

PUBLIC FINANCE QUARTERLY REPORT
Ministry of Finance
QI 2007

☒ Fiscal Overview:

Year on year, the fiscal deficit increased by 64.3 percent (or LL 388 billion) in the first quarter of 2007 due to a 22.7 percent hike in total expenditures which offset the 9.8 percent rise in total revenues.

The primary surplus decreased by 64.7 percent to LL 120 billion end-March 2007 compared to LL 341 billion end-March 2006 mainly due to increased primary spending by LL 409 billion. ([section 1](#)).

☒ Revenue Outcome:

Total revenues for the first quarter of 2007 totaled LL 2,122 billion, increasing by 9.8 percent from the LL 1,933 billion registered for quarter one of 2006. This improvement is due to a 9.3 percent increase in budget revenues (from both tax and non-tax revenues) and from a 17.1 percent increase in Treasury receipts. ([section 2](#)).

☒ Expenditure Outcome:

Total expenditures in quarter one of 2007 amounted to L 3,115 billion, an increase of 22.7 percent from the same period of 2006. The rise was due to an 18 percent increase in budget expenditures, and a 53 percent increase in treasury expenditures. ([section 3](#)).

☒ Public Debt Developments:

The stock of gross debt reached LL 62,138 billion by end-March 2007, higher by 2.06 percent than the level end-December 2006 level. Domestic debt increased by 3.75 percent over this period to reach LL 31,336 billion end-March 2007. At LL 30,802 billion at the end of 2007's first quarter, foreign currency debt is 0.4 percent higher than the end-2006 level. ([section 4](#)).

☒ External Trade:

By end-March 2007, the trade deficit registered US\$ 2,079 million, a 13 percent increase from that recorded by end-March 2006, fueled by 15 percent increase in imports. ([section 5](#)).

Section I: Fiscal Overview

Table 1. Summary of Fiscal Performance

(LL billion)	2006	2007	2006	2007	Change	%
	March	March	Jan-Mar	Jan-Mar	2006-2007	Change
Budget Revenue	713	797	1,826	1,996	170	9.3%
Budget Expenditures	887	1,035	2,181	2,571	390	17.9%
<i>o/w Previous Years Appropriations</i>	197	150	475	540	65	13.7%
<i>o/w Debt Service</i>	373	468	945	1,113	168	17.7%
Budget Deficit/Surplus	-174	-238	-355	-575	-219	61.8%
in % of Budget Expenditures	-19.6%	-23.0%	-16.3%	-22.4%		
Budget Primary Deficit/Surplus	200	230	590	539	-52	-8.7%
in % of Budget Expenditures	22.5%	22.3%	27.1%	21.0%		
Treasury Receipts	27	29	108	126	18	17.1%
Treasury Payments	90	264	357	544	188	52.5%
Total Budget and Treasury Receipts	740	826	1,933	2,122	189	9.8%
Total Budget and Treasury Payments	976	1,299	2,538	3,115	577	22.7%
Total Cash Deficit/Surplus	-236	-473	-605	-993	-388	64.3%
in % of Total Expenditures	-24.2%	-36.4%	-23.8%	-31.9%		
Primary Deficit/Surplus	137	-5	341	120	-221	-64.7%
in % of Total Expenditures	14.0%	-0.4%	13.4%	3.9%		

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

The **primary surplus** for the period January – March 2007 registered LL 120 billion, 64.7 percent less than the LL 341 billion surplus recorded for the same period in 2006.

This was mirrored in the 64.3 percent increase in the **total deficit** which amounted to LL 993 billion in the first quarter of 2007, compared to a deficit of LL 605 billion for the same period of 2006. The total deficit's worsening was due to the relatively higher increase in expenditures by 22.7 percent (or LL 577 billion, of which LL 409 billion higher primary spending and LL 168 billion higher debt service spending) than the 9.8 percent (or LL 189 billion) increase in revenues. By end-March 2007, **total expenditures** reached LL 3,115 billion compared to LL 2,538 billion by end-March 2006. **Total revenues** summed up to LL 2,122 billion in the first quarter of 2007 compared to LL 1,933 billion for the same period in 2006.

Section II: Revenue Outcome

Table 2. Total Revenue

(LL billion)	2006 March	2007 March	2006 Jan-Mar	2007 Jan-Mar	% Change
Budget Revenues, of which:	713	797	1,826	1,996	9.3%
<i>Tax Revenues</i>	384	422	1,219	1,354	11.1%
<i>Non-Tax Revenues</i>	329	375	607	642	5.7%
Treasury Receipts	27	29	108	126	17.1%
Total Revenues	740	826	1,933	2,122	9.8%

Source: MOF, DGF

Total revenues attained LL 2,122 billion in the first quarter of 2007, improving by 9.8 percent (or LL 189 billion) compared to the LL 1,933 billion reached in the same period of 2006. This improvement was due to increases in both budget and treasury revenues of LL 170 billion and LL 18 billion respectively.

Budget revenues amounted to LL 1,996 billion by the end of March 2007, a 9.3 percent (or LL 170 billion) improvement from their total of LL 1,826 billion in the same period of 2006. The increase resulted from higher tax revenues (11.1 percent) and non-tax revenues (5.7 percent).

Tax revenues in the first three months of 2007 registered LL 1,354 billion, compared to LL 1,219 billion for the same period of 2006. The 11.1 percent (or LL 135 billion) improvement in tax revenues resulted from increases in nearly each tax component: (i) a 9 percent (or LL 22 billion) increase in **taxes on income, profits and capital gains**, mainly led by an increase in the 5% tax on interest income (by LL 13 billion); (ii) a 5 percent (or LL 6 billion) increase in **taxes on property**, mainly from an increase in built property tax; (iii) a 13.9 percent increase in **domestic taxes on goods and services**, mainly from value-added tax (VAT) revenues which increased by LL 74 billion, or 17.4 percent; and (iv) a 17.1 percent increase in **taxes on international trade**, mainly from an increase in petroleum tax excises by LL 40 billion or 54 percent.

These increased tax revenues offset the 13.5 percent decrease in **other tax revenues**, mainly fiscal stamp fees, from LL 74 billion in the first quarter of 2006 to LL 64 billion for the same period of 2007.

Taxes on income, profits and capital gains registered a total of LL 273 billion in the first three months of 2007, compared to LL 251 billion for the same period of 2006, representing a 9.0 percent (or LL 22 billion) increase. The increase was due to:

- (1) A 2.3 percent (LL 1 billion) increase in revenues from **income tax on profits**, which totaled LL 79 million by end-March 2007 compared to LL 78 million by end-March 2006.
- (2) A 9.4 percent (or LL 5 billion) increase in receipts from **income tax on wages and salaries** which amounted to LL 64 billion in quarter one of 2007 compared to LL 59 billion in the

same period of 2006. This revenue enhancement may be attributed to the ongoing DASS reform effort (deduction at source on wages and salaries) which was initiated in 2003.¹

- (3) A 20.1 percent (or LL 5 billion) rise in receipts from income **tax on capital gains and dividends** to LL 29 billion end-March 2007 from LL 24 billion end-March 2006.
- (4) A 15.3 percent (or LL 13 billion) improvement in receipts from the **5% tax on interest income**. Collection increased from LL 85 billion as recorded in the first three months of 2006 to LL 98 billion for the same period of 2007. Tax proceeds collected from commercial banks (LL 69.7 billion) made up 71 percent of that total amount in Q1 2007, compared to 73.5 percent or LL 62.4 billion in Q1 2006. The remaining amount of tax receipts from the 5 percent tax on interest income for Q1 2007 roughly 22 percent was collected from BDL (LL 27.8 billion) From a currency perspective, 52 percent of the interest tax collection in Q1 2007 came in Lebanese Liras and the remaining 48 percent came in foreign currencies. The monthly collection of this tax averaged LL 23.2 billion per month in the first quarter of 2007 compared to an average of LL 20.8 billion for the same period of 2006. Inflows from BDL followed a similar pattern in 2007 with the highest receipts in January to progressively decrease till March, except that inflows in January 2007 were significantly higher at LL 13.1 billion compared to LL 9.3 billion in January 2006.

Taxes on property contributed 5 percent (or LL 6 billion) higher proceeds by end-March 2007 at LL 125 billion from LL 119 billion at end-March 2006. This was mainly due to a LL 40.3 percent (or LL 14 billion) increase in revenues from **built property tax (or recurrent tax on immovable property)** which totaled LL 50 billion during the first quarter of 2007 compared to LL 36 billion for the same period of 2006. Part of this revenue enhancement may be attributed to the reform effort initiated in the built property tax department, whereby the database on built properties is currently being overhauled and updated, based on information system linkages between that department and the Cadastre.² This increased collection from the recurrent tax offset the 12.6 percent (or LL 9 billion) reduction in proceeds from **real estate registration fees (or non recurrent tax on property)** which decreased to LL 63 billion as at end-March 2007 from LL 72 billion end-March 2006. Collection from real estate registration fees may be viewed to a certain extent only as a proxy indicator of the volume of real estate transactions taking place in the economy; as such this decreased collection may hint at depressed activity in the real estate sector in Lebanon for this period.³ The residual amount under Taxes on Property (for both years under study) pertains to revenues from **inheritance taxes**, which did not show significant year on year change in collection trends.

¹ For further detail on the ongoing reforms at the Ministry of Finance, please refer to the Ministry's publication: *Key Fiscal Debt, Monetary and Trade and Market Reforms 2006* at the Ministry's website.

² For further details on this reform, please refer to the document, *Recovery, Reconstruction and Reform: International Conference for Support to Lebanon* on the Ministry of Finance's website.

³ However this interpretation is valid only to a certain extent as new property owners are not obliged to register their newly acquired properties immediately upon purchase and hence some real estate transactions may go unrecorded.

Table 3. Tax Revenue

(LL billion)	2006 March	2007 March	2006 Jan-Mar	2007 Jan-Mar	% Change
Tax Revenues:	384	422	1,219	1,354	11.1%
Taxes on Income, Profits, & Capital Gains, of which:	71	71	251	273	9.0%
Income Tax on Profits	39	37	78	79	2.3%
Income Tax on Wages and Salaries	4	4	59	64	9.4%
Income Tax on Capital Gains & Dividends	3	4	24	29	20.1%
Tax on Interest Income (5%)	24	26	85	98	15.3%
Penalties on Income Tax	1	1	4	3	-36.3%
Taxes on Property, of which:	60	64	119	125	5.0%
Built Property Tax	25	34	36	50	40.3%
Real Estate Registration Fees	29	25	72	63	-12.6%
Domestic Taxes on Goods & Services, of which:	127	150	481	547	13.9%
Value Added Tax	107	133	425	499	17.4%
Other Taxes on Goods and Services, of which:	20	16	48	45	-5.9%
Private Car Registration Fees	11	10	29	26	-9.4%
Passenger Departure Tax	9	6	19	19	-0.3%
Taxes on International Trade, of which:	102	119	294	344	17.1%
Customs	42	49	114	131	14.7%
Excises, of which:	60	70	180	213	18.5%
Petroleum Tax	18	33	73	113	54.0%
Tobacco Tax	17	15	45	47	4.7%
Tax on Cars	25	21	60	52	-14.3%
Other Tax Revenues (namely fiscal stamp fees)	23	18	74	64	-13.5%

Source: MOF, DGF

Domestic taxes on goods and services (excluding excises) recorded LL 547 billion in the first three months of 2007, 13.9 percent (or LL 66 billion) higher than the LL 481 billion registered during the same period of 2006. This was mainly led by improvements in revenues collected from VAT which offset decreases in other taxes on goods and services.

- (1) **VAT revenues** generated 17.4 percent (or LL 74 billion) higher revenues to equal LL 499 billion over January – March 2007, compared to LL 425 billion over January – March 2006.
 - a. 74 percent (or LL 55 billion) of this increase is due to higher VAT collected at customs, totaling LL 341 billion in the first quarter of 2007 compared to LL 287 billion for the same period of 2006 (an increase of 19 percent). This result is commensurate with the first quarter of the year's trade developments, whereby imports registered a 15 percent year on year increase. (For further details on trade development, please refer to section V of the report).
 - b. VAT collected from internal economic activity over the first quarter of the year amounted to LL 158 billion, 13.7 percent higher than collection during the equivalent period in 2006. Note however that an amount equivalent to LL 20 billion was collected during February and March 2007, pertaining to

installments of QII 2006 VAT dues, as per decision number 826 dated September 14th, 2006. Therefore, adjusting to this cash effect, internal VAT collection for QI 07 becomes roughly equal to internal VAT collection in QI 06.

- (2) **Other taxes on goods and services** decreased by 5.9 percent (or LL 3 billion) to amount to LL 45 billion by end-March 2007, down from LL 48 billion by end-March 2006. This was due to lower revenues from **private car registration fees** which declined by 9.4 percent (or LL 3 billion) from LL 29 billion to LL 26 billion mirroring the decline in the value of imports of vehicles of 6.4 percent (or US\$ 12 million) from US\$ 193 million in quarter one of 2006 to US\$ 181 million in quarter one of 2007.⁴ This is also due to relatively unchanged revenues from **passenger departure tax** at LL 19 billion end-March 2007, a 0.3 percent reduction year on year although the number of tourists declined by a higher percentage at 26.8 percent from 246,459 tourists registered in quarter one of 2006 to 180,523 in quarter one of 2007. This could indicate that more nationals are going abroad.

Taxes on international trade (custom duties and excises) registered 17.1 percent (or LL 50 billion) higher proceeds, equaling LL 344 billion in the first three months of 2007, compared to LL 294 billion in the same period of 2006, due to increases in revenues from both customs and excises.

Customs duties from January-March 2007 registered a 14.7 percent (or LL 17 billion) improvement, to total LL 131 billion as compared to LL 114 billion in the same period of 2006. This is in line with the 15.0 percent (or US\$ 351 million) increase in imports over the same period. The overall tariff rate remained unchanged at 3.22% comparing January to March 2007 with the same period of 2006.⁵

Excise revenues increased by 18.5 percent (or LL 33 billion), from LL 180 billion during January – March 2006 to LL 213 billion during January – March 2007. This increase in excise revenues is due to higher proceeds from taxes on petroleum (54 percent) and tobacco (4.7 percent) which offset the lower proceeds from tax on cars (-14.3 percent):

(a) Revenues from the **petroleum tax** increased by 54 percent (or LL 40 billion) totaling LL 113 billion in the first quarter of 2007 from LL 73 billion in the first quarter of 2006. The effective price of car gasoline decreased to 660 LL/liter during the first three months of 2007 from 662 LL/liter for the same period of 2006. The effective excise rate increased from 187 LL/liter in the first quarter of 2006 to 267 LL/liter in the first quarter of 2007. In fact the year on year rise in car gasoline excise revenues is mainly attributed to a 5.4 percent increase in volume (412 millions of liters of imports in QI 07 compared to 391 millions of liters of imports in QI 06).⁶

(b) Revenues from **excises on tobacco** were 4.7 percent (or LL 2 billion) higher, from LL 45 billion by end-March 2006 to LL 47 billion by end-March 2007. This

⁴ Figures are different from those presented in the trade section as this is based on HS Chapter 87 "Vehicles other than railway or tramway" which is different from HS section 17 "Vehicles, aircraft, vessels, transport equipment" presented in the trade section.

⁵ The effective tariff rate was calculated based on customs duties cash collection by the Treasury.

⁶ Note that excise on car gasoline is levied on quantities (imported liters), and is not an ad valorem tax.

compares with a 0.7 percent (or US\$ 206,245) increase in tobacco imports during the first quarter of 2007 compared to the same period in 2006.

(c) In line with 13 percent decreased car imports⁷ (10,615 cars were imported in QI 06 compared to 9,308 imported cars in QI 07, and the average price per car declined by 0.9 percent year on year), **excises on cars** collected decreased by 14.3 percent (or LL 8 billion) to LL 52 billion in quarter one of 2007, from LL 60 billion in quarter one of 2006. This decrease, coupled with the 9.4 percent reduction in private car registration fees in the first quarter of 2007, indicates slower activity in the car market (new cars and second hand cars) in Lebanon compared to the first quarter of 2006.

Other tax revenues (namely fiscal stamp duties) contributed 13.5 percent (or LL 10 billion) lower revenues during January – March 2007 at LL 64 billion, compared to the same period of 2006 at LL 74 billion, signaling lower volume of transactions (as this tax is levied on transactions) and consequently slower economic growth than for the first quarter of 2006.

⁷ Car imports on which excises are levied refers to vehicles classified under HS 8703

Table 4. Non Tax Revenue

(LL billion)	2006 March	2007 March	2006 Jan-Mar	2007 Jan-Mar	% Change
Non-Tax Revenues	329	375	607	642	5.7%
Income from Public Institutions and Government Properties, of which:	267	326	469	524	11.6%
Income from Non-Financial Public Enterprises, of which:	263	209	458	400	-12.6%
<i>Revenues from Casino Du Liban</i>	4	5	8	13	48.5%
<i>Revenues from Port of Beirut</i>	0	0	0	30	
<i>Budget Surplus of National Lottery</i>	8	8	15	18	20.0%
<i>Transfer from the Telecom Surplus</i>	251	198	434	339	-21.8%
Income from Financial Public Enterprises, of which BDL:	0	113	0	113	
Property Income (namely rent of Rafic Hariri International Airport)	4	4	10	10	-3.7%
Other Income from Public Institutions (interests)	0	0	1	1	-9.6%
Administrative Fees & Charges, of which:	53	42	111	98	-12.4%
Administrative Fees, of which:	45	34	91	76	-16.6%
<i>Notary Fees</i>	2	2	5	5	1.9%
<i>Passport Fees/ Public Security</i>	11	9	29	22	-25.7%
<i>Vehicle Control Fees</i>	26	18	43	36	-16.1%
<i>Judicial Fees</i>	3	2	6	4	-26.7%
<i>Driving License Fees</i>	2	2	4	5	5.6%
Administrative Charges	2	3	6	8	39.1%
Sales (Official Gazette and License Number)	0	0	1	1	-6.4%
Permit Fees (mostly work permit fees)	5	4	12	10	-14.9%
Other Administrative Fees & Charges	0	1	1	2	73.1%
Penalties & Confiscations	1	0	1	1	21.5%
Other Non-Tax Revenues (mostly retirement deductibles)	8	6	25	19	-23.8%

Source: MOF, DGF

Non-tax revenues increased by 5.7 percent (or LL 35 billion) to reach LL 642 billion in the first quarter of 2007, compared to LL 607 billion for the same period in 2006. In brief, revenues from public institutions and government properties increased by 11.6 percent, revenues from administrative fees and charges decreased by 12.4 percent, revenues from penalties and confiscations increased by 21.5 percent, and other non-tax revenues (mainly retirement deductibles) were lower by 23.8 percent.

Income from public institutions and government properties amounted to LL 524 billion by end-March 2007, representing an 11.6 percent (or LL 55 billion) increase from the same period in 2006 which registered LL 469 billion. The improved revenues stem from the category **income from financial public enterprises**, namely the LL 113 billion transfer from Banque du Liban surplus profit as per Article 117 of the Code of Money and Credit, which offset the 12.6 percent lower **income from non-financial public enterprises** which registered LL 400 billion in the period January to March 2007 from LL 458 billion in the same period in 2006:

- a) Revenues from the **Casino du Liban** increased by LL 5 billion or 48.5 percent to LL 13 billion in the first quarter of 2007 as compared to quarter one of 2006. Note that the government entered into the new phase of the agreed upon arrangement with the Casino management, whereby the Treasury's share of net revenues from gambling rose from 30 percent (which prevailed over the last 10 years) to 40 percent over the coming 10 years, as per the Government reform program *Recovery, Reconstruction and Reform: International Conference for Support to Lebanon*.
- b) Revenues from the **Port of Beirut** totaled LL 30 billion during the first three months of 2007. Note that these LL 30 billion pertain to the profit surplus of Port of Beirut for the year 2006, cashed by the Treasury in early January 2007; no other transfers to the Treasury were recorded during 2006.
- c) Revenues from the **budget surplus of the national lottery** increased by LL 3 billion (or 20 percent) to contribute LL 18 billion in the first three months of 2007 as compared to LL 15 billion for the same period of 2006.
- d) Lower transfers from the Budget Surplus of the **Telecom** outweighed the increases in other income from non-financial public enterprises. At LL 339 billion, transfers from the telecom budget surplus in the first quarter of 2007 were LL 95 billion (or 21.8 percent) lower than those during the same period of 2006 which contributed LL 434 billion.

Property income, namely rent from Rafic Hariri International Airport, was relatively unchanged recording LL 10 billion in the first quarter of 2007, a 3.7 percent decrease from the same period in 2006.

Administrative fees and charges registered 12.4 percent (or LL 13 billion) lower revenues, at LL 98 billion for January-March 2007 from LL 111 billion in January-March 2006:

- a) **Administrative fees** (namely judiciary fees, public security fees, road usage fees and driving license fees) recorded a 16.6 percent (or LL 15 billion) decrease in the first quarter of 2006 at LL 76 billion from the same period of 2005 at LL 91 billion. This decrease is mainly due to a 25.7 percent (or LL 7 billion) reduction in receipts from Passport Fees/Public Security, a 16.1 percent (or LL 7 billion) decrease in revenues from vehicle control fees (noting that the higher collection of vehicle control or road usage fees in 2006 may be attributed to the amnesty on penalties on unsettled dues, as per Article 29 of Budget Law 2005, Law 715, February 3rd, 2006), and 26.7 percent (or LL 2 billion) lower revenues from judicial fees.
- b) Receipts from **administrative charges** increased by 39.1 percent (or LL 2 billion) to LL 8 billion in the first quarter of 2006 from LL 6 billion for the same period in 2005.
- c) In contrast, revenues from **permit fees** (mostly work permit fees) decreased by 14.9 percent (or 2 billion) to LL 10 billion in the period January to March 2007 from LL 12 billion in the same period of 2005.

Treasury revenues for the first quarter of 2007 increased by 17.1 percent (or LL 18 billion) amounting to LL 126 billion, compared to LL 108 billion for the same period of 2006. This is mainly due to higher revenues from municipalities which cumulated at LL 45 billion. Note that an amount equivalent to LL 30 billion was reported under "other Treasury revenues" which represents an adjustment entry regularizing a treasury advance payment.

Section III: Expenditure Outcome

Table 5. Expenditures by Transaction Classification

(LL billion)	2006	2007	2006	2007	%
	March	March	Jan-Mar	Jan-Mar	Change
Total Expenditures	976	1,299	2,538	3,115	22.7%
Budget Expenditures	887	1,035	2,181	2,571	17.9%
Expenditures Excluding Debt Service, of which:	514	567	1,236	1,457	17.9%
<i>Previous Years' Appropriations</i>	197	150	475	540	13.7%
Debt Service, of which:	373	468	945	1,113	17.8%
<i>Domestic Debt</i>	197	271	534	640	19.9%
<i>Foreign Debt, of which:</i>	176	198	411	473	15.0%
<i>Eurobond Coupon Interest*</i>	163	165	344	391	13.7%
<i>Special bond Coupon Interest*</i>					
<i>Concessional Loans Principal Payments</i>	13	26	36	45	25.8%
<i>Concessional Loans Interest Payments</i>	6	7	31	37	17.9%
Treasury Expenditures , of which:	90	264	357	544	52.5%
<i>Municipalities</i>	21	23	101	52	-48.8%
Non-Interest Expenditures (Total Expenditures minus Debt Service)	603	831	1,593	2,002	25.7%

Source: MOF, DGF

* Includes general expenses related to the transaction

Total expenditures for budget and treasury transactions increased by 22.7% (or LL 577 billion) in the first three months of 2007 to equal LL 3,115 billion, from LL 2,538 billion in the same period of 2006. The increase in expenditures was fueled by both higher budget expenditures of 17.9% and larger treasury expenditures of 52.5%. (table 5).

1) Budget expenditures totaled LL 2,571 billion in the first quarter of 2007, a 17.9 percent (or LL 390 billion) increase compared to the LL 2,181 billion for the same period of 2006, mainly due to an increase of non-debt service expenditures which increased by LL 221 billion.

2) Treasury expenditures, mainly consisting of extra budgetary transactions and previous years' budget transactions, were LL 544 billion during January -March 2007, 52.5 percent (or LL 187 billion) higher compared to the same period of 2006 when treasury expenditures equaled LL 357 billion.

Non-interest expenditures (i.e. total primary expenditures) increased by 25.7 percent (or LL 409 billion) from a total of LL 1,593 billion for quarter one of 2006 to LL 2,002 billion for the same period of 2007 mainly due to higher current expenditures and other treasury expenditures.

With respect to expenditures by economic classification (table 6), current expenditures rose by 21 percent comparing the first quarter of 2007 with that of 2006, with capital spending lower by 28 percent over the same period. **Other treasury expenditures** increased by 64 percent.

Primary current expenditures (excluding debt service and including treasury expenditure) totaled LL 1,865 billion by end-March 2007, a 33 percent increase compared to the same period in 2006 when primary current expenditures amounted to LL 1,403 billion.

Overall current expenditures increased by 21 percent (or LL 426 billion) registering LL 2,453 billion during January-March 2007 compared to LL 2,027 billion during the same period in 2006. The rise is mainly due to higher debt service and growing spending on salaries and wages, specifically on the armed forces.

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

Personnel cost registered LL 914 billion in the first three months of 2007, a 17.9 percent (or LL 139 billion) increase from the LL 775 billion recorded for the same period of 2006 due to increases in both its components: salaries and wages included in article 13 by 23.6 percent and retirement and end of service compensation by 11.8 percent.

- Wages and salaries increased due to an exceptional salary bonus to the armed forces during February 2007, and due to the higher transfers of health allowances in terms of hospitalization, sickness and maternity, to the armed forces that were paid in the amount of LL 59 billion in the first quarter of 2007. (*Refer to Box 1*)
- The category retirement and end-of-service indemnities increased due to: i) LL 8.6 billion higher end-of-service indemnity payments; and ii) and increase of LL 16.5 billion in spending on retirement compensation comparing the January to March 2007 to the same period of 2006.

Debt service payments increased by 17.8 percent in the first quarter of 2007 to LL 1,113 billion from LL 945 billion in the first quarter of 2006. 63 percent of the increase in debt service payments came from higher domestic debt servicing amounting to LL 640 billion in the first three months of 2007 compared to LL 534 billion for the same period of 2006 (a 20 percent increase). The remaining increase in debt service payments was due to the 15 percent (or LL 62 billion) higher foreign debt service which totaled LL 473 billion January-March 2007 compared to LL 411 billion January-March 2006.

Expenditures on **materials and supplies** totaled LL 47 billion in the first quarter of 2007, an 87 percent (or 22 billion) increase year on year. It should be noted that the increase in “materials and supplies” is not a result of additional spending, but is an accounting entry to adjust for payment of treasury advances. This payment was netted out in the revenues and hence it has a null impact on the primary balance.

External services (rent, postal services, insurance, advertisement and public relations) amounted to LL 24 billion in the first three months of 2007, representing a 6.8 percent (or LL 2 billion) increase from the LL 22 billion registered in the same period or 2006.

Various transfers increased by almost 86 percent (or LL 135 billion) to LL 293 billion from January to March 2007 compared to LL 158 billion over the same period of 2006. The main hike in various transfers was due to higher transfers to the National Social Security Fund of LL 120 billion. The total amount paid to the NSSF during 2007's first quarter was LL 220 billion, compared to LL 100 billion for the same time frame in 2006. The transfers to NSSF were reported as follows:

- LL 70 billion covering Budget expenditures for 2006 (decision # 771/1 dated 2/6/2005)

- LL 50 billion covering Budget expenditures for 2006 (decision # 259/1 dated 30/11/2006)
- LL 100 billion covering Budget expenditures for 2007 (decision # 8/1 dated 7/3/2007)

Table 6. Expenditures by Economic Classification

(LL billion)	2006 Jan-March	2007 Jan-March	% Change
1. Current expenditures	2,027	2,453	21.01%
1.a Personnel cost*, of which	775	914	17.85%
<i>Article 13: Salaries and wages</i>	519	642	23.64%
<i>Retirement and end of service compensations</i>	207	232	11.76%
1.b Debt Service payments	945	1,113	17.75%
1.c Materials and supplies	25	47	87.44%
1.d External services	22	24	6.79%
1.e Various transfers	158	293	85.97%
<i>o/w NSSF</i>	100	220	120.00%
1.f Other current	82	42	-48.78%
<i>Hospitals</i>	72	29	-59.77%
<i>Others</i>	9	13	39.15%
1.g Reserves (3)	19	20	2.94%
<i>Interest subsidy</i>	19	20	2.94%
2. Capital expenditures	190	137	-27.85%
2.a Acquisitions of land, buildings, for the construction of roads, ports, airports, and water networks	6	3	-56.17%
2.b Equipment	5	10	106.74%
2.c Construction in Progress	131	86	-34.02%
2.d Maintenance	22	27	19.19%
2.e Other Expenditures Related to Fixed Capital Assets	25	11	-55.42%
3. Other treasury expenditures, of which	313	513	63.93%
Municipalities	101	52	-48.79%
EDL	66	353	438.53%
Transfers to Higher Council of Relief		6	100.00%
Treasury advances for diesel oil subsidy	50	0	-100.00%
4. Unclassified expenditures	1	0	-71.51%
5. Customs cashiers	7	12	62.28%
6. Total expenditures (excluding CDR foreign financed)	2,538	3,115	22.75%

Source :Statement of account 36, cashier spendings, Public Debt Department figures , Fiscal performance gross adjustment figures

* 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.

Other current expenditures decreased by 48.8 percent (or LL 40 billion) amounting to LL 42 billion in the first quarter of 2007 versus the LL 82 billion recorded in the first quarter of 2006. This was led by an almost 60 percent (or LL 43 billion) decrease in transfers to hospitals which totaled LL 29 billion in the first three months of 2007 compared to LL 72 billion for the same period of 2006. "Others" within this item increased by 39 percent (or 4 billion) year on year for this period.

At LL 20 billion during January to March 2007, **interest subsidies** for loans to productive sectors (agriculture, industry, tourism, technology and crafts) increased modestly by 2.9 percent (or LL 1 billion) from LL 19 billion during the same period of 2006.

Box 1. A Closer Look at Salaries and Wages

Salaries and wages include the salaries and wages of all employees (such as full-time and part-time employees, consultants, advisors, workers earning a lump-sum-amount...), compensations (such as family, overtime, transportation...), allowances (such as sickness and maternity, marriage, birth, death, hospitalization, schools, social spending, treatment in medical centers...), bonuses, contributions to pension funds (such as those of COOP employees, members and employees of parliament, judges and judges of the religious courts, contributions to the Lebanese University...).

Salaries and wages represented 20.6 percent of total expenditures in the first quarter of 2007, and 32.1 percent of total primary expenditures in this period.

They can be broken down into three major components:

1. The salaries of military personnel, which include armed forces within the government such as the Lebanese Army, the Internal Security Forces, the General Security Forces, and the State Security Forces, made up the largest part of the total salary and wage bill for the first quarter of 2007 at 84 percent. This category increased by 41.8 percent (or 128 billion) compared to the same period of 2006 due. This increase is due to an additional bonus salary to the armed forces equivalent to LL 47 billion in February 2007 and to higher transfers of health allowances (for hospitalization, sickness and maternity) to the armed forces during the first quarter of 2007 of approximately LL 59 billion, LL 31 billion higher than what was spent during the first quarter of 2006.
2. At 19 percent of the total salary and wage bill, the salaries of education personnel (including salaries of teachers, contributions to salaries/wages of Lebanese University...) for January-March 2007 decreased by 5.2 percent (or LL 7 billion) to LL 124 billion. LL 4.4 billion out of this LL 7 billion decrease is due to wages and salaries of contractual education personnel who were paid in 2006 and not in 2007.
3. Salaries of civil personnel composed 13 percent of the total wage and salary bill for the first three months of 2007. At LL 83 billion during this period, the salaries of civil personnel were relatively the same as those for the same period of 2006, increasing by 1.4 percent (or LL 1 billion)

Breakdown of Salaries and Wages

(LL billion)	Jan - Dec 2006	Jan - Dec 2007	Magnitude of change over 2007	Percentage change over 2007
Militaries Personnel	307	436	128	41.75%
Army	184	264	80	43.32%
Internal Security forces	96	144	48	49.40%
General Security forces	19	20	0	1.81%
State Security forces	7	8	1	7.22%
Education Personnel	130	124	-7	-5.15%
Civil Personnel	82	83	1	1.44%
Grand-Total	519	642	123	23.64%

Source: MOF, DGF

The 34 percent decrease in spending on **construction in progress** to LL 86 billion in January - March 2007 from LL 131 billion for the same period of 2006 was due to:

(a) Lower transfers of LL 29 billion to the Displaced Fund, from LL 35 billion in the first quarter of 2006 to LL 6 billion in the first quarter of 2007. Payments could not have been higher during this quarter as the decree to give the Council of the South and the Displaced Fund a treasury advance of LL 100 billion was only issued on the 27th of April 2007 (as per decree # 292).⁸

(b) Lower transfers to the Council for Development and Reconstruction (CDR) of LL 20.4 billion, from 73.7 billion in January-March 2006 to LL 53.3 billion in the same period of 2007. The lower transfer is mainly due to higher payments to the Consolidated Contractors Company in settlement of arbitration decision regarding the airport in 2006.

The 55 percent (or LL 14 billion) decrease in **other expenditures related to fixed capital assets** was mainly due to lower transfers to the IDAL Export Plus Program which decreased from LL 19 billion in the first quarter of 2006 to LL 10 billion in the first quarter of 2007.

Table 7. Transfers to EDL

(LBP billion)	2006 Jan-March	2007 Jan-March	% Change
EDL of which:	66	353	438.57%
Debt Service of which:	66	43	-34.96%
C-Loans and Eurobonds, of which:	49	41	-17.01%
Principal Repayment	35	31	-11.47%
Interest Payment	14	9	-31.51%
BDL Guaranteed Loan Payment (Syria)	0	2	100.00%
Repayment of loans for fuel oil and gas oil purchase (principal and interest)	17	67	
Reimbursement of KPC and Sonatrach agreements	0	243	100.00%

Source: MOF, DGF

Other treasury expenditures registered LL 513 billion during the first three months of 2007, almost 64 percent (or LL 200 billion) higher than the same period of 2006 during which treasury expenditures were at LL 313 billion. This was mainly due to:

- A spike in transfers to *Electricité du Liban* (EDL) by LL 287 billion, bringing the total to LL 353 billion during January to March 2007 up from LL 66 billion for the same period of 2006. (Refer to Table 7). Despite a 35 percent decrease in debt service payments from the first quarter of 2006 to the first quarter of 2007, total transfers to EDL have increased remarkably over the same period due to the payments for fuel and gas oil against the agreements that have been signed with the Kuwait Petroleum Corporation (KPC) and Algeria's Sonatrach. Although EDL has been obtaining its fuel oil and gas oil consumption through these agreements since September 2005, the payment for the fuel oil and gas oil purchases only began in June 2006, as per the credit facilities that have been stipulated in the respective agreements.

⁸ The decree refers to law #362, dated 16 August 2001 which permits the government to issue bonds for a total amount of USD 500 million to settle the entitlements of the two institutions.

- A LL 6 billion transfer to Higher Council of Relief in the first quarter of 2007. No transfers were made to the Council in the first quarter of 2006.

Transfers to municipalities decreased by 49 percent (or LL 49 billion) amounting to LL 52 billion in Q1 2007 compared to LL 101 billion in Q1 2006 as the decree for the distribution of revenues to municipalities has not yet been issued.

Although a decree for the provision of a subsidy for gas oil was issued in February (decree number 84), the treasury had made no advances for diesel oil subsidy by end-March 2007. In January to March 2006, the treasury had paid LL 50 billion in these advances.

Details of Social Expenditures

Social spending increased by 12 percent (or LL 88 billion) in Q1 2007 compared to Q1 2006, reflecting the increase in overall expenditures. This constitutes spending on the basic social services of (a) education (b) health, and (c) pension and end-of-service indemnity, in addition to other areas of interventions classified as social assistance and (d) transfers to NSSF.

The biggest part of social spending in the first quarter of 2007 was towards **pensions and end of service**. At 27.8 percent of the total social spending, LL 232 billion was spent on this category, a 12 percent (or LL 24 billion) increase from quarter 1 2006.

The share of spending on the **National Social Security Fund (NSSF)** constituted the second highest share of social spending at 27.6 percent or LL 230 billion in the first quarter of 2007, compared to LL 100 billion spent on NSSF in the same period of 2006. The LL 130 billion increase in NSSF spending in quarter one of 2007 compared to that of 2006 is mainly due to a LL 220 billion transfer to the NSSF in March 2007 covering budget expenditures for 2006 and 2007 as per the following decisions: # 771/1 (2/6/2005), #259/1 (30/11/2006), and #8/1 (7/3/2007).

Box 2. Transfer to NSSF: Health spending as a major component

The transfers made by the government to the NSSF fund the following major areas: i) a contribution of 25 percent of the annual spending of the health branch; ii) the contribution of the government as an employer for contract-based public employees who are not covered by any other public scheme; iii) contributions (counterpart) for some specific segments of the population (taxi drivers and mayors), and iv) reconciliation amounts for the end-of-service indemnity branch from the government employees covered by NSSF.

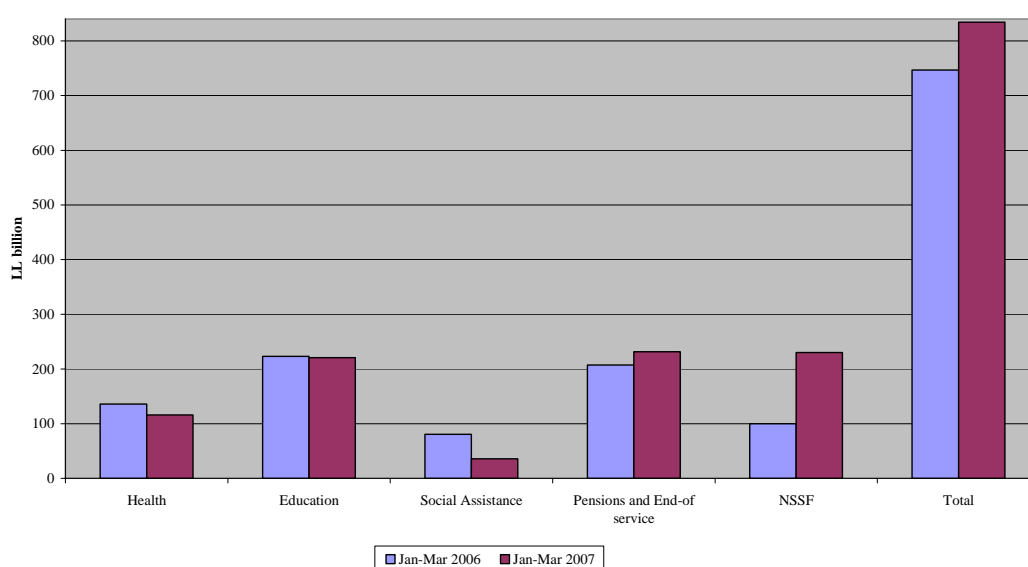
The majority of government transfers received by the NSSF fund the health branch attracted approximately 70 percent of total transfers in 2007, summing up to LL 161 billion (covering the 25% funding of the health branch spending, and the contribution of the government as employer and supporter of the special categories of contributors such as taxi drivers and mayors).

The share of spending on **education** decreased, from 30 percent in Q1 2006 to 26.5 percent in Q1 2007 although the amount spent on the education sector remained relatively unchanged recording LL 221 billion in January-March 2007 (a 1 percent reduction from that spent in the same period of 2006). This amount mainly covers the Ministry of Education and Higher Education, in addition to educational allowances paid to security forces. However, it excludes the portion of the transfer to the civil servant cooperative allocated to fund school allowances for civil servants.

At LL 116 billion in the first quarter of 2007, spending on **health** (excluding NSSF) was 14% of total social spending. This is 14.5 percent lower in January to March 2007 year on year, due to 60 percent (or LL 43 billion) less spending on hospitalization in the private sector which offset increases in the hospitalization of public sector employees in the private sector which increased by 64 percent (or LL 18 billion). Still the comparison should be looked at with reservation as no patterns are governing health spending over time; a more accurate comparison could be done on an annual basis. It should be noted that the figure for health spending excludes the amount spent on health through the provisions of the civil servant cooperative. It is estimated that around 50 percent of cooperative spending goes to health, while the remaining half goes to education. Table 8 shows that government transfers to the cooperative in Q1 2007 is around LL 20 billion, of which it is estimated that LL 10 billion goes to fund health services.

Spending on **other social assistance** areas decreased from LL 81 billion in Q1 2006 to LL 36 billion (a 55 percent decrease) mainly due to LL 50 billion payment on treasury advances for diesel oil subsidy in Q1 2006. No payments were yet made for this subsidy by end-March 2007.

Allocation of Social Spending



* Includes amounts transferred by Ministry of Social Affairs and Ministry of Displaced
Source: MOF, DGF

Table 8. Social Spending for Jan-Mar 2006 vs. Jan-Mar 2007

<i>(LL billion)</i>	Jan - March 2006	Jan - March 2007	Magnitude of change 2007 over	Percentage change 2007 over
Health				
Hospitalization in the private sector	72	29	-43	-60%
Purchase of Medication	8	6	-2	-23%
Hospitalization of public sector employees in private sector	28	46	18	64%
Maternity and sickness allowance	14	19	5	36%
Other	14	16	2	14%
Sub-Total	136	116	-20	-14%
Education				
Ministry of Education and Higher Learning, of which	193	173	-21	-11%
<i>Wages and Salaries of the General Directorate of Education</i>	<i>119</i>	<i>118</i>	<i>-1</i>	<i>-1%</i>
<i>Wages and Salaries of the General Directorate of Higher Learning</i>	<i>0</i>	<i>0</i>	<i>0</i>	<i>25%</i>
<i>Wages and Salaries of the General Directorate of Technical Education</i>	<i>11</i>	<i>5</i>	<i>-6</i>	<i>-55%</i>
<i>Contributions in the salaries of the Lebanese University</i>	<i>36</i>	<i>28</i>	<i>-8</i>	<i>-21%</i>
<i>Contributions to non profitable organizations (private schools)</i>	<i>1</i>	<i>0</i>	<i>-1</i>	<i>-88%</i>
<i>Construction under execution (construction and restoration of schools)</i>	<i>4</i>	<i>2</i>	<i>-1</i>	<i>-36%</i>
Education allowance in private sector	30	48	18	62%
Sub-Total	223	221	-2	-1%
Other Social Spending				
Marriage allowance	3	1	-2	-81%
Birth allowance	2	0	-1	-75%
Death allowance	2	1	-1	-44%
Other social spending allowance	3	3	0	14%
Participation in several pension funds	5	4	-1	-21%
Ministry of Social Affairs, of which	5	5	1	14%
<i>Transfers to non profitable organizations</i>	<i>4</i>	<i>5</i>	<i>1</i>	<i>21%</i>
Ministry of Displaced	2	1	0	-14%
Transfers to employees' cooperative	10	20	10	100%
Treasury advances for diesel oil subsidy	50	0	-50	-100 %
End of service & Pensions	207	232	24	12%
NSSF	100	230	130	130%
Sub-Total	388	497	110	47%
Grand-Total	746	834	88	12%

Source: MOF, DGF

Section IV: Public Debt Developments

Table 9. Public Debt Outstanding by Holder as of End-March 2007

LBP Billion						
Assumes full LBP Replacement	Dec-04	Dec-05	Dec-06	Mar-07	Change Dec 06 - March 07	% change Dec 06- March 07
Gross Public debt	54,082	57,987	60,883	62,138	1,255	2.06%
Local currency debt	26,371	29,141	30,204	31,336	1,132	3.75%
a. Central Bank (including REPOs and Loans to EDL to finance fuel purchases) ⁽¹⁾	10,652	11,686	9,588	10,503	915	9.54%
b. Commercial Banks	12,220	14,130	16,487	15,867	-620	-3.76%
c. Other Local Currency Debt (T-bills)	3,500	3,325	4,129	4,966	837	20.27%
<i>o/w Public entities</i>	2,187	2,446	3,313	4,098	785	23.69%
Foreign currency debt	27,711	28,846	30,679	30,802	123	0.40%
a. Bilateral, Multilateral and Foreign Private sector loans ⁽²⁾	3,003	2,791	2,887	2,918	31	1.07%
b. Paris II related debt (Eurobonds and Loans) ⁽³⁾	3,815	3,682	3,721	3,672	-49	-1.32%
c. BDL Eurobond (Paris II)	2,819	2,819	2,819	2,819	0	0.00%
d. Market Eurobonds	17,686	18,729	20,399	20,412	13	0.06%
e. Accrued Interest on foreign currency debt	388	406	434	562	128	29.49%
f. Special Tbls in Foreign currency ⁽⁴⁾		419	419	419	0	0.00%
Public sector deposits	4,359	5,590	4,444	4,016	-428	-9.63%
Net debt	49,723	52,397	56,439	58,122	1,683	2.98%
Gross Market debt⁽⁵⁾	31,861	34,726	38,683	38,243	-440	-1.14%
% of total debt	59%	60%	64%	62%		

Source: Ministry of Finance, Banque du Liban

Notes:

(1) 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.

(2) Figures for bilateral, multilateral and foreign private sector loans have changed from previously published figures due to updated data.

(3) Paris II related debt (Eurobonds and Loans) decline in February because payment of principal of 30M EURO

(4) Special Tbls in Foreign currency (expropriation bonds)

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

Gross public debt as of end-March 2007 amounted to LL 62,138 billion (US\$ 41 billion) registering a LL 1,255 billion, or 2.06 percent, increase over the end-December 2006. In comparison, gross public debt registered higher rate of growth in the first three months of 2006, increasing by LL 2,329 billion, or 4 percent, over the end-December 2006 debt level.

Net public debt as of end-March 2007 amounted to LL 58,122 billion (US\$ 38.6 billion) registering an increase of LL 1,683 billion or 2.98 percent over the end-December 2006 level.

The **domestic debt** component of public debt amounted to LL 31,336 billion as of end- March 2007, increasing by LL 1,132 billion or 3.75 percent over the end-December 2006 level.

Commercial banks' appetite for Lebanese Pound denominated Treasury bills was weak in the first quarter of 2007. Commercial banks' portfolio of Treasury bills decreased to reach LL 15,779 billion in March 2007.

The local currency Treasury bills portfolio of BDL increased by LL 916 billion from December 2006 to reach LL 10,059 billion by the end of March 2007. On a monthly basis, there was an increase of LL 437 billion in BDL's portfolio in January 2007, LL 103 billion in February 2007, and LL 376 billion in March 2007. As for the treasury bills portfolio held by public institutions, this increased by LL 785 billion in the first quarter of 2007, reaching LL 4,098 billion by the end of March 2007.

Foreign currency debt at end-March 2007 amounted to LL 30,802 billion (US\$ 20.4 billion) increasing slightly by LL 123 billion (or 0.4 percent) over the end-December 2006 level. There were two simultaneous new issuances of Eurobonds of US\$ 569 million and US\$ 431 million this quarter for the repayment of US\$ 1 billion Eurobond maturing on February 25 2007 .

Table 10. Recent Government Eurobond Issuance

Issue Date	Term (years)	Maturity Date	Coupon Rate	Amount issued
February 26, 2007	1.1	March 12, 2008	6.375	US\$ 569 MN
February 26, 2007	14.2	April 12, 2021	8.250	US\$ 431 MN

Source: MOF

Table 11. Public Debt Outstanding by Instrument as of End-Sep 2006

	Dec-05	Dec-06	March-07	Change Year-to-date	% Change Year-to-date
(in LL Billion)					
I. Total debt (II + III)	57,985	60,883	62,138	1,255	2.06%
II. Local currency debt	29,141	30,204	31,336	1,132	3.75%
1. Long term bonds	23,384	26,862	27,451	589	2.19%
1.1 60 months bonds	1,772	2,172	2,172	-	-
1.2 54 months bonds	616	616	616	-	-
1.3 48months bonds	633	633	633	-	-
1.4 36 months bonds	14,520	21,093	21,398	305	1.45%
1.5 30 months bonds	3,033	0	0	0	-
1.6 24 months bonds	2,385	1,751	2,054	303	17.30%
* <i>Accrued interest included in debt</i>	425	597	578	-19	-3.18%
2. Short term bills	5,246	2,839	3,353	514	18.10%
2.1 12 months bills	3,023	1,579	1,375	-204	-12.92%
2.2 06 months bills	2,067	1,117	1,973	856	76.63%
2.3 03 months bills	156	143	5	-138	-96.50%
* <i>Accrued interest included</i>	92	88	75	-13	-14.77%
3. Other local debt	511	503	532	29	5.77%
3.1 Central Bank Loans	453	445	444	-1	-0.22%
3.2 Commercial Banks Loans	58	58	88	30	51.72%
III. Foreign currency debt	28,844	30,679	30,802	123	0.40%
4. Bilateral, Multilateral and Foreign Private sector loans	2,789	2,887	2,918	31	1.07%
5. Eurobonds	24,743	26,441	26,582	141	0.53%
5.1 Paris II at preferential rates	2,789	2,789	2,789	-	-
5.2 Banks required investment	0	0	0	-	-
6. Other foreign debt	4,101	4,238	4,220	-18	-0.42%
6.1 Paris II loans	893	932	883	-49	-5.24%
6.2 Special Tbs in foreign currency	419	419	419	-	-

Source: MOF, Banque du Liban

Table 11 above demonstrates the **evolution of public debt by instrument**. On the domestic debt front, the demand for both long-term bonds and short-term bonds increased. Commercial banks subscribed mostly to 36-month and 6-month Treasury bills (50% and 34% of their total subscriptions respectively). On the other hand, public institutions preferred 6-month and 24 months maturities (constituting 40% and 30% of their subscriptions respectively.).

On the foreign currency debt front, the slight increase of LL 123 billion is mostly due to an increase in accrued interest. During the period January-March 2007 the total Eurobond issuance was equal to US\$ 1 billion, whose proceeds were used to pay US\$ 1 billion in maturing Eurobond principal. The increase of LL 13 billion is due to the valuation change in the Euro stock. As for “**Paris II loans**”, a payment of Euro 30 million was made in February 2007 representing the second installment of maturing principal of the AFD Loan (French loan). Thus,

the LL 49 billion net decrease as of end March 2006 is due to the net effect between the revaluation of the US\$/Euro exchange rate and the decrease of the outstanding Paris II loan due to the Euro 30 million principal payment.

Primary market interest rates range between 5.22 percent for the 3-month T-bills to 9.32 percent for the 36-month treasury bills. As compared to December 2006, all market interest rates remained unchanged for the quarter.

Table 12. Evolution of Primary Market Treasury Bills Yields

Maturity	Dec. 31, 2005	Dec. 31, 2006	March 30, 2007
3-month	5.22 percent	5.22 percent	5.22 percent
6-month	7.24 percent	7.24 percent	7.24 percent
12-month	7.75 percent	7.75 percent	7.75 percent
24-month	8.50 percent	8.50 percent	8.50 percent
36-month	9.34 percent	9.32 percent	9.32 percent

Source: Ministry of Finance

Eurobond secondary market prices improved in the first quarter of 2007 as compared with the prevailing prices during December 2006. Yields fell by an average of 50 basis points from the December 2006 levels and remained relatively stable during the quarter, except for a brief decline in prices at the end of January at the time of the Paris III conference due to the deterioration in the security situation. Prices and yields thereafter remained relatively stable for the rest of the quarter.

Table 13. Eurobond Price Performance

	Bid-Yield 19-Dec-06	Bid-Yield 3-Jan-07	Bid-Yield 29-Jan-07	Bid-Yield 21-Feb-07	Bid-Yield 28-Mar-07
Lebanese Issues					
<i>Euro</i>					
LEB 7.250 09	6.87	6.87	6.74	6.73	6.85
LEB 5.875 12	7.18	7.19	6.84	6.91	7.09
<i>US Dollars</i>					
LEB 8.625 07	8.43	8.18	7.80	7.98	7.93
LEB 7.375 08	8.46	8.34	7.95	8.23	8.29
LEB 10.125 08	8.52	8.49	7.94	8.25	8.21
LEB 10.250 09	8.70	8.48	8.08	8.29	8.23
LEB FRN 09	8.68	8.67	8.04	8.32	8.21
LEB 7.000 09	8.65	8.78	8.09	8.27	8.26
LEB 7.125 10	8.67	8.67	8.14	8.31	8.25
LEB 7.875 11	8.70	8.69	8.20	8.37	8.38
LEB 7.750 12	8.71	8.71	8.23	8.44	8.42
LEB 8.625 13	8.88	8.71	8.31	8.52	8.41
LEB 7.375 14	8.93	8.88	8.31	8.51	8.45
LEB 10.000 15	9.00	8.94	8.34	8.53	8.48
LEB 8.500 16	9.07	8.96	8.42	8.58	8.52
LEB 11.625 16	9.13	9.08	8.64	8.77	8.72
LEB 8.250 21	9.07	9.12	8.52	8.65	8.67

Source: Credit Suisse

Section V: Evolution of External Trade

Table 14. External Trade

(US\$ Million)	2006	2007	2006	2007		%
	March	March	Jan-March	Jan-March	Change	Change
Exports	206	214	518	622	104	20%
Imports, of which:	940	984	2,350	2,701	351	15%
Mineral products	258	182	578	578	0	0%
Trade balance	-734	-770	-1,832	-2,079	-247	13%

Source: MOF, Directorate General of Customs (DGC)

In January-March 2007, the **trade deficit** increased by 13 percent compared to the same period in 2006. The widening trade deficit resulted from a US\$ 351 million increase in imports, which was larger than the US\$ 104 million increase in exports. Both imports and exports of **base metals and articles of base metals** marked the highest increases between January-March 2006 and January-March 2007.

For the month of March, **imports** reached US\$ 984 million, compared to US\$ 940 million for the same period in 2006. Total imports in the first quarter of 2007 totaled US\$ 2,701 million, which was 15 percent higher than the first quarter's imports of 2006. From a product perspective, the increase in imports mainly reflected a US\$ 53 million increase in the value of the imports of **base metals and articles of base metals**. From a regional perspective, the increase in imports reflected (1) US\$ 126 million increase in imports from the **United States**, (2) US\$ 100 million increase from the **European Union**, (3) US\$ 94 million increase from **Arab Countries**, and (4) US\$ 50 million increase in imports from **China**.

For March 2007, **exports** reached US\$ 214 million, compared to US\$ 206 million for the month of March 2006. In the first three months of 2007, total exports reached US\$ 622 million, which is 20 percent higher than the same period in 2006. From a product perspective, the increase in exports mainly reflected a US\$ 42 million increase in the value of the exports of **base metals and articles of base metals**. From a regional perspective, the increase in exports was due to: (1) US\$ 74 million increase in exports to **Arab Countries** and (2) US\$ 28 million increase in exports to the **European Union**.

Table 15. Import Distribution by Product

(US\$ million)	2006	2007	2006		2007			%
	March	March	Jan-Mar	% Share	Jan-Mar	% Share	Change	Change
Mineral products	263	182	578	25%	578	21%	-	0%
Machinery and electrical instruments	86	101	266	11%	309	11%	43	16%
Products of the chemical or allied industries	83	106	238	10%	279	10%	41	17%
Pearls, precious stones and metals	40	32	81	3%	82	3%	1	1%
Vehicles, aircraft, vessels and transport equipment	83	81	196	8%	198	7%	2	1%
Base metals and articles of base metals	74	85	170	7%	223	8%	53	31%
Other goods	311	397	821	35%	1,032	38%	211	26%
Total	940	984	2,350	100%	2,701	100%	351	15%

Source: MOF, DGC

- Import Distribution by Product:**

The remarkable 31 percent increase in imports of **base metals and articles of base metals** between the first quarter of 2006 and the first quarter of 2007 was mainly due to a 30 percent increase in **iron and steel** imports from US\$ 90 million to US\$ 117 million.

The 17 percent increase in imports of **products of the chemical or allied industries** from January-March 2006 to January-March 2007 was mainly attributed to an 11 percent increase in **pharmaceutical product** imports from US\$ 138 million to US\$ 153 million.

The 16 percent increase in **machinery and electrical instrument** imports between the first three months of 2006 and the first three months of 2007 was the result of a 19 percent increase in the imports of **electrical machinery and equipment and parts thereof** from US\$ 106 million to US\$ 126 million, and a 14 percent increase in the imports of **reactors, boilers, machinery and mechanical appliances** from US\$ 169 million to US\$ 182 million.

The value of **mineral product** imports remained unchanged, whereas its share in total imports decreased due to the increase in imports of other product categories.

The biggest negative value change in the top ten products imported in Q1 2007 was for **vehicles** other than railway that decreased by US\$ 12 million to US\$ 181 million (a 6.4 percent decrease) as compared to Q1 2006. The biggest positive value change in the top ten was the 92.5 percent increase in **paper and paper related products** imports to US\$ 64 million in the first three months of 2007 from US\$ 33 million in the first three months of 2006.

Table 16. Export Distribution by Product

(US\$ million)	2006	2007	2006		2007			
	March	March	Jan-Mar	% Share	Jan-Mar	% Share	Change	% Change
Machinery and electrical instruments	34	35	78	15%	99	16%	21	27%
Base metals and articles of base metals	29	45	70	14%	112	18%	42	60%
Prepared foodstuffs, beverages and tobacco	23	22	50	10%	55	9%	5	10%
Pearls, precious stones and metals	45	20	122	24%	112	18%	-10	-8%
Mineral products	10	6	23	4%	22	4%	-1	-4%
Other goods	65	86	175	34%	222	36%	47	27%
Total	206	214	518	100	622	100%	104	20%

Source: MOF, DGC

- Export Distribution by Product:**

Exports of **base metals and articles of base metals** increased by 60 percent, reaching US\$ 112 million in the first quarter of 2007, compared to US\$ 70 million in the first quarter of 2006. This was mainly due to a 96 percent increase in **iron and steel** exports from US\$ 24 million to US\$ 47 million.

Machinery and electrical instrument exports increased by 27 percent or US\$ 21 million, cumulating at US\$ 99 million during January-March 2007 in comparison to US\$ 78 million in the same period a year earlier. This increase resulted from a US\$ 12 million increase in the exports of **reactors, boilers, machinery and mechanical appliances**, which were worth US\$ 46 million until March 2007. The exports of **electrical machinery and equipment and parts thereof** also increased by US\$ 9 million, to reach US\$ 53 million for January - March 2007.

Therefore, from a product distribution perspective, the most traded (imported and exported) product categories are **base metals and articles of base metals** and **machinery and electrical instruments**. The top imported products are themselves the top exported products.

Table 17. Import Distribution by Region

(US\$ million)	2006	2007	2006		2007			
	March	March	Jan-Mar	% Share	Jan-Mar	% Share	Change	Change
European Union (1)	334	393	922	39%	1,022	38%	100	11%
Arab Countries (2)	198	179	400	17%	494	18%	94	24%
China	54	78	170	7%	220	8%	50	29%
United States	56	72	148	6%	274	10%	126	85%
Switzerland	25	24	59	3%	71	3%	12	20%
Other	274	238	651	28%	620	23%	-31	-5%
Total	940	984	2,350	100%	2,701	100%	351	15%

1/ The European Union included as of January 1, 2007 the following countries: Austria, Belgium, Bulgaria, Cyprus, Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Ireland, Italy, Latvia, Lithuania, Luxembourg, Malta, Netherlands, Poland, Portugal, Romania, Slovakia, Slovenia, Spain, Sweden, United Kingdom

2/ Arab Countries includes the following countries: Algeria, Bahrain, Djibouti, Egypt, Iraq, Jordan, Kuwait, Libya, Mauritania, Morocco, Oman, Palestinian Autonomous Territories, Qatar, Saudi Arabia, Sudan, Syria, Tunisia, United Arab Emirates, Yemen

Source: MOF, DGC

- **Import Distribution by Region:**

Imports from the **European Union** increased by 11 percent, from US\$ 922 million in the first quarter of 2006 to US\$ 1,022 million in the first quarter of 2007. This was due to a 30 percent increase of imports from **Italy** and a 65 percent increase of imports from **Spain**. These increases offset a 12 percent decrease of imports from **France** and a 10 percent decrease of imports from **Germany**.

The top three **European Union** countries exporting to Lebanon in the first three months of 2007 were **Italy** with US\$ 268 million, **France** with US\$ 177 million and **Germany** with 160 US\$ million. The top import from **Italy** was **mineral fuels and oils** at US\$ 120 million. The top two imports from **France** were **mineral fuels and oils** at US\$ 56 millions and **pharmaceutical products** at US\$ 23 millions. The top three imports from **Germany** were **vehicles** at US\$ 56 million, **reactors, boilers, machinery and mechanical appliances** at US\$ 24 million and **pharmaceutical products** at US\$ 22 million.

Imports from **Arab Countries** increased by US\$ 94 million, to reach US\$ 494 million for January-March 2007 compared to imports in January-March 2006. This increase was due to a US\$ 33 million increase in imports from **Egypt**, US\$ 26 million increase in imports from the **United Arab Emirates** and a US\$ 19 million increase in imports from **Bahrain** over the studied period. These increases more than offset the decrease of imports from **Yemen** by US\$ 2 million, from **Oman** by US\$ 6 million and from **Kuwait** by US\$ 9 million. The top two Arab country exporters to Lebanon for the first quarter of 2007 were **Egypt** with US\$ 143 million and **Saudi Arabia** with US\$ 108 million.

Imports from **China** increased by 29 percent from US\$ 170 million the first quarter of 2006 to reach US\$ 220 million in first quarter of 2007. The top two imports from **China** were **reactors, boilers, machinery and mechanical appliances** at US\$ 36 million and **electrical machinery and equipment** at US\$ 30 million.

Imports from the **United States** increased by a significant 85 percent from the January-March 2006 to January-March 2007, to register at US\$ 274 million, out of which US\$ 118 million was imports of **mineral fuels and oils**. The increase in imports from the United States was the largest for the top ten importing countries in Q1 2007, as compared to Q1 2006. Imports from the United States represented 10.1 percent of total imports.

Imports from **Switzerland** increased by US\$ 12 million (or 20 percent) from the first three months of 2006 to the same period in 2007. The two most popular imports from Switzerland were **natural or cultured pearls and precious stones** at US\$ 40 million, and **pharmaceutical products** at US\$ 17 million.

Table 18. Export Distribution by Region

(US\$ million)	2006	2007	2006	2007				%
	March	March	Jan-Mar	% Share	Jan-Mar	% Share	Change	Change
Arab Countries (2)	92	108	217	42%	291	47%	74	34%
European Union (1)	28	39	69	13%	97	16%	28	41%
Switzerland	33	9	99	19%	67	11%	-32	-32%
United States	4	5	12	2%	14	2%	2	17%
China	3	7	9	2%	15	2%	6	67%
Other	17	46	112	22%	138	22%	26	23%
Total	206	214	517	100%	622	100%	105	20%

1/ The European Union included as of January 1, 2007 the following countries: Austria, Belgium, Bulgaria, Cyprus, Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Ireland, Italy, Latvia, Lithuania, Luxembourg, Malta, Netherlands, Poland, Portugal, Romania, Slovakia, Slovenia, Spain, Sweden, United Kingdom

2/ Arab Countries includes the following countries: Algeria, Bahrain, Djibouti, Egypt, Iraq, Jordan, Kuwait, Libya, Mauritania, Morocco, Oman, Palestinian Autonomous Territories, Qatar, Saudi Arabia, Sudan, Syria, Tunisia, United Arab Emirates, Yemen

Source: MOF, DGC

• Export Distribution by Region:

Lebanese exports to **Arab Countries** increased by 34 percent from US\$ 217 million for the first three months of 2006 to US\$ 291 million for the same period in 2007. This was due to a 131 percent increase of exports to **Egypt** (US\$ 15 million), and a 40 percent increase of exports to **Syria** (US\$ 14 million), in this period. These increases offset a 16 percent decrease of exports to **Iraq**, which reached US\$ 31 million by March 2007.

The top three **Arab Country** markets for Lebanese exports for January - March 2007 were **Syria** with US\$ 50 million, **United Arab Emirates** with US\$ 48 million and **Saudi Arabia** with US\$ 44 million. The top export to **Syria** was **salt, sulfur, stone and plastering materials** at US\$ 14 million. The top export to the **United Arab Emirates** was **natural or cultured pearls and precious stones** at US\$ 22 million. The top export to **Saudi Arabia** was **reactors, boilers, machinery and mechanical appliances** at US\$ 8 million.

Therefore, from a regional perspective, Egypt has become a more active trading partner as both exports to Egypt and imports from Egypt increased in the first quarter of 2007.

Lebanese exports to the **European Union** increased from US\$ 69 million to US\$ 97 million between January-March 2006 and January- March 2007. This rise stemmed mainly from a US\$ 16 million increase in exports to **Belgium**, a US\$ 7 million increase of exports to the **United**

Kingdom and a US\$ 6 million increase of exports to **Greece**. The top three **European Union** markets for Lebanese exports in the first quarter of 2007 were **Belgium** with US\$ 24 million, **United Kingdom** with US\$ 15 million and **Greece** with US\$ 11 million.

Exports to **Switzerland** decreased by 32 percent from the first three months of 2006 to the first three months of 2007. The US\$ 67 million of registered exports to Switzerland in January-March 2007 mainly consisted of **natural or cultured pearls and precious stones**. However, **Switzerland** remained Lebanon's largest export recipient.

Exports to the **United States** increased by US\$ 2 million from January-March 2006 to January-March 2007. The US\$ 14 million export figure to the United States was composed of US\$ 3 million in **furniture and bedding**, US\$ 2 million in **preparations of vegetables, fruits and nuts**, US\$ 2 million in **natural or cultured pearls and precious stones** and US\$ 1 million in **reactors, boilers, machinery and mechanical appliances**.

In fact, the primary market for Lebanon's **natural or cultured pearls and precious stones** was Switzerland. **The increase in natural or cultured pearls and precious stones** exports to the **United Arab Emirates** and the **United States** did not offset their decrease to Switzerland, resulting in 8 percent lower overall exports of **natural or cultured pearls and precious stones** in the first quarter of 2007.

Finally, exports to **China** increased by 67 percent or US\$ 6 million from the first quarter of 2006 to the first quarter of 2007. US\$ 14 million of the US\$ 15 million registered exports were of **copper and articles thereof**.



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