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Ministry of Finance

Quarter III, 2003

In line with the trend experienced during previous years, QIII 2003 experienced a general amelioration in fiscal indicators. Some of these indicators, namely the improved trade revenues and consumption taxes, are indicative of a recovery in aggregate consumption¹, which in turn may have been attributed to the boost in tourism activity² that was witnessed during the summer season.

☒ **Fiscal Overview:** The first nine months of 2003 achieved a primary surplus of LL 495 billion, equivalent to 6.3 percent of expenditures, compared to a primary surplus of 4.2 percent of expenditures (or LL 301 billion) in Jan-Sept 2002.

Total deficit for the first three quarters of the year increased by 1.7 percent, compared to the level during the same period in 2002, totaling LL 2,907 billion. This is equivalent to a ratio of 37 percent of expenditure compared to a ratio of 40 percent that prevailed during the first three quarters of 2002 (section 1).

☒ **Total receipts** by September 2003 totaled LL 4,903 billion, increasing by LL 571 billion as compared to the first three quarters of 2002, or by 13 percent. Of this increase, LL 316 billion represents a rise

in tax revenues over the Jan-Sept period of 2002.

Tax revenues reached LL 3,306 billion by September 2003, increasing by 11 percent from the September 2002 level and accounting for 67 percent of total revenues. The increase in tax revenues stems primarily from an improvement in VAT, which registered a 46 percent increase from its first year of implementation (total VAT collected by September 2003 amounted to LL 953 billion compared to LL 654 billion for the equivalent period in 2002).

Non tax revenue sources of the budget cumulated at LL 1,253 billion, (equivalent to 26 percent of total receipts), increasing by LL 254 billion compared to the first nine months of 2002. Of this amount, LL 238 billion represents additional proceeds transferred to the Treasury from the telecommunication budget surplus³ (section 2).

☒ **Total expenditures** by September 2003 totaled around LL 7,810 billion, almost 9 percent more than payments effected during the similar period of 2002. Primary spending amounted to LL 4,408 billion, registering a 9 percent increase from its Jan-Sept 2002 level. Of this amount, LL 3,009 billion originate from the budget, and LL 1,399 billion represents Treasury payments. Treasury payments account for LL 539 billion pertaining to spending from prior years'

¹ No statistics measuring aggregate consumption are available.

² The number of tourist arrival as published by the Ministry of Tourism, for the first nine months of 2003 cumulated at 818,554; rising by 5.6% from that of 2002. After a slow down during the months of March, April and May, due to the War in Iraq, the number of tourists picked-up in June to reach an unprecedented peak since year 2000, in July and August of 2003 with 179,000 and 191,000 tourist arrivals respectively, most of them coming from Arab Countries and Europe.

³ The early termination of the BOT contracts with the two existing mobile operators, in September of 2002 permitted the full transfer of mobile revenues to the government. It is worth noting that the original agreement with the two cellular companies stipulated that the share of the government would increase to reach 40% instead of the 20% share of total revenues, starting with the 8th year.

budgets, LL 129 billion of transfers to Municipalities, and LL 371 billion of transfers to EDL for financing fuel purchases and debt servicing needs.

Debt Service for the first nine months of the year reached LL 3,402 billion, increasing by 8 percent as compared to the level in September 2002. This is attributable to a LL 341 billion increase in interest and principal payments on foreign debt. Interest payment on domestic debt, which reached LL 2,203 billion receded by 4 percent from the previous year's similar period level (section 3).

☒ **Gross Public debt** reached LL 49,131 billion by the end of September 2003, compared to a level of LL 47,274 billion as of end December 2002, (registering a 3.9 percent increase), and compared to a level of LL 48,241 billion as of end November 2002 during the time of the Paris II conference (registering an increase of 1.8 percent). Indeed, many developments have occurred on the debt front since the convening of the Paris II conference: First, the rate of growth of public debt has slowed down substantially; the growth of the stock of debt over the period 2001-2002 approximated 10.9 percent, whereas the increase over the period Dec 2002-Sept 2003 is 3.9 percent. Second, the composition of the stock of debt has shifted considerably, giving more weight to foreign currency denominated debt. The mix of domestic to foreign debt changed from 66/34 percent in December 2001, to 60/40 percent in the interim of the Paris II conference in November 2002, to 53/47 percent by the end of September 2003. And third, a significant amount of debt re-profiling induced a substantial reduction in the average cost of outstanding debt, which decreased from a level of 11.9 percent in November 2002 to an average cost of 8.9 percent as of end September 2003 (section 4).

☒ For the first three quarters of the year, the **trade balance** registered a deficit of USD 4,017 million, similar to the deficit level in the comparable period of 2002. In fact, a 37 percent year on year rise in exports (total exports of USD 1,051 million) offset the approximate 7 percent year on year rise in imports (total imports of USD 5,068 million) (section 5).

☒ **Privatization:** The privatization of the two mobile licenses is underway. After disclosing the names of the participants in the sale auction of the two mobile licenses in May, the Higher Privatization Council made publicly available the rules and regulations regarding the conduct of the auction and the tender. The review phase is currently in progress, whereby the five qualified bidders, "first round participants", are accessing the Data Room, as well as reviewing the transaction documents in anticipation of submitting their financial offers. A decision was made to allow for the two winning bidders to have independent management boards. At the same time, in September, the contracts of the two existing mobile licenses were extended for an additional 4 months period (section 6).

☒ **Securitization:** As a step further in the tobacco securitization process, a new Customs Duties Draft Law authorizing the payment by the international tobacco companies of customs' duties in U.S. dollars and into an off-shore account was submitted to the Council of Ministers (section 6).

Section 1. Fiscal Overview

Behind the improved fiscal performance for the first three quarters for the year, stands a 64 percent increase in the level of the **primary surplus** compared to that of end September 2002. With a total of LL 495 billion, the primary surplus as a percent of total expenditures reached 6 percent, compared to 4 percent in September 2002.

On the budgetary front, the fiscal performance reveals a 5 percent reduction in the **budget deficit**, which totaled LL 1,851 billion by September 2003. This improved budgetary performance when compared to Jan-Sept 2002 stem from a 14 percent amelioration in revenue generation, originating from tax and non tax

revenue sources, and totaling LL 4,560 billion. The LL 571 billion in increased revenues covered for the LL 468 billion of additional budget spending (inclusive of debt service), resulting in LL 103 billion less deficit in the budget than the level achieved during Jan-Sept 2002.

Treasury transactions, over the first three quarters of 2003, resulted in 12 percent increased spending as compared to the same period of 2002, totaling LL 1,399 billion. No additional receipts were registered during the Jan-Sept 2003 period compared to the corresponding 2002 level.

This ultimately burdened the overall deficit with an additional LL 48 billion. As a result, **total deficit** reached LL 2,907 billion (or 37 percent of expenditures) by end of September 2003, pulling up by 2 percent from its September 2002 level.

Table 1. Summary of Fiscal Performance

(LL billion)	2002	2003	2002	2003	change	%
	September	September	Jan-Sep	Jan-Sep	2002-2003	change
Budget revenue	379	480	3,989	4,560	571	14.3%
Budget expenditures	656	648	5,943	6,411	468	7.9%
<i>o/w Debt service</i>	298	310	3,160	3,402	242	7.7%
Budget deficit/surplus	-277	-168	-1,954	-1,851	103	-5.3%
in % of budget expenditures	-42.2%	-25.9%	-32.9%	-28.9%		
Budget primary deficit/surplus	21	142	1,206	1,551	345	28.6%
in % of budget expenditures	3.2%	21.9%	20.3%	24.2%		
Treasury receipts	70	28	346	343	-3	-1.0%
Treasury payments	103	74	1,251	1,399	148	11.8%
Total budget and treasury receipts	449	508	4,335	4,903	568	13.1%
Total budget and treasury payments	759	722	7,194	7,810	616	8.6%
Total cash deficit/surplus	-310	-214	-2,859	-2,907	-48	1.7%
in % of total expenditures	-40.8%	-29.6%	-39.7%	-37.2%		
Primary deficit/surplus	-12	96	301	495	194	64.3%
in % of total expenditures	-1.5%	13.3%	4.2%	6.3%		

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.

Section 2. Revenue Outcome

For the first three quarters of the year, total receipts amounted to LL 4,903 billion, a level LL 568 billion higher than the level achieved for the same period of 2002. Ninety three percent of total receipts were composed of budgetary revenues.

Budget revenues cumulated at LL 4,560 billion by September 2003, LL 3,306 billion of which represent **tax revenues**. In fact, overall taxes generated 11 percent additional revenues from the 2002 same period level. This is in large owing to the **VAT**, which, since its implementation in February 2002, became a pillar in the Lebanese Tax System. VAT revenues amounted to LL 953 billion representing 29 percent of total tax revenues. Two main factors stand behind the 46 percent improvement in VAT receipts; the first being the month of January collection in 2003⁴. The second factor is the reduction in the mandatory VAT registration threshold from LL 500 million of annual turnover to LL 300 million. Notwithstanding these two factors, given that the revenue effect of lowering the threshold was estimated not to be substantial enough (high turnover businesses being already captured in the LL 500 million threshold), and neutralizing the January effect, a month by month comparison reveals that 2003 collection is still significantly higher than 2002 collection, by an average of 17 percent, which may be attributed then to an overall higher aggregate consumption in 2003.

Of total VAT collection for the first three quarters of the year, approximately 67 percent was levied at customs from the import of merchandise (equivalent to LL

636 billion), with peaks in the months of July-September.

VAT proceeds account for 88 percent of total **domestic Taxes on Goods and Services**⁵, which cumulated at LL 1,077 billion for the Jan-Sept 2003 period.

Other taxes on goods and services cumulated at LL 115 billion, versus LL109 billion for the same period of 2002. The LL 6 billion year to year increase originates from a 15 percent rise in private car duties (car registration fees).

Taxes on international trade (namely custom duties and excises) which represent the country's number one source of tax collection with 36 percent share of tax revenues; collected LL 1,200 billion during the first nine months of the year; close to collection level of Jan-Sept 2002. However, the composition of revenues from trade changed significantly from a year ago, in favor of higher shares of excises collected (namely a 20 percent increase in excise revenues, from LL 720 billion to LL 863 billion); and lower shares of custom duties perceived on imports (from LL 472 billion to LL 337 billion, representing a 29 percent drop in revenues from custom duties). This is due to the process of reclassification of duties into excises for oil products and tobacco which took place in 2002. Petroleum products, being the major excisable item generated LL 612 billion, and tobacco collected LL 135 billion. Departing from the trend witnessed in the first two quarters of 2003, excises collected from the importation of cars witnessed a 6 percent increase from the Jan-Sept period of 2002 and amounted to LL 114 billion. The suggested improvement in the car business is further reflected in a 15 percent increased collection of car registration fees (*please*

⁴ Note that VAT collection for 2002 accounts for eleven months of implementation instead of twelve; plus given the cash nature of the fiscal performance, January 2003 collection further accounts for the VAT levied on the fourth quarter internal operations of the previous year.

⁵ Please note that VAT receipts, whether levied at imports or internally are classified within Domestic Taxes on Goods and Services.

refer to the previous paragraph on Other Taxes on Goods and Services) which cumulated at LL 69 billion by end of September 2003. Both indicators hint at a rebound in the car market after a slow down witnessed during the first two quarters of the current year.

Note however that despite a 7 percent rise in imports, revenues from trade did not register a parallel increase. This rise in imports originates from more expensive fuel purchased (*based on custom data, the average price per 20 liters, rose from LL 5,995 in 2002 to LL 7, 012 in 2003*). This increase did not translate itself into more revenues because excises on fuel are levied on quantities (liters) and not on values (*the average revenue per 20 liters was LL 11,538 in 2002 compared to LL 11,527 in 2003*).

Taxes on income profits and capital gains amounted to LL 649 billion by end of September 2003 compared to LL 655 billion for the same period of 2002. Although the overall level of collection is approximately unchanged from last year, from a closer perspective, each type of income tax has marked the Jan-Sept period of 2003, differently.

Collection of **income tax on profits** receded by 18 percent from Jan -Sept 2002, owing largely to lower outstanding tax regularization dues for 2003 from the Tax Amnesty Law⁶, compared to the payments effected in 2002. A total of LL 99 billion of tax regularization proceeds were collected in 2002 compared to only LL 25 billion outstanding for collection during the current year⁷. As of September 2003, LL 17 billion

of tax regularization dues were paid to the Treasury versus LL 77 billion for the same period of 2002.

Income tax on capital gains with a total collection of LL 45 billion by the end of September 2003, registered 42 percent less revenues than the same period of 2002. On the other hand, the **5 percent tax on interest income**⁸ which was implemented with the ratification of Budget Law 2003, and which was effective as of February of the current year, collected a total of LL 95 billion. With an average monthly collection of LL 13 billion, the 5% tax on interest income represents a regular cash inflow to the Treasury.

Article 21 of Budget Law 2003 amended the **Income Tax Law on wages and salaries** by changing the schedule of filing and payments from semi-annual to quarterly⁹. This resulted in lower tax arrears, further securing the Treasury with higher frequencies of inflows. By end of September 2003, with three filing and payment dates instead of two, the payroll tax accumulated LL 136 billion, registering an increase of 7 percent when compared to Jan-Sept 2002 level.

Proceeds from the **built property tax** cumulated at LL 222 billion by the end of September 2003, 2 percent above the collected amount during the same period of 2002. This improvement stems from a 13 percent amelioration in the collection of the recurrent tax on immovable property which

syndicates that have resulted in increased non-compliance

⁶ 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. Some LL 8 billion remain outstanding for collection during the remaining part of the current year.

⁷ 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

⁸ The 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.

⁹ Previously, payments of payroll tax were effected in January and in July, whereas now with the amendment of the Income Tax Law, payments are effected in January, April, July and October of each year.

generated LL 60 billion. The inheritance tax and the property registration tax (the other two components of Tax on Built Property), which amounted to LL 25 billion and LL 137 billion respectively, show practically no change from their 2002 same period level.

Other tax revenue (namely Fiscal stamp fees) generated LL 158 billion, LL 17 billion more than the amount collected during Jan-Sept 2002, indicating higher rate of completed transactions than the same period of 2002.

Non tax revenues cumulated at LL 1,253 billion by the end of September 2003, compared to LL 1,000 billion registered during the same period of 2002. This 25 percent increase stem primarily from a 41 percent rise in revenues generated by public institutions and government property.

Income from public institutions and government property totaled LL 899 billion by the end of September 2003, of which, LL 786 billion are transferred to the Treasury from the budget surplus of the Telecommunication. The early termination of the BOT mobile phone contracts in September 2002, as a result of which telecom revenues flow in full to the Treasury¹⁰, is behind this 43 percent rise in revenues for Jan-Sept 2003 when compared to the same period of last year. Another LL 32 billion and LL 26 billion were transferred to the Treasury from the budget surpluses of the Casino du Liban and of the National Lottery respectively. These represent 23 percent and 116 percent increased transfers from last year.

The Treasury further received a total of LL 46 billion from rents (namely from the Beirut International Airport) representing a

77 percent increase from last year's Jan-Sept level.

The collection of **Administrative Fees and Charges** witnessed a 3 percent improvement from the third quarter of 2002, amounting to LL 294 billion by the end of September 2003; of which LL 237 billion from fees and 14 billion from charges.

This increase is mainly attributed to higher collection of road usage fees by LL 16 billion, equivalent to a rise of 15 percent. This may be attributable to an increase in fee rates as was stipulated in Budget Law 2003. The collection of judicial fees, which totaled LL 16 billion by end of September 2003, further represents a 23 percent rise from last year.

On the other hand, public security fees, the second major source of public fees paid to the Treasury, generated LL 65 billion for the first three quarter of the year, 6 percent less than Jan-Sept 2002 collection. Likewise, permit fees (mostly work permit fees), produced LL 30 billion by end of September 2003, receding by 9 percent from Jan-Sept 2002 amount¹¹. Other fees maintained their 2002 collection level, such as notary fees and driving license fees, at LL 12 billion and LL 10 billion respectively.

Treasury receipts totaled LL 343 billion¹². These represent guarantees in the amount of LL 150 billion, LL 33 billion worth of deposits and LL 87 billion of transfers from municipalities.

¹⁰ 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 in principle with the second half of the year 2002.

¹¹ While assessing the performance of public fees, such as passport fees and work permit fees, a year on year comparison would be more relevant at the end of the year, with total yearly collection amounts.

¹² 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).

Table 2. Total revenue

(LL billion)	2002	2003	
	Jan-Sept	Jan-Sept	% change
Budget Revenue	3,989	4,560	14.3%
Tax Revenue	2,990	3,306	10.6%
Non-Tax Revenue	999	1,253	25.4%
Treasury Receipts	346	343	-1.0%
Total Revenue	4,335	4,903	13.1%

Source: MOF, DGF

Table 3. Tax revenue

(LL billion)	2002	2003	
	Jan-Sept	Jan-Sept	% change
Tax revenue	2,990	3,306	10.6%
Tax on income, profits, & capital gains of which:	655	649	-0.9%
Income Tax on Profits	442	362	-18.1%
Income Tax on Wages and Salaries	127	136	7.1%
Income Tax on Capital Gains & Dividends	76	45	-40.8%
5% Tax on interest income	-	95	100%
Tax on property	218	222	2.1%
Domestic taxes on goods & services, of which	783	1077	37.5%
Value Added Tax	654	953	45.6%
Other taxes on goods and services, of which	109	115	5.5%
<i>Private car duties</i>	60	69	15.0%
<i>Passenger departure Tax</i>	46	45	-2.2%
Taxes on international trade	1,192	1,200	0.67%
Customs	472	337	-28.6%
Excise, of which	720	863	19.8%
<i>Petroleum Tax</i>	492	612	24.4%
<i>Tobacco Tax</i>	118	135	14.4%
<i>Tax on cars</i>	108	114	5.5%
Other tax revenue of which	141	158	12.1%
Fiscal stamp fees	140	157	12.1%
Professional tax	-	-	-

Source: MOF, DGF

Table 4. Non-Tax revenue

(LL billion)	2002	2003	
	Jan-Sept	Jan-Sept	% change
Non-tax revenue	999	1,253	25.4%
Income from public institutions and government property of which	638	899	40.9%
Income from non-financial public enterprises	587	845	43.9%
<i>Revenue from Casino Du Liban</i>	26	32	23.1%
<i>Revenue from Port of Beirut</i>	-	-	
<i>Budget Surplus of National Lottery</i>	12	26	116%
<i>Transfer from the telecom surplus</i>	548	786	43.4%
Income from public financial institutions (Central Bank)	20	-	-100%
Property income (namely rent of Beirut International Airport)	26	46	76.9%
Administrative fees & charges of which	286	294	2.8%
Administrative Fees	227	237	4.4%
<i>Notary fees</i>	12	12	0.0%
<i>Passport fees/ public security</i>	69	65	-6.2%
<i>Vehicle control fees</i>	107	123	14.9%
<i>Judicial fees</i>	13	16	23.0%
<i>Driving license fees</i>	10	10	0.0%
Administrative Charges	12	14	16.6%
Permit fees (mostly work permit fees)	33	30	-9.1%
Penalties & confiscations	15	4	-73.3%
Other non-tax revenue (mostly retirement deductibles)	60	56	-6.7%

Source: MOF, DGF

Section 3. Expenditure Outcome

Total expenditures for the period of Jan-Sept 2003 totaled LL 7,810 billion, increasing by approximately 9 percent from the Jan-Sept 2002 level. Of this amount, LL 6,411 billion are budget expenditures and LL 1,399 billion are Treasury payments.

Primary spending (total expenditures exclusive of debt service) for the first nine months of the year reached LL 4,408 billion, resulting in a 9 percent year on year

increase, originating from higher spending on both, budget and Treasury fronts.

On the budget front, **non-debt service spending** reached LL 3,009 billion by the end of September 2003, a level LL 226 billion higher than Jan-Sept 2002 spending level.

Personnel cost reached LL 2,398 billion for the first 9 months of the year, LL 1,685 billion of which represent the wages and

salaries paid during Jan-Sept 2003, and LL 713 billion are spending on retirement and end-of-service. Personnel spending registered a 2 percent increase, equivalent to LL 49 billion of additional spending over the Jan-Sept 2002 level¹³.

Total spending emanating from the **Treasury** cumulated at LL 1,399 billion by the end of September 2003. For the first three quarters of the year, the Treasury witnessed a 12 percent rise in spending levels, when compared to the amount during the same period in 2002. A total of LL 539 billion of transfers through the Treasury pertains to **expenditures drawn from previous budgets**. Another LL 129 billion represents **Treasury transfers to Municipalities**, which was reduced by 59 percent from the previous year's level (it should be noted however that transfers to Municipalities over the period of Jan-Sept 2002, in the amount of LL 315 billion was exceptionally high when compared to LL 74 billion in Jan-Sept 2001, and LL 129 billion in Jan-Sept 2003). Electricity, which draws heavily on public finances has also weighed down on Treasury payments. **Transfers to EDL** reached LL 371 billion by the end of the third quarter of the year. With an increase in the magnitude of 100 percent over the level of last year, spending on EDL in 2003 constituted a major strain on the fiscal performance, partly attributed to exogenous factors. In the aftermath of the war in Iraq, Lebanon has been importing more expensive fuel. This has exacerbated the pressure on EDL finances, requiring LL 186 billion of additional transfers over the level in September 2002. A total of LL 75 billion were directly allocated for fuel purchases, and another LL 296 billion were

spent from the Treasury to service EDL debt, largely earmarked for fuel purchases¹⁴.

Debt Service for the first nine months of 2003 reached LL 3,402 billion, rising by LL 242 billion from the comparable period level in 2002, equivalent to an 8 percent increase. The bulk of the debt service in 2003 pertains to debt committed prior to the re-profiling transactions conducted throughout the first 9 months of 2003, using inflows emanating from the various sources following the Paris II conference. From a cash flow perspective, the full effect of the debt re-profiling measures (through which high cost debt was replaced with debt at lower cost) will impact 2004 debt service figures and thereafter.

Further reflecting the trend witnessed in public debt developments, interest payments on domestic debt was reduced by 4 percent, and amounted to LL 2,203 billion, while foreign debt servicing registered a 40 percent rise, to a level of LL 1,199 billion.

¹³ Please note that according to public employment laws and regulations, the grade of employees is automatically upgraded every two years, which evidently results in a year on year increase in Personnel cost spending, even in the absence of new recruitments.

¹⁴ In addition to these advances, the Treasury further disbursed funds for government hospitals operations, the total commitment of which was in the range of LL 37 billion. However, no data is yet available as to the exact amount disbursed so far. Plus, the Treasury also advanced payments to compensate public transportation vehicle owners for switching to fuel, away from the environment harming diesel (in compliance with Law 341). The total commitment was approximately LL 20 billion, but no data is yet available as to the exact amount disbursed so far.

Table 5. Total Expenditures

(LL billion)	2002	2003	
	Jan-Sep	Jan-Sep	% change
Total expenditures	7,194	7,810	8.6%
Budget expenditures	5,943	6,411	7.9%
Expenditures excluding debt service	2,783	3,009	8.1%
Debt service	3,160	3,402	7.7%
Domestic debt	2,302	2,203	-4.3%
Foreign debt	858	1,199	39.7%
Treasury expenditures, <i>of which</i>	1,251	1,399	11.8%
Municipalities	315	129	-59.0%
Previous years' appropriations	449	539	20.0%

Source: MOF, DGF

Table 6. Personnel cost *

(LL billion)	2002	2003	
	Jan-Sep	Jan-Sep	%
Personnel cost, of which:	2,349	2,398	2%
Wages, salaries, and related	1,648	1,685	2%
Retirement and end-of service	701	713	2%

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 7. Transfers to EDL

(LL billion)	2002	2003	
	Jan-Sep	Jan-Sep	%Change
EDL	185	371	100.5%
Debt service*	185	296	60.1%
Treasury advances for fuel purchases	0	75	100%
Expropriations	0	0	0%

Source: MOF, DGF. * Includes Principal and Interest Payments.

Section 4. Evolution of public debt

Table 8. Public Debt

Public Debt Outstanding by Holder as of End-September 2003

Amounts expressed in LL Billion

	2001	2002		2003	Change YTD	% change Sept 03- Nov 02	% change Sept 03- Dec 02
	Dec-01	Nov-02	Dec-02	Sep-03			
Total debt	42,637	48,241	47,274	49,131	1,857	1.8%	3.9%
Domestic debt	28,214	28,989	25,302	25,802	499	-11.0%	2.0%
a. Central Bank	6,251	4,619	723	5,529	4,806		
<i>o/w Zero coupon T-bills</i>				3,508	3,508		
<i>o/w Special Tbills issued at 4% (issued against CDs)</i>				1,897			
b. Commercial Banks	15,830	17,166	17,211	14,490	-2,722		
<i>o/w Zero coupon T-bills*</i>				880	880		
c. Other Domestic Debt (T-bills)	6,133	7,205	7,368	5,783	-1,585		
<i>o/w Public entities</i>	2,729	3,212	3,221	2,272	-949		
Foreign debt	14,423	19,252	21,972	23,329	1,357	21.2%	6.2%
a. Bilateral and Multilateral	2,046	2,158	2,214	2,363	149	9.5%	6.7%
b. Paris II related foreign currency debt (including BDL Eurobond)			4,251	6,489	2,238		
c. Market Eurobonds	11,477	16,122	14,611	13,576	-1,035	-15.8%	-7.1%
<i>o/w Zero interest Eurobonds issued to Commercial Banks</i>				1,054	1,054		
d. Other foreign debt**	900	972	896	901	5	-7.3%	0.6%
Public sector deposits	1,913	2,655	2,964	3,013	49	13.5%	1.7%
Net debt	40,724	45,586	44,310	46,118	1,807	1.2%	4.1%
Gross market debt	31,612	38,253	36,866	32,477	-4,388	-15.1%	-11.9%

Source: Ministry of Finance, Banque du Liban

Notes:

* Includes tbills issued for Treasury bills submitted during Jan-May 2003 in addition to the LL cash tranche of March, July and August 2003.

Tbills issued in exchange for the LL and USD cash tranches of Jan and Feb in addition to the USD cash tranche of March, July and August 2003 are held by the BDL.

** 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 as of end-September 2003 amounted to LL 49,131 billion, an increase of LL 1,857 billion or 3.9 percent over the debt level as of end-December 2002; and LL 890 billion or 1.8 percent over the level as of end-November 2002. Major developments occurred on the public debt front throughout the period November 2002- September 2003, mainly owing to four main factors: (a) the government's fiscal reform effort, (b) the funds received from the international community following the Paris II conference, and (c) the subsequent agreements reached with Banque du Liban and the commercial banks to further contribute to the reduction of the stock of debt.

Most importantly, the rate of growth of the public debt has slowed down substantially over the past year: The achievement of primary surpluses throughout this period (LL 495 billion of primary surplus by September 2003) explains to a certain extent the reduced government need to issue new debt. Second, the cancellation of Treasury bills from the Banque du Liban's portfolio at the end of 2002, further relieved the Treasury from LL 2,700 billion worth of debt. These two factors constituted a halt in the growth rate of public debt. In fact, the rate of growth of public debt was reduced from 10.9 percent (over the period 2001-2002) to 3.9 percent (over the period Dec 2002- September 2003).

The increase in foreign currency debt was larger than that of domestic debt during the period November 2002 – September 2003 due to the issuance of Eurobonds and loans to the contributing countries in the context of the Paris II conference, and to the Banque du Liban, the proceeds of which were used mainly to redeem or replace a more costly debt denominated in Lebanese Pounds.

Market debt, defined as gross public debt excluding the portfolios of the Banque du Liban, public institutions, bilateral and multilateral loans, and debt issued to the Paris II donor countries, declined by LL 4,388 billion or 12 percent since end-December 2002 and by LL 5,776 billion or 15 percent since end-November 2002, and was replaced by debt with a lower cost and longer maturity.

Net public debt amounted to LL 46,118 billion (US\$ 30.6 billion) as of end-September 2003, an increase of LL 1,807 billion or 4.1 percent since year-end 2002 and LL 532 billion or 1.2 percent since end-November 2002.

The significant amount of debt re-profiled since the convening of the Paris II conference led to a large decline in the average cost of outstanding debt, which went down by 3 percent, from a level of 11.9 percent at end-November 2002 to 8.9 percent as of end-September 2003.

Section 5. Evolution of International Trade

Table 10. External Trade

(USD million)	2002 Jan-Sept	2003 Jan-Sept	% change
Exports	767	1,051	37%
Imports	4,753	5,068	6.6 %
Trade balance	-3,986	-4,017	-0.7%

Source: MOF, Directorate General of Customs (DGC)

For the first nine months of the year the **trade balance** registered a USD 4,017

million deficit compared to a deficit level of USD 3,986 million for the comparable

period of 2002. For the first three quarters of the year Lebanon's **total imports** were USD 5,068 million, rising from a level of USD 4,753 million for Jan-Sept 2002. However, the trade balance was not fully impacted by this approximately 7 percent rise in imports, because of a 37 percent rise

in exports. In fact, **total exports** for the first three quarters of the year amounted to USD 1,051 million, rising by USD 284 million, which offset to a certain extent the USD 314 million rise in imports, resulting in a limited increase in the trade balance deficit, in the magnitude of less than 1 percent.

Section 6. Developments on Privatization/Securitization Fronts

Mobile Telecommunication Sector:

The Higher Privatization Council "HPC" held a meeting on the 15th of May, in the presence of the Prime Minister and of a number of Ministers to disclose the names of the companies that are eligible to bid in the tender and auction of the two Lebanese cellular networks.

After consulting with the Technical Committee, which valued the financial offers of the participants along with HSBC, Higher Privatization Council released the names of six companies that are eligible to participate in the two auctions, the first being the sale of the two licenses and the second being the awarding of management contracts for the two existing networks (this will come as an alternative in case the financial offers submitted by potential buyers are declined). The six companies are the following: LibanCell, Investcom Holding SAL (Luxembourg), Orange SAL (France), OTE (Greece), MTC and Wataniya (Kuwait). Detecon (Germany) was qualified to participate only in the second auction for awarding management contract.

In September 2003, the contract of the two mobile licenses was extended for an additional 4 months, while the mobile licenses auction bidding process was launched. Currently the review phase is in progress, whereby the five qualified bidders, "first round participants", are accessing the Data Room, as well as reviewing the transaction documents regarding the conduct

of the auction and the tender, in anticipation of submitting their financial offers. Additionally, a decision was made to allow for the two winning bidders to have independent management boards.

Fixed Telecommunication Sector:

Audit compilation is underway laying the ground for the privatization of the fixed line telecommunication sector. A legal framework, presently under preparation, will enable the consolidation of functions pertaining to delivering fixed line services into a new company (Liban Telecom) which will be partially sold (40%) via auction in 2004. It is expected that a third "virtual" mobile will be issued to Liban Telecom.

Tobacco Securitization:

The securitization of future flows emanating from customs (custom duties and excises) paid on imported tobacco products is progressing. The structure and the legal documentation have been finalized, the Paying Agent, Indenture Trustee and Listing Agent have been appointed, as well as the rating agency. Additionally, a new Customs Duties Draft Law authorizing the payment by the international tobacco companies of customs' duties in U.S. dollars and into an off-shore account was submitted to the Council of Ministers.

