 900 | 972 | 896 | 999 | 2.7% | 11.4% |
| Public sector deposits | 1,913 | 2,655 | 2,964 | 4,758 | 79.2% | 60.5% |
| **Net debt** | **40,724** | **45,586** | **44,310** | **44,651** | **-2.1%** | **0.8%** |
| **Net market debt*** ** | **29,372** | **35,597** | **33,901** | **32,000** | **-10.1%** | **-5.6%** |

Source: Ministry of Finance, Banque du Liban

* Includes US$ 1.87 billion 4 percent Notes issued to BDL on December 31, 2002 as part of the BDL special scheme.
** Includes accrued interest and foreign currency private sector loans.
***Net market debt equals net debt (gross public debt less public sector deposits) less the portfolios of the BDL, NSSF, bilateral and multilateral loans, and Paris II related debt.

**Gross public debt** amounted to LL 49,408 billion at the end of March 2003. The increase in public debt over end-December 2002 is mainly due to the surplus of new funds over maturing debt. Gross public debt will decline when surplus funds from the collection of Paris II funds and the partial implementation of the commercial banks' scheme, are utilized in the months ahead to retire principal and interest as they mature. This surplus can also be observed by looking at the growth of public sector deposits (changes in the special accounts for debt management) and the changes in net debt. Net debt declined by 2.1 percent over the November 2002 level and increased by only 0.8 percent since the beginning of the year.

**Domestic debt**, on the other hand, increased by LL 215 billion during QI 2003 mainly due to the accrual of interest (LL 190 billion) on outstanding debt in Lebanese Pounds and increase in loans from commercial bank. Treasury bills amounting to LL 2,421 billion matured during QI 2003, whereas bills amounting to LL 2,406 billion were issued during the same period. Of the total issued amount LL 911 billion represents Treasury bills issued against the Lebanese pound and foreign currency **cash contributions of the commercial banks** for the month of March 2003. It is noteworthy that the treasury stopped issuing treasury bills on the primary market since February 6, 2003 given its comfortable liquidity position after the inflow of the Paris II funds.

On the **foreign debt front**, the increase was mainly due to the Eurobonds issued in the context of the Paris II conference (USD 1.25 billion issued since the beginning of the year). After having issued USD 950 million on December 27, 2002 to Malaysia, Kuwait, the United Arab Emirates, and the Sultanate of Oman, the Treasury issued, on March 7, 2003, a USD 700 million Eurobond to the Kingdom of Saudi Arabia with the terms and conditions being identical to the Eurobonds subscribed to by the first four donor countries. Earlier, on March 3, the Agence Française du Développement transferred Euro 500 million to the Lebanese Treasury in fulfillment of the pledge made by France during the Paris II conference. The terms of the loan were similar to the terms on all Paris II transactions issued to date, with the exception of the grace period being three years instead of five.

As a result of the transactions discussed above, the Treasury retired during QI 2003 a total of LL 3,416 billion in domestic and foreign currency debt. The retired LL denominated debt had an original cost of 14.14 percent whereas the foreign currency debt has a average cost of more than 9 percent. This debt was replaced from three sources, namely:

a. **LL 1,495 billion** issued during January and the first week of February 2003.
b. **Paris II funds** (more than USD 2.2 billion secured as of the end of March 2003);
c. **LL and USD cash submitted by commercial banks** in application of their special scheme (LL 840 billion representing the March tranche of their cash pledges).

Besides retiring maturing debt, the treasury also replaced LL 70 billion of treasury bills representing the March tranche of Lebanese Pound securities submitted by the commercial banks. The submitted bills carried an interest rate of 14.14 percent and were replaced with new zero-interest bills maturing in March 2005.

## Section 5: Evolution of External Trade

Exports are pursuing the rising trend that has characterized the year 2002, marking a 60 percent increase as of March 2003 compared to March 2002. Exports totaled USD 350 million for the first quarter of 2003 compared to USD 218 million for the first three months of 2002. Precious metals (namely gold) dominated Lebanese exports with 41 percent share of total exports (representing USD 145 million) heading to Switzerland (which accounted for 36 percent of all Lebanese exports for Jan-March 2003).

Imports reached USD 1,652 million compared to USD 1,586 million, a 4 percent increase when comparing the first quarters of 2002 and 2003. An in-depth analysis of the Jan-March figures (*please refer to table 10*) reveals that the 4 percent increase in import is due primarily to a 63 percent increase in fuel imports (which amounted to USD 343 million as opposed to USD 211 million for the first quarter of 2002). Import figures of most other major product categories (such as machineries and mechanical appliances, cars and prepared foodstuff) marked a declined (of 23, 19 and 6 percent respectively) when compared to the first quarter of the previous year. On the other hand, import of chemical (pharmaceutics and cosmetics) and vegetable products increased by 6 and 11 percent respectively from the first quarter of 2002, contributing, though to a much lesser extent, to the 4 percent increase in imports.

The distribution of imports by products, further reveals that the share of mineral products substantially increased from 13 percent in Jan-March 2002 to 21 percent for the similar period this year. On the other hand, the share of machineries and of transport equipment receded by 4 and by 2 percentage points respectively.

The distribution of imports by country of origin reflects the change in the product composition of imports. Arab countries' share of total imports to Lebanon (the Syrian Republic being Lebanon's major source of fuel imports), and Switzerland's share (being the primary source of imports for pharmaceutics and cosmetics) increased by 2 and 1 percentage points respectively from Jan-March 2002. On the other hand, the share of the United States in total Lebanese imports (primary source of imported prepared foodstuffs) and that of the European Union (a major source of cars, machines and appliances) receded by 4 and 3 percentage points respectively..

The USD 132 million rise in exports (outgrowing the USD 66 million rise in imports) resulted in a 5 percent improvement in the trade balance for Jan –March 2003 compared to the first three months of 2002. The balance of trade leveled at USD 1,302 million of deficit by end March 2003.

**Table 9.** External Trade

| (USD million) | 2002 Jan-Mar | 2003 Jan-Mar | % change |
|---|---|---|---|
| Exports | 218 | 350 | 60.3% |
| Imports | 1,586 | 1,652 | 4.2% |
| **Trade balance** | -1,367 | -1,302 | -4.8% |

*Source: MOF, Directorate General of Customs (DGC)*

**Table 10.** Composition of Exports

| (USD million) | Jan-Mar 2002 | % share | Jan-Mar 2003 | % share | % Change 02-03 |
|---|---|---|---|---|---|
| Pearls, precious or semi-precious stones | 48 | 22% | 145 | 41% | 202 |
| Prepared foodstuffs | 21 | 10% | 34 | 10% | 62 |
| Products of the chemical | 27 | 12% | 31 | 9% | 15 |
| Machinery and mechanical appliances | 24 | 11% | 29 | 8% | 21 |
| Base metals and articles of base metals | 20 | 9% | 25 | 7% | 25 |
| Other exports | 79 | 36% | 87 | 25% | 10 |
| **Total** | **218** | **100%** | **350** | **100%** | **61** |

*Source: MOF, DGC*

**Table 11.** Composition of Imports

| (USD million) | Jan-Mar 2002 | % share | Jan-Mar 2003 | % share | % Change 02-03 |
|---|---|---|---|---|---|
| Vegetables Products | 101 | 6 | 112 | 7 | 10.89 |
| Prepared foodstuffs (including tobacco) | 117 | 7 | 110 | 6 | -5.98 |
| Mineral products(mostly fuel and oil) | 211 | 13 | 343 | 21 | 62.56 |
| Chemicals (pharmaceutics & cosmetics) | 153 | 10 | 162 | 10 | 5.88 |
| Machineries & mechanical appliances | 235 | 15 | 182 | 11 | -22.55 |
| Transport equipment (cars) | 147 | 9 | 119 | 7 | -19.05 |
| Other imports | 622 | 39 | 624 | 38 | 0.3 |
| **Total** | **1,586** | **100** | **1,652** | **100** | **4.16** |

*Source: MOF, DGC*

**Table 12.** Regional Distribution of Imports

| Imports | | | | |
|---|---|---|---|---|
| (USD million) | 2002 | | 2003 | |
| | Jan-Mar | % share | Jan-Mar | % share |
| **Total** | **1,586** | **100%** | **1,652** | **100%** |
| Arab Countries | 213 | 13% | 245 | 15% |
| European Union | 676 | 43% | 661 | 40% |
| United States | 137 | 9% | 92 | 6% |
| Switzerland | 48 | 3% | 60 | 4% |
| Other | 512 | 32% | 594 | 36% |

*Source: MOF, DGC*

**Table10.** Regional Distribution of Exports

| Exports | | | | |
|---|---|---|---|---|
| (USD million) | 2002 | | 2003 | |
| | Jan-Mar | % share | Jan-Mar | % share |
| **Total** | **218** | **100%** | **350** | **100%** |
| Arab Countries | 100 | 46% | 103 | 29% |
| European Union | 39 | 18% | 37 | 10% |
| Switzerland | 28 | 13% | 125 | 36% |
| United States | 11 | 5% | 21 | 6% |
| Other | 41 | 19% | 65 | 19% |

*Source: MOF, DGC*

## Section 6: Revenue Enhancement Projects

### Deduction At Source on Salaries and Wages (DASS)

With the objective of enlarging the taxpayers' base through the creation of a reliable and exhaustive database covering the active and the retired labor force in the private and the public sectors; the Government has implemented through Article 21 in the 2003 Budget Law the project of modernizing the administration of the Withheld Tax on Wages and Salaries. This constitutes a step ahead in the preparation for the implementation of the General Income Tax though the provision of a Tax Identification Number for each employee. Article 51 further calls for increasing the frequency of payment of the tax from semi-annually to quarterly which will result in lower tax arrears.

So far, DASS regulatory decrees were updated, new forms and procedures were developed and auditors were trained on the new DASS reformed regulations and procedures. A pilot test for the new software system was conducted with 60 companies who were randomly selected from all economic sectors. Moreover, a communications campaign was launched during the first week of April, whereby 50 companies from different economic sectors were lectured on DASS new forms and regulations, and were invited to fill the forms for the registration of their employees. A press release announced the schedule for the registration of companies' employees, whereby deadlines were set for registration periods depending on the size of the companies (in terms of the number of employees). *Deadline were set in May, July, September and November for companies with more then 10 employees, between 5-9 employees, between 3-4 employees and less then 3 employees, respectively*. Finally a series of informative lectures intended for tax auditors is scheduled in the near future.

### Large Taxpayers' Unit (LTU)

Within the context of capacity building at the MOF, and with the objective of improving the assessment and the audit capacity at the Ministry of Finance, Article 44 of 2003 Budget Law was ratified. It entitles the Minister of Finance to designate different declaration centers for separate income taxes, enabling the Ministry of Finance to allocate a Large Taxpayers' Unit in order to audit and review large taxpayers' income tax declarations. The centralization of large taxpayers' assessment results in better management, service and efficiency of the tax system.. The process of setting the LTU is currently awaiting the final ratification of its implementation decree by the Council of Ministers .

### The 5% Tax on interest income

Besides its significance as a revenue enhancement measure, this new tax introduced an element of equity in the Lebanese Tax System, whereby all sources of income are now subject to taxation. Additionally, this new tax on interest generating income represents a step ahead toward the implementation of the GPIT. It was ratified within the Article 51 of the 2003 Budget Law (Law 497). The tax is applicable to interest income in all currencies, including deposit accounts (current and savings) of which also non-resident accounts, fund management accounts, Certificates of Deposit, debt securities issued by private sector entities, and Treasury Bill accounts. Treasury bills purchased before the date of issuance of this law are exempt from this tax, as are accounts opened in the name of the government, municipalities, public enterprises, diplomatic and consulate missions. Proceeds from this new tax will be transferred by commercial banks on a monthly basis to the Treasury (*Monthly proceeds are due within the first 15 days of the following month*). The tax was effective as of February 1st 2003.; April 7, 2003 was the deadline for the collection of the February proceeds and April 15, 2003 for the collection of March proceeds.

## Section 7: Privatization Front

Following the assessment of applications and supporting documents, the Higher Council for Privatization (HPC) held a meeting on May 15, 2003 to publish the names of companies eligible to participate in the auction for the sale of the two Lebanese mobile businesses and tender for granting a management contract for the two networks (this will come as an alternative in case the financial offers submitted by would-be buyers turns out to be inappropriate).
At that meeting held under the chairmanship of H.E. the Prime Minister and in the presence of the Council's permanent members as well as the Minister of Telecommunications in his position as the concerned minister, the Higher Council for Privatization resolved to qualify the following companies subject to, and on the terms, set out in the Information Memorandum published by the HCP, in coordination with the Ministry of Telecommunications:

**For the Auction and the Tender:**
Hellenic Telecommunications Company , OTE SA- Investcom Holding (Luxembourg) S.A.- LibanCell SAL- Mobile Telecommunications Company (K.S.C.), MTC- Orange S.A.- The National Mobile Telecommunication Company, Wataniya Telecom.

**For the Tender:** Detecon International GmbH

The HCP expects to make publicly available in the near future, the final rules and regulations regarding the conduct of the auction and the tender, including the timetable for access by Participants to the Data Rooms.

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