REPUBLIC OF LEBANON
MINISTRY OF FINANCE

LEBANON COUNTRY PROFILE *2004*

SELECTED LEBANESE ECONOMIC INDICATORS[1]

	1999	2000	2001	2002	2003
The Economy					
GDP (at current market prices in billions of Lebanese Pounds)	24,945	24,721	25,115	26,068	27,121
GDP[2] (at current market prices in millions of U.S. Dollars)	16,547	16,399	16,660	17,292	17,991
Real Growth Rate (per cent.)	1.0	0.5	2.0	2.0	3.0
Balance of Payments					
(in millions of U.S. Dollars)					
Current account	(5,048)	(4,749)	(5,568)	(4,864)	(4,621)
Capital account	5,309	4,460	4,399	6,428	8,007
Overall balance of payments[3]	261	(289)	(1,169)	1,564	3,386[4]
Reserves					
(in millions of U.S. Dollars)					
Gross Foreign currency reserves[5]	7,596	5,748	4,361	5,070	10,197
Gold[6]	2,678	2,525	2,561	3,216	3,834
Gold (Thousands of Troy Ounces)	9,222	9,222	9,222	9,222	9,222
Public Finance					
(in billions of Lebanese Pounds)					
Central Government Revenues	4,873	4,749	4,649	5,830	6,654
Central Government Expenditures[7]	8,454	10,622	8,879	10,139	10,592
Central Government Overall Deficit	(3,582)	(5,873)	(4,230)	(4,308)	(3,938)
Primary Deficit/Surplus[8]	42	(1,676)	82	314	936
Public Debt					
Net Domestic Public Debt (in billions of Lebanese Pounds)	21,377	24,530	26,301	22,338	23,824
Public External Debt (in millions of U.S. Dollars)[9]	5,539	7,182	9,596	14,592	15,525
Public Debt as a % of GDP	135	154	170	181	185

Notes:

(1) Certain figures differ from previously published data.
(2) Translated at period average exchange rates.
(3) Includes a U.S. $500 million deposit from Saudi National Commercial Bank made in December 1997 but subsequently reduced through partial repayment, a U.S. $100 million deposit from the Kuwaiti Investment Authority made in February 1998 and a U.S. $100 million deposit from the National Bank of Abu Dhabi made in May 1998.
(4) Includes proceeds from loans and bonds issued in connection with the Paris II Conference.
(5) U.S. $10,533 million as at February 29, 2004.
(6) Parliament passed Law No. 42/86 dated September 24, 1986 forbidding dispositions of gold reserves without parliamentary legislation.
(7) Not including expenditures by the Council for Development and Reconstruction financed with foreign funds (see *"Public Finance — Operations of the Central Government"*).
(8) Budget surplus or deficit, excluding domestic and external debt service and net treasury operations.
(9) Calculated at end of period exchange rates, commencing in 1998.

GENERAL BACKGROUND

Area and Population

The Republic is situated in the Levant on the eastern most part of the Mediterranean Sea. The Republic's Mediterranean shoreline extends 192 kilometers from north to south; its greatest width from west to east is 85 kilometers. The total area of the Republic is 10,452 square kilometers.

The Republic is a mountainous country with over half its area lying above 1,000 meters. There are two parallel ranges of mountains running north to south: the Mount-Lebanon Range hugging the Mediterranean coast reaches an altitude of 3,088 meters and the Anti-Lebanon Range, reaching an altitude of 2,814 meters, runs along the eastern border. The fertile Bekaa valley lies between these two mountain ranges. The two main rivers, the Asi (Orontes) and the Litani, flow out of this valley.

The climate of the Republic is alpine in the mountains and Mediterranean along the coast. All four seasons are equally distributed throughout the year. The rain in winter can be torrential and snow falls on mountains above 1,000 meters. There is high humidity in the coastal regions with hot, rainless summers.

The historic and cultural heritage of Lebanon dates back over six thousand years to the Phoenicians and the subsequent civilizations that were established in or interacted with the Lebanese. Throughout its history Lebanon has been a contact center between various cultures and civilizations, which has in the past rendered the Republic a highly cosmopolitan country with a great deal of tourism.

According to a survey conducted by CAS, the number of Lebanon's permanent residents was estimated in June 1997 at 4,005,000, 92.4 per cent. of whom were Lebanese. This number does not include temporary residents such as migrant workers.

The following table shows the breakdown of population by age in December 2000:

	Total
	(per cent.)
Under 20	38.7
20-59	51.2
60 and over	10.1

Source: CAS-UNICEF “State of the Children in Lebanon 2000”.

The population is composed of Christians, Muslims and minorities and is Arabic speaking, with French and English being widely used. In the period 1975-1993, a decline in population of about 300,000 occurred, as a result of relocations mainly to North and South America, Europe, Africa, Australia and the Arabian Gulf States.

The main cities are Beirut, the capital, Tripoli, Sidon, Jounieh, Zahle and Tyre. Approximately 32 per cent. of the population lives in Beirut and its suburbs.

History

Overview

From 1516 to 1918, Lebanon was under the administrative rule and political sovereignty of the Ottoman Empire. In 1920, the territory defined by the present-day boundaries became a state called "Grand-Liban" (Greater Lebanon) by decree of General Gouraud, head of the French troops in the Levant. The state remained under French Mandate until November 26, 1941. A constitution was adopted on May 25, 1926 establishing a democratic republic with a parliamentary system of government. Effective political independence of the Republic occurred on November 22, 1943 (Independence Day). In 1945, Lebanon became a founding member of the League of Arab States, then of the United Nations. Departure of the foreign troops then on the Republic's territory was completed on December 31, 1946.

Over the next 30 years, Lebanon became a melting pot with a diverse cultural heritage. The instability in surrounding countries caused Lebanon to experience large waves of immigration from neighboring countries and attracted thousands of skilled laborers, entrepreneurs and intellectuals. The economic force of the Republic has mainly revolved around its entrepreneurs. In addition, Lebanon's democratic traditions, its attachment to freedom of speech and expression and its educated population enabled the Republic to become the cultural, academic and medical center of the region.

A combination of internal and external factors led to the outbreak of conflict in 1975. The regional instability and conflicting relations between neighboring countries contributed to destabilizing the domestic political and economic situation. Successive rounds of fighting took place, aggravated by two Israeli military invasions in 1978 and 1982. The period of conflict witnessed a significant reduction of government authority, large losses in human lives, substantial physical and infrastructure damage and a considerable emigration of skilled labor from the country.

In the aftermath of the Taif Reconciliation Accord (the "*Taif Agreement*") signed in Saudi Arabia in 1989, military hostilities effectively came to an end in October 1990. President Elias Hrawi assumed office with Dr. Salim Al Hoss Prime Minister. In 1992, Mr. Rafik Hariri was appointed Prime Minister and the first parliamentary elections in 20 years were held. In 1995, President Hrawi's term of office was extended for an additional three year period, after a constitutional amendment.

In October 1998, General Emile Lahoud was elected President and appointed Dr. Salim Al Hoss Prime Minister. In his inaugural speech before Parliament, President Lahoud emphasized the preeminence of the rule of law, the strengthening of governmental institutions, the requirement for transparency and accountability in the conduct of public affairs and the promotion of social justice and equality.

In October 2000, Mr. Hariri was appointed Prime Minister by President Lahoud after parliamentary elections in August and September 2000. On April 16, 2003, Mr Hariri resigned and was reappointed Prime Minister on April 17, 2003.

Description of the Conflict

The 1975-1990 Conflict

The heavily militarized turmoil lasted from April 1975 until October 1990. In 1975, the conflict first appeared to be contained between the Palestinians and the Christian militia but instead it continued to escalate and subsequently included many factions, mostly supported by foreign governments. Many alliances among these factions took place only to be broken. Almost every faction was at war with another. Coalitions were unstable and often short-lived, resulting in widespread fighting between and among all of the factions involved.

Upon his election in 1976, President Elias Sarkis asked the Arab League to intervene and an Arab deterrent force (the "*Arab Deterrent Force*") was sent to impose law and order. However, fighting resumed shortly thereafter and continued lawlessness persisted.

In 1982, Israel invaded the southern half of Lebanon up to and including Beirut. The United States, France, Italy and the United Kingdom sent a Multi-National Force to provide security while Israel pulled back and Palestinian forces left for Tunis.

President Amine Gemayel was elected in 1982. There was a relative return to normality until early 1983. However, car bombs at the United States Embassy and the United States and French barracks led the Multinational Force to pull out. Fighting resumed in late 1983.

In 1988, the crisis intensified when Parliament failed to elect a president. The departing president, Amine Gemayel, appointed General Michel Aoun Prime Minister. However, Dr. Salim Al Hoss, Prime Minister of the then existing government, refused to recognize the appointment and remained in office at the same time. General Aoun began heavy fighting against Syrian troops in Lebanon.

In October 1989, the Taif Agreement was signed and, in November of the same year, Elias Hrawi was elected President. A new government, known as the national reconciliation government, was formed and began implementation of the Taif Agreement.

In January 1990, General Aoun attacked the Lebanese Forces (the successor to the Christian militia) and a battle ensued. In October 1990, General Aoun capitulated and in September 1991 left for exile in France.

In October 1990, the fighting came to an end and in 1991 most of the militias were disbanded by the Lebanese Army.

Syrian Presence

In May 1976, at the request of the Lebanese Government, the Arab League agreed to send the Arab Deterrent Force to restore security in the Republic. The Riyadh and Cairo summits arranged for a 30,000 strong Arab Deterrent Force composed mostly of Syrian troops but including Saudis, Yemenis, Libyans and troops from the United Arab Emirates. As the conflict persisted, the Syrian forces stayed while the other Arab forces departed.

The Lebanese Army, which was reconstituted when General Emile Lahoud was its commander in chief, has been instrumental in providing security, especially since the cessation of hostilities in October 1990, assisted by Syrian troops in Lebanon.

The presence of Syrian troops in Lebanese territory is currently being debated among various leaders in Lebanon. Certain leaders are requesting the withdrawal of Syrian troops from Lebanese territory. The Government has declared that the presence of Syrian troops is legal, temporary and necessary. In June 2001, Syrian troops withdrew from some areas around Beirut.

Israeli Occupation

An armistice agreement was signed between the Republic and Israel in 1949. The agreement governs the security issues related to the southern border. However, since then, Israeli attacks on Lebanese territory persisted, culminating in Israeli invasions of the Republic's territory in 1978 and 1982.

In 1978, Israel invaded the southern part of Lebanon and declared that part of the country a security zone for its border. In 1982, Israel invaded Lebanon up to and including Beirut. The United States, France, Italy and the United Kingdom sent a multi-national force to provide security while Israel pulled back and Palestinian forces left for Tunis. The multi-national force left Lebanon in 1984. Israel partially withdrew from central Lebanon in 1984 and 1985 but enlarged its occupation of the southern part of the country up to the area of Jezzine.

On April 11, 1996, following an escalation in intermittent skirmishes, Israel commenced a bombardment of southern Lebanon and certain other targets in Lebanon, including the southern suburbs of Beirut. On April 27, 1996 a cease-fire came into effect. The cease-fire was based on a written but unsigned agreement drawn up by France and the United States and setting out a position mutually acceptable to Israel, Syria and Lebanon, which expanded and consolidated oral cease-fire understandings reached in July 1993. These arrangements established an international group composed of representatives of the United States, France, Syria, Lebanon and Israel to monitor the cease-fire. Meetings of the monitoring group took place on a regular basis for the purpose of addressing repeated breaches of the cease-fire.

On June 24, 1999, February 7, 2000 and May 5, 2000, Israeli military aircraft attacked several power stations and bridges near Beirut, as part of more frequent recent air attacks on Lebanese territory. The rehabilitation of the infrastructure damaged by these Israeli attacks has been completed.

On May 24, 2000, Israel withdrew its troops from territory in southern Lebanon which it had been occupying since 1978. The withdrawal followed a notification by Israel to the United Nations that it planned to withdraw its troops in Lebanon to the internationally recognized borders between Lebanon and Israel, in fulfillment of United Nations Resolution 425 which was passed by the United Nations Security Council in 1978, following the first Israeli invasion of Lebanese territory. The Government is reasserting its authority over that territory. A significant issue relating to the withdrawal remains unsettled. This relates to the status of certain villages and adjacent land on the eastern side of Alsheikh Mountain, known as the "Shebaa Farms," which have been occupied by Israel since 1967. The Government advised the United Nations that it considers the area to be Lebanese territory and that, as such, the withdrawal must encompass it.

There exists a United Nations Interim Force in Lebanon (UNIFIL) deployed in southern Lebanon with a mandate to help the Lebanese Government restore security after the Israeli withdrawal requested in Resolution 425 by the Security Council. The number of UNIFIL personnel was increased from 4,500 to 5,730 following the Israeli withdrawal. The Lebanese army and UNIFIL are working jointly to clear landmines in southern Lebanon.

On January 22, 2001, the Secretary General of the United Nations submitted to the United Nations Security Council a report covering the period between July 18, 2000 to January 18, 2001 which described the situation in southern Lebanon as generally stable, with the exception of certain breaches of the line of withdrawal (the so called "Blue Line"). The breaches consist of Israeli attacks on Lebanese territory and attacks on Israeli military targets in the "Shebaa Farms" area.

On January 30, 2001, the Security Council adopted a resolution extending UNIFIL's mandate for a further period of six months, until July 31, 2001 and reducing the military personnel of UNIFIL to approximately 4,500 (from 5,730). There are currently 1,991 UNIFIL personnel in Lebanon.

In April and June 2001, Israeli aircraft attacked military positions maintained by Syrian troops in Lebanon, following attacks by members of the "Hizbollah" party on Israeli troops in the disputed "Shebaa Farms" area.

Following the September 11, 2001 events in the United States, the United States informally requested that the Government freeze certain assets of the "Hizbollah" party in the banking system in the Republic. To date, the Government has not acceded to the informal request on the grounds that the "Hizbollah" party is conducting a national liberation campaign and is not engaged in terrorist activities.

In January 2004, Israel and the "Hizbollah" party effected an exchange of prisoners held in Israeli jails for the release of an Israeli citizen and the return of the bodies of three Israeli soldiers.

Constitutional System

Three laws have governed the constitutional system of the Lebanese parliamentary democracy. The first was promulgated in 1926, the second in 1943 and the third in 1990, following the Taif Agreement.

The Constitution of September 21, 1990 (the "*Constitution*") amended the 1926 Constitution and reiterates the principle that the Republic is an independent, united and internationally acknowledged sovereign state. It also confirms the Republic's Arab identity and involvement in both the Arab League and the United Nations, as a founding and active member. Furthermore, the Constitution emphasizes the respect for freedom of speech and belief and the Republic's commitment to human rights, parliamentary democracy, private ownership, free market economics and balanced regional development and emphasizes the firm support for peaceful co-habitation between the various religious communities.

The Republic's political system is based on the separation of executive, legislative and judicial powers and a system of checks and balances. The Government determines overall policy, appoints senior administrators and submits proposed legislation to Parliament. Parliament, which is elected every four years, proposes and adopts laws and supervises government policy. Judicial power is fully vested in the courts and is autonomous. The Constitution provides for the formation of a Constitutional Council to rule on the constitutionality of laws and on challenges to the validity of presidential and parliamentary elections. The Constitutional Council was formed in 1994. It consists of a maximum of ten members, five of whom are elected by a simple majority of Parliament and five of whom are appointed by the Council of Ministers acting by vote of a two-thirds majority of the Ministers. The Constitutional Council acts by vote of a majority of seven members and has rendered several significant decisions to date, including the invalidation of the 1996 election of four members of Parliament and the invalidation of governmental decrees extending the term of municipal councils. The Constitution also specifies that a Supreme Council, constituted of seven deputies elected by Parliament and eight of the highest ranking judges, has jurisdiction to try the Presidents (President of the Republic, Speaker of Parliament, President of the Council of Ministers) and Ministers. The members of the Supreme Council are appointed for a period of four years. The present Supreme Council was constituted in 1996 after the Parliamentary elections.

The Taif Agreement provided the framework for a two-stage process of political reform. The first stage resulted in improving the distribution of political power among representatives of the various religious communities: seats in Parliament are equally divided between Christian and Muslim communities and the powers of the Council of Ministers and of Parliament have been reinforced. The second stage calls for the elimination of the sectarian political system.

The Executive Branch consists of the President of the Republic and the Council of Ministers (the Cabinet). The President, currently Emile Lahoud, is the Head of State. The President is elected for a six-year term by a two-thirds majority of Parliament in the first voting round and by a simple majority if a subsequent round is required. The President's functions include: Chairman of the High Defense Council, Commander in Chief of the Army, which is subject to the authority of the Council of Ministers, and chairing the Council of Ministers whenever he attends its meetings, although he has no voting power at these meetings. The President appoints the Prime Minister, currently Mr. Hariri, following consultations with Parliament. The President must appoint the prime ministerial candidate who has the greatest level of support in Parliament. The President also negotiates treaties in conjunction with the Prime Minister. Treaties become final after the approval of the Council of Ministers and ratification by Parliament. Pursuant to constitutional custom in effect since the Republic's independence in 1943, the President is a Christian Maronite, the Speaker of Parliament is a Shiite Muslim (currently Nabih Berri) and the Prime Minister is a Sunni Muslim. The Vice-Speaker and the Vice-Premier traditionally come from the Christian Greek Orthodox community. The Cabinet is headed by the Prime Minister. The Prime Minister is the President of the Council of Ministers, supervises and follows up on the work of ministries and administrators and co-ordinates ministerial policies.

The Legislative Branch consists of a single-chamber Parliament of 128 members. Members are elected for four-year terms in regional ballots, with the number of members for each region determined on the basis of the size and population of each region, subject to an overall number of members for each religious community. Parliament may be dissolved by the Council of Ministers, acting by vote of a two-thirds majority of the Ministers, upon request of the President of the Republic only on the basis of one of the following grounds:

- if the Parliament fails to meet during one ordinary session or two extraordinary sessions (except in the event of *force majeure*); or

- if the Parliament fails to pass a budget law.

The court system consists of one administrative court, the State Council Court ("*Conseil d'Etat*") and civil courts (which include commercial courts and criminal courts). The Supreme Court is the highest court of appeal for civil and commercial matters. Constitutional matters and conflicts relating to elections are referred to the Constitutional Council discussed above. The judges of the various courts (excluding certain members of the Constitutional Council) are appointed by the Government after favorable recommendation of the Supreme Council of Justice.

Elections

Parliamentary elections took place in 1992, 1996 and 2000. The 1992 parliamentary elections were the first such elections in Lebanon since 1972. Certain political groups abstained from participating in the elections, although the 1996 and 2000 parliamentary elections were characterized by high voter participation. The current Government under the leadership of Mr. Hariri as Prime Minister took office on April 17, 2003 when Mr. Hariri was re-appointed Prime Minister. The next presidential elections are scheduled to take place in the fall of 2004 and the next parliamentary elections in the summer of 2005.

In May and June 1998, municipal elections took place for the first time since 1963. All political parties participated. There are 624 municipal councils in Lebanon with a total of 7,401 elected members. Municipal elections are scheduled to take place in May 2004.

Government and Political Parties

The democratic political system in the Republic and the constitutional rights to freedom of speech and belief have nurtured a wide and diversified spectrum of political parties. The classification and categorization of the parties are blurred and the criteria adopted for their description are far from accurate.

There are more than 30 parties and political groups in Lebanon reflecting many ethnic backgrounds and political beliefs.

In accordance with the Constitution, in October 2000, mandatory consultations between the President and members of Parliament regarding the appointment of the Prime Minister took place following the 2000 elections. A majority consisting of 106 members of Parliament selected Mr. Hariri as their nominee for Prime Minister and the President appointed Mr. Hariri Prime Minister in accordance with the decision of Parliament. Following consultations between Mr. Hariri and members of Parliament, a new Government was formed in October 2000.

On April 16, 2003, Mr. Hariri submitted the Government's resignation to the President of the Republic, who accepted it. As provided in the Constitution, the President of the Republic conducted consultations with members of Parliament, following which Mr. Hariri was reappointed Prime Minister. A new Cabinet was formed on April 17, 2003. It is composed of thirty ministers, nineteen of whom were members of the prior Cabinet.

Legal System

The Republic's legal framework is based on the Constitution and on a body of well-established laws, dating back to 1930. The Constitution and the laws thereunder guarantee the private ownership of property, the free flow of funds and currencies in and out of the country and the freedom of contract between parties (so long as contracts do not contravene public policy).

Lebanese civil law is mostly based on the Code of Obligations and Contracts (which is based on the French Civil Code and was promulgated in 1932) and the Land Ownership Law. Other major legislation includes the Commercial Code (promulgated in 1942), the Code of Money and Credit (promulgated in 1963) and the complementary legislative decrees (issued in 1967) related to commercial agency representation, stock exchange, limited liability companies and business concerns and the New Code of Civil Procedure (promulgated in 1983).

An active legislative reform movement is taking place both in Parliament and through special committees formed by the Central Bank and the Ministry of Justice to modernize Lebanese law following the end of the period of conflict. Significant laws and regulations have been adopted in various areas, including a law authorizing and regulating fiduciary activities, a law eliminating the different classes of shares for banks, a law regulating the issuance of notes and other debt securities by banks and authorizing the public placement and listing of shares representing up to 30 per cent. of a bank's capital and a law regulating electronic banking operations.

International Relations

Lebanon is a founding member of the United Nations and the League of Arab States and is a member of all international organizations under the auspices of the United Nations (United Nations Educational, Scientific and Cultural Organization, Food and Agriculture Organization, International Fund for Agricultural Development and others), the International Bank for Reconstruction and Development (the "*World Bank*"), (and its affiliates, the International Finance Corporation and the Multilateral Investment Guaranty Agency), the International Monetary Fund and the International Development Association.

The Republic maintains diplomatic relations with 146 countries and has 94 diplomatic and consular missions abroad. It hosts 140 diplomatic missions in its territory, including the diplomatic missions of the European Union (the *"EU"*) and the Arab League. The Republic also hosts a number of international organizations such as the United Nations Regional Office for Education, Science and Culture in the Arab Countries, the United Nations Commission for Refugees, Food and Agriculture Office of the United Nations, the World Health Organization, the United Nations Fund for Childhood, United Nations Development Program and the Arab Center for Legal and Judicial Research, which is affiliated with the Arab League. The Economic and Social Commission for Western Asia (ESCWA), an agency of the United Nations, relocated its headquarters to Beirut in October 1997 and the World Bank opened an office in Beirut in January 2000.

In January 2001, the Secretary General of the United Nations appointed a personal representative for southern Lebanon and entrusted him with responsibility for coordinating UN activities in that region.

Having successfully liberated most of its territory from Israeli occupation in May 2001, Lebanon remains committed to the principles agreed upon at the Madrid Peace Conference in 1991. Lebanon supports United Nations and international efforts towards the achievement of a just, comprehensive and lasting settlement in the region. Such a settlement should involve the total withdrawal of Israeli troops from all Arab occupied territories up to the borders in place on June 4, 1967 and the implementation of the right of Palestinian refugees to return to their homeland in Palestine.

The Republic has entered into a number of treaties with Syria relating to co-operation in various areas. These treaties include the Treaty of Fraternity, Co-operation and Co-ordination, which was entered into on May 22, 1991 and ratified by Parliament on May 29, 1991. This treaty provides for co-ordination between the two countries in economic, social, foreign and military affairs and establishes a number of high level joint commissions to implement such co-ordination.

The Republic has a long tradition of openness to the international community with close ties to the Arab world, Europe and America. The Government is implementing a comprehensive strategy for trade liberalization. The Republic is committed to democratic principles.

The Republic is implementing free trade agreements entered into with Syria (1993), Kuwait (1996) and Egypt (1998). It also signed a free trade agreement with the United Arab Emirates in April 2000, which Parliament has now ratified. The free trade agreement with Syria was implemented in two stages. In February 1998, the two countries agreed to reduce tariffs on industrial goods by 25 per cent. per year, with effect from January 1999 and on agricultural goods by 50 per cent. with effect from November 1999, with further annual reductions of ten per cent. over a period of five years. The Republic has also entered into agreements for economic cooperation with Arab countries such as The Kingdom of Saudi Arabia, Qatar, Kuwait, Yemen and Morocco and is in the process of ratifying an Agreement for an Economic Free Trade Zone with the Hashemite Kingdom of Jordan. The Republic is also a party to the Arab Free Trade Agreement pursuant to which tariffs between 14 Arab countries are reduced by 10 per cent. annually with effect from January 1, 1998. All tariffs are expected to be eliminated by 2005.

Since 1992, the Republic has ratified or signed a number of treaties for the promotion and protection of investments. The Republic has ratified such treaties with each of Armenia, Australia, Austria, Azerbaijan, Belarus, Benelux, Bulgaria, Canada, Chile, China, Croatia, Cuba, Cyprus, Czech Republic, Egypt, Finland, France, Gabon, Germany, Greece, Hungary, Iran, Italy, Kuwait, Malaysia, Morocco, the OPEC Fund, Pakistan, Romania, Russia, Slovakia, Spain, Sweden, Switzerland, Syria, Tunisia, Ukraine, Uruguay, the United Arab Emirates, the United Kingdom and Yemen. The Republic has signed such treaties with each of Austria, Benelux, Cyprus, Gabon and Hungary and is in the process of ratifying such a treaty with Bulgaria. The Republic has also ratified treaties for the avoidance of double taxation with 20 countries and signed such treaties with eight additional countries.

The Republic applied for membership in the World Trade Organization ("WTO") and was granted observer status in April 1999. On May 15, 2001, the Government submitted to the WTO a report on its external trade sector as a second step toward its accession. As of early October 2002, the Government entered into negotiations with the WTO for full membership and has provided replies to all queries presented to-date by member states. Two working party meetings have been held to date, the first in October 2003 and the second in December 2003. WTO membership is expected in 2005.

On June 17, 2002, the Republic signed an association agreement with the EU, as part of the EU's Euro-Mediterranean partnership initiative. The EU is one of the Republic's major trading partners. The proposed partnership covers several areas of cooperation, including the progressive liberalization of trade in goods through a gradual phasing out of tariff and non-tariff barriers, with an ultimate goal of creating a Mediterranean free-trade area. In addition, the agreement seeks to liberalize the right of establishment and trade in services and addresses various other aspects dealing with economic and financial cooperation. Under the agreement, customs duties on industrial imports from the EU will be gradually reduced by 12 per cent. per year from the fifth year following the entry into force of the agreement until they reach zero in year 12. Reductions in tariffs on agricultural products are scheduled to begin in the twelfth year, with customs duties on EU imports of Processed Agricultural Products (PAPs) falling to a maximum of 30 per cent., provided that imports currently subject to a 5 per cent. tariff will be fully liberalized. Lebanon's exports of industrial products to the EU will continue to be allowed free of customs duties (with the exception of certain listed sensitive agricultural and agro-industrial imports). Parliament ratified the association agreement in December 2002.

THE ECONOMY

Economic System

Lebanon has a long tradition of domestic free trade and investment policies, with free market pricing for most goods and services, an unrestricted exchange and trade system and extensive links with the developed world in practically all economic activities. The Government has maintained a generally non-interventionist stance toward private investment, and public ownership has generally been limited to infrastructure and utilities. There are no restrictions on the movement of capital and goods by residents and non-residents of the Republic, including on entry or exit of firms or on access to foreign exchange, which makes Lebanon a supportive system for private sector development.

The Government continues to favor a strong role for the private sector in a liberal policy environment. It welcomes foreign investment in the economy. There are no legal restrictions on setting up and operating private businesses in Lebanon, subject to limited exceptions (See *"External Sector—Foreign Direct Investment"*). Investment in infrastructure activities historically has been undertaken by the public sector. The absence of exchange controls in Lebanon allows foreign investors freely to import and export capital in any form they wish.

The Lebanese economy, characterized by freedom of exchange and transfers, is based on private initiative. The private sector is estimated by CAS to contribute over 80 per cent. to aggregate demand and includes industries such as agriculture, manufacturing, construction, trade and tourism, in addition to services such as banking and finance, hotels and restaurants, media and advertising, and consulting and engineering. The manufacturing and industrial sectors are estimated by the CAS to contribute approximately one-fifth of the national income. They are provided only with a limited level of protection from international competition.

Recent Economic History

The Republic had developed into a prosperous, lower middle income country by the mid-1970s. Economic growth averaged 5 per cent. per year during the period 1960-1970 and then accelerated to 7 per cent. per year in the period 1970-1975. The main source of growth was the services sector, in particular, tourism, banking, insurance and free port activities. The banking sector, aided by a stable and liberal regime, a freely convertible currency, favorable regulations and skilled management, permitted Beirut to serve as a financial center to the Middle East. This environment allowed Lebanese entrepreneurial and financial skills to evolve to a high degree, and in the 1970s its bankers and traders enjoyed an excellent reputation in the region. Although smaller in size than the services sector, the export-oriented agricultural and manufacturing sectors also grew (at annual rates averaging between 4 per cent. and 6 per cent.), contributing to overall growth of income. Having grown at an average of 3 per cent. per annum since 1960, per capita gross national product ("*GNP*") was estimated at U.S. $1,070 in 1974, just prior to the outbreak of the conflict in April 1975.

Estimates put the Republic's GNP per capita at about U.S. $820 in 1990, barely one third of its 1975 level in real terms. Damage to infrastructure and physical assets due to the conflict amounted to U.S. $25 billion, according to United Nations estimates, with none of the principal sectors emerging from the conflict unscathed. While limited investment and maintenance expenditure led to the erosion of the capital base, the sizeable emigration of skilled manpower constituted a major loss to the economic potential of Lebanon. As a result, from 1975 to 1990, aggregate national output steadily declined. In addition, the confidence in, and credibility of, the Lebanese Pound and economic stability began to erode. The shift in authority from the Government to non-official entities gave rise to a parallel economy that severely hampered the Government's ability to collect revenues as most trading was conducted through unofficial ports of entry. This dearth in Government revenue and the growing expenditure on public services led to large and rapidly growing Government budget deficits. These negative developments, along with the prevailing political uncertainty, plunged the Lebanese economy into a vicious cycle of large budget deficits leading to monetary expansion and inflation, which translated into dollarization of the economy and capital flight. This in turn led to a dramatic depreciation of the value of the Lebanese Pound and further inflation.

The cessation of hostilities was followed by a recovery in the economy in 1991; according to IMF estimates, GDP rose by almost 40 per cent. and inflation moderated in the course of the year. Large capital inflows, along with a partial recovery of exports, resulted in an overall balance of payments surplus of over U.S. $1 billion. However, the fiscal deficit remained high in 1991 (56 per cent. of expenditures). By the beginning of 1992, the Central Bank had stopped supporting the Lebanese Pound, the value of which declined to all time lows. The cycle of deficit financing, dollarization and capital outflows led to escalating inflation and exchange rate depreciation, with the value of the Lebanese Pound reaching LL 2,420 per U.S. Dollar in September 1992.

Following the appointment of the first Government led by Mr. Hariri in October 1992, the Government took measures to restore economic stability and renew confidence in the Lebanese Pound.

Between 1993 and 1998, the economic program of the successive Hariri Governments rested on the dual, and sometimes conflicting, tasks of economic revival and stabilization. This framework aimed to rehabilitate the country's damaged infrastructure, replenish the depleted capital stock, reinstate traditional public services, implement programs for the return of displaced persons to their villages and provide a conducive environment for the return of the expatriate Lebanese community, while pursuing exchange rate stability and anti-inflationary policies. This strategy has been successful to a certain extent. As the Government-led reconstruction program got underway and with the normalization of the economic environment, real economic growth averaged 5.7 per cent. over the period from 1992 to 1997. At the same time, the foreign exchange rate gradually appreciated, reaching LL 1,516 per U.S. Dollar at the end of 1998. The inflation rate was reduced from over 120 per cent. in 1992 to approximately three per cent. in 1998. Interest rates have gradually declined since 1995. However, efforts at improving monetary stability and expenditures on large scale reconstruction projects contributed to increased fiscal deficits and consequential public borrowings. As at December 31, 1997, the fiscal deficit represented 23.64 per cent. of GDP.

The previous Government headed by Dr. Al Hoss held office from December 1998 until October 2000. The Al Hoss Government continued to foster monetary stability. Inflation was further reduced to 0.25 per cent. in 1999, the foreign exchange rate remained stable and the balance of payments registered a surplus in 1999. The Al Hoss Government prepared and adopted a five year fiscal reform plan which was designed to reduce the budget deficit and gross public debt to 5 per cent. and 95 per cent. of GDP, respectively, by December 31, 2003.

When it assumed office in 2000, the then Hariri Government faced a number of challenges, including an economic slowdown, a large fiscal deficit and a significant debt service burden. For the years ended December 31, 1999 and December 31, 2000, the fiscal deficit represented approximately 14.4 per cent. and 23.6 per cent., respectively, of GDP and debt service represented approximately 74 per cent. and 92 per cent., respectively, of total revenues. Net Public Debt (consisting of Net Domestic Debt and Public External Debt) represented approximately 120 per cent. of GDP as at December 31, 1999 and 142 per cent. of GDP as at December 31, 2000. See *"Public Finance – The Budget Deficit"*.

To address these challenges, the then Hariri Government devised a four-pronged strategy seeking to:

- revitalize the economy by inducing the private sector to act as the conduit for growth, adopting measures designed to promote investment and growth and further integrating Lebanon into the global economy; these measures included the adoption of a new customs law, the extension by the Central Bank of interest subsidies and partial guarantees of loans to enterprises in certain sectors, the easing of restrictions on foreign ownership of real property and the reduction of employers' contributions to social security;

- improve the Republic's overall fiscal condition, by (among other things) controlling discretionary expenditures and enhancing revenues, reducing its heavy debt service burden, imposing VAT on most goods and services, pursuing a comprehensive privatization program, reactivating development projects put on hold by the previous Government (for which external financing has been secured through soft loans), acceding to the WTO, implementing a policy of open skies for the airline industry, reducing customs duties and relaxing other trade barriers, and concluding additional agreements with the EU and other Arab countries;

- modernize the legal system; and

- maintain monetary stability and lower inflation.

As a result of this strategy, the economy improved slightly, recording in 2001 a growth rate of 2.0 per cent., a (0.4) per cent. inflation rate and a decline in the fiscal deficit by 7 per cent. to 16.8 per cent. of GDP and, in 2002, a real growth rate of 2.0 per cent., a 1.8 per cent. inflation rate and a decline in the fiscal deficit by 1.5 per cent. to 16.5 per cent. of GDP. In 2001, debt service represented 93 per cent. of total revenues and Net Public Debt rose to 162.5 per cent. of GDP and, in 2002, debt service represented 79 per cent. of total revenues and Net Public Debt rose to 170.0 per cent. of GDP.

At the end of 2002, the then Hariri Government implemented a series of measures to address the issue of public debt service. The Paris II Conference, which is described below, was the most prominent of these measures. In addition, at the end of December 2002, the Central Bank retired LL 2,700 billion (approximately U.S. $1.80 billion) of its 24-month Lebanese Pounds treasury bill portfolio by offsetting this amount against credit balances in the Treasury's account with the Central Bank. The Central Bank also exchanged LL 1,221 billion of Lebanese Pound-denominated treasury bills and U.S. $1.04 billion of eurobonds held by it for a new U.S. $1.87 billion, 15 year, 4 per cent. eurobond with a five year grace period.

As a further measure to reduce public debt service, the Central Bank issued decision Nº 8312, pursuant to which all banks operating in Lebanon were required to subscribe to Lebanese treasury bills or eurobonds issued by the Lebanese Republic. These notes do not bear interest and have a maturity of two years, with the aggregate amount subscribed by each bank equaling 10 per cent. of such bank's deposits in all currencies as at October 31, 2002. The decision provided the commercial banks with the option to subscribe to the non-interest bearing notes in cash or through the delivery of treasury bills or eurobonds previously issued by the Lebanese Republic. Total subscriptions by Lebanese banks amounted to approximately U.S. $3.6 billion, most of which was subscribed in cash.

As a result of the inflow of the funds collected to date from participants in the Paris II Conference and the other debt service reduction measures described above, the Republic has re-profiled approximately 32 per cent. of its total debt outstanding at the time of the Paris II Conference by extending its maturity and reducing its cost. The application of Paris II funds, which constitute non-market debt, to repay market debt (*i.e.*, gross public debt excluding the portfolios of the Central Bank, public institutions, bilateral and multilateral loans and debt issued to the Paris II lender countries and agencies) has also lowered the ratio of market to non-market debt from 79 per cent. prior to the Paris II Conference to 61 per cent. in October 2003. There have been no eurobond issuances of market debt since the Paris II Conference. Additionally, the average cost of public debt (in Lebanese pounds and foreign currency) has fallen by 376 basis points from 11.97 per cent. at the end of November 2002 to 8.21 per cent. at the end of December 2003. Average interest rates on Treasury bills declined by more than 30 per cent with the secondary market yield on the 24-month Treasury bill declining from over 14 per cent. in November 2002 to approximately 9 per cent. in January 2003 and to 7.84 per cent. as at November 24, 2003, which is the lowest yield in over two decades. Gross foreign exchange reserves (excluding gold) reached U.S. $10.4 billion as at the end of October 2003. The Central Bank reduced its rate on 45 day certificates of deposit from 9.50 per cent. as at the end of November 2002 to 4.50 per cent. as at the end of May 2003 and to 4.40 per cent. as at the end of December 2003. Average lending rates of commercial banks in Lebanese Pounds decreased by approximately 479 basis points from 16.11 per cent. in November 2002 to 11.32 per cent. in December 2003. Average deposit rates in Lebanese Pounds decreased by approximately 265 basis points from 10.44 per cent. in November 2002 to 7.79 per cent. in December 2003. The dollarization rate of commercial bank deposits declined from 74.2 per cent. in May 2002 to 66.3 per cent. in December 2003. See *"External Sector -- Foreign Borrowings and Grants"*.

When it assumed office in 2003, the new Government acknowledged the role of the prior Government in addressing the economic and fiscal situation of the country. The new Government pledged to continue the implementation of the fiscal reforms undertaken by the prior Government in order to reduce the public deficit and interest rates and increase the primary surplus.

To address these challenges, the Hariri Government has outlined a six part strategy as follows:

- completion of privatization and securitization transactions, on the basis of international standards and effective regulatory oversight of privatized sectors, with an emphasis on the benefits to be achieved, including sector liberalization, improvements in service and availability of subscription to the public in Lebanon and to the National Fund for Social Security;

- a reduction in expenditures, through the continued control of current expenditures and the limitation of capital expenditures to projects in respect of which foreign financing has been secured and projects of an extremely urgent nature;

- completion of the fiscal reform efforts, leading to the adoption of a unitary income tax;

- continued support for the maintenance and improvement of fiscal and monetary stability, which is the cornerstone for social, economic and national stability;

- subject to the Government's limitations on incurring expenditures, promotion of economic growth and development, principally through the utilization of grants and loans made available by friendly countries and supra-national organizations; and

- continued support to the private sector, which is acknowledged as the engine of growth for the Lebanese economy.

The new Government program also emphasized the necessity to modernize and update a number of laws, including the laws on global personal income tax, public accounting and public tender.

As part of its debt service reduction measures, the Government refinanced U.S. $0.43 billion of principal and interest on maturing treasury bills held by the Central Bank by issuing, in July 2003, new Lebanese pound denominated treasury bills maturing in 2008 and bearing interest at 4 per cent. The Government has used these funds to redeem and cancel higher-interest bearing maturing debt.

However, the implementation of some of these reforms, which were included in the fiscal reform program submitted by the prior Government during the Paris II Conference, such as privatization and securitization, has been delayed because of differences in views between political leaders in an election year.

Economic activity has continued to improve, recording, in 2003, a growth rate of 3 per cent., a 1 per cent. inflation rate and a decline in the fiscal deficit by 9 per cent. to 14.5 per cent. of GDP. In 2003, debt service represented 73 per cent. of total revenues and Net Public Debt rose to 174 per cent. of GDP.

The balance of payments registered overall surpluses during the period from 1993 to 1997, despite growing trade deficits. In 1998, however, the balance of payments registered a deficit of U.S. $787 million for the first time since the end of the conflict. While a small surplus of U.S. $261 million was realized in 1999, in 2000 and 2001, the balance of payments again registered deficits of U.S. $289 million and U.S. $1.17 billion, respectively, mainly due to the large trade deficit and the effect of regional developments. During 2002 and 2003, the Republic's balance of payments improved, registering surpluses of U.S. $1,564 million in 2002 and U.S. $3,386 million in 2003, due to greater exports and a substantial inflow of funds from the Paris II Conference.

Role of the Government in the Economy and Privatization

Lebanon has a long and established tradition of having an open and free market economy. The state sector has traditionally been small, with the Government having a history of minimal intervention in economic activity.

For the first eight years of the conflict (until 1983/84), Government authority was still present, albeit in a much weaker form than before the conflict began, and some tax revenue was forthcoming. From 1983/84, the Government effectively lost control of all ports, and non-payment of direct taxes and bills to state-owned utilities became widespread, leading to a financing of current Government expenditure through money creation.

After the conflict, the Government continued the policy of reliance on private sector initiative, which had served the country well in the pre-conflict era. However, in recent years, the Government has assumed a larger role than it had historically by making substantial investments in infrastructure needed to create an environment conducive to long-term growth based on private sector activity. See *"Public Finance — Operations of the Central Government"*. However, the various post-conflict governments have also been seeking to increase private sector participation in infrastructure financing.

In May 2000, Parliament adopted a privatization law, which sets the framework for the privatization of state-owned enterprises. The privatization law established a Higher Council for Privatization and provides that the proceeds from privatization will be applied towards debt repayment. A law regulating the water sector, in anticipation for its privatization, was adopted by Parliament in May 2000. While the state sector in Lebanon does not account for a large portion of GDP (7.4 per cent. of GDP in 1995, excluding certain government agencies), it nevertheless includes several enterprises and types of assets which have been successfully privatized in other emerging markets. The Government owns Electricité du Liban ("EDL") (which supplies virtually all electricity in the Republic), Société des Eaux de Beyrouth and other water companies, the airport and port companies, the fixed-line telephone monopoly and other assets, many of which may be eligible for privatization. The Central Bank also owns significant commercial assets, including substantially all of the shares of the national air carrier, Middle East Airlines.

With the exception of the sale in 1997 by the Central Bank of its shares in Credit Libanais S.A.L., a commercial bank, prior Lebanese governments did not conduct sales of state-owned enterprises. The Government believes that privatization is likely to result in significant economic benefits, including a reduction in public debt and a consequence decrease in the budget deficit, an increase in capital in-flows, as well as the acquisition of new technology and a broadening of the domestic capital markets. The current status of privatization activities is as follows:

Telecommunications Sector

In May 2002, Parliament passed a law authorizing and regulating the sale of two licenses for the provision of GSM and GPRS mobile telephony services in Lebanon for a 20 year term and related assets which were held by the existing operators of the mobile networks. This law authorized qualified bidders to submit offers for one or more of the following sale or management options:

- the first option authorized bidders to submit a cash offer on the basis that the Government retains 40 per cent. of the revenues from domestic calls and all other services provided to customers and 100 per cent. of the revenues from international calls;

- the second option authorized bidders to submit a cash offer on the basis that the Government shall not retain any portion of the revenues from domestic calls and other services provided to customers but will retain 100 per cent. of the revenues from international calls;

- the third option authorized bidders to submit an offer for the management of the mobile networks for a period of up to three years; the Government has indicated that the management option would be considered if it shall not be satisfied with the results of the other options.

The auction and tender were conducted by an investment bank in January 2004. The Government was disappointed with the outcome of the bidding, which resulted in one of the existing operators of the mobile network and the shareholder of another operator submitting the sole binding offers. The Government rejected these bids, as it was authorized to do pursuant to the auction and tender rules and directed the Minister of Telecommunications to conduct a new international tender for the award of two four year management contracts. The tender for the management contracts was successfully completed in March 2004 and resulted in the selection of a German company and a Kuwaiti company as the successful bidders.

In addition, in July 2002, Parliament passed a telecommunications law which, among other matters, provides for the establishment of an independent regulator and the formation of Liban Telecom, which shall be in charge of providing fixed line telephony services in the Republic. The Government intends to privatize Liban Telecom by selling up to 40 per cent. of its shares.

Electricity Sector

In September 2002, Parliament passed a law regulating the electricity sector which, among other matters, provides for the establishment of an independent regulator, the separation of production, transmission and distribution activities, the privatization of production and distribution activities through the granting of concessions and/or the formation of new entities whose shares will be initially owned by the Government and subsequently transferred to strategic and other private investors. The Government has also appointed an investment bank and other specialists to assist it in the privatization and has received indications of interest from a number of international operators. As of the date of this report, the Government is not actively pursuing the privatization of this sector and is concentrating its efforts on reducing losses at EDL.

Water sector

A draft law regulating the water sector is in the process of being prepared by the Government for submission to Parliament. Work on the privatization of this sector has commenced, with the Government appointing an investment bank and other specialists to assist it in the privatization.

Securitization

Following its desire to reduce borrowing costs and its debt levels, the Government submitted to Parliament, and, in June 2002, Parliament adopted a law authorizing the Government to engage in securitization transactions and mandating that the Government deposits in a special account at the Central Bank, dedicated to the payment, management and reduction of public debt, the proceeds of any securitization transaction, as well as the revenues derived by the Government from specific sectors, such as telecommunications, tobacco, Casino du Liban and others. The Government has announced its intention to securitize customs revenues in respect of the importation of tobacco products into the Republic and has appointed two investment banks to arrange this transaction.

Gross Domestic Product

With the restoration of peace and stability, GDP registered high growth rates for the period from 1993 to 1995, averaging an estimated real growth rate of 7.2 per cent. per annum. Real GDP grew at slower estimated rates of 4.0 per cent. in 1996 and 1997, 3.0 per cent. in 1998, 1.0 per cent. in 1999 and was flat in 2000. Real GDP growth was 1.5 per cent. in 2001, 2.0 per cent. in 2002 and 3.0 per cent. in 2003.

The following table shows GDP estimates(1) for the years 1999 to 2003:

	1999	**2000**	**2001**	**2002**	**2003**
GDP (at market prices), billions of LL ...	24,945	24,721	25,115	26,068	27,121
Exchange rate, LL per U.S. $ (period average) ...	1,507.5	1,507.5	1,507.5	1,507.5	1,507.5
GDP (at market prices), millions of U.S. Dollars(2) ...	16,547	16,399	16,660	17,292	17,991
Growth of Real GDP ...	1.0%	(0.5%)	2.0%	2.0%	3.0%
Growth of Nominal GDP...	1.2%	(0.9%)	1.6%	3.8%	4.0%
GDP Inflation ...	0.2%	(0.4%)	(0.4)%	1.8%	1.0%

Source: Ministry of Finance, Banque du Liban and IMF Article IV.
Notes:
(1) The figures in this table have been revised and may differ from previously published data.
(2) Translated at period average exchange rates.

From 1977 to 2003, no official GDP calculations were made, with the exception of GDP calculations for 1994, 1995 and 1997. The CAS calculated GDP for 1994 and 1995.

The following table shows the composition of the Republic's GDP for the years 1994 and 1995, as calculated by the CAS:

Composition of GDP by Sector	**1994**	**1995**
	(per cent.)	
Agriculture...	12.0	12.4
Energy, Water and Industry...	17.7	17.3
Construction ...	9.4	9.2
Transport and Communication ...	2.8	2.8
Commerce...	28.7	30.1
Housing ...	4.5	4.2
Other Services(1) ...	16.7	16.4
Public Administration...	8.3	7.4
Total...	**100.0**	**100.0**

Note:
(1) Includes financial services, hotels, restaurants, health services and education.

Recognizing that statistical weaknesses and the absence of reliable and current information concerning GDP figures and other economic data constitute serious obstacles to the analysis of the Republic’s economy, a decree was adopted by the Prime Minister in 2002 establishing a steering committee, headed by the Minister of Economy and Trade, for the establishment of a national accounts database for the years 1997/2001. Technical assistance was provided by the French National Institute of Statistics and Economic Studies (INSEE).

In May 2003, the Ministry of Economy and Trade published GDP figures for 1997. The following table shows the composition of the Republic's GDP for 1997. No figures are available for later years. The Ministry of Economy and Trade is in the process of preparing GDP estimates for the period 1998/2001.

Composition of 1997 GDP by Sector		*(per cent.)*
At market prices, in billions of LL, except for statistical information		
Agriculture...	1,513	6.3
Energy and water ...	350	1.5
Manufacturing...	3,262	13.5

Construction	2,256	9.4
Transport and communications	1,284	5.3
Housing	2,059	8.5
Other market services	5,442	22.6
Trade	5,143	21.3
Non-market services	2,799	11.6
Total	**24,108**	**100.00**

Source: Ministry of Economy and Trade.

Principal Sectors of the Economy

At the end of the conflict, all sectors of the Republic's economy were characterized by widespread damage to physical assets and an obsolescence of remaining facilities, given the reluctance during the years of conflict to invest in new capital or spend funds on maintenance. In addition, there was an outflow of professional and entrepreneurial skills from Lebanon. A lower production capacity, together with rigidities in internal flows of goods and labor, led to low levels of output.

The end of the conflict in 1990 marked the unification of the internal market and an upsurge in output in most sectors of the economy. Since then, there has been an increase in investment and a gradual return of skilled workers to the country. Although the economy suffered a slow-down in 1998 to 2000, it resumed a modest recovery in 2001.

The following table sets forth selected indicators of economic activity in significant sectors for the periods indicated:

Selected Indicators of Economic Activity

	1999	2000	2001	2002	2003
Industry					
Recorded Exports (million of U.S. Dollars)	677	715	889	1,045	1,524
Electricity Production (million kwh)	9,025	9,111	9,438	10,193	10,547
Cement Production ('000 tons)	2,970	2,623	2,710	2,601	2,704
Construction					
Construction Permits	14,349	11,614	11,638	11,421	12,705
Area ('000 sq. meters)	8,422	6,725	6,879	7,896	8,807
Commerce					
Port of Beirut (no. of ships)	2,796	2,514	2,647	2,607	2,333
Beirut Airport (no. of passengers '000s)	2,222	2,341	2,445	2,526	2,834
Documentary Credits for Imports (million of U.S. Dollars)	2,369	2,434	2,592	2,728	3,273

Source: Ministry of Finance, Banque du Liban.

Services

The Lebanese economy is based primarily on the service sector, which accounts for approximately 60 per cent. of GDP (down from approximately 70 per cent. in the 1970s). Major subsectors are commerce, tourism and financial services. Other components include health care and higher education.

Commerce

The Port of Beirut plays an important role in Lebanon's commercial activities. After World War II, Beirut became the most important Arab port on the Eastern Mediterranean serving the Arab world. A free-port area for re-exports added to Beirut's success. During the conflict, the Port of Beirut virtually closed down and related commerce ground to a halt.

Work has been completed on the reconstruction of the Duty Free Zone at the Port of Beirut to restore its prewar capacity and a project for the rehabilitation and expansion of the Port of Beirut is underway. A contract to equip and operate the new Beirut container terminal was entered into in 1998 by the Beirut Port Authority and the Port Development Group on the basis that the Beirut Port Authority would construct the infrastructure required for this terminal. This contract was awarded to the Port Development Group following an international public tender. The Port Development Group is a Lebanese company cooperating technically with the Dubai Port Authority. The chairman of the board of the Port Development Group is the director of the Dubai Port Authority. The Beirut Port Authority completed the execution and financing of the required infrastructure in September 2000 at a cost of approximately U.S. $150 million.

The following table sets forth data concerning trade activity at Beirut Port for the years 1999 to 2003:

Trade Activity at Beirut Port

	1999	2000	2001	2002	2003
No. of ships	2,796	2,514	2,647	2,526	2,333
Incoming freight[(1)]	5,248	4,540	5,134	4,713	4,294
Outgoing freight[(1)]	307	295	329	383	472
Freight in transit[(1)]	126	140	163	155	227

Source: Ministry of Finance, Banque du Liban.

Note:
(1) In thousands of metric tons.

Tourism

The strategic position of Lebanon, its mild climate and natural beauty, consisting of snow-capped mountains, valleys and the Mediterranean Sea, make it a natural tourist attraction. Apart from its privileged geographical and natural situation, Lebanon benefits from qualified and experienced human resources in the tourism industry.

Prior to the outbreak of the conflict, tourism (including hotels and restaurants) contributed approximately 20 per cent. to Lebanon's GDP. This is notable given that, at that time, the international tourism industry was not as developed as it is today.

Significant private investment is currently being made in the modernization and expansion of this sector and international hotel companies have returned to Lebanon. Casino du Liban, which historically constituted a major tourist destination, reopened in 1996. Lebanon is the only country in the Arab world that offers skiing and related winter sports activities. The largest ski resort in the country has been expanded and modernized. The Government believes that, because of the return of peace and stability to the country and with the development of the necessary infrastructure, tourism will again contribute significantly to Lebanon's economy. Lebanon's tourism industry also relies on the large number of Lebanese living abroad, who return regularly to the country during the summer season.

Since 2001, and especially after the events of September 11, 2001, Lebanon has regained its attraction for tourists from the Gulf region. The number of tourists from the Gulf has increased significantly.

Financial Services

From the 1950s to the start of the conflict in 1975, Beirut was the region's financial services center. At the onset of the oil boom starting in the 1960s, Lebanon-based banks were the main recipients of the region's petrodollars.

Currently, the main financial services offered are commercial banking, investment banking, private banking and insurance. Despite the conflict and a crisis in the late 1980s involving a small number of banks, the commercial banking sector remains a centerpiece of the Republic's service-oriented economy. The Lebanese banking sector has witnessed unprecedented growth during the period from 1992 to the present. Resident and non-resident private sector deposits with commercial banks increased from U.S. $6.6 billion at the end of 1992 to U.S. $48.5 billion at the end of December 2003. In addition, since 1996, Lebanese banks have been successfully accessing the international capital markets. Since 1996, Lebanese banks have raised over U.S. $3.0 billion on the international debt markets and U.S. $300 million through the issuance of global depository receipts on the international equity markets. The banking system is seen as having a key role by being the entry point for capital inflows for the region's development. At the same time the authorities are aiming at widening and deepening the financial sector by facilitating the establishment and evolution of, and providing a regulatory framework to, more diversified private financial institutions. Several investment banks, with capital raised offshore, have been established in Beirut and offer a variety of traditional investment banking services, including debt and equity raising and corporate finance advisory services. Several commercial banks have established investment banking subsidiaries offering similar services.

As part of the Government's strategy of reestablishing Beirut as a regional financial services center, the Central Bank established in 1994 a central depositary, settlement and clearing agency, MIDCLEAR, which is a joint stock company organized under the laws of the Republic. The Government reopened the Beirut Stock Exchange in 1996.

Construction

Prior to the conflict, the property sector had always been important, with a substantial portion of the activity concentrated in Beirut, where the housing needs of the city's rapidly increasing urban population had to be met. Beirut saw an almost uninterrupted boom from the late 1950s to the early 1970s, when it expanded dramatically, eventually to house half of the country's population. Mountain towns and villages close to Beirut favored by tourists, such as Aley and Bhamdoun, also experienced a boom.

The post-conflict era has witnessed a significant construction boom. Real estate prices have risen steeply, especially for prime property, but have recently stabilized. The boom has been fuelled by a mixture of local, expatriate and Gulf Arab funds. With respect to residential property, it has been concentrated mostly at the upper end of the housing market. As the stock market has resumed its operations only recently, land and construction have been viewed by many as attractive investment opportunities. Construction projects are financed mainly by equity investments. The Government estimates that, in 1997, construction activity accounted for 9.4 per cent. of GDP, a significant increase from approximately 4.5 per cent. in 1972.

Industry

In 2001, the industrial sector (mainly production of cement, furniture, paper products, printing and packaging, detergents, fertilizers, cosmetics, pharmaceuticals, jewelry, clothing and food products) accounted for 17.3 per cent. of GDP, an increase from 15.7 per cent. of GDP in 1972.

Exchange rate and price stability coupled with the gradual decline in Lebanese Pound interest rates have contributed to a better environment for investment and growth in industry. Infrastructure bottlenecks resulting from the conflict are being addressed as improvements in roads, telephones and electricity supply are realized. The Government provides various monetary and fiscal incentives for the establishment of industrial facilities in Lebanon, including tax exemptions and low interest financing. As export promotion is considered a priority by the Government, other export-financing incentives are under consideration.

From 1993 to February 2001, the International Finance Corporation ("IFC") carried out 34 investment and financing projects in Lebanon in an aggregate amount of U.S. $336 million, with an additional U.S. $256 million raised by the IFC through loan participations. Investments during 2000 included loans to three companies for U.S. $21 million. As at February 28, 2001, U.S. $219 million representing IFC loans, loan participations and equity investments had been disbursed and remained outstanding.

Additionally, a Euro 30 million facility provided by the European Investment Bank ("EIB") to local banks, a loan guarantee scheme provided by a joint venture between 50 commercial banks, the Government and the National Institute for Deposits Guarantees known as "KAFALAT", a department at the Ministry of Industry providing industrial licenses, planning and building permission, and various incentive schemes promoted by the Investment Development Authority of Lebanon ("IDAL") are expected to have a positive impact on the growth prospects on the Lebanese industrial sector.

Energy and Electricity

Lebanon has no known fossil fuel resources. Apart from relatively modest hydroelectric resources and the import of approximately 200 megawatts of electricity annually from Syria, all energy needs are met with imports of petroleum products, which represented over 4.4 million TOE (tons of oil equivalent) in 2000.

Two state-owned refineries (one in Tripoli and one in Zahrani) are currently non-operational. The power sector accounts for about two-thirds of fuel imports.

Lebanon's energy sector is dominated by the state-owned monopoly EDL. EDL is a vertically integrated utility which is involved in power generation, transmission and distribution with approximately 1.05 million customers. Lebanon's energy production facilities include two thermal power stations (900 MW combined installed capacity), gas turbine stations in each of Baalbek and Tyre (35 MW installed capacity in each) and one hydroelectric station (10 MW installed capacity) and two new combined cycle power plants (435 MW installed capacity in each). The transmission system measures approximately 1,000 km and the transformer capacity is approximately 1,600 MVA. A 360 km transmission system with ten new substations is currently under construction. EDL's distribution network covers most of Lebanon. EDL is also the majority shareholder in the previously privately-owned Kadisha company, a thermal and hydro power producer and distributor to about 100,000 customers in North Lebanon.

The power sector sustained severe physical damage to all its production, transmission and distribution facilities during the conflict. EDL also incurred financial losses resulting from low tariffs, high technical and non-technical losses, including widespread illegal connections, and loss of control over its commercial operations.

EDL has been regaining control over its operations. In January 2002, a new management team began to formulate and assess a plan to restructure EDL to resolve certain technical difficulties facing the company. This team identified the source of EDL difficulties as insufficient maintenance and lack of coordination, leading to only 60 per cent. production efficiency. The team also noted significant collection difficulties due to both non-invoiced power distribution and uncollected bills, which it quantified at approximately U.S. $1 billion. EDL has adopted a new plan with strict measures aimed at increasing control and collection abilities. The plan requires the installation of new counters and the strict surveillance of power theft. Through the end of April 2002, EDL had installed 11,000 new counters throughout the country and, as a result of stricter surveillance, collections increased by 30 per cent. for the period January to April 2002, as compared to the corresponding period in 2001.

Agriculture

Approximately one third of the Republic is arable. The most fertile areas are located along the coastal strip and in the Bekaa valley. The diversity of the Republic's topography and climate enables cultivation of a wide variety of vegetables, fruits, industrial crops and cereals. The Government estimates that, in 1997, agriculture contributed approximately 6 per cent. to the Republic’s GDP, as compared to approximately 9.9 per cent. in 1972. Food and agricultural exports, which include forestry products, provide about 15 per cent. of merchandise export earnings.

Prices and Inflation

Movements in the exchange rate of the Lebanese Pound are intertwined with domestic price developments due to the openness of the Lebanese economy. Since the mid-80s, Lebanon has suffered from rapid increases in prices, peaking at 500 per cent. per annum in Lebanese Pound terms in 1987. This trend was evident until the appointment of the first Hariri Government in October 1992. The last quarter of 1992 saw a significant appreciation in the value of the Lebanese Pound against major currencies. This, together with the gradual appreciation to date, has been accompanied by a decline in the rate of inflation. Since 1993, inflation is estimated to have declined to approximately 7.8 per cent. in 1997, 4.5 per cent. in 1998, 0.2 per cent. in 1999, (0.4) per cent. in 2000 and 2001 and 2.0 per cent. in 2002 and 2003. This marks the first prolonged return to relative price stability. The current level of inflation is attributable to the following principal reasons:

- the implementation by the Central Bank of a tight monetary policy, including maintaining a stable exchange rate (by using a nominal anchor policy with the U.S. Dollar) and high interest rates on Lebanese Pound assets; and

- the openness of the Lebanese economy, which causes excess demand on the domestic market to be satisfied by a corresponding increase in imports.

RECONSTRUCTION

The Council for Development and Reconstruction and the Reconstruction Program

The CDR is a government agency entrusted with a key role in the process of reconstruction and economic recovery. It was established in 1977 in response to the needs of reconstruction as a successor to the Ministry of Planning and was reorganized in 1991. The CDR is an executive agency for the Council of Ministers. It is responsible for formulating and monitoring the implementation of public investment projects as well as seeking foreign funding. In 1992, a three-year (1993-1995) U.S. $2.25 billion National Emergency Reconstruction Program ("*NERP*") was established by the CDR. The initial program covered a series of rehabilitation investments, in the fields of power, water and wastewater, solid waste, education, housing and development. Financing for the NERP was provided in part by an International Bank for Reconstruction and Development ("*World Bank*") loan of U.S. $225 million.

Proposals for projects forming part of the reconstruction program are submitted for Parliamentary approval on a project by project basis. Approximately 2,681 contracts with a total value of approximately U.S. $6.6 billion were awarded by the CDR for the period since reconstruction efforts started in 1992 to the end of 2002.

The CDR is directly responsible for implementing a large part of the reconstruction program. It acts in this capacity in coordination with the various institutions (consisting principally of the relevant ministries) which will ultimately use or operate the investments. The other parts of the reconstruction programs have been implemented by various ministries and other governmental agencies, such as the Conseil Exécutif des Grands Projets and the Conseil Exécutif des Grands Projets de la Ville de Beyrouth. In March 2001, Parliament adopted a law merging these two agencies into the CDR, thereby expanding the range of reconstruction and development projects for which the CDR is responsible. In April 2001, the Government extended the powers of the CDR to include a supervisory function and vested it with the responsibility for administering loans to infrastructure and development projects and for the operation of tenders for such projects. The rationale for this merger is the desire of the Government to create a single executive agency to implement infrastructure and development projects.

In March 2000, the CDR prepared and submitted to the Government a five-year development program, covering existing and proposed projects in an aggregate amount of approximately U.S. $6 billion. The development program has been approved by the Government although its implementation is taking place gradually as projects are not being undertaken unless external sources of financing have been secured.

CDR expenditures on reconstruction and development programs are financed partly by grants and borrowings from international development agencies and other overseas entities and partly by appropriations from the budget. These appropriations are included as capital expenditures in the public accounts, but expenditures financed by borrowings as described above are not included in the public accounts (but are included in foreign debt figures). However, interest in respect of these borrowings is included in the national budget for the year in which it is scheduled to be paid. The Government's strategy is to finance the reconstruction and development program principally through the use of external financing, preferably concessionary financing (in the form of grants and soft loans). Other sources of external financing include commercial loans with export credit guarantees and the issuance by the Government of eurobonds and other international debt securities. As discussed elsewhere, the Government also seeks to partially finance the reconstruction program through participation by private sector companies.

Infrastructure

As a major regional entrepot and financial center, the Republic had a well-developed infrastructure prior to the conflict. The country's ports (Beirut, Tripoli, Sidon and Junieh) and Beirut International Airport were especially productive assets of the economy operating under a free exchange system. Catering to the large number of residents, businesses and international visitors, the housing and telecommunications sectors had been built up to high standards. The development of the road network had not, however, kept pace with the growth of the economy. The years of conflict exacted a heavy toll on the infrastructure. Since 1992, significant progress has been made in restoring and upgrading the infrastructure: electricity is available on a 24-hour basis to most users; telecommunications systems have been significantly upgraded and are functioning better; emergency water supply repairs have been undertaken; road networks are being upgraded; and collection of solid waste has markedly improved.

Electricity Generation

Work on a rehabilitation program for power plants with a cost of U.S. $410 million started in 1993 and is now completed. This program involved the repair and reconstruction of existing generation, transmission and distribution facilities so that a nominal production capacity of 1,250 megawatts could be attained. Electricity is now available to consumers in all of Lebanon 24 hours a day, with the power supply temporarily being augmented by the purchase from Syria of between 50 and 100 megawatts semi-annually. Another program, aimed at modernizing the electricity sector, began in 1996, with a cost estimated at U.S. $1 billion. This program included the installation of four gas turbines in Tyre and Baalbeck, with a capacity of 140 megawatts. These turbines became operational in 1996. In order to meet increasing demand and to anticipate the replacement of some older units, two combined cycle power plants providing additional production capacity of a total of approximately 900 megawatts have been installed and are currently operational at full capacity. In addition, a new national 220KV network is being installed. A National Control Center project is currently under bidding and is expected to be completed by the end of 2005

Water and Wastewater Sectors

A rehabilitation and development program for the water and wastewater sector is underway and is estimated to cost approximately U.S. $1 billion. This program is designed to comply with the Convention on Protecting the Mediterranean from Pollution and to protect inland water resources from pollution and comprises the following principal components:

- the rehabilitation of existing infrastructure, including wells, springs, reservoirs and transmission and distribution networks for water supply, main sewers and collectors for wastewater;

- the development and extension of the water and wastewater infrastructure, including increasing the available water resources, extending the distribution and transmission networks, and constructing sewer networks and wastewater treatment plants to protect water sources, groundwater and coastal areas;

- the establishment of a National Water Resources Authority ("NWRA") and five regional Water sanitation and irrigation companies, with the provision of technical assistance to the Ministry of Hydraulic and Electrical Resources ("MHER") and to the regional water companies; and

- the operation and maintenance of wastewater and storm water systems in the major Lebanese urban centers (Jounieh, Greater Beirut, Tripoli, Zahle, Nabatiya, Saide and Sour).

The rehabilitation program began in May 1993 and cost approximately U.S. $60 million in the first year. This included urgent repairs related to existing networks throughout Lebanon. Extension of the water treatment plant at Dbaye, which supplies clean water to a large part of Beirut was completed at a cost of approximately U.S. $5.7 million. The rehabilitation program for Greater Beirut, (Beirut & Ain al Delbeh Water Authorities) is currently being implemented at a cost of approximately U.S. $50 million. Rehabilitation and replacement of main water treatment plants and pumping stations in the rest of Lebanon is underway and is expected to cost approximately U.S. $43 million.

Contracts for the rehabilitation and development of water and wastewater systems in North and South Lebanon, Mount Lebanon and the Bekaa were awarded between 1992 and 2002 at a value of U.S. $477 million. These contracts comprise feasibility studies, environmental impact studies, design and preparation of tender documents, works and supervision.

A number of projects are currently in the planning stage and are estimated to cost approximately U.S. $132 million. Such projects include water supply networks, water treatment plants and management contracts and are intended to serve all regions of Lebanon. A number of other projects have been completed or are currently underway at a cost of approximately U.S. $363 million.

Telecommunications

Work on the expansion and rehabilitation of the fixed line system commenced in November 1993. 800,000 new digital lines were commissioned in July 1993 and the current installed capacity is 1,800,000, of which 830,000 were connected to subscribers in January 2001. 55,000 telephone lines were installed in Southern Lebanon in

October 2002. 6,688 basic access and 570 primary rate ISDN lines have also been installed and an Intelligent Network platform was installed in April 2003. The total value of rehabilitation and extension contracts entered into is approximately U.S. 800 million.

Contracts for a switched data network to support multimedia services and a public payphone system comprising 4,000 telephone booths in all regions of Lebanon as well as the installation of active cabinets to provide 5,000 telephone lines to subscribers in rural areas are expected to be executed and implemented by December 2004.

Two compatible mobile phone networks currently aggregating over 700,000 lines are operational, in addition to the fixed line system. The mobile telephone networks are privately financed through two BOT contracts awarded to two different operators. In May 2000, the Government notified the two operators that they had each failed to pay to it an amount of U.S. $300 million on account of back taxes and revenue-sharing under the BOT contracts and that, absent such payments, the BOT contracts would be terminated. In June 2001, the Government notified the two mobile operators of the early termination of their BOT contracts in accordance with their respective terms and the BOT Contracts were terminated effective on August 31, 2002. Following this dispute, each of the mobile telephone network operators initiated arbitration proceedings which are pending. The Government has entered into a network operation agreement with each of the operators to operate the networks, which is expected to remain in place until the handover of the networks to the successful bidders in the management tender which has recently been conducted by the Ministry of Telecommunications. See *"Role of the Government in the Economy and Privatization – Telecommunication Sector"*.

Transportation

The first phase of road projects has been substantially completed. It included the rehabilitation of the capital's road network, the completion of extensions started before the conflict and the extension of the coastal highway system north to Tripoli and south to Sidon, which were completed in 1996. An aggregate amount of U.S. $1 billion was disbursed during the period 1991-2002 in connection with the road improvement program.

The extension and redevelopment of Beirut's international airport, with targeted passenger movement of 6 million persons per annum, amounted to U.S. $539 million. Two major contracts totaling U.S. $490 million have been awarded under a multi-year project approved by Parliament. Financing of U.S. $179 million has been secured from the European Investment Bank, the Kuwait Fund for Arab Economic Development and the French Government, and a number of the airport's facilities (for example, the car park) have been financed through BOT contracts reducing the portion of the costs to be funded by public expenditure. A new passenger terminal was put in service at the beginning of 1998 and the project was completed in 2000. The principal contractor initiated arbitration proceedings for alleged non-payment of cost overruns and other matters.

A project for the rehabilitation of the Port of Beirut, estimated to cost U.S. $150 million, is intended to restore port capacity to pre-conflict levels. Contracts relating to the first sections of the civil works component of this project were awarded in October 1996 for an amount of U.S. $102.8 million, subsequently reduced to U.S. $90 million. Partial financing for this project amounting to the equivalent of U.S. $54 million has been secured from the European Investment Bank. Contracts relating to the purchase of handling equipment for this project were awarded in 2002 for an amount of U.S. $30 million.

A project for the expansion of the Port of Tripoli, estimated to cost U.S. $80 million, was launched in 1999. Partial financing for this project amounting to U.S. $45 million has been secured from the EIB.

Solid Waste

Since 1992, a number of contracts relating to the construction of landfills, the procurement of supplies and the operation of waste collection and treatment plants have been awarded in the solid waste sector. The total value of these contracts is approximately U.S. $682 million. The majority of these contracts are long-term, with terms of up to 10 years.

Public Health

The Government's program for the Health sector is to provide adequate health services to people in all regions of Lebanon. The Government's focus in this sector has been on conducting studies that support and strengthen the administrative capacity of the Ministry of Public Health, with a special emphasis on primary health care and rationalization of increasing health related expenses. To date, 27 new health care centers covering all regions of

Lebanon and seven new public hospitals have been completed. Work is underway on the construction, expansion and renovation of 15 hospitals. To date, contracts in the amount of U.S. $238 million have been awarded. Several projects relating to technical assistance for development and construction of health centers are in the planning stage and are estimated to cost U.S. $44 million.

SOLIDERE

Following the end of the period of conflict in 1990, the Government was confronted with the issue of how to redevelop areas in Lebanon that had suffered damage during the hostilities. Redevelopment was particularly critical for the Beirut Central District (the "*BCD*"), which had been the historical center of government and commercial activity and which had also been the subject of extensive damage during the hostilities. The BCD is considered the heart of Beirut. The area contains many important government buildings and the Lebanese Parliament. It has traditionally been considered the center of banking and commerce in Lebanon. The hotel district, internationally renowned before the hostilities, lies at the western edge of the BCD.

In 1992, the Government created a legal framework that would allow for the establishment of private real estate companies to carry out the redevelopment of damaged areas in accordance with a master plan approved by the Government. Such companies would be capitalized partly by cash subscriptions by investors and partly by issuance of shares in exchange for the compulsory contribution of property rights by the original owners and lessees (subject to an option in favor of such owners to regain ownership of certain properties). Parliament established the foundation for this legal framework with the enactment in 1991 of Law 117 ("*Law 117*").

A master plan for the development of the BCD, supplemented by a detailed plan, defines the geographical limits of the BCD and contains the body of guidelines and rules governing the rehabilitation and redevelopment of the BCD, including certain guiding principles aiming to preserve and promote the historic heritage of the BCD and to ensure the harmonious integration of traditional and modern architecture.

SOLIDERE was the first real estate development and reconstruction company created pursuant to Law 117, in July 1992, and the only such company with responsibility for the development and reconstruction of the BCD (the "*Project*"). The entire area is approximately 1.8 million square meters, consisting of the traditional BCD and the reclaimed land. The traditional BCD constitutes the area of the BCD which existed prior to the hostilities in Lebanon and covers a surface area of approximately 1.2 million square meters. Under the master plan for the Project, the aggregate permitted built-up floor space in the entire BCD (including certain exempted lots which do not belong to SOLIDERE) and the lands reclaimed from the Mediterranean sea is limited to 4.69 million square meters.

SOLIDERE intends to focus on the new waterfront district with a view toward the re-launching of Beirut as an international regional center. This entails completing the waterfront district infrastructure, developing the eastern marina and launching high-rise developments.

SOLIDERE's capital is composed of real estate of the original owners and the lessees in the BCD, who received 65 per cent. of SOLIDERE's shares in compensation for their properties and rights, and cash contributions from Lebanese and Arab investors, who subscribed to the flotation of shares in SOLIDERE, which closed on January 10, 1994. On September 30, 1996, the shares of SOLIDERE, previously listed on the Beirut Secondary Market, were listed and began trading on the Beirut Stock Exchange.

On December 3, 1996, 6,700,000 Global Depositary Receipts representing fractional economic interests in SOLIDERE shares were issued and currently are trading on the London Stock Exchange. In September 1997, SOLIDERE amended its by-laws and, in October, 1997, it obtained the necessary governmental approval to permit foreign investors to own shares in SOLIDERE.

Commercial activity in the BCD is developing rapidly with banks and other institutions relocating there.

HUMAN RESOURCES

Lebanon's human resources have traditionally been the backbone of its economy. The Republic's human resources had been developed to levels comparable to, or higher than, those of lower middle-income countries. Prior to the conflict, Lebanon was endowed with a well-trained population and labor force with adequate health facilities. The conflict resulted in setbacks for the human resources of the Republic. A significant emigration of skilled labor took place with large numbers of professionals, traders, industrial workers and construction workers leaving the country. The educational system also suffered (See *"Educational System"* below).

However, a significant reversal of emigration has been observed since the end of the conflict and the installation of the Hariri government in October 1992. A large number of families living abroad have now returned, as well as young persons, who have been educated and have worked abroad, and who have either entered, or are looking to enter, the workforce. They are expected to contribute positively to the economic development of the country.

EDUCATIONAL SYSTEM

The variety of Lebanese educational institutions (schools as well as universities) is a reflection of the openness of the Republic to the international community. Private schools have a long and strong tradition in Lebanon. Aside from private schools established by western clerics (French, Anglo-Saxons, Germans, Italians), there are many and diverse local and foreign religious and secular schools. The Educational Center for Research and Development has recently revised and updated the national curriculum for schools.

The table below shows the percentage of the population attending schools or universities for the 2002-2003 academic year:

	Male		**Female**		**Total**	
Age	*(number)*	*(per cent.)*	*(number)*	*(per cent.)*	*(number)*	*(per cent.)*
< 5 years	47,191	5.21	44,957	4.97	92,148	10.18
5 – 9 years	169,963	18.77	162,424	17.94	332,387	36.71
10 - 14 years	163,157	18.02	159,657	17.63	322,814	35.65
15 - 19 years	71,902	7.94	81,085	8.96	152,987	16.90
20 - 24 years	1,921	0.21	3,080	0.34	5,001	0.55
25 years and over	31	0.0034	77	0.0085	108	0.01
	454,165	**50.16**	**451,280**	**49.84**	**905,445**	**100**

Source: The Ministry of Education, Center for Research and Development.

According to the CAS-UNDP Survey, the literacy rate was 88.4 per cent. in 1997, as compared to 68.2 per cent. in 1970.

The Republic traditionally had an advanced educational structure, and well-trained technicians and engineers. Prior to the conflict, Beirut served as an educational center for the region. However, a substantial part of this human capital was reduced during the conflict, and the educational system suffered damage and lack of investment. In spite of the turmoil, however, the educational system has survived and still retains high standards.

The following table gives a summary of the school system during the academic years 2000-2001 and 2002-2003:

School System

	2001-2002	**2002-2003**
Total number of schools	2,698	2,704
Public schools (as a percentage of total)	50.44%	50.52%
Private commercial schools (as a percentage of total)	71.05%	70.79%
Private non-commercial schools (as a percentage of total)	38.26%	38.37%
Total number of students in schools	899,508	905,445

Source: Ministry of Education and Higher Learning.

The Lebanese Baccalaureate (originally based on the equivalent French school diploma) is the qualification obtained by most high school graduates. A few other foreign qualifications (French, British and American) are also prepared for and awarded in the Republic. The Government has recently introduced vocational training for students in order to encourage growth of technical expertise within the Republic.

Lebanon's universities had a total of 123,371 students during the academic year 2002-2003. 9.05 per cent. of university students were foreign compared with 75.3 per cent. in 1974-1975. Lebanon's universities had a total of 84,446 students during the academic year 1995-1996 and 87,957 students during the academic year 1996-1997. In 1998-1999, the total number of students enrolled at university was 101,400.

The principal universities in Lebanon consist of the Lebanese University, with five branches (65,530 enrolments in 2002-2003), Université Saint Joseph (USJ) (founded and run by French Jesuits) (8,184 enrolments in 2002-2003), the Arab University (sponsored by the Egyptian University of Alexandria) 7,314 enrolments in 2002-2003), American University of Beirut (AUB) (6,270 enrolments in 2002-2003), Lebanese American University (4,292 enrolments in 2002-2003), Notre Dame University (3,759 enrolments in 2002-2003), Kaslik University (4,659 enrolments in 2002-2003), the recently established Balamand University (Hybrid System) (2,558 enrolments in 2002-2003) and Haigazian University (530 enrolments in 2002-2003). Each of the Lebanese University, the USJ and the AUB has a medical school.

At the initiative of the Lebanese and French governments, and with the support of the Paris Chamber of Commerce and Industry, the Central Bank of Lebanon and various private sponsors, the "Ecole Supérieure des Affaires" ("*ESA*") was established in Beirut in April 1996. The ESA offers a full-and part-time MBA program and, through its Monetary and Financial Institute, aims to attract bank and finance executives who wish to develop their knowledge of modern financial products and financing techniques.

The Government's program for the education section is to provide a primary education to every child of school age and includes the construction of new schools, the renovation of and provision of equipment to old schools, the construction, renovation of and provision of equipment to vocational and technical schools, the construction of buildings for Lebanese universities and the construction of sports facilities. Since 1992, the total value of contracts awarded in this sector is approximately U.S. $539 million.

The Government's emphasis on education is evidenced by the existence of three active ministries with responsibilities relating to educational matters. They are the Ministry of National Education, Youth and Sport, the Ministry of Vocational and Technical Education and the Ministry of Culture and Higher Education.

EXTERNAL SECTOR

Balance of Payments and Foreign Trade

Lebanon is a predominantly importing country and is characterized by large trade deficits; however, net foreign income earnings, remittances and earnings from tourism, banking, insurance and other services help offset the trade deficits. The trade balance recorded deficits of approximately $5,919 million in 2001, U.S. $4,956 million in 2002, and U.S. $5,219 in 2003. Substantial capital inflows and continuing remittances from the Lebanese diaspora financed these deficits. Even during the conflict, the balance of payments was generally in surplus. It showed minor deficits in 1979, 1983, 1984 and 1986, but larger deficits occurred in 1989 and 1990. In all other years in the period 1975-1997, there were surpluses in the balance of payments.

In 1991, the first full year of peace, large capital inflows together with a partial recovery of exports resulted in an overall balance of payments surplus of over U.S. $1,074 million. In 1992, the balance of payments registered a surplus of U.S. $54 million, although imports rose steeply during that period. In 1993, the current account deficit increased but was more than offset by large capital account inflows, leading to a balance of payments surplus of U.S. $1,170 million. The trend continued in the following two years, with the overall balance recording a surplus of U.S. $1,131 million in 1994 and U.S. $256 million in 1995. The balance of payments recorded a surplus of U.S. $786 million in 1996 and U.S. $420 million in 1997. However, the balance of payments registered a deficit of U.S. $488 million in 1998. Following the appointment of the Al Hoss Government and a reduction in the amount of foreign borrowings, the balance of payments recorded a surplus of U.S. $261 million in 1999. In 2000, the balance of payments recorded a deficit of U.S. $289 million due principally to increased capital outflows resulting from losses incurred by investors in international equity markets, increased fuel prices, a decline in new external borrowings of approximately 41 per cent. and the near doubling of amortization on external public debt.

In 2001, the balance of payments registered a deficit of U.S. $1,170 million due primarily to an increase in the trade balance deficit and the effect of regional developments. During 2002 and the first half of 2003, the Republic's balance of payments improved significantly. By year end 2002, the balance of payments registered a surplus of U.S. $1,564 million, benefiting from an increase in exports and a substantial inflow of funds from the

Paris II Conference in November of 2002. By December 2003, the balance of payments surplus increased to U.S. $3,386 million.

The following table sets out information relating to the Republic's foreign trade from 1999 to 2003:

Balance of Payments Summary[1]

	1999	2000	2001	2002	2003
	(in millions of U.S. Dollars)				
Current account	(5,048)	(4,749)	(5,568)	(4,864)	(4,621)
Trade balance	(5,086)	(5,081)	(5,919)	(4,956)	(5,219)
Exports. f.o.b.[2]	695	712	880	1,018	1,444
Imports. f.o.b.[2]	(5,780)	(5,793)	(6,800)	(5,974)	(6,663)
Services	265	632	200	13	331
Factor	213	334	(53)	(543)	(572)
Interest	31	194	(123)	(515)	(349)
Bank of Lebanon (net)	278	532	228	52	51
Interest on external public debt	(247)	(338)	(350)	(567)	(401)
Investment income	182	139	69	(28)	(223)
Commercial banks (net)	63	(36)	(25)	(101)	(155)
Earnings	421	331	336	247	142
Payments	(358)	(367)	(362)	(348)	(297)
Non banks[3]	120	175	94	73	(68)
Earnings	272	338	188	279	157
Payments	(152)	(163)	(94)	(206)	(224)
Nonfactor	52	298	253	556	903
Insurance and freight	(499)	(489)	(551)	(487)	(542)
Travel and transportation	518	791	855	1,045	1,456
Communication services	125	78	35	56	94
Medical services	0	0	0	0	0
Financial services	(1)	(3)	(15)	(1)	(1)
Other[4]	(91)	(79)	(72)	(57)	(104)
Unrequited transfers	(227)	(300)	151	80	266
Public sector grants	111	53	492	59	34
Private transfers	(334)	(345)	(336)	24	250
Others[5])	(4)	(9)	(5)	(4)	(17)
Capital account	5,309	4,460	4,399	6,428	8,007
Direct investment	740	856	1,450	1,336	1,506
Real estate investment	768	930	1,451	1,336	1,506
Other	(28)	(74)	(1)	0	0
Portfolio investment	129	(67)	(479)	509	(96)
External public disbursements	692	1,047	1,000	2,823	2,592
Contracted loans	327	210	182	138	681
Eurobond	364	837	817	2,685	1,911
Amortization on external public debt	(131)	(219)	(255)	(486)	(446)
Non-bank short-term capital	57	(272)	(637)	(842)	736
Claims on foreign banks (increase)	(129)	(88)	(478)	(748)	35
Liabilities to foreign banks	186	(184)	(159)	(94)	701
Other capital[6]	3,822	3,116	3,320	3,088	3,715
Overall balance[7]	**261**	**(289)**	**(1,169)**	**1,564**	**3,386**

Source: Higher Council of Customs/Banque du Liban.

Notes:
(1) Certain line items differ from previously published data due to revisions agreed with the IMF.
(2) Customs data.
(3) Data on the flow of international bank lending to non-bank residents of Lebanon and on the flow of deposits by residents of Lebanon with international banks are obtained from BIS stocks.
(4) Includes public sector services in computer and information, construction, and financial and business services.
(5) Includes governmental transfers.
(6) Includes valuation adjustments and errors and omissions (mainly unrecorded flows of both current and capital items). The increase in errors and omissions in 1999 is due, in part, to the new compilation of the balance of payments during such period.

(7) Includes a U.S. $500 million deposit from Saudi National Commercial Bank made in December 1997 but subsequently reduced through partial repayment, a U.S. $100 million deposit from the Kuwaiti Investment Authority made in February 1998 and a U.S. $100 million deposit from the National Bank of Abu Dhabi made in May 1998.

The following table indicates the principal destinations of exports for the years 1999 to 2003:

Destination of Exports(1)

	1999	2000	2001	2002	2003
			(per cent.)		
Industrial Countries	**40.4**	**35.4**	**36.2**	**33.2**	**39.5**
Italy	2.8	2.5	2.9	2.2	1.9
United States	6.2	6.5	6.8	5.1	4.3
Switzerland	6.6	7.1	7.1	12.6	24.9
France	7.7	5.2	4.3	1.9	1.6
Germany	3.6	2.5	1.9	1.3	1.3
United Kingdom	3.6	1.6	1.7	2.1	1.1
Other	9.9	10.0	11.4	8.0	4.4
Developing Countries	**59.6**	**64.6**	**63.8**	**66.8**	**60.5**
Middle East	43.2	45.2	44.6	48.3	41.8
Saudi Arabia	10.5	10.9	9.6	9.2	6.8
Syria	4.8	3.6	4.0	7.2	6.5
Jordan	4.0	4.4	3.5	3.4	3.2
Kuwait	4.5	3.7	3.1	3.1	3.3
U.A.E.	8.0	10.5	8.2	9.1	6.8
Egypt	2.3	3.3	2.7	2.6	1.8
Other	9.3	8.9	13.6	13.7	13.3
Africa	5.5	5.6	5.0	5.7	6.2
Other Europe	4.2	5.1	4.6	4.5	5.9
Other	6.7	8.6	9.6	8.2	6.6
Total	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

Source: Higher Council of Customs/Banque du Liban.

Note:
(1) Discrepancies in the figures appearing in this table are due to rounding.

The following table shows the composition of exports for the years 1999 to 2003:

Composition of Industrial Exports

	1999	2000	2001	2002	2003
			(per cent.)		
Food and Beverage	20	19	19	17	15
Textiles	8	6	9	6	4
Leather, Plastics, Rubber	1	2	3	1	1
Wood and Products	1	1	1	1	1
Chemicals and Pharmaceuticals	13	12	10	10	8
Paper and Products	8	7	7	9	6
Stone, Clay and Glass	2	3	3	2	2
Metal and Products	14	13	11	11	12
Machinery and Appliances	13	13	15	14	14
Jewellery	14	18	16	21	30
Other	6	6	7	7	7
Total	**100**	**100**	**100.0**	**100**	**100**

Source: Higher Council of Customs/Banque du Liban.

The following table sets out the major sources of imports for the years 1999 to 2003:

Sources of Imports[1]

	1999	2000	2001	2002	2003
			(per cent.)		
Industrial Countries	**66.4**	**62.3**	**57.4**	**58.7**	**56.0**
Italy	10.9	10.9	9.7	10.8	9.4
France	9.6	8.5	8.4	8.0	8.1
Germany	8.9	8.3	8.5	9.0	8.1
United States	8.1	7.3	7.1	7.2	6.0
Japan	4.2	3.4	3.2	3.4	3.8
United Kingdom	4.4	5.2	4.6	4.8	5.2
Switzerland	7.1	6.9	4.6	4.1	3.0
Belgium-Luxembourg	1.9	1.7	1.9	2.2	2.3
Other	11.3	10.0	9.3	9.2	10.1
Developing Countries	**33.6**	**37.7**	**42.6**	**41.3**	**44.0**
Middle East	9.4	12.5	13.2	11.1	13.2
Saudi Arabia	1.7	2.6	3.6	2.2	3.1
Syria	3.6	4.5	4.5	3.2	3.6
Bahrain	0.4	0.8	0.8	0.6	0.1
Kuwait	0.2	0.3	0.2	0.2	0.2
Other	3.6	4.2	4.1	4.9	6.2
Africa	0.7	0.6	0.5	0.5	0.5
Europe	5.3	4.8	5.6	7.0	6.2
Romania	0.6	0.7	0.5	0.9	1.1
Turkey	2.6	2.2	3.3	4.0	3.3
Cyprus	0.2	0.2	0.2	0.2	0.2
Other	1.9	1.7	1.6	1.9	1.7
Others	18.2	19.8	23.3	22.7	24.1
Total	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

Source: Higher Council of Customs/Banque du Liban.

Note:
(1) Minor discrepancies in the figures appearing in this table are due to rounding.

Foreign Direct Investment

Prior to 1975, foreign direct investment was substantial. It was concentrated in property, services, banking and tourism. Predictably, foreign direct investment was weak during the period of conflict.

The onset of peace marked a reversal of this trend. Since 1990, considerable amounts of private Arab capital have been invested in real estate. Two principal sources for foreign direct investment have been the substantial funds held by Lebanese abroad and the large pool of private Arab wealth.

The Government continues to favor a strong role for the private sector in a liberal policy environment and welcomes foreign direct investment in the economy. The legal framework is sound and conducive to foreign investment. There are no special financial provisions for, or constraints on, foreign investors in the Republic, except that certain restrictions exist on foreign ownership of companies involved in media activity, land ownership (both directly and when holding shares in companies owning real property) and the employment of foreign labor. A government agency, the IDAL, which has been established in 1994, assists foreign investors in setting up their businesses in Lebanon.

Lebanon's membership in the Multilateral Investment Guarantee Agency was ratified by Parliament as a means of reinforcing the confidence of foreign investors wishing to invest in Lebanon. In addition, the National Institute for the Guarantee of Investment makes insurance coverage available to investors, in the form of compensation, for losses resulting from non-commercial risks.

Foreign Borrowings and Grants

As at the end of January 1999, the Republic had obtained foreign financing facilities (excluding the proceeds of outstanding eurobonds) totaling approximately U.S. $5.2 billion, of which approximately U.S. $4.08 billion had been drawn down and approximately U.S. $1.12 billion had not been utilized, as well as approximately U.S. $0.55 billion in the form of grants. These facilities and grants have been provided principally by the following countries and institutions: the Abu-Dhabi Fund for Development, the Arab Fund for Economic and Social Development, Belgium, the European Investment Bank, the European Union, France, Germany, the International Fund for Agricultural Development, the Islamic Development Bank, Italy, Japan, Kuwait, Qatar, Oman, OPEC Fund for International Development, Saudi Arabia, the United Nations and the World Bank.

The Government's strategy has been to maximize the use of external financing, preferably concessional financing (in the form of grants or soft loans). Other sources of external financing include commercial loans with export credit guarantees and the issuance by the Government of eurobonds and other international debt securities.

The Government has sought the assistance of friendly countries, such as France, the United States and Japan and multinational agencies, to address the issues it was facing. To this end, in February 2001, a meeting was convened in Paris by the President of France and was attended by the President of the World Bank, the President of the European Commission, the Vice Chairman of the European Investment Bank and members of the French government. The purpose of the meeting was to discuss the Government's economic program and consider proposals to support this program; these proposals included the issuance of partial guarantees of some of the Republic's external debt issues.

On November 23, 2002 a second conference, known as "Paris II", was convened by the President of France. The meeting was attended by representatives of a number of countries, including the president of Malaysia, the prime ministers of Belgium, Canada, Germany, Italy and Spain and senior officials from Bahrain, Denmark, Japan, Kuwait, Oman, Qatar, Saudi Arabia, the United Arab Emirates and the United Kingdom. Also in attendance were senior representatives of the European Commission, the World Bank, the IMF, the European Investment Bank and various Arab multilateral agencies. The participants at the conference expressed support for the economic reform measures of the Government and pledged to contribute approximately U.S. $3.1 billion in long-term, low interest financing to the treasury of the Government and approximately U.S. $1.3 billion in long-term, low interest financing for projects. As at September 30, 2003, the Government had collected proceeds totaling approximately U.S. $2.4 billion, representing approximately 77 per cent. of the U.S. $3.1 billion pledged at the Paris II Conference. In exchange for these contributions, the Republic issued eurobonds and entered into a loan agreement with the Agence Française de Développement, bearing interest at the rate of 5 per cent. and having a final maturity of 15 years with a grace period of up to five years. The Government has used these funds to redeem and cancel higher-interest bearing maturing debt.

In addition to the U.S. $2.4 billion received from the lender countries mentioned above, the Republic also received contributions from two multilateral institutions in the form of a U.S. $15 million medium term loan for structural adjustment from the Arab Monetary Fund and a U.S. $40 million facility to be used to finance fuel imports by EDL. The EU contributed Euro 12.25 million as a grant to be used for structural adjustment and fiscal reforms.

The following table details the amounts received from countries and institutions as a result of the Paris II Conference.

Paris II Funds Received

Creditor	**Amounts Received**
Malaysia	U.S. $300 million
Sultanate of Oman	U.S. $50 million
United Arab Emirates	U.S. $300 million
Kuwait	U.S. $300 million
Kingdom of Saudi Arabia	U.S. $700 million
State of Qatar	U.S. $200 million
France-French Treasury & Agence Française de Développement (AFD)	Euro 500 million
Arab Monetary Fund (AMF)	U.S. $55 million
European Union (EU)	Euro 12.25 million

Source: Ministry of Finance.

Discussions with the remaining countries that pledged funds during the Paris II Conference are underway and are at various stages of development.

PUBLIC DEBT

General

As at December 31, 2003, the Republic's gross public debt was LBP 50,247 billion (U.S. $33.3 billion) consisting of LBP 26,843 billion of gross domestic debt and LBP 23,404 billion of public external debt. Net outstanding public debt of the Republic was LBP 47,228 billion (U.S. $31.3 billion) as of December 31, 2003.

The table below shows the Republic's gross and net public sector debt for the periods indicated below[(1)].

	1999	2000	2001	2002	2003
			(*in billions of Lebanese Pounds*)		
I. Gross Domestic Debt	25,383	27,161	28,214	25,302	26,843
II. Public External Debt[(2)]	8,351	10,828	14,467	22,008	23,404
III. Gross Public Debt (I + II)......	**33,734**	**37,989**	**42,681**	**47,311**	**50,247**
IV. Public Sector Deposits[(3)]...........	4,006	2,631	1,913	2,964	3,018
V. Net Domestic Debt (I – IV)	21,377	24,530	26,301	22,338	23,824
VI. Net Public Debt (III – IV)......	**29,728**	**35,358**	**40,767**	**44,346**	**47,228**

Source: Ministry of Finance/Banque du Liban.

Notes:
(1) Debt figures differ from previously published figures due to continuing implementation of the Debt Management System.
(2) Amounts translated into Lebanese Pounds at end of period rates; includes accrued interest.
(3) Represent public sector deposits at Banque du Liban and commercial banks.

The table below shows the Republic's gross and net public debt as a percentage of GDP for the periods indicated below.

	1999	2000	2001	2002	2003
			(*as a per cent. of GDP*)		
Gross Public Debt...........................	136%	153%	170%	181%	185%
Net Public Debt	120%	142%	162%	170%	174%

Source: Ministry of Finance/Banque du Liban.

Net public debt as a percentage of estimated GDP increased from 46 per cent. in 1992 to 105 per cent. in 1998, 120 per cent. in 1999, 142 per cent in 2000, 162 per cent. in 2001, 170 per cent. in 2002 and 174 per cent. in 2003.

Internal Debt

The Government has elected to finance the budget deficit principally through the issuance of LL denominated Treasury bills (with maturities of three months, six months and twelve months), and Treasury bonds (with maturities of 24 months). The weighted average yields on Treasury bills and Treasury bonds increased significantly during 1995, but have been slowly declining since October 1995. Following the Paris II Conference, yields on Treasury bills declined substantially and market auctions were halted for a period of approximately nine months (between mid February 2003 and the end October 2003) on account of the inflow of Paris II funds and the commercial bank and the Central Bank debt service reduction measures. The issuance of Treasury bills and bonds resumed during November of 2003, and Treasury bonds in Lebanese Pounds with maturities of 36 months were introduced for the first time to the market.

The table below shows the Republic's composition of domestic debt as of December 31, 2003:

	(in billions of Lebanese Pounds)	*(in millions of U.S. Dollars)*
Long term bonds[1]	**24,691**	**16,379**
Special bonds issued to the Central Bank	4,229	2,805
36 months	884	586
24 months	18,986	12,594
Accrued interest	522	346
Short term bills	**1,799**	**1,193**
12 months	796	528
6 months	424	281
3 months	579	384
Accrued interest	44	29
Other domestic debt	**353**	**234**
Central bank loans	308	204
Commercial bank loans	45	29
Total Domestic Debt	**26,843**	**17,806**

Source: Ministry of Finance/Banque du Liban.

Note:
(1) Long-term bonds have maturities of two years or longer.

External Debt

The outstanding public external debt as at the end of 1992 and 1993 was approximately U.S. $362 million and U.S. $429 million, respectively. Commencing in 1994, the Republic became a frequent issuer on the international capital markets as it sought to finance its budget deficit and to convert its high interest domestic debt into lower interest external debt. As at December 31, 2003, the outstanding public external debt of the Republic amounted to approximately U.S. $15.5 billion.

The table below shows the composition of the Republic's foreign debt as at December 31, 2003:

	(in billions of Lebanese Pounds)	*(in millions of U.S. Dollars)*
Eurobonds	19,607	13,006
Paris II Eurobonds[1]	5,608	3,720
Loans	3,796	2,518
Paris II concessional loans[2]	942	625
Bilateral and multilateral loans	2,423	1,607
Foreign private sector loans	431	286
Total Foreign Debt	**23,403**	**15,524**

Source: Ministry of Finance/Banque du Liban.

Notes:
(1) Includes U.S. $1.87 billion issued to Banque du Liban.
(2) Contribution of France (AFD Loan).

The following table shows the Republic's outstanding eurobonds as at December 31, 2003 excluding eurobonds issued in connection with the Paris II Conference and eurobonds issued as part of the commercial bank debt service reduction measure:

Year of Issue	Maturity	Original Principal Amount	Outstanding Principal Amount[1]	Coupon
1997	2007	U.S. $100 million	U.S. $100 million	7.5%
1997	2007	U.S. $400 million	U.S. $369 million	8.625%
1998	2005	U.S. $450 million	U.S. $417 million	8.75%
1999	2006	Euro 300 million	Euro 264 million	8.875%
1999	2009	U.S. $650 million	U.S. $636 million	10.25%
2000	2004	U.S. $850 million	U.S. $844 million	9.5%
2000	2005	U.S. $850 million	U.S. $847 million	9.375%
2001	2006	U.S. $1,150 million	U.S. $1,110 million	9.875%
2001	2008	U.S. $750 million	U.S. $750 million	10.125%
2001	2016	U.S. $400 million	U.S. $400 million	11.625%
2002[2]	2005	U.S. $1,000 million	U.S. $900 million	10.25%
2002[2]	2006	U.S. $350 million	U.S. $349 million	10.5%
2002[2]	2006	U.S. $500 million	U.S. $105 million	10.5%
2002[3]	2006	U.S. $750 million	U.S. $641 million	10.5%

Source: Ministry of Finance.

Notes:

(1) The outstanding amount of some eurobonds is less than the original amount due to the cancellation of a portion of such eurobonds in connection with the Central Bank and Commercial Bank debt service reduction measures. See *"The Economy -- Recent Economic History"*.

(2) Eurobonds issued and initially transferred to the Central Bank in consideration for the cancellation of an equivalent amount of Treasury bills and bonds held by the Central Bank.

(3) Eurobonds issued and initially delivered to holders of U.S. Dollar-denominated notes maturing on August 2, 2002 to refinance such notes. See *"Public Debt – Issuance of Dollar-denominated Notes in Satisfaction of Certain Claims"*.

The following table shows the Republic's outstanding eurobonds issued in connection with the Paris II Conference as at December 31, 2003:

Year of Issue	Maturity	Original Principal Amount	Outstanding Principal Amount	Coupon
		(in U.S. Dollars)		
2002	2017	950 million	950 million	5.0%
2002	2017	1,870 million	1,870 million	4.0%
2003	2018	700 million	700 million	5.0%
2003	2018	200 million	200 million	5.0%

Source: Ministry of Finance.

In addition, in 2003, the Republic issued Eurobonds in an aggregate principal amount of US $422,905,000 and Euro 236,250,000 as part of the commercial bank debt service reduction measure described in this report.

The following table shows the Republic's public external debt by type of creditor at the end of the periods indicated:

Public Sector External Debt By Type of Creditor(1)(2)

	1999	2000	2001	2002	2003
			(in millions of U.S. Dollars)		
Bilateral	**476**	**454**	**445**	**466**	**1,131**
Agence Francaise de Developpement (AFD)					629
Government of Belgium	2	2	1	2	2
Government of China	6	6	6	6	6
US Department of Agriculture	0	0	0	0	0
Abu Dhabi Fund for Development	24	21	19	16	14
Kuwaiti Fund for Arab Economic Development	134	137	138	140	143
Mediocredito Centrale	16	17	17	16	15
Osterreichische Landerbank Aktiengesellschaft	39	32	28	29	32
Sezione Speciale per l'Assicirazione del Credito all'Esportazione	30	24	23	25	29
Natexis Banque	75	72	70	83	99
Fortis Bank				1	1
The Saudi Fund for Development	103	107	106	102	100
Kerditanstalt Fur Wiederaufbau	47	38	32	33	36
Overseas Econ. Coop. Fund (OECF)			5	13	23
Multilateral	**768**	**879**	**942**	**1,025**	**1,120**
International Bank for Reconstruction and Development	241	262	277	290	296
European Investment Bank	242	274	264	278	324
International Fund for Agricultural Development	5	5	7	8	9
Communaute Economique Europeenne	1	1	1	1	1
Arab Fund for Economic and Social Development	227	255	290	328	348
Islamic Development Bank	47	76	97	113	133
The OPEC Fund for International Development	5	432	6	8	9
Commercial Banks(3)	**487**	**432**	**391**	**323**	**289**
Eurobonds(4)	**3,685**	**5,260**	**7,613**	**12,512**	**12,790**
TOTAL	**5,415**	**7,025**	**9,391**	**14,326**	**15,330**

Source: Ministry of Finance.

Notes:
(1) Certain figures in this table differ from previously published data due to continuous implementation of the new debt management system; excluding accrued interest.
(2) Amounts translated into U.S. Dollars at end of period rates.
(3) Due to the reclassification of some items that were previously classified as bilateral and which are now included under commercial banks, subtotals for bilateral and commercial banks differ from previously published figures.
(4) Consisting of the securities that are listed in the Eurobond tables on the preceding two pages.

The following issuances of Notes took place during 2003: U.S. $700,000,000 5.00 per cent. Notes due 2018 were issued on March 7, 2003, U.S. $77,313,000 Zero Coupon Notes due 2005 were issued on April 16, 2003, U.S. $72,580,000 Zero Coupon Notes due 2005 were issued on April 16, 2003, Euro 16,027,000 Zero Coupon Notes due 2005 were issued on April 16, 2003, U.S. $109,330,000 Zero Coupon Notes due 2005 were issued on April 16, 2003, U.S. $54,851,000 Zero Coupon Notes due 2005 were issued on April 22, 2003, Euro 71,486,000 Zero Coupon Notes due 2005 were issued on April 22, 2003, U.S. $108,831,000 Zero Coupon Notes due 2005 were issued on May 20, 2003, Euro 148,737,000 Zero Coupon Notes due 2005 were issued on May 20, 2003 and U.S. $200,000,000 5.00 per cent. Notes due 2018 were issued on May 27, 2003.

The following table shows the Republic's public external debt by currency at the end of the periods indicated:

Public Sector External Debt by Type of Currency[1]

	1999	%	2000	%	2001	%	2002	%	2003	%
	(in millions of U.S. Dollars) [2]									
Euros[3]	1,078	19.9	1,246	17.7	1,179	126	1,181	8.2	1,926	13.5
Swiss Francs	13	0.2	12	0.2	11	0.1	12	0.1	12	0.1
Pounds Sterling....	1	0	1	0	0.9	0	0.9	0	1	0
U.S. Dollars	3,763	69.5	5,173	73.6	7,574	80.6	12,463	87	12,550	81.9
China Yuan Renmimbi	6	0.1	6	0.1	6	0.1	6	0	6	0
Kuwaiti Dinars.....	360	6.7	392	5.6	428	4.6	467	3.3	491	3.2
Saudi Arabian Riyals	103	1.9	105	1.5	106	1.1	102	0.7	100	0.7
Arab Emirates Dirhams...............	24	0.4	21	0.3	18	0.2	16	0.1	14	0.1
Japanese Yen	22	0.4	19	0.3	20	0.2	29	0.2	41	0.3
Special Drawing Rights..................	5	0.1	5	0.1	7	0.1	8	0.1	9	0.1
Islamic Dinars......	40	0.7	45	0.6	41	0.4	40	0.3	43	0.3
Total	**5,415**	**100**	**7,025**	**100**	**9,391**	**100**	**14,326**	**100**	**15,330**	**100**

Source: Ministry of Finance.

Notes:
(1) Certain figures in this table differ from previously published figures due to continuing implementation of a new debt management system; excluding accrued interest
(2) Amounts translated into U.S. Dollars at end of period rates.
(3) This category includes external debt incurred in European currency units prior to the introduction of the euro in January 1, 1999 at the start of the third stage of the European Economic and Monetary Union.

The following table shows the Republic's public external debt projections and estimated future disbursements of contracted amounts for the years indicated.

Public Sector External Debt Projections and Estimated Future Disbursements as of December 31, 2003

	2004	2005	2006	2007	2008
			(in millions of U.S. Dollars)[1]		
Estimated Disbursements[(2)]	706	281	136	75	38
Principal Payments	1,644	3,153	2,916	828	1,448
Principal Repayment-Loans	244	271	381	359	371
Principal Repayment-Eurobonds	1,400	2,882	2,535	469	1,077
Eurobond (USD) 2004	184	-	-	-	-
Eurobond (USD) 2004	844	-	-	-	-
Eurobond (Euro) 2004	372	-	-	-	-
Eurobond (USD) 2005	-	900	-	-	-
Eurobond (USD) 2005	-	847	-	-	-
Eurobond (USD) 2005	-	417	-	-	-
Eurobond (USD) 2005	-	718			
Eurobond (USD) 2006	-	-	1,110	-	-
Eurobond (USD) 2006	-	-	349	-	-
Eurobond (USD) 2006	-	-	105	-	-
Eurobond (USD) 2006	-	-	641	-	-
Eurobond (Euro) 2006	-	-	330	-	-
Eurobond (USD) 2007	-	-	-	100	
Eurobond (USD) 2007	-	-	-	369	
Eurobond (USD) 2008	-	-	-	-	750
Eurobond (USD) 2009	-	-	-	-	-
Eurobond (USD) 2016	-	-	-	-	-
Eurobond (USD) 2017	-	-	-	-	95
Eurobond (USD) 2018	-	-	-	-	187
Eurobond (USD) 2018	-	-	-	-	35
Eurobond (USD) 2018	-	-	-	-	10
Interest & Commissions	1,128	928	739	528	470
Loans	149	158	151	134	118
Coupon Payments	979	770	588	394	352
Eurobond (USD) 2004	16	-	-	-	-
Eurobond (USD) 2004	80	-	-	-	-
Eurobond (Euro) 2004	27	-	-	-	-
Eurobond (USD) 2005	92	46	-	-	-
Eurobond (USD) 2005	79	40	-	-	-
Eurobond (USD) 2005	36	36	-	-	-
Eurobond (USD) 2006	110	110	55	-	-
Eurobond (USD) 2006	37	37	37	-	-
Eurobond (USD) 2006	11	11	5	-	-
Eurobond (USD) 2006	67	67	67	-	-
Eurobond (Euro) 2006	29	29	29	-	-
Eurobond (USD) 2007	8	8	8	8	-
Eurobond (USD) 2007	32	32	32	32	-
Eurobond (USD) 2008	76	76	76	76	76
Eurobond (USD) 2009	65	65	65	65	65
Eurobond (USD) 2016	47	47	47	47	47
Eurobond (USD) 2017	48	48	48	48	46
Eurobond (USD) 2018	75	75	75	75	73
Eurobond (USD) 2018	35	35	35	35	35
Eurobond (USD) 2018	10	10	10	10	10
Total External Debt Service	**2,772**	**4,081**	**3,655**	**1,356**	**1,918**

Source: Ministry of Finance

Notes:

(1) Amounts translated into U.S. Dollars at the rate of U.S. $1.2501 = Euro 1.00, the U.S. Dollar/Euro rate of exchange as at December 31, 2003.

(2) Estimated disbursements in respect of financing arrangements (excluding Eurobonds) entered into by the Republic or its agencies and in effect on December 31, 2003. Estimated disbursements and principal payments exclude debt service in connection with further issuances of eurobonds and similar securities. External debt incurred by the Republic during the projected period may differ significantly from the amounts shown in the table.

Issuance of Dollar-denominated Notes in Satisfaction of Certain Claims

Following its appointment, the previous Government resolved to settle outstanding amounts due from the Republic and its agencies and resulting from hospital claims, contractors claims and expropriation of property claims on account of 1998 and preceding years. Such amounts lacked appropriate allocation in previous budgets. In June 1999, Parliament adopted Law No 95, which authorized the Government to issue foreign currency-denominated notes in an aggregate principal amount not exceeding LL 1,242 billion (U.S. $824 million) in satisfaction of amounts due for the year 1998 and preceding years. The notes were deemed issued as at August 6, 1999 (regardless of their actual issue date or date of delivery) and had a maturity of three years. The notes carried interest at a rate of 5.63 per cent. per annum, payable annually. Principal was payable in full at maturity. With the exception of claims for expropriation of property, which have been the subject of judicial decisions, claimants must submit proofs of claims to specialized commissions for confirmation of the amounts due from the Republic to be exchanged for notes. On August 2, 2002, pursuant to Law No 450 and the 2002 Budget Law, the Republic issued U.S. $750 million in aggregate principal amount of notes to the holders of these notes for refinancing of the notes issued on August 6, 1999. These refinancing notes mature on August 2, 2006 and carry interest at a rate of 10.5 per cent.

Debt Record

The Republic had little public external debt prior to 1975 and, with one minor exception, has been current on its debt service, including during the 1975-1990 period of conflict. The only instance of arrears was in respect of a debt to the United States Commodity Credit Corporation, which financed a sale on concessional terms in 1970. The loan fell into arrears in April 1986 as the Ministry of Finance, which coordinates external debt service, was then unaware of its existence due to loss of records during the conflict period. The loan was not accelerated. The Ministry of Finance assumed responsibility for the debt and the arrears (amounting to U.S. $5.5 million in principal and accrued interest and U.S. $713,000 in late interest) were cleared in 1995.

The Republic has never conducted a Paris Club or London Club rescheduling of its external debt.

MONETARY SYSTEM

Role of Banque du Liban

The Central Bank is the sole custodian of public funds, supervises and regulates the banking system and is vested by law with the exclusive authority of issuing the national currency. The Central Bank's primary role is to safeguard the currency and promote monetary stability, thereby creating a favorable environment for economic and social progress. The Central Bank also advises the Government on various economic and financial matters. In conducting its monetary management function, the Central Bank utilizes a wide range of instruments, including reserve requirements on Lebanese Pound deposits with commercial banks, liquidity requirements on U.S. Dollar deposits in commercial banks, Treasury bill repurchase and swap agreements with commercial banks, as well as Lebanese Pound denominated certificates of deposits issued by Banque du Liban.

As a result of high inflation prior to 1992, the Lebanese economy became substantially dollarized. Since October 1992, monetary policy has been targeted at stabilizing the Lebanese Pound exchange rate and controlling the inflation rate and money growth. The return of confidence in monetary stability and the high returns on investment in LL-denominated financial securities led to a significant decline of the dollarization of deposits in the economy and to a build up in foreign exchange reserves until the end of 1996. Thus, the proportion of foreign currency deposits decreased from 73.6 per cent. in December 1990 to 56.3 per cent. in June 1997 before increasing to 63.9 per cent. at the end of 1997 and 65.5 per cent. at the end of 1998 due in part to the turmoil generally affecting emerging markets following the Asian crisis. In 1999, the proportion of foreign currency deposits declined gradually to reach 61.6 per cent. at year end, with a further decline to 61.0 per cent. at end-March 2000. From March 2000, the proportion of foreign currency deposits increased to 72.53 per cent. at December 31, 2001 due to regional tensions and a higher than expected budget deficit. This ratio continued to increase until May 2002, reaching 74.24 per cent., when it again started to decline, reaching 69.40 per cent. by the end of 2002 and 67.35 per cent. as at September 30, 2003.

The following table sets out the balance sheet of Banque du Liban as at December 31 for the years 1999 to 2003:

	1999	2000	2001	2002	2003
	(in billions of Lebanese Pounds)				
Assets					
Gold	4,037	3,806	3,861	4,849	5,779
Foreign currencies	11,451	8,665	6,574	7,644	15,372
Other foreign assets	17	17	0	0	0
Claims on private sector	216	245	201	205	398
Loans to banks and financial companies	406	735	781	1,720	1,827
Claims on public sector	112	114	117	114	307
Securities portfolio	729	2,683	7,328	4,499	12,399
Fixed assets	178	216	221	222	266
Unclassified assets (1)	95	696	255	287	1,085
Total assets	**17,241**	**17,177**	**19,388**	**19,539**	**37,433**
Liabilities					
Currency in circulation outside	1,516	1,622	1,527	1,542	1,717
Deposits of banks	6,817	7,202	10,625	11,849	28,152
Deposits of specialist banks	101	154	203	288	1,287
Private sector deposits	50	76	91	63	27
Public sector accounts	3,304	1,910	1,402	2,373	1,693
Valuation adjustment	2,918	2,522	2,742	103	646
Foreign liabilities	237	210	230	239	204
Special long-term liabilities	1,068	1,068	1,386	1,419	1,343
Capital accounts	883	912	1,049	1,255	1,914
Unclassified liabilities(2)	346	1,502	81	407	450
Total liabilities	**17,241**	**17,177**	**19,338**	**19,539**	**37,433**

Source: Banque du Liban.

Notes:
(1) Unclassified assets include the following items: other debtor accounts, counterpart securities, accounts receivable, a regularization account, inventory and fixed assets.
(2) Unclassified liabilities include the following items: notes payable, other creditor accounts and a regularization account.

Banking Sector

As at the end of February 2004, there were 53 active commercial banks and 10 specialized medium and long-term credit banks with 822 branches, 28 financial institutions, eight financial intermediaries and three leasing companies in the Republic. Foreign banks were well represented in the Republic, maintaining 10 branches and having majority equity stakes in 17 local banks and minority equity stakes in 12 local banks.

Unlike the banking sector in some other emerging market countries, the banking sector in Lebanon is generally acknowledged to be stable and financially strong, and plays a critical role in the economy as a whole.

The banking sector currently offers services related to short-term and, increasingly, medium-term financing. As medium-term funds become available to Lebanese banks (by way of loans from international organizations, such as IFC, the European Bank for Reconstruction and Development and the European Investment Bank, or the issuance of debt securities on the international capital markets), commercial banks have begun to offer a variety of medium-term loans, such as residential mortgage loans, other consumer loans and several types of loans to corporate investors. The return of foreign banks to the Republic is seen as a key step to diversifying the financial sector and strengthening competitive forces. Foreign banks are gradually re-establishing themselves in Lebanon, with ING and Citibank having each received a banking license in 1996 and Banque Nationale du Canada in 1998 and Cairo Amman Bank in 1999 and other foreign banks acquiring participations in the capital of Lebanese banks.

From March 1995, commercial banks were required to meet a minimum capital adequacy ratio of 8 per cent. in line with the Basle Accord. In September 1999, the Central Bank required banks to raise their capital adequacy ratios to 10 per cent. by the end of 2000 and 12 per cent. by the end of 2001. A law facilitating bank mergers by (among other things) making banks eligible for soft loans from the Central Bank, was passed in 1993 and renewed in 1998 until 2003. During the past three years, banks' capital has increased substantially and, at December 31, 2001, the average capital adequacy ratio of commercial banks was approximately 16.18 per cent.

In addition, Parliament passed legislation to revitalize specialized banks (for housing, agriculture and industry). State participation in the shareholding of these banks has been reduced to a minority stake. In addition, Parliament passed laws relating to the listing of bank shares on stock exchanges and several banks currently list their eligible shares on the Beirut Stock Exchange.

The following table sets out the combined balance sheet of the commercial banks as at December 31, 1999 to 2003:

Balance Sheet of Commercial Banks in Lebanon

	1999	2000	2001	2002	2003
		(in billions of Lebanese Pounds)			
Assets					
Reserves	6,827	7,331	10,656	11,960	28,333
Currency	146	198	146	166	187
Deposits with Banque du Liban	6,681	7,132	10,510	11,794	28,146
Claims on private sector	20,994	22,243	22,192	22,758	22,507
Lebanese Pounds	2,474	2,889	3,207	4,055	3,711
Foreign currency	18,521	19,354	18,985	18,702	18,795
Claims on public sector	21,841	23,271	23,067	26,557	21,006
Treasury Bills	21,499	22,503	22,151	26,523	20,961
Other	341	768	916	55	45
Foreign assets	8,910	12,300	12,988	14,326	14,934
Fixed assets	2,034	2,195	2,568	2,884	2,932
Unclassified assets	365	548	384	561	581
Total assets	**60,971**	**67,888**	**71,855**	**79,066**	**90,292**
Liabilities					
Private sector deposits	43,304	47,582	51,234	55,068	61,465
Lebanese Pounds	18,794	17,938	15,793	18,912	23,491
Sight	846	862	890	1,072	1,258
Term	17,949	17,076	14,903	17,841	22,233
Foreign currency	24,510	29,644	35,441	36,155	37,974
Sight	2,645	2,831	3,197	3,653	3,283
Term	21,865	26,813	32,244	32,502	34,691
Public sector deposits	702	721	526	591	1,325
Liabilities to non-resident banks	1,781	1,692	1,796	1,859	2,398
Notes	168	60	8	157	58
Deposits of non-residents	7,856	9,148	9,280	9,206	11,623
o/w: in Lebanese Pounds	846	850	833	773	1,215
Capital accounts	4,019	4,376	4,463	5,024	5,499
Unclassified liabilities	3,142	4,310	4,548	7,161	7,923
Total liabilities	**60,971**	**67,888**	**71,855**	**79,066**	**90,292**

Source: Banque du Liban.

Interest Rates

Prior to 1993, interest rates on Treasury bills were fixed by the Ministry of Finance in consultation with Banque du Liban. In May 1993, the Central Bank began selling 3-month Treasury bills in a multiple price auction. The authorities subsequently extended this system to 6- and 12-month Treasury bills in June and September 1993, respectively. In October 1994, the auction system was extended to 24-Month Treasury notes. Interest rates declined significantly in 1993 and 1994 in response to increased domestic and external demand for Lebanese Pound assets. The first three quarters of 1995 witnessed an increase in interest rates, reflecting a number of factors, including the policy objective of maintaining stability in the foreign exchange market in the face of political uncertainties associated with the end of the President's term of office. Interest rates experienced a steady decline from the fourth quarter of 1995 to the end of October 1999, remained stable between November 1999 and November 2002 and, following the Paris II Conference, have declined and are currently at a historical low. The Central Bank also affects interest rates through its treasury bill discount and repurchase operations on the secondary market.

The gradual decline in interest rates on Treasury bills has been accompanied by a decrease in the spread between U.S. Dollar and Lebanese Pound lending and deposit rates. The spread between deposit rates in Lebanese Pounds and in U.S. Dollars narrowed from 11.7 per cent. in December 1995 to 6.94 per cent. in December 1998, further declining to 5.67 per cent. in December 1999 and 4.41 per cent. in December 2000 only to increase to 5.94 per cent. in December 2001 following sharp cuts in U.S. interest rates. Following the Paris II Conference, interest rates on Lebanese Pound lending and deposit rates declined, narrowing the spread between deposit rates in Lebanese Pounds and in US Dollars to 5.83 per cent. in December 2002 and 4.77 per cent in June 2003. The spread between lending rates in Lebanese Pounds and in U.S. Dollars narrowed from 16.8 per cent. in December 1995 to 8.74 per cent. in December 1998, 7.51 per cent. in December 1999, 6.97 per cent. in December 2000, 6.61 per cent. in December 2001 and 6.48 per cent. in December 2002. By June 2003, the spread between lending rates in Lebanese Pounds and in U.S. Dollars narrowed to 4.39 per cent.

The following table sets forth the Treasury bill yields at primary auction at the end of each quarter in the years 1999 to 2003:

Treasury Bill Yields

Calendar Quarters or Months	3-month	6-month Bill	12-month	24-month Bill
		(per cent.)		
1999 I	11.73	13.00	14.84	16.66
1999 II	11.73	13.00	14.84	16.36
1999 III	11.42	12.52	13.66	14.92
1999 IV	11.18	12.12	13.43	14.64
2000 I	11.18	12.12	13.43	14.64
2000 II	11.18	12.12	13.43	14.64
2000 III	11.18	12.12	13.43	14.64
2000 IV	11.18	12.12	13.43	14.64
2001 I	11.18	12.12	13.43	14.64
2001 II	11.18	12.12	13.43	14.64
2001 III	11.18	12.12	13.43	14.64
2001 IV	11.18	12.12	13.43	14.64
2002 I	11.18	12.12	13.43	14.64
2002 II	11.18	12.12	13.43	14.64
2002 III	11.18	12.12	13.43	14.64
2002 IV	7.77	9.15	9.13	9.41
2003 I	6.96	8.18	9.13	9.41
2003 II	6.96	8.18	9.13	9.41
2003 III	6.96	8.18	9.13	9.41
2003 IV	5.44	6.53	6.87	7.99

Source: Ministry of Finance/Banque du Liban.

The following tables set forth commercial bank deposits and lending rates at the average Lebanese Pound and U.S. Dollar rates across the banking system for the stated type of account for the quarters shown. The stated quarterly rates are the average rate for the last month of the quarter. Time deposits range from one day to no stated maturity and savings accounts are current accounts without a checking facility.

Lebanese Pound Deposit and Lending Rates of Commercial Banks

Calendar Quarters or Months	Debtor rate	Creditor rate	Current account	Savings deposit	Time deposit
			(per cent.)		
1999 I	19.76	12.19	2.81	9.45	12.81
1999 II	19.49	11.87	2.78	9.63	12.47
1999 III	19.44	12.89	2.64	8.49	12.89
1999 IV	18.38	11.30	4.89	9.09	11.91
2000 I	18.26	10.90	3.08	8.81	11.35
2000 II	18.02	10.67	2.87	8.72	11.14
2000 III	17.96	10.44	4.50	8.03	11.04
2000 IV	17.94	10.44	3.57	7.90	11.06
2001 I	17.46	10.33	3.38	7.95	10.93
2001 II	17.16	10.16	3.51	7.56	10.84
2001 III	17.15	9.99	3.23	7.32	10.73
2001 IV	16.75	10.15	3.31	7.01	10.82
2002 I	16.77	10.16	3.84	7.07	10.79
2002 II	16.89	10.22	2.27	6.46	11.20
2002 III	16.57	10.55	2.51	7.03	11.32
2002 IV	16.10	9.83	3.04	6.36	10.46
2003 I	15.01	8.73	2.24	5.67	9.24
2003 II	13.43	8.30	3.52	5.18	8.65
2003 III	12.04	7.93	2.91	5.14	8.31
2003 IV	11.32	7.79	2.69	4.89	8.19

Source: Ministry of Finance/Banque du Liban.

U.S. Dollar Deposit and Lending Rates of Commercial Banks

Calendar Quarters or Months	Debtor rate	Creditor rate	Current account	Savings deposit	Time deposit
			(per cent.)		
1999 I	11.19	5.64	2.14	2.95	6.11
1999 II	10.99	5.71	1.90	2.92	5.99
1999 III	11.04	5.54	1.95	2.78	5.99
1999 IV*	10.87	5.63	2.05	3.02	6.11
2000 I	11.01	5.72	1.99	2.94	6.16
2000 II	11.43	5.99	2.06	3.05	6.44
2000 III	11.41	5.98	1.94	2.96	6.56
2000 IV	11.15	6.03	2.01	3.20	6.56
2001 I	11.01	5.67	1.92	2.99	6.12
2001 II	10.63	4.88	1.49	2.54	5.33
2001 III	10.56	4.57	1.43	2.36	5.01
2001 IV	10.14	4.21	1.01	1.91	4.63
2002 I	10.24	4.16	0.93	1.81	4.61
2002 II	10.06	4.19	0.93	1.73	4.70
2002 III	9.83	4.19	0.85	1.71	4.66
2002 IV	9.62	4.00	0.74	1.46	4.51
2003 I	9.34	3.74	0.63	1.43	4.19
2003 II	9.13	3.53	0.64	1.30	3.93
2003 III	8.63	3.48	0.69	1.28	3.92
2003 IV	8.81	3.43	0.70	1.21	3.85

Source: Ministry of Finance/Banque du Liban.

* Revised Figures.

Foreign Exchange Rates and International Reserves

The currency of the Republic is the Lebanese Pound. The Lebanese Pound is convertible and its exchange rate is generally determined on the basis of demand and supply conditions in the exchange market. Bankers are allowed to engage in spot transactions in any currency. However, they are prohibited from engaging in forward transactions in Lebanese Pounds for speculative purposes. Banque du Liban intervenes when necessary in order to maintain orderly conditions in the foreign exchange market. There are no taxes or subsidies on purchases or sales of foreign exchange.

Foreign exchange rate stability is a primary policy objective of the Government and of Banque du Liban. Banque du Liban's exchange rate policy since October 1992 has been to anchor the Lebanese Pound nominal exchange rate to the U.S. Dollar. This appreciation was limited to 0.03 per cent. in 1999 and the Lebanese Pound exchange rate has remained unchanged since 2000. Although several external factors can influence the exchange rate, including general investor confidence in the economy, the authorities expect to continue to gear their monetary policy towards maintaining strength and stability in the exchange rate. Direct intervention in the currency markets supplements this policy when necessary to smooth excessive volatility of the exchange rate.

The following table sets forth the gold and gross foreign currency reserves of Banque du Liban in millions of U.S. Dollars from 1999 to 2003:

	Gold	Foreign Currency[1]
	(millions of U.S. Dollars)	
1999	2,678.0	7,596
2000	2,524.6	5,748
2001	2,561.0	4,361
2002	3,216.3	5,070
2003	3,833.5	10,197

Source: Banque du Liban.
Note:

(1) Excluding gold reserves.

As at February 29, 2004 the gross foreign currency reserves of Banque du Liban amounted to US $10,533 million.

Foreign currency reserves are generally placed by Banque du Liban outside the Republic with other central banks or with highly rated international banks. They include a limited amount of highly rated foreign debt securities. Although not legally obligated to do so, Banque du Liban has been pursuing a policy of setting aside, and segregating from its foreign exchange reserves, certain foreign currency amounts corresponding to the maturing external public debt obligations of the Republic. These foreign currency amounts are being made available to the Republic for payment of its external public debt obligations, against payment to Banque du Liban of equivalent amounts in Lebanese Pounds. See *"Monetary System—Role of Banque du Liban"*.

The following table sets forth the Lebanese Pound/ U.S. Dollar closing exchange rate at the end of each quarter for the years 1991 to 2003:

End of Period	(in LL per U.S. $)	% Change in Dollar Exchange Rate over Previous Period (1)
1991:		
March	938.0	(11.4)
June	904.5	3.6
September	891.5	1.4
December	879.0	1.4
1992:		
March	1,280.0	(45.6)
June	1,705.0	(33.2)
September	2,420.0	(41.9)
December	1,838.0	24.0
1993:		
March	1,742.0	5.2
June	1,731.0	0.6
September	1,732.5	0.4
December	1,711.0	0.7
1994:		
March	1,694.5	1.0
June	1,680.0	0.9
September	1,666.0	0.8
December	1,647.0	1.1
1995:		
March	1,634.5	0.8
June	1,620.5	0.9
September	1,610.5	0.6
December	1,596.0	0.9
1996:		
March	1,583.5	0.8
June	1,571.0	0.8
September	1,558.5	0.8
December	1,552.0	0.4
1997:		
March	1,545.8	0.4
June	1,539.8	0.4
September	1,533.3	0.4
December	1,527.0	0.4
1998:		
March	1,521.3	0.4
June	1,516.3	0.3
September	1,509.7	0.4
December	1,508.0	0.1
1999:		
March	1,508.0	0.0
June	1,508.0	0.0
September	1,507.5	0.3
December	1,507.5	0.0
2000:		
March	1,507.5	0.0
June	1,507.5	0.0
September	1,507.5	0.0
December	1,507.5	0.0
2001:		
March	1,507.5	0.0
June	1,507.5	0.0
September	1,507.5	0.0
December	1,507.5	0.0
2002:		
March	1,507.5	0.0
June	1,507.5	0.0
September	1,507.5	0.0
December	1,507.5	0.0
2003:		
March	1,507.5	0.0
June	1,507.5	0.0
September	1,507.5	0.0
December	1,507.5	0.0

Source: Ministry of Finance/Banque du Liban.

Note:

(1) Negative percentage change signifies depreciation of Lebanese Pound in U.S. Dollar terms.

Securities Markets

The Beirut Stock Exchange was created in 1920 by the French mandate authorities in order to privatize public utilities, railways, telecommunications and the post office. Companies from the industrial, banking and tourism sectors were gradually added. The Beirut Stock Exchange flourished from 1954 to 1975. It ceased trading in 1983.

In August 1994, the Government set up the Beirut Stock Exchange Committee to supervise and manage the reopening of the Beirut Stock Exchange. Trading on the Stock Exchange commenced on January 22, 1996 when the shares of three previously listed Lebanese companies were re-admitted to trading. On September 30, 1996, the shares of SOLIDERE, previously listed on the Beirut Secondary Market, were listed and began trading on the Beirut Stock Exchange.

Market capitalization of companies listed on the Beirut Stock Exchange rose from approximately U.S. $386 million in January 1996 to approximately U.S. $3,026 million as at December 31, 2003, due in large part to the listing of SOLIDERE shares. BSE capitalization, which only includes the value of the shares listed on the Beirut Stock Exchange, increased to U.S. $1,503 million at the end of December 2003. The number of authorized brokers rose from five to fourteen and the number of listed companies rose from three to fourteen (including three mutual funds) by the end of December 2003.

The Government regards the re-establishment and development of organized capital markets, including markets for the issue and secondary trading of equity and debt securities, as being of significant importance for the financing of Lebanon's reconstruction and economic expansion.

In addition, since 1996, several Lebanese companies have raised funds (both equity and debt) in the international capital markets.

PUBLIC FINANCE

The Budget Process

The budget preparation and adoption process is governed by relevant provisions of the Constitution and the Law on Public Accounting, implemented by Decree No. 14969 dated December 30, 1963, as amended.

The laws governing the budget preparation provide that the proposed budget for each year is prepared by the Ministry of Finance (after review of the estimates prepared by the various Ministries) and submitted to the Council of Ministers by September 1 of the preceding year. The proposed budget, after review by the Council of Ministers, must then be forwarded to Parliament by October 15 for review and approval.

The budget is then approved by Parliament, through specific voting for each article in the budget, after review and debate during a general session to be held between October 15 and December 31.

If Parliament fails to approve a budget, the President of the Republic, with the approval of the Prime Minister, must convene a special session of Parliament to be held no later than January 31 of the relevant year. If no budget is approved during the special session, the President of the Republic has the power, after approval of the Council of Ministers, to adopt the budget submitted to Parliament by the Council of Ministers (Articles 86 of the Lebanese Constitution and 120 of Parliament's internal regulations).

Once the budget law is enacted, the Ministry of Finance becomes responsible for its execution.

Operations of the Central Government

Prior to the conflict, Lebanon seldom ran budget deficits. The conflict, especially from the early 1980s, led to widespread tax evasion and non-payment of public utility bills. Revenues dropped to very low levels and at one time were not sufficient to cover interest payments on the Republic's internal debt. The Republic resorted to increasing its borrowings from Banque du Liban, leading to monetary expansion.

Analysis of central Government finances must take account of the following:

- The CDR is a public institution which is distinct from any ministry within the central Government. Its financial situation is not wholly consolidated in the public accounts. CDR expenditures on reconstruction programs are financed partly by grants and borrowings from international development agencies and other overseas entities and partly by appropriations from the budget. These appropriations are included as capital expenditures in the public accounts, but expenditures financed by borrowings as described above are not included in the public accounts (but are included in foreign debt figures). However, interest and principal in respect of these borrowings are included in the national budget for the year in which it is scheduled to be repaid. The borrowings are obligations of the Republic. Foreign indebtedness incurred by the CDR is approved by the Government and by Parliament.

- The budget consists of the general budget and of three annex budgets, relating to Post and Telecommunications, National Lottery and the Grain & Sugar Beet Office. Information included in this report relates only to the general budget. Projected deficits or surpluses in the annex budgets are accounted for in the general budget. Actual results for each year also reflect the deficit or surplus of each annex budget.

- Beginning with the 1997 budget, a new classification, which is substantially in accordance with the guidelines and definitions set forth in the IMF's manual of "Government Finance Statistics", was adopted. The Government believes that this classification makes it easier to conduct a proper analysis of the policy, administration and monitoring phases of the budget. The classification used for prior years did not provide a sufficient basis for proper revenue and expenditure management and did not appropriately identify line item expenditures. Therefore, a detailed breakdown of revenues and expenditures is not provided for those years.

- Beginning with the 1998 Budget, presentation of fiscal data distinguishes between budget and treasury operations. Treasury revenues consist primarily of tax and other revenues collected by the Central Government for the account of municipalities and security and other guarantee-type deposits with the Ministry of Finance. Treasury expenditures consist primarily of transfers to municipalities, payments on account of previous years' budgets and financial support to EDL. The 1999 Budget and subsequent Budgets also provide for a different breakdown of current and capital expenditures to permit line-by-line comparison of actual results to budget and estimated treasury operations.

The following table shows a summary of central Government operations for the period from 1999 to 2003:

Revenues *(in billion of Lebanese Pounds)*	**1999**	**2000**	**2001**	**2002**	**2003**
I. Tax revenues	3,350	2,936	2,961	3,995	4,502
II. Non-tax revenues	1,116	1,252	1,302	1,390	1,717
III. Budget revenues (I+II)	4,466	4,188	4,263	5,385	6,219
IV. Treasury revenues	407	561	386	445	436
V. Total revenues (III+IV)	4,873	4,749	4,649	5,830	6,654
Expenditures					
I. Current expenditures	7,093	7,968	7,930	8,321	8,820
Personnel cost(1)	2,760	2,908	2,992	3,008	3,078
Debt service	3,624	4,197	4,312	4,622	4,874
Other current	709	863	626	691	868
II. Capital expenditures(2)	1,097	900	325	610	713
III. Other treasury expenditures	265	1,754	624	1,208	1,058
IV. Total expenditures (3) (4)	8,454	10,622	8,879	10,139	10,592
Total Deficit	**3,582**	**5,873**	**4,230**	**4,308**	**3,938**
Budget balance	(2,734)	(4,199)	(3,459)	(3,101)	(2,591)
Budgetary revenues	4,466	4,188	4,289	5,385	6,219
Budgetary expenditures	7,200	(8,387)	(7,748)	8,487	8,810
Net treasury operations	(849)	(1,673)	(771)	(1,207)	(1,347)
Treasury receipts	407	561	359	445	436
Treasury outlays	1,254	(2,234)	(1,130)	1,652	1,783
% of GDP					
Total deficit (5)	14.36%	23.76%	16.84%	16.53%	14.52%
Total revenues (5)	19.53%	19.21%	18.51%	22.36%	24.53%
Total expenditures(5)	33.89%	42.97%	35.35%	38.89%	39.05%
Nominal GDP (in billions of Lebanese Pounds)(6)	24,945	24,721	25,115	26,068	27,121

Source: Ministry of Finance/Banque du Liban.

Notes:

(1) Including wage and salary related payments, e.g. pensions to civil servants and end of service indemnities to government employees

(2) Expenditure does not include capital expenditures of CDR financed with foreign funds. This expenditure LL 456 billion in 1999, LL 310 billion in 2000, LL 292 billion in 2001, LL 195 million in 2002 and LL 201 million in 2003.

(3) On May 27, 1999, Parliament ratified a law regarding the settlement of arrears. This law allows the Government to issue debt (in local and/or foreign currency up to a ceiling of LL 1,242 billion in principal amount to settle arrears incurred during previous years. These arrears are not included in this table which reflects expenditures on a cash basis.

(4) Prior to 2002, the breakdown of expenditures was based on estimates derived from the reconciliation of payment order data and cash payment data. Beginning 2002, the breakdown of expenditures has been based exclusively on cash payment data. Certain treasury expenditures are classified as current or capital expenditures and the balance of treasury expenditures appear under other treasury expenditures.

(5) Not including CDR capital expenditures financed externally (referred to in note (2) above).

(6) Estimates.

The main sources of budget revenues are income taxes (including, from February 2003, tax on interest income), capital gains taxes, taxes on property, domestic taxes on goods and services (including, from February 2002, VAT revenues), taxes on international trade and transactions and other tax revenues. Non-tax revenues consist principally of entrepreneurial and property income, such as surplus transfers from the Post and Telecommunications and other annex budgets and distributions and remittances, on account of profits or otherwise, from Banque du Liban and in respect of the Republic's ownership of various assets. Additionally, non-tax revenues include administrative fees and charges, fines and confiscated assets.

Total revenues (including revenues from treasury operations) declined between 1999 and 2001, from LL 4,873 billion in 1999 to LL 4,649 billion in 2001, but increased to LL 5,830 billion in 2002 and to LL 6,654 billion in 2003. As a percentage of GDP, total revenues decreased from 19.53 per cent. in 1999, 18.51 per cent. in 2001 but increased to 22.36 per cent. in 2002 and again in 2003 to 24.53 per cent.

Budget expenditures are divided into current expenditures and capital expenditures. Current expenditures consist primarily of debt service in respect of public debt and personnel costs, including salaries, wages and end of service indemnities and other retirement benefits.

Total expenditures (including revenues from treasury operations but excluding foreign financed CDR expenditures) increased from LL 8,454 billion in 1999 to LL 10,622 billion in 2000, decreased in 2001 to LL 8,879 billion and increased in 2002 to LL 10,139 billion and again in 2003 to LL 10,592 billion. Debt servicing expenditures rose significantly between 1999 and 2003, increasing from LL 3,624 billion in 1999 to LL 4,874 billion in 2003. Personnel costs also rose, although more moderately, over the period, from LL 2,760 billion in 1999 to LL 3,078 billion in 2003.

The Fiscal Deficit

The table below shows the fiscal deficit (including the budget deficit and the results of treasury operations) and the ratios of deficit to GDP and net public debt to GDP for the years 1999 to 2003:

	1999	2000	2001	2002	2003
GDP (at current market prices in billions of Lebanese Pounds)............	24,945	24,721	25,115	26,068	27,121
Total Deficit[1]	3,582	5,873	4,230	4,308	3,938
Deficit/GDP[1].......................................	14.36%	23.76%	16.84%	16.47%	14.52%
Net Public Debt/GDP	120%	143%	162%	170%	174%

Source: Ministry of Finance.

Note:
(1) Excluding foreign financed CDR expenditure.

Since 1992, the focus of the Government has been on regaining public confidence in the economic future of Lebanon through macroeconomic stability and a significant reduction of inflation, while embarking on a major rehabilitation and reconstruction program. However, the Government has had to contend with the effects of the prolonged period of conflict on the Government's expenditures and ability to collect revenues. Public debt began to accumulate in the mid 1970s, as a result of the decline in the Government's control over revenue sources and the expansion of the public deficit. The growth in the public debt resulted from the Government's inability to cover its expenditures from ordinary revenues (the primary budget balance) and growing debt service obligations. As a result, the Government has been running budget deficits financed mainly through domestic borrowing.

The 2004 Budget

The Council of Ministers approved the 2004 budget proposal on October 29, 2003, and submitted it to Parliament for debate and ratification. The 2004 budget proposal was ratified by Parliament on April 7, 2004, outside the constitutional deadline. The 2004 Budget is projected to decrease the total deficit, as a percentage of GDP, from 14.52 per cent. in 2003 to 12 per cent.

The table below compares the 2004 Budget to actual 2003 results:

	2003 (Actual)	2004 Budget
	(in billions of Lebanese Pounds)	
Total Revenues	6,654	6,850
Budget Revenues	6,219	6,400
Treasury Revenues..	436	450
Total Expenditures[1]..	10,592	10,280
Budget Expenditures[1]..	8,810	9,380
Treasury Expenditures	1,783	900
Total Deficit...	(3,938)	(3,430)
Total Primary Surplus..	936	870

Source: Ministry of Finance.

Note:
(1) Excluding foreign financed CDR capital expenditures.

Budget revenues (excluding revenues from treasury operations) are projected to increase from LL 6,219 billion in 2003 to LL 6,400 billion in 2004 (or 3 per cent.), representing approximately 22 per cent. of GDP, as compared to 23 per cent. of GDP in 2003. It is expected that the projected increase in revenues will be accomplished through an improvement in tax collection and assessment, a full year's collection of the 5 per cent. tax on interest income, which was introduced in February 2003, the registration by Lebanese professionals of their income with the tax authorities in exchange for the elimination of previous income tax penalties, which is expected to include significant numbers of professionals who previously did not pay taxes, the collection of LL 25 billion in outstanding tax regularization dues, increased property taxes, increased revenues from international trade (customs duties and excises) in connection with an expected increase in imports due to the cessation of hostilities in Iraq and increased collection of VAT revenues due to the lowering of the mandatory registration threshold from LL 300 million to LL 225 million in 2004.

Budget expenditures are projected to increase from LL 8,810 billion in 2003 to LL 9,380 in the 2004 Budget. This represents an increase of LL 570 billion, or approximately 6.5 per cent., over 2003. In the 2004 Budget, total expenditures (excluding debt service) are projected at LL 5,980 billion, while debt service expenditures are projected at LL 4,300 billion, as compared to LL 5,718 billion and LL 4,874 billion, respectively, in 2003. As a percentage of GDP, expenditures are projected to increase from 39 per cent. of GDP in 2003 to 36 per cent. of GDP in 2004 Budget, primarily as a result of a LL 91 billion decrease in projected current expenditures, a LL 63 billion decrease in expected capital expenditures and a LL 114 billion decline in projected treasury expenditures in line with the government's objective of fiscal consolidation.

The budget deficit is projected to decrease from LL 3,938 in 2003 to LL 3,430 in the 2004 Budget or from approximately 14.52 per cent. of GDP to 12 per cent. of GDP. The primary budget surplus is expected to decrease from LL 936 (or 4 per cent. of GDP) to LL 870 (or 3 per cent. of GDP) in the 2004 Budget.

Treasury receipts are projected to be LL 450 billion, as compared to LL 436 billion in 2003, representing an increase of approximately 3 per cent. Treasury expenditures are projected to be LL 900 billion, as compared to LL 1,783 billion in 2003, representing a decrease of approximately 50 per cent.

Actual Results for 2003

The following table sets forth summaries of the actual results for the year ended December 31, 2002 and 2003:

	2002 (Actual)	**2003 (Actual)**
	(in billions of Lebanese Pounds)	
Total Revenues	5,830	6,654
Budget Revenues	5,385	6,219
Treasury Revenues	445	436
Total Expenditures[1]	10,138	10,592
Budget Expenditures[1]	8,487	8,810
Treasury Expenditures	1,652	1,783
Total Deficit	(4,308)	(3,938)
Total Primary Surplus	314	936

Source: Ministry of Finance.

Note:
(1) Excluding foreign financed CDR capital expenditures.

Actual revenues for 2003 were 14 per cent. higher than for 2002 mainly due to the implementation of the new revenue enhancing measures incorporated in the 2003 Budget Law, including the new 5 per cent. tax on interest income and the change in the Income Tax Law on wages and salaries requiring payment of such tax quarterly, as opposed to semi-annually, a full year's collection of VAT together with the lowering of the mandatory registration threshold from LL 500 million to LL 300 million in April 2003 and a general increase in tax revenues in all categories of tax.

Expenditures for 2003 were approximately 4.5 per cent. higher than actual spending during 2002. The principal reasons for the rise in expenditures are higher debt service payments, higher capital spending and higher treasury expenditures (mainly transfers to EDL).

The total deficit in 2003 was 8.6 per cent. lower than the total 2002 deficit and the total primary surplus in 2003 was 198.0 per cent. higher than the total 2002 primary surplus.

TAX REFORM

The tax system in the Republic has been subject to sweeping reforms. During the period of conflict, the record of revenue collection was extremely poor, with widespread tax evasion and weak administration. A new Income Tax Law was promulgated on December 30, 1993 (Law No. 282 published in the Official Gazette No. 1 dated January 6, 1994) and became effective as of the beginning of fiscal year 1994. This law amended the old income tax law and introduced new provisions aimed at reducing tax rates, improving tax implementation and receipts and stimulating private investment. This law was modified in certain respects in the 1999 Budget, which increased income tax rates and dividend tax rates. Currently, the maximum income tax rate for individuals is 21 per cent. (excluding certain categories of professionals) and for corporations is 15 per cent. The 2000 Budget reduced tax on dividends to 5 per cent. (from 10 per cent.) for companies listed on the Beirut Stock Exchange. Capital gains on disposal of shares for individuals and for marketable securities are currently generally exempt from tax.

In December 2001, Parliament adopted the VAT law, which became effective on February 1, 2002. VAT is levied at a single rate of 10 per cent. on all goods and services, subject to certain exemptions, such as medical and educational services. In addition to its direct impact on revenues, implementation of the VAT is expected to result in enhanced collection of income tax.

In January 2003, Parliament adopted the 2003 Budget Law, pursuant to which, among other things, interest paid in respect of bonds issued by the Lebanese Republic after January 31, 2003 is subject to withholding tax at the rate of five per cent.

SOCIAL POLICIES

The process of reconstruction does not neglect the social repercussions and problems resulting from the conflict. One of the basic social crises which the Government had to face is related to forced internal migration and displacement. A Ministry for Displaced Persons was created and started sponsoring the return of displaced families to their homes. The Ministry and the Fund for Displaced Persons have been contributing to the costs of rebuilding or refurbishing damaged houses.

The Government funded the construction of two regional public hospitals in the northern part of the Republic, one in the south and a major public hospital in the southern suburbs of Beirut. In addition, the uncompleted works at Baabdah Hospital will be resumed and this hospital will be put at the Lebanese University's disposal. All of these health facilities will offer free treatment. The Government has also accomplished major steps in the health sector. Low-income persons are now able to undergo open heart surgical operations and dialysis at the Government's expense. Cancer treatment is free for needy persons. The private sector and religious authorities have also established complimentary non-profit centers for disabled persons, the elderly, orphans and specialized centers for fatal diseases such as thalassemia. The Government has activated the National Social Security Fund, which provides private-sector employees with end-of-service indemnity, family allowances and medical insurance and aims at implementing the already existing legal provisions to the pension plan for the elderly.