

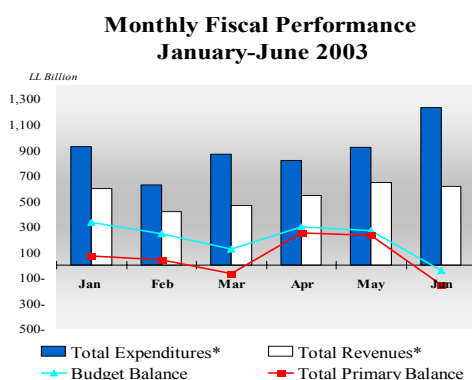


PUBLIC FINANCE QUARTERLY REPORT

Ministry of Finance

Quarter II, 2003

☒ **Fiscal Overview:** Total deficit (budget and Treasury) for the first half of 2003 reached LL 2,103 billion, increasing by LL 163 billion (around 8 percent) from 2002 first half results. Conversely, the primary surplus reached LL 388 billion by June 2003, adding LL 83 billion (around 27 percent) to the first half of 2002 ([section 1](#)).



☒ **Revenue Outcome:** Total revenues (budget and Treasury) for the first half of 2003 amounted to LL 3,296 billion, of which LL 2,220 billion (around 67 percent of total revenues) resulted from tax revenues, and LL 817 billion (around 25 percent of total revenues) resulted from non-tax revenues. Overall, total revenues increased by LL 474 billion (almost 17 percent) during the first half of 2003 compared to the same time period during 2002, stemming from a LL 236 billion increase (around 12 percent) in tax revenues, a LL 184 billion increase (around 29 percent) in non-tax revenues, and a LL 54 billion increase (around 26 percent) in Treasury receipts ([section 2](#)).

☒ **Expenditure Outcome:** Total expenditures (budget and Treasury) reached LL 5,399 billion, of which LL 4,295 billion (almost 80 percent of total expenditures) resulted from budget expenditures, and LL 1,105 billion resulted from Treasury expenditures. Compared to the first half of 2002, total expenditures increased by LL 637 billion (around 13 percent), stemming from a LL 469 billion rise (around 12 percent) in budget expenditures, and a LL 169 billion rise (around 18 percent) in Treasury expenditures. Within total expenditures, debt service spending increased by LL 246 billion (11 percent), while non-interest expenditures increased by LL 223 billion (14 percent) ([section 3](#)).

☒ **Evolution of Public Debt:** Many developments occurred on the debt front during the first half of 2003, continuing the momentum that stemmed from the Paris II conference of November 2002. As of end June 2003, gross public debt increased by LL 366 billion (almost 1 percent), compared to the November 2002 level. Domestic debt, occupying over 51 percent of total debt, declined by LL 3,997 billion (around 14 percent). Foreign debt rose by LL 4,363 billion (around 23 percent) ([section 4](#)).

☒ **Evolution of Trade:** During the first six months of 2003, the trade balance improved by LL 115 billion (around 4 percent), owing to a LL 200 billion increase (around 41 percent) in exports. This is despite a LL 84 increase (around 3 percent) in imports ([section 5](#)).

Section 1. Fiscal Overview

For the first half of 2003, the **total primary surplus** reached LL 388 billion, registering an approximate 27 percent increase from the first half of 2002, and pulling up from around 1.2 percent of GDP¹ during the first half of 2002, to over 1.4 percent of GDP by June 2003.

On the other hand, the **budget deficit** increased by LL 49 billion (4 percent) during the first half of 2003 compared to 2002 first half results. Within this category, **budget revenues** increased by LL 420 billion (around 16 percent), reaching LL 3,037 billion by June 2003. **Budget expenditures** also increased by LL 469 billion (around

12 percent), reaching LL 4,295 billion by the first half of 2003. Within budget expenditures, LL 2,491 billion resulted from debt service spending, which increased by LL 246 billion (11 percent) during the first half of 2003 compared to the same period in 2002.

Treasury receipts reached LL 260 billion by June 2003, increasing by LL 54 billion (around 26 percent) compared to the outcome during the same period in 2002. **Treasury payments** reached LL 1,105 billion by June 2003, increasing by LL 168 billion (around 18 percent). As a result, the **total deficit** reached LL 2,103 billion, increasing by LL 163 billion (around 8 percent) compared to the level attained during the first half of 2002, and pulling up from 7.4 percent of GDP to almost 7.8 percent of GDP by the end of June 2003.

¹ As per latest IMF data, GDP 2002 equals LL 26,068 billion and GDP 2003 equals LL 27,121 billion.

Table 1. Fiscal Overview

(LL billion)	2002	2003	2002	2003	change	%
	June	June	Jan-June	Jan-June	2002-2003	change
Budget revenue	575	532	2,617	3,037	420	16.1%
Budget expenditure	763	1,041	3,826	4,295	469	12.3%
<i>o/w Debt service</i>	358	467	2,245	2,491	246	11.0%
Budget balance	-188	-509	-1,209	-1,258	-49	4.0%
in % of budget exp.	-24.7%	-48.9%	-31.6%	-29.3%		
Budget primary balance	170	-42	1,036	1,233	197	19.1%
in % of budget exp.	22.3%	-4.0%	27.1%	28.7%		
Treasury receipts	37	84	206	260	54	26.3%
Treasury payments	223	194	936	1,105	168	17.9%
Total budget and treasury receipts	612	616	2,822	3,296	474	16.8%
Total budget and treasury payments	985	1,235	4,762	5,399	637	113.4%
Total cash deficit/surplus	-374	-620	-1,940	-2,103	-163	8.4%
in % of total exp.	-37.9%	-50.2%	-40.7%	-38.9%		
Primary deficit/surplus	-16	-153	305	388	83	27.4%
in % of total exp.	-1.6%	-12.4%	6.4%	7.2%		

Source: MOF, DGF

Section 2. Revenue Outcome

Total revenues for the first half of 2003 amounted to LL 3,296 billion, compared to LL 2,822 billion for the same period in 2002, representing an increase of LL 474 billion (around 17 percent). This rise in total revenues is the result of increases of LL 420 billion and LL 54 billion in budget revenues and Treasury receipts, respectively.

Accordingly, during the January-June 2003 period, **Treasury receipts**² amounted to LL 260 billion; LL 124 billion of which were generated from guarantees, LL 61 billion collected for Municipalities, and LL 22 billion consisted of deposits.

In addition, **budget revenues** (tax and non-tax revenues) reached LL 3,037 billion, increasing LL 420 billion (around 16 percent) compared to the first half of 2002, owing in large to an improved performance of tax revenues. Indeed, tax revenues registered LL 2,220 billion for the January-June 2003 period, compared to a level of LL 1,984 billion during the first half of 2002, recording a

LL 236 billion increase (around 12 percent) during the first half of 2003, compared to the same period in 2002.

This increase is the result of the fiscal measures adopted in the 2003 Budget Law, which include the implementation of the 5% tax on interest income, quarterly (instead of semi-annual) payments of the tax on wages and salaries, and the lowering of the VAT registration threshold.

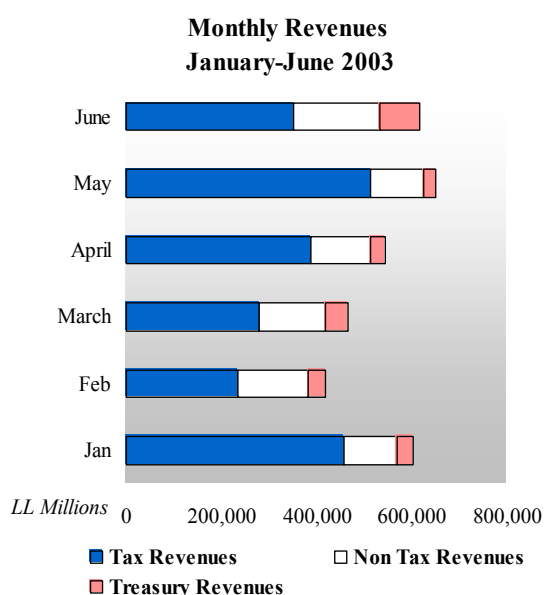


Table 2. Total Revenue

(LL billion)	2002	2003	% change
	Jan-June	Jan-June	
Budget Revenue	2,617	3,037	16.1%
Tax Revenue	1,984	2,220	11.9%
Non-Tax Revenue	633	817	29.0%
Treasury Receipts	206	260	26.3%
Total Revenue	2,822	3,296	16.8%

Source: MOF, DGF

² Please note that Treasury resources are pure cash transactions that are temporary in nature, in the sense that receipts are often reclassified elsewhere (as expenditures, or as budget revenues), such as spending on municipalities and guarantees.

The tax on income, profits, and capital gains amounted to LL 529 billion, registering a decline of LL 25 billion (around 4 percent) from first half 2002 outcome, and partly resulting from a 16 percent decline in collection on the **income tax on profits**, which accounts for more than 65 percent of total income on tax revenues. In turn, this decrease in the income tax on profits in comparison with first half 2002 results is explained by a normalization of the tax level after rising during the second quarter of 2002 due to tax regularization payments³.

Income tax on dividend payments amounted to LL 34 billion during the first half of 2003, compared to a level of LL 66 billion during January-June 2002, declining by almost 50 percent as proceeds from this item are expected to be collected during the second half of the year.

On the other hand, revenues from the **income tax on salaries and wages** marked a 41 percent increase during the January-June 2003 period compared to the 2002 first half level, reaching LL 100 billion compared to LL 71 billion during the same period in 2002. This increase is attributable to a measure adopted in the Budget 2003 Law (Article 21), calling for an increase in the frequency of payments of the tax on wages and salaries from semi-annually to quarterly, resulting in lower tax arrears, as two payments (in January and April) were

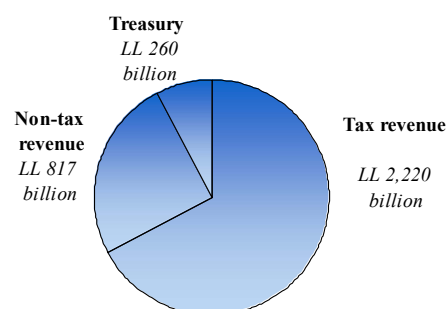
made during the first half of 2003, compared to only one payment made during the first half of 2002 (during January of 2002).

The new 5% **tax on interest income**, which was also implemented with the ratification of the 2003 Budget Law (Article 51 of Law 497), became effective during February 2003 and resulted in LL 44 billion of additional revenues. This 5% tax is levied on all sources of interest income (including interest on deposits accounts in all currencies, fund management accounts, Certificates of Deposit, debt securities issued by private sector entities, and Treasury bills), and banks are required to collect and forward this tax to the Treasury on a monthly basis (within the first fifteen days of the following month), securing a regular cash inflow to the Treasury.

The tax on property amounted to LL 147 billion for the first six months of 2003, increasing by LL 7 billion (almost 5 percent) from the outcome during the first half of 2002. This increase is a result of an improvement in the collection of the recurrent tax on immovable property and the inheritance tax, by 15 and 21 percent, respectively. On the other hand, revenues from property registration (non-recurrent) did not increase from first half 2002 results.

³ A tax regularization Law was ratified in Parliament in December 2001 with assessment proceeds amounting to LL 161 billion. Payment of regularization dues are effected in installments over 2002-2005, with LL 94 billion collected by June 2002, LL 10.5 billion collected in the first half of 2003, and another LL 24 billion remain outstanding for collection during the remaining part of the current year. Note that installments for regularization payments for 2003 have not met expected schedules, partly due to strong lobbying efforts and media campaigns by professionals and their syndicates that have resulted in increased non-compliance.

**Total Revenues
January-June 2003**



Source: MOF, DGF

Table 3. Tax Revenue

(LL billion)	2002 Jan-June	2003 Jan-June	% change
Tax revenue	1,984	2,220	11.92%
Tax on income, profits, & capital gains			
<i>of which:</i>	554	529	-4.43%
Income Tax on Profits	409	345	-15.72%
Income Tax on Wages and Salaries	71	100	41.36%
Income Tax on Capital Gains & Dividends	66	34	-48.70%
5% Tax on interest income	0	44	100.00%
Tax on property	140	147	4.69%
Domestic taxes on goods & services,			
<i>of which</i>	435	683	56.91%
Value Added Tax	355	607	70.77%
Other taxes on goods and services, of	64	70	9.68%
<i>Private car duties</i>	38	41	6.99%
<i>Passenger departure Tax</i>	24	28	16.47%
Taxes on international trade	763	763	0.00%
Customs	360	216	-40.05%
Excise, of which	403	547	35.81%
<i>Petroleum Tax</i>	260	384	47.84%
<i>Tobacco Tax</i>	67	93	39.59%
<i>Tax on cars</i>	75	69	-8.05%
Other tax revenue of which	92	99	7.45%
Fiscal stamp fees	91	98	7.64%
Professional tax	-	-	

Source: MOF, DGF

Domestic Taxes on goods and services generated LL 683 billion during the first half of 2003, compared to LL 435 billion during the same period in 2002, registering an increase of LL 248 billion (around 57 percent). Within this category, revenues from the **Value Added Tax**, which account for around 89 percent of the domestic tax on goods and services, amounted to LL 607 billion by the end of June 2003, representing a LL 251 billion increase (around 71 percent) during the January-June 2003 period compared to the first half of 2002. Note that the increase in VAT revenues is largely attributable to the VAT proceeds levied on January 2003 operations (whereas VAT in 2002 was effective in February), and to a certain

extent, to a general improved overall VAT performance. Also, the revenue impact of lowering the VAT registration threshold (from LL 500 million to LL 300 million of turnover per year) is not reflected in first half results, as the lowering of the threshold was effective in April, with tax filing due in July.

Of total VAT receipts registered for the first half of 2003, LL 398 billion (around 66 percent of total VAT revenues) were collected at customs from imports, while the remaining LL 209 billion were collected from internal activity. Indeed, the LL 398 billion of **VAT revenue collected at customs** for the first half of 2003 compares to LL 303 billion collected during the same period in 2002,

marking an increase of LL 95 billion (almost 32 percent). Within this category, VAT revenues declared from the import of mineral products reached LL 117 billion, increasing by LL 45 billion (63 percent) from the first half of 2002, due partly to the rise in the value of imports of mineral products, which resulted mainly from an increase in fuel prices. Note that the overall rise in VAT receipts declared is also a result of the added month of collection (the VAT in 2002 was implemented in February), as mentioned earlier. Accordingly, the VAT revenue declared for each of machinery and mechanical appliances, transportation equipment, prepared foodstuffs and textiles and textiles articles increased compared to first half of 2002 results, contributing to the overall rise in VAT collected at customs.

VAT collected from internal activity marked a LL 156 billion increase (almost 297 percent) compared to the first half of 2002. Of this amount, LL 119 billion resulted from activity during the fourth quarter of 2002 (*with amounts declared and paid in January 2003⁴*), and LL 90 billion resulted from activity during the first quarter of 2003 (compared to the LL 53 billion for the first quarter of 2002).

Other taxes on goods and services recorded an increase from LL 64 billion during the January-June 2002 period to LL 70 billion as of end June 2003. This approximate 9 percent increase in revenues from other taxes on goods and services is owing partly to the increase in revenues from the Passenger Departure

Tax. The tax from private car duties (car registration) also increased by around 7 percent during the January-June 2003 period as compared to the same period in 2002. Note that car registration fees increased despite a decrease in car imports, suggesting an increased preference for the used car market as opposed to new (imported) cars.

Taxes on international trade (custom duties and excise taxes) generated LL 763 billion for the first semester of 2003, maintaining the same level recorded during the same period in 2002. Within this category, the weight of revenues shifted from customs to excises, as the latter recorded a 36 percent gain during the January-June 2003 period compared to the same period in 2002, and the former recorded a corresponding 40 percent decrease during the same time period. This shift resulted mostly from the process of reclassifying 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). As a result, excises collected at imports amounted to LL 547 billion, (of which revenues from fuel and tobacco increased by 48 and 40 percent, respectively). In line with the decline in car imports, the excise tax on cars decreased during the January-June 2003 period, from LL 75 billion to LL 69 billion (around 8 percent) as compared to the same period in 2002.

It is interesting to note that the tax on international trade remained stable during the January-June 2003 period compared to the same period a year earlier, despite an almost 3 percent increase in imports during the first half of 2003 (*please refer to Table 11*). This is explained by the fact that the increase in imports stemmed mainly from a rise in imported fuel prices, therefore inflating

⁴ Businesses declare their VAT revenues quarterly, with declarations due during the first fifteen days of the month following the end of the quarter. As a result, VAT revenues declared in April represent revenues collected during the January-March quarter. Also, VAT revenues collected during the April-June quarter are not reflected in first half 2003 results as they appear in July revenue figures.

the monetary value of this imported category without an equivalent increase in import volumes. Since customs and excises are levied on fuel volumes (not monetary value), the tax levied on fuel actually remained stable, simply shifting from customs to excises.

Other tax revenues reached LL 99 billion during the January-June 2003 period, increasing by LL 6 billion (around 8 percent) as compared to the same period in 2002. This category entails mainly fiscal stamp fees.

Table 4. Revenues from the VAT

(LL billion)	2002	2003	% change
	Feb-June	Jan-June	
VAT from internal activity	53	209	296.80%
VAT collected at imports, of which*:	303	398	31.54%
<i>Mineral products</i>	72	117	61.57%
<i>Machineries & mechanical appliances</i>	53	59	12.53%
<i>Transports equipment</i>	37	47	28.71%
<i>Prepared foodstuffs</i>	34	41	20.39%
<i>Textiles and textiles articles</i>	26	32	21.52%
Total VAT	355	607	70.79%

Source: MOF-DGF

*The composition of VAT levied on imports is based on Custom Declaration Forms.

Non-tax revenues amounted to LL 817 billion compared to LL 633 billion for the first half of 2002, recording a LL 184 billion increase (around 29 percent) compared to the same period in 2002.

Income from public institutions and government property reached LL 573 billion during the first half of 2003 compared to LL 394 billion during the same period in 2002. Of this amount, LL 494 billion (86 percent of income from public institutions and government property) resulted from an increase in revenues from the telecommunications sector, both from the fixed network and the mobile network, marking a 48 percent rise over the first six months of 2002. This is due to the transfer of the mobile telephone 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 with the two cellular companies, the share of the Treasury from the revenues of the two cellular phones was supposed to increase to 40 percent from 20 percent, starting with the second half of the year 2002. The increase in income from public institutions and government property also stemmed from a rise in revenues from the Casino du Liban and the National Lottery by LL 6 billion and LL 8 billion, respectively, compared to the first half of 2002.

Administrative fees and charges totaled LL 204 billion, increasing by almost 8 percent over the amount collected during the first half of 2002. Overall **administrative fees** generated LL 163 billion, increasing by LL 13 billion (around 9 percent) compared to the January-June 2002 period. Vehicle control fees, which occupy over half of the proceeds from administrative fees, reached LL 94 billion, increasing by 29 percent compared to the January-June

2002 period, and resulting from the implementation of the rate increase of the vehicle control fee (mecanique) as stipulated in Budget Law 2003. On the other hand, passport/public security fees, which occupy around 24 percent of administrative fees, decreased by 12 percent to reach LL 39 billion. Both notary and driving license fees (around 8 percent of administrative fees) decreased by 2 percent and 11 percent,

respectively. **Administrative charges** reached LL 12 billion by June 2003, recording a LL 1 billion increase (around 13 percent) from the January-June 2002 period, owing to a 20 percent increase in Lebanese University registration fees, a doubling of revenues from public school registration fees, and to increased revenues from port authorities (by 10 percent).

Table 5. Non-tax Revenue

(LL billion)	2002	2003	
	Jan-June	Jan-June	% change
Non-tax revenue	633	817	29.0%
Income from public institutions and government property of which	394	573	45.4%
Income from non-financial public enterprises	355	530	49.3%
<i>Revenue from Casino Du Liban</i>	14	20	42.5%
<i>Revenue from Port of Beirut</i>	0	0	
<i>Budget Surplus of National Lottery</i>	8	16	113.3%
<i>Transfer from the telecom surplus</i>	333	494	48.3%
Income from public financial institutions (Central Bank)	20	0	-100.0%
Property income (namely rent of Beirut International Airport)	16	37	131.9%
Administrative fees & charges of which	190	204	7.6%
Administrative Fees	150	163	8.6%
<i>Notary fees</i>	7.5	7.3	-2.1%
<i>Passport fees/ public security</i>	44	39	-12.1%
<i>Vehicle control fees</i>	73	94	28.8%
<i>Judicial fees</i>	9	11	21.9%
<i>Driving license fees</i>	6.2	5.5	-10.8%
Administrative Charges	10.7	12.1	13.0%
Permit fees (mostly work permit fees)	18	20	10.2%
Penalties & confiscations	9	3	-70.0%
Other non-tax revenue (mostly retirement deductibles)	40	37	-8.6%

Source: MOF, DGF

Section 3: Expenditure Outcome

Total expenditure (budget and Treasury) for the first half of 2003 reached LL 5,399 billion compared to LL 4,762 billion for the comparable period in 2002, registering a LL 637 billion increase (around 13 percent) over the first half of 2002.

Budget expenditure amounted to LL 4,295 billion during the January-June 2003 period compared to LL 3,826 billion during the first half of 2002, increasing by LL 469 billion (around 12 percent) from the same time period during 2002. **Interest expenditure** totaled 58 percent of budget expenditure (see *debt service* on following page).

Non-interest expenditure amounted to LL 1,804 billion by the end of June 2003 compared to LL 1,581 billion during the same period in 2002, increasing by LL 223 billion (around 14 percent) over first half 2002 results. **Personnel cost**, being the major component of non interest expenditure, reached LL 1,598 billion, marking a LL 69 billion increase (5 percent) during the January-June 2003 period compared to 2002 first half results, with both retirement and end of service payments, and spending on wages, salaries and related benefits increasing by 6 percent and 4 percent respectively.

Table 6. Expenditures*

(LL billion)	2002	2003	
	Jan-June	Jan-June	% change
Total expenditures	4,762	5,399	13.4%
Budget expenditures	3,826	4,295	12.3%
Expenditures excluding debt service	1,581	1,804	14.1%
Debt service	2,245	2,491	11.0%
Domestic debt	1,650	1,631	-1.1%
Foreign debt	595	860	44.6%
Treasury expenditures <i>of which</i>	936	1,105	17.9%
Municipalities	211	85	-59.6%
Previous years' appropriations	392	504	28.5%

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	2003	
	Jan-June	Jan-June	% change
Personnel cost, of which:	1,529	1,598	5%
Wages, salaries, and related	1,040	1,081	4%
Retirement and end-of service indemnities	489	518	6%

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.

Debt service expenditure during the first half of 2003 amounted to LL 2,491 billion, registering a LL 246 billion increase (11 percent) over the debt service level during the comparable period in 2002, and accounting for 46 percent of total budget expenditures for the first half of 2003. Major developments took place on the debt front since the convening of the Paris II meeting in November of 2002 (*see section 4*), whereby costly LBP denominated domestic debt was retired and replaced with lower interest, longer maturing debt, resulting in a slight drop in the domestic debt servicing cost during the first half of 2003 (by around 1 percent) compared to the level during the same period in 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 an increase in foreign debt service spending by 44.6 percent compared to the level during first half of 2002. Note that debt service for the first half of 2003 was expected to be lower than actual results of the first half of 2003, due to the fact that contrary to previous expectations, the bulk of the commercial bank's scheme contribution was in cash, instead of being provided in the form of Treasury bills or bonds. Thus, no major reduction in the actual debt service from the commercial bank

scheme is reflected in the Treasury for the year 2003, as the reduction in the debt service will be more evident in 2004.

The increase in **total expenditures** during the first half of 2003 also stems from an increase in **Treasury payments**, which reached LL 1,105 billion during the first half of 2003 compared to LL 936 billion during the first half of 2002. This 18 percent increase is attributable in large part to previous years' budget appropriations that reached LL 504 billion compared to LL 392 billion for the first six months of 2002, pulling up Treasury expenditures, despite the fact that Treasury spending on municipalities decreased by 59.6 per cent during the January-June period in 2003. This is due to the fact that during June of 2002, a lump sum payment to Averda (Sukleen Group), the solid waste management of Mount Lebanon, was made.

Note that previous year's budget appropriations were particularly effected by spending on benefits to employees from previous years' budgets (and recorded in treasury expenditures during the January-June 2003 period). The increase in Treasury expenditures were also attributed to a LL 75 billion extra transfer to Electricité du Liban (as an advance for fuel purchases).

Table 8. Treasury Transfers to EDL

(LL billion)	2002	2003	% change
	Jan-Jun	Jan-Jun	
EDL	157	260	65.7%
Debt service*	157	185	18.0%
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

Table 9. Public Sector Outstanding Debt as of end-June 2003

	2001	2002		2003	% change Jun 03- Nov 02	% change Jun 03- Dec 02
(LL billion)	Dec-01	Nov-02	Dec-02	Jun-03		
Total debt	42,637	48,241	47,274	48,607	0.8%	2.8%
Domestic debt	28,214	28,989	25,302	24,992	-13.8%	-1.2%
o/w Zero coupon T-bills				2,937		
Foreign debt	14,423	19,252	21,972	23,615	22.7%	7.5%
a. Bilateral and Multilateral	2,046	2,158	2,214	2,248	4.2%	1.5%
b. Paris II related FX debt			4,251	6,469		
c. Market Eurobonds	11,477	16,122	14,611	13,014	-19.3%	-10.9%
d. Other foreign Debt*	900	972	896	1884	93.8%	110.3%
Public sector deposits	1,913	2,655	2,964	3,325	25.2%	12.2%
Net debt	40,724	45,586	44,310	45,282	-0.7%	2.2%
Net market debt**	29,372	35,597	33,901	32,278	-9.3%	-4.8%

Source: Ministry of Finance, Banque du Liban

* 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 48,607 billion at the end of June 2003, marking an increase of almost 3 percent over the end-December 2002 level. This increase in public debt is temporary in nature, as new funds issued in the context of Paris II were initially in excess of debt that is expected to mature in the short run. Thus, the level of debt will decline when the surplus of funds and the implementation of the commercial banks' scheme, are utilized in the weeks ahead to retire principal and interest as they mature. This surplus can also be observed by looking at the growth of public sector deposits (which are special accounts for debt management) and the changes in net debt. Net debt declined by almost 1 percent over the November 2002 level and increased by around 2 percent since the beginning of the year.

Domestic debt decreased by almost 14 percent compared to the November 2002 level and by around 1 percent over the December 2002 level, during the first half of 2003. This is attributable to the materializing of Paris II related debt re-profiling, where higher cost domestic debt was retired and replaced with lower cost and longer maturing foreign debt. It is also important to note that the issuance of Treasury bills was halted since mid-February due to the surplus funds available with the Treasury.

Foreign debt, on the other hand, reached LL 23,615 billion, increasing by almost 8 percent from its December 2002 level, and by almost 23 percent from its November 2002 level. Once again, this increase is mainly due to the Eurobonds issued in the context of the Paris II conference (a total of USD 3.7 billion issued since December 2002).

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. On March 3, 2003, the proceeds of a Euro 500 million loan signed on February 28, 2003 with the Agence Française du Développement was transferred 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. On May 27, 2003, the Treasury issued a USD 200 million Eurobond to the State of Qatar, with terms and conditions identical to the Eurobonds subscribed to by the first four donors.

Also by end-June 2003, 75 percent of the commercial banks' two-year zero

interest scheme had been executed as follows:

- ☒ LL 247 billion of two-year Treasury bills were exchanged into new zero interest Treasury bills maturing between Jan-May 2005.
- ☒ LL 1,036 billion worth of Eurobonds (equivalent to US\$ 687 million) were exchanged into new zero interest Eurobonds maturing between Jan-May 2005.
- ☒ The equivalent of LL 2,690 billion in cash was submitted by the banks in return for two-year zero interest Treasury bills maturing between Jan-May 2005.

As a result of the transactions discussed above, the Treasury re-profiled, during the first half of 2003, the equivalent of LL 5,700 billion in domestic and foreign currency debt. The LL denominated debt that was repaid had an original cost of 14.14 percent whereas the foreign currency debt had an average cost of over 9 percent. Average costs of debt as of end June had declined to a weighted average of 11.36 percent for domestic debt, and 7.43 percent for foreign debt.

Section 5: Evolution of Trade

For the first half of 2003, **exports** continued the upward momentum that was witnessed during 2002, reaching USD 694 million, as compared to USD 494 million for first half of 2002, and marking a USD 200 million increase (almost 41 percent). This increase is attributable in part to government efforts to encourage exports, as demonstrated programs including the 'Export Plus' program, which aims to encourage agricultural exports, and the 'One Stop Shop' program, designed to facilitate investments in Lebanon.

Within exports, pearls, precious and semi-precious stones dominated, with a 37 percent share of total exports (representing USD 257 million). This was followed by the export of machinery and mechanical appliances and prepared foodstuffs, each consisting of 10 percent of total exports (representing USD 69 million each). Compared to the results of the first half of 2002, the distribution of exports by product remained somewhat similar, with some items increasing more than others. For example, while the export of pearls, precious and semi-

precious stones increased by more than twofold by June of 2003, the export of chemical products only increased by 2 percent for the same time period.

Regarding the destination of exports, the share of exports heading to Arab countries decreased by 9 percent (although increasing in absolute terms), while the share of exports heading to Switzerland increased by 14 percent. In absolute terms, exports to Switzerland registered a 151 percent increase, from USD 86 million worth of exports to Switzerland during the first half of 2002, to USD 216 million worth of exports during the first half of 2003. This increase in exports to Switzerland is correlated with the rise in the export of pearls, precious and semi-precious stones as a large portion of this category headed to Switzerland. On the other hand, exports to Europe, although remaining stable in absolute terms, decreased as a share of total exports during the first half of 2003 by 4 percent. Finally, the share of exports to the United States remained stable, at 5 percent of Lebanon's export destinations.

Table 10. External Trade

(USD million)	2002	2003	% change
	Jan-June	Jan-June	
Exports	494	694	40.5%
Imports	3,144	3,228	2.7%
Trade balance	-2,649	-2,534	-4.4%

Source: MOF, Directorate General of Customs (DGC)

Table 11. Exports Distribution by Products

(USD million)	2002		2003	
	Jan-June	% share	Jan-June	% share
Pearls, precious or semi-precious stones	126	26%	257	37%
Prepared foodstuffs	45	9%	69	10%
Machinery and mechanical appliances	57	12%	69	10%
Products of the chemical	50	10%	51	7%
Base metals and articles of base metals	39	8%	54	8%
Other exports	176	36%	193	28%
Total	494	100%	694	100%

Source: MOF, DGC

Imports reached USD 3,228 million during the first half of 2003, compared USD 3,144 million during the comparable period in 2002, recording a USD 84 million increase (almost 3 percent). Mineral products represent 17 percent of total imports, compared to a share of 14 percent of total imports during the first half of 2002, increasing in absolute terms, from USD 441 million during the January-June period in 2002, to USD 557 million during the same period in 2003. Chemical products (mainly pharmaceuticals and cosmetics) also increased from USD 318 million in the first half of 2002 to USD 335 million by June 2003, while maintaining the same share of total imports. On the other hand, the import of machinery and mechanical appliances decreased from USD 463 in the first half of 2002, to USD 387 for the same period in 2003.

The regional distribution of imports remained relatively stable from the first half of 2002 until June of 2003. However, while the share of imports

from Arab countries increased by 2 percentage points, (generating USD 64 million more than its level during the first half of 2002), the share of imports as well as the imported values from the European Union, the United States and Switzerland decreased slightly (see Table 9). It is interesting to note that this increase in imports from Arab countries is correlated with the increase in the imports of mineral products (mainly fuel), since this category is mainly imported from Arab countries (Syria being Lebanon's major source of fuel imports). Likewise, the decrease in imports from the European Union and the United States is correlated with the decrease in imports of machinery and transport equipment.

The **trade balance** improved, from a trade deficit of USD 2.65 billion during the first half of 2002, to a trade deficit of USD 2.53 billion by June 2003, marking an improvement of USD 120 million (around 4 percent).

Table 12. Regional Distribution of Imports and Exports

Imports				
(USD million)	2002		2003	
	Jan-June	% share	Jan-June	% share
Total	3,144	100%	3,228	100%
Arab Countries	373	12%	437	14%
European Union	1,363	43%	1,333	41%
United States	248	8%	191	6%
Switzerland	112	4%	100	3%
Other	1,048	33%	1,168	36%

Exports				
(USD million)	2002		2003	
	Jan-June	% share	Jan-June	% share
Total	494	100%	694	100%
Arab Countries	220	44%	242	35%
European Union	71	14%	71	10%
Switzerland	86	17%	216	31%
United States	26	5%	34	5%
Other	91	18%	131	19%

Source: MOF, DGC

Table 13. Imports Distribution by Products

(USD million)	2002		2003	
	Jan-June	% share	Jan-June	% share
Mineral products	441	14%	557	17%
Machinery and mechanical appliances	463	15%	387	12%
Products of the chemical	318	10%	335	10%
Transport equipment	286	9%	269	8%
Prepared Foodstuffs	229	7%	232	7%
Other goods	1,406	45%	1,448	45%
Total	3,144	100%	3,228	100%

Source: MOF, DGC

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

Email: infocenter@finance.gov.lb

Tel: 961-1-981057/8
961-981081/2

Fax: 961-981059