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MINISTRY OF FINANCE

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Fiscal Overview:

The total primary surplus, amounting to LL 994 billion, underwent an improvement of 344 percent when compared to the same period of last year. The primary surplus increase is due to the LL 531 billion rise in total revenues and LL 239 billion decrease in total primary spending. The total deficit also improved by LL 168 billion, or 13 percent, over January-June 2006 compared to the same period of 2005 (section 1).

Revenues Outcome:

Total receipts amounted to LL 4,063 billion for the first half of 2006, compared to LL 3,533 billion for the same period of 2005. This 15 percent increase in revenues is due to a rise in both tax and non-tax revenues, despite the 61 percent decline in fuel excises (section 2).

Expenditures Outcome:

Total spending equaled LL 5,230 billion, up LL 363 billion or 8 percent from the first six months' spending of the preceding year, chiefly owing to the 39 percent or LL 602 billion higher debt service payment which overshadowed the 7 percent decrease in total primary expenditures (section 3).

Public Debt Developments:

The stock of gross debt reached LL 58,524 billion as of end-June 2006, registering a less than 1 percent increase over the December 2005 level. Local currency debt decreased by 2 percent from the December 2005 level while foreign currency debt increased by 4% since the end of 2005. In addition, as of end June 2006, BDL portfolio of Treasury bills continued to decline as appetite for Lebanese Pound denominated T-bills continued to be strong, especially by commercial banks (section 4).

External Trade:

The trade balance registered a USD 3,753 million deficit, or a 4 percent increase compared to January-June 2006. The increase in the trade deficit is a result of a USD 585 million increase in imports (due to higher mineral prices) that has overshadowed the USD 429 million increase in exports (particularly pearls and precious stones) (section 5).

Section I: Fiscal Overview

Table 1. Summary of Fiscal Performance

(LL billion)	2005 June	2006 June	2005 Jan-June	2006 Jan-June	Change 2005-2006	% Change
Budget Revenue	543	390	3,327	3,877	550	16.5%
Budget Expenditures	933	854	3,653	4,098	444	12.2%
o/w Debt Service	290	409	1,559	2,161	602	38.6%
Budget Deficit/Surplus	**-390**	**-463**	**-327**	**-221**	**106**	**-32.4%**
in % of Budget Expenditures	-41.8%	-54.3%	-8.9%	-5.4%		
Budget Primary Deficit/Surplus	**-100**	**-54**	**1,232**	**1,940**	**708**	**57.5%**
in % of Budget Expenditures	-10.7%	-6.4%	33.7%	47.3%		
Treasury Receipts	25	25	206	186	-20	-9.5%
Treasury Payments	190	189	1,214	1,132	-82	-6.7%
Total Budget and Treasury Receipts	569	415	3,533	4,063	531	15.0%
Total Budget and Treasury Payments	1,123	1,043	4,867	5,230	363	7.5%
Total Cash Deficit/Surplus	**-554**	**-627**	**-1,335**	**-1,167**	**168**	**-12.6%**
in % of Total Expenditures	-49.4%	-60.2%	-27.4%	-22.3%		
Primary Deficit/Surplus	**-264**	**-218**	**224**	**994**	**770**	**343.6%**
in % of Total Expenditures	-23.5%	-20.9%	4.6%	19.0%		

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

By the end of June 2006, the **total deficit** (budget and treasury) reached LL 1,167 billion, compared to LL 1,335 billion during the first six months of 2005 decreasing by LL 168 billion. This improvement resulted from the LL 531 billion or 15 percent increase in **total revenues**, amounting to LL 4,063 billion by the end of June 2006, compared to LL 3,533 billion in the first half of 2005, which offset the LL 363 billion or 8 percent increase in **total expenditures**.

Primary surplus during the first half of 2006 reached LL 994 billion, a LL 770 billion or a 344 percent increase compared to the January-June 2005. This rise reflects (1) 15 percent higher total revenues resulting from the economic recovery during the first half of the year and (2) 7 percent decrease in total primary expenditures largely due to the government's efforts at curbing current primary budget expenditures and other treasury expenditures, offsetting the increase in capital expenditures.

Section II: Revenue Outcome

Table 2. Total Revenues

(LL billion)	2005 June	2006 June	2005 Jan-June	2006 Jan-June	% Change
Budget Revenues, of *which:*	**543**	**390**	**3,327**	**3,877**	**16.5%**
Tax Revenues	*499*	*335*	*2,493*	*2,882*	*15.6%*
Non-Tax Revenues	*44*	*55*	*834*	*995*	*19.3%*
Treasury Receipts	**25**	**25**	**206**	**186**	**-9.5%**
Total Revenues	**569**	**415**	**3,533**	**4,063**	**15.0%**

Source: MOF, DGF

Tax revenues (as part of budget revenues) generated LL 2,882 billion in January-June 2006, compared to LL 2,493 billion in the first half of 2005. This represents a 16 percent increase in tax receipts, mainly caused by higher collection of (1) taxes on property, (2) domestic taxes on goods and services (mainly VAT) and (3) income taxes.

Taxes on income, profits and capital gains generated a total of LL 771 billion in January-June 2006, representing 12 percent stronger receipts when compared to the collection level in the same period of 2005, mainly attributed to:

(1) An approximate 13 percent rise in the collection of the **income tax on profit**, which reached to LL 397 billion for the first half of 2006 as compared to LL 353 billion in January-June 2005.

(2) An approximate 22 percent increase in **Capital Gains & Dividend Taxes** totaling LL 66 billion in the first half of 2006 compared to LL 54 billion in the same period in 2005.

(3) A rise of 12 percent in the collection of **the 5 percent tax on interest income**. This tax generated LL 194 billion in the first six months of the year, as compared to LL 173 billion in the first six months of 2005. The increase is partly due to higher deposits as reflected by the increase in the average monthly private sector deposits, which rose by 32% to LL 88,440 billion during the first six months of the year as compared to LL 67,154 billion the same period in 2005.

Income Tax on Wages and Salaries remained almost unchanged from the first half of 2005, generating LL 104 billion by June 2006.

Proceeds from the **taxes on property** increased significantly in the January-June 2006 period reaching LL 398 billion up from LL 178 billion the same period in 2005 an increase of 124%. Although all the components of taxes on property experience better performance reflecting a robust real estate market in the first half of 2006, **inheritance and gift tax** represented the largest part of this increase although it was an exceptional one time inheritance tax payment of LL 163 billion during April 2006.

Table 3. Tax Revenue

(LL billion)	2005 June	2006 June	2005 Jan-June	2006 Jan-June	% Change
Tax Revenues:	**499**	**337**	**2,493**	**2,882**	**15.6%**
Taxes on Income, Profits, & Capital Gains, *of which*:	**219**	**51**	**691**	**771**	**11.6%**
Income Tax on Profits	*181*	*12*	*353*	*397*	12.5%
Income Tax on Wages and Salaries	*4*	*3*	*102*	*104*	1.3%
Income Tax on Capital Gains & Dividends	*14*	*7*	*54*	*66*	22.2%
Tax on Interest Income (5%)	*19*	*28*	*173*	*194*	12.0%
Penalties on Income Tax	*1*	*1*	*6*	*9*	33.3%
Taxes on Property, *of which:*	**33**	**39**	**178**	**398**	**123.7%**
Built Property Tax	*5*	*6*	*50*	*63*	25.9%
Inheritance and gift taxes	*3*	*4*	*17*	*180*	958.8%
Real Estate Registration Fees	*23*	*28*	*112*	*156*	39.6%
Domestic Taxes on Goods & Services, *of which:*	**121**	**133**	**866**	**995**	**15.0%**
Value Added Tax	*106*	*114*	*783*	*886*	13.3%
Other Taxes on Goods and Services, of which:	*15*	*19*	*79*	*100*	27.8%
Private Car Registration Fees	*10*	*13*	*47*	*65*	38.0%
Passenger Departure Tax	*5*	*7*	*31*	*35*	12.9%
Taxes on International Trade, *of which:*	**109**	**93**	**648**	**569**	**-12.2%**
Customs	*38*	*47*	*228*	*254*	11.2%
Excises, of which:	*71*	*46*	*420*	*315*	-25.0%
Petroleum Tax	*36*	*0*	*233*	*90*	-61.5%
Tobacco Tax	*18*	*17*	*91*	*93*	3.2%
Tax on Cars	*18*	*29*	*95*	*130*	37.9%
Other Tax Revenues (namely fiscal stamp fees)	**18**	**20**	**110**	**148**	**35.0%**

Source: MOF, DGF

Domestic taxes on goods and services generated LL 995 billion in the first half of 2006, compared to LL 866 billion collected in the same period of 2005. This 15 percent increase in receipts is attributed to an approximate 13 percent rise in **VAT revenues**. In fact, VAT collected during the first six months of the year amounted to LL 886 billion compared to LL 783 billion collected in January-June 2005. This increase reflects the resumption of economic activity in the first half of 2006 as compared to the first half of 2005 where activity was severely impacted by the assassination of Prime Minister Rafic Hariri.

> *VAT at imports:* Of the total amount of VAT receipts (LL 886 billion), LL 625 billion represents the amount of VAT collected on imported merchandise in the first half of 2006, compared to LL 542 billion collected in January-June 2005. This 13 percent increase in VAT at imports corresponds to the 17 percent increase in imports during the first six months of the year as compared to the same period in 2005.
>
> VAT collected from internal operations increased to LL 262 billion in the first half of 2006, up by 9 percent from the LL 241 billion collected in the first half of 2005.

Other taxes on goods and services collected LL 100 billion during the first six months of the year, nearly 28 percent higher than the collection level in January-June 2005. This tax category mainly consists of **private car registration fees** and **passenger departure tax** in the amounts of LL 65 billion and LL 35 billion respectively, for the first half of the year. A year on year comparison reveals that private car registration fees witnessed a 38 percent increase in revenues, in line with a 40 percent rise in the number of cars imported during that same period. Likewise for passenger departure tax, where the amount collected registered a 13 percent increase, reflecting the 49% percent rise in the number of incoming tourists during that same period; the number of tourists who visited Lebanon during January-June 2006 totaled 630,804 compared to 422,401 tourists for the same period of 2005.

Taxes on international trade (custom duties and excises) generated LL 569 billion in January-June 2006, against LL 648 billion in the comparable period of 2005. Of this amount, LL 254 billion are **custom duties**. Custom duties accounted for 11 percent higher revenues compared to the collected amount in January-June 2005 reflecting the 17 percent rise in imports during that same period. The rise of imports was partially due to the higher prices of gas oil, fuel oil and car gasoline. Given that nearly no custom duties are levied on these items, the increase in customs was lower than the increase in imports.

Excises generated LL 315 billion in the first half of 2006, compared to LL 420 billion in the same period of 2005. Behind this 25 percent decline in excise revenues, stands a 62 percent decline in fuel excises. In fact, the **petroleum tax** generated LL 90 billion in January-June 2006 compared to LL 233 billion in the equivalent period of last year, owing to the capping of the price of fuel at pump stations (as per Council of Minister decision number 12480 in May 2004). The international price of oil continued its hike during the first half of the year. Without a subsidy, this increase had to be reflected in the gasoline retail prices. As a result, in May 2006, the Council of Ministers revised its previous decision to cap the retail price at the fixed LL 22,300 per 20 liters, allowing the retail price to rise to reflect increases in international oil prices (when the excise is zero). It is worth noting that during the month of June 2006, the Treasury did not collect any revenues from fuel excises.

Excises on cars registered a 38 percent increase in receipts with LL 130 billion collected in the first half of 2006 compared to LL 95 billion in January-June 2005. This mirrors the 40 percent increase in car imports during that same period. In fact, the number of cars imported in the first half 2006 totaled 23,647 compared to 16,937 in the same period of 2005.

With LL 93 billion of revenues by the end of June 2006, **tobacco excises** rose slightly by 3 percent from the level of collection as in the first half of the previous year.

Other tax revenues, namely fiscal stamp duties, collected LL 148 billion in the first half of 2006, 35 percent greater than the collection level in January-June 2005. The LL 38 billion increase reflects the more buoyant economic activity exhibited in the first half of 2006 as compared to the low volume of transactions taking place in the economy during the period subsequent to the assassination of former Prime Minister Rafic Hariri in 2005.

Table 4. Non Tax Revenue

(LL billion)	2005 June	2006 June	2005 Jan-June	2006 Jan-June	% Change
Non-Tax Revenues	**44**	**55**	**834**	**995**	**19.3%**
Income from Public Institutions and Government Properties, *of which*:	**9**	**11**	**631**	**697**	**10.5%**
Income from Non-Financial Public Enterprises, *of which*:	7	8	609	677	11.1%
Revenues from Casino Du Liban	*4*	*4*	*31*	*21*	-32.4%
Revenues from Port of Beirut	*0*	*0*	*33*	*0*	-100.0%
Budget Surplus of National Lottery	*3*	*4*	*20*	*40*	100.0%
Transfer from the Telecom Surplus	*0*	*0*	*525*	*616*	17.2%
Property Income (namely rent of Rafic Hariri International Airport)	*2*	*2*	*19*	*17*	-10.1%
Other Income from Public Institutions (interests)	*1*	*0*	*2*	*3*	16.8%
Administrative Fees & Charges, *of which*:	**28**	**35**	**158**	**247**	**55.9%**
Administrative Fees, *of which*:	23	29	125	196	56.3%
Notary Fees	*1*	*2*	*8*	*10*	19.9%
Passport Fees/ Public Security	*8*	*10*	*40*	*59*	46.6%
Vehicle Control Fees	*9*	*10*	*55*	*94*	71.9%
Judicial Fees	*2*	*2*	*10*	*11*	16.5%
Driving License Fees	*1*	*3*	*6*	*13*	103.1%
Administrative Charges	1	1	9	9	-3.8%
Sales (Official Gazette and License Number)	0	0	1	2	18.8%
Permit Fees (mostly work permit fees)	3	5	19	32	68.5%
Other Administrative Fees & Charges	1	0	4	9	141.8%
Penalties & Confiscations	**0**	**1**	**2**	**3**	**77.0%**
Other Non-Tax Revenues (mostly retirement deductibles)	**7**	**8**	**43**	**48**	**11.2%**

Source: MOF, DGF

Non-tax revenues amounted to LL 995 billion by end of June 2006, compared to LL 834 billion by the end of June 2005, 19 percent higher revenues on a year on year basis. This increase in non-tax revenues compared to the previous year's collection level stems from:

(1) A rise in the transfers to the Treasury from the budget surplus of the Telecommunications, and,
(2) An increase in Administrative fees and Charges collected between January and June 2006.

Income from public institutions and government properties generated LL 697 billion by June 2006, an 11 percent increase in revenues when compared to the collection level in the same period of 2005. This includes the following details:

a) LL 21 billion from **Casino Du Liban**, LL 10 billion less revenues than the amount collected in January-June 2005
b) No revenues from **Port of Beirut** were collected in the first half of 2006, compared to LL 33 billion collected in the same period in 2005
c) LL 40 billion from the **National Lottery**, a LL 20 billion increase compared to the first half of 2005

LL 616 billion as transfers from the **Budget surplus of the Telecommunications** for the first half of the year, 17 percent higher than the amount received in January-June 2005. The increase reflects both the better management at the Ministry of Telecom which has enabled a decrease in rates in April 2006 by the Ministry of Telecom. The decrease in rates has led to higher volume of calls.

Administrative fees and charges collected LL 247 billion in January-June 2006, almost 56 percent higher than the level collected in the first six months of 2005. This resulted from:

1)- A 56 percent increase in the collection of **administrative fees**, which totaled LL 169 billion in the first six months of 2006. This increase in administrative fees reflects the increase across all of its subcomponent:

a) 20 percent increase in **notary fees**
b) 47 percent increase in **Passport Fees/ Public Security** reaching LL 59 billion compared to the LL 40 billion collected between January and June 2005.
c) **Vehicle Control Fees** increased by 72 percent for a total of LL 94 billion in January – June 2006 compared to 55 billion received by June 2005. Article 29 of Budget law 2005 (Law 715, February 3, 2006) which grants amnesty on due penalties on vehicle control fees stands behind this rise in receipts. In fact, an 85% reduction in the amount of penalties on vehicle control fees due up till the end of the year 2005, was granted provided the taxpayer settle his/her dues by no later than three months after the date of publishing of the Law, in other words, by May 3, 2006.
d) **Judicial fees** and **driving license fees** increased by 17 percent and 103 percent compared to January-June 2005 to reach LL 11 billion and LL 13 billion respectively collected in the first half of 2006.

2)- Steady administrative charges (which include public exam fees, registration fees in public schools and the Lebanese University, and fees from port authorities) which remained unchanged at LL 9 billion by the end of the first half of 2006, compared to the same period of 2005.

3)- A 69 percent increase in permit fees (mostly work permit fees) reaching LL 32 billion in the first half of the year compared to LL 19 billion in the same period in 2005.

Treasury Revenues in January-June 2006 decreased to LL 186 billion compared to LL 206 billion in the first half of 2005. This 10 percent decrease is mainly due to a LL 40 billion decrease in municipalities' revenues

Section III: Expenditure Outcome

Table 5. Expenditures by Transaction Classification

(LL billion)	2005 June	2006 June	2005 Jan-June	2006 Jan-June	% Change
Total Expenditures	**1,123**	**1,043**	**4,867**	**5,230**	**7.5%**
Budget Expenditures	**933**	**854**	**3653**	**4,098**	**12.2%**
Expenditures Excluding Debt Service	643	445	2,095	1,937	-7.5%
Debt Service, *of which*:	290	409	1,559	2,161	38.6%
Local Currency Debt	124	221	620	1,108	*78.7%*
Foreign Currency Debt, of which:	166	188	939	1,053	*12.1%*
*Eurobond Coupon Interest**	148	147	814	916	*12.4%*
*Special bond Coupon Interest**		13		13	
Concessional Loans Principal Payments	14	23	74	78	*6.2%*
Concessional Loans Interest Payments	4	4	50	46	*-9.3%*
Treasury Expenditures , *of which*:	**190**	**189**	**1214**	**1132**	**-6.7%**
Municipalities	*23*	*60*	*166*	*163*	*-1.7%*
Previous Years' Appropriations	*1*	*1*	*468*	*467*	*-0.1%*
Non-Interest Expenditures (Total Expenditures minus Debt Service)	**833**	**634**	**3,309**	**3,070**	**-7.2%**

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

Total expenditures for budget and treasury transactions witnessed a 7.5 percent increase, reaching LL 5,230 billion in the first half of 2006 up from LL 4,867 billion in the first half of 2005.

1) **Budget expenditures** amounted to LL 4,098 billion in the first half of 2006, registering a rise of 12.2 percent when compared to the first half of the preceding year, mainly owing to a 39 percent increase in **debt service** expenditures, from LL 1,559 billion to LL 2,161 billion. The increase in debt service resulted from 79 percent increase in **domestic debt service** and 13 percent increase in **foreign debt service**.

2) **Treasury expenditures** consist of extra budgetary transactions as well as previous years' budgets transactions. Treasury expenditure totaled LL 1,132 billion in January-June 2006 compared to LL 1,214 billion in January-June 2005, a decrease of 6.7 percent.

Non-interest expenditures (total primary expenditures) amounted to LL 3,070 billion in the first six months of 2006, a 7.2 percent decline in comparison with the LL 3,309 billion registered over the same period in 2005.

The economic classification of expenditures shows that both current (including debt service) and capital expenditures rose by 11.3 percent and 25 percent respectively during the first half of 2006, compared to the corresponding period in 2005. Meanwhile "other treasury expenditures" reported a decline of 19 percent over the same period.

Current expenditures (including debt service) cumulated at LL 4,299 billion in the first six months of 2006, increasing by 11.3 percent compared to their level during the first half of 2005 when they totaled LL 3,861 billion.

Primary current expenditures (excluding debt service) amounted to LL 2,138 billion by the end of June 2006, a decline of LL 164 billion or 7 percent below the LL 2,302 billion disbursed in the same period a year earlier. The decline resulted mainly from:

(1) Lower level of “various transfers” by LL 187 billion, mainly due to a smaller transfer to the NSSF in the first half of 2006, relative to the corresponding period of 2005,

(2) A drop in the “materials and supplies” payment in the amount of LL 50 billion,

(3) A decline in “other current expenditures”, particularly the item "others" by LL 31 billion.

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

Personnel cost amounted to LL 1,607 billion in January-June 2006, 4.4 percent higher than the level reported in January-June 2005 of LL 1,540 billion mainly due to 7 percent higher spending on retirement and end of service compensations. This trend in the latter expenditures is expected to continue as the number of government personnel approaching retirement age are increasing.

Debt service for the first six months of 2006 amounted to LL 2,161 billion, increasing by LL 602 billion compared to the first half of 2005. This increase can be mainly attributed to an increase in both domestic and foreign currency debt service by 79 percent and 12 percent respectively, as compared to the same period of last year.

a) The increase in domestic debt service was mainly due to the rise in the weighted average cost of debt. In turn, the increase in the cost of debt is mainly due to the maturity of all the Zero interest Treasury bills, initially issued in the context of the Paris II conference to the Lebanese commercial banks in 2003. About LL 4,384 billion in zero interest T-bills matured between January and July 2005. Of the LL 4,384 billion zero interest T-bills, LL 2,820 billion matured in Jan-Mar 2005, and were renewed at the market rates. In addition, LL 3,033 billion of special T-bills, with a 4% coupon, matured in March and April 06 and were renewed at market rates.

b) Meanwhile, the increase in the foreign currency interest bill is due to: i) the maturity of approximately USD 680 million of special Zero interest foreign currency bonds issued in the context of the Paris II conference between the months of January and May 2005; ii) an increase in the amount of market Eurobonds outstanding in 2005 from LL 17,686 billion by end-December 2004 to LL 18,729 billion by end-December 2005 (a 6 percent increase).

Materials and supplies amounted to LL 71 billion in the first half of 2006, declining by 41 percent when compared to the LL 121 billion spent by end June 2005. This decline is mainly due to an exceptional one-time payment that occurred in 2005, amounting to LL 90 billion in settlement of public administrations' electricity bills to EDL, in accordance with Law # 672 enacted on February 17th, 2005.

External services (rent, postal services, insurance, advertisement and public relations) amounted to LL 53 billion in January-June 2006, a 22 percent increase compared to January-June 2005. The increase could be attributed to the fact that some extra payments were reported at the beginning of the year in settlement of 2005 budget appropriations.

Various transfers reached LL 247 billion in the first half of 2006, declining by LL 187 billion from the same period in 2005. January-June 2006 witnessed approximately LL 190 billion lower transfers to the NSSF relative to last year (LL 290 billion were transferred in the first half of 2005 compared to 100 billion in the first half of 2006). The transfer in 2005 was based on Law 671 issued in February 5, 2005 stipulating the opening of LL 240 billion additional Budget allocation in the 2004 Budget. This allocation is earmarked to reimburse government contribution to the National Social Security Fund on account of 2003 and 2004. Meanwhile, the transfer in 2006 was based on a decision made by the council of Ministers in settlement of previous years' accumulated appropriation.

Table 6. Expenditures by Economic Classification

(LL billion)	2005 Jan-June	2006 Jan-June	% Change
1. Current expenditures	**3,861**	**4,299**	**11.3%**
1.a Personnel cost, *of which* 1/	1,540	1,607	4.4%
Article 13: Salaries and wages	*1,030*	*1,056*	*2.5%*
Retirement and end of service compensations	*416*	*446*	*7.1%*
1.b Debt Service payments	1,559	2,161	38.6%
1.c Materials and supplies	121	71	-41.8%
1.d External services	43	53	22.0%
1.e Various transfers	434	247	-43.1%
o/w NSSF	*290*	*100*	*-65.5%*
1.f Other current	127	123	-3.4%
Hospitals	*79*	*105*	32.5%
Others	*48*	*17*	*-64.1%*
1.g Reserves	37	38	3.7%
Interest subsidy	*37*	*38*	*3.7%*
2. Capital expenditures 2/	**269**	**336**	**25.0%**
2.a Acquisitions of land, buildings, for the construction of roads, ports, airports, and water networks	3	11	252.6%
2.b Equipment	11	12	11.1%
2.c Construction in Progress	206	254	23.6%
2.d Maintenance	28	30	5.4%
2.e Other Expenditures Related to Fixed Capital Assets	21	29	37.5%
3. Other treasury expenditures, *of which*	**713**	**579**	**-18.8%**
Municipalities	166	163	-1.7%
EDL	295	151	-49.0%
Treasury advances for water authorities	48	0	-100.0%
Treasury advances for diesel oil subsidy	12	52	345.4%
Treasury advances for Telecom companies	15		
4. Unclassified expenditures	**3**	**1**	**-73.3%**
5. Customs cashiers	**21**	**15**	**-29.8%**
6. Total expenditures (excluding CDR foreign financed)	**4,867**	**5,230**	**7.5%**

Source: statement of account 36, cashier spending, Public Debt Department figures , Fiscal performance gross adjustment figures

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.

Other current expenditures totaled LL 123 billion by the end of June 2006, decreasing by 4 percent from their level in the same period of 2005.

Interest subsidies for loans to the productive sectors (agriculture, industry, tourism, technology and crafts) reported LL 38 billion by end of June 2006, which is almost the same level reported in the same period of 2005.

Capital expenditures reached LL 336 billion in January-June 2006, LL 67 billion higher than the level reported in the comparable period of last year mainly due to a 24 percent or LL 48 billion increase in **construction in progress.** This is owing to:

(a) Payments to the Displaced Fund totaled LL 55 billion during the first six months of 2006, while no transfers were reported during 2005.

(b) Transfers to the Council for Development and Reconstruction (CDR) totaled 150 billion during the first half of 2006, against LL 139 billion in the first half of 2005.

Against this increase, some items reported a declining trend, as described below:

a) Capital expenditures for the Ministry of Public Works and Transport reached 13 billion in the first half of 2006, against LL 17 billion in January-June 2005.

b) Other construction in progress totaled 16 billion during the first half of 2006, against LL 24 billion in the first half of 2005, declining by 33 percent.

Other Expenditures Related to Fixed Capital Assets also increased by LL 9 billion reaching 29 billion during the first six months of 2006, as compared to LL 21 billion by the end of June 2005. This increase is due to the transfers made to the Investment Development Authority Lebanon, IDAL, for "the Export Plus Program" in the first half of 2006.

Table 7. Transfers to EDL

(LBP billion)	2005 Jan-June	2006 Jan-June	% Change
EDL *of which:*	**434**	**151**	**-65.3%**
Debt Service *of which:*	**113**	**112**	**-0.6%**
C-Loans and Eurobonds, *of which:*	**113**	**96**	-15.4%
Principal Repayment	77	68	-12.3%
Interest Payment	36	28	-21.9%
Loans for Fuel Oil Payment	0	17	100.0%
BDL Guaranteed Loan Payment	0	0	0.0%
Treasury Advance for Fuel Purchase	**127**	**0**	**0.0%**
Treasury Advance for EDL' s Losses	**55**	**0**	**0.0%**
Material and Supplies (Electricity bills)	**91**		**0.0%**
Treasury advance to Water Authorities	**48**	**0**	**-100.0%**
Payments of Sonatrach and Kuwait Oil Agreement[1]	**0**	**38**	**0.0%**
Expropriations	**0**	**0**	**0.0%**

Source: MOF, DGF

Other treasury expenditures witnessed a 19 percent decrease, reaching LL 579 billion by June 2006 compared to LL 713 billion in January-June 2005. The decline in treasury expenditures, which is equivalent to LL 134 billion, is attributed to a decrease in direct transfers to EDL by LL 144 billion compared to January-June 2005. In addition, an exceptional payment of LL 48 billion for the water authorities' accrued electricity bill was reported in 2005. On the other hand, an increase of LL 40 billion was reported in treasury advances for diesel oil subsidy[2] (comparing January-June 2006 with the same period in 2005), which partially offset the decrease in other treasury expenditures.

[1] These payments cover principles and interests in relation to KPC (Kuwait Petroleum Corporation) and Sonatrach Petroleum Corporation.
[2] Decree number 16165, dated January 20, 2006 & Decree number 13651, dated November 24, 2004

Section IV: Public Debt Developments

Table 8. Public Debt Outstanding by Holder as of End-June 2006

Assumes full LBP Replacement (in LL Billion)	Dec-03	Dec-04	Dec-05	Jun-06	Change Dec 05 - June 06	% change Dec 05 - June 06
Gross Public debt	**50,285**	**54,048**	**58,018**	**58,521**	**503**	**0.87%**
Local currency debt	**26,843**	**26,371**	**29,141**	**28,553**	**-588**	**-2.02%**
a. Central Bank (including REPOs and Loans to EDL to finance fuel purchases)*	8,938	10,652	11,686	7,852	-3,834	-32.81%
b. Commercial Banks	12,303	12,220	14,130	16,890	2,760	19.53%
c. Other Local Currency Debt (T-bills)	5,603	3,500	3,325	3,811	486	14.62%
o/w Public entities	*2,564*	*2,187*	*2,446*	*2,957*	511	20.89%
Accrued interest included in debt			517	567	50	9.67%
Foreign currency debt	**23,442**	**27,677**	**28,877**	**29,968**	**1,091**	**3.78%**
Ratio to total debt	**46.6%**	**51.2%**	**49.8%**	**51.2%**		
a. Bilateral, Multilateral and Foreign Private sector loans	2,934	2,970	2,822	2,892	70	2.48%
b. Paris II related debt (Eurobonds and Loans)	3,731	3,814	3,682	3,748	66	1.79%
c. BDL Eurobond (Paris II)	2,819	2,819	2,819	2,819	0	0.00%
d. Market Eurobonds	13,631	17,686	18,729	19,684	955	5.10%
e. Accrued Interest included in debt	327	388	406	406	0	0.00%
f. Special TBs in Foreign currency**			419	419	0	0.00%
Public sector deposits	**3,019**	**4,360**	**5,590**	**4,886**	**-704**	**-12.59%**
Net debt	**47,266**	**49,688**	**52,428**	**53,371**	**1,207**	**2.30%**
Gross Market debt* **	**29,638**	**31,861**	**34,759**	**38,451**	**3,692**	**10.62%**
% of total debt	**59%**	**59%**	**60%**	**66%**		

Source: Ministry of Finance, Banque du Liban

Notes:

* The BDL has extended loans to EDL for the equivalent amount of US$ 300 million to purchase fuel oil. These loans are listed as Public debt as they are government guaranteed.

** Special Tbs in Foreign currency represent expropriation bonds

*** Gross market debt equals gross debt less the portfolios of the BDL, NSSF, bilateral and multilateral loans, and Paris II related debt.

**** Figures of Dec03- Dec04 - Jan06 may be different from previously published data due to exchange rate of Euro

Gross Public debt as of end-June 2006 amounted to LL 58,521 billion (US$ 39 billion) registering a LL 503 billion or 0.87 percent increase over the end-Dec 2005 debt level. In comparison, gross public debt registered a similar rate of growth in the first half of 2005, increasing by LL 356 billion or 0.7 percent over the end-December 2004 level.

Net public debt as of end-June 2006 amounted to LL 53,371 billion (USD 35 billion) registering an increase of LL 1,207 billion or 2.3 percent over the end-December 2005 level.

The **domestic debt** component of public debt amounted to LL 28,553 billion as of end-June 2006, decreasing by LL 588 billion or 2 percent over the end-December 2005 level. This decrease is due to the large amounts of LL T-bills that matured during March and April 2006 and were financed by the surplus which existed in the Treasury accounts at the Central Bank.

Commercial banks' appetite for Lebanese Pound denominated Treasury bills was strong in the first half of 2006. In fact, their portfolio of Treasury bills increased by LL 2,760 billion, while the portfolio of the Central Bank declined by LL 3,834 billion. This decrease in the T-bills held by the Central Bank is due to the repayment of about 49 percent of LL T-bills held by BDL, which matured during January-June 2006. As for the Treasury bills portfolio held by public institutions, an increase LL 511 billion was registered, reaching LL 2,957 billion by the end of June 2006.

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Foreign currency debt at end-June 2006 amounted to LL 29,968 billion (US$ 20 billion) increasing by LL 1,091 billion (or 3.78 percent) over the end-December 2005 level. The large part of the increase is due to the new issuance in April 2006 of two simultaneous Eurobond transactions amounting to 175 million Euros and US$ 750 million. The bilateral and multilateral outstanding loans increased by LL 70 billion during the period Jan-June 06. The new issuance were conducted to ensure smooth financing of the forthcoming interest an principal falling due in 2006.

Table 9. Public Debt Outstanding by Instrument as of End-June 2006

(in LL Billion)	Dec-04	Dec-05	Jun-06	Change Year-to-date	% Change Year-to-date
I. Total debt (II + III)	**54,072**	**58,018**	**58,524**	**507**	**0.9%**
II. Local currency debt	**26,371**	**29,141**	**28,556**	**-585**	**-2.0%**
1. Long term bonds	**20,766**	**23,384**	**24,111**	727	3.1%
1.1 60 months bonds	650	1,772	2,172	400	22.6%
1.2 54 months bonds	616	616	616	0	0.0%
1.3 48months bonds	0	633	633	0	0.0%
1.4 36 months bonds	8,943	14,520	17,964	3444	23.7%
1.5 30 months bonds	3,033	3,033	0	-3033	-100.0%
1.6 24 months bonds	7,281	2,385	2,239	-146	-6.1%
* *Accrued interest included in debt*	*243*	*425*	*487*	*62*	*14.6%*
2. Short term bills	**5,102**	**5,246**	**3,940**	**-1306**	**-24.9%**
2.1 12 months bills	2,887	3,023	1,705	-1318	-43.6%
2.2 06 months bills	2,103	2,067	1,243	-824	-39.9%
2.3 03 months bills	112	156	992	836	535.9%
* *Accrued interest included*	*113*	*92*	*89*	-3	-3.1%
3. Other local debt	**503**	**511**	**505**	**-6**	**-1.2%**
3.1 Central Bank Loans	455	453	452	-1	-0.2%
3.2 Commercial Banks Loans	48	58	53	-5	-8.6%
				0	
III. Foreign currency debt	**27,701**	**28,877**	**29,968**	**1092**	**3.8%**
4. Bilateral, Multilateral and Foreign Private sector loans	2,970	2,822	2,892	70	2.48%
5. Eurobonds	23,682	24,743	25,698	956	3.9%
5.1 Paris II at preferential rates	2,789	2,789	2,789	0	0.0%
5.2 Banks required investment	1,122	0	0	0	
6. Other foreign debt	1,026	1,312	1,378	66	5.0%
6.1 Paris II loans	1,026	893	959	66	7.4%
6.2 Special Tbs in foreign currency	0	419	419	0	0.0%

Source: MOF, Banque du Liban

Table 9 above demonstrates the **evolution of public debt by instrument**. On the domestic debt front, the demand for long-term bonds increased while the demand for short-term bonds decreased. Commercial banks over-subscribed in the 36-month Treasury Bills and substituted their shorter term Treasury Bills by this category. As for the decline in the 30-month category, this is due to the maturity of all 30-month Treasury bills in the amount of LL 3,033 billion during the first half of 2006. These 30-month T-bills are special treasury bills issued in the context of Paris II at a concessionnal rate of 4 percent.

On the foreign currency front, the LL 956 billion increase in the **Eurobonds** is due to pre-financing (issuance of Eurobond in excess of maturing Eurobond principal). This increase has, however, been adjusted downwards due to the revaluation effect of the US$/Euro exchange rate. As for "**Paris II loans**", the LL 66 billion increase witnessed during HI 2006 is due to the revaluation effect of the US$/Euro exchange rate between end-December 2005 and end-June 2006. The nominal value of this loan from AFD – France – in its original currency remains unchanged at Euro 500 million.

Primary market interest rates currently range between 5.22 percent for the 3-month T-bills to 9.34 percent for the 36-month treasury bills. As compared to December 2005, all market interest rates remained stable, except for the slight decrease in the interest on the 36-month treasury bill, as is apparent in the table below.

Table 10. Evolution of Primary Market Treasury Bills Yields

Maturity	Dec. 31, 2004	Dec. 31, 2005	June, 2006
3-month	5.22 percent	5.22 percent	5.22 percent
6-month	6.31 percent	7.24 percent	7.24 percent
12-month	6.69 percent	7.75 percent	7.75 percent
24-month	7.74 percent	8.50 percent	8.50 percent
36-month	8.68 percent	9.34 percent	9.32 percent

Source: Ministry of Finance

Debt Transactions in April 06

EUROBOND EXCHANGE (Eurobonds Maturing in 2006) AND EUROBOND NEW ISSUANCE (€ 2012, USD 2014, AND USD 2021)

The total value of foreign currency payments due in 2006 was approximately US$ 4.6 billion. Of which, US$ 2.2 billion were scheduled to fall due in the first half of the year with Eurobond principal payments accounting for US$ 1.5 billion of this amount and Eurobond coupon payments accounting for US$ 348 million. The first Eurobond was to mature in April and was for a face value of US$ 1.11 billion.

In the objective of conducting pro-active debt management, the Ministry of Finance underwent two debt transactions in April 2006. The first transaction involved exchanging some of the Eurobonds maturing in 2006, and then issuing a second tranche of two of the new Eurobonds.

The exchange transaction had a participation rate of an average of 71 percent and resulted exchanging US$ 1,771 million and issuing three new bonds:

Yields for the New Bond Issues

New Notes	Coupons
US$ April 2014	7.375%
US$ April 2021	8.250%
€ April 2012	5.875%

The Ministry then issued a second tranche for the US$ 15-year and the Euro 6-year.

New Eurobond Issuance

Series	Size	Maturity	Coupon	Issue Price
42	US$ 750 million	12 April 2021	8.25 percent	100.00, plus accrued interest from April 12, 2006
43	€ 175 million	12 April 2012	5.875 percent	100.00, plus accrued interest from April 12, 2006

As a result of the exchange transaction and the new issue the aggregate principal amounts of the new Eurobond series are as follows:

Total New Eurobond Size After Exchange and New Cash

Series	Size	Maturity	Coupon
41	USD 676,902,000	14 April, 2014	7.375 percent
42	USD 1,661,469,000	12 April 2021	8.25 percent
43	EURO 324,542,000	12 April 2012	5.875 percent

For more information please see "Debt Transactions Concluded in March – April 2006 A Brief Note" on www.finance.gov.lb

Table 11. Performance of Lebanese Eurobond Secondary Market

Republic of Lebanon Eurobonds	**Mid-Yield** (as of the closing of July 6, 2006)
Euro	
LEB 8.875 06	3.455
LEB 7.250 09	5.31
LEB 5.875 12	5.84
US Dollars	5.63
LEB 10.500 AUG 06	6.56
LEB 8.625 07	6.685
LEB 7.375 08	6.805
LEB 10.125 08	7
LEB 10.250 09	7.24
LEB FRN 09	7.145
LEB 7.000 09	7.26
LEB 7.125 10	7.405
LEB 7.875 11	7.465
LEB 7.750 12	7.635
LEB 8.625 13	7.545
LEB 7.375 14	7.715
LIEB 10.000 15	7.805
LEB 8.500 16	7.995

Source: CSFB

For information on Eurobonds Outstanding and Eurobond issues visit the Ministry's website: www.finance.gov.lb

Section V: Evolution of External Trade

Table 12. External Trade

(USD Million)	2005 June	2006 June	2005 Jan-June	2006 Jan-June	Change	% Change
Exports	164	270	874	1,303	429	49%
Imports, *of which:*	740	878	4,471	5,056	585	13%
Mineral Products	167	157	943	1,218	275	29%
Trade Balance	**-576**	**-608**	**-3,597**	**-3,753**	**-156**	4%

Source: MOF, Directorate General of Customs (DGC)

Balance of trade: In January-June 2006**,** the trade deficit increased by 4 percent compared to the first semester of 2005. The slight widening of the trade deficit resulted from a USD 585 million increase in imports, versus a USD 429 million increase in exports. The increase in imports is mainly due to an increase in the price of mineral products. The growth in exports is mainly due to the increase in the exports of pearls and precious stones.

By the end of June 2006, **imports** amounted to USD 5,056 million, compared to USD 4,471 million for the same period one year earlier. From a product perspective, the increase in imports reflects (1) a USD 275 million increase in the value of the imports of mineral products that mainly resulted from the increase in the price of gas oil, fuel oil, and car gasoline, (2) a USD 108 million increase in the imports of transport equipment.

From a regional distribution perspective, the augmentation in the value of imports reflects (1) a USD 235 million increase in imports from the **European Union**, (2) a USD 155 million rise in imports from **Arab Countries**, specifically from Kuwait (3) a USD 151 million upsurge in imports from the **United States,** and (4) a USD 64 million increase in imports from China. The increase in imports from European Union countries, Arab Countries, United States and China outweighed the USD 111 million decrease in imports from **Switzerland** and the USD 59 million decrease in imports from the **Russian Federation.** Other countries from which imports increased noticeably include: Brazil (USD 52 million increase), Croatia (USD 47 million increase), Turkey (USD 45 million increase), and South Korea (USD 43 million increase).

By the end of June 2006, **exports** reached USD 1,303 million, increasing by USD 429 million with respect to the first semester of 2005. From a product perspective, the increase in exports is mainly owed to (1) a USD 331 million increase in the exports of pearls, precious or semi precious stones, (2) a USD 30 million rise in the exports of machinery and mechanical appliances, (3) a USD 20 million rise in the exports of base metals and articles thereof, and (4) a USD 16 million increase in the exports of prepared foodstuffs.

From a regional distribution perspective, the upsurge in the value of exports reflects a USD 331 million increase in exports to Switzerland, USD 15 million increase in exports to Belgium, USD 15 million increase in exports to UAE, and USD 14 million increase in exports to Qatar.

Table 13. Import Distribution by Product

(USD million)	2005 June	2006 June	2005 Jan-June	2005 % Share	2006 Jan-June	2006 % Share	Change	% Change
Mineral Products	174	157	943	21%	1,218	24%	275	29%
Machinery and Mechanical Appliances	83	119	516	12%	612	12%	96	19%
Products of the Chemical	79	87	421	9%	491	10%	70	17%
Pearls, Precious or Semi-Precious Stones	40	27	399	9%	167	3%	-232	-58%
Transport Equipment	71	98	345	8%	453	9%	108	31%
Base Metals and Articles of Base Metals	48	84	304	7%	384	8%	80	26%
Other Goods	244	306	1,543	35%	1,783	34%	240	16%
Total	**740**	**878**	**4,471**	**100%**	**5,056**	**100%**	**585**	**13%**

Source: MOF, DGC

- **Import Distribution by Product:**

Imports of **mineral products** increased by 29 percent and cumulated at USD 1,218 million in January-June 2006 as compared to USD 943 million in the first six months of 2005. The increase in the import value of mineral products mainly resulted from:

1)- A USD 128 million increase in the imports of **car gasoline**, which reached USD 409 million by the end of June 2006 mainly resulting from a) the 35 percent increase in the average effective import price of car gasoline from LL 551 per liter in January-June 2005 to LL 743 per liter in January-June 2006, b) the 8 percent increase in quantities imported from 769 million liters in January-June 2005 to 830 million liters in January-June 2006.

2)- A USD 94 million or 26 percent increase in the imports of **gas oil** (Mazout) (which reached USD 460 million in January-June 2006 compared to USD 366 million in January-June 2005). This was due to a) the 14 percent hike in the average effective price of gas oil imported from LL 532 per liter in January-June 2005 to LL 604 per liter in January-June 2006, b) the 11 percent increase in the quantity of gas oil imported. Quantities of gas oils imported reached 1.149 billion liters by the end of June 2006, compared to 1.037 billion liters in January-June 2005.

Table 14. Mineral Product Import Breakdown

	Jan-June 2005	Jan-June 2006	Change	% Change
Import Value Details (in USD Million):				
- Car Gasoline	281	409	128	46%
- Gas Oil	366	460	94	26%
- Fuel Oil	178	217	39	22%
Import Quantity Details (in Million Liters):				
- Car Gasoline	769	830	61	8%
- Gas Oil	1,037	1149	112	11%
- Fuel Oil	751	747	-4	-1%
Import Price Details (in LL per Liter):				
- Car Gasoline	551	743	192	35%
- Gas Oil	532	604	72	14%
- Fuel Oil	357	438	81	23%

Source: MOF, DGC

The 19 percent increase in **machinery and mechanical appliances** imports, which reached USD 612 million by the end of June 2006 in comparison to USD 516 million in January-June 2005, is the consequence of a USD 87.5 million increase in the imports of **reactors, boilers, machinery and mechanical appliances** (or what can be described as electrical materials for industrial use, totaling USD 379 million), and the USD 8.5 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 233 million during January-June 2006**.**

The 58 percent decrease in the imports of **pearls, precious and semi-precious stones** which amounted to USD 167 million in the first semester of 2006 compared to USD 399 million in January-June 2005 resulted mainly from a USD 154 million decrease in the imports of **gold ingots** reaching USD 101 million for the first semester of 2006, which outweighed the USD 34 million increase in the import of **un-worked (raw) industrial diamonds** that registered USD 104 million in Jan-June 2006.

Imports of **products of the chemical** reached USD 491 million in January-June 2006, compared to USD 421 million in January-June 2005, representing a 17 percent increase. This increase can be attributed to a USD 48 million increase in the imports of **pharmaceutical products**.

Transport Equipment imports were worth USD 453 million by the end of January-June 2006, as opposed to USD 345 million by the end of January-June 2005, witnessing a 31 percent increase. This 31 percent rise was caused by the USD 102 million increase in the imports of **vehicles** by June 2006, totaling USD 434 million. More specifically, the increase in the import value of vehicles can be attributed to a USD 96 million augmentation in the import value of cars, reaching USD 327 million by the end of June 2006. This was mainly due to the higher number of cars imported; which reached 23,647 units in January-June 2006 increasing by 40 percent from 16,937 units during the same period of 2005.

Imports of **Base metals and articles of base metal** cumulated at USD 384 million by the end of June 2006, compared to USD 304 million by the end of June 2005, registering a 26 percent increase. This increase was mainly due to USD 51 million increase in the imports of **iron and steel,** USD 14 million increase in the imports of **copper and articles thereof**, and USD 11 million increase in the imports of **aluminum and articles thereof**.

Table 15. Export Distribution by Product

(USD million)	2005 June	2006 June	2005 Jan-June	2005 % Share	2006 Jan-June	2006 % Share	Change	% Change
Machinery and Mechanical Appliances	30	31	143	16%	173	13%	30	21%
Base Metals and Articles of Base Metals	19	32	142	16%	162	12%	20	14%
Prepared Foodstuffs	18	18	90	10%	106	8%	16	18%
Pearls, Precious or Semi-Precious Stones	17	87	80	9%	411	32%	331	414%
Products of the Chemicals	19	20	74	8%	85	7%	11	15%
Mineral Products	10	5	72	8%	39	3%	-33	-46%
Other Exports	50	77	274	31%	327	25%	53	19%
Total	**164**	**270**	**874**	**100%**	**1,303**	**100%**	**429**	**49%**

Source: MOF, DGC

- **Export Distribution by Product:**

Machinery and mechanical appliances exports increased by 21 percent or USD 30 million, cumulating at USD 173 million during January-June 2006 in comparison to USD 143 million in the same period a year earlier. This increase resulted from a USD 17 million increase in the exports of **reactors, boilers, machinery and mechanical appliances**, which were worth USD 71 million until June 2006. The exports of **electrical machinery and equipment and parts thereof** also increased by USD 13 million, reaching USD 102 million in Jan-June 2006.

Exports of **base metals and articles of base metals** increased by 14 percent, reaching USD 162 million compared to USD 142 million during the first semester of 2005. This was mainly due to:

(1) A USD 10 million increase in **aluminum and articles thereof** exports,

(2) A USD 5 million increase in **articles of iron and steel** exports,

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

Exports of **prepared foodstuffs** increased by 18 percent reaching USD 106 million between January and June 2006 compared to USD 90 million in January-June 2005. This resulted from:

(1) A USD 9 million increase in **preparations of vegetables** (the increase comes mainly from exports to Iraq and the United States),

(2) A USD 4 million increase in **tobacco and manufactured tobacco substitutes** (the increase comes mainly from exports to Belgium, Russian Federation and France).

(3) A USD 3 million increase in **sugar and sugar confectionary** (mainly to Saudi Arabia, United Arab Emirates and Syria)

Exports of **pearls, precious or semi-precious stones** increased by 414 percent and totaled USD 411 million during January-June 2006, as opposed to USD 80 million in January-June 2005. This increase resulted from the 1107 percent increase in exports of **gold ingots** that amounted to USD 370 million by the end of June 2006, compared to USD 31 million by the end of June 2005. Other items under pearls, precious and semi precious stones category, and that are exported include (1) **articles of jewelry and parts thereof**, whose export level remained constant and totaled USD 40 million, and (2) **worked non-industrial diamonds,** whose exports increased by USD 4 million, reaching USD 11 million by the end of June 2006.

Exports of **mineral products** decreased by 46 percent, amounting to USD 39 million by the end of January-June 2006 compared to USD 72 million in the same period of 2005. This decrease resulted from a 49 percent drop in the exports of **salt, sulfur, earths and stone, plastering materials, lime and cement**, which registered USD 35 million by the end of June 2006.

Table 16. Regional Distribution of Imports

(USD million)	2005	2006	2005		2006			%
	June	June	Jan-June	% Share	Jan-June	% Share	Change	Change
European Union (1):	340	333	1,693	38%	1,928	38%	235	14%
Arab Countries	81	144	679	15%	834	17%	155	23%
China	55	77	327	7%	391	8%	64	20%
United States	45	56	245	5%	396	8%	151	62%
Switzerland	34	13	217	5%	106	2%	-111	-51%
Other	185	255	1,385	31%	1,401	28%	16	1%
Total	**740**	**878**	**4,471**	**100%**	**5,056**	**100%**	**585**	**13%**

Source: MOF, DGC

(1)-The European Union included until the 30th of September 2006, the following countries: Austria, Belgium, Cyprus, Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Ireland, Italy, Latvia, Lithuania, Luxemburg, Malta, Poland, Portugal, Slovakia, Slovenia, Spain, Sweden, Netherlands and the United Kingdom.

- **Regional Distribution of Imports:**

Imports from the **European Union** increased by 14 percent, cumulating at USD 1,928 million in January-June 2006 compared to USD 1,693 million in January-June 2005. This is mainly due to two factors:

(a)- A USD 76 million or a 26 percent increase in the value of imports from Germany that resulted from (1) a USD 37 million increase in the imports of vehicles, (2) a USD 33 million increase in the imports of reactors, boilers, machinery and mechanical appliances and parts thereof, and (3) a USD 9 million increase in the imports of pharmaceutical products.

Lebanon's main imports from Germany included the following products: Vehicles for a total amount of USD 146 million, reactors, boilers, machinery and mechanical appliances and parts thereof for a total of USD 66 million, as well as pharmaceutical products for a total value of USD 44 million.

(b)-A USD 68 million or a 45 percent hike in the imports from the **United Kingdom**, which reached USD 221 million in January-June 2006 compared to USD 153 million in January-June 2005. This resulted mainly from (1) a USD 46 million increase in the imports of mineral oils and fuels, (2) a USD 9 million increase in the imports of vehicles, and (3) a USD 7 million increase in the imports of reactors, boilers, machinery and mechanical appliances and parts thereof.

Lebanon's main imports from the United Kingdom included: Mineral oils and fuels for a total value of USD 51 million, machinery and mechanical appliances for a total amount of USD 35 million, boilers and reactors for a total value of USD 27 million, as well as USD 25 million worth of pharmaceutical products.

(c)-A USD 55 million or a 16 percent increase in the imports from **France,** which reached USD 409 million in January-June 2006 compared to USD 354 million in January-June 2005. This resulted mainly from (1) a USD 43 million increase in the imports of mineral oils and fuels, and (2) a USD 5 million increase in the imports of pharmaceutical products.

Lebanon's main imports from France included the following: Mineral oils and fuels for a total value of USD 155 million, as well as USD 48 million worth of pharmaceutical products.

(d)-A USD 50 million or a 170 percent increase in the imports from **Greece,** which reached USD 79 million in January-June 2006 compared to USD 29 million in January-June 2005. This resulted mainly from (1) a USD 40 million increase in the imports of mineral oils and fuels, (2) a USD 7 million increase in the imports of sugar and sugar confectionaries, and (3) a USD 3 million increase in the imports of copper and articles thereof.

Lebanon's main imports from Greece included: Mineral oils and fuels for a total value of USD 52 million, as well as USD 7 million worth of sugar and sugar confectionaries and USD 6 million worth of copper and articles thereof.

In general, Lebanese imports from the European Union accounted for USD 391 million of mineral oils and fuels, USD 205 million of vehicles, USD 190 million of pharmaceutical products, and USD 179 million of reactors, boilers, machinery and mechanical appliances and parts thereof. Among European Union countries, the share of imports from Italy and France was the largest with USD 409 million from each country, followed by Germany with USD 370 million and the United Kingdom with USD 221 million.

Imports from **Arab countries** augmented by USD 155 million or 23 percent, and reached USD 834 million for January-June 2006, compared to USD 679 million in January-June 2005. The rise in imports from Arab countries stemmed from (1) a USD 100 million (or 838%) increase in imports from Kuwait, resulting mainly from a USD 100 million rise in the imports of mineral oils and fuels, (2) a USD 62 million increase in imports from Egypt, of which USD 67 million were due to iron and steel imports, which offset the USD 16 million decrease in mineral oils and fuels imports, and (3) a USD 19 million (or 743%) increase in imports from Oman, resulting mainly from a USD 19 million increase in the imports of mineral oils and fuels.

The main imports from Arab countries for January-June 2006 were (1) mineral fuels and oils worth USD 305 million, (2) iron and steel imports of USD 123 million and (3) plastics and articles thereof worth USD 57 million.

Among Arab countries, the share of imports from Egypt was the largest with USD 217 million, followed by Saudi Arabia with USD 183 million and Kuwait with USD 112 million.

Imports from **China** registered a 20 percent increase, from USD 327 million in January-June 2005 to USD 391 million in January-June 2006. More specifically, this rise was due to a USD 16 million increase in the imports of reactors and boilers, machinery and mechanical appliances, which, with a total of USD 71 million, remained the main import category from China, followed by electrical machinery amounting to USD 50 million, and articles of apparel and clothing accessories amounting to USD 26 million.

Imports from the **United States** increased by 62 percent, amounting to USD 396 million in January-June 2006 compared to USD 245 million in the first six months of 2005. This hike was due to a USD 75 million increase in the imports of mineral oils and fuels, USD 26 million increase in the imports of boilers and reactors, and USD 19 million increase in the imports of vehicles.

Lebanon's main imports from the United States for the first semester of 2006 consisted of USD 87 million worth of mineral oils and fuel, USD 54 million worth of vehicles, USD 51 million in boilers and reactors, and USD 40 million of tobacco and manufactured tobacco substitutes.

Imports from **Switzerland** decreased by 51 percent and registering USD 106 million by the end of June 2006 compared to USD 217 million in January-June 2005. This decrease resulted from (1) a USD 114 million decrease in the imports of pearls, precious and semi precious stones (mainly gold ingots) and (2) a USD 4 million decrease in the imports of boilers and reactors. The main imports from Switzerland for the first two quarters of 2006 were pearls, precious and semi precious stones for a total import value of USD 47 million and pharmaceuticals worth USD 30 million. Note that pharmaceutical imports increased by USD 3 million in first six months of 2006.

Table 17. Regional Distribution of Exports

(USD million)	2005	2006	2005		2006			%
	June	June	Jan-June	% Share	Jan-June	% Share	Change	Change
Arab Countries	89	107	483	55%	500	38%	17	3.5%
European Union	20	25	103	12%	139	11%	36	35%
Switzerland	6	79	32	4%	363	28%	331	1034%
United States	5	4	26	3%	27	2%	1	3%
China	2	4	9	1%	18	1%	9	100%
Other	42	50	221	27%	255	20%	34	15%
Total	**164**	**269**	**874**	**100%**	**1,302**	**100%**	**428**	**49%**

Source: MOF, DGC

(1)-The European Union included until the 30th of September 2006, the following countries: Austria, Belgium, Cyprus, Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Ireland, Italy, Latvia, Lithuania, Luxemburg, Malta, Poland, Portugal, Slovakia, Slovenia, Spain, Sweden, Netherlands and the United Kingdom.

- **Regional Distribution of Exports:**

Lebanese exports to **Arab Countries** increased by 3.5 percent from USD 483 million in January-June 2005 to USD 500 million in January-June 2006.

The rise in Lebanese exports occurred despite the USD 24 million, or 23 percent, decrease in exports to Syria that registered USD 81 million by the end of June 2006 compared to USD 106 million by the end of June 2005. This decline affected mainly exports of salt, earths and stone, plastering materials, lime and cement, which declined by USD 20 million, and exports of electrical machinery and equipment, which decreased by USD 4 million.

The decrease in Lebanese exports to Syria was counterbalanced by an increase in Lebanese exports to a number of Arab countries:

a)- A USD 15 million increase of exports to the United Arab Emirates (UAE). Exports to UAE reached USD 82 million in the first semester of 2006, compared to USD 67 million in the first six months of 2005. This 23 percent increase resulted from (1) a USD 5 million increase in the exports of natural or cultured pearls, and precious stones, which reached USD 26 million by the end of June 2006 compared to USD 21 million over the same period a year earlier, (2) an increase in the exports of reactors, boilers, machinery, electrical machinery and equipment, in addition to furniture, bedding, and mattresses.

b)- A USD 15 million increase of exports to Qatar. Exports to Qatar reached USD 31 million in the first semester of 2006, compared to USD 16 million in the first six months of 2005. This 93 percent export hike was mainly due to an increase in exports of furniture, bedding, and mattresses, which reached USD 7 million in Jan-June 2006 up from USD 1 million in the first six months of 2005. In addition, exports of reactors, boilers, and machinery increased by USD 2 million, and exports of articles of iron and steel also increased by USD 2 million.

c)- Lebanese exports to Saudi Arabia and Kuwait increased between the first half of 2005 and 2006 by USD 12 million and USD 4 million respectively.

The main exports from Arab countries for January-June 2006 were (1) Electrical machinery and equipment worth USD 64 million, (2) reactors, boilers, and machinery of USD 42 million, (3) natural or cultured pearls, precious stones and metals worth USD 34 million, and (4) salt, earths and stone, plastering materials, and cement worth USD 30 million.

Among Arab countries, the share of exports from Iraq was the largest, with USD 85 million, followed by United Arab Emirates with USD 82 million, and Syria with USD 81 million.

Lebanese exports to the **European Union** increased from USD 103 million to USD 139 million between January-June 2005 and January-June 2006. This rise stemmed mainly from (1) a USD 16 million (206%) increase in exports to Belgium that resulted from a USD 5 million increase in the exports of natural or cultured pearls, precious stones and metals, and a USD 4 million increase in tobacco and manufactured tobacco substitutes exports, (2) a USD 6 million (114%) increase of exports to Greece, which resulted from USD 3 million increases in export iron and steel, (3) a USD 6 million (57%) increase of exports to Netherland, and (4) a USD 4 million (25%) increase of exports to France.

Lebanese exports to the European Union accounted for USD 15 million of tobacco and manufactured tobacco substitutes, USD 11 million of natural or cultured pearls, precious stones and metals, USD 10 million of aluminum, and USD 9 million of iron and steel. Among European Union countries, the share of exports to Belgium was the largest with USD 23 million, followed by France with USD 20 million, then the Netherlands and the UK with USD 16 million for each country.

Exports to the **Switzerland** increased by 1034 percent reaching USD 363 million by the end of June 2006, compared to USD 32 million between January and June 2005. This increase is due to the USD 331 million rise in gold ingots exports between the first semesters of 2005 and 2006.

Exports to the **United States** increased by 3 percent, reaching USD 27 million in January-June 2006 compared to USD 26 million for the first semester of 2005. This resulted from a USD 3 million increase in exports of reactors, boilers, and machinery, and a USD 1 million increase in exports of prepared vegetables, fruit, and nuts. This increase counterbalanced the USD 3 million decrease in exports of pearls, precious and semi precious stones (mainly articles of jewelry and non industrial worked diamonds).

Lebanese exports to the United States consisted mainly of furniture, bedding and mattresses for USD 6 million, and preparations of vegetables, fruit, and nuts for USD 4 million.