REPUBLIC OF LEBANON
MINISTRY OF FINANCE

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QI 2005

Fiscal Overview:

The total deficit improved by 20 percent reflecting the 8 percent reduction in total expenditures between QI 2004 and QI 2005 (section 1). At the same time, the total primary surplus, amounting to LL 230 billion, strengthened by 4 percent when compared to the same period of last year, despite the LL 71 billion or 4 percent decrease in total revenues and due to the LL 79 billion shrinking of total primary spending (section 1).

Revenues Outcome:

Total receipts amounted to LL 1,649 billion compared to LL 1,719 billion in QI 2004. This 4 percent deterioration in receipts is due to across the board reductions in both tax and non-tax revenues as well as treasury receipts. Tax revenues receded by 3 percent reaching LL 1,131 billion by end of March 2005. This decrease mainly stemmed from (1) a 16 percent decrease in taxes on property and (2) a 15 percent decrease in taxes on international trade. Non tax revenues fell by 4 percent totaling LL 453 billion by end of QI 2005 as a result of (1) a 13 percent decrease in transfer from the telecom budget surplus and (2) a 13 percent decrease in administrative fees and charges (section 2).

Expenditures Outcome:

Total spending reached LL 2,113 billion, LL 185 billion less than the first three months' spending of the preceding year, chiefly owing to a (1) 13 percent or LL 105 billion lower debt service payment and a (2) 5 percent or LL 79 billion decrease in primary spending mainly due to less capital spending and transfers to municipalities (section 3).

Public Debt Developments:

The stock of gross debt reached LL 53,520 billion as of end March 2005, a 1 percent decrease compared to December 2003. The decline in gross public debt in QI 2005 can be attributed to (1) the drawdown of the surplus accounts of the Treasury at the Central Bank following pre-funding in both Lebanese Pounds and foreign currencies in November and December 2004, (2) lower interest payments following the Paris II conference, and (3) the primary surpluses that have accumulated during the period January-March 2005 and that have been used to retire debt payments during the first quarter of the year (section 4). Meanwhile, net public debt increased by 1 percent.

External Trade:

The trade balance marked a USD 1,912 million deficit, or a 35 percent increase compared to the first three months of 2004. The increase in the trade deficit reflects (1) the 13 percent decrease in Lebanese exports which totaled USD 405 billion by the end of March 2005 as a result of the decrease in the exportation activity to Iraq and the decrease in exports of pearls, precious and semi precious stones to Switzerland, and (2) the 23 percent strengthening in imports attributed in large to increases in the value of imports of pearls, precious and semi precious stones from Congo as well as the rise in the value of mineral products imports explained by the hike in the price of mineral oils. (section 5).

Section I: Fiscal Overview

Table 1. Summary of Fiscal Performance

(LL billion)	2004 March	2005 March	2004 Jan-Mar	2005 Jan-Mar	Change 2004-2005	% Change
Budget Revenues	582	584	1,634	1,585	-49	-3.0%
Budget Expenditures *of which:*	628	659	1,550	1,426	-125	-8.0%
Debt Service	277	320	800	694	-105	-13.2%
Budget Deficit/Surplus	**-47**	**-75**	**84**	**159**	**75**	**89.7%**
in % of Budget Expenditures	-7.4%	-11.3%	5.4%	11.1%		
Budget Primary Deficit/Surplus	**230**	**246**	**883**	**853**	**-30**	**-3.4%**
in % of Budget Expenditures	36.7%	37.3%	57.0%	59.8%		
Treasury Receipts	25	24	85	64	-21	-24.8%
Treasury Payments	168	177	748	687	-61	-8.1%
Total Budget and Treasury Receipts	607	608	1,719	1,649	-71	-4.1%
Total Budget and Treasury Payments	797	836	2,298	2,113	-185	-8.1%
Total Cash Deficit/Surplus	**-189**	**-228**	**-579**	**-464**	**115**	**-19.9%**
in % of Total Expenditures	-23.8%	-27.2%	-25.2%	-22.0%		
Primary Deficit/Surplus	**88**	**93**	**221**	**230**	**9**	**4.2%**
in % of Total Expenditures	11.00%	11.10%	9.60%	10.89%		

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

By the end of March 2005, the **total deficit** (budget and treasury) reached LL 464 billion, compared to LL 579 million during the first three months of 2004 registering a decrease of LL 115 million. This amelioration resulted from the LL 185 billion or 8 percent drop in **total expenditures**, amounting to LL 2,113 billion by the end of March 2005, compared to LL 2,298 billion in the first quarter of 2004.

The decline in expenditures offset the LL 71 billion or 4.1 percent decrease in **total revenues** which, by the end of March 2005, totaled LL 1,649 billion in contrast to the LL 1,719 billion collected in the first quarter of 2004.The first quarter of 2005 sustained a **primary surplus** of LL 230 billion, remaining almost stable when compared to the LL 221 billion accumulated in January-March 2004.

Section II: Revenue Outcome

Table 2. Total Revenue

(LL billion)	2004 March	2005 March	2004 Jan-March	2005 Jan-March	% Change
Budget Revenues, of *which:*	**582**	**584**	**1,634**	**1,585**	**-3.02%**
Tax Revenues	*372*	*357*	*1,163*	*1,131*	*-2.70%*
Non-Tax Revenues	*97*	*110*	*471*	*453*	*7.98%*
Treasury Receipts	**25**	**24**	**85**	**64**	***-24.76%***
Total Revenues	**607**	**608**	**1,719**	**1,649**	***-4.10%***

Source: MOF, DGF

Tax revenues (as part of budget revenues) generated LL 1,131 billion in QI 2005, compared to LL 1,163 billion in QI 2003. This represents a 3 percent decline in tax receipts, mainly caused by lower collection of (1) built property taxes (namely the recurrent component of the tax) and (2) international trade taxes (customs and excises).

Taxes on income, profits and capital gains generated a total of LL 212 billion in QI 2005, representing 10 percent stronger receipts when compared to the collection level in QI 2004, mainly attributed to:

(1) an approximate 23 percent rise in the collection of the **withheld tax on wages and salaries**, which summed up to LL 52 billion for the first quarter of 2005[1], owing to the fruitful implementation of the *Deduction At Source on Wages and Salaries* (*DASS*) reform effort[2], which targeted the enlargement of the tax base and the improvement of the tax procedures;

(2) an approximate 17 percent increase in the collection of **the 5 percent tax on interest income**. This tax generated LL 70 billion in the first three months of the year, as compared to LL 60 billion in QI 2004. The 5 percent tax is mainly collected from two sources, explaining the improved collected figure for QI 2005:

a. The 5 percent tax levied on interests due on commercial banks' deposits over the three months period, December 04-February 05[3], which registered on average, a 10 percent year on year growth.

b. The 5 percent tax on interest due on Treasury bills / bonds' issuance, which also reflected the increased volume of securities' issuance.

Unchanged from the first quarter of 2004, **income tax on profits** generated LL 68 billion by March 2005. Income taxes filed and declared in 2005 are levied on profits realized throughout 2004, which was a profitable year for businesses in general, mirroring the 5 percent economic growth rate. However, this higher rate of growth did not reflect in higher proceeds for income taxes on profits in QI 2005, due to the fact that upon the Minister of Finance's notification, deadlines for income tax filing[4] for individual businesses and partnerships was extended form March 31st 2005 till April 30th 2005.

[1] Please note that the month of January is the first filing and declaration date of the payroll tax (which is collected on a quarterly basis), and therefore Q1 collection accounts mainly for the tax due on wages and salaries paid in the last quarter of the previous year.
[2] For further details on the Deduction At Source on Wages and Salaries reform of the Withheld tax on Wages and Salaries please refer to "Reform Program @ the Ministry of Finance" November 2004, on the Ministry's web-site.
[3] Note that the 5% tax on interest income is levied on a monthly basis, during the first fifteen days of the following month.
[4] Specifically for those filing on the real profit basis.

With a 25 percent rise in receipts in QI 2005, the **income tax on capital gains and dividends** cumulated at LL 17 billion compared to LL 13 billion in QI 2004.

Proceeds from the **built property taxes** cumulated at LL 82 billion for the first quarter of the year, compared to LL 98 billion for QI 2004, registering 16 percent lower revenues

The **recurrent component of the built property tax** generated LL 28 billion, accounting for 35 percent fewer revenues than the collected amount in QI 2004. The reason behind the decline in receipts may be explained, on the one hand, by the extension of the deadline period for the granted amnesty on due penalties (giving real estate owners incentives to postpone the settlement of their taxes), and on the other hand by the amendment of the Built Property Tax structure as per the Budget Law 2004. Indeed, Article 30, Paragraphs 54 and 56 of Budget Law 2004, modified and simplified the structure of the tax by imposing progressive tax rates on each real estate value separately, unlike previously when the law called for two main types of rates: (a) a proportional rate levied on each real estate separately, together with (b) a progressive rate structure levied on the aggregated value of a property owner's overall real estate properties. The built property tax modification implies that:

a. The built property tax now falls on the property itself rather than on the property owner.

b. The dis-aggregation of real estate values may wither away some of the built property taxable base.

The impact of the change in the built property tax structure on revenues may not be accurately assessed prior to year end.

On the other hand, **real estate registration fees** generated LL 46 billion during Jan-March 2005, compared to LL 45 billion during the equivalent period last year, suggesting that the real estate market for the first three months period was not affected by the February 14th assassination of Prime Minister Hariri and the recent political events.

Table 3. Tax Revenue

(LL billion)	2004 March	2005 March	2004 Jan-Mar	2005 Jan-Mar	% Change
Tax Revenues:	**372**	**357**	**1,163**	**1,131**	**-2.70%**
Taxes on Income, Profits, & Capital Gains, *of which*:	**50**	**53**	**192**	**212**	**10.36%**
Income Tax on Profits	*27*	*25*	*68*	*68*	*0.04%*
Income Tax on Wages and Salaries	*3*	*4*	*43*	*52*	*22.58%*
Income Tax on Capital Gains & Dividends	*1*	*2*	*13*	*17*	*25.22%*
Tax on Interest Income (5%)	*16*	*20*	*60*	*70*	*16.54%*
Penalties on Income Tax	*2*	*1*	*7*	*4*	*-42.22%*
Taxes on Property, *of which:*	**45**	**38**	**98**	**82**	**-16.25%**
Built Property Tax	*21*	*20*	*44*	*28*	*-35.48%*
Real Estate Registration Fees	*21*	*16*	*45*	*46*	*1.96%*
Domestic Taxes on Goods & Services, *of which:*	**114**	**127**	**425**	**451**	**6.25%**
Value Added Tax	*97*	*110*	*380*	*410*	*7.98%*
Other Taxes on Goods and Services, of which:	*16*	*16*	*40*	*38*	*-5.61%*
Private Car Registration Fees	*10*	*7*	*23*	*21*	*-8.19%*
Passenger Departure Tax	*6*	*9*	*17*	*16*	*-1.53%*
Taxes on International Trade, *of which:*	**145**	**124**	**390**	**333**	**-14.54%**
Customs	*43*	*44*	*117*	*113*	*-3.13%*
Excises, of which:	*102*	*79*	*273*	*220*	*-19.45%*
Petroleum Tax	*71*	*45*	*188*	*130*	*-30.89%*
Tobacco Tax	*12*	*14*	*42*	*42*	*1.42%*
Tax on Cars	*19*	*20*	*42*	*47*	*9.85%*
Other Tax Revenues, *of which:*	**18**	**16**	**58**	**53**	**-8.99%**
Fiscal Stamp Fees	*17*	*15*	*58*	*53*	*-9.03%*

Source: MOF, DGF

Domestic taxes on goods and services generated LL 451 billion in QI 2005, compared to LL 425 billion collected in QI 2004. This 6 percent rise in receipts is solely attributed to an approximate 8 percent rise in **VAT revenues**. In fact, VAT collected during the first three months of the year amounted to LL 410 billion compared to LL 380 billion collected in Jan-March 2004.

a. Of the total amount of VAT receipts, LL 273 billion represents the amount of VAT collected at imports in QI 2005, compared to LL 250 billion collected in QI 2004; The 9 percent rise in the amount of VAT levied at customs from the import of merchandise is explained by a near 23 percent rise in imports during the first quarter of 2005 compared to the equivalent period in 2004.
b. LL 137 billion corresponds to the VAT collected from internal operations in QI 2005 as opposed to LL 130 billion collected in QI 2004. VAT revenues from internal activity registered a 5 percent rise, stemming mainly from the collection in January 2005 of the fourth quarter's operations of 2004[5].

[5] *Please note that the first fifteen days of each January represents the tax filing and declaration period of the VAT generated from the fourth quarter's internal activity of the previous year. Being computed on a cash basis; the January fiscal performance therefore accounts for the VAT receipts of the last quarter of the previous year.*

Other taxes on goods and services collected LL 38 billion during the first three months of the year, nearly 6 percent less than the collection level in Jan-March 2004. This tax category mainly consists of **private car registration fees** and **passenger departure tax** in the amounts of LL 21 billion and LL 16 billion respectively, for the first quarter of the year. A year on year comparison reveals that private car registration fees witnessed an 8 percent decrease in revenues, despite a 9 percent rise in the number of cars imported during that same period, suggesting most probably that imported cars were not systematically sold. Likewise for passenger departure tax, the collected amount registered a 2 percent decrease, reflecting the 11 percent decline in the number of incoming tourists during that same period. In fact, the number of tourists who visited the country during Jan-March 2005 totaled 179,631 compared to 202,422 tourists during the first quarter of the 2004. The number of Arab tourists visiting the country decreased by approximately 29 percent albeit remaining the leading nationality; whereas the number of European tourists rose by 4 percent.

Taxes on international trade (custom duties and excises) generated LL 333 billion in Jan-March 2005, compared to LL 390 billion in the comparable period of 2004. Of this amount, LL 113 billion are **custom duties**, accounting for 3 percent less revenues compared to the collected amount in QI 2004, and this, in spite of a 23 percent rise in imports during that same period. In fact, the increase in the price of oil stands largely behind the rise in imports, and nearly no custom duties are levied on fuel imports.

Excises generated LL 220 billion in QI 2005, compared to LL 273 billion in QI 2004. Behind this 19 percent decline in excise revenues, stands a 31 percent decline in **fuel excises**. In fact, petroleum tax generated LL 130 billion in QI 2005 compared to LL 188 billion in the equivalent period of last year, owing to two main reasons:

a. The annualized effect of the capping of the price of fuel at pump stations following a Council of Ministers' decision in May 20th 2004, in response to increasing international oil prices. In fact, the effective excise rate on fuel during the first quarter of the year is calculated at LL 365 per liter of car gasoline, compared to LL 483 per liter for the same period last year.
b. An 8 percent drop in the quantity of imported car gasoline. In fact, whereas the country used to import, on average, 0.387 billion liters in the first quarters of 2003 and 2004, the volume of imports during the first quarter of this year totaled 0.356 billion liters only. The excise rate on car gasoline is levied on liters of imports and is not ad-valorem; hence it does not capture the increase in the international price of oil reflecting the 19 percent nominal rise in fuel imports in QI 2005.

Excises on cars registered a 10 percent rise in receipts with LL 47 billion collected in the first quarter of 2005 compared to LL 42 billion in QI 2004. This mirrors the 8 percent rise in car imports during that same period. In fact, the number of cars imported in QI 2005 totaled 8,239 compared to 7,540 in QI 2004.

With LL 42 billion of revenues by the end of March 2005, **tobacco excises** maintained the same level of collection as in the first quarter of the previous year.

Other tax revenues, namely fiscal stamp duties, collected LL 53 billion in QI 2005, 9 percent below the collection level in QI 2004, hinting at a reduced volume of transactions taking place in the economy during that period. In fact, the period which followed the February 14th bombing and the assassination of Lebanon's former Prime Minister Rafic Hariri, was characterized by a period of mourning and repeated strikes, which might have affected the normal course of business and activity.

Table 4. Non-Tax Revenue

(LL billion)	2004 March	2005 March	2004 Jan-Mar	2005 Jan-Mar	% Change
Non-Tax Revenues	**210**	**227**	**471**	**453**	**-3.83%**
Income from Public Institutions and Government Properties, *of which*:	**164**	**186**	**367**	**358**	**-2.43%**
Income from Non-Financial Public Enterprises, *of which*:	160	181	347	344	-0.82%
Revenues from Casino Du Liban	*7*	*2*	*13*	*19*	45.98%
Budget Surplus of National Lottery	*3*	*3*	*8*	*8*	0.00%
Revenues from Port of Beirut	*0*	*33*	*0*	*33*	
Transfer from the Telecom Budget Surplus	*150*	*143*	*326*	*284*	-12.86%
Property Income (namely rent of Beirut International Airport)	*2*	*5*	*18*	*13*	-12.85%
Other Income from Public Institutions (interests)	*1*	*0*	*2*	*1*	-28.20%
Administrative Fees & Charges, *of which*:	**39**	**33**	**84**	**73**	**-12.85%**
Administrative Fees, *of which*:	31	26	62	55	-10.14%
Notary Fees	*1*	*1*	*4*	*4*	-0.10%
Passport Fees/ Public Security	*8*	*7*	*20*	*19*	-1.67%
Vehicle Control Fees	*18*	*14*	*26*	*22*	-15.48%
Judicial Fees	*2*	*2*	*6*	*4*	-27.89%
Driving License Fees	*1*	*1*	*3*	*3*	-18.71%
Administrative Charges	4	2	10	6	-36.01%
Sales (Official Gazette and License Number)	0	0	1	1	-15.56%
Permit Fees (mostly work permit fees)	3	3	10	9	-6.63%
Other Administrative Fees & Charges	1	1	2	2	-9.71%
Penalties & Confiscations	**0**	**0**	**1**	**1**	**-36.67%**
Other Non-Tax Revenues (mostly retirement deductibles)	**6**	**8**	**19**	**21**	**11.12%**

Source: MOF, DGF

Non-tax revenues amounted to LL 453 billion by end of March 2005, compared to LL 471 billion by the end of March 2004, nearly 4 percent less revenues on a year on year basis. This shortage in non-tax revenues compared to the previous year's collection level stems mainly from a decline in the transfers to the Treasury from the budget surplus of the Telecommunications, and to a lesser extent from a decrease in Administrative fees and Charges collected in the period under investigation in this report.

Income from public institutions and government properties generated LL 358 billion by March 2005; registering a 2 percent decline in revenues when compared to the collection level in QI 2004. This includes the following details:

a. LL 19 billion from **Casino Du Liban**, LL 6 billion more revenues than the collection amount in QI 2004;
b. LL 8 billion from the **National Lottery**, maintaining last year's revenue level.
c. The transfers from the **Budget surplus of the Telecommunications** totaled LL 284 billion for the first quarter of the year, 13 percent below the amount received in Jan-March 2004, mainly due to the lack of transfers for the month of January 2005.

d. Unlike the previous year when no transfers were made, an amount equivalent to LL 33 billion was transferred from the **Port of Beirut** in March 2005.

Administrative fees and charges collected LL 73 billion in Jan-March 2005, almost 13 percent less than the level collected in the first three months of 2004. This resulted from the 10 percent decrease in the collection of **the sub-item administrative fees**, which totaled LL 55 billion in QI 2005; and which is mainly explained by LL 15 percent less **vehicle control fees** collected in that period, when compared to Jan-March 2004. With LL 4 billion received by March 2005, **judicial fees** recorded an approximate 28 percent decrease in collection. Other fees, namely **notary fees**, **driving license fees**, and **passport/public security fees**, maintained to a large extent, their QI 2004 level of collection, with LL 4 billion, LL 3 billion and LL 19 billion of revenues, respectively in QI 2005.

Administrative charges (which include public exam fees, registration fees in public schools and the Lebanese University, and fees from port authorities) collected LL 6 billion in QI 2005, compared to LL 10 billion in QI 2004.

Treasury Revenues in 2004 cumulated at LL 64 billion, LL 21 billion of which represents to a large extent the municipalities' revenue shares in central government taxes, namely in built property taxes (the recurrent tax and the registration fees), in custom duties, in private car registration fees, in fiscal stamps, and in judicial fees.

Section III: Expenditure Outcome

Table 5. Expenditures by Transaction Classification

(LL billion)	2004 March	2005 March	2004 Jan-Mar	2005 Jan-Mar	% Change
Total Expenditures	**797**	**836**	**2,298**	**2,113**	**-8.06%**
Budget Expenditures	**628**	**659**	**1,550**	**1,426**	**-8.03%**
Expenditures Excluding Debt Service	351	338	751	731	-2.57%
Debt Service, *of which*:	277	320	800	694	-13.17%
Domestic Debt	*98*	*97*	*467*	*318*	-31.97%
Foreign Debt	*179*	*223*	*332*	*377*	13.25%
o /w (a) Eurobond coupon interest	*160*	*200*	*268*	*308*	
(b) Concessional loans principal payments	*14*	*18*	*31*	*34*	
(c) Concessional loans interest payments	*5*	*6*	*33*	*35*	
Treasury Expenditures , *of which*:	**168**	**177**	**748**	**687**	**-8.10%**
Municipalities	*47*	*23*	*174*	*36*	-79.55%
Previous Years' Appropriations	*41*	*92*	*406*	*457*	12.46%
Non-Interest Expenditures (Total Expenditures minus Debt Service)	**520**	**515**	**1,499**	**1,419**	**-5.33%**

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

Between QI 2004 and QI 2005, **total expenditures for budget and treasury transactions** witnessed an 8 percent decrease, going down from LL 2,298 billion in the first quarter of 2004 to LL 2,113 billion in the first quarter of 2005.

1) **2005 budget expenditures** amounted to LL 1,426 billion in the first quarter of 2005, registering a decline of 8 percent when compared to the first quarter of the preceding year, mainly owing to:

a) A 3 percent decrease in **primary expenditures (or expenditures excluding debt service**) from LL 751 million in QI 2004 to LL 731 million in QI 2005.

b) A 13 percent decrease in **debt service** expenditures, from LL 800 billion to LL 694 billion, resulting from a 32 percent decrease in the **domestic debt service** portion which offset the 13 percent increase in the **foreign debt service** part.

2) **Treasury expenditures** consist of extra budgetary transactions as well as previous years' budgets transactions. They totaled LL 687 billion in January-March 2005 compared to LL 748 billion incurred in January-March 2004, registering an 8 percent decline.

Non-interest expenditures (primary total expenditures) amounted to LL 1,419 billion in QI 2005, a 5 percent decrease in comparison with the LL 1,499 billion registered in QI 2004.

When expenditures are examined from an economic oriented perspective, current expenditures are found to have remained stable while other types of spending such as treasury and capital spending have declined.

Current expenditures cumulated at LL 1,756 billion in the first three months of 2005, remaining almost constant compared to their level during the first quarter of 2004 when they totaled LL 1,743 billion.

Primary current expenditures amounted to LL 1,062 billion by the end of March 2005, an increase of LL 119 billion or 13 percent above the LL 943 billion disbursed in the same period a year earlier. The increase resulted mainly from

(1) a LL 68 million augmentation on material and supplies spending and

(2) a LL 40 billion rise in various transfer expenses.

The details of current expenditures are highlighted in what follows *(also please refer to table 6)*:

Personnel cost amounted to LL 729 billion in January-March 2005, only 1 percent below the January-March 2004 level of LL 738 billion mainly due to 8 percent lower spending on retirement and end of service compensations.

Debt service for QI 2005 amounted to LL 694 billion, registering a decrease of LL 106 billion compared to the first quarter of 2004. This decline can be mainly attributed to the large drop in domestic currency debt service which amounted to LL 318 billion in QI 2005 compared to LL 467 billion in the same period of last year. Debt service on foreign currency debt amounted to LL 377 billion in QI 2005 of which LL 35 billion represents the payment of concessional loans' principal. Foreign currency debt service registered an increase of LL 45 billion when compared to LL 332 billion in QI 2004. The debt service outcome in QI 2005, which reflects payments on previously contracted debt, continues to mirror the developments that ensued from the Paris II conference[6] in November 2002, most notably, the decline in the overall level of interest rates, the mobilization of the Paris II donor funds at 5 percent, the special schemes of the BDL and the Lebanese commercial banks, and the continued progress in achieving primary surpluses that contributed to lowering the financing requirement of the Treasury.

[6] *For additional information of these transactions, kindly refer to the report entitled "One Year Progress after Paris II" on the Ministry of Finance website www.finance.gov.lb.*

Table 6. Expenditures by Economic Classification 4/

(LL Billion)	2004 Jan-Mar	2005 Jan-Mar	% Change
1. Current Expenditures	**1,743**	**1,756**	**1%**
1.a Personnel Cost, *of which:*	738	729	-1%
Article 13: Salaries and Wages 1/	*486*	*489*	1%
Retirement and End of Service Compensations	*207*	*190*	-8%
1.b Debt service	800	694	-13%
1.c Materials and Supplies	18	86	378%
1.d External Services	24	18	-25%
1.e Various Transfers, *of which:*	83	123	48%
NSSF	*45*	*50*	100%
1.f Other Current, *of which:*	65	87	34%
Hospitals	*56*	*46*	-18%
Others	*9*	*41*	356%
1.g Reserves, *of which:*	16	19	19%
Interest Subsidy	*16*	*19*	19%
2. Capital Expenditures	**203**	**139**	**-32%**
2.a Acquisitions of Land, Buildings, for the Construction of Roads, Ports, Airports, and Water Networks	1	0	-100%
2.b Equipment	9	6	-33%
2.c Construction in Progress	154	109	-29%
2.d Maintenance	23	21	-9%
2.e Other Expenditures Related to Fixed Capital Assets	16	2	-88%
3. Other Treasury Expenditures *of which*:	**339**	**212**	**-37%**
Municipalities	174	36	-79%
EDL	82	49	-40%
Transfers to Water Authorities	0	48	100%
Treasury Advance for Diesel Oil Subsidy	0	12	100%
4. Unclassified Expenditures	**6**	**0**	**-100%**
5. Customs Cashiers	**8**	**5**	**-38%**
6. Total Expenditures 2/	**2,298**	**2,113**	**-8%**

Source: Ministry of Finance (MOF), Directorate General of Finance (DGF)
1/ Includes the wages and salaries for the Council of the South, the Lebanese University, the Displaced Council, the Council for Reconstruction and Development, and the Educational Center for Research and Development.
2/ Excluding foreign financed capital spending.

Materials and supplies amounted to LL 86 billion in the first quarter of 2005, increasing by 378 percent when compared to the LL 18 billion spent in QI 2004. This increase is mainly due to the LL 68 billion payment of public administrations' electricity bills to EDL, in accordance with Law # 672 enacted on February 17^{th}, 2005 which opened an additional allocation in 2004 Budget Law, under the Ministry of Finance's budget to reimburse accrued electricity bills on behalf of public administrations[7]

External services (rent, postal services, insurance, advertisement and public relations) amounted to LL 18 billion in January-March 2005, a 25 percent decrease compared to January-March 2004.

[7] *For additional information, kindly refer to the yearly 2004 report entitled "Public Finance prospects2004", Boxes page 15*.

Various transfers reached LL 123 billion in the first quarter of 2005, rising by LL 40 billion from QI 2004. Out of this LL 40 billion or 48 percent increase:

a. Subsidies paid to the annex budget of the General Directorate of Grains and Sugar Beet[8] amounted to LL 15 billion,

b. Transfers to the National Social Security Fund augmented by LL 5 billion,

c. Transfers to the Ministry of Health increased by LL 7 billion, from which LL 4 billion were allocated for the functioning of the new governmental hospitals of Tripoli, Ehden and Becharre.

Other current expenditures totaled LL 87 billion in QI 2005, increasing by LL 22 billion from their QI 2004 level. This increase resulted from transfers amounting to LL 32 billion paid to the Ministry of Education in settlement of arbitration decisions related to contractual teachers' wages and salaries.

Interest subsidies for loans to the productive sectors (agriculture, industry, tourism, technology and crafts) increased by LL 3 billion or by 19 percent from their level in QI 2004, reaching LL 19 billion by the end of March 2005.

Capital expenditures reached LL 139 billion in January-March 2005, LL 64 billion below their QI 2004 level mainly due to a 29 percent or LL 45 billion decrease in **construction in progress.** This is owing to:

(a) lower transfers to the Council of The South which reached an amount of LL 8 billion in the first quarter of 2005 compared to LL 30 billion in January-March 2004 and

(b) the absence of any spending on the Displaced Fund for the first three months of 2005 compared to transfers which totaled LL 32 billion in January-March 2004.

The remaining amount accounting for construction in progress was spent as follows:

- Spending for the Council for Development and Reconstruction (CDR) totaled LL 67 billion in the first quarter of 2005 compared to LL 52 billion in 2004
- Capital expenditures for the Ministry of Public Works and Transport reached LL 17 billion in January-March 2005 compared to LL 26 billion in QI 2004.
- Other construction in progress totaled LL 18 billion in the first quarter of 2005 in contrast to the LL 13 billion spent in QI 2004.

-Other Expenditures Related to Fixed Capital Assets also decreased by LL 14 billion reaching LL 2 billion by the end of March 2005. This decline is due to the absence of transfers to the Investment Development Authority Lebanon, IDAL, for "the Export Plus Program".

[8] *The General Directorate of Grains and Sugar Beet is under the supervision of the Ministry of Economy and Trade.*

Table 7. Transfers to EDL

(LL billion)	2004 Jan-Mar	2005 Jan-Mar	% Change
EDL *of which:*	**82**	**49**	**-40.4%**
Debt service *of which:*	**82**	**49**	**-40.4%**
C-Loans and Eurobonds, *of which:*	49	49	0.4%
Principal Payments	*34*	*36*	*5.9%*
Interest Payments	*15*	*13*	*-13.3%*
Loans for Fuel Oil Payment	33	0	-100.0%
BDL Guaranteed Loan Payment	0	0	0.0%
Treasury advance for fuel purchase	**0**	**0**	**0.0%**
Expropriations	**0**	**0**	**0.0%**

Source: MOF, DGF

Other treasury expenditures witnessed a 37 -percent decrease, reaching LL 212 billion by March 2005 compared to LL 339 billion in January-March 2004. This fall, equivalent to LL 127 billion, pertains to:

(a)-Lower **treasury transfers to municipalities** which reached LL 36 billion by the end of March 2005, decreasing by 79 percent. The lower level of treasury transfers in QI 2005 compared to 2004 was actually due to payments made for solid waste management on behalf of the municipalities in QI 2004. Therefore, treasury transfers to municipalities in QI 2005 went back close to their QI 2003 level when they totaled 47 billion.

(b)-Lower transfers to **EDL** which amounted to LL 49 billion by the end of March 2005 compared to LL 82 billion for QI 2004. The lower level of treasury transfers to EDL in the first quarter of 2005 in contrast to 2004 is explained by the LL 33 billion transfers made in QI 2004 for the settlement of a fuel oil revolving loan on behalf of EDL.

Lower levels of treasury transfers to municipalities and EDL offset the increase in the following two treasury expenditures items:

i)-Treasury advances of LL 48 billion to the **water authorities** for the settlement of accrued electricity bills to Electricity du Liban, as stated in the Law 672, on February 17th, 2005[9].

ii)-As part of the execution of the decree number 13651 authorizing the Ministry of Finance to subsidize diesel oil price until the end of 2004, the treasury advance for **diesel oil subsidies** reached LL 12 billion in the first quarter of 2005, representing payments still being settled for the 2004 subsidy.

[9] *For additional information, kindly refer to the yearly 2004 report entitled "Public Finance prospects2004", Boxes page 15.*

Section IV: Public Debt Developments

Table 8. Public Debt Outstanding by Holder as of End-March 2005

(in LL Billion)	Dec-02	Dec-03	Dec-04	Mar-05	Change QI 2005	% Change QI 2005
Total Debt (1)	**47,276**	**50,284**	**54,047**	**53,520**	**-527**	**-1.0%**
Domestic Currency Debt	**25,302**	**26,843**	**26,371**	**25,912**	**-459**	**-1.7%**
a. Central Bank, *of which:*	723	8,938	10,652	15,236	4,584	43.0%
Repurchase Agreements entered into with commercial banks	*7*	*0*	*0*	*2,220*	2,220	
b. Commercial Banks	17,211	12,303	12,220	7,387	-4,832	-39.5%
c. Other Domestic Debt, *of which:*	7,368	5,603	3,500	3,289	-211	-6.0%
Public Entities	*3,221*	*2,564*	*2,187*	*2,179*	-8	-0.4%
Foreign Currency Debt	**21,974**	**23,441**	**27,676**	**27,608**	**-68**	**-0.2%**
a. Bilateral, Multilateral and Foreign Private Sector Loans	2,752	2,934	2,970	2,944	-26	-0.9%
b. Paris II Related FX Debt (at 5%)	1,432	3,731	3,815	3,766	-49	-1.3%
c. BDL Paris II related Eurobond (at 4%)	2,819	2,819	2,819	2,819	0	0.0%
d. Market Eurobonds	14,569	13,631	17,685	17,591	-94	-0.5%
e. Accrued Interest on Foreign Currency Debt	402	327	388	488	101	26.0%
Public Sector Deposits (2)	**2,964**	**3,019**	**4,360**	**3,343**	**-1,017**	**-23.3%**
Net Debt (3)	**44,312**	**47,266**	**49,687**	**50,177**	**489**	**1%**
Gross Market Debt (4)	**36,765**	**29,637**	**31,874**	**26,843**	**-5,032**	**-15.8%**
% of Total Debt	**78%**	**59%**	**59%**	**50%**		

Source: MOF, BDL

(1) Total debt equals domestic debt plus foreign debt

(2) Kindly note that the amount for 'public sector deposits' reported in the table above has been adjusted for a recording time lag. Hence, the reported amount for 'public sector deposits' and 'net debt' in this document differs from previously published figures in the March 2005 Public Finance Monitor.

(3) Net public debt is defined as the gross public debt less public sector deposits.

(4) Gross market debt equals gross debt less the portfolios of the BDL, public entities (NSSF, DGA), bilateral, multilateral and foreign private sector loans, and Paris II related debt.

As of end-March 2005, **gross public debt** amounted to LL 53,520 billion (equivalent to USD 35.5 billion), registering a decrease of LL 527 billion or 1 percent over the December 2004 level. The decline in gross public debt in QI 2005 can be attributed to two main reasons: (1) the drawdown of the surplus accounts of the Treasury at the Central Bank following pre-funding in both Lebanese Pounds and foreign currencies in November and December 2004 and (2) the primary surpluses that have accumulated during the period January-March 2005 and that have been used to retire debt payments during the first quarter of the year.

Domestic debt as of end-March 2005 amounted to LL 25,912 billion and declined by LL 459 billion or by 1.7 percent over the end-December 2004 level. As mentioned above, the main reason for this decline was the utilization of the surplus balances that had accumulated in the Treasury's accounts at the Central Bank.

The decline in the commercial banks' debt portfolio and the simultaneous increase in the Central Bank's portfolio could be partly explained by the limited market access available to the Treasury in the aftermath of the tragic assassination of former Prime Minister Rafik Hariri in February 2005 (see box for Financial Impact of the assassination). It is to note, however, that almost half of the decline in the commercial banks' portfolio is due to the Repurchase Agreements entered into with the Central Bank in February and March. These REPO transactions lead to a temporary shift in the classification of Treasury bills from the commercial banks' portfolio to that of the Central Bank. The REPO transactions have recently been reversed.

The **stock of foreign currency debt**, as of end-March 2005, amounted to the equivalent of LL 27,608 billion (or US$ 18.3 billion) and declined by LL 68 billion against the end of 2004. This decline could be mainly attributed to (1) a larger level of principal repayments of Eurobonds compared to the issued amount (US$ 766 million repaid versus US$ 750 million issued) and (2) to the impact of a lower Euro/US Dollar exchange rate at the end of March 2005 compared to its level at the end of 2004 as seen, for example, in the LL 49 billion decline of Paris II related foreign currency debt in QI 2005.

On the **Eurobond** front, an equivalent amount of US$ 766 million of Eurobond principal, representing US$ 280 million of zero interest Eurobonds and US$ 486 million of regular Eurobonds, were repaid in QI 2005. The zero interest Eurobonds were originally issued as part of the commercial banks' contribution to the Paris II conference and began maturing commencing January 18, 2005. The zero interest Eurobonds maturing in January and February 2005 were settled from the treasury's foreign currency accounts. On February 25, 2005, the treasury issued a US$ 750 million Eurobond to the Banque du Liban to finance foreign currency maturities in March 2005.

Table 9. Eurobond Payments Maturing during QI 2005

(in US Dollars)	Jan-05	Feb-05	Mar-05	QI 2005
Regular Eurobonds	-	-	486	**486**
Zero Interest Eurobonds	77	93	109	**280**
Total	**77**	**93**	**596**	**766**

Source: Ministry of Finance

Net public debt as of end-March 2005 amounted to LL 50,177 billion (USD 33.28 billion) registering an increase of LL 489 billion or 1 percent over the end-December 2004 level.

Table 10. Public Debt Outstanding by Instrument as of End-March 2005

(in LL Billion)	Dec-02	Dec-03	Dec-04	Mar-05	Change QI 2005	% Change QI 2005
Total debt	**47,276**	**50,284**	**54,047**	**53,520**	**-527**	**-1.0%**
Domestic debt	**25,302**	**26,843**	**26,371**	**25,912**	**-459**	**-1.8%**
1. Long Term Bonds, *of which:*	**22,268**	**24,691**	**20,766**	**18,837**	**-1,929**	**-10.2%**
a- 60 Month Bonds	0	650	650	853	203	23.8%
b- 54 Month Bonds	0	616	616	616	0	0.0%
c- 48 Month Bonds	0	*0*	*0*	*298*	298	100.0%
d- 36 Month Bonds	339	884	8,943	9,498	555	5.8%
e- 30 Month Bonds	0	3,033	3,033	3,033	0	0.0%
f- 24 Month Bonds	21,214	18,986	7,281	4,349	-2,932	-67.4%
g- Coupon Interest Accrued	715	522	243	191	-53	-27.6%
2. Short Term Bills, *of which: 1/*	**2,866**	**1,799**	**5,102**	**6,574**	**1,473**	**22.4%**
a- 12 Month Bills	1,522	796	2,887	4,283	1,396	32.6%
b- 6 Month Bills	1,028	424	2,103	2,230	127	5.7%
c- 3 Month Bills	317	579	112	62	-50	-80.6%
3. Other Domestic Debt	**169**	**353**	**504**	**502**	**-2**	**-0.4%**
Foreign debt	**21,974**	**23,441**	**27,676**	**27,608**	**-68**	**-0.2%**
1. Eurobonds, *of which:*	**19,222**	**19,566**	**23,682**	**23,687**	**6**	**0.0%**
Paris II related Eurobonds	1,432	2,789	2,789	2,789	0	0.0%
2. Loans, *of which:*	**2,752**	**3,876**	**3,995**	**3,913**	**-83**	**-2.1%**
a- Paris II Concessional Loans 2/	0	942	1,026	977	-49	-5.0%
b- Bilateral and Multilateral Loans	2,316	2,595	2,700	2,669	-31	-1.2%
c- Foreign Private Sector Loans	436	338	270	267	-3	-1.2%

Source: MOF, Banque du Liban

1/ Includes Accrued Interest on Short-Term Bills

2/ Represents the contribution of France in the Paris II conference

Table 10 above demonstrates the **evolution of public debt by instrument**. On the domestic debt front, the large decline in the 24-month category was due to the amortization of the zero interest treasury bills in the amount of LL 2,820 billion in QI 2005. Most of these zero interest Treasury bills were rolled over into new 6 and 12-month treasury bills with rates ranging between 3.090-3.750 percent for the 6-month and 3.265-4.125 percent for the 12-month maturity. This also explains the increase in the share of short-term Treasury bills and the decline in the share of long-term bonds.

On the foreign currency front, the increase in the **Eurobonds** line item by a mere LL 6 billion from the end 2004 level is due to the increase in the accrued interest on these bonds and not in the nominal value, which declined due to amortizations exceeding new issuances in QI 2005 as well as to the revaluation of the Euro/USD exchange rate. As for **foreign currency loans**, the LL 83 billion decline witnessed in QI 2005 in this line item is mainly due to the revaluation effect of the Euro/US Dollar exchange rate between end-December 2004 and end-March 2005.

Aftermath of February 14

Direct impact of the assassination of former Prime Minister Hariri on local financial market and public debt front

Developments on the local financial market and public debt front during QI 2005 could be split into the period prior to the assassination of former Prime Minister Rafik Hariri and the period following the tragic event on February 14, 2005. During the latter period, heightened uncertainty initially resulted in market pressures marked by an increase in the dollarization of deposits and a weaker appetite for government securities. Such pressures were met by a firm policy of retaining confidence to markets and maintaining stability. As such, the following developments were witnessed on the domestic and foreign currency financing fronts during QI 2005:

I. Domestic Currency Financing:

Prior to the assassination, there was a normal appetite on the primary market for Lebanese Pound denominated Treasury bills issued by the Ministry of Finance. Lebanese commercial banks continued to subscribe to the five maturities offered (3, 6, 12, 24, and 36-month Treasury bills). Following the assassination of Prime Minister Hariri, financing in the second half of February and the month of March was mainly secured from the Central Bank.

On March 31, a **swap operation** was launched allowing Lebanese commercial banks to replace Treasury bills maturing in 2006 and 2007 with new bills with maturities of 36, 48 and 60 months. The increase in the value of the 48 and 60-month maturities in QI 2005 in table 10 above is entirely explained by the subscriptions in this swap operation. To encourage participation, premiums were offered on exchanged Treasury bills, with 1, 2, and 3 percent being offered for 1, 2, and 3 year extensions, respectively.

On the **interest rate front**, the primary market rates during QI 2005 remained unchanged over their level at the end of 2004. On March 31, the buyback cash premium, which was being applied on the 6, 12, 24 and 36-month categories since it was introduced on October 21, 2004, was incorporated into the primary market rates as demonstrated in the last column in the table below.

Table 11. Evolution of Primary Market Treasury Bill Yields

	Pre-Paris II (End-Oct. 2002)	Post Paris II (Jan/Feb 2003)	Dec. 31, 2003	Dec. 31, 2004	Buy-Back Cash Premium 1/	Starting March 31, 2005
3-months T-Bills	11.18%	6.96%	5.48%	5.22%	Not applicable	5.22%
6-months T-Bills	12.12%	8.18%	6.53%	6.31%	0.4%	7.24%
12-months T-Bills	13.43%	9.13%	6.87%	6.69%	1.0%	7.75%
24-months T-Bills	14.64%	9.41%	7.99%	7.74%	1.5%	8.50%
36-months T-Bills			8.68%	8.68%	2.0%	9.34%
48-Months T-Bills 2/						10.30%
60-Months T-Bills 2/						11.30%

Source: MOF
***1/** Applicable on the auctions between October 21, 2004 and March 24, 2005 and paid only at issuance. Please refer to http://www.finance.gov.lb/LLSWAPNOV04.pdf for further details about this scheme.*
2/ The 48 and 60-month Treasury bills were issued within the context of the swap scheme executed in March and April 2005.

Aftermath of February 14… Continued

Direct impact of the assassination of former Prime Minister Hariri on local financial market and public debt front

II. Foreign Currency Financing:

On the foreign currency financing front, mounting pressure on USD liquidity resulted in several developments, which can be viewed in two phases, highlighted by the following:

I. Direct Aftermath-Mounting Pressures (February-March 2005)

- Rise in Deposit Dollarization: Bank deposits saw significant conversions from Lebanese pound deposits to foreign currency deposits, driving up the dollarization level to around 80% by end March 2005 compared to around 69% prior to the assassination. Total private sector deposits declined by around 3% by end March 2005 compared to the end January 2005 level.

- FX intervention: The Central Bank defended mounting pressures on the Lebanese pound by intervening in the market through its foreign exchange reserves. The gross FX reserve level declined to US$ 7.6 billion as at end March 2005, compared to US$ 9.7 billion as at end January 2005.

III. Financial Engineering (February –May 2005):

- Debt Replacement Transactions: During the first four months of 2005, the BDL subscribed in a total of US$ 1.25 billion of Eurobonds. The BDL subsequently sold the bonds on the secondary market.

- US$ 2 billion Euro CD: On April 25, 2005, a Euro CD was issued by BDL in the amount of US$ 2 billion. The Euro CD has a maturity of 10 years, and offers a semi-annual coupon rate of 10%. This one-time operation aimed to tap into market liquidity in foreign currency to offset pressures on foreign exchange reserves, and to enhance confidence in the monetary and financial systems.

Section V: Evolution of External Trade

Table 12. External Trade

(USD Million)	2004 March	2005 March	2004 Jan-Mar	2005 Jan-Mar	Change	% Change
Exports	156	159	471	405	-65	-14%
Imports, *of which:*	664	892	1,891	2,317	426	23%
Mineral Products	103	201	327	490	162	50%
Trade Balance	**-509**	**-733**	**-1,421**	**-1,912**	**-491**	**35%**

Source: MOF, Directorate General of Customs (DGC)

Balance of trade: In January-March 2005**,** the trade deficit increased by 35 percent compared to the first quarter of 2004. The widening of the trade deficit resulted from (1) a 14 percent decrease in exports and (2) a 23 percent rise in imports. The upsurge in imports is due to two main factors, namely, an increase in the price of mineral products and an increase in the imports of pearls, precious and semi-precious stones. The fall in exports is due to the diminution of the electrical machinery exports of to Iraq and the decrease of gold ingots exports to Switzerland.

By the end of March 2005, **imports** amounted to USD 2,317 million, compared to USD 1,891 million in the same period one year earlier. From a product perspective, the increase in imports reflects (1) a USD 195 million increase in the imports of pearls, precious and semi precious stones and (2) a USD 162 million increase in the value of the imports of mineral products resulting in on the hand from the increase in the price of gas oil, fuel oil and car gasoline and on the other hand, from an increase in the demand for gas oils and other fuel oils.

From a regional distribution perspective, the augmentation in the value of imports reflects (1) a USD 149 million increase in imports from Arab Countries, (2) a USD 41 million rise in imports from Switzerland and (3) a USD 239 million upsurge in imports from other countries which are not traditionally Lebanon's main trading partners such as Congo (USD 156 million increase in imports), Russia (USD 58 million increase in imports) and India (USD 20 million increase in imports).

By the end of March 2005, **exports** reached USD 405 million, decreasing by USD 65 million with respect to the first quarter of 2004. From a product perspective, the decrease in exports is mainly owed to (1) a USD 82 million decrease in the exports of pearls, precious or semi precious stones and (2) a USD 30 million decline in the exports of machinery and mechanical appliances. This overall decline largely offset the USD 23 million increase in the exports of base metals and articles of base metals as well as the USD 14 million increase in the exports of mineral products registered in the first three months of 2005. From a regional distribution perspective, the diminution in the value of exports reflects a USD 84 million decrease in exports to Switzerland and a USD 17 million decrease in exports to Arab Countries.

Table 13. Imports Distribution by Product

(USD million)	2004	2005	2004		2005			
	March	March	Jan-Mar	% Share	Jan-Mar	% Share	Change	% Change
Mineral Products	103	201	327	17%	490	21%	162	50%
Machinery and Mechanical Appliances	82	99	235	12%	257	11%	22	9%
Pearls, Precious or Semi-Precious Stones	17	94	61	3%	256	11%	195	318%
Products of the Chemical	78	81	198	10%	204	9%	6	3%
Transport Equipment	73	58	148	8%	164	7%	16	11%
Base Metals and Articles of Base Metals	55	66	159	8%	158	7%	-1	-1%
Other Goods	256	294	762	40%	789	34%	27	3%
Total	**664**	**892**	**1,891**	**100%**	**2,317**	**100%**	**426**	**23%**

Source: MOF, DGC

- **Import Distribution by Product:**

Imports of **mineral products** increased by 50 percent and cumulated at USD 490 million in January-March 2005 as compared to USD 327 million in the first three months of 2004. The increase in the import value of mineral products mainly resulted from:

1)- A USD 19 million increase in the imports of **car gasoline** which reached USD 119 million by the end of March 2005. This increase resulted from the 28 percent increase in the average effective import price of car gasoline from LL 394 per liter in January March 2004 to LL 504 per liter in January-March 2005. Quantities imported decreased by 8 percent, from 0.385 billion liters in January-March 2004 to 0.356 billion liters in January-March 2005 and hence the increase in the imports of car gasoline was purely nominal.

2)- A USD 81 million or 58 percent increase in the imports of **gas oils** (which reached USD 220 million in January-March 2005 compared to USD 139 million in January-March 2004. Of this USD 81 million increase:

a) - USD 10 million is due to a 7 percent increase in the quantity of gas oils imported.
Quantities of gas oils imported reached 0.598 billion liters by the end of March 2005 compared to 0.558 billion liters in January-March 2004.
b)- USD 71 million is due to the 47 percent increase in the average effective price of gas oils imported from LL 375 per liter in January-March 2004 to LL 553 per liter in January-March 2005.

3)- A USD 27 million increase in the imports of **other fuel oils** which amounted to USD 89 million in the first three months of 2005 compared to USD 62 million in January March 2004. Of this USD 27 million increase:

a)- USD 10 million was due to the 17 percent increase in the quantity of fuel oil imported which reached 0.406 billion liters by the end of March 2005 compared to 0.347 billion liters by end of March 2004.

b)- USD 17 million was due to the 37 percent increase in the average effective price of fuel oil at imports which increased from LL 268 per liter in January-March 2004 to LL 330 per liter in January-March 2005.

Table 14. Mineral Products Import Breakdown

	Jan-Mar 2004	Jan-Mar 2005	Change	% Change
Import Value Details (in USD Million):				
- Car Gasoline	100	119	19	19%
- Gas Oil	139	220	81	58%
- Fuel Oil	62	89	27	44%
Imports Quantity Details (in Million Liters):				
- Car Gasoline	385	356	-29	-8%
- Gas Oil	558	598	40	7%
- Fuel Oil	347	406	59	17%
Imports Price Details (in LL per Liter):				
- Car Gasoline	394	504	110	28%
- Gas Oil	375	553	178	47%
- Fuel Oil	268	330	62	37%

Source: MOF, DGC,

The 9 percent increase in **machinery and mechanical appliances** imports, which reached USD 257 million by the end of March 2005 in comparison to USD 235 million in January-March 2004, is the consequence of (1) a USD 9 million increase in the imports of **reactors, boilers, machinery and mechanical appliances** (or what can be described as electrical materials for industrial use) which cumulated at USD 143 million in the first quarter of 2005 and (2) a USD 13 million augmentation in the imports of **electrical machinery and equipment and parts thereof** (or what can be described as electrical appliances for household use) which totaled USD 114 million during January-March 2005.

The USD 318 percent increase in the imports of **pearls, precious and semi-precious stones** which amounted to USD 256 million in the first quarter of 2005 compared to USD 94 million in QI 2004 resulted from (1) a USD 156 million increase in the imports of **un-worked (raw) industrial diamonds** which are used in industries and manufacturing, for drilling and digging purposes[10] and (2) a USD 38

million increase in the imports of **gold ingots**. The other two main items imported under the pearls, precious and semi-precious stones category are **worked non-industrial diamonds** (diamonds which are used in jewelry manufacturing) whose imports remained stable at around USD 20 million in QI 2005 and **articles of jewelry and parts thereof** whose imports also stayed constant at USD 7 million for the first quarter of 2005.

[10] *For example, they are often mounted on the head of tools which are used for drilling or digging because of their hardness, they are also less expensive than diamonds used in the fabrication of jewelry and present a darker color, usually brownish or yellowish).*

Imports of **products of the chemical** reached USD 204 million in January-March 2005 compared to USD 198 million in January-March 2004 representing a 3 percent increase. This increase can be attributed to a USD 4 million increase in the imports of **pharmaceutical products**

Transport Equipment imports were worth USD 164 million in QI 2005 as opposed to USD 148 million in QI 2004, witnessing an11 percent increase. This 11 percent growth was fueled by the increase in the imports of **vehicles** which rose by USD 14 million in QI 2005, cumulating at USD 162 million. More specifically, the increase in the import value of vehicles can be attributed to a USD 8 million rise in the import value of cars, reaching USD 112 million by the end of March 2005. This was mainly due to the higher number of cars imported; which reached 8,239 units in January-March 2005 increasing by 9 percent from 7,540 units in QI 2004.

Base metals and articles of base metals imports cumulated at USD 158 million by the end of March 2005 compared to USD 159 million by the end of March 2004. The level of base metals and articles of base metals imports remained, therefore, stable. However, this overall stability hides a USD 14 million decrease in the imports of **iron and steel** which was specifically driven by a USD 21 million decrease in the imports of **un-worked and un-forged bars and rods of iron or non-alloy steel**.

Table 15. Exports Distribution by Product

(USD million)	2004 March	2005 March	2004 Jan-Mar	2004 % Share	2005 Jan-Mar	2005 % Share	Change	% Change
Base Metals and Articles of Base Metals	21	29	51	11%	74	18%	23	44%
Machinery and Mechanical Appliances	25	22	87	19%	57	14%	-30	-34%
Prepared Foodstuffs	12	17	33	7%	41	10%	8	25%
Pearls, Precious or Semi-Precious Stones	33	14	121	26%	39	10%	-82	-67%
Mineral Products	10	16	24	5%	38	9%	14	58%
Other Exports	55	61	155	33%	156	38%	1	1%
Total	**156**	**159**	**471**	**100%**	**405**	**100%**	**-65**	**-14%**

Source: MOF, DGC

- **Export Distribution by Product:**

Exports of **base metals and articles of base metals** increased by 44 percent, reaching USD 74 million compared to USD 51 million during QI 2004. This was mainly due to:

(1) A USD 9 million increase in **iron and steel** exports, specifically in exports of **ferrous waste as well as scrap and re-melting scrap ingots of iron or steel**.

(2) A USD 4 million increase in **articles of iron and steel** exports.

(3) USD 4 million increase in **copper and articles thereof** exports.

Machinery and mechanical appliances exports decreased by 34 percent or USD 30 million, cumulating at USD 57 million during January-March 2005 in comparison to USD 87 million in the same period a year earlier. This decrease resulted from a USD 32 million decrease in the exports of **electrical machinery and equipment and parts thereof** which were worth USD 33 million during QI 2005. More precisely, this decline was mainly due to a USD 30 million decrease in the exports of **electric generating sets, rotary converters and suitable parts** which largely offset the USD 2 million rise in the exports of **reactors, boilers, machinery and mechanical appliances** which amounted to USD 24 million by the end of March 2005.

Exports of **pearls, precious or semi-precious stones** decreased by 67 percent and totaled USD 39 million during January-March 2005 as opposed to USD 121 million in January-March 2004. This decrease resulted from the 84 percent decrease in exports of **gold ingots** which amounted to USD 16 million by the end of March 2005 compared to USD 99 million by the end of March 2004. Other items under pearls, precious and semi precious stones category, and which are exported include (1) **articles of jewelry and parts thereof** whose export level remained constant and totaled USD 17 million and (2) **worked non-industrial diamonds** whose exports increased very slightly reaching USD 4 million by the end of March 2005.

Exports of **mineral products** increased by 58 percent reaching USD 38 million by the end of QI 2005 compared to USD 24 million in QI 2004. This increase resulted from a 54 percent rise in the exports of **salt, sulfur, earths and stone, plastering materials, lime and cement** which reached USD 36 million by the end of March 2005; which is itself the result of a USD 12 million increase in the exports of **clinker cement**[11] and **Portland cement**.

Table 16. Regional Distribution of Imports

(USD million)	2004 March	2005 March	2004 Jan-Mar	2004 % Share	2005 Jan-Mar	2005 % Share	Change	% Change
European Union (1), *of which:*	294	294	770	41%	745	32%	-25	-3%
Euro zone (2)	*259*	*251*	*658*	*35%*	*641*	*28%*	*-17*	*-3%*
Arab Countries	90	155	257	14%	406	18%	149	58%
China	45	63	145	8%	163	7%	18	12%
United States	36	42	119	6%	123	5%	4	4%
Switzerland	12	23	49	3%	90	4%	41	84%
Other	187	315	551	29%	790	34%	239	43%
Total	**664**	**892**	**1,891**	**100%**	**2,317**	**100%**	**426**	**23%**

Source: MOF, DGC

(1)-The European Union included until the 30th of April 2004, the following countries: Austria, Belgium, Denmark, Finland, France, Germany and Greece, Ireland, Italy, Luxemburg, the Netherlands, Portugal, Spain, Sweden and the United Kingdom. Ten new countries have joined the EU on the 1st of May 2004.To facilitate comparisons with 2004 and preserve the cohesion with the trade figures published in 2004, the old nomenclature was preserved.

(2)-The Euro-zone) includes all EU members with the exception of Denmark, Sweden and the United Kingdom.

[11] *Clinker cement is an intermediate product in the production of cement. Limestone is mixed with other additives containing iron, alumina and silica in definite proportions. This mixture is finely ground in a **raw mill**. The resultant raw mix is burned in a rotary kiln (a rotating sloped furnace) at temperatures around 1 400 degrees Celsius to form **clinker**. To obtain Portland cement, gypsum is added to clinker and the product is ground giving Portland cement.*

- **Regional Distribution of Imports:**

Imports from the **European Union** decreased by 3 percent, cumulating at USD 745 million in January-March 2005 compared to USD 770 million in January-March 2004. This decrease is the outcome of two factors:

(a)- A USD 17 million or a 3 percent decrease in the value of imports from the **Euro-zone** which reached USD 641 billion in January-March 2005 compared to USD 658 million in QI 2004. Behind this decrease stands: (1) an USD 18 million decrease in the imports from Italy that resulted from a USD 20 million decrease in Italian mineral oils and fuels imports, (2) a USD 8 million decrease in the imports from Spain that resulted from a USD 13 million decrease in Spanish mineral oils and fuels imports and (3) a USD 7 million decrease in the imports from Netherlands that resulted from a USD 7 million decrease in Dutch mineral oils and fuels imports.

Lebanese imports from the Euro-zone accounts mainly for USD 90 million of mineral oils and fuels, USD 66 million of vehicles, USD 62 million of pharmaceutical products, and USD 51 million of reactors, boilers, machinery and mechanical appliances and parts thereof.

(b)-A USD 17 million or a 23 percent decrease in the imports from the **United Kingdom** which reached USD 73 million in January-March 2005 compared to USD 90 million in January-March 2004. This decrease resulted mainly from (1) a USD 9 million decrease in the imports of pharmaceutical products, (2) a USD 9 million decrease in the imports of mineral oils and fuels and (3) a USD 6 million decrease in the imports of dairy produces.

Lebanon imported from the United Kingdom the following products: machinery and mechanical appliances for a total amount of USD 17 million, pharmaceutical products for a total value of USD 10 million, as well as USD 9 million worth of boilers and reactors.

Imports from **Arab countries** augmented by USD 149 million or 58 percent and reached USD 406 million for January-March 2005 compared to USD 257 million in January-March 2004. The rise in imports stemmed from (1) a USD 76 million increase in imports from Saudi Arabia resulting mainly from a USD 70 million rise in the imports of mineral oils and fuels, (2) a USD 30 million increase in imports from Bahrain (mainly imports of mineral oils and fuels and (3) a USD 20 million increase in imports from Egypt of which USD 13 million are mineral oils and fuels.

The main imports from Arab countries for January-March 2005 were (1) mineral fuels and oils which were worth USD 193 million, (2) iron and steel whose imports attained USD 27 million and (3) plastics and articles thereof worth of imports reaching USD 22 million.

We can, therefore, conclude that QI 2005 witnessed an obvious shift in the source of imports of mineral oils and fuels from European Countries to Arab Countries.

Imports from **China** registered a 12 percent increase, rising from USD 145 million in January-March 2004 up to USD 163 million in January-March 2005. More specifically, this increase was due to a USD 10 million increase in the imports of reactors and boilers, machinery and mechanical appliances which, with a total of USD 52 million, remained the main imported category from China.

Imports from the **United States** increased by 4 percent, amounting to USD 123 million in QI 2005 compared to USD 119 million in QI 2004. Lebanon's main imports from the United States for QI 2005 consisted of USD 18 million worth of vehicles, USD 17 million worth of tobacco and manufactured tobacco substitutes, and USD 11 million of boilers and reactors.

Imports from **Switzerland** increased by 84 percent and reached USD 90 million in QI 2005 compared to USD 49 million in QI 2004. This increase resulted from (1) a USD 38 million increase in the imports of pearls, precious and semi precious stones (mainly gold ingots) and (2) a USD 5 million increase in the imports of boilers and reactors. The main imports from Switzerland for QI 2005 were pearls, precious and semi precious stones for a total import value of USD 64 million and pharmaceuticals worth USD 12 million.

- **Regional Distribution of Exports:**

Exports to **Arab countries** decreased by 7 percent, totaling USD 216 million in QI 2005 compared to USD 233 million in QI 2004 as a result of a USD 63 million decrease in exports to Iraq resulting mainly from (i) a USD 38 million decrease in exports of electrical machinery and equipment and parts thereof, (ii) a USD 7 million decrease in exports of salt, sulfur, earths and stone, plastering materials, lime and cement and (iii) a USD 6 million decrease in the exports of furniture, bedding and mattresses.

The composition of exports to Iraq was constituted mainly of USD 10 million worth of salt, sulfur, earths and stone; plastering materials, lime and cement as well as USD 8 million worth of machinery and mechanical appliances.

The decrease in Lebanese exports to Arab Countries was partially offset by the increase of exports to Syria which progressed by 85 percent, reaching USD 50 million in January-March 2005 compared to USD 27 million in the same period a year earlier, as a result of a USD 16 million increase in the exports of salt; sulfur; earths and stone; plastering materials, lime and cement category, whose total exports amounted to USD 21 million, ranking as our first export category to Syria. Other main export items included paper, paperboard and articles of paper pulp, of paper or of paperboard which amounted to USD 4 million worth of exports as well as plastics and articles thereof for USD 2 million worth of exports.

Table 17. Regional Distribution of Exports

(USD million)	2004 March	2005 March	2004 Jan-Mar	2004 % Share	2005 Jan-Mar	2005 % Share	Change	% Change
Arab Countries	79	89	233	50%	216	53%	-17	-7%
European Union	13	16	35	7%	39	10%	4	12%
Switzerland	24	6	101	21%	16	4%	-84	-84%
United States	4	5	11	2%	13	3%	2	19%
China	1	2	3	1%	4	1%	1	36%
Other	34	42	88	19%	117	29%	29	32%
Total	**156**	**159**	**471**	**100%**	**405**	**100%**	**-65**	**-14%**

Source: MOF, DGC

Exports to **Switzerland** receded by 84 percent, amounting to USD 16 million by the end of March 2005 compared to USD 101 million during the same period a year earlier. This decline resulted from the USD 84 million decrease in the export of pearls, precious and semi precious stones (mostly gold ingots).

Lebanese exports to the **European Union** slightly increased from USD 35 million to USD 39 million. This rise stemmed from

(1) A USD 3 million increase in exports to Netherlands which resulted from a USD 2 million increase in tobacco and manufactured tobacco substitutes exports, and a (2) A USD 2 million increase of exports to Germany which resulted from a USD 2 million increase in tobacco and manufactured tobacco substitutes exports. Lebanon's main exports to the European Union for QI 2005 consisted mainly of USD 5 million worth of tobacco and manufactured tobacco substitutes and USD 4 million worth of aluminum and articles thereof.

Exports to the **United States** increased by 19 percent, reaching USD 13 million in QI 2005 compared to USD 11 million in QI 2004. Lebanese exports consisted mainly of furniture, bedding and mattresses for USD 3 million, and pearls, precious and semi precious stones for USD 2 million.