

PUBLIC FINANCE PROSPECTS 2007

MINISTRY OF FINANCE YEARLY REPORT



REPUBLIC OF LEBANON
MINISTRY OF FINANCE



Public Finance Prospects 2007 Ministry of Finance Yearly Report

- ☒ **General Fiscal Developments:** A primary surplus of LL 1,102 billion was registered in 2007, despite a difficult political and security environment. This compares to a primary deficit of LL 7 billion in 2006. The fiscal deficit improved by 16 percent to LL 3,838 billion compared to 2006. (section 1).
- ☒ **Revenues:** Increases in revenues of 20 percent in 2007 were the major factor behind the performance of the primary surplus and the fiscal deficit reduction. Total revenues amounted to LL 7,316 billion mainly due to across the board improvements in all revenue items (section 2).
- ☒ **Expenditures:** Total expenditures increased by 6 percent during 2007 as compared to 2006 due to higher interest and primary payments. (section 3).
- ☒ **Public Debt Developments:** The stock of debt cumulated at LL 63,364 billion, registering an increase of LL 2,513 billion, or 4 percent over the end December 2006 debt level. (section 4).
- ☒ **External Trade:** The deficit in the trade balance stood at US\$ 8,999 million in 2007, 27 percent higher than the trade deficit in 2006 at US\$ 7,115 million. This was mainly due to a 26 percent increase in imports of US\$ 2,418 million which offset the 23 percent higher exports of US\$ 534 million.
- ☒ **VAT Developments:** The amount of VAT declared by businesses rose by 4 percent, with both wholesale and retail trade being the highest contributors. In addition, the VAT declared at customs increased by 23 percent from the import of merchandise, mainly driven by imports of mineral fuels and oils. (section 5).

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Section I: Fiscal Overview

Table 1. Summary of Fiscal Performance

(LL billion)	2006	2007	2006	2007	Change	%
	December	December	Jan-Dec	Jan-Dec	2006-2007	Change
Budget Revenue	562	649	6,888	8,094	1,205	17.5%
Budget Expenditures	1,006	771	9,432	10,070	638	6.8%
<i>o/w Previous Years Appropriations</i>	191	187	683	758	75	11.0%
<i>o/w Debt Service</i>	478	371	4,557	4,940	383	8.4%
Budget Deficit/Surplus	-443	-123	-2,544	-1,977	567	-22.3%
in % of Budget Expenditures	-44.1%	-15.9%	-27.0%	-19.6%		
Budget Primary Deficit/Surplus	35	248	2,013	2,963	951	47.2%
in % of Budget Expenditures	3.4%	32.2%	21.3%	29.4%		
Treasury Receipts	30	68	428	655	228	53.2%
Treasury Payments	276	179	2,447	2,517	69	2.8%
Total Budget and Treasury Receipts	592	717	7,316	8,749	1,433	19.6%
Total Budget and Treasury Payments	1,281	950	11,879	12,587	707	6.0%
Total Cash Deficit/Surplus	-689	-233	-4,564	-3,838	726	-15.9%
in % of Total Expenditures	-53.8%	-24.5%	-38.4%	-30.5%		
Primary Deficit/Surplus	-211	138	-7	1,102	1,109	
in % of Total Expenditures	-16.5%	14.5%	-0.1%	8.8%		

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

Despite a difficult security and political environment in 2007, the **fiscal deficit** improved by LL 726 billion (or 16 percent) to LL 3,838 billion compared to a deficit LL 4,564 billion in 2006. This amelioration is due to higher **total receipts** of LL 1,433 billion which offset increased **total payments** of LL 707 billion.

The **primary balance** was back in surplus in 2007 at LL 1,102 billion – a record level – compared to a deficit of LL 7 billion in 2006.¹

¹ As in the Public Finance Prospects 2006 Yearly Report, the primary balance for 2006 was previously published at a deficit of LL 25 billion. An adjustment in the recording of revenues in 2006 was made and consequently resulted in the final primary balance of 2006 at LL 6.7 billion.

Section II: Revenue Outcome

Table 2. Total Revenue

(LL billion)	2006	2007	2006	2007	%
	December	December	Jan-Dec	Jan-Dec	Change
Budget Revenues, of which:	562	649	6,888	8,094	17.5%
<i>Tax Revenues</i>	383	410	4,943	5,583	13.0%
<i>Non-Tax Revenues</i>	179	238	1,945	2,511	29.1%
Treasury Receipts	30	68	428	655	53.2%
Total Revenues	592	717	7,316	8,749	19.6%

Source: MOF, DGF

Total revenues (including grants) in 2007 were LL 8,749 billion equivalent to 23.6 percent of GDP, higher by LL 1,433 billion (or 20 percent) when compared to revenues in 2006 (LL 7,316 billion or 21.4% of GDP).²

In 2007, total revenues (net of LL 188 billion worth of grants) constituted 23.1 percent of GDP, 2 percentage points higher than the percentage of total revenues (net of the LL 78 billion grants) to GDP in 2006. This improved performance is due to a number of reasons that are detailed in what follows, and which can be summarized in four main items: (a) improved economic activity as reflected in some consumption & transaction related taxes³; (b) enhanced administrative reforms which appeared in some income taxes and property taxes; (c) higher inflation⁴ as revealed in some consumption & transaction related taxes; and (d) some exceptional items which occurred in both 2006 and 2007.

In terms of the revenue aggregates, **Budget Revenues** cumulated at LL 8,094 billion of which **Tax revenues** totaling LL 5,583 billion (equivalent to 15.1 percent of GDP) in 2007 compared to LL 4,943 billion (or 14.4 percent of GDP) in 2006; and **Non-tax revenues** amounting to LL 2,511 billion (6.8 percent of GDP) in 2007 compared to LL 1,945 billion (5.7 percent of GDP) in 2006.

The detailed performance of the various **Tax Revenues** aggregates is as follows:

Tax on income, profits and capital gains collected LL 1,308 billion (equivalent to 3.5 percent of GDP), 10 percent increase from the LL 1,184 billion collected in 2006, (equivalent to 3.5 percent of GDP) mainly owing to the following reasons:

(a) Collection of the **income tax on profits** in 2007 recorded LL 501 billion increasing by 11 percent from the LL 454 billion registered in 2006, which is itself 11 percent higher than the LL 409 billion collection in 2005. Please note that the income tax amounts collected by the Treasury in 2007, 2006 and 2005 pertains to business profits realized in 2006, 2005 and 2004 respectively. The main two reasons behind these improvements in income tax on profits collection are the enlargement of the tax base with increasing number of tax filers and higher average tax amounts per declaration. (Please refer to Box 1 for further details on the performance of income tax on profits realized during the period 2004-2006).

² GDP was estimated at LL 34,265 billion for 2006 and LL 37,058 billion for 2007 based on IMF, BdL and MOF estimates of real growth and inflation for 2006 and 2007, with a GDP for 2005 of LL 32,499 billion as per Lebanon's National Accounts 2005. These GDP estimates are used throughout the report.

³ Please note that real growth in 2007 was estimated at around 3 to 4 percent, as per Banque du Liban (BDL) figures.

⁴ Inflation for 2007 was estimated nearing 5 percent as per BDL figures.

Box 1. Income Tax on Profits, 2004-2006 for Large Taxpayers (LTO)

The total number of registered taxpayers in the Large Taxpayer's Office (LTO) increased from 605 in 2004, to 882 in 2005 and 2006.

- ⇒ The aggregate tax amount declared on profits realized in 2005 filed and paid in 2006 (by corporations, insurance companies and banks) rose significantly by 111 percent due to (i) a higher number of declarations received (41 percent) and to (ii) a larger tax amount due per declaration (the average tax amount declared is 76 percent higher for corporations, 12 percent higher for insurance companies and 7 percent higher for banks). Therefore in 2005, the rise in income tax receipts was mainly driven by higher profits of corporations.
- ⇒ The aggregate tax amount declared on profits realized in 2006 filed and paid in 2007 (by corporations, insurance companies and banks) has risen by 12 percent. The rise in income tax receipts in 2006 is explained by a higher tax amount due per declaration (the average tax amount per declaration rose by 32 percent for corporations, 20 percent for Insurance companies and 26 percent for banks). Therefore the rise in income tax receipts in 2006 may be attributed to higher profits for both corporations, and banks.

Chapter 1- Income Tax on Profits

	2004			2005			2006			change	change
	#	#	Amount	#	#	Amount	#	#	Amount	05-04	06-05
(LL million)	taxpayers	Declarations	Declared	taxpayers	Declarations	Declared	taxpayers	Declarations	Declared	Declared Tax	Amount
Corporations	436	434	130,297	696	676	358,043	696	572	398,991	174.8%	11.4%
Insurances	71	67	14,476	72	59	14,270	72	50	14,500	-1.4%	1.6%
Banks	98	95	71,039	114	103	82,313	114	95	95,900	15.9%	16.5%
Total	605	596	215,812	882	838	454,627	882	717	509,391	110.7%	12.0%

Source: MOF- Large Taxpayers Office, Declarations Statistics

Please note that the amount of tax declared on profits realised in 2004, 2005 and 2006 were filed and settled in fiscal years 2005, 2006 and 2007 respectively.

(b) **Income tax on wages and salaries** collected LL 219 billion in 2007 compared to LL 198 billion in 2006. The 10 percent improvement in the collection of the withheld taxes on wages and salaries in 2007 is in line with the rising collection trend witnessed since the start in 2003 of the implementation of the administrative reform (Deduction At Source on Wages and Salaries⁵) which aims at building a comprehensive tax base and modernizing the tax filing processes, thereby improving tax compliance. The reform process has so far resulted in a comprehensive database on all public and private wage earners in the Beirut and Mount Lebanon tax regions. The 2007 performance reflects the improved tax collection from the DASS taxpayers which is explained by: (i) 6 percent higher number of registered DASS taxpayers (namely small and medium taxpayers) and (ii) 8 percent higher aggregate amount of tax declared (namely stemming from large taxpayers declarations). On average over the period 2005-2007, 4 percent of total DASS taxpayers were large taxpayers who contributed about 53 percent of the aggregate tax amount (small and medium DASS taxpayers, 96 percent of total DASS taxpayers, contributed the remaining 47 percent of the aggregate tax amount).

Table 3: Beirut DASS Declarations Statistics 2005 -2007

(LL million)	2005			2006			2007		
	Small & Medium Taxpayers	Large Taxpayers	Total Taxpayers	Small & Medium Taxpayers	Large Taxpayers	Total Taxpayers	Small & Medium Taxpayers	Large Taxpayers	Total Taxpayers
Average Number of registered taxpayers	10,588	490	11,078	11,334	498	11,831	12,061	504	12,565
Aggregate Amount of tax Declared	56,812	62,288	119,100	62,435	68,833	131,268	65,197	76,317	141,514

Source: Ministry of Finance- DASS Beirut Compliance Statistics

(c) With revenues amounting to LL 140 billion in 2007, **income taxes on capital gains and dividends** witnessed a 39 percent increase compared to the LL 101 billion collected in 2006 (and LL 95 billion collected in 2005). Also note that the tax amount collected by the Treasury in 2007, 2006 and 2005 pertains to dividends and capital gains realized a year earlier (in 2006, 2005 and 2004 respectively). Behind this revenue enhancement stand (i) an expansion of the tax base with larger number of tax filers, (ii) an improved tax compliance ratio, and (iii) higher average tax amounts per declaration (*please refer to Box 1 for further details on the performance of income tax on capital gains and dividends realized during the period 2004-2006*).

(d) The **5% tax on interest income** collected LL 437 billion in 2007, compared to LL 417 billion in 2006. The 5 percent increase in the interest tax receipts in 2007 reflects the 10.9 percent growth in bank deposits in 2007.

- ⇒ The **distribution by institution** reveals that (a) 36 percent of the tax amount received in 2007 was transferred from BDL (against 40 percent in 2006) and (b) 64 percent came from commercial banks (against 60 percent in 2006). The higher share of commercial banks' contribution to collected tax on interest income means that the tax amount stemming from bank deposits (as opposed to the tax due on other interest earning investments) increased and this despite a year on year drop in average deposit rates on deposits in LL and US\$. The rise in interest tax receipts may thus be explained by the 10.9 percent growth in the deposit base.
- ⇒ The **currency composition** reveals that 49 percent of the tax received in 2007 was in foreign currency (against 40 percent in 2006), with the remaining 51 percent came in

⁵ The Deduction At Source on Salaries and Wages is a reform effort that was initiated in 2003, and which entails the build-up of a comprehensive database on wage earners (public and private), and a modernization of the processes. For further details please refer to "Reforms at MOF 2005-2007" at the Ministry of Finance website

Lebanese Pounds (against 60 percent in 2006). The rising share of foreign currencies is due to higher deposit dollarization (the average dollarization rate in 2007 was 76.3 percent compared to an average dollarization rate of 73.8 percent in 2006).

Table 4: Tax on Interest (2006 - 2007)

(LL million)	2006	2007
By Institution		
<i>Commercial banks</i>	252,757	280,614
<i>BDL</i>	165,961	156,046
Tax on Treasury Bills*	0	2,212
By Currency		
<i>Lebanese Pounds</i>	251,005	222,452
<i>Foreign currencies (USD, Euro)</i>	167,713	216,420
Total collection	418,718	438,872

Source: MOF- Treasury Department

Box 2: Total Income Tax on Profits realized in 2005 and 2006 by Business Activity, (SIGTAS)

The distribution of income tax on profits realized in 2005 and in 2006 by business activity (the ISIC nomenclature) shows that financial intermediaries were the highest contributing activity to income tax on profits. The aggregate amount of taxes declared by financial intermediaries has further risen by 15 percent, signaling larger profits in 2006 than in 2005, and their share of total income tax went up from 27 percent to 30 percent of the aggregate amount of tax due.

Real estate activities was placed second in line in the ranking of the highest contributing sectors to income tax declared on profits realized in 2005 and 2006, with 11 percent and 12 percent share of total income tax receipts respectively. In fact, real estate activities witnessed an 18 percent rise in the amount of tax declared hinting at an enhanced activity in the year 2006 compared to the year 2005.

Following the real estate and construction sectors comes manufacturing of cement and like products as the third largest contributing activity with 5 percent and 4 percent share of total tax declared in 2005 and 2006 respectively. The aggregate amount of tax declared on profits realized in 2006 was 31 percent below that in 2005.

The wholesale trade of fuel products and derivatives ranks fourth in line with 3 percent share of total tax declared due on profits realized in 2005 and 2006.

Income Tax on Profits Realised in 2005 and 2006

(LL million)	2005	Shares	2006	Share	% Change
Financial Intermediaries	83,482	27%	96,249	30%	15.3%
Real Estate Activities	33,635	11%	39,642	12%	17.9%
Manufacturing of Cement and like products	16,880	5%	11,685	4%	-30.8%
Wholesale Trade of Fuel products and derivatives	8,838	3%	9,999	3%	13.1%
Wholesale Trade of Food Products & Tobacco	8,575	3%	9,143	3%	6.6%
Telecommunications	5,924	2%	8,776	3%	48.1%
Wholesale Trade of Household Appliances	9,018	3%	8,632	3%	-4.3%
Leisure Activities	8,896	3%	8,016	2%	-9.9%
Sales of Vehicles	7,111	2%	7,780	2%	9.4%
Retail Trade (in non-specialised stores)	5,430	2%	6,152	2%	13.3%
Others	120,340	39%	115,616	36%	-3.9%
Total	308,128	100%	321,689	100%	4.4%
Income Tax on Profits: Impositions collected by the Treasury	25,478		7,375		-71.1%
Total Income tax on Profits (Declarations + impositions)	333,606		329,065		-1.4%

Source: MOF SIGTAS Database Income Tax on Profits Declarations

Note that income tax on profits realised in 2005 and 2006 are declared and settled in 2006 and 2007 respectively

Please note that the income tax figures in the table above are tax declaration amounts which differ from the Fiscal Performance cash amounts

Table 5. Tax Revenue

(LL billion)	2006 December	2007 December	2006 Jan-Dec	2007 Jan-Dec	% Change
Tax Revenues:	383	410	4,943	5,583	13.0%
Taxes on Income, Profits, & Capital Gains, of which:	57	80	1,184	1,308	10.4%
Income Tax on Profits	17	32	454	501	10.6%
Income Tax on Wages and Salaries	3	8	198	219	10.4%
Income Tax on Capital Gains & Dividends	5	6	101	140	38.9%
Tax on Interest Income (5%)	29	32	417	437	4.8%
Penalties on Income Tax	2	2	13	10	-20.0%
Taxes on Property, of which:	57	65	579	532	-8.1%
Built Property Tax	15	9	94	103	9.4%
Real Estate Registration Fees	36	51	282	380	35.0%
Domestic Taxes on Goods & Services, of which:	144	154	1,846	2,224	20.5%
Value Added Tax	127	136	1,660	2,003	20.7%
Other Taxes on Goods and Services, of which:	16	18	175	215	23.2%
Private Car Registration Fees	7	11	109	130	19.5%
Passenger Departure Tax	9	7	64	84	30.0%
Taxes on International Trade, of which:	109	93	1,074	1,247	16.1%
Customs	43	46	461	561	21.6%
Excises, of which:	67	46	613	686	12.0%
Petroleum Tax	35	1	230	185	-19.8%
Tobacco Tax	16	16	162	211	30.4%
Tax on Cars	15	30	217	286	32.0%
Other Tax Revenues (namely fiscal stamp fees)	17	19	259	271	4.6%

Source: MOF, DGF

Proceeds from the **Taxes on Property** totaled LL 532 billion in 2007 compared to LL 579 billion in 2006. Adjusting to the one time exceptional inheritance tax receipts in 2006 of LL 164 billion, total revenues from property taxes in 2007 (equivalent to 1.4 percent of GDP) becomes 28 percent higher than the level of collection in 2006 (at 1.2 percent of GDP).

- (a) **Built Property Tax**, the recurrent component of the tax, generated LL 103 billion in 2007, compared to LL 94 billion collected in 2006. This 9 percent rise is mainly attributed to the acceleration of the issuance of the yearly tax schedules, and to the administrative reform measures initiated in the beginning of the year entailing the update of the built property tax database through information system linkages with the cadastre. Another factor that may have contributed to the rise in receipts is the improved tax compliance induced by the amnesty on penalties granted throughout the year 2007.⁶

⁶ Decision # 827 dated Sept 14, 2006 and the all the subsequent updates extending the amnesty period; the last of which is Decision # 970 dated November 1st, 2007 which extended the amnesty period till the end of year 2007; (and Decision # 21 dated January 21st 2008 which extended the amnesty period till March 31st 2008).

- (b) **Real Estate Registration Fees** collected LL 380 billion in 2007 compared to LL 282 billion for 2006, representing a 35 percent increase explained by a rise in real estate property sales volume as evidenced by: (i) the 8.45 percent higher number of real estate properties registered at the Cadastre by year end 2007 compared to that registered by year end 2006, (ii) the 21 percent higher volume of transactions processed (of which sales contracts) at the Cadastre in 2007 compared to that in 2006, and (iii) the 34 percent higher aggregate value of real estate properties declared in sales contracts.

Table 6: Fees from Cadastre

(LL billion)	2006	2007	% Change
Number of registered real estate properties	227,559	246,791	8.5%
Number of processed contracts & transactions	127,016	154,158	21.4%
Total fees collected by the Cadastre, <i>of which:</i>	301	406	34.9%
<i>fees from properties sales contract</i>	251	344	36.9%
<i>fees from foreigners</i>	45	53	17.9%
Aggregate Value of Properties as per sales contract	4,727	6,329	33.9%

Source: MOF-Cadastre statistics

Total revenues from **domestic taxes on goods and services** (exclusive of excises) amounted to LL 2,224 billion by end of December 2007, 21 percent above the collection level in 2006. Out of the LL 379 billion additional domestic consumption tax receipts, LL 343 billion constitute VAT revenues.

In fact, at 5.4 percent of GDP, **VAT revenues** in 2007 (LL 2,003 billion) are 21 percent higher than the VAT collected in 2006 (LL 1,660 billion). It worth noting that the composition of the total VAT receipts in 2007 has changed:

- ⇒ With LL 552 billion collected in 2007 (equivalent to 1.5 percent of GDP), the share of the **VAT collected from internal business activity** has dropped to 27 percent of total VAT, as opposed to the past years' average of 31 percent of total VAT (equivalent to an average of 1.6 percent of GDP). In fact, the enhanced internal activity in the financial intermediation sector and in the real estate sector in 2007 (as suggested by the income tax statistics and by the Cadastre statistics) is not captured by the internal VAT statistics as both these economic sectors are not subject to VAT. On the other hand, the tourism sector, which used to be a major contributor to internal VAT in past years, has witnessed a slowdown in 2007 (*for further details on the composition of the VAT collected by internal business activity please refer to section VI of the report*).
- ⇒ With LL 1,451 billion collected in 2007 (equivalent to 3.9 percent of GDP), the **VAT collected from the import of merchandise** raised 73 percent of total VAT, compared to past years' average of 69 percent of total VAT (equivalent to an average of 3.6 percent of GDP). The rise in the VAT collected at imports reflects the 26 percent rise in imports witnessed in 2007 (*for further details on the composition of the VAT collected at imports please refer to section VI of the report*).

It is worth noting that, the amount of **VAT refund** in 2007 is LL 200 billion compared to LL 137 billion in 2006. On a net basis, VAT collected in 2007 (LL 1,783) is 16 percent higher than the net VAT collected in 2006 (LL 1,543).

Box 3: Income tax on Dividends and Capital Gains, 2004-2006 for Large Taxpayers (LTO)

The total number of registered taxpayers rose from 433 in 2004 to 555 in 2005 and 2006, with the additional taxpayers being mainly corporations. Corporations represented 72 percent of total registered taxpayers for the income tax on capital gains in 2006. At an average of 55 percent, the aggregate compliance ratio has been mainly stable over 2004- 2006 period, with an increase in 2006 (to 59 percent) owing mainly to Banks.

- ⇒ The aggregate amount of declared tax rose by 116 percent on capital gains realized in 2005, reflecting both the rise in the aggregate number of registered taxpayers (28 percent more taxpayers), and the increase in the average tax amount per declaration for Corporations (Corporations declared 168 percent higher taxes due per declaration on the capital gains realized in 2005).
- ⇒ The aggregate amount of the tax declared rose by 35 percent on 2006 capital gains, explained by an improved compliance ratio on the one hand (as described above) and a rise in the average tax amount per declaration especially from banks (banks declared 148 percent higher taxes due per declaration on capital gains realized in 2006).

Chapter 3- Income Tax on Dividends & Capital Gains

	2004			2005			2006			change	change
	#	#	Amount	#	#	Amount	#	#	Amount	05-04	06-05
(LL million)	taxpayers	Declarations	Declared	taxpayers	Declarations	Declared	taxpayers	Declarations	Declared	Declared Tax	Amount
Corporations	286	147	26,373	401	194	93,240	401	209	106,100	253.5%	13.8%
Insurances	58	35	1,939	59	34	2,818	59	38	4,163	45.3%	47.7%
Banks	89	68	22,998	95	78	14,929	95	83	39,359	-35.1%	163.6%
Total	433	250	51,311	555	306	110,987	555	330	149,621	116.3%	34.8%

Source: MOF- Large Taxpayers Office, Declarations Statistics

Please note that the amount of tax declared on profits realised in 2004, 2005 and 2006 were filed and settled in fiscal years 2005, 2006 and 2007 respectively

Table 7: VAT Collection

(LL billion)	2004	2005	2006	2007
VAT Internal Activity	515	516	526	532
VAT at Imports	1,158	1,177	1,153	1,451
Total VAT	1,673	1,693	1,679	1,983
GDP	32,359	32,499	34,265	37,058
Internal VAT	1.6%	1.6%	1.5%	1.4%
Import VAT	3.6%	3.6%	3.4%	3.9%
Total VAT	5.2%	5.2%	4.9%	5.4%

Source: MOF-Fiscal Performance

Please note the following adjustment from published VAT data:

1- LL 90 billion were netted out from the Import VAT in 2004, because it pertains to VAT dues in 2002 & 2003 but accounted for under Guarantees then later on regularised in 2004

2- LL 20 billion were netted out from Internal VAT in 2007 & added to internal VAT in 2006 because it pertains to QII 06 installment payments as per Decision # 826 dated September 14, 2006.

Note that GDP figure are as per National Accounts of 2005, with growth and inflation estimates for 2006 and 2007 as per BDL.

Other taxes on goods and services (namely include car registration fees and the passenger departure tax) collected a total of LL 215 billion for 2007, 23 percent above the LL 175 billion collected in 2006. The LL 40 billion additional revenues represent improved collection from both tax sources, equally.

- a) **Private car registration fees**⁷ collected LL 130 billion during 2007, LL 21 billion additional receipts than the amount collected in 2006. This performance indicates an enhanced activity in the car market in 2007 (*please refer to the car excise section for details on car imports in 2007*). In fact, the registered improvement in 2007 is not only in comparison to the performance in 2006 (which would have been explained by a catch-up effect from the low base of 2006), but car registration fees collected in 2007 are 19 percent above the average collection level during the past 3 years (2004-2006).
- b) **The passenger departure tax** collected LL 84 billion in 2007, LL 19 billion additional receipts than in 2006, but in line with 2004-2005 collection levels. This 30 percent rise in receipts reflects the 20.7 percent increase in the Flow of Passengers at Rafic Hariri International Airport (RHIA) in 2007⁸ (of which 15 percent increase in arrivals and 29 percent increase in departures). However, passenger flows in 2007 is not an indication of enhanced tourism. The Ministry of Tourism data reveals that, the total number of tourists arrivals to Lebanon is 1,107,072 in 2007, a 4.3 percent decrease in number of arrivals compared to 2006, and a 10.7 percent and a 20.4 percent drops when compared to the years 2005 and 2004 respectively. This may then suggest that the increased number of passengers at RHIA is more Lebanese Nationals travelling in and out of the country.

⁷ One time fee paid upon the purchase of a car.

⁸ As per BDL source

Taxes on international trade (custom duties and excises) collected LL 1,247 billion (or 3.4 percent of GDP) in 2007, compared to LL 1,074 billion (or 3.1 percent of GDP) collected in 2006. This represents a 16 percent year on year rise in revenues. The year 2006 witnessed a disruption in trade flows following the war with Israel and the two-month blockade, which have affected the revenues from imports. The main developments behind the rise in international trade receipts in 2007 are detailed below:

Customs revenues totaled LL 561 billion in 2007 (equivalent to 1.5 percent of GDP) compared to LL 461 billion (or 1.3 percent of GDP) in 2006. Behind this 22 percent rise in tariff revenues in 2007 stands a 26 percent rise in imports: total imports rose from LL 14,172 billion in 2006 to LL 17,818 billion in 2007.

In fact, imports grew from an average of 43 percent of GDP during the 3 years period 2004-2006 to 48 percent of GDP in 2007. This rise in imports is mainly explained by a substantial increase in non-fuel imports from an average of 33 percent of GDP over the 3 years period 2004-2006 to 37 percent of GDP in 2007. The reason behind this rise is partly nominal (due to the depreciation of the US\$ and the hike in international commodity prices), and partly driven by higher local demand. This largely explains the increase in tariff revenues in 2007 which came despite the drop in the effective tariff rate. In fact, the effective customs rate levied at imports in 2007 is calculated at 3.15 percent, or 16 percent below the rate prevailing in 2004. This may be due to a higher share of non-taxable imports due to Lebanon's entering into regional trade agreements. Another reason for the lower effective customs rate may be explained by a higher fuel imports which is subject to a low custom rate.⁹ The rise in fuel imports has been less significant as a percent of GDP.

Table 8: Fuel and Non-Fuel Customs and Imports

(LL billion)	2002	2003	2004	2005	2006	2007	% Change
Total imports	9,716	10,806	14,167	14,080	14,167	17,811	25.7%
Import of Fuel Products (HS 27)	1,397	1,690	2,988	3,243	3,540	3,942	11.4%
Non Fuel Imports	8,318	9,116	11,180	10,837	10,628	13,869	30.5%
Customs Duties	596	475	530	481	461	561	21.7%
<i>Effective customs rate</i>	<i>6.13%</i>	<i>4.40%</i>	<i>3.74%</i>	<i>3.42%</i>	<i>3.25%</i>	<i>3.15%</i>	<i>-3.20%</i>
<i>In % of GDP</i>	<i>28,216</i>	<i>29,851</i>	<i>32,359</i>	<i>32,499</i>	<i>34,265</i>	<i>37,058</i>	
Total Imports	34.4%	36.2%	43.8%	43.3%	41.3%	48.1%	
Fuel Imports	5.0%	5.7%	9.2%	10.0%	10.3%	10.6%	
Non Fuel Imports	29.5%	30.5%	34.5%	33.3%	31.0%	37.4%	

Source: MOF Fiscal Performance and Directorate General of Customs for trade statistics

Note that GDP figure are as per National Account of 2005, with growth and inflation estimates for 2006 and 2007 as per BDL

Excise¹⁰ revenues totaled LL 686 billion in 2007 (1.9 percent of GDP), compared to LL 613 billion (or 1.8 percent of GDP) in 2006. This 12 percent rise in receipts is attributed to 30 percent and 32 percent increases in the collection of tobacco excises and car excises

⁹ Fuel products are subject to 0% (mostly) or 5% tariff. Gasoline products have customs duties levied on liters of imports, varying from less than LL 10,000 per 1,000 liters for broad consumers' fuel products, and going up to LL 22,000 per 1000 liters on fuel for aviation. Gases are subject to LL 40,000 per 1,000 liters.

¹⁰ Excises are collected at imports on car gasoline, tobacco and cars mainly, and on alcoholic beverages.

respectively, all of which outweighed the 20 percent drop in revenues from the petroleum tax. The details are as follows:

Excises on Gasoline: Despite an 11 percent rise in the volume of gasoline imported in 2007 (1.8 billion liters of gasoline were imported in 2007 compared to an average import volume of 1.65 billion liters in 2004-2005), the Treasury collected LL 183 billion of gasoline excise (or 0.5 percent of GDP), LL 45 billion less than the total collection in 2006, and less than one fourth of the year 2003 collection (at 2.7 percent of GDP) prior to the capping regime.¹¹ This is explained by ever increasing import prices, which under the capping regime translates into declining excise rates. As such, the average excise rate prevailing in 2003 prior to the capping regime was in the vicinity of LL 489 per liter, whereas with the hike in international oil prices in 2007 the excise rate dropped to LL 100 per liter on average for the whole year (it reached zero in November-December 2007).

Table 9: Gasoline Imports

Gasoline Imports	2004	2005	2006	2007
Imports (LL billion)	770	1,051	1,183	1,497
Volume (billion Liters)	1.665	1.666	1.624	1.83
Collected excises (LL billion)	642	362	228	183
Average effective Price at imports (LL/liter)	462	631	728	818
Average effective excise rate (LL/liter)	386	217	140	100

Source: MOF-General Directorate of Customs Declaration forms

Please note that figures from import declarations may differ slightly from published figures in the Fiscal Performance Report.

Excises on Tobacco: Receipts from excises on tobacco imports for the year 2007 totaled LL 211 billion compared to LL 162 billion in 2006. This 30 percent rise in tobacco excise revenues is explained by 25 percent increase in the import of tobacco in 2007; which is largely attributed to 27 percent higher tons of imports. Part of this rise in imports may be explained by a catch up from the low base of 2006.

Table 10: Tobacco Imports

Tobacco Imports	2004	2005	2006	2007
Imports (LL billion)	198	185	159	199
Net weight (tons)	9204	7258	5971	7607
Collected excises (LL billion)	198	190	165	206
Average Import Price (LL per Kg)	21,512	25,489	26,629	26,160
Average effective excise rate (LL per Kg)	21,512	26,178	27,634	27,080
Average effective excise rate (%)	100.0%	102.7%	103.8%	103.5%

Source: MOF-General Directorate of Customs Declaration forms

Please note that figures from import declarations may differ slightly from published figures in the Fiscal Performance Report.

Excises on Cars: collected LL 286 billion in 2007 compared to LL 217 billion in 2006. Behind this 32 percent rise in the collection of car excises, stands a 34 percent rise in car imports, explained by: (i) 31 percent rise in the number of cars imported

¹¹ Please note that the capping regime was effective starting May 20th 2004 as per the Council of Ministers Decision.

(with 52,014 vehicle the year 2007 witnessed the largest number of imported cars ever¹² and (ii) about 3 percent higher car prices, (which may be caused by the Euro inflation). Further note that part of this 34 percent rise in car imports in 2007 may be explained by a base effect (i.e. a catch up from the low base in 2006).

Table 11: Car Imports

Car Imports	2004	2005	2006	2007
Imports (LL billion)	909	847	810	1,085
Number of Cars	45969	41986	39852	52014
Collected excises (LL billion)	241	231	216	287
<i>Average Price per Car (LL million)</i>	<i>19.774</i>	<i>20.173</i>	<i>20.325</i>	<i>20.860</i>
<i>Average effective excise rate (%)</i>	<i>26.5%</i>	<i>27.3%</i>	<i>26.7%</i>	<i>26.5%</i>

Source: MOF-General Directorate of Customs Declaration forms

Please note that figures from import declarations may differ slightly from published figures in the Fiscal Performance Report.

Other tax revenues (mainly fiscal stamps) reached LL 271 billion in 2007, compared to LL 259 billion in 2006, i.e. registering a 5 percent year on year increase. However collection from fiscal stamps maintained its collection level around 0.7 percent of GDP similar to past years.

¹² Historically, two peaks in car imports are depicted one in 1997 and one in 2004 with 46,343 and 45,969 cars imported respectively.

Table 12. Non-Tax Revenue

(LL billion)	2006 December	2007 December	2006 Jan-Dec	2007 Jan-Dec	% Change
Non-Tax Revenues	179	238	1,945	2,511	29.1%
Income from Public Institutions and Government Properties, of which:	133	189	1,428	2,003	40.2%
Income from Non-Financial Public Enterprises, of which:	131	187	1,394	1,842	32.1%
<i>Revenues from Casino Du Liban</i>	6	7	42	64	52.3%
<i>Revenues from Port of Beirut</i>	0	40	0	70	
<i>Budget Surplus of National Lottery</i>	0	0	53	47	-11.3%
<i>Transfer from the Telecom Surplus</i>	125	140	1,298	1,660	27.9%
Property Income (namely rent of Rafic Hariri International Airport)	2	2	29	42	46.2%
Other Income from Public Institutions (interests)	1	1	5	6	8.1%
Administrative Fees & Charges, of which:	39	41	426	422	-0.8%
Administrative Fees, of which:	30	33	342	336	-1.6%
<i>Notary Fees</i>	1	2	17	20	17.5%
<i>Passport Fees/ Public Security</i>	6	7	111	112	0.9%
<i>Vehicle Control Fees</i>	17	18	156	146	-6.2%
<i>Judicial Fees</i>	2	2	19	18	-5.3%
<i>Driving License Fees</i>	2	1	23	16	-28.9%
Administrative Charges	5	3	19	24	28.3%
Sales (Official Gazette and License Number)	1	1	3	3	-6.2%
Permit Fees (mostly work permit fees)	3	4	50	47	-5.6%
Other Administrative Fees & Charges	1	1	12	11	-2.9%
Penalties & Confiscations	0	1	4	6	35.5%
Other Non-Tax Revenues (mostly retirement deductibles)	6	7	87	80	-8.0%

Source: MOF, DGF

Non-tax revenues generated LL 2,511 billion in 2007 (equivalent to 6.8 percent of GDP), compared to an income level of LL 1,945 billion (or 5.7 percent of GDP) transferred in 2006. This 29 percent rise in receipts is solely attributed to higher income from government properties. The detailed performance of non-tax revenue aggregates are as follows:

Income from public institutions and government property totaled LL 2,003 billion in 2007 (equivalent to 5.4 percent of GDP), compared to LL 1,428 billion (or 4 percent of GDP), representing a 40 percent increase. The main components of entrepreneurial income are the transfers from the **Budget Surplus of the Post and Telecommunication**, which cumulated at LL 1,660 billion in 2007 compared to LL 1,298 billion in 2006. This 28 percent rise in receipts may be partly explained by the new and improved internet connection services provided in 2007. However for a more comprehensive picture of the performance of the telecom transfer in 2006 and 2007 one should consider the following: (i) an amount equivalent to LL 274 billion was netted out from the telecom transfers to the Treasury in 2006 to pay two arbitration settlements to the previous mobile operators:¹³ LL 48 billion to France Telecom in April 2006, and LL 226 billion to Liban Cell in August 2006; and (ii) an amount equivalent to LL 139 billion was netted out from the telecom transfers to the Treasury in April 2007 to pay the final installment of the settlement to France Telecom. Therefore on a gross basis, total telecom transfers in 2007 are 14 percent above the transfer level in 2006.

With LL 64 billion transferred in 2007, revenues from **Casino Du Liban** are the highest received, reflecting the new phase of the agreement with the Casino Management in accordance with the objectives of revenue enhancement from public properties, as set in the economic reform program presented at the Paris III Conference. The new agreement stipulates that the Treasury's share of Casino revenues would increase from 30 percent to 40 percent as of 2007.¹⁴

Port of Beirut transferred LL 40 billion pertaining to its surplus transfer in 2007, compared to LL 30 billion for 2006. This 33 percent rise in receipts in 2007 reflects the higher profitability of the Port due to increased trans-boarding activity. However, on a cash basis, the Treasury collected 2006 and 2007 transfers in 2007 (i.e. a total of LL 70 billion).

With LL 47 billion received in 2007 revenues from **National Lottery** were down by 11 percent from revenues in 2006, but more in line with 2005 revenue level.

With LL 42 billion received in 2007, transfers from **Rafic Hariri International Airport** (namely rent) were 46 percent above receipts in 2006. Note however, that with LL 29 billion received in 2006, transfers from RHIA were exceptionally low and therefore 2007 outcome is more in line transfers of 2004 and 2005.

In March 2007, the treasury received LL 113 billion representing **Banque Du Liban surplus Transfer** (i.e. equivalent to the 80 percent share for the Treasury of BDL net profit according to the Article 113 of the Code of Money and Credit). Note that the treasury received similar transfers in 2001 and 2002 in the amounts of LL 21 billion and LL 20 billion respectively, and no transfers for the period 2003-2006.

¹³ France Telecom and Libancell were two mobile operators with BOT contracts with the Lebanese Government. In June 2001, the Government notified the two mobile operators of the early termination of their BOT contracts in accordance with their respective terms and the BOT Contracts were terminated effective on August 31, 2002. Following this dispute, each of the mobile telephone network operators initiated arbitration proceedings. The arbitration proceedings between each of the former mobile operators in the Republic and the Government resulted in two arbitration awards in favor of the former operators. The transfers mentioned refer to the settlement of the arbitration amount.

¹⁴ The new agreement between the Government and Casino Management further entails a settlement on past years litigation concerning the Treasury's rightful shares from revenues deriving certain the gambling machines.

Administrative fees and charges collected LL 422 billion in total for 2007 (equivalent to 1.1 percent of GDP), 1 percent below the amount collected in 2006 (which is equal to LL 426 billion or 1.2 percent of GDP). The LL 3 billion lower revenues in 2007 stem from administrative fees and retirement deductibles. The details are as follows:

Administrative fees amounted to LL 336 billion in 2007, LL 6 billion below the amount collected in 2006 explained by the following: (i) LL 146 billion of **vehicle control fees** (or road usage fees) in 2007, representing 6 percent lower receipts compared to LL 156 billion collected in 2006. Note however that the 2006 revenues account for an amount representing unsettled past dues;¹⁵ adjusting for that, the 2007 collection becomes in line with past years levels; and (ii) LL 16 billion **driving license fees** collected in 2007, 29 percent lower than the collection level in 2006. Further note that with LL 47 billion collected in 2007 revenues from **work permit fees** are, 6 percent lower than the amount of fees collected in 2006.

Other Administrative Fees and Charges have more or less maintained similar collection levels as in 2006, namely: LL 112 billion from **Public Security Fees** (passport fees) in 2007 compared to LL 111 billion in 2006, LL 18 billion from **Judicial fees** in 2007 compared to LL 19 billion in 2006, LL 20 billion from **Notary fees** in 2007 compared to LL 17 billion in 2006, and LL 24 billion **Administrative Charges** in 2007 compared to LL 19 billion in 2006.

Retirement deductibles in 2007 totaled LL 80 billion compared to LL 87 billion collected in 2006.

Treasury revenues increased by 53 percent in 2007 and totaled LL 655 billion compared to LL 428 billion in 2006. These figures account for (i) LL 79 billion of grants received for humanitarian aid and relief purposes during the war period July-August 2006 for rehabilitation and reconstruction and were transferred to the High Relief Council;¹⁶ and (ii) LL 188 billion of grants received for budgetary support throughout 2007, of which LL 151 billion from Saudi Arabia transferred in April, €100,000 from Slovenia transferred in October, US\$ 10 million from Oman, and an equivalent amount of LL 21 billion from USA both transferred in December 2007.

Municipalities' revenues totaled LL 156 billion in 2007, LL 18 billion above the 2006 revenue level. Further note than an amount equivalent to LL 38 billion was reported under "other Treasury revenues" which represents adjustment entries (in the months of January and June 2007) regularizing a treasury advance payments.¹⁷

¹⁵ Article 29 of Budget Law 2005, Law 715, February 3rd 2006, granted an amnesty on penalties accumulated on unsettled vehicle control fees on condition that those dues are paid to the Treasury during the first five months of 2006.

¹⁶ Refer to expenditure section, p. 25.

¹⁷ Note than the amount is further recorded in treasury expenditure reported under the items "Materials and Supplies" and "Various Transfers" (please refer to section on Expenditure). Therefore, from a fiscal deficit perspective it has no impact.

Section III: Expenditure Outcome

Table 13. Expenditures by Transaction Classification

(LL billion)	2006	2007	2006	2007	%
	December	December	Jan- Dec	Jan- Dec	Change
Total Expenditures	1,281	950	11,879	12,587	6.0%
Budget Expenditures	1,006	771	9,432	10,070	6.8%
Expenditures Excluding Debt Service, of which:	528	400	4,875	5,130	5.2%
<i>Previous Years' Appropriations</i>	191	187	683	758	11.0%
Debt Service, of which:	478	371	4,557	4,940	8.4%
<i>Domestic Debt</i>	276	152	2,368	2,515	6.2%
<i>Foreign Debt, of which:</i>	201	219	2,189	2,425	10.8%
Treasury Expenditures , of which:	276	179	2,447	2,517	2.8%
<i>Municipalities</i>	39	23	405	306	-24.3%
Non-Interest Expenditures (Total Expenditures minus Debt Service)	803	579	7,323	7,647	4.4%

Source: MOF, DGF

* Includes general expenses related to the transaction

Total Expenditures (budget and treasury) for the year 2007 reached LL 12,587 billion, increasing by 6 percent compared to LL 11,879 billion registered in 2006. In terms of GDP, total expenditures represented 34 percent of GDP in 2007, against 34.7 percent in 2006. From an economic classification perspective, the LL 707 billion increase in total expenditures over 2006 was mainly due to:

- an increase in **current expenditures** by LL 734 billion, of which LL 276 billion were due to higher personnel costs mainly due to increased hiring of military personnel and LL 383 billion were due to higher interest payments;
- an increase in **capital expenditures** by 7 billion.

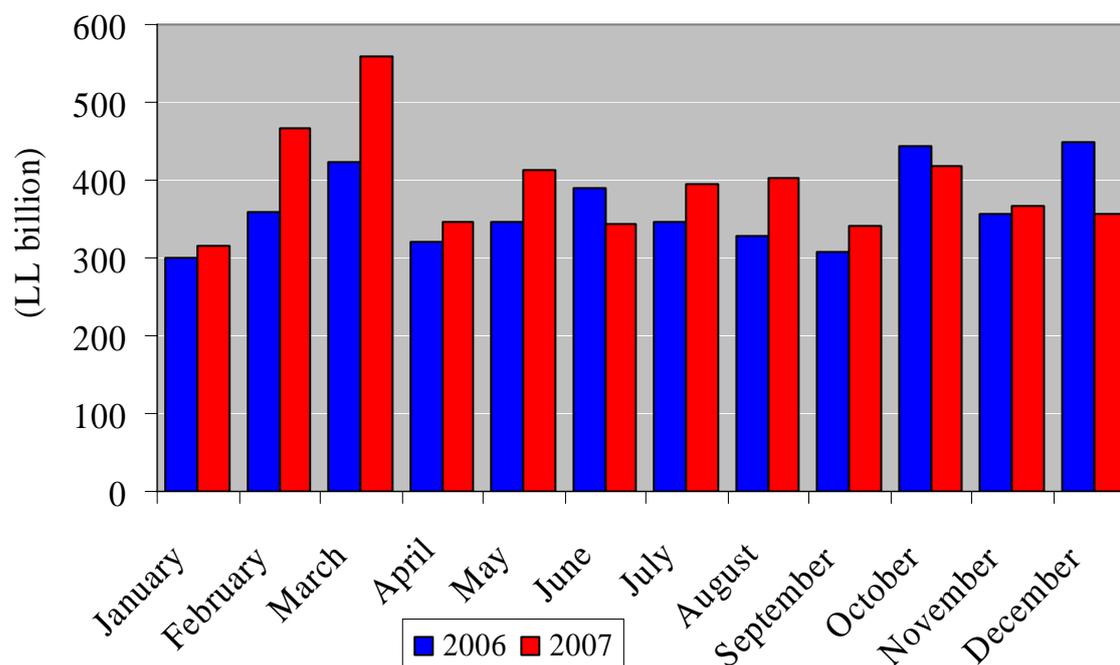
These increases offset the lower **treasury expenditures** of LL 49 billion which was mainly due to lower transfers to municipalities, less guarantees and lower diesel oil subsidy, which offset the increase in spending on behalf of EDL.

Total Primary Expenditures (Non-Interest Expenditures) represented 20.6 percent of GDP in 2007, down from 21.4 percent of GDP in 2006. These expenditures amounted to LL 7,647 billion in the year 2007 compared to LL 7,323 billion in 2006, an increase of LL 324 billion.

Looking at expenditures from an economic classification perspective, the year 2007 witnessed an increase in current and capital expenditures, against a decline in treasury spending.

Current expenditures for the year 2007 amounted to LL 9,661 billion, compared to LL 8,927 billion in 2006, representing an increase of 8.2 percent, which was mainly due to higher debt service by LL 383 billion and higher personnel cost by LL 276 billion.

Graph 1: Monthly Primary Current Spending



Current primary expenditures amounted to LL 4,721 billion in 2007, LL 351 billion higher than 2006 when primary current expenditure registered LL 4,370 billion. Details on the main components of current primary expenditures are recorded below (*also please refer to Table 16*):

Personnel costs¹⁸ amounted to LL 3,583 billion, LL 276 billion higher than the LL 3,307 billion level of 2006. The 8.4 percent increase resulted from:

- a) Increase in **wages, salaries and related benefits (article 13)** from LL 2,188 billion in 2006 to LL 2,473 billion in 2007, by LL 285 billion. Of this increase, LL 195 billion was due to increase in salaries and wages of military personnel mainly due to the additional recruitment in the army and the security forces after the July 2006 War and in response to the implementation of United Nations Security Council Resolution # 1701. This led to a: a) LL 102 billion increase in the armed forces' basic salaries (*excluding bonus salary*) of which LL 64 billion was due to an increase in the basic salaries of the army and LL 36 billion increase in the basic salaries of the internal security forces; b) LL 50 billion in bonus salary paid to military personnel as per Council of Minister's decision dated 4/1/2007 and c) LL 41 billion increase in total allowances of which LL 31 billion were due to increase in health allowances.

Further, a LL 62 billion increase in salaries and wages of civil personnel was due to higher transfers to the Civil Servant's Cooperatives and mutual funds by LL 40 billion and LL 20 billion in salaries to customs employees which were reclassified to be included under article 13 after they were included under guarantees in the years 2005 and 2006.

¹⁸ This includes salaries, wages and related benefits (article 13), transfers and retirement and end-of-service.

Table 14: Major Items Underlying Change in salaries, wages and related benefits (Article 13)

<i>(LL billion)</i>	Basic Salaries (13-1&13-2)			Allowances (13-4)			Contributions in mutual funds and Cooperatives (13-7)		
	2006	2007	Change	2006	2007	Change	2006	2007	Change
Military Personnel	901	1,053	152	224	266	41	1	2	0
Army	594	694	100	148	159	12			
ISF	242	287	45	57	87	30			
General Security forces	48	53	5	13	13	0	1	2	0
State Security forces	17	18	1	7	6	-1			
Education Personnel	503	521	18	0	0	0			
Civil Personnel	226	227	2	4	3	-1	156	195	40
Grand Total	1,630	1,801	172	228	269	41	157	197	40

Source: Ministry of Finance

(For more information on salaries and wages, please refer to Box 4).

- b) Increase in **transfers for salaries** from LL 192 billion in 2006 to LL 221 billion in 2007, by LL 29 billion. Of this increase, LL 20 billion was due to higher transfers to the Council for Development and Reconstruction (CDR) and LL 9 billion due to increase in transfers to the Lebanese University from LL 152 billion in 2006 to LL 161 billion in 2007.
- c) Decrease in **retirement and end-of-service indemnities** from LL 927 billion in 2006 to LL 889 billion in 2007, by LL 38 billion. It should be noted that there is no patterned trend for the retirement and end-of-service indemnity, as they depend highly on several factors that affect this trend. For instance, employees have the right to choose to have their benefits paid as a lump sum without having any pension pay; in this case, the end-of-service part will increase more than the increase in the retirement amount.

Box 4. Salaries and Wages in 2007

Salaries and wages cover 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 (including sickness and maternity, marriage, birth, death, hospitalization, schools, social spending, treatment in medical centers), bonuses, contributions to mutual funds (such as those of COOP employees, members and employees of parliament, judges and judges of the religious courts, and contributions to the Lebanese University).

In 2007, salaries and wages (Article 13 and contributions to the salaries of Lebanese University staff) increased by 12.6 percent compared to 2006 from LL 2,340 billion to LL 2,634 billion mainly due to the hiring of approximately 15,000 army troops following the July war and to the hiring in the Security Forces throughout the year. The share of salaries and wages as a percentage of total expenditures increased from 20 percent in 2006 to 21 percent in 2007. The share of salaries and wages as a percentage of total primary expenditures increased over the same time period from 32 percent to 34.4 percent.

The three major components of salaries and wages are:

1. The salaries of military personnel (includes armed forces within the government such as the Lebanese Army, the Internal Security Forces, the General Security Forces, and the State Security Forces) made up 52.6 percent of the total wage and salary bill for 2007. The 16.4 percent (or LL 195 billion) increase over 2006 was mainly due to a 14.4 percent increase in the salaries of the army, and a 24 percent increase in the salaries of the Internal Security Forces, reflecting both categories' increased hiring.
2. In 2007, the salaries of education personnel (including salaries of teachers, contributions to salaries/wages of Lebanese University) constituted 28 percent of the total salaries and wages bill. At LL 738 billion end-2007, the salaries of education personnel increased by 5.3 percent (or LL 37 billion) from LL 701 billion in 2006. Most of this increase was due to an increase in the salaries of contractual teachers by LL 16 billion, LL 9.5 billion increase in indemnities and LL 9 billion increase in transfers to the Lebanese University.
3. At LL 510 billion end-2007, the salaries of civil personnel increased by 13.8 percent (or LL 62 billion) from LL 448 billion, mainly due to increase in transfers to Civil Servant's Cooperatives by LL 40 billion and LL 20 billion due to reclassification of salaries to customs employees from guarantees to salaries and wages. The share of civil personnel salaries to the total salaries and wages bill was at 19.4 percent, slightly higher than their 19.1 percent share in 2006.

Breakdown of Salaries and Wages

(LL billion)	Jan - Dec 2006	Jan - Dec 2007	Percentage change over 2006
Military Personnel	1,191	1,386	16.37%
Army	784	897	14.41%
Internal Security forces	316	392	24.05%
General Security forces	65	71	9.23%
State Security forces	25	26	4.00%
Education Personnel	701	738	5.28%
Civil Personnel	448	510	13.84%
Grand-Total	2,340	2,634	12.56%

* 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

Debt service registered a total of LL 4,940 billion in January-December 2007 increasing by 8 percent compared to LL 4,557 billion for the same period of 2006. This rise was due to higher interest payments on both local and foreign currency debt by around 6 and 11 percent respectively.

Interest payments on local currency debt increased by LL 147 billion in 2007 compared to 2006 due to:

- a) Higher coupon payments on long term T-bills¹⁹ by LL 343 billion which were due to a higher stock of long term bonds as well as a slight increase in the weighted average cost of long term bonds from 8.5 percent to 8.9 percent.
- b) The payment of LL 37.5 billion of accrued interest following the early retirement of T-bills against gold reevaluation that took place in June 2007;²⁰
- c) On the contrary, interest payments on short term T-bills (discounted interest) were lower by LL 198 billion due to a decrease in the stock of short term bonds by approximately 2 percent when comparing to 2006.

The increase of **interest payments on foreign currency debt** amounted to LL 236 billion.

- a) Around LL 201 billion was due to higher coupon payments on Eurobonds mainly reflecting an increase in the stock of Eurobond by around 7 percent between end December 2006 and end December 2005. Out of this LL 201 billion around LL 2 billion are due to foreign exchange valuation.
- b) The remaining amount of LL 35 billion is due to higher payments of principal and interest on concessional loans that occurred during the Quarter I and Quarter III of the year 2007. Around LL 7 billion was due to higher payments resulting from the Euro appreciation and around LL 19 billion was due to new maturities falling due in 2007 mainly for loans from the Islamic Development Bank and the Saudi Fund for Development.

Table 15. Debt service breakdown

(LL billion)	2006	2007	% Change
	Jan-Dec	Jan-Dec	
Debt Service, of which:	4,557	4,940	8.4%
Domestic Debt	2,368	2,515	6.2%
<i>Coupon</i>	1,917	2,260	18%
<i>Discount interest</i>	452	255	-44%
Foreign Debt:	2,189	2,425	10.8%
<i>Eurobond Coupon Interest*</i>	1,838	2,039	11.0%
<i>Specialbond Coupon Interest*</i>	13	13	
<i>Concessional Loans Principal Payments</i>	223	246	10.4%
<i>Concessional Loans Interest Payments</i>	116	127	10.2%

Source: MOF, Public Debt Department, DMFAS system

(For more details, please refer to the Debt Section).

¹⁹ 24 months, 36 months and 60 months T-bills

²⁰ For further information, refer to the Public Finance Quarterly Report: Q II 2007

Materials and supplies reached LL 198 billion by December 2007, LL 58 billion higher than their LL 140 billion level at the end of 2006. The 41.5 percent higher spending in 2007 was due to:

- a) LL 33 billion increase due to an **accounting entry** to regularize treasury advances; this amount was also included under treasury revenues which represents adjustment entries (in the months of January and June 2007) regularizing treasury advance payments; therefore from a fiscal perspective it has no impact;
- b) Increase in **food expenses** by LL 4.9 billion from LL 19.6 billion in 2006 to LL 24.5 billion in 2007. Of this increase, LL 4.3 billion was due to increase in food expenses by the army;
- c) Increase in **petroleum expenses** by LL 13.1 billion from LL 15.1 billion in 2006 to LL 28.2 billion in 2007. Of this increase, LL 9.8 was due to increase in petroleum expenses by the internal security forces and LL 3 billion increased spending by the army;
- d) Increase in **medicine** by LL 7.2 billion of which LL 3.4 billion were due to increased spending by the Ministry of Public Health, LL 2.4 billion to the Internal Security forces and LL 1.7 billion to the army.

It should be noted that the increase in the aforementioned items was driven by the increase in military forces on one hand and the increase in international prices of fuel (mazout for the armed forces' vehicles) and appreciation of the Euro (which affected the price of medicines) on the other hand.

External services (rent, postal services, insurance, advertisement and public relations) declined by LL 3 billion from LL 87 billion from their end-2006 level to LL 84 billion in 2007.

Various transfers reached LL 563 billion in 2007, up from LL 498 billion in 2006, an increase of LL 65 billion. The 13 percent higher spending were due to:

- a) Increase in transfers to the **NSSF** by LL 20 billion where payments totaled LL 220 billion in 2007 compared to LL 200 billion in 2006;
- b) Higher transfers to the **General Directorate of Cereals and Sugar Beet** by LL 31.6 billion due to the payment of the wheat subsidy. This increase was driven by higher international wheat prices which more than doubled in the second half of 2007 and which necessitated the intervention of the Government through: i) subsidizing producers by purchasing wheat produced by farmers and selling it to mills; and ii) subsidizing consumers to maintain the price of 1.12 Kg of bread capped at LL 1,500. Therefore, decree # 589 dated 31-7-2007 entitled the directorate to a treasury advance of LL 25 billion to purchase wheat and decree # 649 dated 22-8-2007 entitled the directorate to a treasury advance of LL 12 billion to maintain the cap on bread prices;
- c) Allocation of LL 7.5 billion in transfers to cover part of the **expenses of the international tribunal** for the assassination of Prime Minister Rafic Hariri;
- d) Additional transfers of LL 13 billion to **contractual teachers** at the primary level;
- e) Decline in transfers to **Non-Governmental Organizations** by LL 11.6 billion.

Other current expenditures for 2007 amounted to LL 209 billion, declining by LL 49 billion from the LL 258 billion registered in 2006, mainly due to the decrease in the payments to cover hospitalization in the private sector by LL 51 billion. This slowdown was mostly related to a delay in auditing hospital bills by the Ministry of Health and sending them for disbursement by the Ministry of Finance, which started in May 2007.

Interest subsidies for loans to the productive sectors (agriculture, industry, tourism, technology and crafts) increased by LL 3 billion from their LL 80 billion level in 2006, reaching LL 83 billion in 2007.

Table 16. Expenditures by Economic Classification

(LL billion)	2006 Jan-Dec	2007 Jan-Dec	% Change
1. Current expenditures	8,927	9,661	8.22%
1.a Personnel cost, of which	3,307	3,583	8.36%
<i>Article 13: Salaries and wages</i>	2,188	2,473	13.03%
<i>Retirement and end of service compensations</i>	927	889	-4.06%
1.b Debt Service payments	4,557	4,940	8.41%
1.c Materials and supplies	140	198	41.53%
1.d External services	87	84	-3.16%
1.e Various transfers	498	563	13.05%
<i>o/w NSSF</i>	200	220	10.00%
1.f Other current	258	209	-18.99%
<i>Hospitals</i>	223	172	-22.77%
<i>Others</i>	35	34	-3.78%
1.g Reserves (3)	80	83	3.39%
<i>Interest subsidy</i>	80	83	3.39%
2. Capital expenditures	551	558	1.27%
2.a Acquisitions of land, buildings, for the construction of roads, ports, airports, and water networks	12	18	52.77%
2.b Equipment	25	41	66.29%
2.c Construction in Progress	435	416	-4.28%
2.d Maintenance	48	48	-1.06%
2.e Other Expenditures Related to Fixed Capital Assets	32	35	11.07%
3. Other treasury expenditures, of which	2,368	2,319	-2.06%
Municipalities	405	305	-24.61%
EDL	1,370	1,479	7.93%
Transfers to NSSF		10	100.00%
Transfers to Higher Council of Relief	98	29	-71.06%
Treasury advances for diesel oil subsidy	52	20	-61.48%
4. Unclassified expenditures	1	5	348.41%
5. Customs cashiers	32	43	34.11%
6. Total expenditures (excluding CDR foreign financed)	11,879	12,587	5.95%

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

Capital expenditures for the year 2007 amounted to LL 558 billion, increasing by LL 7 billion compared to the LL 551 billion recorded end-2006. This represented:

- a) An increase in spending on **equipment** by LL 16 billion from LL 25 billion in 2006 to LL 41 billion in 2007. This increase was mainly due to increased spending by the Ministry of Education and Higher Education by LL 3.2 billion, LL 2.3 billion additional spending by the Ministry of Public Health, LL 3.7 billion by the Ministry of Agriculture and LL 2.5 billion by the Presidency of the Council of Ministers.
- b) An increase in the **acquisitions of land, buildings, for the construction of roads, ports, airports and water networks** by LL 6 billion from LL 12 billion in 2006 to LL 18 billion in 2007.
- c) An increase in "**other expenditure related to fixed capital assets**" by LL 3 billion.
- d) A decrease in "**construction in progress**" by LL 19 billion mainly due to a decline in spending by the CDR and Ministry of Public Works and Transport. It should be noted that construction in progress reached LL 416 billion in 2007 of which LL 116 billion were transferred to both the Council of the South and the Displaced Fund (LL 40 billion for the former and LL 76 billion for the latter) as per Decree # 292 of April 27th, 2007.

Other treasury expenditures decreased by LL 49 billion from LL 2,368 billion level recorded in 2006 to LL 2,319 billion by end-2007. This item witnessed a decline in some of its components which offset the increase in other components as per the following details:

- a) Spending on **municipalities** declined by LL 100 billion or by 24.6 percent reaching LL 305 billion in 2007 as compared to LL 405 billion in 2006. This relatively high decrease in transfers to municipalities is in part related to higher transfers reported in 2006, as around LL 40 billion were paid to municipalities in order to support relief efforts during the war of July 2006. Another reason is that transfers to municipalities for their dues on 2005 revenues started to take place in September 2007;
- b) Transfers to the **High Relief Council** were LL 70 billion lower and totaled LL 29 billion in 2007 as compared to LL 98 billion transferred in 2006. It is worth noting that LL 79 billion of the 2006 transfers were from the special donations account that was opened following the war of July;
- c) **Guarantees** declined by LL 40 billion in 2007 of which LL 20 billion were due to the fact that salaries of customs, which were formerly included under guarantees, have been reclassified to fall under civil personnel's salaries;
- d) Treasury advances for **diesel oil subsidy** decreased by LL 32 billion as LL 20 billion were paid during 2007 as compared to LL 52 billion paid in 2006. Decrees # 84 dated 25/02/2007 and # 270 dated 11/04/2007 provisioned a diesel oil subsidy of LL 39 billion for the period covering 15/11/2006-28/02/2007. Of those LL 20 billion were paid in December 2007 and the remaining LL 19 billion will be paid in 2008;
- e) Payments of **VAT refund** increased by LL 63 billion from LL 137 billion in 2006 to LL 200 billion in 2007;
- f) Transfers to **EDL** increased by LL 109 billion from LL 1,370 billion in 2006 to 1,479 billion in 2007. This increase can be explained by the following: i) an increase in payments to Kuwait Petroleum Corporation and Algeria's Sonatrach for fuel and gas oil purchases by LL 212 billion; ii) an increase in repayment of loans for fuel and gas oil purchase by LL 50 billion; iii) an increase in debt service by LL 64 billion due to the repayment in June 2007 of US\$ 100 million Eurobond to finance power sector restructuring. The Eurobond was issued in July 1997 and was guaranteed by the World Bank; iv) an exceptional payment of LL 217 billion during the first eleven months of 2006 in order to settle the oil supplier arrears. (*please refer to Table 17 and Box 5*)

Table 17. Transfers to EDL

(LL billion)	2006 Jan-Dec	2007 Jan-Dec	Change
EDL of which:	1,370	1,479	109
Debt Service of which:	233	297	64
C-Loans and Eurobonds of which:	228	272	44
Principal repayments	181	235	54
Interest payments	47	37	-10
BDL Guaranteed Loan payments	5	25	20
Repayment of loans for fuel oil and gas oil purchase (principal and interest)	17	67	50
Reimbursement of KPC and Sonatrach agreements in 2007	903	1,115	212
Repayment of oil suppliers arrears *	217	0	-217

Source: MOF, DGF

*Paid under Decree #.16084 dated December 2005 and Treasury Advance # 14308 dated April 2005

Box 5: Treasury Transfers to EDL (2001-2007)

Treasury transfers to *Electricité du Liban* (EDL) include debt service payments (principal and interest) in relation to debt contracted directly by EDL and guaranteed by the Treasury; and, contracted by the Treasury for the benefit of EDL. Transfers to EDL also include payments against fuel oil and gas oil purchases that since end-2005 have been made in accordance with bilateral contracts between the Ministry of Energy and Water, and Algeria's Sonatrach and Kuwait Petroleum Corporation. These purchases are guaranteed by the Treasury.

Treasury transfers to EDL increased considerably over the last seven years. Part of the increase in transfers to EDL was due to increasing fuel oil and gas oil payments, mainly as a result of the global surge in oil prices. The following graph depicts these trends.

Graph 1: Treasury Transfers to EDL and Crude Oil Prices



However, operating losses at EDL exacerbated its deficit. Although EDL's tariff structure was set in 1996 to cover a crude oil price of US\$ 25/barrel, Treasury transfers to EDL in 2001 and 2002, when the crude oil price averaged US\$ 23, were LL 283 billion and LL 305 billion, respectively, as per the above graph. In 2006 and 2007, Treasury transfers to EDL were greater than its *total* oil bill. The following table illustrates the components of the EDL deficit during the last two years.

Box 5: Treasury Transfers to EDL (2001-2007) (continued)

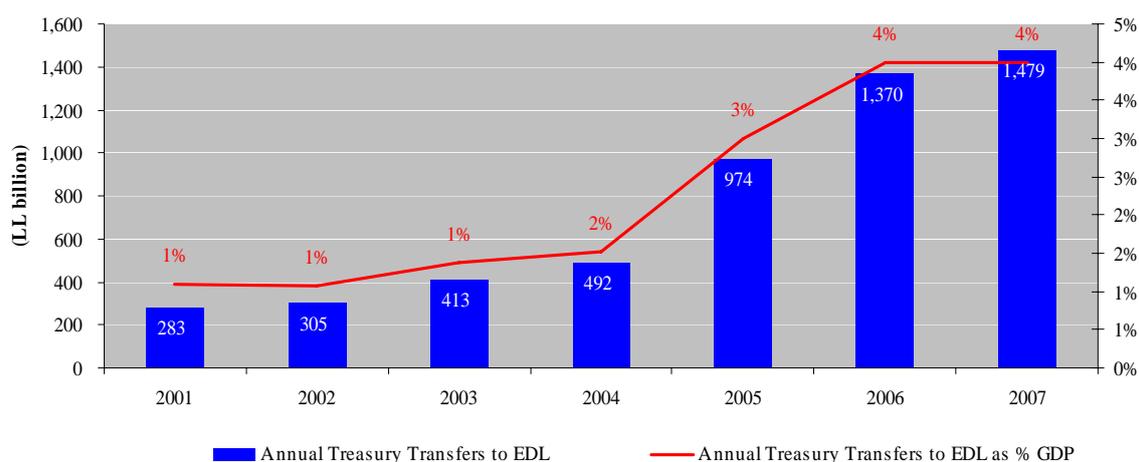
Breakdown of EDL Deficit in 2006 and 2007

(LL billion)	2006	2007
EDL Oil Bill (EDL Oil Expenditures)	1,133	1,280
<i>EDL Oil Bill Contribution</i>	229	166
<i>MOF Oil Bill Contribution</i>	904	1,114
Total Treasury Transfers to EDL (EDL Deficit)	1,370	1,479

In 2006 and 2007, Treasury transfers to EDL constituted 12 percent of total public expenditures, and amounted to 30 percent of the value of debt service payments. The following graph illustrates the burden on the Treasury of transfers to EDL over the 2001-2007 period.

EDL has constituted a sizeable burden on the Lebanese economy. In 2007, Treasury transfers to EDL represented 4 percent of the Gross Domestic Product (GDP). The following graph depicts the proportion of transfers to EDL in Lebanon's GDP over the 2001-2007 period.

Graph 3: Annual Treasury Transfers to EDL as a Percentage of GDP

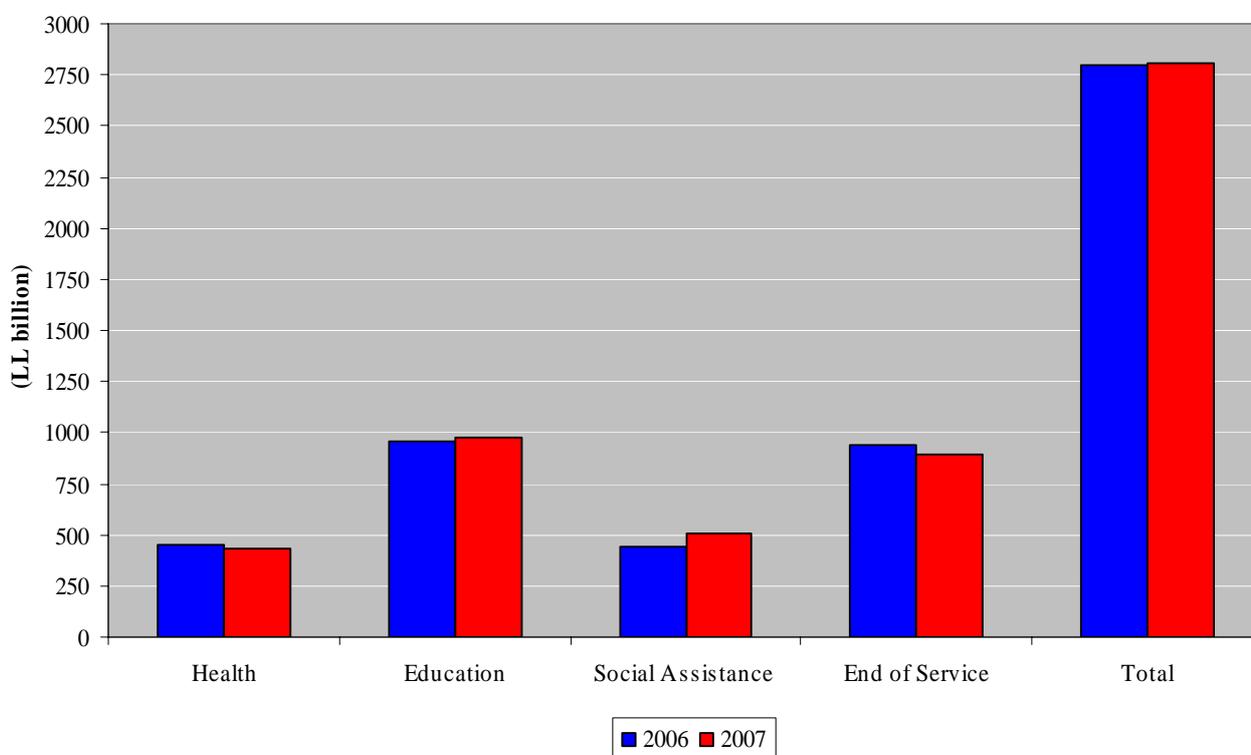


Details of Social Expenditures

Overall expenditures on the social sector witnessed a very slight increase of LL 9 billion from LL 2,801 billion in 2006 to LL 2,809 billion in 2007. This spending includes the fundamental social services of education and health, in addition to pension and end-of-service indemnity, as well as other areas of interventions classified as social assistance.

Of the total LL 2,809 billion of social spending in 2007, education accounted for the largest bulk, at 34.7 percent of total spending, covering mainly the Ministry of Education and Higher Education, in addition to educational allowances paid to civil servants. Spending on pension and end-of-service ranked second, representing 31.7 percent of total social expenditures. As for spending on health, it accounted for 15.6 percent of total social spending in 2007. *(For more information on public spending on health services, refer to Box 6).*

Graph 2: Allocation of Social Spending



Source: MOF, DGF

Table 18. Social Spending for 2006-2007

<i>(LL billion)</i>	Jan - December 2006	Jan - December 2007	Magnitude of change over 2007	Percentage change over 2007
Health				
Hospitalization in the private sector	223	172	-51	-23%
Purchase of Medication	64	70	7	11%
Hospitalization of public sector employees in private sector	71	105	35	48%
Maternity and sickness allowance	33	36	3	8%
Other	66	54	-12	-18%
Sub-Total	455	437	-18	-4%
Education				
Ministry of Education and Higher Learning, of which	854	864	10	1%
<i>Wages and Salaries of the General Directorate of Education</i>	478	506	28	6%
<i>Wages and Salaries of the General Directorate of Higher Learning</i>	1	1	0	15%
<i>Wages and Salaries of the General Directorate of Technical Education</i>	71	70	-1	-1%
<i>Contributions in the salaries of the Lebanese University</i>	152	161	10	6%
<i>Contributions to non profitable organizations (private schools)</i>	45	38	-6	-15%
<i>Construction under execution (construction and restoration of schools)</i>	29	28	-1	-4%
Education allowance in private sector	106	112	6	6%
Sub-Total	960	976	16	2%
Other Social Spending				
Marriage allowance	3	3	0	-5%
Birth allowance	3	2	-1	-31%
Death allowance	4	3	-1	-15%
Other social spending allowance	8	8	0	0%
Participation in several pension funds	21	24	3	13%
Ministry of Social Affairs, of which	65	59	-6	-9%
<i>Transfers to non profitable organizations</i>	65	57	-8	-12%
Ministry of Displaced	5	5	1	14%
Transfers to employees' cooperative	135	173	38	28%
End of service & Pensions	942	889	-53	-6%
NSSF	200	230	30	15%
Sub-Total	1,385	1,396	11	1%
Grand-Total	2,801	2,809	9	0.2%

Source: MOF, DGF

Box 6. Public Spending on Health Services

There are seven major public insurance providers in the health sector that cover different population groups with varying levels of health benefits. Namely, these insurers are the *Ministry of Public Health, the National Social Security Fund, Civil Servants Cooperatives, Armed Forces Fund, State Security Fund, Internal and General Security Fund and Mutual Funds*. The total number of potential beneficiaries from government spending on health services – receiving total or partial coverage- is estimated to be 3.4 million Lebanese or 91 percent the population. This number considers that any non-insured person could benefit from the Ministry of Health services, as a provider of health services as well as insurer of last resort. It should be noted that around 350,000 persons or 9 percent of the population are privately insured.

The Ministry of Public Health (MoPH) is mandated to act as an insurer of last resort, covering around 1.4 million Lebanese, representing 38 percent of the population, who are eligible to 85 percent hospitalization coverage and 100 percent coverage for drugs for chronic diseases and vaccines.

The **National Social Security Fund (NSSF)** covers regular wage earners in the public and private sectors and workers in informal activities (*taxi drivers, journal sellers, fishermen, university students, mayors, medical doctors and voluntary contributors*), estimated at 1.2 million or 32 percent of the population. The NSSF beneficiaries are eligible to 90 percent hospitalization coverage and 80 percent ambulatory care and drugs' coverage. **Military forces** and their dependents are estimated to total 449,000, representing 12 percent of the population, eligible to benefit from 100 percent health coverage in both hospital and ambulatory care. Beneficiaries from the **Civil Servants Cooperatives (CSC)** include public sector staff and dependents, estimated to be 253,000 or 7 percent of the population. The beneficiaries of the CSC are eligible to benefit from 90 percent hospitalization coverage and 75 percent ambulatory and dental care coverage. Beneficiaries from **Mutual Funds** include mainly judges, religious judges, members of Parliament, Lebanese University professors and their dependants and are estimated to total 28,182 persons, who are eligible for hospital and ambulatory care.

In 2007, public spending from government budget on health services totaled LL 613 billion and represented 1.65 percent of GDP and 4.87 percent of total public spending, divided as follows: spending on hospitalization of LL 397 billion or 65 percent, spending on drugs of LL 70 billion or 11 percent, and spending on out-patient services of LL 146 billion or 24 percent. Spending on health services by the main insurers was distributed as follows:

- i) The **Ministry of Public Health** spent LL 172 billion to cover hospitalization care, mainly in private hospitals - whereas public hospitals had a low occupancy rate of 56 percent. Further, MoPH spent LL 50.5 billion on drugs, namely on essential drugs and vaccines distributed through 117 primary care centers and through joint agreement with the YMCA (Young Men's Christian Association) for the former and with UNICEF for the latter, in addition to drugs for chronic diseases distributed through the Drug Dispensing Center at Karantina.
- ii) **Military Forces** (*which include armed forces within the government: Lebanese Army, Internal Security Forces, General Security Forces, and State Security Forces*) spent LL 160.5 billion, of which LL 105.2 billion on hospitalization, LL 19.5 billion on drugs and LL 35.7 billion on out-patient services.
- iii) The **National Social Security Fund (NSSF)** spent LL 539 billion on health services of which LL 135 billion or 25 percent constituted public spending. Of the LL 135 billion, an estimated LL 72.9 billion were spent on hospitalization and LL 62.1 billion on out-patient services.
- iv) The **Civil Servants Cooperative** spent LL 105 billion on health services of which an estimated LL 89.1 billion or 85 percent constituted public spending. Of the LL 89 billion, an estimated LL 43.4 billion were spent on hospitalization and LL 45.8 billion on out-patient services.

Breakdown of Public Spending on Health Services in 2007 (LL billion)

Insurers	Hospitalization	Drugs	Out-patient	Public Spending on Health Services
Ministry of Health	172	50.5	0	222.4
Army	50.1	11.6	24.4	86.1
Internal Security Forces	49.2	5.9	8.0	63.2
General Security forces	4.1	1.4	3.3	8.7
State Security forces	1.9	0.5	0.0	2.5
NSSF*	72.9	-	62.1	135.0
Civil Servants Cooperative*	43.4	-	45.8	89.1
Mutual funds	3.9		2.1	6.0
TOTAL	397	70	146	613**

Source: Ministry of Finance

*Estimate

** The total spending on health services of LL 613 billion is different from numbers in table due to a different classification of items.

Section IV: Public Debt Developments

Table 19. Public Debt Outstanding by Holder as of End-December 2007

(LL billion)	Dec-04	Dec-05	Dec-06	Dec-07	Change Dec 06 - Dec 07	% Change Dec 06 - Dec 07
Gross Public debt	54,082	57,985	60,851	63,364	2,513	4.13%
Local currency debt	26,371	29,141	30,204	31,373	1,169	3.87%
a. Central Bank (including REPOs and Loans to EDL to finance fuel purchases) ⁽¹⁾	10,652	11,686	9,588	9,052	-536	-5.59%
b. Commercial Banks	12,220	14,130	16,487	16,847	360	2.18%
c. Other Local Currency Debt (T-bills) <i>o/w Public entities</i>	3,500 2,187	3,325 2,446	4,129 3,313	5,474 4,796	1,345 1,483	32.57% 44.76%
Foreign currency debt ⁽²⁾	27,711	28,844	30,647	31,991	1,344	4.39%
a. Bilateral, Multilateral and Foreign Private sector loans	3,003	2,789	2,855	2,963	108	3.78%
b. Paris II related debt (Eurobonds and Loans) ⁽³⁾	6,634	6,501	6,540	6,063	-477	-7.30%
c. Paris III related debt (Eurobonds and Loans) ⁽⁴⁾	0	0	0	1,357	1,357	
d. Market-issued Eurobonds	17,686	18,729	20,399	20,780	381	1.87%
e. Accrued Interest on foreign currency debt	388	406	434	410	-24	-5.53%
f. Special Tbls in Foreign currency ⁽⁵⁾		419	419	419	0	0.00%
Public sector deposits	4,359	5,590	4,444	4,527	83	1.87%
Net debt	49,723	52,395	56,407	58,837	2,430	4.31%
Gross Market debt ⁽⁶⁾	31,861	34,721	38,670	39,221	551	1.42%
% of total debt	59%	60%	64%	62%	0	-2.60%

Source: Ministry of Finance, Banque du Liban

Notes:

⁽¹⁾ The BDL has extended loans to EDL for the equivalent amount of US\$ 300 million to purchase fuel oil. These loans are listed as public debt as they are government guaranteed.

⁽²⁾ Figures for Dec 04 - Dec 07 may differ from previously published data due to updated information regarding bilateral and multilateral loans in the DMFAS system.

⁽³⁾ Paris II related debt (Eurobonds and Loans) including a Eurobond of USD 1,870 billion originally issued to BDL in the context of the Paris II conference

⁽⁴⁾ Issued to Malaysia as part of its Paris III contribution, IBRD loans, UAE loan and first tranche of the French loan received in February 2008

⁽⁵⁾ Special Tbls in foreign currency (expropriation bonds)

⁽⁶⁾ Gross market debt equals gross debt less the portfolios of the BDL, NSSF, bilateral and multilateral loans, Paris II and Paris III related debt.

By end-2007, **gross public debt** totaled LL 63,364 billion (US\$ 42.03 billion), a 4.13 percent increase compared to the end-December 2006, which is equivalent to 171 percent of GDP. This compares to a 4.94 percent increase in gross public debt from end-December 2005 to the end-December 2006 level.

Net public debt as of end-December 2007 amounted to LL 58,837 billion (US\$ 39.03 billion) representing a LL 2,430 billion or 4.31 percent increase compared to the end-December 2006 level.

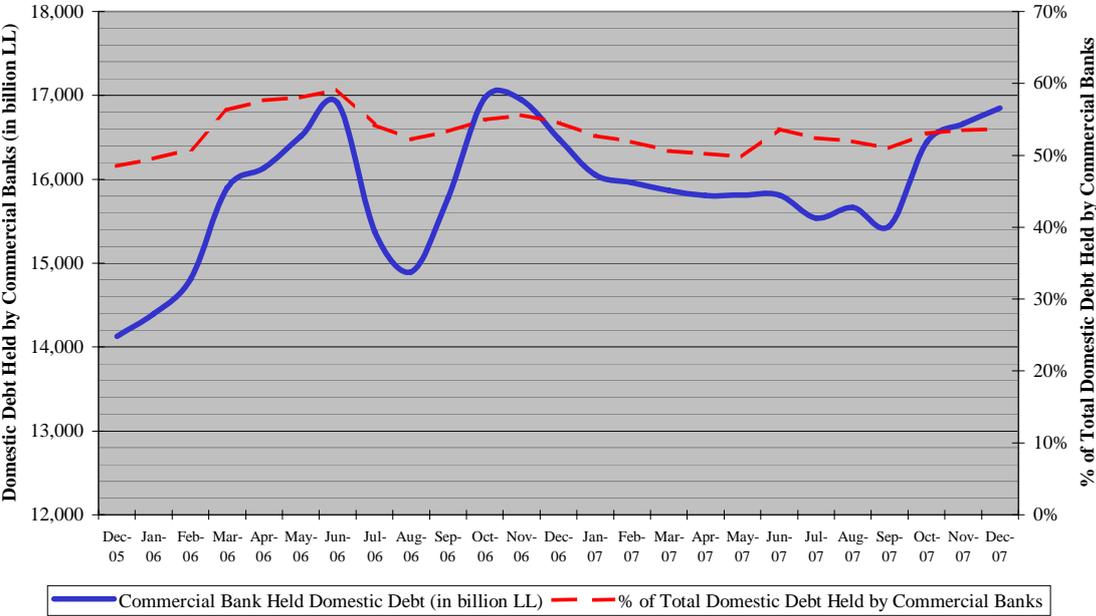
At LL 31,373 billion as of end-December 2007, **domestic debt** constituted 49.51 percent of gross public debt. Domestic debt increased by LL 1,169 billion or 3.87 percent over the end-December 2006 level.

This increase was led by higher holdings of Lebanese Pound Treasury bills by **public entities** by LL 1,483 billion which offset the lower holdings of Lebanese Pound Treasury bills held by the central bank of LL 536 billion. The percentage of domestic debt held by public entities increased from 11.0 percent end-December 2006, to 15.4 percent end-December 2007, with the highest percentage recorded during June 2007 at 15.6 percent.

The **Central Bank**'s portfolio of local currency debt decreased by LL 536 billion in 2007 with holdings of LL 9,052 billion by end-December 2007 (LL 496 billion due to lower holdings of Treasury bills). On a quarterly basis, BdL's treasury bill holdings increased by LL 916 billion in the first quarter of the year. The second quarter of 2007 saw a remarkable LL 2,239 billion reduction in BdL's holdings of Treasury bills due to the early redemption of LL 2,243 billion of T-bills using proceeds from a gold revaluation in June 2007.²¹ Given reduced market participation in the third quarter of 2007, BdL increased its holding by LL 1,173 billion that quarter. The last quarter of 2007 saw BdL reduce its holdings by LL 346 billion.

By year-end 2007, **commercial banks**' holdings of Lebanese pound denominated debt stood at 16,487 billion, LL 360 billion higher than the end-2006 amount. Out of this increase, LL 355 billion was due to higher holdings of treasury bills. The first three quarters of 2007 saw decreasing commercial bank holdings of T-bills with lower holdings of LL 650 billion in QI, compounded LL 19 billion lower holdings in QII, and another 375 billion in QIII compared to respective periods of 2006. Commercial banks' appetite resumed in the fourth quarter of 2007 by LL 1,399 billion (as reflected in Graph 3).

Graph 3: Commercial Bank Financing of Domestic Debt (2006-2007)



Source: Ministry of Finance, Banque du Liban

²¹ Refer to Box 3 of the “Public Finance Quarterly Report – QIII 2007” available at the Ministry of Finance’s website.

The **weighted average cost of foreign currency public debt** registered 6.47 percent in December 2007 compared to 6.51 percent end-December 2006.²²

Primary market interest rates currently range between 5.22 percent for the 3-month t-bills to 9.32 percent for the 36-month t-bills. All market rates remained stable compared to rates as at end-December 2006 as illustrated in Table 20.

Table 20. Evolution of Primary Market Treasury Bills Yields

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

Source: Ministry of Finance

Table 21. Recent Government Eurobond Issuance

Issue Date	Term (years)	Maturity Date	Coupon Rate	Amount issued
20-Nov-07	4	Aug-11	7.50%	USD 300 MN*
4-Oct-07	3	Nov-10	6.88%	USD 400 MN*
20-Jul-07	5	Jul-12	3.75%	USD 200 MN**
20-Jul-07	10	Jul-17	3.75%	USD 300 MN**
6-Jul-07	10	Dec-17	4.00%	USD 137.511 MN*
31-May-07	6	Jun-13	8.63%	USD 400 MN
26-Feb-07	14	Apr-21	8.25%	USD 431 MN*
26-Feb-07	1	Mar-08	6.38%	USD 569 MN*

Source: Ministry of Finance

*Direct placement with BDL

**Paris III debt re-profiling with Malaysia

By end-December 2007, **foreign currency debt** totaled LL 31,991 billion (equivalent to USD 21.22 billion), higher than the end-December 2006 amount by LL 1,344 billion (or 4.39 percent). Out of this increase, LL 357 billion is due to changes in exchange rates compared to those end-December 2006, with LL 137 billion due to valuation change of multilateral, bilateral (excluding AFD loan) and foreign sector loans.

During 2007, the Ministry of Finance issued a combined amount of Eurobonds equivalent to US\$ 2,238 million (excluding the re-profiling of US\$ 500 million with Malaysia) and redeemed a total of US\$ 1,469 million. The net issuance of Eurobonds for 2007 thus totaled US\$ 769 million. (Refer to Table 21). In addition, US\$ 500 million of debt held by Malaysia was re-profiled as part of that country's Paris III contribution. The transaction was completed on July 20th 2007 and

²² The 2006 figure is different from previously published due to the inclusion of the weighted average cost of bilateral and multilateral project loans.

involved replacing two sets of Eurobonds held by the Central Bank of Malaysia with two new issues at concessional terms.²³

Two Eurobond issuances took place in the fourth quarter of 2007, both direct placements with BdL.²⁴

- 1) In October, a US\$ 400 million Eurobond was issued at a coupon rate of 6.875 percent maturing in 2010. The proceeds from this issuance were used to redeem an equivalent amount of Lebanese Pound denominated treasury bills held in BdL's portfolio;
- 2) In November, a US\$ 300 million Eurobond was issued at a coupon rate of 7.50 percent. The transaction was a reopening of the US\$ 450 million Eurobond at 7.50 percent coupon due August 2011.

Eurobond secondary market yields decreased by an average of 31 basis points in the last quarter of 2007.

Table 22. Performance of Lebanese Eurobond Secondary Market

<i>Lebanese</i>	<i>Bid-Yield</i>								
<i>Issues</i>	<i>1-Oct-07</i>	<i>23-Oct-07</i>	<i>5-Nov-07</i>	<i>12-Nov-07</i>	<i>20-Nov-07</i>	<i>28-Nov-07</i>	<i>4-Dec-07</i>	<i>11-Dec-07</i>	<i>17-Dec-07</i>
<i>Euro</i>									
LEB 7.250 09	7.7	7.7	7.74	7.74	7.74	7.74	7.74	7.74	7.74
LEB 5.875 12	7.87	7.924	7.94	7.94	7.94	7.94	7.94	7.94	7.94
<i>US Dollars</i>									
LEB 7.375 08	9.39	9.58	9.71	9.79	9.91	10	10.06	9.4	9.47
LEB 10.125 08	8.83	8.73	8.67	8.63	7.83	7.77	7.73	7.66	8.42
LEB 10.250 09	9.14	9.1	8.93	8.92	8.9	9.03	8.88	8.86	8.85
LEB FRN 09	8.76	8.61	NA	NA	8.14	8.16	8.09	8.1	8.15
LEB 7.000 09	9.04	9.1	8.72	8.74	8.76	8.78	8.65	8.67	8.96
LEB 7.125 10	9	8.98	8.82	8.83	8.85	8.86	8.61	8.63	8.77
LEB 7.875 11	9.11	9	8.88	8.89	8.98	8.9	8.73	8.73	8.82
LEB 4.000 17 Av									
Life	9.47	9.38	79	9.36	9.46	9.48	9.26	9.28	9.38
LEB 7.750 12	9.16	9.04	8.85	8.85	8.85	8.86	8.79	8.66	8.73
LEB 8.625 13	9.25	9.14	9.05	9.05	9.09	9.09	8.97	8.89	8.98
LEB 7.375 14	9.24	9.09	9.04	9.04	9.05	9.16	8.78	8.78	8.79
LIEB 10.000 15	9.43	9.29	9.06	9.06	9.1	9.24	9.01	8.96	9.05
LEB 8.500 16	9.7	9.54	9.29	9.29	9.34	9.39	9.03	8.98	9.03
LEB 11.625 16	9.71	9.56	9.45	9.45	9.44	9.44	9.32	9.04	9.11
LEB 8.250 21	9.77	9.55	9.45	9.45	9.48	9.45	9.27	9.13	9.13

Source: Credit Suisse

For information on Eurobonds outstanding and Eurobond issues visit the Ministry's website at www.finance.gov.lb

²³ Refer to Box 2 of the Public Finance Quarterly Report – QIII 2007, found on the Ministry of Finance's website.

²⁴ For information on other Eurobond issuances in 2007, kindly refer to Public Finance Prospects for Q1, QII and QIII 2007 available at www.finance.gov.lb.

Table 23. Public Debt Outstanding by Instrument as of End-December 2007

(LL billion)	Dec-05	Dec-06	Dec-07	Change Dec 06 - Dec 07	% Change Dec 06 - Dec 07
I. Total debt (II + III)	57,985	60,851	63,364	2,513	4.13%
II. Local currency debt	29,141	30,204	31,373	1,169	3.87%
1. Long term bonds	23,384	26,862	28,617	1,755	6.53%
1.1 60 months bonds	1,772	2,172	3,699	1,527	70.30%
1.2 54 months bonds	616	616	616	0	0.00%
1.3 48months bonds	633	633	633	0	0.00%
1.4 36 months bonds	14,520	21,093	21,051	-42	-0.20%
1.5 30 months bonds	3,033	0	0	0	
1.6 24 months bonds	2,385	1,751	1,927	176	10.05%
1.7 Coupon interest	425	597	691	94	15.75%
2. Short term bills *	5,246	2,839	2,288	-551	-19.41%
2.1 12 months bills	3,023	1,579	529	-1,050	-66.50%
2.2 06 months bills	2,067	1,117	1,750	633	56.67%
2.3 03 months bills	156	143	9	-134	-93.71%
* <i>Accrued interest included</i>	92	88	63	-25	-28.41%
3. Other local debt	511	503	468	-35	-6.96%
3.1 Central Bank Loans	453	445	405	-40	-8.99%
3.2 Commercial Banks Loans	58	58	63	5	8.62%
III. Foreign currency debt	28,844	30,647	31,991	1,344	4.39%
4. Eurobonds	24,743	26,441	27,099	658	2.49%
of which, Paris II at preferential rates ⁽¹⁾	5,608	5,608	5,156	-452	-8.07%
of which, Paris III at preferential rates	0	0	754	754	
* <i>Accrued interest included</i>	406	434	410	-24	-5.53%
5. Loans	3,682	3,787	4,473	686	18.11%
5.1 Paris II loans	893	932	907	-25	-2.68%
5.2 Paris III loans	0	0	603	603	
5.3 Bilateral loans (non-Paris II and III)	703	714	763	49	6.83%
5.4 Multilateral loans (non-Paris II and III)	1,928	2,026	2,113	87	4.29%
5.5 Foreign Private Sector Loans	158	115	87	-28	-24.35%
6. Other debt	419	419	419	0	0.00%
6.1 Special TBs in foreign currency	419	419	419	0	0.00%

Source: MOF, Banque du Liban

⁽¹⁾ Including a Eurobond of US\$ 1,870 billion originally issued to BDL in the context of the Paris II conference.

Table 23 above demonstrates the **evolution of public debt by instrument**. On the domestic debt front, and as in 2006, commercial banks continued to over-subscribe in the 36-month Treasury Bills and substitute their shorter term Treasury Bills by this category in 2007 reflecting their appetite for longer term maturities offering higher yields.

Domestic debt subscription trends over 2007 reflect investors' appetite for 36 month T-bills which accounted for 52 percent of subscriptions compared to 56 percent of subscriptions in 2006. The next most popular maturity, and the highest among short term instruments, was the 6 month category. Over January to December 2007, 28 percent of subscriptions were made in the 6 month category compared to 21 percent for the same period in 2006. In 2007, 11 percent of subscriptions (worth LL 1,533 billion) were made in the 60-month category due to two T-bill swap transactions in the month of November. The transactions involved the swap of BDL Certificate of Deposits held by commercial banks in exchange for an equal amount of 60-month T-bills. No 60-month T-bills were auctioned in 2006.

The least attractive maturities in 2007 were the 3-month, 12-month, and 24-month categories which saw deficits and which accounted for 1 percent, 3 percent and 5 percent of subscriptions, respectively.

Over 2007, there was an overall surplus in subscriptions (i.e. subscriptions minus maturities) of LL 3,189 billion, with a deficit of LL 945 billion in short-term instruments and a surplus of LL 3,001 billion in long term instruments.

The LL 1,344 billion increase in **foreign currency debt** was due to LL 658 billion higher Eurobonds and LL 686 billion higher loans in 2007 as compared to 2006.

Eurobonds increased by LL 658 billion to LL 27,099 billion by end-December 2007 as compared to LL 26,441 billion at end-December 2006. LL 126 billion of this increase was due to the appreciation of the Euro from the end-December rate of 1.315 Euro/US\$ to the end-December 2007 rate of 1.468 Euro/US\$.

The portfolio of Eurobonds issued in the context of Paris II decreased by LL 25 billion to LL 2,337 billion by end-December 2007 as compared to end-December 2006. This was due to the repayment of two principal installments to the *Agence Française de Développement* in February and August 2007 worth €30 million each, or a total of LL 119 billion based on end-2007 exchange rates. This decrease was coupled by an increase in the value of the outstanding principal amount of the loan of LL 94 billion due to the Euro's appreciation vis-à-vis its end-2006 rate.

The portfolio on Eurobonds issued in the context of Paris III amounted to LL 754 billion in 2007, equal to the US\$ 500 million debt re-profiling transaction with Malaysia.

The stock of **loans** increased by LL 686 billion over the course of 2007 to LL 4,473 billion by end-December 2007 from LL 3,787 billion in 2006. The rise in the stock of loans was led by disbursed loans worth LL 603 billion as part of Paris III contributions from donors. This amount is equivalent to two loans received during 2007:

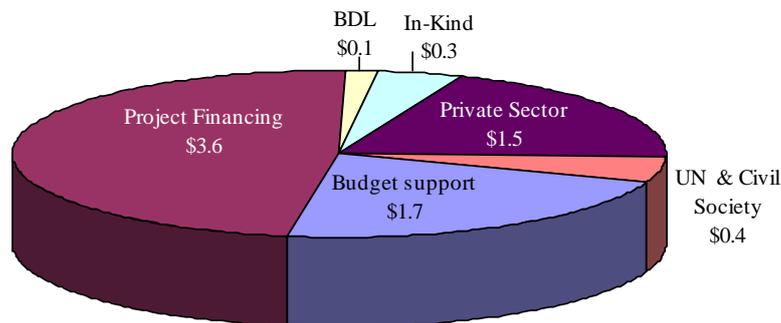
- 1) a US\$ 100 million Reform Implementation Development Policy Loan from the International Bank for Reconstruction and Development received in September 2007 and earmarked for budgetary support;
- 2) a US\$ 300 million soft loan from the United Arab Emirates also intended for budgetary support. The loan was disbursed over three tranches, each worth US\$ 100 million, with the first two tranches received in November 2007, and the third in December 2007.

(Refer to Box 7 for details of all budgetary support received in 2007).

Box 7: Paris III Conference

On January 25, 2007 the International Conference for Support to Lebanon "Paris III or Rafic Hariri" was hosted by President Jacques Chirac in Paris. The aim of the conference was to assist Lebanon garner the international community's support for implementing the reform program and for reconstruction, while alleviating the country's debt burden. Thirty six countries and seven regional and international institutions participated in the conference and expressed their support to Lebanon pledging \$7.6 billion.

Total Pledged at Paris III – USD billion



Since the Paris III Conference, the Government rolled out the implementation of the reform program through a new institutional structure and initiated the mobilization of donor pledges. This institutional structure consists of a Government Reform Program Coordination Office (GR-PCO), based at the Office of the President of the Council of Ministers, entrusted with liaison and support of the work of three Inter-Ministerial Committees (IMCs) (Social, Economic, Infrastructure & Privatization), chaired by the President of the Council of Ministers. The three IMCs consist of the “Natural Owners”, i.e. the line ministries and public sector entities directly involved in the implementation of Paris III reform initiatives.

On resource mobilization, the Ministry of Finance established a Donor Coordination Unit, Aid Partnership Committee and Working Group on Aid Management as well as the increased reporting to the donor community. At end February 2008, a total of \$4,374 million was signed into agreements. The good progress registered was the result of the joint efforts of the Government, main national stakeholders and the international community.

Total agreements signed from Paris III – US\$ million

	Signed
Budget support	1,810
BDL	120
Private Sector support	1,136
Project support	1,023
In-Kind	285
Total	4,374

Source: Ministry of Finance March 11, 2008

Box 7: Paris III Conference – (Continued)

Private sector and budget support were quick to be mobilized and in turn to be disbursed. As of end February 2008, \$1,136 million of private sector support were signed. With the exception of two loans through the Government that require Parliament approval, donors have indicated that the signed agreements have led to a quick disbursement to local intermediaries.

The majority of budget support was also signed and disbursed. Of the \$1,660 million originally pledged for budget support, \$1,310 million were signed. In addition, Malaysia entered into a debt transaction for a total of \$500 million after the conference bringing the total signed to \$1,810 million. As of end February 2008, \$1,345 million in budget support were disbursed.

Details of Budget Support (US\$, million)			
	Signed	Type	Received
Saudi Arabia	100	Grant	100
World Bank	100	Loan	100
United States	250	Grant	112
France	518	Loan	222
United Arab Emirates	300	Loan	300
Arab Monetary Fund	32	Loan	0
Oman	10	Grant	10
Slovenia	0.13	Grant	0.13
Malaysia	500	Debt exchange	500
Total	1,810		1,345

Source: Ministry of Finance March 11, 2008

Support for development and reconstruction financing also progressed with a total of \$1,023 million in projects signed. The majority of this support was underway at the outset of the Paris III Conference or is a continuation of projects focused on recovery and reconstruction. The main beneficiary sectors of this support are waste and waste water, roads and power sector. Approximately, \$2,619 million of the project support pledges are yet to be signed as project financing is subject to several constraints including the availability of a large pipeline of projects and loans pending Parliament approval.

* This box is a summary of quarterly Paris III Progress Reports available on www.finance.gov.lb

Section V: Evolution of External Trade

Table 24: External Trade

(US\$ million)	2006	2007	Change	% Change
Exports	2,283	2,816	534	23.4%
Imports, of which	9,398	11,815	2,418	25.7%
Mineral Products	2,413	2,694	281	11.6%
Trade Balance	- 7,115	- 8,999	- 1,884	26.5%

Source: Ministry of Finance, Directorate General of Customs

Balance of trade:

The 2007 **trade balance** was in deficit of US\$ 8,999 million, 27 percent wider than the trade deficit in 2006 at US\$ 7,115 million. This was mainly due to a 26 percent increase in **imports** of US\$ 2,418 million which offset the 23 percent higher exports of US\$ 534 million.

Imports which registered US\$ 11,815 million in 2007 compared to a total of US\$ 9,398 million in 2006. This spike in imports was in large part driven by an increase in imports of **mineral products** by US\$ 281 billion. From a trading partner perspective, imports from **Italy** saw the biggest value increase in 2007 with US\$ 349 million higher imports than in 2006. The highest value of imports in 2007, from a trading partner perspective, originated from the **United States** at US\$ 1,139 million.

Export growth was led by exports of **base metals and articles of base metals** at US\$ 494 million which increased by US\$ 173, and **machinery, electrical instruments** which were higher by US\$ 126 million in 2007 compared to 2006 offsetting lower exports of **pearls, precious stones and metals** worth US\$ 67 million over the same period. Geographically, **Switzerland** received the top share of exports at US\$ 308 million, albeit 32 percent lower than in 2006. The biggest value changes to a trading partner were a US\$ 68 million increase in the value of exports to the **United Arab Emirates**, followed by a US\$ 66 million increase in the value of exports to **Egypt** in 2007 compared to 2006.

On the **regional trade** front, imports from Arab countries and the European Union increased by 22 percent and 34 percent respectively in 2007 to US\$ 1,752 million and US\$ 4,525 million respectively compared to 2006. For the same time period, exports to Arab countries increased by 32 percent to US\$ 1,323 million, and notably by 91 percent to US\$ 464 million to the European Union.

The balance of trade from a **volume perspective**, saw a 4.6 percent wider trade deficit amounting to a net weight of 8,344 thousand tons in 2007 compared to a net weight of 7,980 thousand tons in 2006. The volume of imports increased by 7 percent to a net weight of 11,708 thousand tons in 2007. Total exports were 13.5 percent higher totaling a net weight of 3,363 thousand tons in 2007 compared to a net weight of 2,964 thousand tons in 2006.

Table 25: Import Distribution by Product (in US\$ million)

Rank	Product (HS1)	2006	% Share	2007	% Share	Change 06-07	% Change 06-07
1	Mineral products	2,413	25.7%	2,694	22.8%	281	11.6%
2	Machinery, electrical instruments	1,123	12.0%	1,425	12.1%	302	26.8%
3	Products of the chemical or allied industries	887	9.4%	1,101	9.3%	214	24.2%
4	Vehicles, aircraft, vessels, transport equipment	764	8.1%	993	8.4%	229	30.0%
5	Base metals and articles of base metal	682	7.3%	963	8.2%	281	41.2%
	Other imports	3,528	37.5%	4,639	39.3%	1,111	31.5%
	Total imports	9,398	100.0%	11,815	100.0%	2,418	25.7%

Source: MOF, DGC

Mineral products topped the list of imported products in 2007 at US\$ 2,694, 12 percent higher than in 2006 at US\$ 2,413 million. The increase in the import value of mineral products is attributed to a US\$ 208 million increase in the imports of **car gasoline** which reached US\$ 993 million in 2007 compared to US\$ 785 million in 2006. This 26 percent increase is due to:

- 13 percent increase in the quantity of imported car gasoline in 2007 at 1,830 million liters, from US\$1,624 million liters in 2006;
- 12 percent increase in the average price of car gasoline from 729 LL/liter in 2006 to 818 LL/liter in 2007.

In 2007, imports of **gas oil** and **fuel oil** (mainly used by EDL, the Ministry of Energy and Water and private companies) were 2 percent and 1 percent respectively lower than in 2006:

- Gas oil** imports totaled US\$ 921 million in 2007 from US\$ 938 million. The US\$ 17 million decrease in imports is attributed to a 16 percent lower quantity of gas oil imported from 2,047 million liters in 2006 to 1,727 million liters in 2007. This volume decrease was almost offset by a 16 percent hike in the price of gas oil from 691 LL/liters in 2006 to 804 LL/liter in 2007.
- Imports of **fuel oil** reached US\$ 439 million in 2007, lower than imports in 2006 by US\$ 3 million. Lower imports of fuel oil are explained by an 11 percent lower volume imported from 1,406 million Liters in 2006 to 1,247 million Liters in 2007. This volume decrease almost offset the 12 percent hike in fuel oil prices from 474 LL/Liter in 2006 to 531 LL/Liter.

Table 26: Breakdown of Mineral Product Imports

	2006 Jan-Dec	2007 Jan-Dec	Change	% Change
Import value details (US\$ millions)				
Car gasoline	785	993	208	26%
Gas oil	938	921	-17	-2%
Fuel oil	442	439	-3	-1%
Import quantity details (millions of liters)				
Car gasoline	1,624	1,830	206	13%
Gas oil	2,047	1,727	-320	-16%
Fuel oil	1,406	1,247	-159	-11%
Import price details (LL/liter)				
Car gasoline	729	818	89	12%
Gas oil	691	804	113	16%
Fuel oil	474	531	57	12%

Source: MOF, Directorate General of Customs

Machinery and electrical instruments imports reached US\$ 1,425 million in 2007 compared to US\$ 1,123 million in 2006. This 27 percent increase is due to higher imports of **reactors, boilers, machinery and mechanical appliances** (or what can be described as electrical materials for industrial use) of US\$ 162 million coupled with higher imports of **electrical machinery and equipment and parts thereof** (or what can be described as electrical appliances for household use) of US\$ 140 million over the same period.

The 24 percent increase in imports of **products of the chemical or allied industries** to US\$ 1,101 million in 2007 from US\$ 887 million in 2006 is mainly attributed to: a US\$ 97 million increase in imports of **pharmaceutical products**, higher imports of **miscellaneous chemical products** of US\$ 30 million, and US\$ 27 million greater imports of **essential oils, resinoids, perfumery, cosmetics or toilet preparations**.

Vehicles, aircraft, vessels and transport equipment imports were 30 percent higher in 2007 at US\$ 993 million, as compared to US\$ 764 million in 2006. The US\$ 229 million increase was mainly a consequence of higher imports of **vehicles** by US\$ 224 million, as reflected in a 31 percent increase in the number of cars imported from 39,852 in 2006 to 52,014 in 2007.

Imports of **base metals and articles of base metals** totaled US\$ 963 million by end-December 2007, US\$ 281 million higher than imports by the end of December 2006 at US\$ 682 million. Seventy percent of this increase is due to higher imports of **iron and steel** which totaled US\$ 526 million in 2007 compared to US\$ 330 million in 2006. Other sub-categories that increased by over US\$ 10 million in 2007 as compared in 2006 were an increase in imports of: (i) **articles of iron and steel** by US\$ 24 million to US\$ 130 million in 2007; (ii) **copper and articles thereof** by US\$ 20 million to US\$ 92 million in 2007; (iii) **aluminium and articles thereof** by US\$ 17 million to US\$ 119 million in 2007; and (iv) **miscellaneous articles of base metals** by US\$ 11 million to US\$ 51 million in 2007.

Table 27: Export Distribution by Product (in US\$ million)

Rank	Product Section	2006	% Share	2007	% Share	Change 06-07	% Change 06-07
1	Base metals and articles of base metal	321	14.1%	494	17.5%	173	54.0%
2	Pearls, precious stones and metals	555	24.3%	488	17.3%	-67	-12.0%
3	Machinery, electrical instruments	334	14.6%	460	16.3%	126	37.9%
4	Prepared foodstuffs; beverages, tobacco	187	8.2%	238	8.5%	51	27.4%
5	Products of the chemical or allied industries	162	7.1%	234	8.3%	71	43.8%
	Other exports	724	31.7%	903	32.0%	178	24.6%
	Total exports	2,283	100.0%	2,816	100.0%	534	23.4%

Source: MOF, DGC

Lebanon's top exported products in 2007 were **base metals and articles of base metals** at US\$ 494 million, a 54 percent increase compared to 2006 at US\$ 321 million, and reflected in a 3.4 percent increased share of exports to 17.5 percent of exports. The US\$ 173 million higher exports was mainly due to a (1) US\$ 75 million increase in exports of **iron and steel**, (2) US\$ 42 million increase in exports of **copper and articles thereof** and (3) US\$ 24 million increase in exports of **articles of iron or steel**.

Exports of **pearls, precious or semi-precious stones** decreased by US\$ 67 million from US\$ 555 million in 2006 to US\$ 488 million in 2007. This 12 percent reduction in exports is reflected in the a 7 percent reduction in the share of exports to 17 percent in 2007. Although exports of pearls, precious or semi-precious stones decreased in value terms, from a volume perspective, exports were 4 percent higher totaling a net weight of 209 tons in 2007.

Higher by US\$ 126 million or 38 percent, exports of **machinery and electrical instrument** totaled US\$ 460 million in 2007 compared to US\$ 334 million in 2006. The increase was due to higher exports of (1) **reactors, boilers, machinery and mechanical appliances by US\$ 94 million**, and (2) **electrical machinery and equipment and parts thereof** by US\$ 32 million.

Prepared foodstuffs, beverages, and tobacco exports totaled US\$ 238 million in 2007, 27 percent higher than exports in 2006 at US\$ 187 million. The US\$ 51 million higher exports was mainly due to (1) US\$ 13 million higher exports of **preparations of vegetables, fruit, nuts or other parts of plants**, (2) US\$ 10 million higher exports of **tobacco and manufactured tobacco substitutes**, and (3) US\$ 8 million higher exports of **beverages, spirits and vinegar**.

Exports of **products of the chemical or allied industries** cumulated to US\$ 234 million in 2007, 44 percent higher than exports in 2006 at US\$ 162 million. The US\$ 71 million increase in exports was largely attributed to (1) US\$ 34 million higher exports of **fertilizers**, and (2) US\$ 21 million higher exports of **essential oils and resinoids, perfumery, cosmetic or toilet preparations**.

Table 28: Import Distribution by Country (in US\$ million)

Rank	Country	2006	% Share	2007	% Share	Change 06-07	% Change 06-07
1	United States	1,016	11%	1,139	10%	123	12%
2	Italy	710	8%	1,059	9%	349	49%
3	China	752	8%	1,018	9%	266	35%
4	France	761	8%	883	7%	122	16%
5	Germany	660	7%	750	6%	90	14%
6	Egypt	379	4%	524	4%	145	38%
7	United Kingdom	407	4%	450	4%	43	11%
8	Turkey	258	3%	405	3%	147	57%
9	Japan	285	3%	395	3%	110	38%
10	Russian Federation	261	3%	352	3%	92	35%
	Other	3,910	42%	4,840	41%	931	24%
	Total	9,398	100%	11,815	100%	2,418	26%

Source: MOF, DGC

Import distribution by country:

The highest value of imports to Lebanon in 2007 were from the **United States** at US\$ 1,139 million, 12 percent higher than in 2006. The top five products imported from the United States in 2007 were: (1) mineral fuels and oils worth US\$ 427 million (12 percent lower than 2006); (2) vehicles (other than railway) at US\$ 155 million (68 percent higher than in 2006); (3) reactors, boilers, machinery and mechanical appliances totaling US\$ 112 million (57 percent above 2006); (4) tobacco and manufactured tobacco substitutes at US\$ 87 million (26 percent higher than 2006); and (5) cereals totaling US\$ 67 million (50 percent more than in 2006).

Lebanon's second largest trading partner in terms of imports in 2007 was **Italy**. At US\$ 1,059 million, imports from Italy topped imports from a European Union country in 2007. The US\$ 349 million (or 49 percent) increase in imports from Italy compared to 2006 was mainly due to (1) US\$ 244 million increase in imports of mineral fuels and oils, (2) US\$ 22 million increase in imports of ships, boats and floating structures, (3) US\$ 19 million increase in imports of reactors, boilers, machinery and electrical appliances.

Imports from **China** which were 35 percent higher in 2007 at US\$ 1,018 million compared to US\$ 752 million in 2006 increased mainly due to (1) US\$ 45 million higher imports of electrical machinery and equipment and parts thereof to US\$ 140 million, (2) US\$ 39 million higher imports of iron and steel to US\$ 45 million, and (3) US\$ 26 million higher imports of reactors, boilers, machinery and mechanical appliances (the top imports from China) to US\$ 159 million.

Imports from **France** increased by 16 percent in 2007 to US\$ 883 million from US\$ 761 in 2006. In value terms, this US\$ 122 million increase is mainly due to higher imports of mineral fuels and oils of 21 percent (or US\$ 60 million) to US\$ 349 million. In volume terms (to account for the effect of the Euro's notable appreciation), imports from France increased by 3.2 percent to a net weight of 593 thousand tons. In volume terms, minerals and oil imports increased by 5.7 percent to a net weight of 476 thousand tons.

At US\$ 750 million in 2007, imports from **Germany** increased by US\$ 90 million from US\$ 660 million in 2006. Half this increase was due to higher imports of vehicles totaling US\$ 298 million in 2007. At US\$ 29 million higher than 2006, imports of mineral fuels and oils exhibited the second largest change in imports from Germany with total imports totaling US\$ 33 million in 2007. In volume terms, imports from Germany increased by 49 percent to a net weight of 221 thousand tons, mainly due to a net weight 81 thousand tons increase in imports of mineral fuels and oils to a net weight of 84 thousand tons.

Table 29: Export Distribution by Country (in US\$ million)

Rank	Country	2006	% Share	2007	% Share	Change 06-07	% Change 06-07
1	Switzerland	451	20%	308	11%	-143	-32%
2	United Arab Emirates	176	8%	244	9%	68	38%
3	Syria	176	8%	210	7%	34	19%
4	Saudi Arabia	146	6%	187	7%	41	28%
5	Iraq	136	6%	148	5%	11	8%
6	Egypt	48	2%	114	4%	66	137%
7	Turkey	102	4%	110	4%	7	7%
8	Kuwait	82	4%	106	4%	24	29%
9	Jordan	84	4%	99	4%	15	18%
10	Belgium	47	2%	87	3%	40	86%
	Other	833	37%	1,204	43%	370	44%
	Total	2,283	100%	2,816	100%	534	23%

Source: MOF, DGC

Export distribution by country:

Switzerland was Lebanon's top export recipient, absorbing US\$ 308 million of Lebanese exports headed to Switzerland in 2007. This was however a 32 percent reduction in the value of exports to Switzerland as compared with 2006 at US\$ 451 million due to US\$ 143 million lower exports of natural or cultured pearls, precious or semi-precious stones, the top product export to Switzerland, to US\$ 304 million by end-2007.

The **United Arab Emirates** received US\$ 244 million worth of Lebanese exports in 2007 compared to US\$ 176 million in 2006. The US\$ 68 million increase is mainly due to higher exports of natural or cultured pearls, precious or semi-precious stones which increased by US\$ 44 million over this period to US\$ million 108 million.

Exports to **Syria** increased by 19 percent in 2007 to US\$ 210 million compared to US\$ 176 million in 2006. The US\$ 34 million higher exports are mainly explained by higher exports of (1) US\$ 10 million of essential oils, resinoids, perfumery, cosmetic or toilet preparations to US\$ 15 million in 2007, (2) US\$ 4 million of edible fruits and nuts, peel of citrus fruit or melons to US\$ 9 million in 2007, (3) US\$ 4 million of plastics and articles thereof to US\$ 9 million in 2007, and (4) US\$ 4 million of salt, sulphur, earths and stone, plastering materials, lime and cement, Lebanon's top export to Syria at US\$ 54 million in 2007.

Lebanon's exports to **Saudi Arabia** increased in 28 percent from US\$ 146 million in 2006 to US\$ 187 million 2007. The US\$ 41 million was mainly attributed to (1) US\$ 5 million higher exports of natural or cultural pearls, precious or semi-precious stones and metals to US\$ 10 million 2007, (2) US\$ 5 million higher exports of plastics and articles thereof to US\$ 12 million in 2007, (3) US\$ 3 million higher exports of coffee, tea, maté and spices to US\$ 4 million in 2007, (4) US\$ 3 million higher exports of furniture, bedding, mattresses and mattress supports to US\$ 13 million, and (5) US\$ 3 million higher exports of paper and paperboard and articles of paper pulp. Lebanon's top export to Saudi Arabia in 2007 was reactors, boilers, machinery and mechanical appliances at US\$ 22 million.

Exports to **Iraq** totaled US\$ 148 million in 2007, an increase of 8 percent compared 2006 at US\$136 million. The US\$ 11 million increase in exports to Iraq was led by a US\$ 20 million increase in exports of reactors, boilers, machinery and mechanical appliances which partially offset reductions in other exports products, including the largest value decrease in exports to Iraq of electrical machinery and equipment by US\$ 19 million.

Section VI: Value Added Tax Developments

Please note that most of the VAT figures mentioned in this section are extracted from declarations/claims processed. As such, these figures depend on the number of processed declarations at a given date (in this case the figures for 2007 are as of March 6, 2008). Given that the process of entering data in the system is ongoing, figures may be subject to change in the future as more declarations/claims are processed.

Three sources of Value Added Tax (VAT) statistics are reported: VAT collected from internal economic activity, VAT from imports collected at customs, and VAT declarations. Tax revenues from the Value Added Tax (VAT) are outlined in the following section as broken-down by economic activity.²⁵

VAT: Internal Activities

In 2007, declared VAT from **internal activities** totaled LL 522 billion²⁶ almost at the same level as 2006 at LL 521 billion.

Wholesale trade activities maintained its rank as the highest VAT generating internal activity in 2007 at LL 109 billion up by 18 percent from 2006 at LL 92 billion. The VAT from wholesale trade accounts for 21 percent of VAT collections from internal activities, up from 18 percent in 2006. Wholesale trade in 2006 became the highest producing VAT activity after it was ranked in the fourth place in 2005 and 2004. The increase in wholesale trade activities was instrumental for the higher VAT from internal activities as it offset the decrease in other areas.

Retail trade, the second highest VAT generating activity in 2007 contributed LL 71 billion, down by 21 percent from 2006. As a result of this decrease, VAT from retail trade activities represented 14 percent of total VAT from internal activities down from 17 percent in 2006. Prior to 2006, retail trade activities were the highest VAT producing activity.

VAT from **Other business activities** accounted for 12 percent of VAT from internal activities maintaining the same share as 2006. At LL 62 billion, VAT from other business activity decreased by 1.6 percent from LL 63 billion in 2006. This category includes architectural and engineering activities (which increased by 6.8 percent), advertising (decreased by 0.7 percent), and business and legal consulting.

Hotels and restaurants generated LL 42 billion in VAT, 1.2 percent higher than LL 41.7 billion in 2006. The slight increase reflected a combination of higher prices offsetting the lower number of tourists in 2007 as compared to 2006.

VAT from **construction activities** decreased by 12.6 percent to LL 35 billion in 2007 down from LL 40 billion in 2006. This led to a lower share of VAT from construction activity at 7 percent of the total VAT from imports down from 8 percent in 2006.

The **sale of cars, maintenance and repair of vehicles**, decreased by 9.0 percent to LL 23 billion, down from LL 25 billion in 2006. The rank of VAT from the sales for cars, maintenance and repair of vehicles did not change from 2006 however, its share of VAT revenues from internal activities decreased to 4 percent from 5 percent in 2006.

VAT generated by the **manufacture of food products and beverages**, namely the manufacture of malt liquors and malt, sweet confectioneries, and bakery products, remained the same as 2006 at LL 17.5 billion. This category maintained its rank and share of total VAT from internal activities.

²⁵ Taxpayers' economic activities are classified along the Ministry of Finance's Business Activity Code which adopts the ISIC nomenclature.

²⁶ Please note that the amounts of VAT declared (extracted from declaration forms) differ from VAT amounts actually collected on a cash-basis (Fiscal Performance figures).

VAT from **real estate activities** increased significantly by 31 percent to reach LL 17 billion in 2007 up from LL 13 billion in 2006. This category only reflects VAT collected on commercial rent as the sale of real estate is VAT exempt. However, the increase is consistent with the increased real estate activities which resulted in higher revenues as detailed in Section II: Revenue Outcome.

The **manufacture of other non-metallic mineral products** sector contributed LL 17 billion to total VAT from internal activities increasing by a considerable 54 percent from LL 11 billion in 2006. This increase led to this activity being ranked 8th up from the 11th place in 2006. This category includes the manufacturing of concrete, cement and plaster and their derivatives.

The **post and telecommunications**²⁷ sector contributed LL 16 billion, or 3 percent of VAT revenues from internal activities to occupy the 10th rank (it was replaced from the 9th rank by the manufacture of other non-metallic mineral products). This total reflects an increase of 19 percent from LL 13 billion in 2006.

Table 30: VAT Revenues from Internal Operations (10 Largest Contributing Activities) (LL million)

Rank	Economic Activity (ISIC Nomenclature)	2006	% Share	Previous Rank*	2007	% Share	% Change
	VAT from internal activity	521.3	100%		522.2	100%	0.2%
1	Wholesale trade and commission trade, except of motor vehicles and motorcycles	92.2	18%	1	109.0	21%	18.2%
2	Retail trade, except of motor vehicles and motorcycles; repair of personal and household goods	89.4	17%	2	70.5	14%	-21.2%
3	Other business activities	63.0	12%	3	62.0	12%	-1.6%
4	Hotels and restaurants	41.7	8%	4	42.1	8%	1.2%
5	Construction	39.8	8%	5	34.8	7%	-12.6%
6	Sale, maintenance and repair of motor vehicles and motorcycles; retail sale of automotive fuel	24.8	5%	6	22.5	4%	-9.0%
7	Manufacture of food products and beverages	17.5	3%	7	17.5	3%	0.1%
8	Real estate activities	13.1	3%	8	17.2	3%	30.8%
9	Manufacture of other non-metallic mineral products	10.9	2%	11	16.7	3%	53.6%
10	Post and telecommunications	13.1	3%	9	15.6	3%	19.2%
	Other	115.9	22%		114.3	22%	-1.4%

Source: MOF, VAT Directorate, VAT Declaration Forms

(Please note that VAT figures in this table represent declared amounts whereas VAT figures in the Revenue section are cash collected amounts. Note that VAT declaration amounts may vary depending on the number of processed declarations at a given date.

In 2006, Sewage and refuse disposal, sanitation and similar activities occupied the 10th rank

²⁷ Note that the VAT contribution figure from Post & telecommunication here is understated as it does not capture all the VAT raised from the telecommunication sector. As per the VAT law, a large fraction of VAT on telecom is directly transferred to municipalities, and hence is not captured in these figures.

VAT Revenue Collected At Customs

Table 31: VAT Revenue Collected At Customs (Five Largest Contributing Items)

(LL billion)	2006		2007		% Change
	Jan-Dec	% Share	Jan-Dec	% Share	
VAT customs collection,*					
of which	1,168	100%	1,438	100%	23%
Mineral fuels and oils	366	31%	400	28%	9%
Vehicles other than railway	136	12%	178	12%	31%
Reactors, boilers, other machinery	87	7%	108	8%	24%
Electrical Machinery	65	6%	85	6%	30%
Iron and Steel	51	4%	81	6%	58%
Others	464	40%	587	41%	26%

Source: Directorate General of Customs (DGC), Import Declarations, by HS chapter(HS2);

* Please note that VAT collected at Customs in this table may differ from the amount previously mentioned in the Revenue Section as this data is captured from the Customs Administration Declaration forms whereas VAT in the fiscal performance is on a cash basis amount

VAT revenues collected at customs increased by 23 percent in 2007 at LL 1,438 billion, in line with the 25.7 percent increase in imports which reflects higher prices of fuel and imports from Europe.

In general, VAT revenue collected at customs reflects the top 5 imports except for chemical products:²⁸

Minerals fuels and oils representing the largest share of collected VAT at customs (at 28 percent), increased by 9 percent compared to the VAT collected in 2006 in line with the increase in of 11 percent in imports of minerals fuels and oils. Compared to other items, VAT from mineral fuels and oil did not increase significantly in percentage, however, in absolute value (LL 34 billion) it accounted for 13 percent of the total increase in VAT at imports.

VAT from **Vehicles other than railway**, (such as tractors, their parts and accessories) the second most VAT generating import category increased by 31 percent to LL 178 billion, in line with the 30 percent increase in imports. This increase of LL 42 billion is the highest in absolute value in any one item and represents over 15 percent of the total increase. The category maintained its 12 percent share.

The third product category contributing to VAT revenues collected at customs was **reactors and boilers**, mainly machinery and mechanical appliances, with reached LL 108 billion increasing by 24 percent from its 2006 level. Its share of the total VAT collected at imports increased to 8 percent from 7 percent in 2006.

Electrical machinery, ranking fourth in VAT at imports also increased by 30 percent to LL 85 billion in 2007, in line with the 32 percent increase in imports of electrical machinery. This category maintained a 6 percent contribution to the total VAT at imports remaining at the same level from 2006.

At an increase of 58 percent, VAT from imports of **iron and steel** reached LL 81 billion in 2007 compared to LL 51 billion in 2006. This increase was in line to the increase in total imports of iron and steel which increased by 59 percent in 2007. This category increased its share of the total VAT at import reaching 6 percent, up from 4 percent in 2006.

(For further details on trade performance, please refer to Section V).

²⁸ Except for chemical products which are the fourth most imported product category, but which do generate little VAT because a large share of chemical products are VAT exempt (including medicine, some pharmaceutical products, fertilizers)

Table 32: Statistics from VAT Declaration Forms

(Amounts in LL billion – except for first item)

	2005	2006	2007	05-06 % Change	06-07 % Change
Number of Declarations Received	71,521	77,574	82,560	8.5%	6.4%
Amount of VAT Declared	520	542	562	4.1%	3.8%
Total Amount of VAT Claimed for Refund	179	252	243	40.7%	-3.5%
<i>Diplomats & Int. organization*</i>	5	7	15	41.1%	105.6%
<i>Exempted sectors**</i>	37	37	37	-1.6%	0.3%
<i>Exporters***</i>	83	67	37	-18.6%	-45.4%
<i>Semi Annual and Annual Refund claims****</i>	54	141	97	159.8%	-31.1%
VAT Tourist Refund	11	9	11	-15.6%	14.0%

Source: MOF, VAT Directorate, VAT Declaration Forms as of March 6, 2007

VAT revenue figures in this table are based on quarterly VAT declaration forms, whereas the VAT revenue figures in the Fiscal Performance represent cash collections. Note that VAT revenues in this Table may also differ from the VAT figures in Table 30 depending on the number of processed declarations at a given date.

* Includes United Nations.

** Under Article 59 of VAT Law and its amendment in 2004, exempted sectors are granted 100 percent refund, of VAT input incurred.

*** Exports are zero-rated

**** By virtue of VAT Law and its amendment in 2004, VAT creditors/carry forwarders can refund their VAT twice each year.

Since the introduction of the VAT in 2002 and due to the subsequent lowering of the original threshold of LL 500 million in 2002 decreasing annually to reach LL 150 million in 2005²⁹, VAT declaration in 2007 increased to 82,560 as compared to 77,574 in 2006. As expected, the increase in number of declarations has slowed down since 2005 when the increase was 12 percent, 8.5 percent in 2006 and 6.4 percent in 2007.

The total amount of VAT filed and declared increased by 3.75 percent in 2007 reaching LL 562 billion from LL 542 billion in 2006 and LL 520 billion in 2005. Therefore, although there are more firms declaring taxes, the average declaration has continued to decrease. On 2007, the average declaration decreased to LL 6.8 million in 2007 from LL 7.0 million in 2006 and LL 7.3 million in 2005. This is consistent with the higher number of declarations by small and medium firms.

The **VAT tourist refund** increased by 14.0 percent in 2007 reaching LL 11 billion. This increase has compensated for the decrease of 15.6 percent which resulted in 2006 when the VAT refund decreased to LL 9 billion. The increase in tourist refund may be attributed to higher prices in 2007 as the number of tourists decreased by 4 percent in 2007 compared to 2006. However, significant differences were shown on a quarterly basis with the increase coming during the second half of 2007 as compared to 2006 given the 2006 July War. Tourists increased to 605,031 in the second half of 2007 compared to 431,831 in the same period in 2006. On the other hand the first two quarters in 2007 registered lower VAT tourist refund from 2006 given that the first half of 2006 was experiencing higher tourist activities.

The total amount of **VAT claimed for refund (excluding tourist refund)**³⁰ decreased by 3.5 percent in 2007 down to LL 243 million from LL 252 million in 2006. This slight decrease came after an increase by 40.7 percent in 2006 as compared to 2005. The main decrease came due to lower semi-annual refund claims which decreased LL 61 billion in 2007 compared to 2006. The decrease in total

²⁹ The mandatory registration threshold lowered to LL 150 million of annual turnover, has been effective as of January 1st 2005. The voluntary registration threshold was canceled effective 1/1/2004, granting businesses and individuals the right to register in the VAT regardless of the level of their annual turnover.

³⁰ Please note that tourist refund operations are effected by an international company "Global Refund" and not by the Treasury. Thus, tourist refund figures are accounted for separately.

amount claimed for refund comes despite the increase in the number of refund claims received which amounted to 4,527 in 2007, up from 4,334 in 2006 and 4,029 in 2005.

Diplomats and international organizations claimed for LL 15 billion worth of refunds in 2007, compared to LL 7.3 billion in 2006, increasing by 106 percent. The increase in refund claimed from diplomats and international organization was a result of a doubling of the amount per claim which increased to LL 38 million from LL 18 million. The number of claims slightly increased to 396 from 394.

Refund amounts claimed by **exempt sectors**³¹ almost maintained the same level in 2007 at LL 37 billion increasing by a slight 0.31 percent from 2006. The number of refund claims presented by exempt sectors in 2007 also decreased by 7.8 percent to 1,497 claims. The average claim increased to of LL 25 million per claim in 2007, compared to LL 23 million in 2006.

VAT refund claims for **exporters**³² totaled LL 94.4 billion, a significant increase of 40.4 percent compared to the 2006 which totaled LL 67.2 billion and more in line with the results of 2005 at LL 82.6 billion. This rise is in line with the increase in exports by 23.4 percent. The difference between the increase in exports and VAT refund claims for exporters may be attributed to the fact that exports of natural or cultured pearls, precious or semi-precious stones, the highest exported category have witnessed a decrease in its share of total export from 24 percent to 17 percent. Precious stones are VAT exempt. In 2007, there were 1,902 refund claims presented by exporters, an increase of 5.8 percent compared to 2006. The average amount per claim presented by exporters increased from an average of LL 50 million in 2007 from LL 37 million in 2006.

Refund claims from VAT creditors/carry forwarders registered LL 96.9 billion in 2007 a decrease by 31 percent from LL 141 billion in 2006. The semi-annual refund claims decreased by 56.4 percent to LL 47 billion down from LL 109 billion in 2006. This decrease comes after an exceptionally high semi-annual refund claim in 2006 which itself by almost four times the claims in 2005. Annual refund claims increased by 55.6 percent to LL 50 billion from LL 32 billion in 2006. The amount of VAT credit carried forward increased by 37.4 percent to LL 385 billion in 2007 from LL 280 billion in 2006. This reflected both 6 percent higher number of taxpayers at 8,412 and higher VAT credit per taxpayer which increased to LL 45 million in 2007 from LL 35 million in 2006.

³¹ Article 59 of VAT Law 379 grants exempt activities, namely exempt industries such as agro food, pharmaceutical, agricultural chemicals, printing and publishing and exempt services such as education and medical services the right to refund the VAT incurred, in order not to add burden on their operating costs.

³² As is consistent with a destination based VAT, the Lebanese VAT Law zero-rate exports.



For further information please contact
Ministry of Finance
UNDP Project
T +961 1 981 057/8
F +961 1 981 059
infocenter@finance.gov.lb
www.finance.gov.lb