REPUBLIC OF LEBANON
MINISTRY OF FINANCE

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Ministry of Finance
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Fiscal Overview:

The third quarter of 2006 was dominated by the July War and the subsequent blockade imposed on Lebanon. As result, the total deficit deteriorated by more than 55 percent in the January-September 2006 period compared to the same period in 2005. This reflected a 14 percent increase in total expenditures and a 0.5 percent decrease in total receipts.

In the same vein, the total primary surplus decreased by 59 percent compared to the same period of last year. The deterioration in primary surplus occurred despite the strong performance exhibited in the first half of the year when the primary surplus had reached LL 994 billion exceeding the full year 2005 and almost equaling that of total 2004. With the impact of the war, the total primary surplus decreased to LL 174 billion by end-September 2006. On a cumulative basis, the decreases in primary surplus represented a LL 225 billion rise in primary spending accompanied by a LL 26 billion drop in revenues (section 1).

Revenue Outcome:

Total receipts for the first nine months of 2006 amounted to LL 5,388 billion, compared to LL 5,414 billion for the same period in 2005. This minor decline of 0.5 percent masks the rapid deterioration of revenues in the third quarter when total revenues decreased by 29.6 percent compared to the same quarter in 2005. The decrease in revenues in the third quarter of 2006 resulted due to a decline of 36 percent in tax revenues and a 31 percent decrease in non-tax revenues compared to the third quarter in 2005. (section 2).

Expenditure Outcome:

Total spending for January-September 2006 equaled LL 8,377 billion, up LL 1,034 billion, or 14.1 percent, from the preceding year. The main reason behind the rise was the 34.3 percent, or LL 808 billion, increase in debt service payments and the 4.5 percent rise in non-interest expenditures during the first three quarters of 2006 compared to 2005. In addition, efforts by the government to curb expenditures in the first half of the year were overwhelmed by relief spending in the third quarter, leading to a 28 percent increase in non-interest spending compared to the third quarter in 2005 (section 3).

Public Debt Developments:

The stock of gross debt reached LL 60,347 billion as of end-September 2006, an increase of LL 2,329 billion (or 3.98 percent) over the end-December 2005 debt level. Domestic debt amounted to LL 29,582 billion increasing by LL 441 billion or 1.52 percent over the end-December 2005 level. Foreign currency debt amounted to LL 30,765 billion, increasing by LL 1,888 billion (or 6.47 percent) over the end-December 2005 level. (section 4).

External Trade:

The trade balance marked a USD 4,979 million deficit by end of September 2006, a decrease of 10 percent compared to January-September 2005. The narrowing trade deficit resulted from a USD 340 million increase in exports and a USD 212 million decrease in imports. (section 5).

Section I: Fiscal Overview

Table 1. Summary of Fiscal Performance

(LL billion)	2005 Sep	2006 Sep	2005 Jan-Sep	2006 Jan-Sep	Change 2005-2006	% Change
Budget Revenue	472	334	5,114	5,052	-61	-1.2%
Budget Expenditures	719	710	5,575	6,049	474	8.5%
o/w Debt Service	361	379	2,354	3,162	808	34.3%
Budget Deficit/Surplus	**-247**	**-376**	**-461**	**-997**	**-535**	**116.1%**
in % of Budget Expenditures	-34.3%	-52.9%	-8.3%	-16.5%		
Budget Primary Deficit/Surplus	**114**	**3**	**1,893**	**2,166**	**273**	**14.4%**
in % of Budget Expenditures	15.9%	0.5%	34.0%	35.8%		
Treasury Receipts	25	20	301	336	35	11.7%
Treasury Payments	95	330	1,768	2,328	559	31.6%
Total Budget and Treasury Receipts	497	354	5,414	5,388	-26	-0.5%
Total Budget and Treasury Payments	814	1,040	7,343	8,377	1,034	14.1%
Total Cash Deficit/Surplus	**-317**	**-686**	**-1,929**	**-2,988**	**-1,060**	**54.9%**
in % of Total Expenditures	-38.9%	-65.9%	-26.3%	-35.7%		
Primary Deficit/Surplus	**44**	**-307**	**425**	**174**	**-251**	**-59.1%**
in % of Total Expenditures	5.4%	-29.5%	5.8%	2.1%		

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

The declining trend in the **total deficit** (budget and treasury) was reversed in the third quarter of the year. By end-September 2006, the deficit reached LL 2,988 billion, compared to LL 1,929 billion for January-September 2005, increasing by 54.9 percent. This deterioration was due to a 14 percent (or LL 1,034 billion) increase in **total expenditures**, which reached LL 8,377 billion over January-September 2006 compared to LL 7,343 billion over the same period in 2005. In addition, revenues decreased slightly by 0.5 percent (or LL 26 billion) in the same comparative period. The deterioration of the cumulative total deficit is attributed to the performance of the third quarter alone as the total deficit was showing an improvement during the period January-June 2006, reflected by a decrease in deficit of LL 168 billion over the same period in 2005.

Similarly, the **primary surplus** witnessed a deterioration of 59.1 percent, declining to LL 174 billion in January-September 2006 from LL 425 billion for the first nine months of 2005. This decrease was mainly the result of:

- An increase of LL 225 billion (or 4.5 percent) in primary spending, primarily due to higher direct and indirect spending on EDL and higher war related spending
- A slight decrease in revenues by LL 26 billion, due to the impact of the July War on the third quarter.

Section II: Revenue Outcome

Table 2. Total Revenues

(LL billion)	2005 Sep	2006 Sep	2005 Jan-Sep	2006 Jan-Sep	% Change
Budget Revenues, of *which:*	**472**	**334**	**5,114**	**5,052**	**-1.2%**
Tax Revenues	*326*	*292*	*3,658*	*3,631*	*-0.7%*
Non-Tax Revenues	*147*	*42*	*1,456*	*1,421*	*-2.4%*
Treasury Receipts	**25**	**20**	**301**	**336**	**11.7%**
Total Revenues	**497**	**354**	**5,414**	**5,388**	**-0.5%**

Source: MOF, DGF

Tax revenues (as part of budget revenues) in the first nine months of 2006 equaled LL 3,631 billion, compared to LL 3,658 billion for the same period of 2005. The 0.7 percent decrease in the cumulative January-September tax revenue masks and is due to the 36 percent deterioration in tax revenues that occurred during the third quarter of 2006 as compared in 2005. The performance of the third quarter is a direct impact of the July War and the imposed two months long sea and air blockade. With the exception of the income taxes on wages and salaries and the tax on interest income, all the tax items decreased in the third quarter of 2006 compared to 2005. The most pronounced declines were in VAT revenue and all items under taxes on international trade.

Table 3. Tax Revenue

(LL billion)	2005 Sep	2006 Sep	2005 Jan-Sep	2006 Jan-Sep	% Change
Tax Revenues:	**326**	**292**	**3,658**	**3,631**	**-0.7%**
Taxes on Income, Profits, & Capital Gains, of which:	**46**	**41**	**868**	**965**	**11.3%**
Income Tax on Profits	*10*	*5*	*382*	*415*	8.6%
Income Tax on Wages and Salaries	*3*	*4*	*143*	*152*	6.0%
Income Tax on Capital Gains & Dividends	*12*	*2*	*85*	*87*	2.1%
Tax on Interest Income (5%)	*20*	*30*	*242*	*300*	23.8%
Penalties on Income Tax	*1*	*0*	*12*	*10*	-16.3%
Taxes on Property, of which:	**32**	**25**	**279**	**464**	**66.2%**
Built Property Tax	*7*	*4*	*69*	*71*	3.1%
Inheritance Tax	*3*	*5*	*25*	*191*	663.2%
Real Estate Registration Fees	*23*	*17*	*185*	*202*	9.1%
Domestic Taxes on Goods & Services, of which:	**137**	**127**	**1,383**	**1,305**	**-5.6%**
Value Added Tax	*114*	*115*	*1,235*	*1,163*	-5.8%
Other Taxes on Goods and Services, of which:	*22*	*10*	*138*	*132*	-4.1%
Private Car Registration Fees	*9*	*6*	*77*	*82*	6.6%
Passenger Departure Tax	*13*	*4*	*60*	*49*	-18.0%
Taxes on International Trade, of which:	**91**	**81**	**953**	**700**	**-26.6%**
Customs	*41*	*34*	*351*	*320*	-8.7%
Excises, of which:	*51*	*47*	*602*	*379*	-37.0%
Petroleum Tax	*11*	*20*	*301*	*110*	-63.5%
Tobacco Tax	*17*	*13*	*139*	*109*	-8.4%
Tax on Cars	*22*	*14*	*157*	*158*	0.4%
Other Tax Revenues (namely fiscal stamp fees)	**19**	**18**	**175**	**197**	**12.0%**

Source: MOF, DGF

Taxes on income, profits and capital gains generated a total of LL 965 billion in January-September 2006, registering an improvement of 11.3 percent over the collection level for the same period of 2005. The increase was chiefly attributed to:

Revenues from the **Income tax on profits** which increased by 8.6 percent in January-September 2006, amounting to LL 415 billion by September 2006. The higher tax mainly reflects the strength of the collection in the first half of the year. In the third quarter, income tax declined by LL 11 billion - or 39 percent - compared to the same quarter in 2005.

A 6 percent increase in the **withheld tax on wages and salaries**, which generated LL 152 billion during January-September 2006, compared to LL 143 billion in January-September 2005. The third quarter reflected the increasing trend exhibited prior to the war. The tax on wages and salaries rose by 16 percent compared to the third quarter in 2005. The continued upward trend in this tax is attributed to the implementation of the DASS reform that entails the modernization of the required procedures and the complete update of the public and private sectors employee database (For further details, please refer to the "Key Fiscal, debt, Monetary, Trade and Market Reforms; 2006" on www.finance.gov.lb.)

An increase of 2.1 percent in the **Income tax on capital gains and dividends,** which generated LL 87 billion by September 2006, compared to LL 85 billion over the same period of 2005. However, the third quarter of the year exhibited a decline of 33 percent compared to that of 2005.

A near 23.8 percent rise in the collection of **the 5 percent tax on interest income**, which generated LL 300 billion in the first nine months of the year, compared to LL 242 billion for the same period of 2005. Of the total proceeds collected during the first nine months of 2006, approximately LL 190 billion were transferred from commercial banks and LL 113 billion were transferred from the Central Bank. The composition of the 5 percent tax on interest proceeds by currency was as follows: 62 percent were in LL, and the remaining 38 percent were in foreign currency (US dollars and Euros). The third quarter registered an increase of approximately 53 percent compared to 2005.

The effect of the one-time exceptional payment of inheritance tax in April continues to be reflected in the cumulative revenues from **taxes on property**. In January-September, taxes on property increased by 66.2 percent (or LL 185 billion). In addition to the 663 percent increase in inheritance tax, the **built property taxes** and **real estate registration fees** both increased on a cumulative basis. However, this increase includes a slowdown in real estate related revenues in the third quarter compared to that period in 2005. After the first two robust quarters in 2006, taxes on property decreased by 35 percent compared to the third quarter in 2005. The decrease in the third quarter is due to lower **built property taxes** and **real estate registration fees**.

(1) Revenues from the **built property tax (or recurrent tax on immovable property)** amounted LL 71 billion, 3.1 percent higher from the LL 69 billion collected during the first nine months of 2005. A decrease of 56 percent in the third quarter compared to 2005 has tempered the growth of this tax which, similar to all other revenues, was experiencing a strong performance in the first half of the year.

(2) Revenues from the **Real estate registration fees (or non recurrent tax on property)** reached LL 202 billion during January-September 2006, up by 9.1 percent from the LL 185 billion collected over the same period in 2005. The third quarter of 2006 witnessed a decrease of 37 percent compared to the same quarter in 2005. These results align with the real estate market indicators showing that the real estate market was experiencing strong activity in the first half of the year, which came to a halt during the third quarter of the year. The number and value of property transactions in the third quarter of 2006 decreased by 40 percent each compared to the third quarter of 2005. For the nine month period, the total number of property transactions and the value of property transactions remained higher than 2005 by 5 percent

and 8.5 percent respectively, an indication of the strength of the market in the first half of the year.

Overall, **domestic taxes on goods and services** decreased by 5.6 percent to LL 1,305 billion by September 2006 down from LL 1,383 billion by September 2005. During the third quarter alone, domestic taxes on goods and services decreased by 40 percent compared to the same quarter in 2005. The items within domestic taxes on goods and services performed as following:

VAT revenues declined by 5.8 percent during the first nine months of the year compared to last year. The decline is mainly attributed to the third quarter, where VAT revenue at LL 277 billion was 39 percent lower than the third quarter in 2005.

> *VAT at imports:* Of the total amount of VAT receipts (LL 1,163 billion) for January-September 2006, LL 805 billion of VAT was collected on imported merchandise, compared to LL 867 billion in January-September 2005. The decrease is mainly due to the sea and air blockade imposed on Lebanon from the beginning of the war on July 12th till September 8th when the naval blockade was lifted[1] and the resulting slower economic activity. Comparing the third quarter of VAT at imports to last year's clearly illustrates the effects of the blockade. VAT at imports decreased by 45 percent to LL 180 billion compared to LL 326 billion in the third quarter of 2005. The decrease reflects both lower imports during the quarter (by 33 percent compared to 2005) and the type of products that were received which included many in-kind donations for relief that are exempt from taxes.
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> *VAT collected from internal operations* amounted to LL 358 billion by September 2006, lower by 2.5 percent than the LL 367 billion collected by September 2005. The third quarter witnessed a decrease of 23.5 percent down to LL 97 billion from LL 126 billion in the third quarter in 2005. Given that VAT revenues are recorded on a cash basis – and therefore July collection pertains to the second quarter of the year – the decrease is mainly attributed to the decree issued allowing settling the VAT payment of the second quarter of the year in four installments.[2] The decree aims at easing the burden on firms affected by the Israeli War. (Refer to Box 1)

Other taxes on goods and services generated LL 132 billion in revenues in January-September 2006, 4.1 percent below the collection level of January-September 2005. Again, the decrease is attributed mostly to the third quarter where the decline overshadowed the improvements of the first half of 2006. The third quarter alone decreased by 45 percent compared to that of 2005. Revenues from **private car registration fees** reached LL 82 billion by September 2006, up by almost 6.6 percent from the same period in 2005. The third quarter tempered the strong growth experienced during the first half of the year as private car registration fees decreased by 43 percent to LL 17 billion down from LL 30 billion compared to the third quarter in 2005. As for the **passenger departure tax**, it generated LL 49 billion in revenues by September 2006, down by 18 percent from January-September 2005. In the third quarter, the passenger departure tax declined by 51 percent (LL 14 billion from July – September) compared to the third quarter of 2005. Although 2006 was expected to experience an unprecedented number of tourists, the war led to a decrease in the number of tourists compared to 2005. During the first nine months of the year, the number of tourists declined by 9 percent to 833,385 compared to the same period in 2005 (which in turn was affected by the assassination of Prime Minister Hariri).

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[1] The aviation blockade was lifted on September 7th, 2006.

[2] Note that Decision number 826 dated September 14, 2006 postponed the deadline for the second quarter of the year internal VAT declaration and filing till 19/09/2006. In addition, this Decision granted taxpayers the possibility of settling their tax obligations in four installments (November, December 2006; and February, March 2007).

Box 1: Post War Tax measures

In September 2006, and following the July 2006 Israeli offensive on Lebanon, the Ministry of Finance stipulated a series of exceptional tax measures with the purpose of easing the fiscal burden on the private sector.

1. Settlement of VAT and the withheld tax on wages and salaries - *Decision number 826 dated September 14, 2006*

The declaration and payment dates for the VAT and the withheld tax on wages and salaries for the second quarter of the year fall due during the first 15 days of the month of July. These dates coincided with the beginning of the war resulting in the incapacity of taxpayers to fulfill their timely tax obligations. Consequently, the Ministry of Finance extended the filing and declaration deadlines to:

⇒ September 19th, 2006 for the withheld tax on wages and salaries and

⇒ September 24th, 2006 for the VAT;

MOF also granted taxpayers the possibility to settle their QII tax dues in four installments according to the following schedule:

- First installment due by November 20th 2006
- Second installment due by December 20th 2006
- Third installment due by February 20th, 2007
- Fourth installment due by March 20th, 2007

2. Amnesty on Due Penalties - *Decision number 827 dated September 14, 2006*

As an exceptional measure, the Ministry of Finance approved the following:

- 100% amnesty on penalties arising from unsettled tax payment[1] dues, across all tax types and fees, since the year 2002
- 90% amnesty on penalties arising from faulty tax filing, across all tax types and fees since the year 2002

The amnesty period extends until the end of 2006.

Through this decision, the Ministry of Finance is hoping to relieve some of the fiscal burden on taxpayers on the one hand, and to settle part of its tax arrears (going back to the year 2002), by providing taxpayers the incentive to clear up past dues.

3. Postponement of filing, declaration, payment dates falling due between July 12th - September 15th 2006 along a new calendar starting September 16th, 2006 - *Decision number 823 dated September 12, 2006*

This decision stipulates that the period extending from July 12, 2006 until September 15, 2006 is put on hold; As a result, filing, declaration, payment and all sorts of obligations falling due within this period shall resume starting September 16, 2006, along a new calendar whereby initial dates are postponed by an equivalent 66 days period.

[1] Note that this penalty is either 2% monthly of the unsettled amount or 3%, depending on the nature of the tax, i.e. it can go as high as 24% and 36% of the unsettled amount per year.

Taxes on international trade (custom duties and excises) generated revenues of LL 700 billion during the first nine months of 2006, down by almost 26.6 percent from the LL 953 billion collected during the same period of 2005. In the third quarter, taxes on international trade decreased by 57 percent down to LL 131 billion. Of the total LL 700 billion in the first nine months of the year, LL 320 billion are from **customs duties**, while LL 379 billion are **excises**.

Customs duties for January-September 2006 collected LL 320 billion, down 8.7 percent from January-September 2005. One of the factors for this decrease is the decline in imports by 3 percent during the first nine months of the year compared to 2005. Again, the decrease is mainly due to the blockade where imports in the third quarter decreased by 33 percent. Additionally, many of the items "imported" were humanitarian aid provided during the war that was exempt from duties. In addition to the War, other factors contributed to the decrease:

- Non-oil imports that are subject to customs duties (such as machinery and mechanical appliances, chemical products and transport equipment) declined by September 2006, compared to their January-September 2005 level[3].
- Some of the increase in imports was of a nominal nature due to higher oil prices which are not subject to custom duties except minimal customs levied on car gasoline (approximately LL 7 billion per year).

Excise revenues dropped by 37 percent to LL 379 billion by September 2006 from LL 602 billion by September 2005. The decline can be attributed to two main factors: the decline of fuel excises over the nine months period and the July War which led to decreased imports in the third quarter. During the first three quarters, the **petroleum tax** decreased to LL 110 billion down from LL 301 billion in 2005. This decline is attributed to the capping of the retail price of car gasoline which limited the collection of excise in the face of rising oil prices. The average price of gasoline increased from LL 454 per liter in January 2006 to LL 715 per liter in September 2006. As a result, excises collected per liter decreased from LL 418 per liter in January 2006 to approximately LL 132 in September 2006 after reaching zero in the months June and July 2006. The increase in international oil prices compounded by the effect of the sea blockade during the war, led to an increase in the retail price of gasoline in August 2006 and therefore the lifting of the cap imposed in 2004[4]. The Council of Ministers' decision prevented the Treasury from directly subsidizing the domestic price of car gasoline if the LL 0 per liter excise rate cannot sustain the LL 22,300 per liter capped price.

The third quarter witnessed a significant decrease in all excises. From January to September 2006, excises declined to LL 64 billion down by 65 percent from last year. **Excises on cars** decreased by 55 percent during the third quarter of 2006 compared to the same period in 2005. The lower excises in the third quarter almost eliminated all the improvement witnessed during the first half of the year, leading to a cumulative minor increase of 0.4 percent over the nine month period. The excise collected reflected the number of cars imported during the year. On a cumulative basis, the number of cars imported increased by 1.5 percent, while in the third quarter alone the number of cars imported decreased by 53 percent. It is worth noting that the average price per car increased by 1% to LL 29,411 from LL 29,150 in 2005. On the other hand, the average tariff decreased from 44 percent to 43 percent in 2006.

Tobacco excises went down to LL 16 billion in the third quarter of 2006 a decrease of 68 percent compared to 2005. For the total nine months, the decrease amounted to 8.4 percent. The tobacco excises reflected the tobacco imports activities. In the third quarter, imports of tobacco (in volume) decreased by 64 percent compared to 2005 leading to a 22 percent drop in the value of tobacco imports in the first nine months of the year. The decline of imports

[3] *Please refer to Table 13*

[4] *In May 2006, the Council of Ministers revised its previous decision to cap the retail price at the fixed LL 22,300 per 20 liters, allowing the retail price to rise to reflect increases in international oil prices when the excise is zero*

was tempered by the slightly higher average tariff on tobacco which increased from 128 percent on import value in 2005 to 129 percent in 2006.

Other tax revenues, namely fiscal stamp duties, reached LL 179 billion by September 2006, up by 12 percent from January-September 2005. This increase was mainly due to higher economic activity in the first half of the year[5] compared to last year, which was tempered by the decrease of 26 percent in the third quarter alone.

Table 4. Non Tax Revenue

(LL billion)	2005 Sep	2006 Sep	2005 Jan-Sep	2006 Jan-Sep	% Change
Non-Tax Revenues	**147**	**42**	**1,456**	**1,421**	**-2.4%**
Income from Public Institutions and Government Properties, of which:	**108**	**4**	**1,141**	**1,029**	**-9.9%**
Income from Non-Financial Public Enterprises, of which:	103	2	1,107	1,004	-9.3%
Revenues from Casino Du Liban	*5*	*2*	*39*	*29*	-26.3%
Revenues from Port of Beirut	*0*	*0*	*33*	*0*	-100.0%
Budget Surplus of National Lottery	*3*	*0*	*29*	*47*	62.1%
Transfer from the Telecom Surplus	*95*	*0*	*1,004*	*927*	-7.7%
Property Income (namely rent of Rafic Hariri International Airport)	*4*	*2*	*31*	*21*	-33.2%
Other Income from Public Institutions (interests)	*1*	*0*	*4*	*4*	9.3%
Administrative Fees & Charges, of which:	**30**	**29**	**248**	**323**	**30.3%**
Administrative Fees, of which:	26	23	201	259	29.1%
Notary Fees	*2*	*1*	*13*	*13*	1.3%
Passport Fees/ Public Security	*8*	*8*	*67*	*92*	37.5%
Vehicle Control Fees	*11*	*9*	*83*	*112*	35.3%
Judicial Fees	*2*	*1*	*16*	*14*	-10.8%
Driving License Fees	*1*	*2*	*11*	*17*	50.2%
Administrative Charges	1	0	11	10	-12.2%
Sales (Official Gazette and License Number)	0	0	2	2	5.7%
Permit Fees (mostly work permit fees)	3	5	28	41	46.8%
Other Administrative Fees & Charges	1	1	6	10	82.2%
Penalties & Confiscations	**0**	**0**	**3**	**3**	**14.9%**
Other Non-Tax Revenues (mostly retirement deductibles)	**8**	**9**	**64**	**67**	**4.1%**

Source: MOF, DGF

Non-tax revenues by end-September 2006 equaled LL 1,421 billion, down from LL 1,456 billion (or 2.4 percent) at the end of September 2005. The decrease accounts for 31 percent decline in non-tax revenues during the third quarter of the year compared to 2005. The lower non-tax revenues are mainly due to the 9.9 percent decrease in income from public institutions. Income from administrative fees and charges, which account for a much smaller portion of non-tax revenues, increased by 30.3 percent compared to 2005.

Income from public institutions and government properties for the period ending September 2006 generated LL 1,029 billion, registering a 9.9 percent decrease in revenues when compared to the collection level over the same period of 2005. During the third quarter, this revenue item declined by 35 percent compared to the third quarter in 2005; it includes the following:

[5] Growth during the first half of the year was estimated at around six to seven percent as per INSEE forecast.

a) LL 29 billion in revenues from **Casino Du Liban**, which were LL 10 billion lower than the amount collected by September 2005,

b) LL 47 billion in revenues from the **National Lottery**, which were LL 18 billion higher than the amount collected during the first nine months of 2005,

c) LL 927 billion in transfers from the **Budget surplus of the Telecommunications** for January-September 2006, LL 77 billion lower than the amount received in January-September 2005. The decrease in the total telecom transfer may be attributed to payment of the settlement with France Telecom and Libancell[6] and the damages to the mobile and fixed networks incurred during the war,

d) No revenues from **Port of Beirut** were collected in the first nine months of 2006, compared to LL 33 billion collected in the same period in 2005

Administrative fees and charges registered LL 323 billion by September 2006, which were LL 75 billion higher than the level collected in the first nine months of 2005. The 30 percent increase came despite a 15 percent decline in the third quarter compared to that of 2005 and is due to:

1) An increase by 29.1 percent in the collection of **administrative fees**, which amounted to LL 259 billion in the first nine months of 2006, despite a decrease of LL 12 billion – or 16 percent – in the third quarter compared to that of last year. Within administrative fees, **vehicle control fees** accounted for the largest increase during the nine month period, reaching LL 112 billion compared to the LL 83 billion collected over January-September 2005[7]. **Passport and public security** fees also increased by LL 25 billion to total LL 92 billion during the first three quarters of the year compared to the same period in 2005. Other fees, namely **judicial fees** and **notary fees** maintained, to a large extent, their January-September 2005 level of collection, with LL 14 billion, LL 13 billion of receipts respectively, collected by September 2006. **Driving license fees** increased to LL 17 billion in January-September 2006 from LL 11 billion in the same period in 2005.

2) A decrease in **administrative charges** (which include public exam fees, registration fees in public schools and the Lebanese University, and fees from port authorities) by 12.2 percent amounting to LL 10 billion by end-September 2006, compared to LL 11 billion by end-September 2005.

3) An increase of 46.8 percent in **work permit fees**, which equaled LL 41 billion by September 2006, compared to LL 28 billion by September 2005.

Treasury Revenues for the period ending September 2006 equaled LL 336 billion, compared to LL 301 billion by end-September 2005, representing a near 12 percent increase. This increase comes despite a 32 percent decrease in Municipalities' revenues. However, “other Treasury revenues” witnessed 173 percent increase in collection, equivalent to LL 77 billion additional revenues. The increase is partly due to the grants received for humanitarian aid and relief purposes during the war (LL 78 billion during July and August).[8] Treasury revenues registered a drop by 29.59 percent in the third quarter in 2006 compared to 2005.

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[6] The first installment (out of three) of the $96 million settlement to France Telecom and the full settlement of $150 million to Libancell were paid.

[7] Part of the increase in vehicle control fees may be attributed to law # 715 dated February 3, 2005 Article 29 of Budget Law 2005 which permitted the settlement of past dues and granted amnesty on penalties over a period extending till May 2006.

[8] Please note that only grants received by the Ministry of Finance under account 36 and its sub-accounts are included in fiscal revenues.

Section III: Expenditure Outcome

Table 5. Expenditures by Transaction Classification

(LL billion)	2005 Sep	2006 Sep	2005 Jan-Sep	2006 Jan-Sep	% Change
Total Expenditures	**814**	**1,040**	**7,343**	**8,377**	**14.1%**
Budget Expenditures	**719**	**710**	**5,575**	**6,049**	**8.5%**
Expenditures Excluding Debt Service	358	331	3,221	2,887	-10.4%
Debt Service, of which:	**361**	**379**	**2,354**	**3,162**	34.3%
Local Currency Debt	153	170	995	1,656	*66.5%*
Foreign Currency Debt, of which:	208	209	1,359	1,506	*10.8%*
*Eurobond Coupon Interest**	181	163	1,161	1,263	*8.8%*
*Specialbond Coupon Interest**				13	
Concessional Loans Principal Payments	6	40	111	144	*29.5%*
Concessional Loans Interest Payments	20	7	86	86	*-0.3%*
Treasury Expenditures , of which:	**95**	**330**	**1,768**	**2,328**	**31.6%**
Municipalities	*16*	*61*	*261*	*337*	*29.0%*
Previous Years' Appropriations	*1*	*0*	*470*	*468*	*-0.5%*
Non-Interest Expenditures (Total Expenditures minus Debt Service)	**453**	**661**	**4,989**	**5,214**	**4.5%**

Source: MOF, DGF

Total expenditures for budget and treasury transactions reached LL 8,377 billion for the first nine months of 2006, up by 14.1 percent compared to the same period of 2005 (LL 7,343 billion). In the third quarter (July-September 2006), total expenditures increased by 27 percent compared to the third quarter of 2005.

Budget expenditures equaled LL 6,049 billion over January-September 2006, registering an rise of 8.5 percent from budget expenditures during the same period of 2005. The increase was due to the 34 percent higher **debt service** expenditures which reached LL 3,162 billion in the first nine months of 2006 up from LL 2,354 billion in the same period last year.

Treasury expenditures, which consist of extra budgetary transactions as well as previous years' budget transactions, equaled LL 2,328 billion by September 2006, compared to LL 1,768 billion by September 2005, registering an increase of 32 percent. The rise in Treasury expenditures was driven by the LL 641 billion (or 110 percent) increase in the third quarter compared to the third quarter of 2005.

Non-interest expenditures (total primary expenditures) amounted to LL 5,214 billion for the first nine months of 2006, increasing by 4.5 percent in comparison with the LL 4,989 billion registered over the same period in 2005. In the third quarter of 2006, non-interest expenditures rose by 28 percent reaching LL 2,145 billion compared to LL 1,680 billion in 2005. The major increases were reported as follows: a) Transfers to EDL which rose by LL 229 billion, b) transfers to the High Relief Council which reached LL 98 billion to address the needed relief due to the Israeli War, c) a rise of LL 76 billion in transfers to Municipalities during January-September 2006 when compared to the same period of last year, and d) LL 59 billion increase in retirement and end of service compensations during the period compared to 2005.

When expenditures were examined from an economic perspective, current expenditures increased by 10.9 percent, while capital spending increased by 0.7 percent. **Other treasury expenditures**, including extra budgetary spending, rose by 33.8 percent.

Current expenditures reached LL 6,284 billion for the first nine months of 2006, compared to LL 5,668 billion recorded for the same period of 2005.

Primary current expenditures (excluding debt service) amounted to LL 3,121 billion by the end of September 2006, a decline of LL 193 billion or almost 5.8 percent below the LL 3,314 billion disbursed over the same period a year earlier. The details of current expenditures are highlighted as follows *(also please refer to table 6)*:

Personnel cost totaled LL 2,378 billion by end of September 2006, a slight rise of 1.2 percent compared to the same period in 2005 which registered LL 2,349 billion. The main driver for the increase was higher retirement and end of service compensation which reached LL 686 billion up by 9.3 percent from the 2005 levels. Meanwhile, salaries and wages dropped by 2.4 percent. However, this decline in salaries has no fiscal significance, as part of the salaries and wages paid for September 2006 were reported in early October.

Debt service registered LL 3,162 billion in January-September 2006 compared to LL 2,354 billion for the same period of 2005, rising by approximately 34 percent. This increase reflects higher local currency and foreign currency debt service by 67 percent and 11 percent respectively.

a) The rise in the cost of local debt is mainly due to the maturity of all the Zero Interest Treasury Bills during the period of January-July 2005, initially issued in the context of the Paris II conference to the Lebanese commercial banks back in 2003.

b) The higher cost of foreign currency debt is mainly due to the maturity of approximately USD 680 million of special Zero interest foreign currency bonds between the months of January and May 2005 (issued in the context of the Paris II conference).

Materials and supplies amounted to LL 87 billion in January-September 2006, 49 percent lower than the LL 171 billion spent by end of September 2005. In the 2005 period, an exceptional payment of LL 90 billion took place on behalf of public administrations for electricity bills to EDL (in accordance with Law # 672 enacted on February 17^{th}, 2005). Excluding this exceptional payment in 2005, materials and supplies in the first nine months of 2006 would have been LL 6 billion higher than those in 2005.

External services (rent, postal services, insurance, advertisement and public relations) amounted to LL 64 billion during the first nine months of 2006, which is almost the same level reported in the same period of 2005.

Various transfers reached LL 350 billion in January-September 2006, decreasing by LL 139 billion from the same period in 2005. The decline in various transfers is attributed to lower NSSF payments in 2006 compared to 2005. A transfer of LL 290 billion to the NSSF was reported during the January-September 2005 period, against a transfer of LL 150 billion reported during the same period of 2006.

Table 6. Expenditures by Economic Classification

(LL billion)	2005 Jan-Sep	2006 Jan-Sep	% Change
1. Current expenditures	**5,668**	**6,284**	**10.9%**
1.a Personnel cost, of which	2,349	2,378	1.2%
Article 13: Salaries and wages	*1,583*	*1,545*	*-2.4%*
Retirement and end of service compensations	*627*	*686*	*9.3%*
1.b Debt Service payments	2,354	3,162	34.3%
1.c Materials and supplies	171	87	-49.0%
1.d External services	63	64	1.4%
1.e Various transfers	489	350	-28.3%
o/w NSSF	*290*	*150*	*-48.3%*
1.f Other current	187	182	-2.3%
Hospitals	*130*	*159*	*22.0%*
Others	*57*	*23*	*-60.0%*
1.g Reserves	55	59	7.0%
Interest subsidy	*55*	*59*	*7.0%*
2. Capital expenditures	**385**	**387**	**0.7%**
2.a Acquisitions of land, buildings, for the construction of roads, ports, airports, and water networks	10	11	9.1%
2.b Equipment	20	15	-23.6%
2.c Construction in Progress	293	298	1.7%
2.d Maintenance	34	34	1.0%
2.e Other Expenditures Related to Fixed Capital Assets	28	29	3.8%
3. Other treasury expenditures, of which	**1,257**	**1,682**	**33.8%**
Municipalities	261	337	29.0%
EDL	665	895	34.5%
Transfers to High Relief Council[9]		98	
Treasury advances for water authorities	48	0	-100.0%
Treasury advances for diesel oil subsidy	14	52	269.0%
Treasury advances for Telecom companies	15	0	
4. Unclassified expenditures	**4**	**1**	**-71.9%**
5. Customs cashiers	**28**	**22**	**-21.8%**
6. Total expenditures (excluding CDR foreign financed)	**7,342**	**8,377**	**14.1%**

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

Other current expenditures were down by 2.3 percent, decreasing to LL 182 billion at end-September 2006 from LL 187 billion at end-September 2005. Despite the slight decline in overall expenditures under this item, spending on hospitals - considered as a major component of "other current" - increased by LL 29 billion. This has occurred in the third quarter of 2006 because hospitals received a high number of causalities during the war. Against this increase, a decline of 60 percent was reported in "others", explained by exceptionally higher spending in 2005 resulting from the payment of LL 34 billion to settle the arbitration decisions relating to the Ministries of Public Works and Education.

Interest subsidies for loans to productive sectors (agriculture, industry, tourism, technology and crafts) increased by LL 4 billion or 7 percent from their level in the first nine months of 2005, reaching LL 59 billion by the end of September 2006.

Capital expenditures amounted to LL 387 billion during the first nine months of 2006, LL 3 billion higher than the comparable period of last year. Despite the almost steady level of the

[9] LL 19 billion of the Transfers are Treasury Advances and LL 79 billion are transfers from the grants accounts

overall capital expenditures, the individual items under this category exhibited different trends**:**

(a) Lower transfers to the Council of the South, which amounted to LL 30 billion by end-September 2006, compared to LL 52 billion by end-September 2005, and

(b) Higher spending on the Displaced Fund which amounted to LL 55 billion during January-September 2006, as no transfers were reported during the same period of 2005.

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

- Transfers to the Council for Development and Reconstruction (CDR) amounted to LL 177 billion for the first nine months of 2006, compared to LL 185 billion in the same period in 2005. Of the total amount spent by CDR, approximately LL 30 billion were allocated for settling part of the arbitration decision with Hochtieff/CCC relating to Rafik El-Hariri International Airport (decree # 16177 dated 23-1-2006). The total amount to be settled as per this decision is LL 98 billion and will be paid by end of 2007.
- Capital expenditures for the Ministry of Public Works and Transport amounted to LL 16 billion for January-September 2006, compared to LL 24 billion spent over the same period of last year, decreasing by 29 percent.
- Other construction in progress totaled LL 19 billion for the first nine months of 2006, compared to LL 34 billion disbursed over the same period of 2005.

Table 7. Transfers to EDL

(LL billion)	2005 Jan-Sep	2006 Jan-Sep	% Change
EDL of which:	**806**	**895**	**11.07%**
Debt Service of which:	**160**	**235**	**47.18%**
C-Loans and Eurobonds, of which:	**160**	**219**	**36.74%**
Principal Repayment	111	175	57.35%
Interest Payment	49	44	-9.95%
Loans for Fuel Oil Payment	0	17	100.00%
BDL Guaranteed Loan Payment	0	0	0.00%
Treasury Advance for Fuel Purchase*	**130**	**0**	**-100.00%**
Treasury Advance for EDL' s Losses**	**220**	**0**	**-100.00%**
Treasury Advance for EDL' s Losses***	**155**	**0**	**-100.00%**
Material and Supplies (Electricity bills)	**93**	**0**	**-100.00%**
Treasury advance to Water Authorities	**48**	**0**	**-100.00%**
Kuwait & Alg. Petrole	**0**	**474**	**100.00%**
Repayment of oil suppliers arrears ******	**0**	**185**	**100.00%**
Expropriations	**0**	**0**	**-100.00%**

Source: MOF, DGF
** Paid for Fuel /From Decree Nbr. 14310 date 2/4/2005*
***Paid from decree Nbr.14561 (220 billion LL)*
****Paid from decree Nbr.14917 (155 billion LL)*
*****Paid from decree Nbr.16084 Dec 2005(152 billion LL) & disburse an amount of 32 billion LL from the decree no 14308 dated 02/04/05 LL 90 billion*

Other treasury expenditures increased by 33.8 percent, reaching LL 1,682 billion by September 2006 compared to LL 1,257 billion for January-September 2005.

The increase in direct **transfers to EDL** by LL 229 billion was the main driver behind the increase in other treasury expenditures. An amount of LL 185 billion in settlement of previous years' arrears to oil suppliers (refer to table 7) was disbursed in August 2006 in addition to LL

474 billion settlement of fuel oil and gas oil agreement, reported during the months June-September 2006.

Transfers to **Municipalities** rose by LL 76 billion in January-September 2006 compared to the same period of last year, mainly to support the relief efforts during the July War. Also to support relief efforts, LL 98 billion were transferred to the **High Relief Council**. During the war, a total amount of LL 19 billion was transferred in the form of treasury advances to High Relief Council for relief operations. In addition, a special donation account was created in order to support the Lebanese government in its relief operations. The total donated amount of LL 79 billion was transferred in September 2006 to the High Relief Council.

Treasury advances for diesel oil subsidy increased by LL 38 billion to reach LL 52 billion in January-September 2006 compared to the same period in 2005 due to higher international oil prices.

Details of Social Expenditures

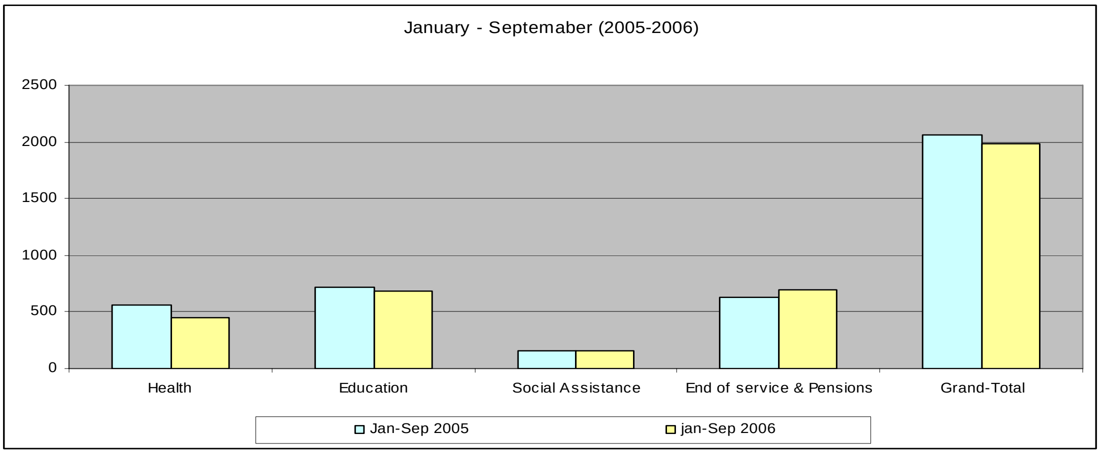
Spending on social services covers the basic social services of (a) education (b) health, (c) pension and end-of-service indemnity, and (d) other areas of interventions classified as social assistance. The period January-September 2006 reported a lower level of spending on social services, relative to the same period of 2005, by LL 70 billion, or 4 percent. The decline came as a result of exceptional factors that are explained below:

- ⇨ Lower transfer to the national social security fund by LL 140 billion. Approximately LL 290 billion were transferred to NSSF during 2005, as compared to LL 150 billion in 2006.
- ⇨ The wages and salaries for education staff, considered as one of the major components of social spending, were reported at a lower level over the period, for a reason related to cash-reporting (part of September salaries were recorded in October).

Hence, the decline does not reflect a general tendency towards lower social spending. On the contrary, reviewing "other social expenditures" reveals an increase over the period. For instance Pension and end-of-service indemnities increased by LL 70 billion during the first three quarters of 2006 compared to the same period of 2005.

Of the LL 1,985 billion total social spending during January-September 2006, Pension and end-of-service indemnity accounted for around 35 percent jumping from its 30 percent share reported during the same period of 2005. Education ranked second at 34.5 percent of total spending, covering mainly the Ministry of Education and Higher Education, including the contribution to the salaries of the Lebanese University personnel, in addition to educational allowances paid to the various armed forces. Spending on health represented 22.5 percent, a decline of 22 percent during January-September compared to the same period of last year.

Allocation of Social Spending



** Includes amounts transferred to the civil servant cooperatives, Ministry of Social Affairs and Ministry of Displaced*
Source:MOF, DGF

Table 8. Social Spending for January-September (2005-2006)

(LL billion)	Jan-Sep 2005	Jan-Sep 2006	Magnitude of change over QIII 2005	Percentage change over QIII 2005
Health				
Hospitalization in the private sector	130	159	29	22%
Purchase of Medication	32	42	10	31%
Hospitalization of public sector employees in private sector	57	34	-23	-40%
Maternity and sickness allowance	13	26	13	100%
NSSF	291	150	-141	-48%
Other	42	36	-6	-14%
Sub-Total	**565**	**447**	**-118**	**-21%**
Education				
Ministry of Education and Higher Education, *of which*	620	586	-34	-5%
Wages and Salaries of the General Directorates of Education, Higher Learning, and Technical Education	*400*	*369*	-31	-8%
Contributions in the salaries of the Lebanese University	*100*	*113*	13	13%
Contributions to non profitable organizations (private schools)	*23*	*36*	13	57%
Construction under execution (construction and restoration of schools)	*36*	*16*	-20	-56%
Education allowance in the private sector	99	102	3	3%
Sub-Total	**719**	**688**	**-31**	**-4%**
Ministry of Social Affairs, *of which*	**35**	**36**	**1**	3%
Transfers to non profit organizations	*34*	*34*	*0*	0%
Ministry of Displaced	**3**	**3**	**0**	**0%**
Other Social Spending				
Marriage allowance	1	3	2	200%
Birth allowance	1	2	1	100%
Death allowance	2	2	0	0%
Other social spending allowance	3	6	3	100%
Contribution to mutual funds	16	15	-1	-6%
Transfers to employees' cooperative	91	85	-6	-7%
Sub-Total	**114**	**115**	**1**	**1%**
End of service & Pensions	**626**	**696**	**70**	**11%**
Grand-Total	**2,062**	**1,985**	**-77**	**-4%**

Source: MOF, DGF

Section IV: Public Debt Developments

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

Assumes full LL Replacement	Dec-03	Dec-04	Dec-05	Sep-06	Change Dec 05 - Sep 06	% change Dec 05 – Sep 06
Gross Public debt	**50,285**	**54,048**	**57,985**	**60,347**	2,329	3.98%
Local currency debt	**26,843**	**26,371**	**29,141**	**29,582**	441	1.52%
a. Central Bank (including REPOs and Loans to EDL to finance fuel purchases)*	8,938	10,652	11,686	9,505	-2,181	-18.66%
b. Commercial Banks	12,303	12,220	14,130	15,772	1,642	11.63%
c. Other Local Currency Debt (T-bills)	5,603	3,500	3,325	4,305	980	29.47%
o/w Public entities	*2,564*	*2,187*	*2,446*	*3,445*	999	40.84%
d. Accrued interest included in domestic debt	*566*	*356*	*517*		-517	*16.25%*
Foreign currency debt	**23,442**	**27,677**	**28,844**	**30,765**	1,888	6.47%
Ratio to total debt	**46.6%**	**51.2%**	**49.7%**	**51.0%**	0	
a. Bilateral, Multilateral and Foreign Private sector loans	2,934	2,970	2,789	2,940	118	3.45%
b. Paris II related debt (Eurobonds and Loans)	3,731	3,814	3,682	3,687	5	0.14%
c. BDL Eurobond (Paris II)	2,819	2,819	2,819	2,819		0.00%
d. Market Eurobonds	13,631	17,686	18,729	20,359	1,630	8.70%
e. Accrued Interest on foreign currency debt	327	388	406	541	135	33.28%
f. Special Tbls in Foreign currency**			419	419		0.00%
Public sector deposits	**3,019**	**4,360**	**5,590**	**5,394**	-196	-2.95%
Net debt	**47,266**	**49,688**	**52,395**	**54,953**	2,525	4.72%
Gross Market debt* **	**29,638**	**31,861**	**34,759**	**38,097**	3,338	9.60%
% of total debt	**59%**	**59%**	**60%**	**63%**		

Source: Ministry of Finance, Banque du Liban
Notes:
* The BDL has extended loans to EDL for the equivalent amount of US$ 300 million to purchase fuel oil. These loans are listed as Public debt as they are government guaranteed.
** Special Tbs in Foreign currency represent expropriation bonds
*** Gross market debt equals gross debt less the portfolios of the BDL, NSSF, bilateral and multilateral loans, and Paris II related debt.

Gross public debt as of end-September 2006 amounted to LL 60,347 billion (USD 40 billion) registering a LL 2,329 billion, or 4 percent, increase over the end-December 2005 debt level. In comparison, gross public debt registered lower rate of growth in the first nine months of 2005, increasing by LL 1,432 billion or 2.7 percent over the end-December 2004 level.

Net public debt as of end-September 2006 amounted to LL 54,953 billion (USD 36.5 billion) registering an increase of LL 2,525 billion or 4.7 percent over the end-December 2005 level.

The **domestic debt** component of public debt amounted to LL 29,582 billion as of end-September 2006, increasing by LL 441 billion or 1.5 percent over the end-December 2005 level.

Commercial banks' appetite for Lebanese Pound denominated Treasury bills was strong in the first half of 2006. Commercial banks' portfolio of Treasury bills increased to reach LL 16,890 billion in June 2006 and decreased after the July war to attain LL 14,896 billion in August 2006. In September 2006, the trend reversed again and commercial banks' Treasury bills portfolio resumed their increasing pattern to reach LL 15,772 billion.

The local currency Treasury bills portfolio of BDL declined by LL 3,834 billion from December 2005 until June 2006 and achieved LL 7,400 billion. However, as the July War broke out, the market appetite for Lebanese Pound denominated T-bills decreased and as a result, BDL portfolio of Treasury bills increased by 22 percent by end-August (as compared to June 2006) to reach LL 9,569 billion in August 2006. It then dropped back slightly by the end of September to LL 9,505 billion. As for the treasury bills portfolio held by public institutions, an increase of LL 511 billion in the first half of 2006 was registered, reaching LL 2,957 billion by the end of June 2006. Public institutions' holdings remained steady during the war months at LL 3,055 billion at the end of August. Following the war, public institutions' appetite for treasury bills regained its upward trend to reach LL 3,445 billion by the end of September.

Foreign currency debt at end-September 2006 amounted to LL 30,765 billion (US$ 20 billion) increasing by LL 1,888 billion (or 6.47 percent) over the end-December 2005 level. The largest part of the increase is due to the issuance in April 2006 of two simultaneous Eurobond transactions amounting to 175 million Euros and US$ 750 million in new debt, and the issuance of US$ 657 million worth of Eurobonds in August 2006. The new issuances were conducted to ensure smooth financing of the forthcoming interest and principal due in 2006.

Table 10. Recent Government Eurobond Issuance

Issue Date	Term (years)	Maturity Date	Coupon Rate	Amount issued
August 2, 2006	3	August 2009	7.5%	USD $206.591 MN
August 2, 2006	5	August 2011	7.5%	USD $450 MN
April 12, 2006	6	April 2012	5.875%	EUR 324.5 MN
April 12, 2006	15	April 2021	8.250%	USD $1,661.5 MN
April 12, 2006	8	April 2014	7.375%	USD $ 676.9 MN

Source: MOF

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

(in LL Billion)	Dec-04	Dec-05	Sep-06	Change Year-to-date	% Change Year-to-date
I. Total debt (II + III)	**54,072**	**57,985**	**60,347**	**2,329**	**4.0%**
II. Local currency debt	**26,371**	**29,141**	**29,582**	**441**	**1.5%**
1. Long term bonds	**20,766**	**23,384**	**25,759**	**2,375**	**10.2%**
1.1 60 months bonds	650	1,772	2,172	400	22.6%
1.2 54 months bonds	616	616	616	0	0
1.3 48months bonds	0	633	633	0	0
1.4 36 months bonds	8,943	14,520	19,743	5,223	36.0%
1.5 30 months bonds	3,033	3,033	0	-3,033	-100%
1.6 24 months bonds	7,281	2,385	2,077	-308	-12.9%
* *Accrued interest included in debt*	*243*	*425*	518	93	21.9%
2. Short term bills	**5,102**	**5,246**	**3,321**	**-1,925**	**-36.7%**
2.1 12 months bills	2,887	3,023	1,745	-1,278	-42.3%
2.2 06 months bills	2,103	2,067	1,492	-575	-27.8%
2.3 03 months bills	112	156	84	-72	-46.2%
* *Accrued interest included*	*113*	*92*	83	-9	-9.8%
3. Other local debt	**503**	**511**	**502**	**-9**	**-1.8%**
3.1 Central Bank Loans	455	453	453	0	0.00%
3.2 Commercial Banks Loans	48	58	49	-9	-15.5%
III. Foreign currency debt	**27,701**	**28,844**	**30,765**	**1,888**	**6.5%**
4. Bilateral, Multilateral and Foreign Private sector loans	**2,993**	**2,789**	**2,940**	**151**	**5..4%**
5. Eurobonds	**23,682**	**24,743**	**26,508**	**1,766**	**7.1%**
5.1 Paris II at preferential rates	2,789	2,789	2,789	0	0%
5.2 Banks required investment	1,122	0	0	0	0
6. Other foreign debt	**1,026**	**1,312**	**1,317**	**5**	**0.4%**
6.1 Paris II loans	1,026	893	898	5	0.6%
6.2 Special Tbs in foreign currency	0	419	419	0	0%

Source: MOF, Banque du Liban

Table 10 above demonstrates the **evolution of public debt by instrument**. On the domestic debt front, the demand for long-term bonds increased, while the demand for short-term bonds decreased. Commercial banks over-subscribed in the 36-month Treasury bills and substituted their shorter term Treasury bills by this category. A similar trend is seen with public institutions that also oversubscribed to the 36-month T-bills and substituted their short term T-bills in this quarter. As for the decline in the 30-month category, this is due to the maturity of all 30-month Treasury bills in the amount of LL 3,033 billion during 2006. These 30-month T-bills are special treasury bills issued in the context of Paris II at a concessionnal rate of 4 percent.

On the foreign currency debt front, from the LL 1,888 billion increase, around LL 62 billion is coming from the revaluation of the Eurobonds stock denominated in Euro[10] and the remaining part represents the issuance of Eurobond in excess of maturing Eurobond principal.

[10] 1.1835 US$/Euro rate as of end December 2005 compared to 1.267422 US$/Euro rate as of end September 2006)

During the period January-September 2006 the total Eurobond issuance was equal to US$ 3.41 billion and the total principal payment was equal to US$ 2.37 billion, including the exchange transaction in April 2006. As for "**Paris II loans**", a payment of Euro 30 million was made in August 2006 representing the first installment of maturing principal of the AFD Loan (French loan). Thus, the LL 5 billion net increase as of end September 2006 is due to the net effect between the revaluation of the US$/Euro exchange rate[11] and the decrease of the outstanding Paris II loan by the equivalent LL amount of Euro 30 million of principal maturing in the month of August 2006.

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

Table 12. Evolution of Primary Market Treasury Bills Yields

Maturity	Dec. 31, 2004	Dec. 31, 2005	September 30, 2006
3-month	5.22 percent	5.22 percent	5.22 percent
6-month	6.31 percent	7.24 percent	7.24 percent
12-month	6.69 percent	7.75 percent	7.75 percent
24-month	7.74 percent	8.50 percent	8.50 percent
36-month	8.68 percent	9.34 percent	9.32 percent

Source: Ministry of Finance

Eurobond secondary market prices were impacted by the outbreak of war in July, rising by an average of 197 basis points by the end of July from pre-war levels. As hostilities came to an end, that trend was partially reversed, with bid yields falling by about 100 basis points on average at the end of the third quarter from the high July levels.

Table 13. Eurobond Price Performance

	Bid-Yield 6-Jul-06	Bid-Yield 28-Jul-06	Bid-Yield 25-Aug-06	Bid-Yield 8-Sep-06	Bid-Yield 29-Sep-06
Lebanese Issues					
Euro					
LEB 8.875 06	4.42	8.27	6.86	6.45	6.45
LEB 7.250 09	5.40	7.13	7.23	6.60	6.28
LEB 5.875 12	5.89	7.42	6.97	6.86	6.64
US Dollars					
LEB 8.625 07	6.61	8.98	8.4	7.95	7.82
LEB 7.375 08	6.75	9.03	8.58	7.90	7.92
LEB 10.125 08	6.82	9.03	8.4	7.95	7.97
LEB 10.250 09	6.93	9.18	8.56	8.00	7.97
LEB FRN 09	7.08	9.24	8.28	8.02	7.69
LEB 7.000 09	7.32	9.29	8.41	8.15	8.03
LEB 7.125 10	7.23	9.33	8.46	8.39	8.32
LEB 7.875 11	7.34	9.35	8.52	8.46	8.40
LEB 7.750 12	7.47	9.36	8.73	8.56	8.54
LEB 8.625 13	7.52	9.37	8.82	8.62	8.62
LEB 7.375 14	7.68	9.41	8.74	8.65	8.56
LIEB 10.000 15	7.63	9.48	8.82	8.66	8.66
LEB 8.500 16	7.77	9.64	8.77	8.66	8.66
LEB 11.625 16	7.86	9.69	8.89	8.78	8.77
LEB 8.250 21	8.04	9.25	8.77	8.66	8.62

Source: Credit Suisse

[11] 1.1835 US$/Euro rate as of end December 2005 compared to 1.267422 US$/Euro rate as of end September 2006

Section V: Evolution of External Trade

Table 14. External Trade

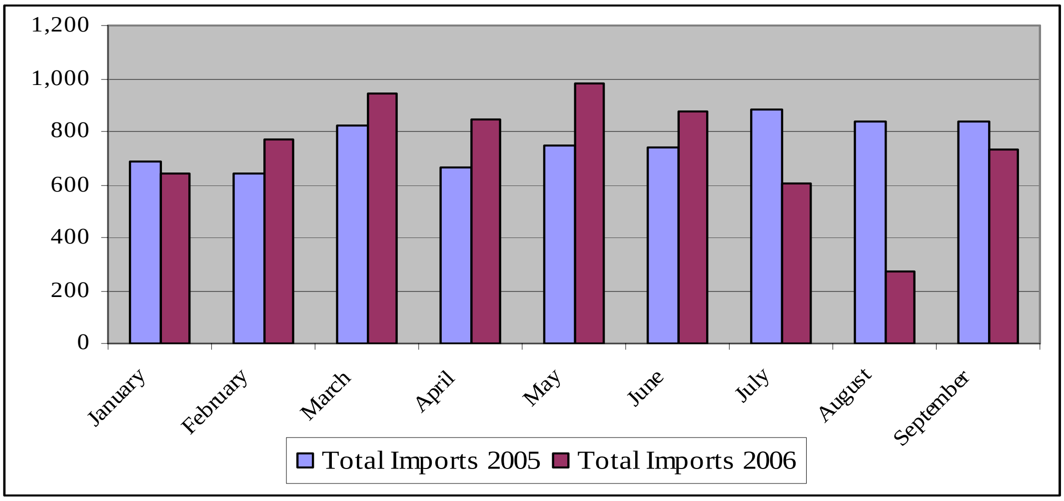
(USD Million)	2005 September	2006 September	2005 Jan-Sep	2006 Jan-Sep	Change	% Change
Exports	175	186	1,339	1,679	340	25%
Imports, *of which:*	836	732	6,870	6,658	-212	-3%
Mineral Products	256	170	1,649	1,775	126	8%
Trade Balance	**-661**	**-546**	**-5,531**	**-4,979**	**552**	-10%

Source: MOF, Directorate General of Customs (DGC)

Balance of trade: In January-September 2006**,** the trade deficit decreased by 10 percent compared to the first nine month of 2005. The narrowing trade deficit resulted from a USD 340 million increase in exports, versus a USD 212 million decrease in imports. The increase in exports is mainly due to an increase in the exports of pearls, precious or semi precious stones. The decline in imports is mainly due to the decrease in the imports of pearls and precious stones.

By the end of September 2006, **imports** amounted to USD 6,658 million, compared to USD 6,870 million for the same period one year earlier. Imports were particularly impacted by the July War and the imposed air and sea blockade. Total imports in the third quarter of 2006 totaled USD 1,601 million decreasing by 37 percent from USD 2,554 million in 2005. This came after a strong first half of the year where imports had increased by 17.2 percent compared to 2005.

Total Monthly Imports (2005 – 2006) – USD in millions

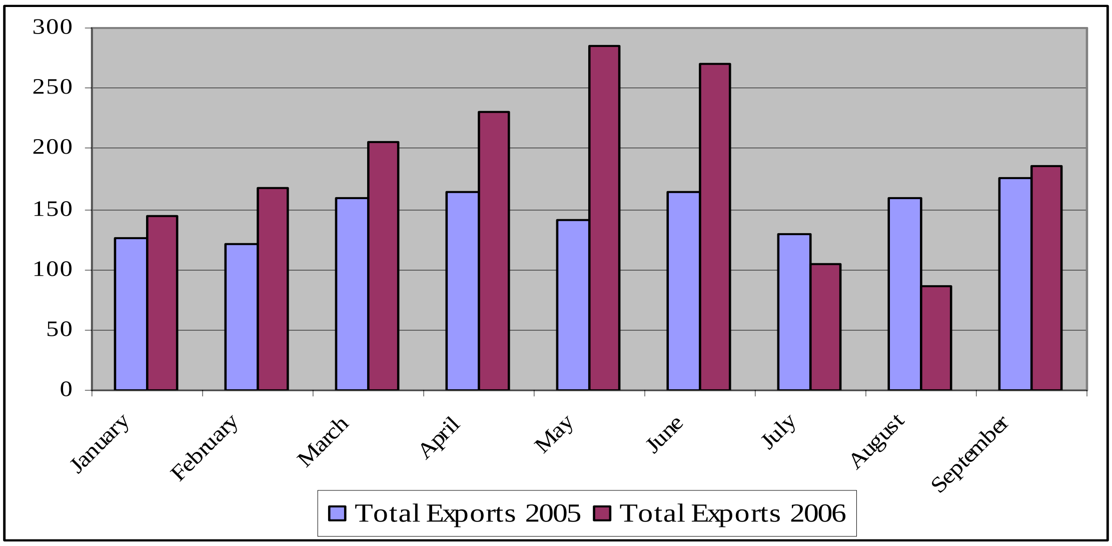


From a product perspective, the decrease in imports reflects a USD 207 million decrease in the value of the imports of pearls, precious or semi-precious stones.

From a regional distribution perspective, the drop in the value of imports reflects (1) a USD 253 million decrease in imports from the **European Union**, (2) a USD 220 million drop in imports from **Switzerland.** This decrease was countered by (3) a USD 230 million upsurge in imports from the **United States,** and (4) a USD 52 million increase in imports from **Arab Countries**. Other countries from which imports decreased noticeably include: China (USD 75 million decrease), Ukraine (USD 57 million decrease), Japan (USD 39 million decrease), and India (USD 33 million decrease).

By the end of September 2006, **exports** reached USD 1,679 million, increasing by USD 340 million with respect to the first nine months of 2005. As is the case with imports, exports were greatly impacted by the July War and the imposed air and sea blockade. During the third quarter of 2006, exports decreased by 19.1 percent. The decrease was tempered by a recovery in September.

Total Monthly Exports (2005 – 2006) – USD in millions



From a product perspective, the increase in exports is mainly owed to a USD 336 million increase in the exports of pearls, precious or semi precious stones.

From a regional distribution perspective, the upsurge in the value of exports reflects a USD 342 million increase in exports to **Switzerland**, and a USD 28 million increase in exports to the **European Union**.

Table 15. Import Distribution by Product

(USD million)	2005 Sep	2006 Sep	2005 Jan-Sep	2005 % Share	2006 Jan-Sep	2006 % Share	Change	% Change
Mineral Products	256	170	1649	24%	1,775	27%	126	8%
Machinery and Mechanical Appliances	73	77	780	11%	763	11%	-17	-2%
Products of the Chemical	59	72	599	9%	625	9%	26	4%
Pearls, Precious or Semi-Precious Stones	31	31	419	6%	212	3%	-207	-49%
Transport Equipment	69	53	562	8%	562	8%	0	0%
Base Metals and Articles of Base Metals	59	53	474	7%	512	8%	38	8%
Other Goods	289	276	2387	35%	2209	33%	-178	-7%
Total	**836**	**732**	**6,870**	**100%**	**6,658**	**100%**	**-212**	**-3%**

Source: MOF, DGC

- ## Import Distribution by Product:

Imports of **mineral products** increased by 8 percent and cumulated at USD 1,775 million in January- September 2006 as compared to USD 1,649 million in the first nine months of 2005. The increase in the import value of mineral products mainly resulted from:

1) A USD 72 million increase in the imports of **car gasoline**, which reached USD 599 million by the end of September 2006 as a result of the 23 percent increase in the average effective import price of car gasoline from LL 620 per liter in January- September 2005 to LL 763 per liter in January- September 2006. The increase in the imports of **car gasoline** was simply nominal as quantities imported actually decreased from 1,283 million liters in January- September 2005 to 1,184 million liters in January- September 2006.

2) A USD 80 million or 13 percent increase in the imports of **gas oil** (Mazout) (which reached USD 675 million in January-September 2006 compared to USD 595 million in January- September 2005). This was due to a) the 12 percent hike in the average effective price of gas oil imported from LL 594 per liter in January- September 2005 to LL 663 per liter in January- September 2006, b) the 2 percent increase in the quantity of gas oil imported. Quantities of gas oils imported reached 1.534 billion liters by the end of September 2006, compared to 1.509 billion liters in January- September 2005.

Table 16. Mineral Product Import Breakdown

	Jan-September 2005	Jan-September 2006	Change	% Change
Import Value Details (in USD Million):				
- Car Gasoline	527	599	72	14%
- Gas Oil	595	675	80	13%
- Fuel Oil	341	330	-11	-3%
Import Quantity Details (in Million Liters):				
- Car Gasoline	1,283	1,184	-99	-8%
- Gas Oil	1,509	1,534	25	2%
- Fuel Oil	1,234	1,072	-162	-13%
Import Price Details (in LL per Liter):				
- Car Gasoline	620	763	143	23%
- Gas Oil	594	663	69	12%
- Fuel Oil	417	464	47	11%

Source: MOF, DGC

The 2 percent decrease in **machinery and mechanical appliances** imports, which registered USD 763 million by the end of September 2006 in comparison to USD 780 million in January- September 2005, is the consequence of a USD 42 million decrease in the imports of **electrical machinery and equipment and parts thereof** (or what can be described as electrical appliances for household use), which totaled USD 233 million during January-June 2006**.** This decrease outweighed the USD 25 million increase in the imports of **reactors, boilers, machinery and mechanical appliances** (or what can be described as electrical materials for industrial use), which totaled USD 379 million.

The 49 percent decrease in the imports of **pearls, precious and semi-precious stones,** which amounted to USD 212 million in the first nine months of 2006 compared to USD 419 million in January-September 2005, resulted mainly from a USD 202 million decrease in the imports of **gold ingots,** amounting to USD 100 million for the first nine month of 2006.

Imports of **products of the chemical** reached USD 625 million in January- September 2006, compared to USD 599 million in January-September 2005, representing a 4 percent increase. This increase can be attributed to a USD 53 million increase in the imports of **pharmaceutical products**.

Imports of Transport Equipment remained stable in 2006, amounting to USD 562 million by the end of January- September 2006. However, Imports of **vehicles** increased from USD 386 million in January-September 2005, to USD 398 million during the same period of 2006. More specifically, the increase in the import value of vehicles can be attributed the higher number of imported cars. The number of imported cars reached 29,263 units in January-September 2006, increasing by 1.5 percent from 28,835 units during the same period of 2005.

Imports of **Base metals and articles of base metal** cumulated at USD 512 million by the end of September 2006, compared to USD 474 million by the end of September 2005, registering an 8 percent increase. This increase was mainly due to a USD 20 million increase in the imports of **copper and articles thereof,** which reached USD 51 million in the period of Jan-Sep 2006.

Table 17. Export Distribution by Product

(USD million)	2005	2006	2005		2006			%
	Sep	Sep	Jan-Sep	% Share	Jan-Sep	% Share	Change	Change
Machinery and Mechanical Appliances	29	29	231	17%	246	15%	15	6%
Base Metals and Articles of Base Metals	26	27	208	16%	215	13%	7	3%
Prepared Foodstuffs	18	18	138	10%	134	8%	-4	-3%
Pearls, Precious or Semi-Precious Stones	20	24	126	9%	462	28%	336	267%
Products of the Chemicals	17	14	116	9%	110	7%	-6	-5%
Mineral Products	9	11	97	7%	56	3%	-41	-42%
Other Exports	56	63	423	32%	456	27%	35	8%
Total	**175**	**186**	**1,339**	100%	**1,679**	**100%**	**340**	**25%**

Source: MOF, DGC

- **Export Distribution by Product:**

Machinery and mechanical appliances exports increased by 6 percent or USD 15 million, cumulating at USD 246 million during January-September 2006 in comparison to USD 231 million in the same period a year earlier. This increase resulted from a USD 8 million increase in the exports of **reactors, boilers, machinery and mechanical appliances**, which were worth USD 99 million until September 2006. The exports of **electrical machinery and equipment and parts thereof** also increased by USD 8 million, reaching USD 151 million in Jan- September 2006.

Exports of **base metals and articles of base metals** increased by 3 percent, reaching USD 215 million compared to USD 208 million during Jan-Sep 2005. This was mainly due to:

(1) (1) A USD 7 million increase in aluminum and articles thereof exports, and

(2) (2) A USD 7 million increase in articles of iron and steel exports.

Exports of **prepared foodstuffs** decreased by 3 percent registering USD 134 million between January and September 2006 compared to USD 138 million in January- September 2005. This resulted from:

(3) A USD 3 million decrease in **tobacco and manufactured tobacco substitutes** exports

(4) A USD 3 million decrease in **preparation of confectionaries** exports

(5) A USD 3 million decrease in **other edible preparation** exports

(6) A USD 2 million decrease in **beverages, spirits and vinegar** exports

The decrease in above mentioned food categories was partly counterbalance by:

(7) A USD 8 million increase in preparations of vegetables exports, and

(8) A USD 3 million increase in exports of sugars and sugar confectionary.

Exports of **pearls, precious or semi-precious stones** increased by 267 percent and totaled USD 462 million during January-September 2006, as opposed to USD 126 million in January- September 2005. This increase resulted from the increase in exports of **gold ingots** that amounted to USD 388 million by the end of September 2006, compared to USD 48 million by the end of September 2005.

Exports of **mineral products** decreased by 42 percent, amounting to USD 56 million by the end of January- September 2006 compared to USD 97 million in the same period of 2005. This decrease resulted from a USD 41 million drop in the exports of **salt, sulfur, earths and stone, plastering materials, lime and cement**, which registered USD 50 million by the end of September 2006.

Table 18. Regional Distribution of Imports

(US$ million)	2005 September	2006 September	2005 Jan-Sep	% Share	2006 Jan-Sep	% Share	Change	% Change
European Union (1):	317	262	2,748	40%	2,495	37%	-253	-9%
Arab Countries	114	97	963	14%	1015	15%	52	5%
China	69	79	519	8%	519	8%	0	0%
United States	57	75	417	6%	647	10%	230	55%
Switzerland	27	31	369	5%	149	2%	-220	-60%
Other	251	188	1,854	27%	1,832	28%	-22	-1%
Total	**836**	**732**	**6,870**	**100%**	**6,658**	**100%**	**-212**	**-3%**

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

- **Regional Distribution of Imports:**

Imports from the **European Union** decreased by 9 percent, cumulating at USD 2,495 million in January-September 2006 compared to USD 2,748 million in January- September 2005. This is mainly due to two factors:

(a) USD 295 million decrease in the value of imports from **Italy** that resulted from (1) a USD 201 million decrease in the imports of mineral oils and fuels, (2) a USD 18 million decrease in the imports of reactors, boilers, machinery and mechanical appliances and parts thereof, and (3) a USD 10 million decrease in the imports of articles of apparel and clothing accessories.

Lebanon's main imports from Italy included the following products: Mineral oils and fuels for a total amount of USD 150 million, reactors, boilers, machinery and mechanical appliances and parts thereof for a total of USD 49 million, as well as pharmaceutical products for a total value of USD 24 million.

(b) USD 98 million drop in the imports from the **France**, which registered USD 548 million in January-September 2006 compared to USD 645 million in January-September 2005. This resulted mainly from (1) a USD 18 million decrease in the imports of mineral oils and fuels, (2) USD 17 million decrease in the imports of live animals, and (3) a USD 9 million decrease in the imports of vehicles.

Lebanon's main imports from France included: Mineral oils and fuels for a total value of USD 228 million, pharmaceutical products for a total amount of USD 64 million, , as well as USD 24 million worth of vehicles.

(c) USD 65 million decrease in the imports from **Germany,** which registered USD 464 million in January-September 2006 compared to USD 529 million in January-September 2005. This resulted mainly from (1) a USD 39 million decrease in the imports of vehicles, (2) USD 19 million decrease in the imports of live animals, and (3) a USD 7 million decrease in the imports of electrical machinery and equipments.

Lebanon's main imports from Germany included the following: Vehicles for a total value of USD 182 million, reactors, boilers, machinery and mechanical appliances and parts thereof for a total of USD 82 million, as well as USD 57 million worth of pharmaceutical products.

In general, Lebanese imports from the European Union accounted for USD 590 million of mineral oils and fuels, USD 254 million of vehicles, USD 253 million of pharmaceutical products, and USD 217 million of reactors, boilers, machinery and mechanical appliances and parts thereof. Among European Union countries, the share of imports from France was the largest with USD 548 million, followed by Italy, Germany and the United Kingdom with respective exports to Lebanon of USD 494 million, USD 464 million and USD 282 million.

Imports from **Arab countries** increased by USD 52 million or 5 percent, and reached USD 1,015 million for January-September 2006, compared to USD 963 million in January-September 2005. The rise in imports from Arab countries stemmed from (1) a USD 21 million increase in imports from Egypt, resulting mainly from a USD 55 million rise in the imports of iron and steel, and a USD 9 million in the imports of copper and articles thereof (2) a USD 16 million increase in imports from Oman, resulting mainly from USD 18 million in imports of mineral oils and fuels, and (3) a USD 7 million increase in imports from Bahrain, resulting mainly from a USD 5 million increase in the imports of mineral oils and fuels.

The main imports from Arab countries for January-September 2006 were (1) mineral fuels and oils worth USD 318 million, (2) iron and steel imports of USD 151 million and (3) plastics and articles thereof worth USD 77 million.

Among Arab countries, the share of imports from Egypt was the largest at USD 276 million, followed by Saudi Arabia with USD 213 million and Syria with USD 120 million.

Imports from **China** remained stable at USD 519 million in January-September 2006. Product categories that witnessed an increase includes (1) paper, paperboard and articles of paper pulp, which increased by USD 5 million, and (2) iron and steel imports that witnessed an increase of USD 1 million. On the other hand, the main Chinese imports that dropped in Jan-Sep 2006 were imports of electrical machinery and equipment, which decreased by USD 10 million. (Refer to Box 2)

Imports from the **United States** increased by 55 percent, amounting to USD 647 million in January-September 2006, compared to USD 417 million in the first nine months of 2005. This hike was due to a USD 200 million increase in the imports of mineral oils and fuels, and USD 16 million increase in the imports of boilers and reactors.

Lebanon's main imports from the United States for the first nine months of 2006 consisted of USD 262 million worth of mineral oils and fuel, USD 67 million worth of vehicles, USD 58 million in boilers and reactors, and USD 46 million of tobacco and manufactured tobacco substitutes.

Imports from **Switzerland** decreased by 60 percent, registering USD 149 million by the end of September 2006 compared to USD 369 million in January-September 2005. This decrease resulted from (1) a USD 217 million decrease in the imports of pearls, precious and semi precious stones (mainly gold ingots) and (2) a USD 6 million decrease in the imports of boilers and reactors. The main imports from Switzerland for the first three quarters of 2006 were pearls, precious and semi precious stones for a total import value of USD 75 million, pharmaceuticals worth USD 37 million, and clocks and watches worth USD 10 million.

Box 2. Trade with China

1. Trade with China

During Jan-Oct 2006, Lebanon's main import partners were the United States, France, China, Italy, and Germany, with total imports from each country amounting to USD 693 million, USD 628 million, USD 600 million, USD 567 million, and USD 529 million, respectively. Imports from theses 5 countries represented 40 percent of Lebanon's total imports.

During the first 10 months of 2006, Imports from China represented 8% of Lebanon's total imports, amounting to USD 600 million, up from USD 594 million for the same period last year. However, if we exclude imports of mineral fuels and oils, Lebanon's main import partner would be China with 11% of total imports.

Lebanese Imports from China

$ Million	2004 Imports	2005 Imports	2006 Imports	% Change 2005-2006
January	52	51	56	9.8%
February	48	49	61	24.5%
March	46	63	54	-14.3%
April	53	49	63	28.6%
May	84	60	81	35.0%
June	63	55	77	40.0%
July	59	60	43	-28.3%
August	50	63	5	-92.1%
September	73	69	79	14.5%
October	68	75	80	6.7%
Jan-Oct Total	**596**	**594**	**600**	**1.0%**

Source: Directorate General of Customs

The Jan-Oct 2006 period witnessed a 1 percent increase in Chinese imports over the same period in 2005, while during Jan-June 2006, a 20 percent increase was witnessed. In July and August 2006, imports dropped significantly due to the July war, and then bounced back in September and October 2006.

2. Import Distribution by Product

During the first 10 months of 2006, Lebanon's main imports from China were reactors, boilers, machinery and mechanical appliances, which accounted for 18% of total imports from China. These were followed by electrical machinery and equipment and parts with 13%, and articles of apparel and clothing accessories with 7%.

During 2005, Lebanon's main imports from China were also reactors, boilers, machinery and mechanical appliances, which accounted for 15% of total imports from China during the period of Jan-Oct 2005. These were followed by electrical machinery and equipment and parts with 13%, and articles of apparel and clothing accessories with 6%.

The increase in imports in 2006 came mainly from (1) a USD 16 million increase in the import of reactors, boilers, machinery and mechanical appliances, and (2) a USD 6 million increase in the import of paper, paperboard, and articles of paper pulp. On the other hand, the import of toys, games and sports requisites witnesses a USD 6 million decrease in Jan - Oct 2006.

Table 19. Regional Distribution of Exports

(USD million)	2005 Sep	2006 Sep	2005 Jan-Sep	2005 % Share	2006 Jan-Sep	2006 % Share	Change	% Change
Arab Countries	97	99	741	55%	731	44%	-10	-1%
European Union	17	22	151	11%	179	11%	28	19%
Switzerland	8	17	50	4%	392	23%	342	684%
United States	8	5	43	3%	36	2%	-7	-16%
China	3	4	20	1%	24	1%	4	20%
Other	41	39	334	25%	317	19%	-17	-5%
Total	**175**	**186**	**1,339**	**100%**	**1,679**	**100%**	**340**	**25%**

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

- **Regional Distribution of Exports:**

Lebanese exports to **Arab Countries** decreased by 1 percent from USD 741 million in January-September 2005, to USD 731 million in January-September 2006.

The decrease in Lebanese exports occurred despite the USD 23 million, or 92 percent, increase in exports to Qatar that registered USD 48 million by the end of September 2006, compared to USD 25 million by the end of September 2005. This increase affected mainly exports of furniture, bedding and mattresses, which increased by USD 9 million, and exports of iron and steel, which increased by USD 3 million.

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

a) A USD 20 million decrease of exports to Syria. Exports to UAE registered USD 125 million in the first nine months of 2006, compared to USD 145 million in the first nine months of 2005. This 14 percent decrease resulted mainly from (1) a USD 19 million decrease in the exports of salt, earths and stone, plastering materials, and cement, which reached USD 30 million by the end of September 2006, (2) a USD 4 million decrease in the exports of electrical machinery and equipment reactors.

b) A USD 14 million decrease of exports to Iraq. Exports to Iraq reached USD 116 million in Jan-Sep of 2006, compared to USD 130 million in the first nine months of 2005. This drop was mainly due to a decrease in exports of salt, earths and stone, plastering materials, and cement, which registered USD 12 million in January-September 2006, down from USD 25 million in the same period of 2005. In addition, exports of electrical machinery and equipment decreased by USD 6 million in 2006.

c) Lebanese exports to Egypt decreased between Jan-Sep 2005 and 2006 by USD 12 million.

The main exports to Arab countries for January-September 2006 were (1) Electrical machinery and equipment worth USD 99 million, (2) reactors, boilers, and machinery of USD 57 million, and (3) natural or cultured pearls, precious stones and metals worth USD 52 million.

Among Arab countries, the share of exports from Syria were the largest, with USD 125 million, followed by United Arab Emirates with USD 123 million, and Iraq with USD 116 million.

Lebanese exports to the **European Union** increased from USD 151 million to USD 179 million between January-September 2005 and January- September 2006. This rise stemmed mainly from (1) a USD 12 million increase in exports to Belgium, (2) a USD 5 million increase of exports to Netherlands, and (3) a USD 2 million increase of exports to France.

Lebanese exports to the European Union accounted for USD 16 million of tobacco and manufactured tobacco substitutes, USD 14 million of natural or cultured pearls, precious stones and metals, USD 14 million of aluminum, and USD 12 million of paper and paperboard. Among European Union countries, the share of exports to Belgium was the largest with USD 32 million, followed by France with USD 27 million, then the UK and the Netherlands with USD 20 million and USD 19 million, respectively.

Exports to the **Switzerland** increased by 684 percent, reaching USD 392 million by the end of September 2006, compared to USD 50 million between January and September 2005. This increase was due to the rise in gold ingot exports between the Jan-Sep 2005 and Jan-Sep 2006.

Exports to the **United States** decreased by 16 percent, registering USD 36 million in January-September 2006 compared to USD 43 million for the first nine month of 2005. This resulted from a USD 4 million decrease in exports of pearls, precious and semi precious stones (mainly articles of jewelry and non industrial worked diamonds), a USD 4 million decrease in the exports of fertilizers, and a USD 2 million decrease in the exports of furniture, bedding and mattresses.

Lebanese exports to the United States consisted mainly of furniture, bedding and mattresses for USD 8 million, and preparations of vegetables, fruit, and nuts for USD 5 million.

REPUBLIC OF LEBANON
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