REPUBLIC OF LEBANON
MINISTRY OF FINANCE

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Fiscal Overview:

The total deficit improved by more than 7 percent over January-September 2005, as compared to the same period of 2004. This reflected a 4 percent decline in total expenditures that offset a 3 percent decrease in total receipts.

At the same time, the total primary surplus deteriorated by 44 percent compared to the same period of last year. By end-September 2005, the total primary surplus amounted to LL 425 billion. This was the result of a LL 158 billion increase in primary spending accompanied by a LL 180 billion drop in revenues. (section 1).

Revenue Outcome:

Total receipts for the first nine months of 2005 amounted to LL 5,414 billion, compared to LL 5,595 billion for the same period in 2004. This 3.2 percent decline in total revenues was due to a 5.1 percent reduction in tax revenues, which reached LL 3,658 billion by end-September 2005. The tax revenue decrease offset the 2.3 percent increase in non-tax revenues, and lead to an overall decrease of 3.1 percent in budget revenues. (section 2).

Expenditure Outcome:

Total spending for January-September 2005 equaled LL 7,343 billion, down LL 335 billion or 4 percent from the preceding year. this was despite the higher transfers to NSSF and EDL. The main reason behind the drop was the 17 percent drop in debt service payment or LL 493 billion (section 3).

Public Debt Developments:

The stock of gross debt reached LL 55,480 billion as of end-September 2005, which is 3 percent higher than the December 2004 level, and 4 percent higher than the January-September 2004 level. Domestic debt equaled LL 28,005 billion, registering an increase of 6 percent over the end-December 2004 level. As for foreign currency debt, it amounted to LL 27,476 billion by end-September 2005, decreasing by 0.01 percent since the beginning of the year. (section 4).

External Trade:

The trade balance marked a USD 5,531 million deficit, or a slight increase of 0.26 percent compared to January-September 2004. The stable trade deficit resulted from (1) an increase of 3.32% in exports and (2) a 0.84 percent rise in imports (section 5).

Section I: Fiscal Overview

Table 1. Summary of Fiscal Performance

(LL billion)	2004 September	2005 September	2004 Jan-Sep	2005 Jan-Sep	Change 2004-2005	% Change
Budget Revenue	543	472	5,279	5,114	-165	-3.1%
Budget Expenditures	752	719	6,086	5,575	-511	-8.4%
o/w Debt Service	339	361	2,847	2,354	-493	-17.3%
Budget Deficit/Surplus	**-209**	**-247**	**-807**	**-461**	**346**	**-42.9%**
in % of Budget Expenditures	-27.8%	-34.3%	-13.3%	-8.3%		
Budget Primary Deficit/Surplus	**130**	**114**	**2,039**	**1,893**	**-147**	**-7.2%**
in % of Budget Expenditures	17.3%	15.9%	33.5%	34.0%		
Treasury Receipts	30	25	316	301	-15	-4.8%
Treasury Payments	101	95	1,592	1,768	177	11.1%
Total Budget and Treasury Receipts	574	497	5,595	5,414	-180	-3.2%
Total Budget and Treasury Payments	853	814	7,678	7,343	-335	-4.4%
Total Cash Deficit/Surplus	**-280**	**-317**	**-2,083**	**-1,929**	**154**	**-7.4%**
in % of Total Expenditures	-32.8%	-38.9%	-27.1%	-26.3%		
Primary Deficit/Surplus	**60**	**44**	**763**	**425**	**-338**	**-44.3%**
in % of Total Expenditures	7.0%	5.4%	9.9%	5.8%		

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

The **total deficit** (budget and treasury) by end-September 2005 amounted to LL 1,929 billion, compared to LL 2,083 billion for January-September 2004, thus registering an improvement of 7.4 percent. This improvement was due to a 4.4 percent (or LL 355 billion) decrease in **total expenditures**, which reached LL 7,343 billion over January-September 2005 compared to LL 7,678 billion over the same period in 2004. The improvement offset the 3.2 percent (or LL 180 billion) decline in **total revenues**.

The **primary surplus** witnessed a deterioration of 44.3 percent, declining from LL 763 billion in January-September 2004 to LL 425 billion for the first nine months of 2005. This decrease was mainly the result of:

- An increase of LL 158 billion (or 3.3 percent) in primary spending, primarily due to higher transfers to NSSF and higher direct and indirect spending on EDL, and
- A decrease in revenues by LL 180 billion, reflecting the general economic slowdown after the events of February 14th.

Section II: Revenue Outcome

Table 2. Total Revenues

(LL billion)	2004 September	2005 September	2004 Jan-Sep	2005 Jan-Sep	% Change
Budget Revenues, of *which:*	**543**	**472**	**5,279**	**5,114**	**-3.13%**
Tax Revenues	*360*	*326*	*3,855*	*3,658*	*-5.13%*
Non-Tax Revenues	*184*	*147*	*1,424*	*1,456*	*2.29%*
Treasury Receipts	**30**	**25**	**316**	**301**	***-4.77%***
Total Revenues	**574**	**497**	**5,595**	**5,414**	***-3.22%***

Source: MOF, DGF

Tax revenues (as part of budget revenues) in the first nine months of 2005 equaled LL 3,658 billion, compared to LL 3,855 billion for the same period of 2004. This marks a 5 percent decrease, which has mainly stemmed from a near 22 percent drop in revenues from taxes on international trade (customs duties and excises). The drop in trade revenues has largely offset the significant improvement in income tax collection.

Taxes on income, profits and capital gains generated a total of LL 868 billion in January-September 2005, registering an improvement of 14 percent over the collection level for the same period of 2004. The increase was chiefly attributed to:

(1) A near 19 percent increase in revenues from the **withheld tax on wages and salaries**, which generated LL 143 billion during January-September 2005, compared to LL 120 billion in January-September 2004. The steady increase in the average quarterly proceeds from the withheld tax that has been witnessed since 2003 could largely be explained by the launching of the DASS reform that was accompanied by the modernization of the required procedures and the completion of the public and private sectors employee database. In effect, since the implementation of the DASS reform, the average amount received per declaration period has increased from an average of LL 30 billion in 2003, to LL 33 billion in 2004, and LL 42 billion so far in 2005. Furthermore, tax declaration statistics for the third quarter declaration period of DASS reveal that the number of taxpayers registered in the DASS database has increased since 2003. The number of registered taxpayers rose from 9,023 taxpayers in the third quarter declaration period of 2003, to 10,002 taxpayers in the third quarter declaration period of 2004, and 10,746 taxpayers in the third quarter declaration period of 2005.

(2) An increase of 30 percent in revenues from the **Income tax on capital gains and dividends,** which generated LL 85 billion by September 2005, compared to LL 65 billion over the same period of 2004.

(3) A near 42 percent rise in the collection of **the 5 percent tax on interest income**, which generated LL 242 billion in the first nine months of the year, compared to LL 171 billion for the same period of 2004. Of the total proceeds collected during the first nine months of 2005, approximately LL 153 billion were transferred from commercial banks and LL 89 billion were transferred from the Central Bank. The composition of the 5 percent tax on interest proceeds by currency was as follows: 60 percent were in LL, and the remaining 35 percent in foreign currency (US dollars and Euros).

Revenues from the **Income tax on profits** remained nearly unchanged from their January-September 2004 level, amounting to LL 382 billion by September 2005.

Revenues from **taxes on property** also remained more or less constant, equaling LL 279 billion for the first nine months of the year, compared to LL 284 billion for the same period of 2004. This marks a revenue drop of almost 2 percent that, although fairly small, hides significant discrepancies between the performances of its two key components that are **built property taxes** and **real estate registration fees**:

(1) Revenues from the **built property tax (or recurrent tax on immovable property)** amounted LL 69 billion, down 15 percent from the LL 81 billion collected during the first nine months of 2004. The reason behind the decline in receipts could be explained, on the one hand, by the extension of the deadline period for the granted amnesty on due penalties until the end of the year, and on the other hand by the amendment of the Built Property Tax Law as per the Budget Law 2004[1]. The built property tax structure modification implies that some of the built property taxable base may wither away, resulting in lower proceeds. However, the impact of the change in the built property tax structure on revenues may not be accurately assessed prior to year end.

(2) Revenues from the **Real estate registration fees (or non recurrent tax on property)** reached LL 185 billion during January-September 2005, up almost 7 percent from the LL 174 billion collected over the same period in 2004. This may suggest an overall improvement in the real estate market in Lebanon lately[2].

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[1] *The amendment modifies and simplifies the structure of the tax by imposing progressive rates, not on the aggregated value of a property owner's overall real estate properties as was the case before, but on each real estate value separately.*

[2] *However, please note that the relationship between property registration fees and real estate activity is not a 1 to 1 relationship as there is no legal binding for registering real estate upon purchase in Lebanon.*

Table 3. Tax Revenue

(LL billion)	2004 September	2005 September	2004 Jan-Sep	2005 Jan-Sep	% Change
Tax Revenues:	**360**	**326**	**3,855**	**3,658**	**-5.13%**
Taxes on Income, Profits, & Capital Gains, *of which*:	**30**	**46**	**761**	**868**	**14.06%**
Income Tax on Profits	*9*	*10*	*386*	*382*	-1.16%
Income Tax on Wages and Salaries	*2*	*3*	*120*	*143*	19.19%
Income Tax on Capital Gains & Dividends	*2*	*12*	*65*	*85*	30.20%
Tax on Interest Income (5%)	*16*	*20*	*171*	*242*	41.73%
Penalties on Income Tax	*2*	*1*	*15*	*12*	-18.06%
Taxes on Property, *of which:*	**33**	**32**	**284**	**279**	**-1.79%**
Built Property Tax	*6*	*7*	*81*	*69*	-14.91%
Real Estate Registration Fees	*24*	*23*	*174*	*185*	6.58%
Domestic Taxes on Goods & Services, *of which:*	**131**	**137**	**1,390**	**1,383**	**-0.51%**
Value Added Tax	*105*	*114*	*1,241*	*1,235*	-0.53%
Other Taxes on Goods and Services, of which:	*21*	*22*	*135*	*138*	1.86%
Private Car Registration Fees	*10*	*9*	*81*	*77*	-4.89%
Passenger Departure Tax	*10*	*13*	*53*	*60*	13.18%
Taxes on International Trade, *of which:*	**141**	**91**	**1,217**	**953**	**-21.70%**
Customs	*49*	*41*	*385*	*351*	-9.00%
Excises, of which:	*92*	*51*	*831*	*602*	-27.58%
Petroleum Tax	*51*	*11*	*509*	*302*	-40.70%
Tobacco Tax	*21*	*17*	*150*	*139*	-7.10%
Tax on Cars	*20*	*22*	*169*	*157*	-6.69%
Other Tax Revenues (namely fiscal stamp fees)	**25**	**19**	**204**	**175**	**-14.05%**

Source: MOF, DGF

Overall, **domestic taxes on goods and services** remained nearly unchanged, witnessing a mere 0.5 percent decrease, from LL 1,390 billion by September 2004 to LL 1,383 billion in September 2005.

VAT revenues also remained stable, amounting to LL 1,235 billion by September 2005.

> *VAT at imports:* Of the total amount of VAT receipts (LL 1,235 billion) for January-September 2005, LL 867 billion of VAT was collected on imported merchandise, compared to LL 879 billion in January-September 2004[3]. A more relevant analysis would be to compare the LL 867 billion collected in January-September 2005 with LL 834 billion, which is the collection of the first three quarters of 2004 net of the reclassification amount (please refer to footnote 3). This would imply that VAT collected on imports actually increased by LL 33 billion or almost 4 percent. This rise in VAT collected at import is much more than the increase in the level of imports, which improved by approximately 1 percent, and this is mainly due to the rise in the price of oil in that period.

[3] *Please note that of this LL 879 billion, LL 45 billion represent VAT on fuel imports for EDL, collected under guarantees and recorded as Treasury revenues in 2002 and 2003. They were reclassified under VAT during the first half of 2004. Therefore, on a cash basis, the Treasury collected effectively LL 834 billion of VAT imports in January-September 2004.*

VAT collected from internal operations amounted to LL 367 billion by September 2005, slightly higher (by 1.5 percent) than the LL 362 billion collected by September 2004. Investigating the proceeds from the three declaration periods so far in 2005 indicates that the year-on-year increases of internal VAT of 9 percent in January 2005 and 6 percent in July 2005 have offset the 7 percent decline that was witnessed in April 2005 due to the slowdown of economic activity following the February 14 tragic events[4].

Other taxes on goods and services generated LL 138 billion in revenues, almost 2 percent above the collection level of January-September 2004. Revenues from **private car registration fees** reached LL 77 billion by September 2005, down by almost 5 percent from the same period in 2004, in line with an almost 11 percent drop in the number of cars imported during that same period. As for the **passenger departure tax**, it generated LL 60 billion in revenues by September 2005, up 13 percent from January-September 2004. However, the rise was not a result of increased tourist activity, as the number of incoming tourists for January-September 2005 declined by almost 14 percent compared to the same period in 2004, from 1,054,743 tourists to 911,745 tourists. The increase in revenues from the passenger departure tax could hence be attributed to travel on the part of Lebanese nationals.

Taxes on international trade (custom duties and excises) generated revenues of LL 953 billion during the first nine months of 2005, down by almost 22 percent from the LL 1,217 billion collected during the same period of 2004. Of this LL 953 billion, LL 351 billion are **customs duties**, while LL 602 billion are **excises**.
Customs duties for January-September 2005 collected LL 351 billion, down 9% from January-September 2004. Imports maintained their 2004 level during the first 3 quarters of the year (approximately 1 percent increase). This could be explained by the following:

- Non-oil imports that are subject to customs duties (such as machinery and mechanical appliances, chemical products and transport equipment) declined by September 2005, compared to their January-September 2004 level[5].
- The increase in imports was of a nominal nature, and was due to higher oil prices . Furthermore, fuel oils and gas oils are not subject to custom duties.

Excise revenues dropped by almost 28 percent, declining from LL 831 billion by September 2004 to LL 602 billion by September 2005. This decline in excise revenues can be largely explained by an almost 41 percent drop in fuel excises. Revenues from the **petroleum tax** amounted to LL 302 billion during the first nine months of 2005, compared to LL 509 billion for the same period of 2004, due to the capping of the retail price of car gasoline at the May 2004 level (LL 23,000 or US$15.25 per 20 liter) following a Council of Ministers' decision in May 20th 2004, in response to increasing international oil prices.
The effective price of car gasoline at import witnessed a steady increase throughout 2005, from an average of LL 475/liter in January 2005 to LL 811/Liter in September 2005. In effect, the effective excise rate has declined from LL 392/Liter in January 2005 to LL 55/Liter in September 2005. Consequently, the capping of the retail price of car gasoline has cost the Treasury around LL 320/Liter in terms of foregone revenues (measured against the pre-cap excise rate as of May 2004).[6]

Excises on cars registered an almost 6 percent drop in receipts, with LL 157 billion collected in the first nine months of 2005 compared to LL 167 billion in the same period of 2004. The nominal decline in car imports of around 10 percent was behind this decrease. In fact, the

[4] *Please note that VAT revenues are recorded on a cash basis and hence January collection pertains to the fourth quarter of the previous year, April collection pertains to the first quarter of the current year and July collection pertains to the second quarter of the current year.*
[5] *Please refer to Table 13*
[6] *Please note that the above calculations do not consider the demand elasticity of car gasoline.*

number of cars imported in January-September 2005 totaled 28,835 cars, compared to 32,375 cars for the same period of 2004. The indicators mentioned above (car imports and car excises), in addition to the car registration fee figures that were previously discussed, suggest a general slowdown in the car market, namely in the sales of new and used cars.
Car import statistics further reveal that the effective price per car at import has increased by 2 percent year on year.

With LL 141 billion of revenues by the end of September 2005, compared to LL 152 billion by the end of September 2004, **tobacco excises** went down by 7%. In fact, tobacco imports during the first 3 quarters of 2005 witnessed an almost 5 percent drop in value.

Other tax revenues, namely fiscal stamp duties, reached LL 175 billion by September 2005, down 14 percent from January-September 2004. This hints a reduction in the volume of transactions taking place in the economy during the period subsequent to the assassination of former Prime Minister Rafic Hariri.

Table 4. Non Tax Revenue

(LL billion)	2004 September	2005 September	2004 Jan-Sep	2005 Jan-Sep	% Change
Non-Tax Revenues	**184**	**147**	**1,424**	**1,456**	**2.29%**
Income from Public Institutions and Government Properties, *of which*:	**146**	**108**	**1,099**	**1,141**	**3.90%**
Income from Non-Financial Public Enterprises, *of which*:	143	103	1,054	1,107	*5.01%*
Revenues from Casino Du Liban	*0*	*5*	*29*	*39*	*34.89%*
Revenues from Port of Beirut	*0*	*0*	*0*	*33*	*100.00%*
Budget Surplus of National Lottery	*7*	*3*	*30*	*29*	*-3.33%*
Transfer from the Telecom Surplus	*136*	*95*	*993*	*1,004*	*1.10%*
Property Income *(namely rent of Rafic Hariri International Airport)*	*3*	*4*	*38*	*31*	*-18.31%*
Other Income from Public Institutions (interest)	0	1	7	4	*-44.59%*
Administrative Fees & Charges, *of which*:	**29**	**30**	**262**	**248**	**-5.40%**
Administrative Fees, *of which*:	24	26	209	201	*-3.92%*
Notary Fees	*2*	*2*	*13*	*13*	*-1.40%*
Passport Fees/ Public Security	*8*	*8*	*68*	*67*	*-1.63%*
Vehicle Control Fees	*11*	*11*	*92*	*83*	*-10.39%*
Judicial Fees	*1*	*2*	*16*	*16*	*0.05%*
Driving License Fees	*2*	*1*	*11*	*11*	*2.53%*
Administrative Charges	1	1	14	11	-20.04%
Sales (Official Gazette and License Number)	0	0	2	2	-22.24%
Permit Fees (mostly work permit fees)	3	3	30	28	-7.03%
Other Administrative Fees & Charges	1	1	6	6	-7.86%
Penalties & Confiscations	**0**	**0**	**4**	**3**	**-25.50%**
Other Non-Tax Revenues (mostly retirement deductibles)	**7**	**8**	**59**	**64**	**8.19%**

Source: MOF, DGF

Non-tax revenues by end-September 2005 equaled LL 1,456 billion, against LL 1,424 billion by end-September 2004. This was due to an over 2 percent year-on-year improvement in collection. Behind this rise in receipts stands an almost 4 percent increase in income from public institutions and government properties that outweighed the 5 percent loss in administrative fees and charges.

Income from public institutions and government properties for the period ending September 2005 generated LL 1,141 billion, registering a near 4 percent increase in revenues when compared to the collection level over the same period of 2004. This amount includes the following:

a) LL 39 billion in revenues from **Casino Du Liban**, which was LL 10 billion higher than the amount collected by September 2004,
b) LL 29 billion in revenues from the **National Lottery**, which was LL 1 billion lower than the amount collected during the first nine months of 2004,
c) LL 1,004 billion in transfers from the **Budget surplus of the Telecommunications** for January-September 2005, up LL 11 billion from the amount received in January-September 2004,
d) LL 33 billion from the Port of Beirut, collected as a one time payment in March 2005.

Administrative fees and charges registered LL 248 billion by September 2005, which was LL 14 billion lower than the level collected in the first nine months of 2004. This over 5 percent decline is due to lower collection across all major fees and charges, namely:

1) Near 4 percent decline in the collection of **administrative fees**, which amounted to LL 201 billion in the first nine months of 2005. This was largely due to an over 10 percent decrease in **vehicle control fees** during that period, reaching LL 83 billion compared to the LL 92 billion collected over January-September 2004. Other fees, namely **judicial fees, notary fees, driving license fees**, and **passport/public security fees**, maintained to a large extent, their January-September 2004 level of collection, with LL 16 billion, LL 13 billion, LL 11 billion and LL 67 billion of receipts respectively, collected by September 2005.

2) Twenty percent drop in **administrative charges** (which include public exam fees, registration fees in public schools and the Lebanese University, and fees from port authorities) which amounted to LL 11 billion by end-September 2005, compared to LL 14 billion by end-September 2004.

3) Seven percent drop in **work permit fees**, which equaled LL 28 billion by September 2005, compared to LL 30 billion by September 2004.

Treasury Revenues for the period ending September 2005 equaled LL 301 billion, compared to LL 316 billion by end-September 2004, representing a 5 percent decrease. Despite this overall drop, revenues from municipalities increased by 101 percentage points, rising from LL 79 billion by September 2004 to LL 158 billion by September 2005.

Section III: Expenditure Outcome

Table 5. Expenditures by Transaction Classification

(LL billion)	2004 September	2005 September	2004 Jan-Sep	2005 Jan-Sep	% Change
Total Expenditures	**853**	**814**	**7,678**	**7,343**	**-4.36%**
Budget Expenditures	**752**	**719**	**6,086**	**5,575**	**-8.40%**
Expenditures Excluding Debt Service	413	358	3,240	3,221	-0.58%
Debt Service, *of which*:	339	361	2,847	2,354	-17.31%
Domestic Debt	*152*	*153*	*1,670*	*995*	*-40.44%*
Foreign Debt, of which:	*187*	*208*	*1,176*	*1,359*	*15.54%*
Eurobond Coupon Interest	*163*	*181*	*990*	*980*	*-0.98%*
Concessional Loans Principal Payments	*17*	*20*	*99*	*91*	*-8.43%*
Concessional Loans Interest Payments	*7*	*6*	*87*	*80*	*-8.43%*
Treasury Expenditures , *of which*:	**101**	**95**	**1,592**	**1,768**	**11.10%**
Municipalities	*54*	*16*	*334*	*261*	*-21.91%*
Previous Years' Appropriations	*3*	*3*	*440*	*490*	*11.38%*
Non-Interest Expenditures (Total Expenditures minus Debt Service)	**514**	**453**	**4,831**	**4,989**	**3.27%**

Source: MOF, DGF

Between January-September 2004 and January-September 2005, **total expenditures for budget and treasury transactions** decreased by more than 4 percent, going down from LL 7,678 billion for the first nine months of 2004, to LL 7,343 billion for the first nine months of 2005.

1) **2005 budget expenditures** equaled LL 5,575 billion over January-September 2005, registering a decline of over 8 percent from budget expenditures for the same period of 2004, chiefly resulting from a 17 percent decrease in **debt service** expenditures, from LL 2,847 billion to LL 2,354 billion.

2) **Treasury expenditures** consist of extra budgetary transactions, as well as previous years' budget transactions. **Treasury expenditures** equaled LL 1,768 billion by September 2005, compared to LL 1,592 billion by September 2004, registering an increase of 11 percent.

Non-interest expenditures (total primary expenditures) amounted to LL 4,989 billion for the first nine months of 2005, increasing by 3 percent in comparison with the LL 4,831 billion registered over the same period in 2004. This LL 158 billion increase could be largely explained by a) LL 221 billion higher transfers to NSSF and b) LL 356 billion higher direct and indirect spending on EDL. The increase in NSSF transfers and spending on EDL was not completely offset by the decrease in interest expenditures, which amounted to LL 493 billion over the same period.

When expenditures were examined from an economic perspective, current expenditures declined by 3 percent, while capital spending declined by 38 percent. **Other treasury expenditures**, including extra budgetary spending, increased by 13 percent.

Current expenditures reached LL 5,668 billion for the first nine months of 2005, rising by around 3% as compared to their level of LL 5,865 billion recorded for the same period of 2004.

Primary current expenditures (excluding debt service) amounted to LL 3,314 billion by the end of September 2005, an increase of LL 296 billion or almost 10 percent above the LL

3,018 billion disbursed over the same period a year earlier. The increase resulted mainly from:

(1) LL 78 million increase in spending on materials and supplies,

(2) LL 216 billion increase in payments on account of various transfers,

(3) LL 13 million rise in other current expenditures.

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

Personnel cost remained constant in January-September 2005, relative to the same period of 2004, amounting to LL 2,349 billion.

Debt service by end-September 2005 amounted to LL 2,354 billion, 17 percent below the level for the same period of 2004. This decline can be mainly attributed to the large drop (of over 40 percent) in domestic currency debt service that equaled LL 995 billion by the end of September 2005 compared to LL 1,670 billion by end-September 2004. The decline in the debt service bill was also due to the persistent positive impact of Paris II transactions and the overall decline in the interest rate level that took place at the time. The increase in the foreign currency interest bill is due to the steady increase in the share of foreign currency debt to total debt during the past couple of years. Foreign currency debt accounted for 49.5 percent of total debt at the end of September 2005, up from 48 percent in September 2004.

Materials and supplies amounted to LL 171 billion in January-September 2005, 84 percent above the LL 93 billion spent by end-September 2004. This increase is mainly due to the LL 90 billion payment of public administrations' electricity bills to EDL, in accordance with Law # 672 enacted on February 17th, 2005. This opened an additional allocation in 2004 Budget Law, under the Ministry of Finance's budget to reimburse accrued electricity bills on behalf of public administrations[7].

External services (rent, postal services, insurance, advertisement and public relations) amounted to LL 63 billion during the first nine months of 2005, a near 25 percent decrease compared to the same period of 2004.

Various transfers reached LL 489 billion in January-September 2005, rising by LL 216 billion from the same period in 2004.This increase was mainly due to the following:

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

b. Transfers to the National Social Security Fund augmented by LL 221 billion. The total amount paid in January-September 2005 to the NSSF reached LL 290 billion, of which LL 240 billion were paid in June 2005.

   Had it not been for transfers to the NSSF, **various transfers** would have dropped by LL 5 billion due to a LL 19 billion decrease in transfers to the Ministry of Social Affairs and a LL 14 billion increase in transfers to the Ministry of Health.

[7] *For additional information, kindly refer to the yearly 2004 report entitled "Public Finance prospects2004", Boxes page 15.*
[8] *The General Directorate of Grains and Sugar Beet is under the supervision of the Ministry of Economy and Trade.*

Table 6. Expenditures by Economic Classification

(LL billion)	2004 Jan-Sept	2005 Jan-Sept	Change in percent
1. Current expenditures	**5,865**	**5,668**	**-3.4%**
1.a Personnel cost, *of which*	2,341	2,349	0.3%
Article 13: Salaries and wages, of which:1/	*1555*	*1,583*	*1.8%*
Retirement and end of service compensations	*625*	*627*	*0.4%*
1.b Debt service payments	2,847	2,354	-17.3%
1.c Materials and supplies	93	171	84.2%
1.d External services	84	63	-24.6%
1.e Various transfers	273	489	78.9%
o/w NSSF	*69*	*290*	*320.3%*
1.f Other current	174	187	7.4%
Hospitals	*145*	*130*	*-10.2%*
Others	*29*	*57*	*95.6%*
1.g Reserves	53	55	3.1%
Interest subsidy	*53*	*55*	*3.1%*
2. Capital expenditures	**622**	**386**	**-38.0%**
2.a Acquisitions of land, buildings, for the construction of roads, ports, airports, and water networks	5	10	113.7%
2.b Equipment	36	20	-44.6%
2.c Construction in Progress	497	294	-40.9%
2.d Maintenance	42	34	-20.8%
2.e Other Expenditures Related to Fixed Capital Assets	42	28	-33.6%
3. Other treasury expenditures, of which:	**1,109**	**1,257**	**13.3%**
Municipalities	334	261	-21.9%
EDL 2/	450	665	47.8%
Treasury advances for water authorities		48	
4. Unclassified expenditures	**14**	**4**	**-74.0%**
5. Customs cashiers	**67**	**28**	**-57.3%**
6. Total expenditures (excluding CDR foreign financed)	**7,678**	**7,343**	**-4.4%**

Source : statement of account 36, cashier spending, Public Debt Department figures , Fiscal performance gross adjustment figures
1/ Includes the wages and salaries for the Council of the South, the Lebanese University, the Displaced Council, the Council for Reconstruction and Development, and the Educational Center for Research and Development.
2/ Excludes Treasury advances to water authorities for their accrued electricity bills (LL 48 billion) and Budget transfers (LL 93 billion) under the line item "Materials and Supplies" for the settlement of public administrations' accrued electricity bills.

Other current expenditures were up by 7.4 percent, increasing from LL 174 billion at end-September 2004 to LL 187 billion at end-September 2005. This resulted from LL 32 billion in transfers to the Ministry of Education, in settlement of arbitration decisions related to contractual teachers' wages and salaries.

Interest subsidies for loans to productive sectors (agriculture, industry, tourism, technology and crafts) increased by LL 2 billion or 3 percent from their level in the first nine months of 2004, reaching LL 55 billion by the end of September 2005.

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…)

By September 2005, salaries and wages in the public sector amounted to nearly 22 percent of total expenditures and to almost one third 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 around half of the total wage and salary bill for January-September 2005.
2. Salaries of education personnel (including salaries of teachers, contributions to salaries/wages of Lebanese University…) for January-September 2005 constituted around one third of the total wage and salary bill. The amount paid for education personnel was higher than that of the same period of 2004, mainly due to the hiring of new teachers during the end of 2004 (Decree No13542 Dated October 14, 2004).
3. Salaries of civil personnel constituted 19 percent of the total wage and salary bill for January-September 2005, and were lower than the amount paid for January-September 2004. It should be noted that this decrease may not be indicative, since salaries of civil personnel also cover additional allowances such as sickness and maternity which are not disbursed on a regular basis.

Breakdown of Salaries and Wages

(LL billion)	Jan-Sep 2004	Jan - Sep 2005	Percentage change
Military Personnel	**818**	**822**	**0.46%**
Army	555	555	0.07%
Internal Security forces	200	204	1.75%
General Security forces	46	46	0.51%
State Security forces	17	17	-2.53%
Education Personnel	**507**	**541**	**6.69%**
Civil Personnel	**346**	**320**	**-7.52%**
Grand-Total	**1,671***	**1,683***	**0.69%**

** The grand total differs from the total for the item "Article 13: Salaries and Wages" in table 6 because the amounts listed in this box for Education personnel include contributions to the salaries of Lebanese University staff.*
Source: MOF, DGF

Capital expenditures amounted to LL 386 billion during the first nine months of 2005, LL 237 billion (or 38 percent) below the comparable period of last year, mainly due to a 41 percent or LL 204 billion decrease in **construction in progress.** This was due to:

(a) Lower transfers to the Council of the South, which amounted to LL 52 billion by end-September 2005, compared to LL 90 billion by end-September 2004, and

(b) No spending on the Displaced Fund for January-September 2005, compared to transfers that totaled LL 122 billion in January-September 2004.

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

- Transfers to the Council for Development and Reconstruction (CDR) amounted to LL 185 billion for the first nine months of 2005, compared to LL 190 billion in the same period in 2004.
- Capital expenditures for the Ministry of Public Works and Transport amounted to LL 24 billion for January-September 2005, compared to LL 50 billion spent over the same period of last year. This represented a 53 percent decrease.
- Other construction in progress totaled LL 34 billion for the first nine months of 2005, compared to LL 44 billion disbursed over the same period of 2004.

Other Expenditures Related to Fixed Capital Assets decreased by LL 14 billion, reaching LL 28 billion by the end-September 2005. This decline was due to a LL 9 billion drop in transfers to the Investment Development Authority of Lebanon (IDAL) within "the Export Plus Program" (LL 34 billion of transfers for January-September 2004 versus LL 23 billion of transfers for January-September 2005).

Table 7. Transfers to EDL

(LL billion)	2004 Jan-Sept	2005 Jan-Sept	% Change
EDL *of which:*	**450**	**806**	**79.1%**
Debt Service *of which:*	**300**	**160**	**-46.7%**
C-Loans and Eurobonds, *of which:*	164	160	-2.5%
Principal Payment	110	111	0.9%
Interest Payment	54	49	-9.5%
Loans for Fuel Oil Payment	33	0	-100.0%
BDL Guaranteed Loan Payment	103	0	**-100.0%**
Treasury Advance for Fuel Purchase	150	**130**	**-13.3%**
Treasury Advance for EDL' s Losses		**375**	**100.0%**
Material and supplies (electricity bills)		**93**	**100.0%**
Treasury advance to water authorities		**48**	**100.0%**

Source: MOF, DGF

Other treasury expenditures increased by 13 percent, reaching LL 1,257 billion by September 2005 compared to LL 1,109 billion for January-September 2004. The LL 147 billion rise in treasury expenditures occurred despite 22 percent lower spending on municipalities between January and September 2005. Of the LL 261 billion in transfers to municipalities, LL 105 billion were spent in accordance with Decree number 14290 dated November 3rd, 2004, LL 9 billion were a repayment of a World Bank Loan, and the remaining mainly represent payments made to solid waste management companies.

The augmentation therefore pertains to higher direct Treasury transfers to **EDL,** which amounted to LL 665 billion by end-September 2005, compared to LL 450 billion for the first nine months of 2004.

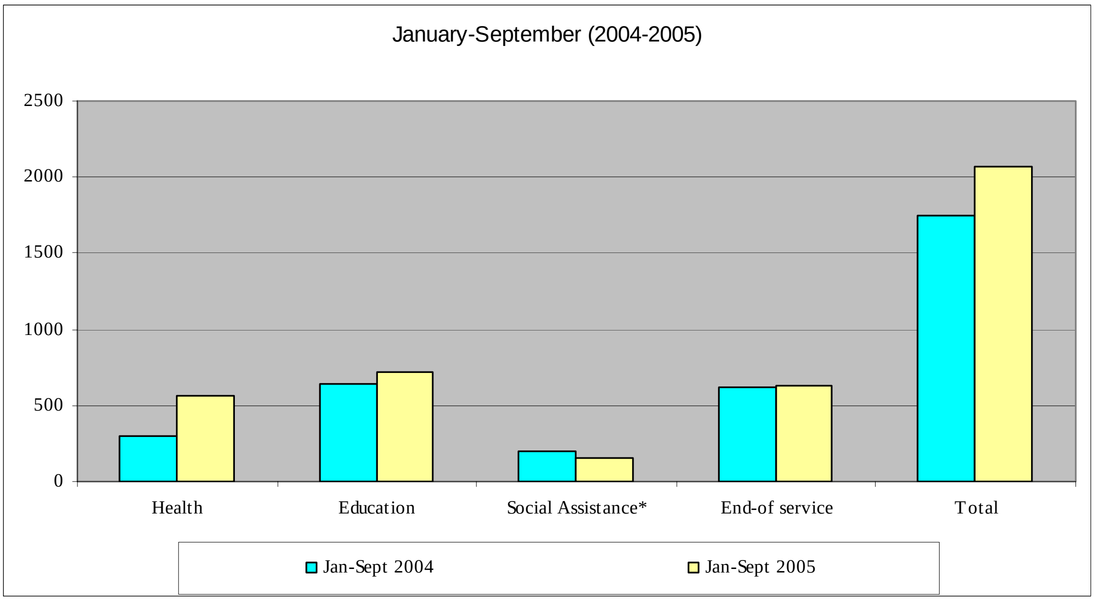
However, total direct and indirect transfers to EDL amounted to LL 806 billion: 1) LL 665 billion in direct Treasury transfers; 2) LL 93 billion in budget transfers under Materials and Supplies; and 3) LL 48 billion in a Treasury advance to water authorities for the payment of accrued electricity bills. In comparison with 2004, the higher treasury transfers to EDL in the first nine months of 2005 in contrast to 2004 are explained by 1) LL 130 billion treasury advance for fuel purchase and 2) LL 375 billion treasury advance paid to cover EDL's deficit.

Details of Social Expenditures

The drop in overall expenditures reported during the period January-September 2005 was not reflected on social spending, which witnessed an increase of 16 percent during the first nine months of 2005, as compared to its level during the same period of 2004. This spending covers the two basic social services of (a) education health, (b) pension and end-of-service indemnity, in addition to other areas of interventions classified as social assistance.

Of the LL 2,063 billion spent during January-September 2005, education accounted for around 35 percent, 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 second, and represented around 30 percent of total social expenditures. Spending on health, meanwhile, represented 27 percent, an increase of 61 percent during January-September, as compared to the same period of last year. The increase was driven by the increase in the NSSF allocation, which amounted to 290 billion in January-September 2005.

Allocation of Social Spending



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

Table 8. Social Spending for January-September (2004-2005)

(LL billion)	Jan-Sep 2004	Jan-Sep 2005	Magnitude of change over QIII 2005	Percentage change over QIII 2004
Health				
Hospitalization in the private sector	145	130	-15	-10%
Purchase of Medication	41	32	-9	-22%
Hospitalization of public sector employees in private sector	50	57	6	13%
Maternity and sickness allowance	18	13	-5	-26%
NSSF	69	291	222	322%
Other	28	42	14	51%
Sub-Total	**351**	**566**	**215**	**61%**
Education				
Ministry of Education and Higher Education, *of which*	535	620	85	16%
Wages and Salaries of the General Directorates of Education, Higher Learning, and Technical Education	*354*	*400*	*46*	*13%*
Contributions in the salaries of the Lebanese University	*116*	*100*	*-16*	*-14%*
Contributions to non profitable organizations (private schools)	*9*	*23*	*14*	*166%*
Construction under execution (construction and restoration of schools)	*21*	*36*	*15*	*74%*
Education allowance in the private sector	102	99	-3	-2%
Sub-Total	**637**	**719**	**82**	**13%**
Ministry of Social Affairs, *of which*	**54**	**35**	**-19**	**-35%**
Transfers to non profit organizations	*53*	*34*	*-19*	*-36%*
Ministry of Displaced	**4**	**3**	**-1**	**-26%**
Other Social Spending				
Marriage allowance	2	1	0	-21%
Birth allowance	2	1	0	-16%
Death allowance	1	2	0	40%
Other social spending allowance	5	3	-2	-39%
Contribution to mutual funds	18	16	-2	-9%
Transfers to employees' cooperative	115	91	-24	-21%
Sub-Total	**142**	**115**	**-27**	**-19%**
End of service & Pensions	**620**	**626**	**6**	**1%**
Grand-Total	**1,808**	**2,063**	**294**	**16%**

Source: MOF, DGF

Section IV: Public Debt Developments

Table 9. Public Debt Outstanding by Holder as of End-September 2005

LL Billion	2002 Dec	2003 Dec	2004 Dec	2005 Sep	Change Year-to-date	% Change Year-to-date
Gross Public Debt	**47,276**	**50,285**	**54,048**	**55,480**	1,432	2.7%
Domestic Debt	**25,302**	**26,843**	**26,371**	**28,005**	1,634	6.2%
a. Central Bank (including REPOs and Loans to EDL to finance fuel purchases)*	723	8,938	10,652	11,634	982	9.2%
b. Commercial Banks	17,211	12,303	12,220	13,095	875	7.2%
c. Other Domestic Debt (T-bills)	7,368	5,603	3,500	3,275	-225	-6.4%
o/w Public entities	*3,221*	*2,564*	*2,187*	*2,425*	*238*	*10.9%*
Foreign Debt	**21,974**	**23,442**	**27,677**	**27,476**	-201	-0.7%
a. Bilateral, Multilateral and Foreign Private sector loans	2,752	2,934	2,970	2,851	-119	-4.0%
b. Paris II related debt (Eurobonds and Loans)	1,432	3,731	3,814	3,695	-119	-3.1%
c. BDL Eurobond (Paris II)	2,819	2,819	2,819	2,819	0	0.0%
d. Market Eurobonds	14,569	13,631	17,686	17,612	-74	-0.4%
e. Accrued Interest on Foreign Currency Debt	402	327	388	498	110	28.5%
Public Sector Deposits	**2,964**	**3,019**	**4,360**	**3,925**	-435	-10.0%
Net Debt	**44,312**	**47,266**	**49,688**	**51,555**	1,867	3.8%
Gross Market Debt**	**36,765**	**29,638**	**31,861**	**32,264**	403	1.3%
% of Total Debt	**78%**	**59%**	**59%**	**58%**		

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.*
*** 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-September 2005 reached LL 55,480 billion (US$ 36.8 billion), increasing by LL 1,432 billion (or 2.7 percent) over the end-December 2004 debt level, and by 4.4 percent over the September 2004 level.

Net public debt as of end-September 2005 amounted to LL 51,555 billion (USD 34.21 billion), registering an increase of LL 1,867 billion or 3.8 percent over the end-December 2004 level.

Box 2. US$ 750 Million Eurobond Deal
October 2005

On October 6, 2005, the Republic of Lebanon launched and priced a Eurobond transaction in the international capital markets. Settlement and closing took place on Tuesday October 18, 2005. The Eurobond deal was denominated in US Dollars and raised a total of US$750 million of fixed rate notes for the Republic at a coupon of 8.5% due 19 January 2016.

SUMMARY OF TERMS AND CONDITIONS

Bookrunners:	Bank Audi, s.a.l. Audi Saradar Group, Banque de la Méditerranée s.a.l., and Citigroup
Series number	Series 40
Issue amount:	US$ 750,000,000
Issue date:	October 18, 2005
Maturity date:	January 19, 2016
Coupon rate:	8.5 percent per annum payable semi-annually in arrear
Interest Payment Dates:	On January 19 and July 19 in each year, starting January 19, 2006 (1st coupon date) and July 19, 2006 (2nd coupon date)
Re-offer Price:	99.182%
Re-offer yield	8 5/8 percent
Issue Type:	Fixed Rate Note, launched off the Global MTN program
Governing Law:	New York Law
Listing:	Luxembourg and Beirut

Source: MOF

The **domestic debt** component of public debt equaled LL 28,005 billion (US$ 18.58), registering an increase of LL 1,634 billion or 6.2 percent over the end-December 2004 level. This increase was partly due to an over-financing in LL Treasury Bills, resulting from subscription surpluses by commercial banks and public institutions.

Following the assassination of Prime Minister Rafik Hariri, commercial banks' appetite for treasury bills was almost non-existent, thereby triggering a significant increase in domestic debt held by BDL in February 2005 and March 2005. However, domestic debt held by BDL decreased by 23.65 percent from a peak of LL 15,236 billion in March 2005 to LL 11,634 billion in September 2005, owing to the resumption of interest by commercial banks in LL Treasury Bills, where domestic debt held by commercial banks increased by 77 percent from a trough of LL 7,387 billion in March 2005 to LL 13,095 billion in September 2005. During September 2005, the same trend continued and commercial banks' portfolio of LL Treasury Bills increased by LL 378 billion, while the portfolio of the Central Bank declined by LL 110 billion.

Foreign currency debt amounted to LL 27,476 billion (US$ 18.23 billion) by end-September 2005, decreasing by LL 201 billion (0.01 percent) since the beginning of the year, largely due to the depreciation of the Euro versus the U.S. dollar for the period under consideration. More specifically,

(a) The Treasury raised US$ 1.75 billion in Eurobonds in Jan-Sept 2005, an amount that exceeds the $1.70 billion that matured during the same period. However, due to the depreciation of the Euro versus the dollar, the market value of 488.6 million outstanding Euro denominated Eurobonds decreased.
(b) The decrease in the value of bilateral, multilateral and foreign private sector loans, as well as the decrease in Paris II related debt, was also related to the depreciation of US$/Euro exchange rate between end-December 2004 and end-September 2005. For example, the value of the Euro 500 million loan offered by France at the Paris II conference expressed in Lebanese Pounds suggests a decline of LL 120 billion, whereas the nominal value of this loan in its original currency remains unchanged.

Table 10. Eurobond Principal Payments made during the period Jan-Sep 2005

(amounts in USD million)	Jan-05	Feb-05	Mar-05	Apr-05	May-05	Jun-05	July-05	Aug-05	Sep-05	Total
Eurobonds	77	93	595	147	300	352	-	-	140	1,700

Source: Ministry of Finance

Box 3. Enactment of New Laws

On the legislative front, the Ministry of Finance has been working actively on the enactment of a number of draft laws relating to the financial sector that were pending at Parliament. The Securitisation Law and Collective Investment Schemes Law were enacted on 9 December 2005 and published in the Official Gazette no.57 on 15 December 2005.

- The purpose of the Securitisation Law, which has been pending in Parliament since 1999, is to provide a framework for the setting up of a structure to finance assets more efficiently and to issue asset-backed notes.
- The Collective Investment Schemes' Law, which has been pending in Parliament since 1999, ensures that investors are offered a better diversification of investments and risks from current traditional instruments. It limits the cost of investment to the investors and increases and widens economic activity within capital markets. The new law stipulates a certain number of tax exemptions and encourages competition within the sector.

In addition, a number of draft laws relating to the financial sector are still pending their enactment at Parliament, mainly the Dematerialization of Securities Law (since 2002), the Securities Lending Law (since 2003) and the Insider Trading Law (since 2005). The Ministry of Finance is actively working with Parliament to enact these draft laws.

Table 11. Public Debt Outstanding by Instrument as of End-September 2005

LL Billion

	2002	2003	2004	2005		
	Dec	Dec	Dec	Sep	Change Year-to-date	% Change Year-to-date
Total Debt	**47,276**	**50,285**	**54,048**	**55,480**	**1438**	**2.7%**
Domestic Debt	**25,302**	**26,843**	**26,371**	**28,005**	**1634**	**6.2%**
1. Long Term Bonds, *of which:*	**22,268**	**24,691**	**20,766**	**21,848**	**1082**	**5.2%**
a- 60 Months Bonds	0	650	650	1,772	1,122	63.3%
b- 54 Months Bonds	0	616	616	616	0	0.0%
c- 48 Months Bonds	0	*0*	*0*	*633*	633	633..%
d- 36 Months Bonds	339	884	8,943	12,804	3,861	43.2%
e- 30 Months Bonds	0	3,033	3,033	3,033	0	0.0%
f- 24 Months Bonds	21,214	18,986	7,281	2,573	-4,708	-64.7%
g- Coupon Interest	715	522	243	418	175	72%
2. Short Term Bills, *of which:* 1/	**2,866**	**1,799**	**5,102**	**5,649**	**547**	**10.7%**
a- 12 Months Bills	1,522	796	2,887	3,913	1,026	35.5%
b- 6 Months Bills	1,028	424	2,103	1,673	-430	-20.5%
c- 3 Months Bills	317	579	112	63	-49	-43.75%
3. Other Domestic Debt 2/	**169**	**353**	**504**	**507**	**3**	**0.6%**
Foreign Debt	**21,974**	**23,442**	**27,677**	**27,476**	**-201**	**-0.7%**
1. Eurobonds, *of which:*	**19,222**	**19,566**	**23,682**	**23,718**	**36**	**0.2%**
Paris II related Eurobonds	1,432	2,789	2,789	2,789	0	0.0%
2. Loans, *of which:*	**2,752**	**3,876**	**3,995**	**3,758**	**-237**	**-5.9%**
a- Paris II Concessional Loan 3/	0	942	1,026	906	-120	-11.7%
b- Bilateral and Multilateral Loans	2,316	2,595	2,714	2644	-70	-2.6%
c- Foreign Private Sector Loans	436	338	255	208	-47	-18.4%

Source: MOF, Banque du Liban
1/ Includes Accrued Interest on Short-Term Bills
2/ Mainly composed of loans extended to EDL to finance fuel purchases made in
3/ 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, the demand for both long-term and short-term bonds increased as compared to December 2004. However, additional subscriptions in long-term bonds was almost double that of short term bonds. On the long-term bonds, the increase mostly occurred in the 60-month and 36-month categories, while the 24-month bonds witnessed a large decline. This drop was due to the maturity of the zero interest treasury bills (issued in the context of Paris II)[9] in the amount of LL 4,404 billion in the first half of 2005. Approximately, LL 2,460 billion of these zero interest Treasury bills were rolled over into new 6 and 12-month treasury bills. The rates for these T-Bills ranged between 3.090-3.750 percent for the 6-month maturity, and 3.265-4.125 percent for the 12-month maturity. Two-thirds of the T-Bills were in the 12-month category, which explains the increase in the outstanding amount of this instrument since the beginning of the year. The remaining zero-interest T-Bills were renewed at market rates, most notably in the 36-month category, which by end-September 2005 represented more than 46 percent of total domestic debt outstanding.

[9] Please refer to the Special Report entitled 'One-Year Progress After Paris II' on the Ministry's website www.finance.gov.lb

Moreover, since April 2005, commercial banks have over-subscribed 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.

Box 4. Trading Activity and Lebanese Eurobonds Performance on the Beirut Stock Exchange (BSE)

Despite the instability that followed the tragic assassination of late Prime Minister Hariri in February 2005, the Beirut Stock Exchange has been witnessing a surge in trading activity, as well as considerable stock price increases, compared to last year.

Trade Activity for January-September 2005:

When comparing the trading activity of January-September 2005 with that of January-September 2004, the gap is quite significant, with trading value almost quadrupling in 2005 for the period in question. In effect, over the first nine months of 2005, trading totaled 49.3 million shares valued at $495.8 million. This could be contrasted with 15.6 million shares at a value of $125.6 million for January-September 2004, thus representing increases of 216 percent and 295 percent, respectively.

Stock Price Performance and Market Capitalization for September 2005:

As mentioned above, and compared to September 2004 and January 2005, BSE witnessed considerable increases in the price of several listed stocks.

Comparison of End-of Month Closing Prices

Stock	End-of-Month Closing Price in USD			Percentage Increase	
	Sep 2004	Jan 2005	Sep 2005	Over Sep 2004	Over Jan 2005
Solidere "A"	8.24	8.77	13.45	63.2%	53.4%
Solidere "B"	8.21	8.73	13.3	62%	52.3%
Banque Audi SAL GDR	n/a	24	45.75	-	90.6%
BLOM Bank SAL GDR	25.75	30.5	47	82.5	54.1%
Byblos Bank Listed shares	1.5	1.53	1.9	26.7%	24.2%
Holcim (Liban) S.A.L.	0.6	0.67	1.35	125%	101.5%

As for market capitalization, it has been rising over the last few years. Market capitalization increased by 188 percent between 2001 and 2005, from $ 1,248 million end-2001 to $ 3,600 million end-September 2005.

Trading Activity and Lebanese Eurobonds Performance on the Beirut Stock Exchange (BSE) (Cont'd)

Republic of Lebanon (ROL) Eurobonds on the Secondary Market

The Eurobond market showed a strengthening during the second half of 2005. In fact, secondary market prices of most Eurobonds showed an improvement and registered above-par levels due to the pick-up in demand by local and international investors. This has naturally been accompanied by a spread tightening on most Eurobonds.

Performance of ROL Eurobond Secondary Market (Prices and yields as of the closing of 19-DEC-2005)

Republic of Lebanon Eurobonds	Mid- Price	Mid-Yield	Year of Issue	Year of Maturity	Coupon
LEB 8.875 06 EURO	103.875	3.75%	1999	2006	8.875%
LEB 7.250 09 EURO	104.750	5.66%	2004	2009	7.250%
LEB 9.875 06 USD	101.500	5.29%	2001	2006	9.875%
LEB 10.5 MAY 06 USD	101.813	5.415%	2002	2006	10.5%
LEB 10.5 AUG 06 USD	102.876	5.63%	2002	2006	10.5%
LEB 8.625 07 USD	103.500	6.44%	1997	2007	8.625%
LEB 7.375 08 USD	102.000	6.495%	2005	2008	7.375%
LEB 10.125 08 USD	108.375	6.59%	2001	2008	10.125%
LEB 10.250 09 USD	111.250	6.825%	1999	2009	10.250%
LEB FRN 09 USD	104.500	6.73%	2004	2009	6 mo L + 325bp
LEB 7.000 09 USD	100.750	6.785%	2004	2009	7.00%
LEB 7.125 10 USD	100.500	6.98%	2004	2010	7.125%
LEB 7.875 11 USD	103.500	7.08%	2004	2011	7.875%
LEB 7.750 12 USD	102.500	7.27%	2004	2012	7.750%
LEB 8.625 13 USD	106.500	7.475%	2005	2013	8.625%
LEB 8.500 16 USD	104.500	7.85%	2005	2016	8.50%
LEB 11.625 16 USD	124.750	8.06%	2001	2016	11.625%

Source:CSFB

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

Section V: Evolution of External Trade

Table 12. External Trade

(USD Million)	2004 September	2005 September	2004 Jan-Sept	2005 Jan-Sept	Change	% Change
Exports	145	175	1,296	1,339	43	3.32
Imports, *of which:*	815	836	6,813	6,870	57	0.84
Mineral Products	*139*	*256*	*1,416*	*1,649*	*233*	*16.46*
Trade Balance	**-670**	**-661**	**-5,517**	**-5,531**	**-14**	**0.26**

Source: MOF, Directorate General of Customs (DGC)

Balance of trade: In January-September 2005**,** the trade deficit remained almost stable (the increase amounted to a mere 0.26 percent compared to the same period of 2004). The stable trade deficit resulted from (1) a minor increase of 3.32 percent in exports and (2) a 0.84 percent rise in imports.

By the end of September 2005, **imports** amounted to USD 6,870 million, compared to USD 6,813 million for the same period the previous year.

From a product perspective, the increase in imports is nominal, and could be attributed to a USD 233 million increase in the value of the imports of mineral products. The increase in import value of mineral products resulted from an increase in the price of gas oil and car gasoline, which offset the decrease in the volume of imported gas oil and fuel oil. In real terms, and using 2004 prices, imports of oil have decreased by USD 415 million or 28 percent. Thus, taking into account the changes in oil prices, real imports in Jan-Sep 2005 have decreased by 5.25 percent as compared to Jan-Sep 2004.

From a regional distribution perspective, the minor change in the value of imports reflects (1) USD 65 million increase in imports from Arab Countries, (2) USD 17 million rise in imports from Switzerland and (3) USD 10 million increase in imports from other countries that are not traditionally Lebanon's main trading partners. These increases were offset by a USD 26 million decrease in imports from the European Union, and an USD 8 million decrease of imports from China.

By the end of September 2005, **exports** reached USD 1,339 million, up by USD 43 million with respect to the corresponding period in 2004.

From a product perspective, the increase in exports is mainly owed to (1) USD 45 million increase in the exports of base metals, (2) USD 30 million increase in the exports of prepared foodstuffs, (3) USD 18 million increase in the exports of machinery and mechanical appliances, and (4) USD 10 million and USD 14 million increases in the exports of chemical products and mineral products. These increases more than offset the USD 99 million decrease in the exports of pearls, precious or semi-precious stones registered in the first nine months of 2005. From a regional distribution perspective, the increase in the value of exports reflects a USD 46 million increase in exports to Arab Countries.

Table 13. Imports Distribution by Product

(USD million)	2004 Sep	2005 Sep	2004 Jan-Sep	% Share	2005 Jan-Sep	% Share	Change	% Change
Mineral Products	139	256	1,416	21%	1,649	24%	233	16%
Machinery and Mechanical Appliances	83	73	790	12%	780	11%	-10	-1%
Products of the Chemical	78	59	615	9%	599	9%	-16	-3%
Pearls, Precious or Semi-Precious Stones	47	31	460	7%	419	6%	-41	-9%
Transport Equipment	77	69	605	9%	562	8%	-43	-8%
Base Metals and Articles of Base Metals	58	59	442	6%	474	7%	32	7%
Other Goods	333	289	2,485	36%	2,387	35%	27	1%
Total	**815**	**836**	**6,813**	**100%**	**6,870**	**100%**	**57**	**1%**

Source: MOF, DGC

- **Import Distribution by Product:**

Imports of **mineral products** increased by 24 percent, and cumulated at USD 1,649 million in January-September 2005, as compared to USD 1,416 million for the same period of 2004. The increase in the import value of mineral products resulted mainly from:

1) USD 155 million increase in the imports of **car gasoline,** which reached USD 527 million by the end of September 2005. The increase was due to a) 37 percent increase in the average effective import price of car gasoline from LL 454 per liter in January-September 2004 to LL 620 per liter in January-September 2005, and b) 4 percent increase in quantities imported from 1,233 million liters in January-September 2004 to 1,283 million liters in January-September 2005. Hence, the increase in the imports of car gasoline was mainly nominal.

2) USD 69 million or 12 percent increase in the imports of **gas oils** (which reached USD 595 million in January-September 2005 compared to USD 526 million in January-September 2004). This was due to the 43 percent hike in the average effective price of gas oils imported, from LL 414 per liter in January-September 2004 to LL 594 per liter in January-September 2005. The hike offset the 21 percent decrease in the quantity of gas oil imported. Quantities of gas oils imported reached 1,509 million liters by the end of September 2005, compared to 1,917 million liters in January-September 2004.

3) Imports of **Fuel oil** remained stable at USD 341 million in January-September 2005, compared to USD 340 million in January-September 2004. This was due to the 41 percent hike in the average effective price of Fuel oil imported, from LL 296 per liter in January-September 2004 to LL 417 per liter in January-September 2005. The hike offset the 29 percent decrease in the quantity of fuel oil imported. Quantities of fuel oil imported reached 1,234 million liters by the end of September 2005, compared to 1,731 million liters in January-September 2004.

Table 14. Mineral Products Import Breakdown

	Jan-Sept 2004	Jan-Sept 2005	Change	% Change
Import Value Details (in USD Million):				
- Car Gasoline	372	527	155	42%
- Gas Oil	526	595	69	12%
- Fuel Oil	340	341	1	0%
Imports Quantity Details (in Million Liters):				
- Car Gasoline	1,233	1,283	50	4%
- Gas Oil	1,917	1,509	-408	-21%
- Fuel Oil	1,731	1,234	-497	-29%
Imports Price Details (in LL per Liter):				
- Car Gasoline	454	620	166	37%
- Gas Oil	414	594	180	43%
- Fuel Oil	296	417	121	41%

Source: MOF, DGC,

Imports of machinery and mechanical appliances decreased by 1 percent, to USD 780 million by the end of September 2005, in comparison with USD 790 million for January-September 2004. This decrease was a consequence of a USD 30 million decrease in the imports of **reactors, boilers, machinery and mechanical appliances** (or what can be described as electrical materials for industrial use, totaling USD 438 million). The decrease was partially offset by the USD 21 million augmentation in the imports of **electrical machinery and equipment and parts thereof** (or what can be described as electrical appliances for household use), which totaled USD 342 million during January-September 2005**.**

The USD 9 percent decrease in the imports of **pearls, precious and semi-precious stones,** which amounted to USD 419 million for the first nine months of 2005 compared to USD 460 million for January-September 2004, resulted from: (1) USD 10 million decrease in the imports of **gold ingots**, and (2) USD 14 million decrease in the imports of **articles of jewelry and parts thereof**.

Imports of **products of the chemical** reached USD 599 million in January-September 2005, compared to USD 615 million in January-September 2004, representing a 3 percent decrease. This decrease could be attributed to a USD 12.5 million decrease in the imports of **pharmaceutical products**.

Transport Equipment imports were worth USD 562 million by the end of January-September 2005, as opposed to USD 605 million by the end of January-September 2004, witnessing an 8 percent decrease. This 8 percent drop was caused by the USD 44 million decrease in the imports of **vehicles** by September 2005, totaling USD 548 million. More specifically, the decrease in the import value of vehicles could be attributed to a USD 38 million decline in the import value of cars, reaching USD 386 million by the end of September 2005. This was mainly due to the lower number of cars imported. The number of imported cars reached 28,835 units in January-September 2005, decreasing by 11 percent from 32,375 units during the same period of 2004.

Imports of **Base metals and articles of base metal** cumulated at USD 474 million by the end of September 2005, compared to USD 442 million by the end of September 2004, thus registering a 7 percent increase. This increase was mainly due to a USD 13 million increase in the imports of **aluminum and articles thereof**, and a USD 16 million increase in the imports of **iron and steel**.

Table 15. Exports Distribution by Product

(USD million)	2004	2005	2004		2005			%
	Sept	Sept	Jan-Sept	% Share	Jan-Sept	% Share	Change	Change
Machinery and Mechanical Appliances	22	29	213	17%	231	17%	18	8%
Base Metals and Articles of Base Metals	20	26	163	13%	208	16%	45	28%
Prepared Foodstuffs	13	18	108	8%	138	10%	30	28%
Pearls, Precious or Semi-Precious Stones	18	20	225	17%	126	9%	-99	-44%
Products of the Chemicals	11	17	106	8%	116	9%	10	9%
Mineral Products	10	9	83	6%	97	7%	14	17%
Other Exports	51	56	398	31%	423	32%	25	6%
Total	**145**	**175**	**1296**	**100%**	**1339**	**100%**	**43**	**3.3%**

Source: MOF, DGC

- **Export Distribution by Product:**

Machinery and mechanical appliances exports increased by 8 percent or USD 18 million, cumulating at USD 231 million for January-September 2005, in comparison to USD 213 million in the same period a year earlier. This increase resulted from: (1) USD 14 million increase in the exports of **reactors, boilers, machinery and mechanical appliances,** which amounted to USD 88 million in January-September 2005, as compared to USD 74 million during the corresponding period in 2004, and (2) USD 1 million increase in the exports of **electrical machinery and equipment and parts thereof,** which were worth USD 143 million until September 2005.

Exports of **base metals and articles of base metals** increased by 28 percent, reaching USD 208 million, compared to USD 163 million during the Jan-Sept period of 2004. This was mainly due to:

(1) USD 18 million increase in **iron and steel** exports, specifically exports of **ferrous waste as well as scrap and re-melting scrap ingots of iron or steel**.

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

(3) USD 11 million increases in **articles of iron and steel** exports.

Exports of **prepared foodstuffs** increased by 28 percent reaching USD 138 million between January and September 2005 compared to USD 108 million in January-September 2004. This resulted from:

(1) USD 16 million increase in **preparations of meat, fish, vegetables, fruits, nuts, sugar, and other edible preparations** (mainly to Syria, United States and Saudi Arabia),

(2) USD 9 million increase in **preparations of cereals, flour, milk and cocoa** (mainly to Saudi Arabia, Syria, United Arab Emirates and Jordan),

(3) USD 8 million increase in **tobacco and manufactured tobacco substitutes** (mainly to the Belgium, Netherlands, Germany, and South Africa),

(4) USD 6 million increase in **beverages and spirits** (mainly to Syria, United Kingdom, Saudi Arabia and United Arab Emirates).

Exports of **pearls, precious or semi-precious stones** decreased by 44 percent and totaled USD 126 million for January-September 2005, as opposed to USD 225 million for January-

September 2004. This decrease resulted from the 67 percent decrease in exports of **gold ingots**, which amounted to USD 48 million by the end of September 2005, compared to USD 144 million by the end of September 2004. Other items under the pearls, precious and semi precious stones category, and which are exported include: (1) **articles of jewelry and parts thereof** whose export level decreased slightly by USD 2 million to USD 58 million, and (2) **worked non-industrial diamonds,** whose exports decreased by USD 5 million, reaching USD 13 million by the end of September 2005.

Exports of **mineral products** increased by 17 percent, reaching USD 97 million by the end of September 2005, compared to USD 83 million in the same period of 2004. This increase resulted from a 17 percent rise in the exports of **salt, sulfur, earths and stone, plastering materials, lime and cement,** which reached USD 91 million by the end of September 2005.

Table 16. Regional Distribution of Imports

(USD million)	2004	2005	2004		2005			%
	Sept	Sept	Jan-Sept	% Share	Jan-Sept	% Share	Change	Change
European Union	342	307	2,655	39%	2,628	38%	-26	-1%
Arab Countries	91	114	898	13%	963	14%	65	7%
China	73	69	528	8%	519	8%	-8	-2%
United States	48	57	417	6%	417	6%	-1	0%
Switzerland	42	27	352	5%	369	5%	17	5%
Other	217	261	1,963	29%	1,974	29%	10	1%
Total	**815**	**836**	**6,814**	**100%**	**6,870**	**100%**	**56**	**1%**

Source: MOF, DGC

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

- **Regional Distribution of Imports:**

Imports from the **European Union** decreased by 1 percent, cumulating at USD 2,628 million in January-September 2005, compared to USD 2,655 million in January-September 2004, mainly due to the following:

(a) USD 53 million drop in imports from the **United Kingdom** that resulted from: (1) USD 42 million decrease in mineral oils and fuel imports, and (2) USD 9 million fall in the imports pharmaceutical products.

(b) USD 43 million decline in the imports from **Germany** that resulted mainly from: (1) USD 41 million drop in the imports of live animals, and (2) USD 13 million decrease in the imports of reactors, boilers, machinery and mechanical appliances.

(c) USD 22 million decline in the imports from **Italy** that resulted from a decrease in most import categories, specifically a USD 8 million drop in the imports of reactors, boilers, machinery and mechanical appliances, and a USD 5 million in the imports of vehicles. This decrease was partially offset by a USD 15 million increase in mineral oils and fuel imports.

(d) USD 74 million increase in the imports of mineral oils and fuel from **France** has more than offset the USD 12 million decrease in the imports of vehicles, bringing about a USD 32 million rise in total imports from France.

Imports from **Arab countries** increased by USD 65 million or 7 percent , to reach USD 963 million for January-September 2005, compared to USD 898 million for January-September 2004. The rise in imports stemmed from: (1) USD 6 million increase in imports from Saudi Arabia, and (2) USD 13 million increase in imports from Egypt, due to an increase in the import of iron and steel.

The main imports from Arab countries for January-June 2005 were (1) mineral fuels and oils (2) iron and steel, and (3) plastics and articles thereof.

Imports from **China** registered a 2 percent decrease, falling from USD 528 million in January-September 2004 down to USD 519 million in January-September 2005. More specifically, this decline was due to a drop in the imports of reactors and boilers, machinery and mechanical appliances that remained the main imported category from China.

Imports from the **United States** remained stable at USD 417 million for January-September 2005, compared to the same period in 2004. Vehicles constituted the majority of these imports.

Imports from **Switzerland** increased by 5 percent, and reached USD 369 million by the end of September 2005, compared to USD 352 million in January-September 2004. This increase resulted from: (1) increase in the imports of pearls, precious and semi precious stones, and (2) increase in the imports of clocks and watches. The main imports from Switzerland for the first nine months of 2005 were pearls, precious and semi precious stones.

- **Regional Distribution of Exports:**

Table 17. Regional Distribution of Exports

(USD million)	2004	2005	2004		2005			%
	Sept	Sept	Jan-Sep	% Share	Jan-Sep	% Share	Change	Change
Arab Countries	86	97	695	54%	741	55%	46	7%
European Union	13	14	114	9%	126	9%	11	10%
Switzerland	6	8	146	11%	50	4%	-96	-66%
United States	5	8	35	3%	43	3%	8	24%
China	1	3	9	1%	20	1%	10	116%
Other	34	44	297	23%	359	27%	62	21%
Total	**145**	**175**	**1,296**	**100%**	**1,339**	**100%**	**43**	**3%**

Source: MOF, DGC

Lebanese exports to the **Arab Countries** increased from USD 695 million for January-September 2004, to USD 741 million for January-September 2005, or a 7 percent increase.

The rise in Lebanese exports occurred despite the USD 87 million decrease in exports to Iraq, which reached USD 147 million by the end of October 2005 compared to USD 234 million by the end of October 2004.[10] This decline affected most export categories, particularly Lebanese products that have usually enjoyed high demand in the Iraqi market, such as machinery and mechanical appliances (mainly electric generating sets and rotary converters,

[10] Note that data for September is not available

electric generating motors, electric boards and panels and insulated wires). Exports in these products declined by USD 38 million. In addition, cement exports decreased by USD 27 million, and prefabricated building exports declined by USD 7 million.

The decrease in Lebanese exports to Iraq was counterbalanced by an increase in Lebanese exports to other Arabic countries:

a) USD 48 million increase of exports to Syria. Exports to Syria reached USD 160 million in October 2005, compared to USD 112 million for the same period of 2004. This 43 percent increase resulted from an increase in most export categories, and most importantly a USD 24 million increase in cement exports. Cement exports reached USD 49 million by the end of October 2005, compared to USD 26 million over the same period a year earlier.[11]

b) USD 22 million increase of exports to Saudi Arabia due to increases in exports of reactors, boilers, machinery and mechanical appliances.

c) Lebanese exports to countries such as Bahrain, Egypt, Jordan and Kuwait increased respectively by USD 5 million, USD 10 million, USD 14 million and USD 14 million between January-September of 2004 and 2005.

Lebanese exports to the **European Union** increased from USD 114 million to USD 126 million between January-September 2004 and January-September 2005. This rise stemmed from (1) USD 5 million increase in exports to Belgium that resulted from a USD 2.2 million increase in tobacco and manufactured tobacco substitute exports, and a USD 1.5 million in the export of aluminum and articles thereof, and (2) USD 4 million increase of exports to the Netherlands, specifically due to a USD 3.5 million increase in the export of tobacco and manufactured tobacco substitutes, and (3) USD 4 million increase of exports to the United Kingdom that resulted from small increases in diverse export categories, such as aluminum and articles thereof, and reactors, boilers, machinery and mechanical appliances.

Exports to **Switzerland** decreased by 66 percent, reaching USD 50 million by the end of September 2005, compared to USD 146 million between January and September 2004. This decline pertains to the USD 95 million decrease in the export of pearls, precious and semi precious stones.

Exports to the **United States** increased by 24 percent, reaching USD 43 million in January-September 2005, compared to USD 35 million in the first nine months of 2004. Lebanese exports to the United States consisted mainly of furniture, bedding and mattresses (mainly wooden furniture for bedroom and non upholstered seats with wooden frames) for USD 10 million and pearls, precious and semi precious stones for USD 8 million.

[11] Note that data for September is not available

Box 5. Trade with Syria

1. Balance of Trade with Syria

Syria was Lebanon's main export destination over the Jan-Aug 2005 period, with exports to Syria representing 11.2% of Lebanon's total exports. During the first 8 months of 2005, exports to Syria amounted to $129.9 million up from $87.5 million from the same period last year. Thus, total exports to Syria have increased by 48.5% in Jan-Aug 2005, as compared to Jan-Aug 2004, and have increased by 135.8% and 174.6% as compared to Jan-Aug 2003 and Jan-Aug 2002 respectively.

Lebanese Exports and Trade Balance with Syrian Arab Republic

L.L. Million	2004		2005	
	Exports	Trade Balance	Exports	Trade Balance
January	7.8	-11.4	13.2	-2.7
February	8	-3.5	14.5	-0.1
March	11.2	-6.8	22.2	6.8
April	13.4	-4.5	19.4	3.2
May	14.7	-10.9	17.5	4.4
June	10.2	-7.4	18.9	3.4
July	9.8	-9.6	9.1	-5.7
August	12.4	-11.4	15.1	-2.1
Jan-Aug Total	**87.5**	**-65.5**	**129.9**	**7.2**

Source: Directorate General of Customs

The Jan-Aug 2005 period witnessed a trade surplus that amounted to $7.3 million, while during the same period last year, a trade deficit of $65.4 million was registered. This trade surplus is due to the increase in exports (48.5%), and the $ 30 million decrease in imports (19.8%).

2. Export Distribution by Product

Lebanon's main exports to Syria were mineral products, such as stones and cement, which accounted for 33% of total exports to Syria during the first 8 months of 2005. These were followed by prepared foodstuff with 15%, machinery and mechanical appliances with 10.4%, and pulp of wood, paper and paperboard with 9.7%. Other products, such as vegetable products, animal and vegetable fats and oils, respectively represented 3.8% and 1.5% of total exports to Syria during the period of Jan-Aug 2005.

During 2004, Lebanon's main exports to Syria were also mineral products, such as stones and cement, which accounted for 21.6% of total exports to Syria during the period of Jan-Dec 2004. These were followed by pulp of wood, paper and paperboard with 13%, prepared food stuff with 12.5%, and machinery and mechanical appliances with 9.8%. Other products, such as vegetable products, animal and vegetable fats and oils, respectively represented 5.2% and 3.2% of total exports to Syria during 2004.

Comparing 2005 with 2004, there was a significant increase in the exports of mineral products that include stones, plastering materials, lime and cement. Similarly, an increase in the exports of iron, steel, and manufactured articles, such as furniture and stuffed furnishings, was recorded. On the contrary, a decrease in the export of vegetable products, animal or vegetable fats and oils was witnessed. This decrease might have been aggravated by the Lebanese-Syrian border lockdown that took place in July 2005.

Trade with Syria (Cont'd)

3. Effect of Lebanese-Syrian Border Lockdown

The border lockdown that took place in July of 2005 had a temporarily negative effect on trade with Syria. During the month of July 2005, trade with Syria decreased by 18.1%, as compared to July of 2004. Lebanese exports to Syria in July decreased by 7.4%, as compared to July figures of last year. However, in August of 2005, exports to Syria increased by 21.4% as compared to August 2004.

Similarly, imports were affected by the border lockdown. In July of 2005, Imports from Syria decreased by 23.7%, as compared to July 2004. August 2005 import figures were 27.7% lower than August 2004 imports from Syria.

After registering a surplus of $3.4 million in June 2005, the trade balance worsened in July, leading to a deficit of $5.7 million. In August, the trade deficit improved to reach $2.1 million. However, it is important to note that the trade balance with Syria in the months of July and August was still better than that registered in the same months of last year, where a trade deficit of $9.6 million and $11.4 million were recorded in July 2004 and in August 2004, respectively.