



PUBLIC FINANCE QUARTERLY REPORT Ministry of Finance QI 2006

☒ **Fiscal Overview:**

The total deficit increased by 28 percent over January- March 2006, compared to the same period of 2005, due to a 20 percent rise in total expenditures which offset a 17 percent increase in total revenues.

On the other hand, the total primary surplus amounted to LL 339 billion by end-March 2006, improving by 54 percent compared to the first three months of 2005. This was mainly the result of the LL 282 billion increase in total revenues, as primary spending actually increased by LL 163 billion over January-March 2006, compared to the same period of 2005 ([section 1](#)).

☒ **Revenue Outcome:**

Total receipts for January-March 2006 amounted to LL 1,931 billion, compared to LL 1,649 billion by the end of March 2005. This 17 percent improvement in total revenues was due to a 15 percent increase in budget revenues (resulting from rises in both tax and non-tax revenues) and a 67 percent increase in Treasury Revenues. ([section 2](#)).

☒ **Expenditure Outcome:**

Total spending for January-March 2006 equaled LL 2,539 billion, up by LL 416 billion or 20 percent from the same period of last year. The rise was due to increases in both budget and treasury expenditures, by 19 percent and 21 percent respectively. The rise in budget spending was mainly the result of a 36 percent increase in debt service ([section 3](#)).

☒ **Public Debt Developments:**

The stock of gross debt reached LL 57,273 billion as of end-March 2006, which is 1.34 percent lower than the end-December 2005 level. Domestic debt equaled LL 28,207 billion, registering a decrease of 3.21 percent over the end-December 2005 level. As for foreign currency debt, it amounted to LL 29,066 billion by end-March 2006, increasing by 0.5 percent since the beginning of the year. ([section 4](#)).

☒ **External Trade:**

The trade balance marked a USD 1,832 million deficit in the first quarter of 2006, registering an improvement of 4.2 percent compared to the first quarter of 2005. This improvement was due to a 28 percent increase in exports. ([section 5](#)).

Section I: Fiscal Overview

Table 1. Summary of Fiscal Performance

(LL billion)	2005	2006	2005	2006	Change	%
	March	March	Jan-Mar	Jan-Mar	2005- 2006	Change
Budget Revenue	584	713	1,585	1,823	239	15.1%
Budget Expenditures	669	690	1,436	1,706	270	18.8%
<i>o/w Debt Service</i>	320	373	694	946	252	36.3%
Budget Deficit/Surplus	-85	23	149	117	-31	-21.2%
in % of Budget Expenditures	-12.7%	3.4%	10.3%	6.9%		
Budget Primary Deficit/Surplus	236	396	843	1,063	220	26.1%
in % of Budget Expenditures	35.2%	57.5%	58.7%	62.3%		
Treasury Receipts	24	27	64	108	43	67.7%
Treasury Payments	177	287	687	832	145	21.1%
Total Budget and Treasury Receipts	608	740	1,649	1,931	282	17.1%
Total Budget and Treasury Payments	846	976	2,123	2,539	415	19.5%
Total Cash Deficit/Surplus	-238	-237	-475	-608	-133	28.0%
in % of Total Expenditures	-28.1%	-24.2%	-22.4%	-23.9%		
Primary Deficit/Surplus	82	137	220	339	119	54.1%
in % of Total Expenditures	9.7%	14.0%	10.3%	13.3%		

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

The **primary surplus** for the first quarter of 2006 witnessed an improvement of 54 percent, from LL 220 billion in January-March 2005 to LL 339 billion in January-March 2006.

However, the first three months of the year witnessed a 28 percent rise in the **total deficit**, which amounted to LL 608 billion, compared to LL 475 billion for the same period of 2005. The deterioration in the total deficit results from the 20 percent (or LL 415 billion) increase in total expenditures which overtook the 17 percent (or LL 282 billion) increase in total revenues. In fact, **total expenditures** reached LL 2,539 billion by end-March 2006, compared to LL 2,123 billion by end-March 2005, whereas **total revenues** amounted to LL 1,931 billion over the first three months of 2006, compared to LL 1,649 billion over the same period of 2005.

Section II: Revenue Outcome

Table 2. Total Revenues

(LL billion)	2005 March	2006 March	2005 Jan-Mar	2006 Jan-Mar	% Change
Budget Revenues, of which:	584	713	1,585	1,823	15.07%
<i>Tax Revenues</i>	357	384	1,131	1,217	7.53%
<i>Non-Tax Revenues</i>	227	329	453	607	33.87%
Treasury Receipts	24	27	64	108	67.70%
Total Revenues	608	740	1,649	1,931	17.11%

Source: MOF, DGF

Total Revenues amounted to LL 1,931 billion by the end of March 2006, compared to LL 1,649 billion by the end of March 2005, representing an improvement of 17 percent (or LL 282 billion). This amelioration in total receipts resulted from increases in both budget and Treasury revenues, in the amounts of LL 239 billion and LL 43 billion respectively.

Budget revenues amounted to LL 1,823 billion by end-March 2006, increasing by 15 percent (or LL 239 billion) compared to the LL 1,585 billion collected over January-March 2005, due to rises in both tax revenues (by 8 percent) and non-tax revenues (34 percent).

Tax revenues in the first three months of the year amounted to LL 1,217 billion, compared to LL 1,131 billion for the same period of 2005, representing an improvement of 8 percent. This stems mainly from all tax components, namely (i) increase in the collection of **taxes on income, profits and capital gains** (by LL 38 billion or 18 percent) particularly the 5% tax on interest income and the income tax on profits, (ii) increase in revenues from **taxes on property** (mainly from **real estate registration fees** which increased by LL 26 billion or 57 percent), (iii) **increase in proceeds from all domestic taxes on goods and services** (mainly VAT revenues which increased by LL 14 billion or 3 percent), and (iv) **rise in other tax revenues** (mainly **stamp fees** which increased by LL 21 billion, or 40 percent).

The revenue increase from the previously mentioned tax components offset the 12 percent (or LL 39 billion) drop in revenues collected from taxes on international trade (customs and excises), which is due to the cap on retail oil prices imposed since May 2004 which resulted in a 43 percent decrease in petroleum tax.

Taxes on income, profits and capital gains generated a total of LL 250 billion in January-March 2006, compared to LL 212 billion for the same period of 2005, registering an increase of 18 percent (or LL 38 billion). The increase was essentially attributed to:

- (1) A 14 percent (or LL 10 billion increase) in revenues from the **income tax on profits**, which equaled LL 77 billion by end-March 2006, compared to LL 68 billion by end-March 2005.
- (2) A 13 percent (or LL 7 billion) rise in receipts from the **withheld tax on salaries and wages**, which generated LL 59 billion in the first three months of the year, compared to LL 52 billion during the same period of 2005. The continuous improvements in receipts from the income tax on salaries and wages mainly results from the modernization of

procedures and the completion of the employees' database (largely private sector employees,) which took place following the launch of the DASS reform in 2003.

(3) A rise of 42 percent (or LL 7 billion) in receipts from the **income tax on capital gains and dividends**, which collected LL 24 billion by end-March 2006, compared to LL 17 billion by end-March 2005.

(4) A 20 percent (or LL 14 billion) increase in the collection of the **5 percent tax on interest income**, which went up from LL 70 billion over January-March 2005 to LL 84 billion over January-March 2006. Of that total amount LL 62 billion are the tax proceeds collected from the commercial banks (mainly on deposits), and the remaining amount (LL 22 billion) represent the tax proceeds collected from the BDL. The monthly collection of this tax from commercial banks was relatively steady at an average of approximately LL 21 billion per month, an increase from an average of LL 18 billion for the same period in 2005. The inflows from BDL exhibited similar trend to that of 2005, whereas payments received in March were significantly lower at LL 5 billion relative to January and February (LL 9 billion and LL 8 billion respectively).

Taxes on property collected 46 percent (or LL 38 billion) higher proceeds, from LL 82 billion by end-March 2005 to LL 119 billion by end-March 2006, mainly as a result of higher proceeds from real estate registration fees and to a lesser extent the built property tax. In fact, revenues from the **built property tax (or recurrent tax on immovable property)** amounted to LL 36 billion during the first quarter of 2006, 26 percent higher than the LL 28 billion collected over the same period of 2005. Similarly, **Real estate registration fees (or non recurrent tax on property)** generated 57 percent (or LL 26 billion) higher proceeds, equaling LL 72 billion over the first three months of the year, compared to LL 46 billion in the same period of 2005, hinting at an enhanced activity in the real estate sector in Lebanon lately¹.

¹ This result may not necessarily be a reliable indicator of real estate market activity since new property owners are not obliged to register their property immediately after the purchase.

Table 3. Tax Revenue

(LL billion)	2005	2006	2005	2006	%
	March	March	Jan-Mar	Jan-Mar	Change
Tax Revenues:	357	384	1,131	1,217	7.53%
Taxes on Income, Profits, & Capital Gains, of which:	53	71	212	250	17.69%
<i>Income Tax on Profits</i>	25	39	68	77	14.34%
<i>Income Tax on Wages and Salaries</i>	4	4	52	59	12.76%
<i>Income Tax on Capital Gains & Dividends</i>	2	3	17	24	42.42%
<i>Tax on Interest Income (5%)</i>	20	23	70	84	20.17%
<i>Penalties on Income Tax</i>	1	1	4	4	-3.66%
Taxes on Property, of which:	38	59	82	119	45.96%
<i>Built Property Tax</i>	20	25	28	36	25.64%
<i>Real Estate Registration Fees</i>	16	29	46	72	57.27%
Domestic Taxes on Goods & Services, of which:	127	127	451	479	6.18%
<i>Value Added Tax</i>	110	107	410	424	3.38%
<i>Other Taxes on Goods and Services, of which:</i>	16	20	38	48	26.42%
<i>Private Car Registration Fees</i>	7	11	21	29	36.80%
<i>Passenger Departure Tax</i>	9	9	16	19	13.99%
Taxes on International Trade, of which:	124	102	333	294	-11.73%
<i>Customs</i>	44	42	113	114	0.39%
<i>Excises, of which:</i>	79	60	220	180	-18.00%
<i>Petroleum Tax</i>	45	18	130	73	-43.43%
<i>Tobacco Tax</i>	14	17	42	45	7.27%
<i>Tax on Cars</i>	20	25	47	60	29.99%
Other Tax Revenues (namely fiscal stamp fees)	16	24	53	74	39.97%

Source: MOF, DGF

Overall, **domestic taxes on goods and services** equaled LL 479 billion in the first quarter of 2006, 6 percent higher than the collection of the same period of 2005, due to improvements in both the value-added tax and private car registration fees.

VAT revenues improved by over 3 percent, amounting to LL 424 billion over January-March 2006, compared to LL 410 billion over January-March 2005. The improvement mainly resulted from a rise in the VAT collected at imports. In fact, of the total LL 424 billion of VAT receipts during the first quarter of 2006, LL 287 billion of VAT was collected on imported goods, compared to LL 273 billion for the first quarter of 2005, representing an increase of almost 5 percent. As for VAT collected from internal operations over January-March 2006, it remained stable compared to the same period of the previous year, amounting to LL 137 billion.

Other taxes on goods and services generated 26 percent higher receipts, equaling LL 48 billion by end-March 2006, compared to LL 38 billion by end-March 2005, in large part due to a rise in receipts from the private car registration fees. In fact, revenues from **private car registration fees** went up by almost 37 percent (or LL 8 billion), reaching LL 29 billion in the first quarter of 2006, compared to LL 21 billion in the first quarter of 2005, in line with the 29 percent rise in the

number of cars imported in the same period. As for the **passenger departure tax**, it generated LL 19 billion in revenues by March 2006, which was 14 percent (or over LL 2 billion) higher than the collection level for the first three months of 2005. The rise in revenues from the departure tax reflects an increased tourist activity, as the number of incoming tourists for January-March 2006 increased by 37 percent compared to the same period in 2005, from 179,632 tourists to 246,459 tourists.

Taxes on international trade (custom duties and excises) collected 12 percent (or LL 39 billion) less revenues, equaling LL 294 billion by end-March 2006, compared to LL 333 billion by end-March 2005, completely due to a drop in excises collection, as receipts from customs duties remained unchanged.

Customs duties for the first quarter of 2006 remained stable compared to the first quarter of 2005, amounting to LL 114 billion. Imports increased by over 1 percent by end-March 2006 compared to end-March 2005. The overall effective tariff rate decreased to 3.22% January – March 2006 from 3.25% during the same period in 2005.

Excise revenues dropped by 18 percent (or LL 40 billion), declining from LL 220 billion during January-March 2005, to LL 180 billion during January-March 2006. This drop in excise revenues is largely explained by a 43 percent decline in fuel excises which offset the increases witnessed in receipts from the tax on tobacco (by 7 percent) and tax on cars (by 30 percent):

(a) Revenues from the **petroleum tax** dropped by 43 percent (or LL 56 billion) and amounted to LL 73 billion during the first quarter of 2006, compared to LL 130 billion during the first quarter of 2005. This deterioration in receipts from the petroleum tax is due to the capping of the retail price of fuel at pump stations as of May 2004 (Council of Ministers' decision on May 20th 2004) in response to increasing international oil prices. It is estimated that the Treasury lost LL 116 billion in forgone revenues in the first three months of 2006 from the capping of the price of car gasoline at a fixed level².

The effective price of car gasoline at import witnessed an increase from an average of LL 503/liter in the first three month of 2005 to LL 662/Liter in the first three month of 2006. In effect, the effective excise rate has declined from LL 365/Liter in January – March 2005 to LL 187/Liter in January – March 2006.

(b) Revenues from **excises on tobacco** increased by 7 percent (or LL 3 billion), from LL 42 billion by end-March 2005 to LL 45 billion by end-March 2006. This was in line with a 14 percent rise in tobacco imports during the first quarter of 2006 compared to the same period of 2005.

(c) **Excises on cars** registered a 30 percent (or LL 14 billion) rise, with LL 60 billion collected during the first quarter of 2006, compared to LL 47 billion collected during the first quarter of 2005. In parallel, the value of car imports in LL increased by 31 percent as the number of cars imported during January-March 2006 was 29 percent higher than the number imported during January-March 2005. The indicators mentioned above (car imports and car excises), in addition to the car registration fee figures discussed previously, suggest heightened activity in the car market in Lebanon.

² Assuming an excise rate of LL 484 per liter; Please note that the above calculations do not consider the demand elasticity of car gasoline.

Other tax revenues (namely fiscal stamp duties) increased by almost 40 percent, reaching LL 74 billion by end-March 2006, compared to LL 53 billion by end-March 2005. This suggests hints at a rise in the volume of transactions taking place in the economy in the first quarter of the year, as compared to the same period of 2005

Table 4. Non Tax Revenue

(LL billion)	2005 Mar	2006 Mar	2005 Jan-Mar	2006 Jan-Mar	% Change
Non-Tax Revenues	227	329	453	607	33.87%
Income from Public Institutions and Government Properties, of which:	186	267	358	469	30.95%
Income from Non-Financial Public Enterprises, of which:	181	263	344	458	32.86%
<i>Revenues from Casino Du Liban</i>	2	4	19	8	-56.05%
<i>Revenues from Port of Beirut</i>	33	0	33	0	-100.00%
<i>Budget Surplus of National Lottery</i>	3	8	8	15	87.50%
<i>Transfer from the Telecom Surplus</i>	143	251	284	434	52.82%
Property Income (namely rent of Rafic Hariri International Airport)	5	4	13	10	-19.43%
Other Income from Public Institutions (interest)	0	0	1	1	19.77%
Administrative Fees & Charges, of which:	33	53	73	112	52.40%
Administrative Fees, of which:	26	45	55	91	65.27%
<i>Notary Fees</i>	1	2	4	5	16.01%
<i>Passport Fees/ Public Security</i>	7	11	19	30	51.68%
<i>Vehicle Control Fees</i>	14	26	22	43	91.36%
<i>Judicial Fees</i>	2	3	4	6	40.80%
<i>Driving License Fees</i>	1	2	3	4	55.24%
Administrative Charges	2	2	6	6	-5.81%
Sales (Official Gazette and License Number)	0	0	1	1	22.28%
Permit Fees (mostly work permit fees)	3	5	9	12	30.82%
Other Administrative Fees & Charges	1	0	2	1	-26.29%
Penalties & Confiscations	0	1	1	1	52.26%
Other Non-Tax Revenues (mostly retirement deductibles)	8	8	21	25	18.45%

Source: MOF, DGF

Non-tax revenues increased by almost 34 percent (or LL 154 billion), equaling LL 607 billion in the first quarter of 2006, compared to LL 453 billion in the first quarter of 2005. This improvement was mainly due to LL 150 billion higher transfers from the Telecom Budget Surplus, and LL 11 billion and LL 21 billion increases in the collection of public security fees / passport fees and vehicle control fees (period of settlement and reduction of penalties)³ respectively. These increases offset the decrease in revenues from Casino du Liban and the nonpayment by Port of Beirut. In total, revenues from public institutions and government properties (including telecom, Casino du Liban and Port of Beirut) increased by 31 percent, revenues from administrative fees and charges rose by 52 percent, revenues from penalties and confiscation, and other non-tax revenues increased by 18 percent.

³ Budget law 2005, Law number 715 dated February 3, 2006 article 29

Income from public institutions and government properties reached LL 469 billion by end-March 2006, compared to LL 358 billion by end-March 2005, representing an increase of 31 percent, largely resulting from the transfers from the telecom surplus:

- a) Revenues from the **Casino du Liban** decreased by 56 percent, reaching LL 8 billion during January-March 2006, compared to LL 19 billion in January-March 2005.
- b) There were no revenues from the **Port Of Beirut** during the first quarter of the year. In the first quarter of 2005, the amount received from the POB had been LL 33 billion.
- c) Revenues from the **national lottery** amounted to LL 15 billion by end-March 2006, representing an increase of almost 88 percent compared to the LL 8 billion in revenues in the same period of the previous year.
- d) Revenues from the **telecom** budget surplus during the first three months of 2006 amounted to LL 434 billion, compared to LL 284 billion in the same period of 2005, representing a rise of 53 percent in revenues.

Administrative fees and charges collected 52 percent (or LL 38 billion) higher revenues, equaling LL 112 billion in total for January-March 2006, compared to LL 73 billion for January-March 2005:

- a) **Administrative fees** (namely judiciary fees, public security fees, road usage fees and driving license fees) registered a 65 percent (or 36 billion) increase between the first quarter of 2005 and the first quarter of 2006 reaching LL 91 billion. This increase is mainly due to increased receipts from Passport Fees/Public Security (rise of LL 10 billion) and vehicle control fees (rise of LL 20 billion).
- b) Receipts from **administrative charges** remained unchanged, amounting to LL 6 billion by end-March 2006.
- c) **Permit fees** collected 31 percent (or LL 3 billion) more revenues in the first quarter of 2006 compared to the same period of the previous year.

Treasury revenues for the first quarter of 2006 amounted to LL 108 billion, compared to LL 64 billion in the first quarter of 2005, witnessing an increase of nearly 68 percent, mainly due to a LL 23 billion rise in municipalities' revenues, and LL 12 billion higher amounts of guarantees received.

Section III: Expenditure Outcome

Table 5. Expenditures by Transaction Classification

(LL billion)	2005	2006	2005	2006	%
	March	March	Jan-Mar	Jan-Mar	Change
Total Expenditures	846	976	2,123	2,539	19.55%
Budget Expenditures	669	690	1,436	1,706	18.82%
Expenditures Excluding Debt Service	349	316	742	760	2.49%
Debt Service, of which:	320	373	694	946	36.26%
<i>Domestic Debt</i>	97	197	318	535	68.28%
<i>Foreign Debt, of which:</i>	223	176	377	411	9.24%
<i>Eurobond Coupon Interest</i>	200	163	251	344	37.1%
<i>Concessional Loans Principal Payments</i>	18	13	33	36	8.5%
<i>Concessional Loans Interest Payments</i>	6	0	9	31	269.4%
Treasury Expenditures , of which:	177	287	687	832	21.08%
<i>Municipalities</i>	23	21	36	101	182.66%
<i>Previous Years' Appropriations</i>	92	197	457	475	4.07%
Non-Interest Expenditures (Total Expenditures minus Debt Service)	526	603	1,429	1,592	11.43%

Source: MOF, DGF

In the first three months of 2006, **total expenditures for budget and treasury transactions** increased by 20 percent (or LL 416 billion), from LL 2,123 billion in the first quarter of 2005 to LL 2,539 billion in the first quarter of 2006. The rise in expenditures can be attributed to the increase in both budget and treasury spending by 19 percent and 21 percent respectively (table 5).

1) **Budget expenditures** amounted to LL 1,706 billion by end-March 2006, compared to LL 1,436 billion by end-March 2005, i.e. with an increase of 19 percent (or LL 270 billion), which was mainly due to a rise in debt service by the amount of LL 252 billion (or 36 percent)

2) **Treasury expenditures**, which consist mainly of extra budgetary transactions, as well as previous years' budget transactions, equaled LL 832 billion during the first quarter of 2006, compared to LL 687 billion during the first quarter of 2005, registering an increase of 21 percent.

Non-interest expenditures (i.e. total primary expenditures) amounted to LL 1,592 billion by the end of March 2006, which was LL 163 billion higher than the LL 1,429 billion of primary spending for the same period of 2005. This LL 163 billion increase was largely attributed to a rise in the following three major items: current primary budget expenditures, capital expenditures and other treasury expenditures.

Between the first quarter of 2005 and the first quarter of 2006, and from an economic perspective, current expenditures increased by 15 percent while capital spending rose by 37 percent. **Other treasury expenditures**, including extra budgetary spending, increased by 41 percent.

Primary current expenditures (excluding debt service and including treasury expenditure) amounted to LL 1,082 billion during the first quarter of 2006, which is relatively the same level as that of the same period of 2005 (it amounted to LL 1,063 billion by end-March 2005).

As for **primary current budget expenditures**, they increased by LL 18 billion, reaching LL 760 billion by the end of March 2006.

Current expenditures overall reached LL 2,028 billion by end-March 2006, compared to LL 1,757 billion by end-March 2005, which represents an increase of 15 percent (or LL 271 billion). The main reason behind the increase is the higher debt service, as the level of primary current spending remained almost unchanged.

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

Personnel cost increased by 6 percent (or LL 46 billion), equaling LL 775 billion at the end of the first quarter of the year, compared to LL 729 billion for the same period of 2005. The two main components of personnel cost, which are salaries & wages included in article 13 and retirement & end-of-service compensations, both increased by LL 30 billion and LL 17 billion respectively.

- The increase in wages and salaries stems from higher transfers for school allowances by LL 29 billion and to the civil servants' cooperative by LL 10 billion. This comparison, however, should be treated with caution, as the same transfers in 2005 took place during the second quarter of the year. For this reason, annual changes should be considered for more accuracy for similar expenses and not quarterly. On the other hand, hospitalization allowances decreased by LL 5 billion in Jan-March 2006 compared to Jan-March 2005.
- As for the retirement and end-of-service indemnities, the upsurge is a result of the monthly average increase of LL 2 billion for retirement, and of the LL 10 billion cumulative increase in end-of-service indemnities for the period Jan-March 2006.

Debt service for the first three months of 2006 equaled LL 946 billion, 36 percent (or LL 252 billion) higher than the LL 694 billion of debt service during the same period of 2005. This rise in debt service payments is mostly explained by the increase in the weighted average cost of debt from 6.56% as at end-December 2004 to around 7.61 percent in December 2005⁴.

The main reason for the increase is a LL 217 billion (or 68 percent) rise in domestic debt service, which amounted to LL 535 billion by end-March 2006, compared to LL 318 billion by end-March 2005. The rise in debt service was also driven to a lesser extent by a LL 35 billion (or 9 percent) increase in foreign debt service, which equaled LL 411 billion during the first quarter of the year compared to LL 377 billion during the first quarter of 2005.

Materials and supplies expenditures amounted to LL 25 billion during the first three months of 2006, dropping by almost 71 percent, compared to LL 86 billion during the same period of the previous year. It should be recalled that the high level of spending reported in the first quarter of 2005 was mainly attributed to the payment of L 68 billion for public administrations' electricity bills to EDL, in accordance with Law # 672 enacted on February 17th, 2005 which opened an additional allocation in 2004 Budget Law, under the Ministry of Finance's budget to reimburse accrued electricity bills on behalf of public administrations.

External services (rent, postal services, insurance, advertisement and public relations) equaled LL 22 billion over January-March 2006, compared to LL 18 billion over January-March 2005, representing an increase of 22 percent.

Various transfers rose by almost 29 percent, from LL 123 billion by end-March 2005, to LL 158 billion by end-March 2006. The overall LL 35 billion rise was mainly due to an increase in

⁴ For further explanation please refer to "Public Finance Prospects 2005- Ministry of Finance Yearly report", page 21.

transfers to the National Social Security Fund in the amount of LL 50 billion. The total amount paid in January-March 2005 to the NSSF reached LL 50 billion, compared to an amount of LL 100 billion in January-March 2006. This increase was partially counter-balanced by a decrease in other items reported as "Various Transfers".

Table 6. Expenditures by Economic Classification

<i>(LL billion)</i>	Jan-March 2005	Jan-March 2006	Change in percent
1. Current expenditures	1,757	2,028	15.4%
1.a Personnel cost*, of which	729	775	6.3%
<i>Article 13: Salaries and wages</i>	489	519	6.2%
<i>Retirement and end of service compensations</i>	190	207	9.3%
1.b Debt Service Payments	694	946	36.3%
1.c Materials and supplies	86	25	-70.6%
1.d External services	18	22	21.9%
1.e Various transfers	123	158	28.5%
<i>o/w NSSF</i>	50	100	100.0%
1.f Other current	87	82	-6.0%
<i>Hospitals</i>	46	72	57.9%
<i>Others</i>	41	9	-78.2%
1.g Reserves	19	19	0.2%
<i>Interest subsidy</i>	19	19	0.2%
2. Capital expenditures	139	190	36.6%
2.a Acquisitions of land, buildings, for the construction of roads, ports, airports, and water networks	0	6	2963.7%
2.b Equipment	6	5	-19.0%
2.c Construction in Progress	109	131	19.7%
2.d Maintenance	21	22	5.9%
2.e Other Expenditures Related to Fixed Capital Assets	2	25	1052.4%
3. Other treasury expenditures	222	313	40.7%
Municipalities	36	101	182.7%
EDL	49**	66	33.6%
treasury advances for water authorities	48		-100.0%
treasury advances for diesel oil subsidy	14	50	254.3%
4. Unclassified expenditures	0	1	56.6%
5. Customs cashiers	5	7	51.7%
6. Total expenditures (excluding CDR foreign financed)	2,123	2,539	19.5%

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

* Includes the wages and salaries for the Council of the South, the Lebanese University, the Displaced Council, the Council for Reconstruction and Development, and the Educational Center for Research and Development.

** Excludes Treasury advances to water authorities for their accrued electricity bills (LL 48 billion) mentioned within the same section .

Other current expenditures declined by 6 percent (or LL 5 billion), amounting to LL 82 billion in the first quarter of 2006, compared to LL 82 billion in the first quarter of 2005. While transfers to hospitals increased by 58 percent, the overall decrease in “other current expenditures” resulted from a drop of 78 percent in the item referred to as “others”.

Interest subsidies for loans to productive sectors (agriculture, industry, tourism, technology and crafts) during January-March 2006 remained relatively unchanged from their level from the same period of the previous year.

Box 1. A Closer Look at Salaries and Wages

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

In the first quarter of 2006, salaries and wages in the public sector amounted to 20 percent of total expenditures and to 33 percent of total primary expenditures.

They can be broken down into three major components:

1. The salaries of military personnel, which include armed forces within the government such as the Lebanese Army, the Internal Security Forces, the General Security Forces, and the State Security Forces, constituted nearly 60 percent of the total wage and salary bill for January-March 2006, and were 19 percent higher than their salaries and wages in the same period of 2005. The reason behind the increase is that school allowances were paid this year in March 2006, whereas last year they were paid in April 2005.
2. Salaries of education personnel (including salaries of teachers, contributions to salaries/wages of Lebanese University...) for January-March 2006 constituted around one fourth of the total wage and salary bill. The amount paid for education personnel was 20 percent less than that of the same period of 2005. The difference goes back to the LL 40 billion paid to contractuels in January of 2005.
3. Salaries of civil personnel constituted 16 percent of the total wage and salary bill for January-March 2006, and were 19 percent higher than the amount paid for January-March 2005. The higher amount this year is due to LL 10 billion of transfers to the COOP in January 2006.

Breakdown of Salaries and Wages

<i>(LL billion)</i>	Jan-Mar 2005	Jan - Mar 2006	Percentage change
Military Personnel	257	307	19.46%
Army	177	184	3.91%
Internal Security forces	60	96	58.66%
General Security forces	14	19	34.95%
State Security forces	5	7	56.79%
Education Personnel	163	130	-19.98%
Civil Personnel	69	83	18.96%
Grand-Total	489	519	6.25%

Source: MOF, DGF

Capital expenditures equaled LL 190 billion during the first quarter of 2006, increasing by almost 37 percent (or LL 51 billion) over the LL 139 billion of capital spending during the first quarter of 2005, mainly due to a LL 22 billion rise in construction in progress and a LL 23 billion increase in other expenditures related to fixed capital assets.

The overall rise in spending on **construction in progress** was due to:

(a) Higher transfers to the Displaced Fund, which amounted to LL 35 billion by end-March 2006, while no transfers were reported by end-March 2005.

(b) Higher transfers to the Council for Development and Reconstruction (CDR), which equaled LL 74 billion during the first quarter of 2006, compared to LL 67 billion during the first quarter of 2005, representing an increase of 10 percent.

There were no transfers to the Council of the South during the first three months of the year, compared to transfers in the amount of LL 8 billion in the same period of 2005.

The remaining amounts spent on construction in progress were allocated as follows:

- LL 11 billion of capital expenditures was allocated to the Ministry of Public Works and Transport in January-March 2006, 34 percent lower than the LL 17 billion spent during January-March 2006.
- LL 11 billion was spent on other construction in progress in the first quarter of the year, compared to LL 18 billion by the end of March 2005, representing a decrease of 37 percent.

As for the LL 23 billion rise in **other expenditures related to fixed capital assets**, it was mainly due to an LL 18 billion transfer to IDAL for the Export Plus Program. In fact, other expenditures related to fixed capital assets reached LL 25 billion during January-March 2006, compared to LL 2 billion during January-March 2005.

Table 7. Transfers to EDL

(LL billion)	2005	2006	% Change
	Jan-Mar	Jan-Mar	
EDL of which:	97	66	-32.53%
Debt Service of which:	49	66	33.30%
C-Loans and Eurobonds, of which:	49	49	-0.64%
Principal Repayment	36	35	-1.73%
Interest Payment	13	14	2.33%
Loans for Fuel Oil Payment		17	100.00%
BDL Guaranteed Loan Payment	0	0	0.00%
Treasury Advance for Fuel Purchase	0	0	0.00%
Treasury Advance for EDL' s Losses	0	0	0.00%
Material and Supplies (Electricity bills)			0.00%
Treasury advance to Water Authorities	48	0	-100.00%
Expropriations	0	0	0.00%

Source: MOF, DGF

Other treasury expenditures amounted to LL 313 billion during the first quarter of the year, compared to LL 222 billion during the first quarter of 2005. This LL 91 billion rise was mainly due to two major factors:

- An increase of LL 65 billion in transfers to municipalities. This high transfer is due to a one shot transfer of LL 58 billion during January 2006 to settle the municipalities' dues for year 2004 (Decree number 14290 dated November 3rd 2004). No major transfers were reported afterwards waiting for the annual decree that specifies the disbursement of municipalities' dues for the year 2005.
- An increase of LL 36 billion in treasury advances for diesel oil subsidy. In fact, in the first three months of 2006, treasury advances for diesel oil subsidy⁵ totaled LL 50 billion, representing the subsidized diesel oil amount for the period January 2006 - February 2006. However, the LL 14 billion paid in Jan-March 2005 represented the remaining amounts of the treasury advances for diesel oil subsidy⁶ related to the period end November 2004 until February 2005.

Transfers to **EDL** decreased by LL 31 billion during the first three months of 2006, as compared to the same period of 2006 (refer to Table 7). It should be recalled that higher transfers were reported during 2006, as a result of indirect transfer that took place during the month of January 2005 in the form of treasury advances to water authorities in settlement of unpaid accrued electricity bills. Also, since September 2005, EDL has been obtaining its fuel oil and gas oil consumption through agreements with Sonatrach (Algeria) and Kuwait Petroleum Corporation (Kuwait). However, according to the credit facilities stipulated in the aforementioned agreements, the settlement of the fuel oil and gas oil purchases will start in June 2006.

Details of Social Expenditures

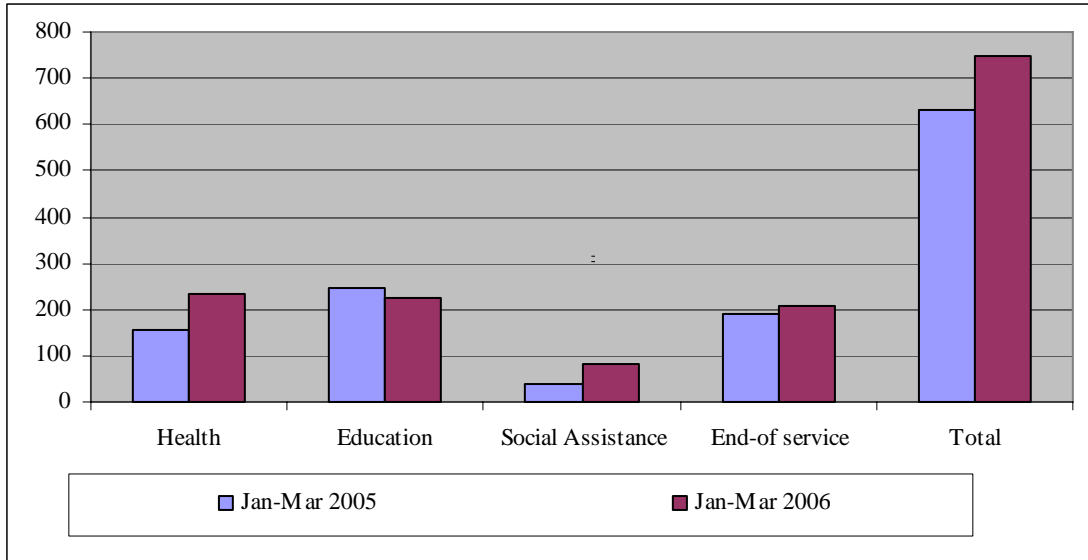
The increase in overall expenditures witnessed in January-March 2006 was reflected in social spending, which rose by 18 percent (or LL 115 billion) between the first quarter of 2005 and the first quarter of 2006. This spending covers the basic social services of (a) education (b) health, and (c) pension and end-of-service indemnity, in addition to other areas of interventions classified as social assistance.

Of the LL 746 billion spent during the first quarter of 2006, health accounted for 32 percent (compared to 25 percent in January-March 2005). The LL 80 billion rise in spending on health was driven in large part by an increase in NSSF allocation in the amount of LL 50 billion. Spending on education came in second, at 30 percent of social spending (compared to 39 percent in the same period of 2005); covering mainly the Ministry of Education and Higher Education, in addition to educational allowances paid to security forces. Pension and end-of-service indemnity ranked third, and represented around 28 percent of total social expenditures (compared to 30 percent in January-March 2005).

⁵ Decree number 16165, dated January 20, 2006

⁶ Decree number 13651, dated November 24, 2004

Allocation of Social Spending



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

Table 8. Social Spending for Jan-Mar 2005 vs. Jan-Mar 2006

<i>(LL billion)</i>	Jan-Mar 2005	Jan-Mar 2006	Magnitude of change	Percentage change
Health				
Hospitalization in the private sector	46	72	26	57%
Purchase of Medication	6	8	1	22%
Hospitalization of public sector employees in private sector	32	28	-4	-13%
Maternity and sickness allowance	5	14	9	170%
NSSF	50	100	50	100%
Other	15	14	-1	-10%
Sub-Total	155	236	81	52%
Education				
Ministry of Education and Higher Education <i>of which</i>	247	193	-53	-22%
<i>Wages and Salaries of the General Directorate of Education</i>	156	119	-37	-24%
<i>Wages and Salaries of the General Directorate of Higher Learning</i>	0	0	0	-7%
<i>Wages and Salaries of the General Directorate of Technical Education</i>	6	11	5	77%
<i>Contributions in the salaries of the Lebanese University</i>	30	36	6	19%
<i>Contributions to non profitable organizations (private schools)</i>	4	1	-3	-65%
<i>Construction under execution (construction and restoration of schools)</i>	10	4	-6	-61%
Education allowance in private sector	0	30	30	11811%
Sub-Total	247	223	-24	-10%
Other Social Spending				
Marriage allowance	1	3	2	223%
Birth allowance	1	2	1	56%
Death allowance	1	2	1	91%
Other social spending allowance	1	3	2	173%
Contribution to mutual funds	3	5	2	55%
Ministry of Social Affairs, <i>of which</i>	17	5	-13	-74%
<i>Transfers to non profit organizations</i>	16	4	-13	-77%
Ministry of Displaced	1	2	0	8%
Transfers to employees' cooperative	0	10	10	100%
Treasury advances for diesel oil subsidy	14	50	36	254%
Sub-Total	40	81	41	102%
End of service & Pensions	190	207	18	9%
Grand-Total	631	746	115	18%

Source: MOF, DGF

Section IV: Public Debt Developments

Table 9. Public Debt Outstanding by Holder as of End-March 2006

LL Billion							
Assumes full LL replacement	Dec-03	Dec-04	Dec-05	Feb-06	Mar-06	Change Dec 05-Mar 06	% change Dec 05-Mar 06
Gross Public debt	50,285	54,048	58,050	58,167	57,273	-777	-1.34%
Local currency debt	26,843	26,371	29,141	29,109	28,207	-934	-3.21%
a. Central Bank (including REPOs and Loans to EdL to finance fuel purchases)*	8,938	10,652	11,686	10,941	8,822	-2,864	-24.51%
b. Commercial Banks	12,303	12,220	14,130	14,808	15,872	1,742	12.33%
c. Other Local Currency Debt (T-bills)	5,603	3,500	3,325	3,360	3,513	188	5.65%
<i>o/w Public entities</i>	2,564	2,187	2,446	2,492	2,637	191	7.81%
Foreign currency debt	23,442	27,677	28,909	29,058	29,066	157	0.54%
Ratio to total debt	46.60%	51.20%	49.80%	50.00%	50.70%		
a. Bilateral, Multilateral and Foreign Private sector loans	2,934	2,970	2,855	2,855	2,834	-21	-0.74%
b. Paris II related debt (Eurobonds and Loans)	3,731	3,814	3,681	3,684	3,702	21	0.57%
c. BDL Eurobond (Paris II)	2,819	2,819	2,819	2,819	2,819	0	0.00%
d. Market Eurobonds	13,631	17,686	18,729	18,732	18,749	20	0.11%
e. Accrued Interest on foreign currency debt	327	388	406	549	543	137	33.74%
f. Special T-bills in Foreign currency**			419	419	419		
Public sector deposits	3,019	4,360	5,590	5,213	4,100	-1,490	-26.65%
Net debt	47,266	49,688	52,460	52,954	53,173	713	1.36%
Gross market debt***	29,638	31,861	34,760	35,573	36,655	1,895	5.45%
% of total debt	59%	59%	60%	61%	64%		

Source: Ministry of Finance, Banque Du Liban

Notes

* In year 2003 the BDL has extended loans to EDL for the equivalent amount of US\$ 300 million to purchase fuel oil. These loans are listed as public debt as they are government guaranteed.

** Special Tbs in Foreign currency (expropriation bonds)

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

Gross Public debt as of end-March 2006 reached LL 57,273 billion (USD 38 billion), decreasing by LL 777 billion (or 1.34 percent) over the end-December 2005 debt level.

Net public debt as of end- March 2006 amounted to LL 53,173 billion (USD 35.21 billion), registering an increase of LL 713 billion or 1.39 percent over the end-December 2005 level.

The **domestic debt** component of public debt equaled LL 28,207 billion (USD 18.7 billion), registering a decrease of LL 934 billion or 3.21 percent over the end-December 2005 level. This decrease is due to the repayment of 25 percent of LL T-bills held by BDL that matured during the period of Jan-Mar 2006.

Domestic debt held by BDL decreased from a peak of LL 15,236 billion in March 2005 to LL 8,822 billion in March 2006 (a 42% decrease), owing to the resumption of interest by commercial banks in Lebanese Pound denominated treasury bills. Commercial banks' appetite for Lebanese Pound denominated Treasury bills resumed in April 05 and **domestic debt held by commercial banks** increased from a trough of LL 7,387 billion in March 2005 to 15,872 billion in March 2006 (a 115% increase).

Foreign currency debt amounted to LL 29,066 billion (US\$ 19.2 billion) by end-March 2006, increasing by LL 157 billion (0.5 percent) since the beginning of the year, largely due to the accrued interest on large amounts of Eurobond maturing in April.

Public sector deposits amounted to LL 4,100 billion, decreasing by LL 1,490 billion from their December 2005 level. The decrease is due to the payments made to pay for the local currency debt that matured in March 2006, specifically the LL. 2,119 billion T-bills held by BDL that matured in March 2006.

Table 10. Public Debt Outstanding by Instrument as of End-March 2006

LL Billion	2002	2003	2004	2005	2006	Change	% Change
	Dec	Dec	Dec	Dec	Mar	Year-to-date	Year-to-date
Total Debt	47,276	50,285	54,048	58,050	57,273	-777	-1.3%
Domestic Debt	25,302	26,843	26,371	29,141	28,207	-934	-3.2%
1. Long Term Bonds, of which:	22,268	24,691	20,766	23,384	24,045	661	2.8%
a- 60 Months Bonds 1/	0	650	650	1,772	2,172	400	22.6%
b- 54 Months Bonds	0	616	616	616	616	0	0.0%
c- 48 Months Bonds	0	0	0	633	633	0	0.0%
d- 36 Months Bonds	339	884	8,943	14,520	16,552	2,032	14.0%
e- 30 Months Bonds	0	3,033	3,033	3,033	1,282	-1,751	-57.7%
f- 24 Months Bonds	21,214	18,986	7,281	2,385	2,298	-87	-3.6%
g- Coupon Interest	715	522	243	425	492	67	15.8%
2. Short Term Bills, of which: 2/	2,866	1,799	5,102	5,246	3,642	-1,604	-30.6%
a- 12 Months Bills	1,522	796	2,887	3,023	1,543	-1,480	-49.0%
b- 6 Months Bills	1,028	424	2,103	2,067	1,461	-606	-29.3%
c- 3 Months Bills	317	579	112	156	638	482	309.0%
3. Other Domestic Debt 3/	169	353	504	511	520	9	1.8%
Foreign Debt	21,974	23,442	27,677	28,909	29,066	157	0.5%
1. Eurobonds, of which:	19,222	19,566	23,682	24,743	24,900	158	0.6%
<i>Paris II related Eurobonds</i>	1,432	2,789	2,789	2,789	2,789	0	0.0%
						-777	-1.3%
2. Other foreign debt, of which:	2,752	3,876	3,995	4,166	4,166		
Paris II Concessional Loan 4/	0	942	1,026	893	913	-934	-3.2%

Source: MOF, Banque du Liban

1/ This category includes the issuance of the LL 400 billion 5 year LL bond (series 1) under the Lebanese Medium Term Note Program

2/ Includes Accrued Interest on Short-Term Bills

3/ Mainly composed of loans extended to EDL to finance fuel purchases.

4/ Represents the Euro 500 million contribution of France in the Paris II conference

Table 10 above demonstrates the **evolution of public debt by instrument**. On the domestic debt front and as compared to December 2005, the demand for long-term bonds increased while the demand for short-term bonds decreased. The reason behind these changes is attributed to commercial banks over-subscription in the 36-month Treasury Bills and substituted their shorter term Treasury Bills by this category. This shows the commercial banks' strong appetite for longer term Lebanese Pound denominated Treasury Bills. In addition, in March 2006, investors showed a **special interest in the newly issued LL 400 billion 5 years t-bills**, which yielded 9.4 percent.

Table 11: Summary of Issue Terms of First 5-Year LL Bond Issuance

Issuer:	The Lebanese Republic.
Lead Managers	BLOM BANK and BYBLOS BANK.
Description:	Series 1 under the Lebanese Medium-Term Note Program.
Size:	LBP 400 billion
Interest rate:	9.375 per cent per annum
Issue date:	March 30, 2006
Maturity:	5 years
Coupon Payment Date:	September 30 and March 30
Re-offer Yield:	9.4

Primary market interest rates currently range between 5.22 percent for the 3-month t-bills to 9.34 percent for the 36-month t-bills. As compared to 2004, all market interest rates increased marginally, except for the interest on the 3-month t-bill, as is apparent in the table below.

Table 12. Evolution of Primary Market Treasury Bills Yields

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

Source: Ministry of Finance

Table 13. Performance of Lebanese Eurobond Secondary Market (Prices and yields as of the closing of 07-April-2006).

Republic of Lebanon Eurobonds	Mid- Price	Mid-Yield
Euro		
LEB 8.875 OCT 06	102.491	3.50
LEB 7.250 09	105.375	5.32
<i>LEB 5.875 12</i>	<i>100.125</i>	5.85
US Dollars		
LEB 9.875 APR 06	100.157	4.95
LEB 10.5 MAY 06	100.419	5.32
LEB 10.5 JUN 06	101.421	5.66
LEB 10.5 AUG 06	103.250	6.22
LEB 8.625 07	102.125	6.32
LEB 7.375 08	108.000	6.35
LEB 10.125 08	111.125	6.63
LEB 10.250 09	105.375	6.83
LEB FRN 09	100.875	6.73
LEB 7.000 09	101.125	6.79
LEB 7.125 10	103.625	7.02
LEB 7.875 11	103.375	7.09
LEB 7.750 12	107.875	7.20
<i>LEB 7.375 14</i>	<i>100.125</i>	7.36
LEB 8.625 13	116.625	7.44
LEB 8.500 16	116.625	7.44
LIBAN 10 15 CD	106.625	7.53
LEB 11.625 16	126.625	7.77
<i>LEB 8.25 21</i>	<i>100.375</i>	8.21

Source: CSFB

[For information on Eurobonds](http://www.finance.gov.lb) Outstanding and Eurobond issues visit the Ministry's website www.finance.gov.lb

Section V: Evolution of External Trade

Table 14. External Trade

(USD Million)	2005	2006	2005	2006	Change	% Change
	March	March	Jan-Mar	Jan-Mar		
Exports	159	206	405	518	113	28 %
Imports, of which:	892	940	2,317	2,350	33	1.4 %
Mineral Products	201	258	490	578	88	18 %
Trade Balance	-733	-734	-1,912	-1,832	80	4.2 %

Source: MOF, Directorate General of Customs (DGC)

Balance of trade: In January-March 2006, the trade deficit decreased by 4.2 percent compared to the first quarter of 2005. The lowering of the trade deficit resulted from a 28 percent increase in exports, attributed to a rise in exports to Switzerland, the European Union and China.

In the first quarter of 2006, **imports** amounted to USD 2,350 million, compared to USD 2,317 million during the same period of 2005, representing a 1 percent increase. The increase in the value of imports reflects, from a product perspective, (1) a USD 88 million rise in the import of mineral products, (2) a USD 34 million increase in imports of products of the chemical, and (3) a USD 32 million rise in imports of transport equipment. From a regional perspective, the increase in the value of imports reflects (1) in large part a USD 177 million surge in imports from the European Union, and in particular the Euro zone with USD 128 million worth of imports from that region, (2) a USD 25 million increase in imports from the United States, and (3) a USD 7 million rise in imports from China. At the same time, there was a decrease in imports from Switzerland (by USD 31 million) and Arab Countries (by USD 6 million).

Over January-March 2006, **exports** registered an increase of 28 percent, equaling USD 518 million by end-March 2006, compared to USD 405 million by end-March 2005. From a product perspective, this rise in exports can be attributed to (1) a USD 83 million increase in exports of pearls, precious or semi-precious stones, (2) a USD 21 rise in exports of machinery and mechanical appliances, and (3) a USD 9 million increase in exports of prepared foodstuff. From a regional distribution perspective, exports to Switzerland increased dramatically by USD 83 million from January-March 2005 to January-March 2006. There was also a rise in exports to the European Union by (USD 30 million), and to China (by USD 5 million).

Table 15. Imports Distribution by Product

(USD million)	2005	2006	2005	2006		Change	% Change
	March	March	Jan-Mar	% Share	% Share		
Mineral Products	201	263	490	21%	38%	88	18%
Machinery and Mechanical Appliances	99	86	257	11%	17%	9	4%
Pearls, Precious or Semi-Precious Stones	94	40	256	11%	5%	-175	-69%
Products of the Chemical	81	83	204	9%	16%	34	17%
Transport Equipment	58	83	164	7%	13%	32	20%
Base Metals and Articles of Base Metals	66	74	158	7%	11%	12	8%
Other Goods	294	311	789	34%	54%	32	4%
Total	892	940	2,317	100%	100%	33	1.42%

Source: MOF, DGC

- **Import Distribution by Product:**

Imports of **mineral products** increased by 18 percent and cumulated at USD 578 million in January-March 2006 as compared to USD 490 million in the first three months of 2005. The increase in the import value of mineral products mainly resulted from:

- 1) A USD 53 million increase in the imports of **car gasoline** which reached USD 172 million by the end of March 2005. This increase resulted mainly from the 32 percent increase in the average effective import price of car gasoline from LL 504 per liter in January March 2005 to LL 663 per liter in January-March 2006. Quantities imported also increased by 10 percent, from 0.356 billion liters in January-March 2005 to 0.391 billion liters in January-March 2006.
- 2) A USD 31 million or 14 percent increase in the imports of **gas oils** (which reached USD 251 million in January-March 2006 compared to USD 220 million in January-March 2005). This USD 31 million increase is due to a 21% increase in the quantity imported, which offset the 5% decrease in price over the studied period.
- 3) A USD 2 million increase in the imports of **other fuel oils** which amounted to USD 91 million in the first three months of 2006 compared to USD 89 million in January-March 2005. The increase was modest because of a 2% decrease in the quantity of fuel oil imported from January-March 2005 to January-March 2006. The decrease was offset by a 5% increase in the price over the period.

Table 16. Mineral Products Import Breakdown

	2005 Jan-Mar	2006 Jan-Mar	Change	% Change
Import Value Details (in USD Million):				
- Car Gasoline	119	172	53	45%
- Gas Oil	220	251	31	14%
- Fuel Oil	89	91	2	2%
Imports Quantity Details (in Million Liters):				
- Car Gasoline	356	391	35	10%
- Gas Oil	598	723	125	21%
- Fuel Oil	406	398	-8	-2%
Imports Price Details (in LL per Liter):				
- Car Gasoline	504	663	159	32%
- Gas Oil	553	523	-30	-5%
- Fuel Oil	330	345	15	5%

Source: MOF, DGC,

There was a 4 percent (or USD 9 million) increase in imports of **machinery and mechanical appliances**, which reached USD 266 million by end-March 2006, compared to USD 257 million by end-March 2005. The increase was mainly due to a USD 17 million rise in the imports of **reactors, boilers, machinery and mechanical appliances** (or what can be described as electrical materials for industrial use) which cumulated at USD 160 million in the first quarter of 2006.

The 69 percent (or USD 175 million) drop in the imports of **pearls, precious and semi-precious stones** which amounted to USD 81 million in the first quarter of 2006 compared to USD 256 million in the first quarter of 2005.

Transport Equipment imports were worth USD 196 million in QI 2006 as opposed to USD 164 million in QI 2005, witnessing a 20 percent increase. This 20 percent growth was fueled by the increase in the imports of **vehicles** which rose by USD 31 million in QI 2006, cumulating at USD 193 million.

Imports of **products of the chemical** registered USD 238 million in QI 2006 compared to USD 204 million in QI 2005 or a 17 percent increase. This increase can be attributed to a USD 28 million increase in the imports of **pharmaceutical products** (imported mainly from Germany, France, and Switzerland)

Base metals and articles of base metals imports cumulated at USD 170 million in Jan-Mar 2006 compared to USD 158 million during the same period of 2005, increasing by 8 percent. This increase was due to (1) a USD 10 million increase in **iron and steel**, which totaled USD 90 million in QI 2006 (mainly imported from Egypt, and Ukraine) and (2) a USD 6 million increase in **aluminum and articles thereof**, which totaled USD 16 million (of which USD 12 million imported from the United Arab Emirates) .

Table 17. Exports Distribution by Product

(USD million)	2005		2006		2005		2006		%
	March	March	Jan-Mar	Share	Jan-Mar	Share	Change	Change	
Base Metals and Articles of Base Metals	29	29	74	18%	70	14%	-4	-5%	
Machinery and Mechanical Appliances	22	34	57	14%	78	15%	21	37%	
Prepared Foodstuffs	17	23	41	10%	50	10%	9	22%	
Pearls, Precious or Semi-Precious Stones	14	45	39	10%	122	24%	83	213%	
Mineral Products	16	10	38	9%	23	4%	-15	-39%	
Other Exports	61	65	156	38%	175	34%	19	12%	
Total	159	206	405	100%	518	100	113	28%	

Source: MOF, DGC

- Export Distribution by Product:**

Exports of **pearls, precious or semi-precious stones** increased by 213 percent and totaled USD 122 million during QI 2006 as opposed to USD 39 million in QI 2005. About USD 98 million of pearls, precious and semi precious stones were exported to Switzerland. Other major destinations include the United Arab Emirates, and Belgium.

Machinery and mechanical appliances exports increased by 37 percent or USD 21 million from January-March 2005 to January-March 2006, cumulating at USD 78 million during January-March 2005. This increase resulted from an increase in the exports of **electrical machinery and**

equipment and parts thereof from USD 33 million in QI 2005 to USD 70 million in QI 2006. They were principally exported to Iraq, Kuwait, United Arab Emirates, and Nigeria.

Exports of **base metals and articles of base metals** decreased by 5%, registering USD 70 million compared to USD 74 million during QI 2005. This is mainly due to a USD 10 million decrease in **iron and steel** exports, which amounted to USD 24 million down from USD 34 million. About USD 16 million of iron and steel exports were exported to Turkey.

Prepared Foodstuff exports progressed by 22 percent totaling USD 50 million in QI 2006 compared to USD 41 million in QI 2005. The increase was the outcome of (1) a USD 5 million upsurge in the exports of **prepared vegetables, fruits and nuts**, which registered USD 14 million in QI 2006 (mainly exported to Syria, United States, Saudi Arabia, and Iraq) and (2) a USD 2 million increase in the exports of **tobacco**, which reached USD 11 million in QI 2006 (mainly exported to Germany, France, Netherland and Russia).

Table 18. Regional Distribution of Imports

(USD million)	2005		2006		2005		2006	
	March	March	Jan-Mar	% Share	Jan-Mar	% Share	Change	% Change
European Union (1), of which:								
<i>Euro zone</i> (2)	294	334	745	32%	922	39%	177	24%
Arab Countries (3)	251	284	641	28%	769	33%	128	20%
China	155	198	406	18%	400	17%	-6	-1%
United States	63	54	163	7%	170	7%	7	4%
Switzerland	42	56	123	5%	148	6%	25	20%
Other	23	25	90	4%	59	3%	-31	-34%
Total	315	274	790	34%	650	28%	-140	-18%
Total	892	940	2,317	100%	2,349	100%	32	1.38%

Source: MOF, DGC

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

(2)-The Euro-zone includes all EU members with the exception of Cyprus, Czech Republic, Denmark, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, Slovakia, Slovenia, Sweden and the United Kingdom.

(3)-Arab Countries include: United Arab Emirates, Bahrain, Djibouti, Algeria, Egypt, Iraq, Jordan, Kuwait, Libya, Morocco, Mauritania, Oman, Qatar, Saudi Arabia, Sudan, Somalia, Syria, Tunisia and Yemen.

- **. Regional Distribution of Imports:**

Imports from the **European Union** increased by 24 percent, cumulating at USD 922 million in January-March 2006 compared to USD 745 million in January-March 2005. This increase is the outcome of two factors:

- A USD 128 million or a 20 percent increase in the value of imports from the **Euro-zone** which reached USD 769 million in January-March 2006 compared to USD 641 billion in January-March 2005.
- The enlargement of the EU, such that imports from new member states constituted a total of USD 25 million for January-March 2006 (14% of the overall increase).

Imports from **Arab countries** dropped by 1 percent from USD 406 million for January-March 2005 to USD 400 million in January-March 2006.

Imports from **China** registered a 4 percent increase, rising from USD 163 million in January-March 2005 to USD 170 million in January-March 2006. Lebanon's main imports from the United States for QI 2006 consisted of USD 30 million of reactors, boilers, and machinery, USD 23 million in electrical machinery and equipments, and USD 9 million in apparel and clothing accessories.

Imports from the **United States** increased by 20 percent, from USD 123 million in QI 2005 compared to USD 148 million in QI 2006. Lebanon's main imports from the United States for QI 2006 consisted of USD 25 million of vehicles, USD 21 million of boilers, reactors and machinery, and USD 18 million of tobacco and manufactured tobacco substitutes.

Imports from **Switzerland** decreased by 34 percent and reached USD 59 million in QI 2006 compared to USD 90 million in QI 2005. The main imports from Switzerland for QI 2005 were pearls, precious and semi precious stones for a total import value of USD 31 million and pharmaceuticals for a total of USD 16 million.

- **Regional Distribution of Exports:**

Exports to **Switzerland** increased by 519 percent, amounting to USD 99 million QI 2006 compared to USD 16 million a year earlier. Lebanon's main exports to Switzerland in QI 2006 consisted mainly of USD 98 million worth of pearls, precious and semi precious stones.

Lebanese exports to the **European Union** increased from USD 39 million to USD 69 million. Lebanon's main exports to the European Union for QI 2006 consisted mainly of USD 88 million worth of tobacco and manufactured tobacco substitutes, USD 56 million worth of pearls, precious and semi precious stones USD 47 million worth of aluminum and articles thereof, and USD 41 million worth of reactors, boilers, machinery and mechanical appliances.

As for exports to **Arab countries**, they remained stable at USD 217 million in QI 2006. Lebanon's main Arab trading partners in QI 2006 were United Arab Emirates (USD 38 million), Iraq (USD 36 million), Syria (USD 36 million), and Saudi Arabia (USD 34 million):

- (a) Exports to the **United Arab Emirates** equaled USD 38 million by end-March 2006, compared to USD 29 million by end-March 2005. The major products exported to the UAE were (1) pearls, precious and semi precious stones (USD 11.6 million), (2) electrical machinery and equipment and parts (USD 5.1 million), and (3) reactors, boilers, machinery and mechanical appliances (USD 2 million).
- (b) Contrary to the decrease which was previously being witnessed in exports to **Iraq**, the first quarter of 2006 witnessed stable exports to Iraq compared to the first quarter of 2005, at USD 36 million. The main exports to Iraq were (1) electrical machinery and equipment and parts (USD 10.9 million), (2) salt, sulphur, earths and stone, and plastering material (USD 6.8 million), and (3) reactors, boilers, machinery and mechanical appliances (USD 4.3 million).
- (c) As for exports to **Syria**, they amounted to USD 36 million by end-March 2006, down from the USD 50 million of exports in the first three months of 2005. In QI 2006, the main exports to Syria were (1) salt, sulphur, earths and stone, plastering material (USD

9.9 million), (2) paper, paperboard and articles of paper pulp, of paper or of paperboard (USD 4.5 million), (3) preparations of vegetables, fruit, nuts or other products (USD 2 million), and (4) reactors, boilers, machinery and mechanical appliances (USD 2 million).

- (d) Exports to **Saudi Arabia** rose from USD 24 million in Q1 2005 to USD 34 million at the end of Q1 2006. Lebanon's main exports to Saudi Arabia were reactors, boilers, machinery and mechanical appliances (USD 6 million), (2) furniture; bedding, mattresses, mattress supports (USD 3.2 million), and (3) articles of apparel and clothing accessories (USD 2.7 million).

Table 19. Regional Distribution of Exports

(USD million)	2005	2006	2005		2006		%	
	March	March	Jan-Mar	% Share	Jan-Mar	% Share	Change	Change
Arab Countries	89	92	216	53%	217	42%	1	0%
European Union	16	28	39	10%	69	13%	30	77%
Switzerland	6	33	16	4%	99	19%	83	519%
United States	5	4	13	3%	12	2%	-1	-8%
China	2	3	4	1%	9	2%	5	125%
Other	42	17	117	29%	112	22%	-5	-4%
Total	159	206	405	100%	517	100%	112	28%

Source: MOF, DGC

Furthermore, exports to **China** increased by 125 percent, amounting to USD 9 million in the first quarter of 2006, compared to USD 4 million a year earlier. The main bulk of exports to China consisted of copper and articles thereof in the amount of USD 8 million.

As for exports to the **United States**, they decreased by 8 percent, registering USD 12 million in QI 2006 compared to USD 13 million in QI 2005. Lebanese exports consisted mainly of furniture, bedding and mattresses for USD 2.7 million, preparation of vegetables, fruits and nuts for USD 1.6 million, and pearls, precious and semi precious stones for USD 1.3 million.