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Lebanon: Report on Interim Staff Visit

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LEBANON

Report on Interim Staff Visit

Prepared by the Middle East and Central Asia Department
In Consultation with Other Departments

Approved by Lorenzo Perez and Carlos G. Muñiz

September 10, 2004

- **Discussions were held in Beirut July 21–29, 2004.** The mission comprised Messrs. Gardner (head), Goswami and Mongardini (all MCD), Danninger (FAD), Mumssen (PDR), and García Pascual (MFD). Mr. Khan (MCD) participated in policy discussions on July 21–22. Messrs. Shaalan and Bakhache (OED) attended the concluding discussions. The mission met with the prime minister; the governor of the central bank; the ministers of finance, economy and trade, and telecommunications; other senior officials; and representatives of the public electricity company, the social security administration, and the banking sector.

- **The Article IV consultation was concluded by the Executive Board on May 7, 2004.** Directors welcomed recent positive macroeconomic developments but urged a more vigorous pursuit of macroeconomic stabilization and structural reforms, seizing the advantage of the positive momentum generated by the Paris II conference and the favorable international environment. Directors stressed that the attainment of debt sustainability over the medium term required further large increases in the primary surplus based on deep-seated revenue and expenditure reforms. In discussions with Mr. Carstens in Beirut on May 17–18, 2004, the authorities acknowledged that much remained to be done to meet Paris II commitments but also indicated that little could be achieved before the presidential elections. Mr. Carstens encouraged institutional reforms to solidify financial policies, starting with a phasing out of central bank financing of the government.

- **Lebanon has never used Fund resources.** It accepted the obligations of Article VIII, Sections 2, 3, and 4 in 1993 and maintains an exchange system free of restrictions on payments and transfers for current international transactions; restrictions on capital account transactions are minor, and relate mostly to a prohibition on domestic borrowing by nonresidents. Lebanon is on the standard 12-month cycle, but interim staff reports are issued for information of the Executive Board in between Article IV consultations. The first such interim report was issued on September 8, 2003 (SM/03/314).

Contents

LIST OF ACRONYMS

BCC	Banking Control Commission
BdL	Banque du Liban
BOPSY	Balance of Payments Statistics Yearbook
BPM5	Balance of Payments Manual
CAS	Country Assistance Strategy
CD	Certificate of Deposit
CPI	Consumer Price Index
DASS	Deduction at Source on Wages and Salaries
DSA	Debt Sustainability Analysis
EdL	Electricité du Liban
GDDS	General Data Dissemination System
GIT	General Income Tax
IFC	International Finance Corporation
IFS	International Financial Statistics
FSAP	Financial Sector Assessment Program
FSSA	Financial System Stability Assessment
ITRS	International Transactions Reporting System
NIR	Net International Reserves
PPI	Producer Price Index
ROSC	Report on the Observance of Standards and Codes
VAT	Value-Added Tax
WTO	World Trade Organization

Executive Summary

Recent developments and short-term outlook: All available indicators point to a significant acceleration in growth, which is projected to reach 5 percent in 2004. Strong export and tourism receipts and a recovery in construction activity are the driving factors behind the strengthening recovery. A modest acceleration of inflation to about 3 percent is expected in 2004, owing to increases in import prices and higher fuel prices. The external current account deficit is projected to decline by about 1 percentage point to around 12 percent of GDP. Sustained private capital inflows are financing the current account deficit, and official gross international reserves have remained stable at just over $10 billion. Monetary growth remains strong at an annual rate of 12 percent, and domestic interest rates have not risen in tandem with international rates. Budgetary performance in the first half of 2004 has been much stronger than expected, due largely to solid revenue growth. Owing to a sizeable reduction of interest charges and a projected increase in the primary balance, the debt-to-GDP ratio should decline to 178 percent of GDP by end-2004. Expenditure and revenue efforts are, however, being undermined by the losses of the *Electricité du Liban* and imbalances in two of the social security funds.

Medium-term scenario and debt sustainability analysis (DSA): Despite the improved short-term outlook, vulnerabilities related to the sustainability of the large public debt remain. The DSA shows that, in a context of rising global interest rates, the stability of debt dynamics hinges on additional and sustained fiscal adjustment. Even with considerable adjustment, a range of adverse shocks could place the debt ratio back on an unsustainable path.

Policy discussions: Discussions focused on the policies required to consolidate recent gains, prepare for a resumption of reforms in 2005, and limit the country's financial vulnerabilities. In order to protect recent achievements on the budgetary front, expenditure pressures will have to be contained, and the risks from open-ended transfers and contingent liabilities will need to be addressed. The authorities' reform priorities for the medium term need to be articulated in a clear fiscal program in order to sustain adjustment. The outgoing government intended to use the 2005 budget to outline the next stage of fiscal reforms. Debt management is being strengthened, the government has committed not to resort to central bank financing this year, and measures have been taken to broaden the market for government paper. Improved fiscal-monetary policy coordination would reduce the cost of financial policies. In the context of a fixed exchange rate, the need for policy coordination is dictated by the linkages between the level of international reserves, the level of interest rates, and the level of sovereign borrowing in the market. The exchange rate peg remains appropriate under current circumstances, but an exit to a more flexible arrangement could, in time, help strengthen the economy's, and the financial sector's, resilience and adaptability to shocks. Parallel efforts are under way to reduce financial sector vulnerabilities. In particular, the authorities recognize the importance of developing capital markets as a source of risk diversification and potential financing for the overleveraged private sector. Most domestic structural reforms are on hold. Preparations for WTO membership are continuing. Progress is being made on the statistical front, but significant gaps still need to be addressed.

I. INTRODUCTION

1. The present report provides information on economic and policy developments since the Article IV discussions of February-March 2004 (SM/04/146), and updates the staff's projections, medium-term framework, and related DSA. Because of political uncertainty over the outcome of the presidential election, the government could not commit to new policy initiatives at the time of discussions. On September 3, 2004, parliament approved, by a large majority, a constitutional amendment extending President Lahoud's term by three years. Nevertheless, the political situation remains fluid: four ministers, including the minister of economy and trade, tendered their resignations to protest the constitutional amendment, and Prime Minister Hariri has announced that his government will resign by the end of September.

II. RECENT DEVELOPMENTS AND SHORT-TERM OUTLOOK

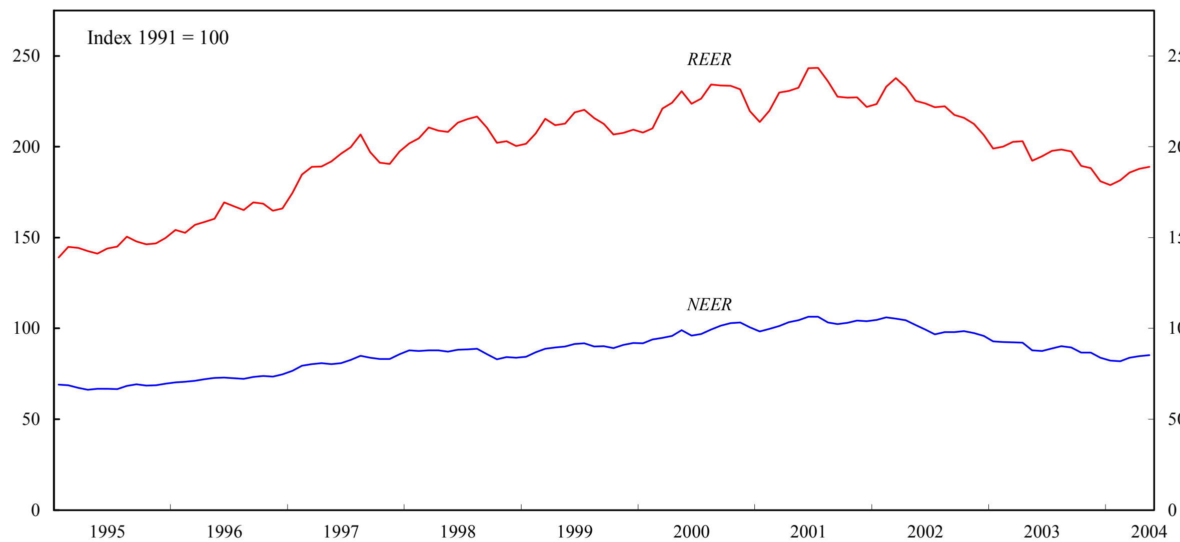
2. **All available indicators point to a significant acceleration in growth, which is projected by staff to reach 5 percent in 2004.**[1] Strong export and tourism receipts, and a recovery in construction activity, are the driving factors behind the strengthening recovery. The increase in growth also reflects a catch-up effect from the adverse impact of the war in Iraq in 2003. A modest acceleration of inflation to about 3 percent is expected in 2004, owing to increases in import prices, mostly related to the depreciation of the Lebanese pound against the Euro, and higher fuel prices. The real effective exchange rate depreciated by 7 percent in the 12 months to May 2004 (Figure 1).

3. **The external current account deficit is expected to decline by about 1 percentage point to around 12 percent of GDP in 2004.** The surge in external demand for Lebanese goods and services, mainly from the region, is expected to outweigh the impact of higher oil prices. Exports to Iraq have grown dramatically, albeit from a very low base. At the root of the improvement in the current account is a substantial improvement in the government financial balance, offset only in part by a decline in the saving-investment balance of the private sector. The latter development reflects the adverse terms-of-trade shock related to oil prices and the decline of private saving due to lower interest rates.

[1] The lack of official national accounts and consumer price statistics hampers the analysis of macroeconomic developments (see below). Staff estimates are based on various activity indicators, including a set of coincident indicators and business surveys collected by the central bank.

Figure 1. Lebanon: Exchange Rates

The real and nominal effective rates have depreciated along with the U.S. dollar since early 2002



Sources: Banque du Liban, and Fund staff estimates.

4. **Sustained private capital inflows are financing the current account deficit.** Although the surge of inflows recorded after Paris II is slowing down, the general reflow of Arab capital to the region continues to benefit Lebanon. Still, a potential reversal in investor confidence constitutes a major risk for the economy. In addition to deposit inflows into the banking system, Lebanon continues to attract large foreign direct investment ($2 billion net in 2003), mostly into the real estate sector.

5. **Official gross international reserves have been stable at just over $10 billion.** The gross reserve coverage of short-term government liabilities stands at 204 percent, while the banking sector reserve coverage of all short-term dollar liabilities (including dollar deposits) stands at 48 percent. The central bank stabilized its international reserves during the first half of the year, in part by attracting dollars through special three- and five-year deposit facilities.[2] However, this will imply additional losses for the BdL over the medium term.

6. **Fueled by capital inflows, monetary growth remains strong at 12 percent over the 12 months ending June 2004, and domestic interest rates have not risen in tandem with international rates (Figure 2).** As financial inflows into Lebanon moderate, monetary growth is expected to slow down in the period ahead. The level of international reserves has helped reinforce confidence, but the pace of depositor inflows will also be affected by developments in international and domestic interest rates as well as regional political developments.

[2] As in the case of the special Certificates of Deposit issued in 2003, the special deposits are discounted instruments, which are denominated in local currency but purchased in U.S. dollars.

7. **Banking sector capitalization and profitability remain high.** Capitalization in major banks has increased, return on equity was 11 percent in 2003, and banks remain highly liquid. With the pick up of economic activity and the decline in lending rates, the trend increase in the share of problem loans was reversed in the first half of 2004, and problem loans now stand at 12.2 percent of the loan portfolio (net of provisions). Banks are also making use of the new loan restructuring framework. However, private sector credit growth remains anemic, reflecting widespread over-leveraging in the nonfinancial private sector. Bank profitability may come under pressure in the period ahead as high-yielding government paper comes to maturity and international interest rates increase.

8. **Budgetary performance in the first half of 2004 has been much stronger than expected, due largely to solid revenue growth.** The primary budget surplus for the first six months of 2004 improved by about 1 percent of GDP, over the same period of 2003, to 2.5 percent of annual GDP. VAT receipts have been particularly buoyant, but revenue performance has been strong across the board. Non-interest budgetary expenditure was contained effectively.

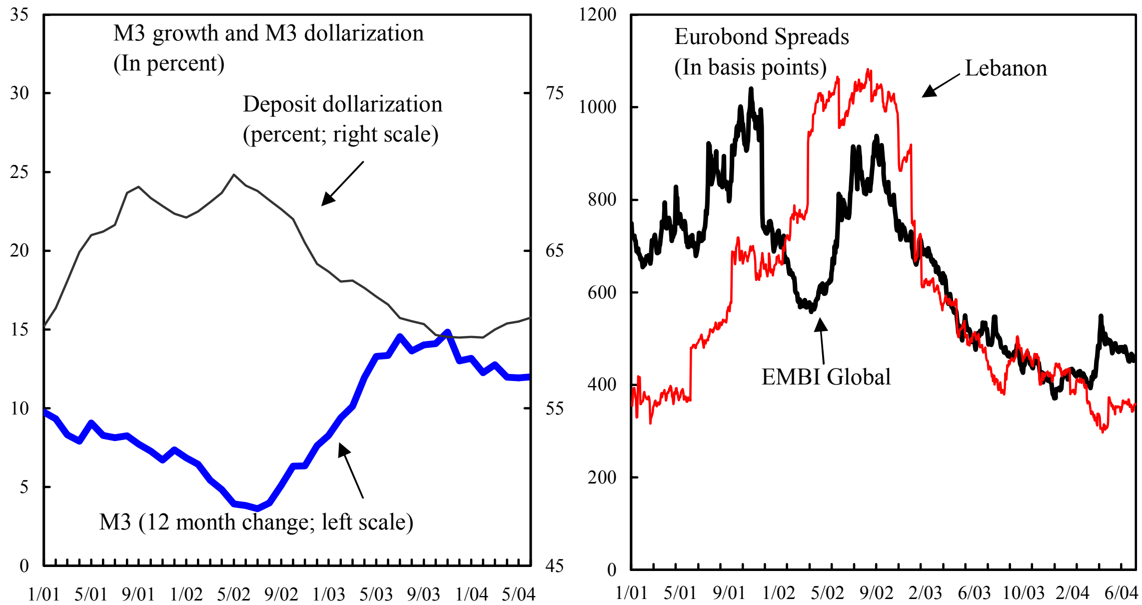
9. **Owing to a sizeable reduction of interest charges and a projected increase in the primary balance, the overall government balance could decline from 14.6 percent of GDP in 2003 to about 8 percent of GDP in 2004, provided recent trends are sustained**. On this basis, the debt-to-GDP ratio would decline to 178 percent of GDP by year end (Figure 3), thus bringing the ratio back to its level in 2002. The decline in the interest bill (by 5.5 percentage points of GDP in 2004) reflects the effects of Paris II refinancing and low global interest rates, but also a continued decline of interest rate spreads vis-à-vis international rates. Based on recent trends, the primary budget surplus is projected to rise by about 1 percentage point to 4½ percent in 2004. However, this is short of the authorities' primary surplus target of 6 percent of GDP under Paris II. The positive revenue trends of the first half of 2004 will be offset in the second half of the year by the cost of a newly established cap on gasoline prices and anticipated additional transfers to the loss-making electricity company (EdL).[3] The downward revision to the wage bill for 2004 reflects lower than projected outlays in the first half of the year due to a nominal wage freeze. Lower outlays for other current spending are based on sizeable savings in subsidies and health care spending in the first half of 2004. Expenditure projections for the second half of 2004 are based on the same assumptions as in the Article IV staff report (SM/04/146).

[3] The price of gasoline was capped in May by reducing excises, at a projected cost of around ½ percent of GDP in 2004.

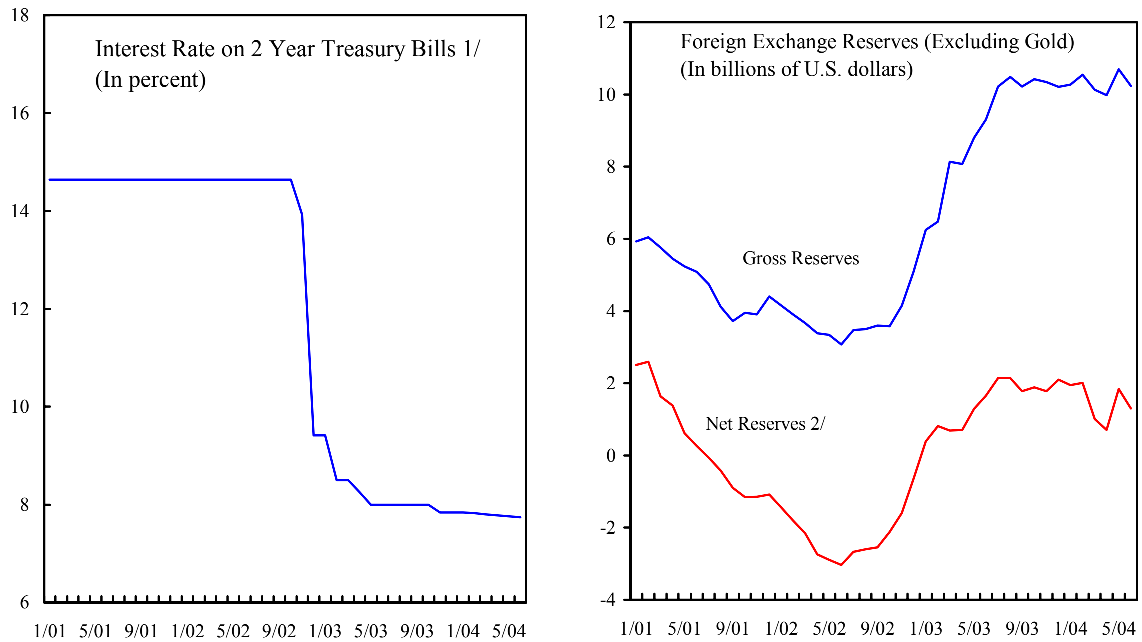
Figure 2. Lebanon: Monetary and Financial Indicators

Financial markets remain calm, despite the political impasse

While M3 growth is slowing gradually and de-dollarization has leveled off, Eurobond spreads remain low...



...and domestic interest rates and gross international reserves are stable.



Source: Banque du Liban and JP Morgan.
1/ Rate for February 2003-October 2003 is for central bank-issued two-year CDs.
2/ Net foreign reserves in March 2003 have been adjusted to capture the foreign exchange liabilities of the Banque du Liban which were temporarily recorded under other liabilities.

10. **The government's projected gross financing requirement for 2004 stands at $16 billion (82 percent of GDP).** The government has largely pre-funded its dollar financing needs for 2004 by tapping ample liquidity in the dollar market at favorable rates.[4] The gross financing requirement includes the debt exchange, that was concluded in September 2004. The operation, which was intended to reduce the gross financing requirement in 2005, involved a voluntary exchange of up to $2.2 billion in Eurobonds maturing in 2005 for new long-term bonds. About half of that amount was exchanged for new six- and eight-year Eurobonds at yields of $7^1/_8$ and $7^3/_4$, respectively.

11. **Expenditure and revenue efforts are being undermined by the losses of EdL and imbalances in two of the social security funds.** The operating losses of EdL reflect not only a gap between operating costs and the tariff structure, but also production inefficiencies; large nontechnical losses, due to theft and noncollection; and governance problems. Operational losses of EdL have been covered by the government, although the central bank has also provided about $300 million in loans since June 2003. The central bank loans are unlikely to be repaid and thus constitute a contingent liability for the government. Total financial assistance to EdL from the government and the central bank amounted to 2.6 percent of GDP in 2003, and is projected to be 2.3 percent in 2004. Another source of contingent liabilities comes from the imbalances in the health and family allowance arms of the social security system. The deficit (1.1 percent of GDP in 2003) is being financed by drawing down social security reserves and is masked by the surplus in the pension fund (1.8 percent of GDP).

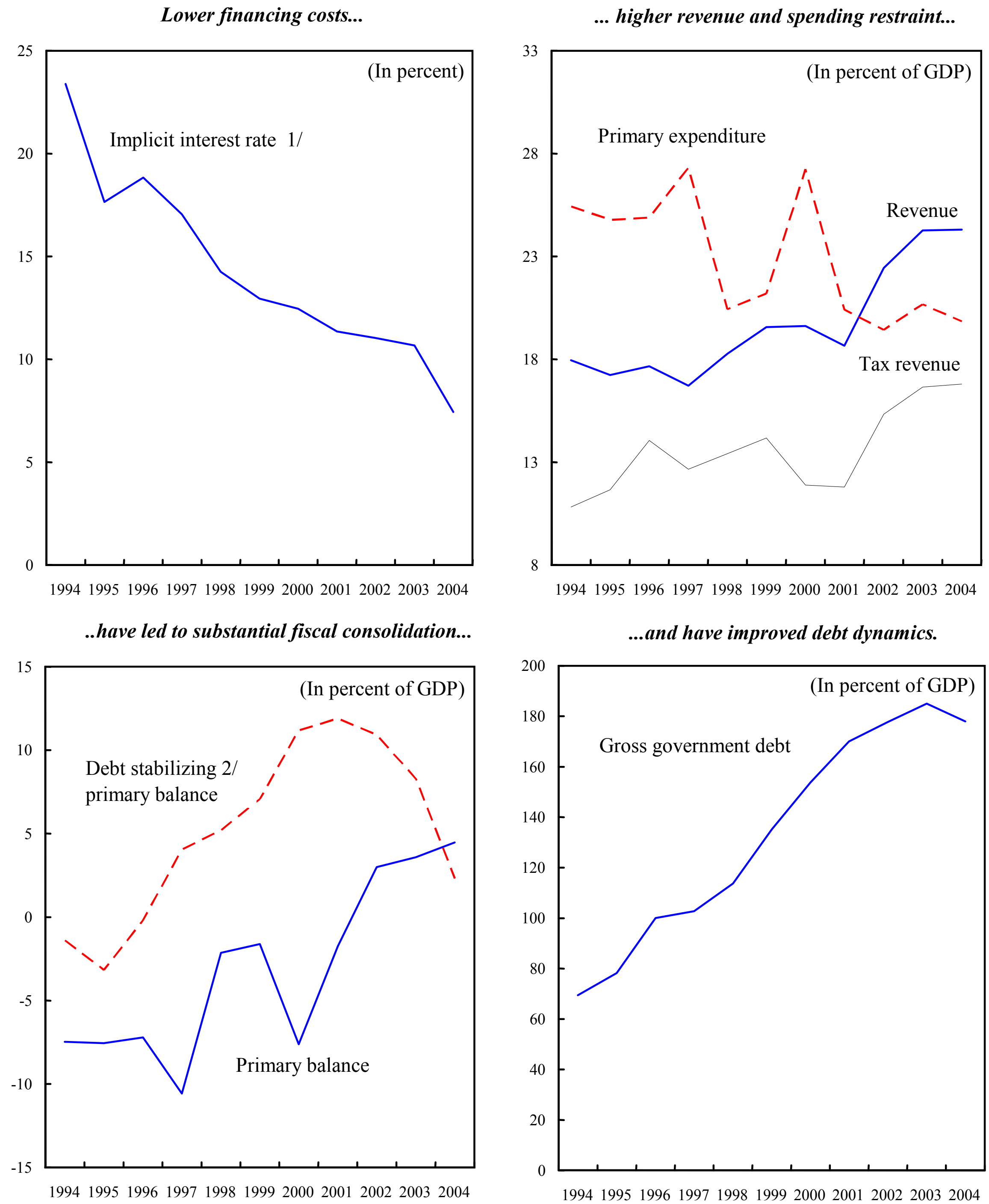
III. MEDIUM-TERM SCENARIO AND DEBT SUSTAINABILITY ANALYSIS

12. **Despite the improved short-term outlook, vulnerabilities related to the sustainability of the large public debt remain.** The DSA shows that, in a context of rising global interest rates, the stability of debt dynamics hinges on additional and sustained fiscal adjustment (Figure 4). Even with considerable adjustment, a range of adverse shocks, such as a sharp rise in global interest rates, an increase in Lebanese spreads from current levels, and lower growth, could place the debt ratio back on an unsustainable path (Table 12). Because of the improved short-term growth and budgetary outlook, the same set of adjustment policies assumed in the Article IV medium-term scenario result in a faster pace of debt reduction.[5] While the staff scenario assumes that the expected increases in dollar interest rates will be passed through to domestic interest rates (both in Lebanese pounds and dollars) in full, the authorities believed that the dedicated investor base would shield Lebanon from the full effect, leading to a further decline in spreads. The adverse impact of the upward revision in

[4] The interest rate on two–year T-bills is currently at 7.8 percent. In May 2004, the government issued a $1 billion, seven-year Euro-bond at 7¾ percent and a € 225 million, five-year Eurobond at 7¼ percent.

[5] Absent conclusive evidence of a permanent improvement in growth prospects, GDP growth is assumed to return to the earlier projection of 3.5 percent as of 2006.

Figure 3. Lebanon: Central Government Operations, 1994–2004



Sources: Banque du Liban; ministry of finance; and Fund staff estimates.

1/ Ratio of interest payments to gross government debt at the end of the preceding year.
2/ Estimated using the implicit interest rate prevailing in that year and a centered five-year moving average of growth and inflation.

oil prices[6] on the budget and imports is offset, in large part, by the second-round impact of higher demand and capital inflows from oil producing countries in the region.

IV. Policy Discussions

14. **Discussions focused on the policies required to consolidate recent gains, prepare for a resumption of reforms in 2005, and limit the country's financial vulnerabilities.** The authorities indicated that recent revenue and expenditure efforts would be maintained in the second half of the year, and that the 2005 budget would include the reform priorities for the coming years and set the stage for continued fiscal adjustment. The mission welcomed the authorities' intentions. It stressed that, without the implementation of significant budgetary and structural reforms, including privatization, the opportunities for a soft-landing accorded by the recent gains would diminish.

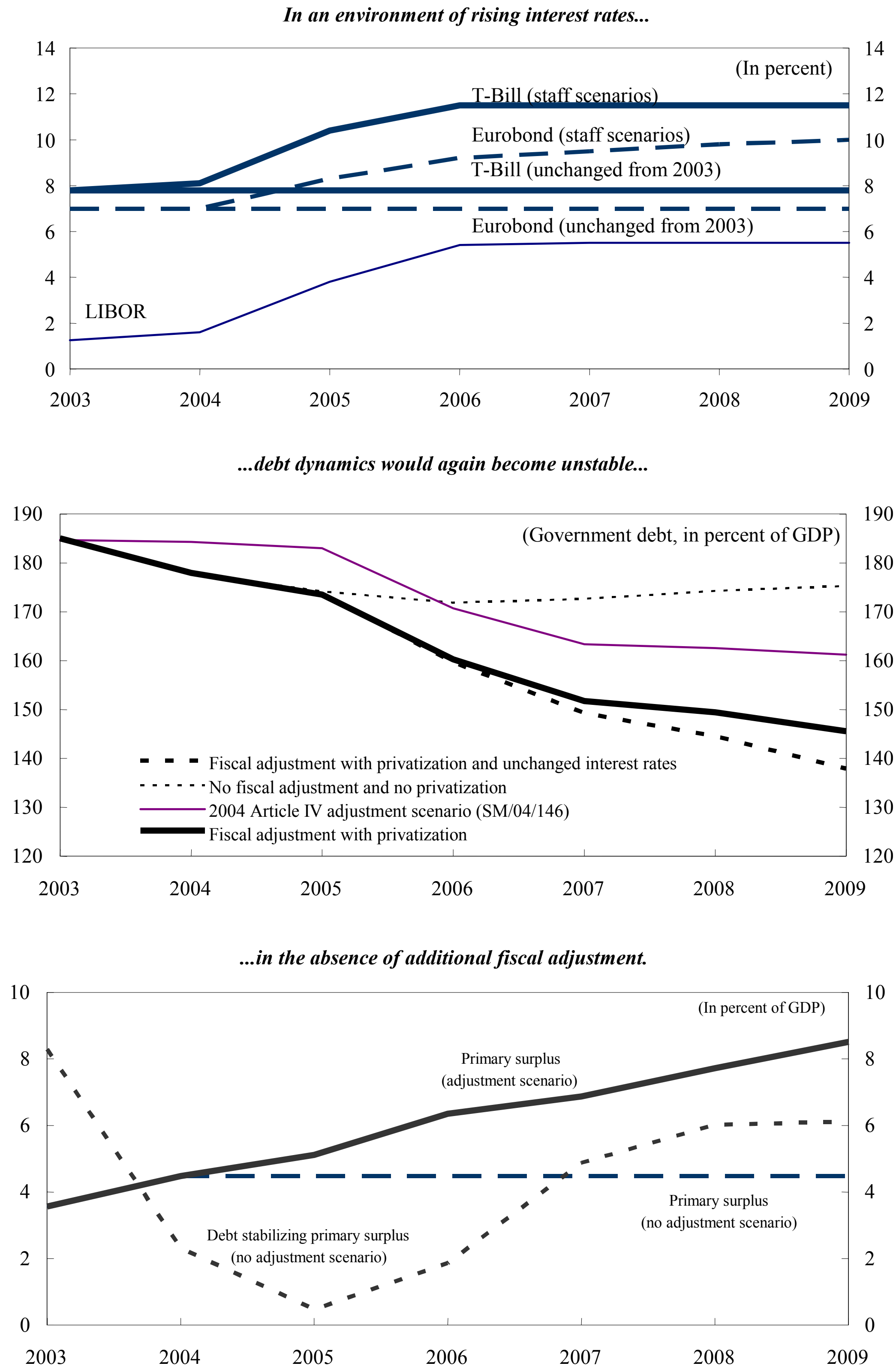
15. **In order to protect recent achievements on the budgetary front, expenditure pressures will have to be contained, and the risks from open-ended transfers and contingent liabilities will need to be addressed**:

- ***Continued expenditure discipline is required.*** The mission expressed concern that expenditure discipline would weaken in the election period, particularly in regard to capital spending. The authorities were confident that they would be able to contain spending and noted that presidential elections would not, in any case, add to expenditure pressures.

- ***The problems of EdL require urgent attention.*** Ongoing efforts to reduce operating costs and improve collection should reduce losses at the margin. However, restoring the financial health of EdL will require deeper restructuring, political action to address widespread nonpayment, and possibly tariff adjustments. According to the authorities, a broad political consensus for reform needs to emerge for such measures to be taken. As a first and immediate step, the mission urged that EdL be made more accountable about its financial situation and that the financial support to EdL be made more transparent, rather than disguised as central bank lending. In this regard, an external assessment of EdL operations and finances would be desirable. The incorporation of EdL as a joint stock company and its removal from direct political tutelage are also key to improving governance and eventually privatizing EdL.

[6] A $10 increase in international oil prices in 2005 compared to current projections would lead to an estimated deterioration of the fiscal balance by 1.1 percent of GDP. Roughly one half would come from higher transfers to the electricity company to cover operational losses, while the other half would stem from lower excise revenue due to the cap on gasoline prices.

Figure 4: Debt Sustainability Analysis, 2003–09



Source: Six month U.S. dollar LIBOR from WEO projections; and Fund staff projections.

- ***Social security imbalances should be addressed before they snowball.*** The gaps in the family allowance and health funds reflect a combination of unfunded mandates and escalating health costs. Some measures are being taken to contain health expenditure, but more fundamental reforms will need to be identified to protect the government budget from these growing contingent liabilities. Plans are under way to extend social security coverage in the form of minimum pensions and health insurance for retirees. The mission welcomed the government's draft proposal to fund the bulk of the added benefits through increases in contributions, rather than shifting the burden to the state. Implementation will depend on the timing needed to secure parliamentary approval.

- ***Fuel price caps will need to be phased out.*** Even though price caps are a poorly targeted instrument to reach the most vulnerable sections of society, they are unlikely to be removed in the present political context. However, the mission recommended that the government close this open-ended liability as soon as conditions permit, and that it recover the associated tax losses when oil prices decline.

16. **The authorities' reform priorities for the medium term need to be articulated in a clear fiscal program in order to sustain adjustment:**

- ***The authorities intend to use the 2005 budget to outline the next stage of fiscal reforms.*** The reform priorities discussed during the last Article IV consultation remained valid and the government planned to put these proposals forth in the 2005 budget. The details of the budget proposal are not yet available, but transfers to EdL are expected to continue. Even though the approval of the budget could be delayed until after parliamentary elections in May 2005, the authorities believed that an ambitious draft budget would nonetheless send the right signals to the next government. In the interim, expenditure authorizations would be governed by the monthly ceilings set by the 2004 budget.

- ***Preparations for tax reform are continuing.*** The authorities confirmed that the next stage of tax policy reform would target income tax, notably through the introduction of a general income tax (GIT) to replace the current schedular system. An increase in the VAT rate was not ruled out, but unlikely before parliamentary elections in 2005. The mission emphasized the importance of administrative reforms as a precondition to the successful introduction of a GIT, in order to overcome the current adversarial relationship between the tax authority and taxpayers. In this context, the authorities highlighted ongoing administrative improvements, including the broadening of the coverage of the DASS (deduction at source on wages and salaries), the preparation of a new tax procedures code, and completion of the preparations for the establishment of a large taxpayers' unit at the beginning of 2005.

- ***Difficult expenditure reforms lie ahead.*** Given the multiple claims on limited budgetary resources, the authorities recognized that expenditure rationalization would be needed in the future. Priority would be placed on reforming the public pension system (to align it to the private pension system), slimming down the civil service, strengthening recruitment standards, phasing out transfers to state-owned enterprises, and improving the targeting of capital spending, based on the results of the ongoing review of public investment. The authorities intended to include initiatives on all these fronts in the 2005 budget.

- ***Institutional reforms can strengthen the adjustment effort.*** Lack of accountability over certain expenditure items, such as transfers to state-owned enterprises, reliance on extra-budgetary accounts, carryover provisions for some expenditures, and other gaps in budgetary procedures impose a cost in terms of budget planning and execution. The mission reemphasized that these gaps could be addressed with the adoption of an organic budget law, as recommended by Fund technical assistance missions. However, additional internal debate appears needed before introducing such legislation. A fiscal Report on the Observance of Standards and Codes (ROSC) planned for September 2004 will take up this, and other reporting and governance issues, in more detail.

17. **Debt management is being strengthened:**

- ***The government committed not to resort to central bank financing this year, and measures have been taken to broaden the market for government paper.*** The ministry of finance confirmed that it would refrain from calling on direct central bank financing, relying solely on the market for its financing.[7] In an effort to tap into longer-term investors, diversify its funding base, and build up a yield curve, the ministry of finance has listed Eurobonds on the Beirut stock exchange, reduced the frequency of auction to increase market depth, and issued T-bills at longer maturities (up to three years with plans for a five-year issue). Efforts to make government paper attractive to a wider investor pool are welcome. Nonetheless, the cost of extending maturities appears high, at about 100 basis points for each additional year. Given the steepness of the domestic yield curve, the mission advised moving cautiously into longer maturities.

- ***The debt exchange offers the opportunity to lock in dollar debt at favorable terms.*** Given ample dollar liquidity in the market, and the relatively low rollover risk, the mission emphasized that priority should be given to securing favorable terms. In the event, the new Eurobonds were issued at close to rates prevailing in the secondary market.

[7] The central bank has agreed that it can provide indirect credit by covering financing deficits in the primary T-bill auctions, at the prevailing interest rate. However, this facility has not yet been used.

18. **Improved fiscal-monetary policy coordination would reduce the cost of financial policies:**

- ***The actions of the fiscal and monetary authorities in financial markets should be complementary and directed at common objectives.*** In the context of a fixed exchange rate, the need for policy coordination is dictated by the linkages between the level of international reserves, the level of interest rates, and the level of sovereign borrowing in the market. Positive examples of cooperation are the government's decision not to resort to direct central bank credit this year and to issue T-bills in excess of its immediate financing need to help mop up excess liquidity. The mission urged even stronger coordination so that interest rate policy and the government borrowing strategy remain consistent with the international reserves objective.

- ***Greater interest rate flexibility would be desirable.*** The mission noted that interest rate policy needs to remain responsive to conditions in the foreign exchange market, in order to avoid the need for abrupt, and possibly destabilizing, changes in the stance of monetary policy later on. As long as the primary T-bill market provides the anchor for interest rates in the system, tensions are bound to emerge between monetary and debt-management objectives. These can lead to rigidities in interest rate determination. In the pursuit of its reserves objective, the central bank may then resort to alternative, sometimes more costly, instruments of intervention, such as the special deposit facility it introduced in 2004. Strengthened coordination mechanisms could obviate the need for such intervention, reduce these costs, and prevent conflicting signals from emerging. Eventually, a clearer separation of responsibilities should be achieved by developing short-term monetary policy instruments that set short-term interest rates apart from the primary T-bill market.

19. **Parallel efforts are under way to reduce financial sector vulnerabilities:**

- ***The authorities have taken a proactive stance in monitoring and mitigating risks in the banking sector.*** The Banking Control Commission (BCC), in coordination with the central bank, has issued new regulations to: (i) provide a general framework for risk management consistent with Basle II; and (ii) encourage further foreign-currency asset diversification. Lebanon has also indicated that it would adopt Basle II standards over the next few years, which would raise the risk weighting of government T-bills and Eurobonds. Based on Fund technical assistance, the BCC and the central bank are also upgrading the financial risk monitoring capacity, including through a refined Early Warning System (EWS) for the financial sector.

- ***The authorities recognize the importance of developing capital markets as a source of risk diversification and equity financing for the overleveraged private sector.*** Investor demand for longer-term assets requires confidence in the macroeconomic situation. However, capital market development is also hindered by gaps in the institutional and legal structures and, in particular, lack of an adequate system of regulation and supervision. An initiative is under way to identify technical assistance needs to strengthen the regulatory and supervisory regime for capital markets.

- ***The mission noted that the exchange rate peg remained appropriate under current circumstances, but that an exit to a more flexible arrangement could, in time, help strengthen the economy's, and the financial sector's, resilience and adaptability to shocks.*** The move to a more flexible regime would need to be part of a well-sequenced and comprehensive policy package to be discussed with the new government. The authorities restated their openness to consider a change in regime when conditions permit.

20. **Most domestic structural reforms are on hold; preparations for WTO membership are continuing:**

- ***Privatization of the telecommunication sector awaits the nomination of the regulatory authority.*** Since the privatization drive was launched in July 2002, the process has been marred in political controversy. The nomination of the board of the regulatory authority is now the main obstacle. The authorities and staff agreed that the liberalization of the telecom sector, under effective regulatory oversight, should be a precondition to successful privatization. However, such political appointments were unlikely to be made until after elections. Accordingly, the staff's adjustment scenario assumes privatization to begin in 2006, compared to the authorities' original target of 2003 under Paris II.

- ***The authorities hope to accede to the WTO in early 2005.*** Negotiations are well advanced and the authorities aimed at passing all of the required legislation, notably on domestic competition and intellectual property rights, by year end.

21. **Progress is being made on the statistical front, but significant gaps still need to be addressed.** A new set of national accounts through 2003 should be ready by year end, and the household budget survey under way should eventually provide a base for a more reliable consumer price index and for rebased national accounts.

V. Staff Assessment

22. **The economic and financial outlook for 2004 is stronger than in the last Article IV consultation, although significant vulnerabilities remain.** Fiscal performance has exceeded expectations, economic activity has picked up steam, and financing conditions have been favorable, owing to the benign global interest rate environment, and the redirection of capital flows to Lebanon from the region. Nonetheless, the fiscal performance still falls short of the authorities' original targets under Paris II, macroeconomic imbalances related to the heavy public debt remain large, and the economy continues to be vulnerable to adverse domestic and external shocks, such as a sharp rise in global interest rates. Moreover, continued political uncertainty could threaten market confidence.

23. **If sustained, recent budgetary efforts should produce a significant reduction in the debt-to-GDP ratio in 2004, which remains nonetheless very high; moreover, recent budgetary gains must be protected against fiscal risks from expenditure pressures, open-ended transfers and fuel subsidies, and growing contingent liabilities.** If not addressed, the mounting losses of the electricity company, the deficits in social security funds, and the contingent liabilities from fuel price caps will erode the hard-won improvement in public finances. It would be important to take steps in the 2005 budget to address these problems.

24. **The authorities are encouraged to capitalize on favorable external and domestic conditions presently to place the debt ratio on a steady downward path.** Debt servicing costs have been reduced by Paris II refinancing and a favorable global interest rate environment, but some of these effects are bound to be reversed in the near term. Continued and sustained fiscal adjustment is necessary to counter the projected increase in debt-servicing costs.

25. **The 2005 budget should set a benchmark for restarting the reform process.** Although political uncertainties are likely to persist ahead of parliamentary elections in mid-2005, the authorities are encouraged to follow through with the intention to set out and implement an ambitious reform agenda in the 2005 budget, along the lines discussed with staff. Improved cyclical conditions argue for front loading fiscal adjustment measures in 2005. The authorities' tax reform strategy constitutes a sound basis for expanding revenue. On the expenditure side, elimination of nonproductive spending should replace containment as the main instrument of adjustment, not least to sustain growth in the face of a withdrawal of fiscal stimulus.

26. **The chances of making an orderly transition to lower debt ratios also depend on efforts to reinforce the financial system.** Lebanon's reliance on the large deposit base to finance government deficits has insulated Lebanon from some of the pressures experienced by other merging market economies, but it has also exposed the country to larger interest-rate and rollover risks, due to the short maturity of bank deposits. By diversifying the sources of financing, the development of capital markets and collective investment schemes, such as pension funds, can, over time, reduce these vulnerabilities. The authorities are encouraged to renew their efforts in this direction. While strong macroeconomic fundamentals are a precondition to the stability of the depositor base, the soundness of the banking sector is also key to depositor confidence. The exposure of banks to the sovereign can only be reduced over time, but the mission welcomes ongoing efforts to strengthen the balance sheet of banks and monitor risks. In this respect, the authorities' intention to adopt Basle II standards is reassuring.

27. **While the exchange rate peg has been helpful in maintaining confidence and remains appropriate under current circumstances, there are advantages to greater exchange rate flexibility.** While a move toward greater flexibility will need to take into account the significant exchange rate exposures of the economy, the authorities are

encouraged to consider such a transition as part of the their medium-term reform and adjustment strategy.

28. **The structural reform program needs a new impetus.** Progress made toward WTO membership is welcome, and the adoption of a domestic competition law should have positive spillover effects on the competitiveness of the economy. Liberalization and privatization of the telecommunication sector should be a top priority for 2005, most importantly because of the benefits it would produce in terms of lowering input costs and enhancing the economy's competitiveness.

29. **Macroeconomic statistics remain inadequate for policy analysis and decision making.** Staff supports fully ongoing efforts to fill these gaps.

Table 1. Lebanon: Selected Indicators

	2000	2001	2002	2003 Rev.	2004 First Half	2004 SM/04/146	2004 Annual Proj.	2005	2006	2007	2008	2009
								Adjustment Scenario				
	(Annual percentage changes; unless otherwise indicated)											
National income and prices												
Real GDP	-0.5	2.0	2.0	3.0	...	3.0	5.0	4.0	3.5	3.5	3.5	3.5
Consumer price index (Annual average)	-0.4	-0.4	1.8	1.3	...	2.0	3.0	2.0	2.5	2.0	2.0	2.0
Nominal GDP	-0.9	1.6	3.8	4.3	...	5.1	8.2	6.1	6.1	5.6	5.6	5.6
Nominal GDP (In billions of Lebanese pounds)	24,721	25,115	26,068	27,198		28,575	29,416	31,204	33,104	34,948	36,894	38,949
Nominal GDP (In millions of U.S. dollars)	16,399	16,660	17,292	18,042	...	18,955	19,513	20,699	21,959	23,183	24,474	25,837
Per capita GDP (In dollars)	3,789	3,800	3,894	4,012	...	...	4,285	4,490	4,707	4,911	5,125	5,348
Broad money	9.6	7.4	7.6	13.0	12.0	7.5	8.5	6.0	5.5	5.5	5.5	5.0
Deposit dollarization (In percent of broad money)	60.5	67.3	64.2	59.5	60.8	59.5	60.8	60.5	60.3	60.0	60.0	60.0
	(In percent of GDP)											
Government Operations												
Revenue and grants	19.6	18.7	22.4	24.3	12.5	24.5	24.3	24.7	25.2	25.0	25.2	25.4
Expenditure 1/	44.2	37.6	37.5	38.9	16.7	34.9	32.6	30.4	31.0	31.5	30.9	30.0
Overall balance 1/	-24.6	-18.9	-15.1	-14.6	-4.2	-10.4	-8.2	-5.7	-5.8	-6.4	-5.7	-4.6
Of which: primary balance	-7.6	-1.7	3.0	3.6	2.5	3.6	4.5	5.1	6.4	6.9	7.7	8.5
Gross government debt	153.7	169.9	177.7	185.0	178.3	184.3	177.9	173.6	160.2	151.8	149.5	145.5
	(In millions of U.S. dollars)											
Gross government debt	25,200	28,312	30,727	33,381	34,791	34,927	34,719	35,926	35,188	35,185	36,578	37,603
Paris II budgetary support	....	....	300	2,090	0	288	88	....	....	....	....	....
	(In percent of GDP)											
External Sector												
Current account balance	-17.9	-21.5	-13.8	-13.1	...	-10.9	-12.2	-10.0	-9.5	-8.9	-8.1	-7.2
Of which: exports, f.o.b.	4.3	5.3	5.9	8.0	...	8.7	9.1	9.7	10.0	10.4	10.7	11.0
Of which: imports, f.o.b.	-35.3	-40.8	-34.5	-36.9	...	-36.6	-41.8	-41.9	-41.5	-41.4	-41.0	-40.6
	(In millions of U.S. dollars)											
Gross Official reserves (excluding gold)	5,895	4,402	5,094	10,213	10,238	10,695	10,560	10,860	12,087	12,967	12,627	12,767
Net international reserves (excluding gold) 2/	2,615	-1,325	-637	2,094	1,308	2,111	1,292	1,336	2,357	3,501	3,161	3,335
Exchange rate												
Lebanese pounds per U.S. dollar	1,508	1,508	1,508	1,508	1508	....	....	....	....	....	....	....
Memorandum item:												
Population (in millions) 3/	4.3	4.4	4.4	4.5	....	...	4.6	4.6	4.7	4.7	4.8	4.8

Sources: Lebanese authorities; and Fund staff estimates and projections.

1/ On checks issued basis.
2/ Gross reserves less short-term foreign liablities and domestic banks' foreign currency deposits with Banque du Liban.
3/ World Bank World Development Indicators and staff estimates and projections.

Table 2. Lebanon: Central Government Primary Balance: 2002–09
(In billions of Lebanese Pounds)

	Act.	H1	Prel.	H1	SM/04/146	Proj.	Adjustment Scenario				
	2002	2003		2004			2005	2006	2007	2008	2009
					(In billions of Lebanese pounds)						
Primary Balance	782	444	975	745	1,018	1,316	1,596	2,103	2,404	2,850	3,317
Revenue and grants	5,848	3,240	6,597	3,685	7,013	7,151	7,709	8,329	8,742	9,302	9,891
Revenue	5,846	3,240	6,597	3,685	7,013	7,151	7,709	8,329	8,742	9,302	9,891
Tax revenue	3,995	2,231	4,527	2,569	4,777	4,938	5,331	6,118	6,604	7,055	7,527
Taxes on income and profits	727	529	783	616	863	912	1,133	1,267	1,494	1,679	1,876
Taxes on property	300	147	321	176	350	382	405	457	482	509	538
Taxes on domestic goods and services	1,162	693	1,560	858	1,626	1,839	1,973	2,460	2,595	2,737	2,888
of which: VAT revenues	1,013	618	1,386	772	1,453	1,640	1,761	2,235	2,358	2,487	2,624
Taxes on international trade 1/	1,618	763	1,645	795	1,710	1,533	1,531	1,629	1,709	1,788	1,865
Tariffs	595	216	475	249	498	516	525	552	581	607	634
Excises	1,023	547	1,170	546	1,212	1,017	1,005	1,077	1,128	1,181	1,232
Other taxes	189	99	217	124	228	272	288	306	323	341	360
Nontax revenue	1,832	1,008	2,070	1,116	2,236	2,213	2,378	2,211	2,138	2,248	2,364
Entrepreneurial and property income	933	573	1,252	708	1,315	1,374	1,496	1,240	1,169	1,234	1,303
Profit transfer from BdL	20	0	0	0	0	0	0	0	0	0	0
Other	913	573	1,252	708	1,315	1,374	1,496	1,240	1,169	1,234	1,303
Administrative fees and charges	373	204	383	170	387	377	400	424	448	473	499
Other nontax revenue	98	40	81	41	83	83	88	138	99	104	110
Fines and forfeits	22	3	6	2	6	6	6	7	7	8	8
Other	76	37	75	39	77	77	82	132	91	97	102
Other treasury revenue	428	191	354	197	450	379	394	408	422	437	452
Grants	2	0	0	0	0	0	0	0	0	0	0
					(In billions of Lebanese pounds)						
Primary expenditure 2/	5,066	2,796	5,622	2,941	5,994	5,835	6,113	6,226	6,338	6,453	6,575
Current primary expenditure	4,485	2,307	4,708	2,459	5,080	4,859	5,096	5,190	5,286	5,384	5,489
Wages, salaries and pensions	3,008	1,506	3,078	1,556	3,186	3,098	3,160	3,239	3,304	3,370	3,437
Wages and salaries	2,151	1,097	2,234	1,123							
Pension benefits	857	409	844	433							
Transfers to EDL 3/	60	75	174	34	235	206	355	323	311	299	291
Other current	1,417	726	1,456	869	1,660	1,555	1,581	1,627	1,670	1,715	1,760
Materials and supplies	130	54	120	62	122	128	131	134	137	139	142
External services	80	45	81	53	83	99	101	104	106	108	110
Transfers 4/	227	138	271	160	335	300	339	347	354	362	369
Other	425	239	440	172	507	331	338	346	353	360	367
Other treasury outflows	555	250	544	422	613	697	673	696	721	746	772
Capital expenditure	581	489	914	482	914	976	1,017	1,036	1,052	1,069	1,086
Domestically financed	392	359	713	404	713	775	791	810	826	843	860
Foreign financed	188	130	201	78	201	201	226	226	226	226	226

Sources: Ministry of Finance, and Fund staff estimates and projections.

1/ Domestic excises, which are collected at customs, are classified as taxes on international trade.
2/ On checks issued basis.
3/ Excludes for all years principal and interest payments on behalf of EdL.
4/ In 2004 and onwards includes additional transfers to the social security funds (NSSF) to avoid reoccurrence of arrears.

Table 3. Lebanon: Central Government Primary Balance: 2002–09
(In percent of GDP)

	Act.	H1	Prel.	H1	SM/04/146	Proj	Adjustment Scenario				
	2002	2003		2004			2005	2006	2007	2008	2009
					(In percent of GDP)						
Primary Balance	3.0	1.6	3.6	2.5	3.6	4.5	5.1	6.4	6.9	7.7	8.5
Revenue and grants	22.4	11.9	24.3	12.5	24.5	24.3	24.7	25.2	25.0	25.2	25.4
Revenue	22.4	11.9	24.3	12.5	24.5	24.3	24.7	25.2	25.0	25.2	25.4
Tax revenue	15.3	8.2	16.6	8.7	16.7	16.8	17.1	18.5	18.9	19.1	19.3
Taxes on income and profits	2.8	1.9	2.9	2.1	3.0	3.1	3.6	3.8	4.3	4.6	4.8
Taxes on property	1.2	0.5	1.2	0.6	1.2	1.3	1.3	1.4	1.4	1.4	1.4
Taxes on domestic goods and services	4.5	2.5	5.7	2.9	5.7	6.3	6.3	7.4	7.4	7.4	7.4
of which: VAT revenues	3.9	2.3	5.1	2.6	5.1	5.6	5.6	6.8	6.7	6.7	6.7
Taxes on international trade 1/	6.2	2.8	6.0	2.7	6.0	5.2	4.9	4.9	4.9	4.8	4.8
Tariffs	2.3	0.8	1.7	0.8	1.7	1.8	1.7	1.7	1.7	1.6	1.6
Excises	3.9	2.0	4.3	1.9	4.2	3.5	3.2	3.3	3.2	3.2	3.2
Other taxes	0.7	0.4	0.8	0.4	0.8	0.9	0.9	0.9	0.9	0.9	0.9
Nontax revenue	7.0	3.7	7.6	3.8	7.8	7.5	7.6	6.7	6.1	6.1	6.1
Entrepreneurial and property income	3.6	2.1	4.6	2.4	4.6	4.7	4.8	3.7	3.3	3.3	3.3
Profit transfer from BdL	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other	3.5	2.1	4.6	2.4	4.6	4.7	4.8	3.7	3.3	3.3	3.3
Administrative fees and charges	1.4	0.8	1.4	0.6	1.4	1.3	1.3	1.3	1.3	1.3	1.3
Other nontax revenue	0.4	0.1	0.3	0.1	0.3	0.3	0.3	0.4	0.3	0.3	0.3
Other treasury revenue	1.6	0.7	1.3	0.7	1.6	1.3	1.3	1.2	1.2	1.2	1.2
Grants	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
					(In percent of GDP)						
Primary expenditure 2/	19.4	10.3	20.7	10.0	21.0	19.8	19.6	18.8	18.1	17.5	16.9
Current primary expenditure	17.2	8.5	17.3	8.4	17.8	16.5	16.3	15.7	15.1	14.6	14.1
Wages, salaries and pensions	11.5	5.5	11.3	5.3	11.1	10.5	10.1	9.8	9.5	9.1	8.8
Wages and salaries	8.3	4.0	8.2	3.8							
Pension benefits	3.3	1.5	3.1	1.5							
Transfers to EDL 3/	0.2	0.3	0.6	0.1	0.8	0.7	1.1	1.0	0.9	0.8	0.7
Other current	5.4	2.7	5.4	3.0	5.8	5.3	5.1	4.9	4.8	4.6	4.5
Materials and supplies	0.5	0.2	0.4	0.2	0.4	0.4	0.4	0.4	0.4	0.4	0.4
External services	0.3	0.2	0.3	0.2	0.3	0.3	0.3	0.3	0.3	0.3	0.3
Transfers 4/	0.9	0.5	1.0	0.5	1.2	1.0	1.1	1.0	1.0	1.0	0.9
Other	1.6	0.9	1.6	0.6	1.8	1.1	1.1	1.0	1.0	1.0	0.9
Other treasury outflows	2.1	0.9	2.0	1.4	2.1	2.4	2.2	2.1	2.1	2.0	2.0
Capital expenditure	2.2	1.8	3.4	1.6	3.2	3.3	3.3	3.1	3.0	2.9	2.8
Domestically financed	1.5	1.3	2.6	1.4	2.5	2.6	2.5	2.4	2.4	2.3	2.2
Foreign financed	0.7	0.7	0.3	0.3	0.7	0.7	0.7	0.7	0.6	0.6	0.6

Sources: Ministry of Finance, and Fund staff estimates and projections.

1/ Domestic excises, which are collected at customs, are classified as taxes on international trade.

2/ On checks issued basis.

3/ Excludes for all years principal and interest payments on behalf of EdL.

4/ In 2004 and onwards includes additional transfers to NSSF to avoid reoccurrence of arrears.

Table 4. Lebanon: Overall Fiscal Deficit and Financing

			H1	SM/04/160	Rev. Proj.	Adjustment Scenario				
	2002	2003	2004	2004	2004	2005	2006	2007	2008	2009
					(In billions of Lebanese pounds)					
Primary balance	782	975	745	1,018	1,316	1,596	2,103	2,404	2,850	3,317
Interest bill	4,712	4,942	1,971	3,987	3,743	3,383	4,020	4,655	4,963	5,112
Overall balance (checks-issued basis)	-3,930	-3,968	-1,226	-2,969	-2,427	-1,787	-1,917	-2,252	-2,113	-1,795
Float and statistical discrepancy	520	-215	61	0	61	0	0	0	0	0
Overall balance (cash basis)	-4,450	-3,753	-1,287	-2,969	-2,488	-1,787	-1,917	-2,251	-2,113	-1,795
Net financing	4,450	3,753	1,287	2,969	2,488	1,787	1,917	2,251	2,113	1,795
Banking system	-872	3,047	1,415	1,103	2,482	1,614	-727	-111	1,682	1,031
BdL 1/	-4,170	8,305	-1,116	-769	-142	-1,756	-3,030	-1,178	-1,228	140
Commercial banks 1/	3,298	-5,258	2,531	1,872	2,624	3,371	2,303	1,067	2,910	891
Government institutions	157	-616	-358	616	-50	250	250	250	250	250
Other creditors	2,746	-1,197	-287	302	-593	-77	-622	-148	181	514
Net change in arrears	-436	0	0	0	0	0	0	0	0	0
Exceptional financing	3,152	2,999	517	433	649	0	3,015	2,261	0	0
Privatization	0	-280	0	0	0	0	3,015	2,261	0	0
Securitization	0	0	0	0	0	0	0	0	0	0
Paris II loans	452	3,279	0	433	132	0	0	0	0	0
Debt cancellation and BdL revaluation of gold and fx	2,700	0	517	514	517	0	0	0	0	0
Valuation adjustment	-297	-480	0	0	0	0	0	0	0	0
					(In percent of GDP)					
Primary balance	3.0	3.6	2.5	3.6	4.5	5.1	6.4	6.9	7.7	8.5
Interest bill	18.1	18.2	6.7	14.0	12.7	10.8	12.1	13.3	13.5	13.1
Overall balance (checks-issued basis)	-15.1	-14.6	-4.2	-10.4	-8.2	-5.7	-5.8	-6.4	-5.7	-4.6
Float and statistical discrepancy	2.0	-0.8	0.2	0.0	0.2	0.0	0.0	0.0	0.0	0.0
Overall balance (cash basis)	-17.1	-13.8	-4.4	-10.4	-8.5	-5.7	-5.8	-6.4	-5.7	-4.6
Net financing	17.1	13.8	4.4	10.4	8.5	5.7	5.8	6.4	5.7	4.6
Banking system	-3.3	11.2	4.8	3.9	8.4	5.2	-2.2	-0.3	4.6	2.6
BdL 1/	-16.0	30.5	-3.8	-2.7	-0.5	-5.6	-9.2	-3.4	-3.3	0.4
Commercial banks 1/	12.7	-19.3	8.6	6.6	8.9	10.8	7.0	3.1	7.9	2.3
Government institutions	0.6	-2.3	-1.2	2.2	-0.2	0.8	0.8	0.7	0.7	0.6
Other creditors	10.5	-4.4	-1.0	1.1	-2.0	-0.2	-1.9	-0.4	0.5	1.3
Net change in arrears	-1.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Exceptional financing	12.1	11.0	1.8	1.5	2.2	0.0	9.1	6.5	0.0	0.0
Privatization	0.0	-1.0	0.0	0.0	0.0	0.0	9.1	6.5	0.0	0.0
Securitization	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Paris II loans	1.7	12.1	0.0	1.5	0.4	0.0	0.0	0.0	0.0	0.0
Debt cancellation and BdL revaluation of gold and fx	10.4	0.0	1.8	1.8	1.8	0.0	0.0	0.0	0.0	0.0
Valuation adjustment	-1.1	-1.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum items:										
Total public sector financial support to EdL	1.2	2.6	0.8	...	2.3	...	...	...	...	...
Budgetary support to EdL (including debt service)	1.2	1.9	0.5	...	1.5	...	...	...	...	...
BdL financing to EdL	0.0	0.7	0.3	...	0.8	...	...	...	...	...

Source: Lebanese authorities, and Fund staff estimates and projections.

1/ Figures for 2003 are affected by the intermediation role played by the BdL in the debt exchange with banks, which tends to increase BdL financing and decrease commercial bank financing of the government.

Table 5. Lebanon: Gross Financing Requirement
(In billions of Lebanese pounds)

	Year 2003	First Half 2004	Year 2004	2005
Primary deficit (- = surplus)	-975	-745	-1,316	-1,596
Interest payments	4,942	1,971	3,743	3,383
Foreign currency	1,735	793	1,740	1,767
Domestic currency	3,207	1,178	2,003	1,616
Overall balance (checks-issued basis)	3,968	1,226	2,427	1,787
Principal payments 1/	12,966	6,838	21,633	10,092
Banking system	8,702	4,777	14,760	8,514
Banque du Liban	668	462	769	3,512
Commercial banks 2/	8,035	4,315	13,991	5,002
Public institutions	1,095	945	2,463	95
Other creditors	3,168	1,116	4,410	1,483
Gross financing requirement	16,933	8,065	24,060	11,879
Financing sources	16,719	8,126	24,121	11,879
Banking system	11,749	6,191	17,242	10,128
Banque du Liban	8,973	-654	627	1,756
Commercial banks 2/	2,776	6,846	16,615	8,372
Public institutions	479	587	2,413	345
Other creditors	1,972	830	3,817	1,406
Exceptional financing	2,999	517	649	0
Privatization	-280	0	0	0
Securitization	0	0	0	0
Paris II loans	3,279	0	132	0
Debt cancellation and BdL revaluation of gold and foreign exchange	0	517	517	0
Valuation adjustment	-480	0	0	0
Float and statistical discrepancy	215	-61	-61	0
		(In percent of GDP)		
Memorandum items				
Gross financing requirement	62.3	27.4	81.8	38.1
Gross financing				
BdL and public institutions	34.8	-0.2	10.3	6.7
Commercial banks and other creditors	17.5	26.1	69.5	31.3
Privatization	-1.0	0.0	0.0	0.0
Securitization	0.0	0.0	0.0	0.0
Paris II	12.1	0.0	0.4	0.0
Debt cancellation and BdL revaluation of gold and foreign exchange	0.0	1.8	1.8	0.0
Valuation adjustments and statistical discrepancy	-1.0	-0.2	-0.2	0.0
Nominal GDP (in billions of Lebanese pounds)	27,199	29,416	29,416	31,204

Sources: Lebanese authorities; and Fund staff estimates and projections.

1/ In the projections, all the new T-bills issued are assumed to have a two-year maturity.

2/ 50 percent of $2.2 billion (LL 3.3 trillion) in Eurobonds falling due in 2005 are assumed to be exchanged in September 2004 for new long-term bonds.

Table 6. Lebanon: Government Debt

	2002	2003	Jun. 2004	SM/04/160 2004	Rev. Proj. 2004	Adjustment Scenario 2005	2006	2007	2008	2009
					(In millions of U.S. dollars)					
Gross debt 1/	30,727	33,381	34,791	34,927	34,719	35,926	35,188	35,185	36,578	37,603
Domestic currency	16,784	17,806	18,515	18,683	18,879	19,767	20,024	20,318	21,487	22,471
Foreign currency	13,943	15,575	16,276	16,244	15,840	16,159	15,165	14,867	15,090	15,133
Debt to Banque du Liban	2,351	7,937	8,079	7,429	7,874	6,711	4,699	3,917	3,104	3,197
Domestic currency	479	5,929	6,099	5,419	5,896	4,731	2,721	1,939	1,312	1,592
Foreign currency	1,872	2,009	1,979	2,010	1,978	1,980	1,978	1,978	1,792	1,605
Debt to commercial banks	18,256	14,526	16,222	15,725	16,265	18,513	20,035	20,744	22,690	23,293
Domestic currency	11,417	8,161	9,144	9,001	8,708	10,456	12,508	13,283	14,774	15,173
Foreign currency	6,839	6,365	7,078	6,724	7,557	8,057	7,527	7,462	7,916	8,121
Debt to public entities 2/	2,137	1,701	1,456	2,112	1,660	1,828	1,994	2,160	2,328	2,495
Other debt to non-bank sector	7,983	9,217	9,034	9,661	8,918	8,875	8,461	8,363	8,456	8,617
Domestic currency	2,751	2,016	1,816	2,151	2,615	2,753	2,801	2,935	3,074	3,211
Foreign currency	5,232	7,201	7,218	7,510	6,304	6,122	5,659	5,428	5,382	5,407
					(In percent of GDP)					
Gross debt 1/	177.7	185.0	178.3	184.3	177.9	173.6	160.2	151.8	149.5	145.5
Domestic currency	97.1	98.7	94.9	98.6	96.8	95.5	91.2	87.6	87.8	87.0
Foreign currency	80.6	86.3	83.4	85.7	81.2	78.1	69.1	64.1	61.7	58.6
Debt to Banque du Liban	13.6	44.0	41.4	39.2	40.4	32.4	21.4	16.9	12.7	12.4
Domestic currency	2.8	32.9	31.3	28.6	30.2	22.9	12.4	8.4	5.4	6.2
Foreign currency	10.8	11.1	10.1	10.6	10.1	9.6	9.0	8.5	7.3	6.2
Debt to commercial banks	105.6	80.5	83.1	83.0	83.4	89.4	91.2	89.5	92.7	90.2
Domestic currency	66.0	45.2	46.9	47.5	44.6	50.5	57.0	57.3	60.4	58.7
Foreign currency	39.5	35.3	36.3	35.5	38.7	38.9	34.3	32.2	32.3	31.4
Debt to public entities 2/	12.4	9.4	7.5	11.1	8.5	8.8	9.1	9.3	9.5	9.7
Other debt to non-bank sector	46.2	51.1	46.3	51.0	45.7	42.9	38.5	36.1	34.5	33.4
Domestic currency	15.9	11.2	9.3	11.4	13.4	13.3	12.8	12.7	12.6	12.4
Foreign currency	30.3	39.9	37.0	39.6	32.3	29.6	25.8	23.4	22.0	20.9
					(In percent of gross public debt)					
Gross debt 1/	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Domestic currency	54.6	53.3	53.2	53.5	54.4	55.0	56.9	57.7	58.7	59.8
Foreign currency	45.4	46.7	46.8	46.5	45.6	45.0	43.1	42.3	41.3	40.2
Debt to Banque du Liban (BdL)	7.7	23.8	23.2	21.3	22.7	18.7	13.4	11.1	8.5	8.5
Debt to commercial banks	59.4	43.5	46.6	45.0	46.8	51.5	56.9	59.0	62.0	61.9
Debt to public entities 2/	7.0	5.1	4.2	6.0	4.8	5.1	5.7	6.1	6.4	6.6
Other debt to non-bank sector	26.0	27.6	26.0	27.7	25.7	24.7	24.0	23.8	23.1	22.9
Memorandum items:					(In millions of U.S. dollars, unless otherwise noted)					
Net debt 3/	28,760	31,379	31,815	32,925	32,623	33,830	33,093	33,089	34,482	35,507
(in percent of GDP)	166.3	173.9	163.0	173.7	167.2	163.4	150.7	142.7	140.9	137.4
Gross debt held outside the public sector 4/	26,239	23,743	25,257	25,386	25,184	27,387	28,496	29,108	31,146	31,911
(in percent of GDP)	151.7	131.6	129.4	133.9	129.1	132.3	129.8	125.6	127.3	123.5
Gross debt held by the market 5/	24,448	19,550	21,058	18,710	18,677	20,996	22,331	23,145	26,488	27,253
(in percent of GDP)	141.4	108.4	107.9	98.7	95.7	101.4	101.7	99.8	108.2	105.5
(in percent of M5) 6/	37.0	25.7	26.4	...	22.9	24.4	24.6	24.3	26.4	25.8
Gross debt (in percent of M5) 6/	70.0	66.2	65.8	64.6	64.2	63.0	58.4	55.6	54.9	53.7

Source: Lebanese authorities; and staff estimates and projections.

1/ Includes all debt contracted by the treasury on behalf of the central government and public agencies other than the central bank. Excludes government arrears to the private sector. Includes accrued interest.

2/ In domestic currency, and mainly to the National Social Security Fund (NSSF) and the National Deposit Insurance Fund (NDIF).

3/ Gross debt minus central government deposits.

4/ Excludes debt to Banque du Liban and public entities.

5/ Excludes debt to Banque du Liban and public entities, as well as to official external creditors.

6/ M5 is defined as the sum of broad money (M3) and nonresident deposits.

Table 7. Lebanon: Monetary Survey

	2001 Dec.	2002 Dec.	2003 Dec.	2004 June	SM/04/146 2004 Dec.	Proj. 2004 Dec.	Proj. 2005 Dec.
	(Stocks in billions of Lebanese pounds)						
Net foreign assets	12,251	15,626	21,961	21,903	23,668	22,992	24,198
Banque du Liban	10,338	12,365	21,048	20,799	21,774	21,285	21,738
Commercial Banks	1,912	3,261	914	1,104	1,893	1,707	2,461
Net domestic assets	40,668	41,326	42,407	45,289	45,551	46,849	49,833
Net claims on public sector	28,523	28,191	30,670	31,047	32,750	32,114	33,728
Of which : Net claims on government	29,597	29,035	32,491	32,509	33,594	33,576	35,190
Banque du Liban	6,583	2,499	11,504	9,872	10,735	10,847	9,091
Lebanese pounds	6,039	-322	8,476	6,888	7,707	7,863	6,107
Foreign currency	544	2,821	3,028	2,984	3,028	2,984	2,984
Commercial banks	23,014	26,536	20,987	22,636	22,859	22,728	26,098
Lebanese pounds	13,905	16,214	11,366	12,009	12,702	11,373	13,996
Foreign currency	9,109	10,323	9,621	10,627	10,157	11,355	12,102
Claims on private sector	22,393	22,963	22,904	23,392	24,322	23,885	25,255
Lebanese pounds	3,408	4,261	4,109	4,280	4,291	4,248	4,833
Foreign currency	18,985	18,702	18,795	19,112	20,031	19,637	20,422
Other items (net)	-10,249	-9,828	-11,168	-9,150	-11,520	-9,150	-9,150
Broad money	52,918	56,952	64,368	67,192	69,219	69,841	74,031
In Lebanese pounds	17,283	20,404	26,076	26,370	28,041	27,410	29,239
Currency	1,382	1,375	1,531	1,505	1,646	1,564	1,667
Deposits in Lebanese pounds	15,901	19,028	24,546	24,865	26,395	25,846	27,573
Demand deposits	985	1,188	2,313	2,299	2,487	2,390	2,549
Time deposits	14,916	17,840	22,233	22,566	23,908	23,456	25,023
Deposits in foreign currency	35,635	36,548	38,292	40,822	41,177	42,431	44,792
	(Year-to-date change in billions of Lebanese pounds)						
Net foreign assets	-1,766	3,375	6,335	-58	1,707	1,031	1,206
Net domestic assets	5,391	658	1,081	2,882	3,144	4,442	2,984
Net claims on public sector	5,291	-333	2,480	377	1,103	1,444	1,614
Of which : Net claims on government	4,761	-561	3,456	18	1,103	1,085	1,614
Central bank	4,935	-4,084	9,005	-1,632	-769	-657	-1,756
Commercial banks	-174	3,523	-5,549	1,649	1,872	1,741	3,370
Claims on private sector	-95	570	-59	488	1,445	980	1,370
Lebanese pounds	274	852	-151	171	204	139	585
Foreign currency	-369	-282	93	317	1,240	842	786
Other items (net)	195	421	-1,340	2,018	596	2,018	0
Broad money	3,624	4,034	7,416	2,824	4,851	5,473	4,190
In Lebanese pounds	-2,210	3,121	5,672	294	1,965	1,333	1,830
Deposits in foreign currency	5,834	913	1,744	2,530	2,886	4,139	2,361
	(Year-to-date change in percent of beginning of period broad money)						
Net foreign assets	-3.6	6.4	11.1	-0.1	2.7	1.6	1.7
Net domestic assets	10.9	1.2	1.9	4.4	4.9	6.9	4.3
Net claims on public sector	10.7	-0.6	4.4	0.6	1.7	2.2	2.3
Of which : Net claims on government	9.7	-1.1	6.1	0.0	1.7	1.7	2.3
Central bank	10.0	-7.7	15.8	-2.5	-1.2	-1.0	-2.5
Commercial banks	-0.4	6.7	-9.7	2.5	2.9	2.7	4.8
Claims on private sector	-0.2	1.1	-0.1	0.7	2.2	1.5	2.0
Other items (net)	0.4	0.8	-2.4	3.1	0.9	3.1	0.0
Broad money	7.4	7.6	13.0	4.3	7.5	8.5	6.0
In Lebanese pounds	-4.5	5.9	10.0	0.4	3.1	2.1	2.6
Deposits in foreign currency	11.8	1.7	3.1	3.8	4.5	6.4	3.4
Memorandum items:							
Net foreign assets (in millions of U.S. dollars)	8,127	10,366	14,568	14,529	15,700	15,252	16,052
Share of foreign currency deposits in broad money (in percent)	67.3	64.2	59.5	60.8	59.5	60.8	60.5
Credit to the private sector (in percent of GDP)	89.2	88.1	84.2	82.6	85.1	81.2	80.9
M5 = M3 plus nonresident deposits (in billions of Lebanese pounds)	62,199	66,158	75,991	79,691	81,502	82,989	88,680
M5 (in twelve month percent change)	6.4	6.4	14.9	13.6	7.3	9.2	6.9
M3 to GDP (in percent)	210.7	218.5	236.7	228.4	230.1	237.4	237.2
M5 to GDP (in percent)	247.7	253.8	279.4	270.9	285.3	282.1	284.2

Sources: Banque du Liban; and Fund staff estimates and projections.

Table 8. Lebanon: Balance Sheet of the Banque du Liban

	2001 Dec.	2002 Dec.	2003 Dec.	2004 June	SM/04/146 2004 Dec.	Proj. 2004 Dec.	Proj. 2005 Dec.
	(Stocks in billions of Lebanese pounds)						
Net international reserves 1/	1,863	3,888	8,935	7,454	8,961	7,431	7,497
Foreign assets	10,496	12,527	21,174	20,916	21,901	21,402	21,855
Foreign exchange	6,635	7,679	15,395	15,433	16,122	15,919	16,372
Gold	3,861	4,849	5,779	5,483	5,779	5,483	5,483
Foreign currency liabilities	8,633	8,639	12,239	13,462	12,940	13,972	14,358
Of which: commercial bank deposits	8,216	8,164	11,776	12,989	12,477	13,498	13,885
Of which: other foreign liabilities 2/	230	239	204	194	204	194	194
Net domestic assets	2,028	767	-2,528	-349	-2,259	-837	-479
Claims on public sector (net)	5,982	2,204	10,990	9,610	10,221	10,585	8,829
Net claims on government	6,583	2,499	11,504	9,872	10,735	10,847	9,091
Credit	6,755	3,755	11,800	11,798	11,031	11,491	9,735
Deposits	-172	-1,256	-296	-1,926	-296	-644	-644
Net claims on non financial public institutions	-601	-295	-514	-262	-514	-262	-262
Claims on private sector (net) 3/	114	148	375	351	376	351	351
Claims on commercial banks	736	1,148	-9,859	-8,089	-9,337	-9,400	-7,286
Of which : CDs and special deposits	-45	-572	-11,686	-10,010	-10,725	-11,321	-9,207
Claims on specialized banks (net) 3/	-21	-58	-1,032	-828	-1,032	-828	-828
Other items (net)	-4,783	-2,675	-3,002	-1,393	-2,488	-1,545	-1,545
Base money	3,891	4,655	6,407	7,105	6,701	6,594	7,018
Currency in circulation	1,527	1,542	1,717	1,725	1,846	1,793	1,910
Commercial bank deposits 3/	2,364	3,113	4,690	5,380	4,854	4,801	5,108
	(Year-to-date flows in billions of Lebanese pounds)						
Net international reserves (including gold)	-5,885	2,024	5,048	-1,481	26	-1,505	66
Net domestic assets	5,589	-1,261	-3,295	2,179	269	1,691	358
Claims on public sector (net)	5,300	-3,778	8,786	-1,380	-769	-405	-1,756
Net claims on government	4,935	-4,084	9,005	-1,632	-769	-657	-1,756
Claims on private sector (net) 3/	-99	33	227	-24	1	-24	0
Claims on commercial banks	1	412	-11,007	1,770	523	460	2,114
Claims on specialized banks (net) 3/	78	-37	-974	204	1	204	0
Other items (net)	309	2,108	-327	1,609	514	1,457	0
Base money	-296	763	1,753	698	293	187	424
Currency in circulation	-95	14	176	8	129	76	117
Commercial bank deposits 3/	-201	749	1,577	690	164	111	306
	(Year-to-date changes in percent of beginning-of-period base money)						
Net international reserves	-140.6	52.0	108.4	-23.1	0.4	-23.5	1.0
Net domestic assets	133.5	-32.4	-70.8	34.0	4.2	26.4	5.4
Of which : Net claims on government	117.9	-104.9	193.5	-25.5	-12.0	-10.2	-26.6
Base money	-7.1	19.6	37.7	10.9	4.6	2.9	6.4
Memorandum items:	(In millions of U.S. dollars)						
Net foreign asset	6,810	8,151	13,911	13,746	14,393	14,068	14,368
Gross international reserves (including gold)	6,963	8,310	14,046	13,875	14,528	14,197	14,497
Gross international reserves (excluding gold)	4,402	5,094	10,213	10,238	10,695	10,560	10,860
Net international reserves (including gold)	1,236	2,579	5,927	4,945	5,944	4,929	4,973
Net international reserves (excluding gold)	-1,325	-637	2,094	1,308	2,111	1,292	1,336
Lebanese pound money multiplier	4.4	4.4	4.1	3.7	4.2	4.2	4.2

Source: Banque du Liban; and Fund staff estimates and projections.

1/ Defined by currency (not by residency).
2/ Excludes special bilateral long-term deposits.
3/ Excludes deposits in foreign currency.

Table 9. Lebanon: Banking Sector Financial Soundness Indicators, 1998–2004

	1998	1999	2000	2001	2002	2003	2004 May
	(In percent, unless otherwise indicated)						
Assets (in millions of USD) 1/	38,662	42,363	47,505	49,858	54,587	62,151	63,366
Capital							
Capital adequacy ratio	18.7	15.0	16.9	18.0	19.4	22.3	...
Capital to asset ratio	7.2	7.1	6.8	6.8	6.8	6.8	6.7
Asset quality							
Problem loans/total loans (net of provisions)	3.6	5.8	7.8	10.0	12.4	12.8	12.2
Provisions against problem loans/problem loans	73.3	63.1	64.6	62.6	62.3	64.6	65.9
Total provisions/problem loans	85.4	72.5	72.5	69.3	68.2	70.6	71.8
Asset concentration							
Share of claims on government	32.6	35.8	34.3	32.1	33.6	23.3	24.9
Of which: Tbills	26.9	28.4	24.8	19.4	20.5	12.6	13.3
Of which: Eurobonds	5.5	6.9	8.4	11.5	13.0	10.6	11.6
Share of claims on BdL	11.6	11.0	10.5	14.6	14.9	31.2	30.6
Of which: Certificates of Deposit	...	...	...	0.1	0.7	12.9	10.7
Share of claims on private sector	33.9	35.7	33.8	31.9	28.8	24.9	24.6
Of which: trade and services/total loans	15.2	15.9	14.8	14.2	13.0	11.4	...
Of which: construction/total loans	7.4	7.9	7.6	6.6	5.5	4.4	4.3
Share of claims on nonresidents	18.1	14.6	18.1	18.1	18.1	16.5	16.0
Of which: foreign banks	...	11.6	15.3	15.5	15.7	13.4	13.1
Net foreign currency assets as percent of capital	19.9	24.6	25.3	26.3	24.9	22.0	22.7
Earnings							
Average return on assets (post tax)	1.4	1.0	0.7	0.5	0.6	0.7	...
Average return on equity (post tax)	23.8	15.7	11.1	9.1	9.4	10.9	...
Net interest margin	2.2	2.3	2.1	1.9	2.0	2.6	2.3
Non-interest expenses/assets	2.1	2.1	2.2	2.1	2.1	1.9	1.8
Liquidity							
Net liquid assets/total assets	55.4	54.3	56.0	45.9	41.3	49.1	49.1
Net liquid assets/short-term liabilities	66.4	65.1	66.5	54.2	49.2	56.6	56.4
Private sector deposits/assets	83.8	83.9	83.6	84.2	81.3	80.9	81.5
Nonresident deposits/assets	13.2	12.9	13.5	12.9	11.6	12.9	13.2
Other indicators							
Change in assets (12 month)	20.6	10.8	11.3	5.8	10.0	14.2	11.5
Change in private sector credit (12 month)	20.9	12.4	5.9	-0.2	2.5	-1.1	0.6
Change in deposits (12 month)	19.8	11.6	10.8	6.2	6.3	14.7	13.5
Fiduciary accounts (in billions of LL)	194	250	448	728	929	1,433	1,512
FC deposits/total deposits 2/	65.0	60.8	66.0	71.9	68.7	65.0	66.9
FC loans/total loans	88.9	88.2	87.0	86.9	82.2	83.5	83.2
FC loans/GDP	67.4	74.2	78.3	75.6	71.7	69.3	65.0
Exports of goods and services/GDP	23.6	32.5	31.2	32.9	38.1	40.7	...
Banking system's foreign exchange cover 3/	...	32.2	30.2	25.7	27.8	33.5	33.5
Memorandum items:							
LL deposit rate (average)	12.6	11.3	10.6	10.2	10.3	8.3	7.1
LL loan rate (average)	20.0	18.3	18.0	17.2	16.6	13.4	11.1
FC deposit rate (average)	5.7	6.2	5.9	5.0	4.2	3.6	3.2
FC loan rate (average)	11.3	10.9	11.3	10.7	10.0	9.0	8.2
Government's 2-year Tbill rate (marginal)	16.7	14.6	14.6	14.6	9.4	7.8	7.7
Spread over 6-month Libor	11.5	8.5	8.4	12.6	8.0	6.6	6.0
Government's 5-year Eurobond rate (marginal)	8.5	9.6	10.5	10.6	9.8	7.0	7.0
Spread over 5 year US note	4.0	3.4	5.3	6.2	6.8	3.7	3.4
GDP (in millions of USD)	16,344	16,547	16,399	16,660	17,292	18,042	19,513

Sources: Banque du Liban, Banking Control Commission and Staff estimates.

1/ LL and FC stand for "Lebanese pound" and "foreign currency", respectively.

2/ FC deposits of residents and nonresidents as a share of total deposits of residents and nonresidents.

3/ Commercial banks' net claims on nonresident banks plus the BDL's liquid foreign exchange reserves (excluding gold and foreign liabilities), in percent of total deposits.

Table 10. Lebanon: Balance of Payments

	2001 Est.	2002 Est.	2003 Est.	2004 SM/04/146	2004 Proj.	2005	2006	2007	2008	2009
						Adjustment Scenario 1/				
	(in millions of U.S. dollars, unless otherwise indicated)									
Current account	-3,587	-2,382	-2,363	-2,071	-2,389	-2,075	-2,077	-2,057	-1,992	-1,860
Goods (net)	-5,919	-4,956	-5,221	-5,299	-6,378	-6,658	-6,913	-7,194	-7,416	-7,646
Exports, f.o.b.	880	1,018	1,444	1,644	1,784	2,013	2,207	2,403	2,617	2,850
Imports, f.o.b.	-6,800	-5,974	-6,665	-6,943	-8,162	-8,671	-9,120	-9,597	-10,033	-10,496
o.w. oil products	-1,265	-907	-1,063	-1,137	-1,439	-1,497	-1,466	-1,485	-1,503	-1,533
Services (net)	1,667	2,484	2,769	2,871	3,699	4,065	4,231	4,420	4,711	5,171
Receipts	4,700	5,712	6,279	6,456	7,559	8,164	8,572	9,001	9,541	10,264
Payments	-3,033	-3,228	-3,510	-3,586	-3,861	-4,099	-4,342	-4,581	-4,830	-5,093
Income (net)	-391	-858	-1,055	-748	-957	-853	-848	-833	-891	-1,043
o.w. interest on government debt	-329	-528	-532	-497	-450	-483	-466	-447	-444	-432
Current transfers (net)	1,056	947	1,144	1,104	1,247	1,370	1,454	1,550	1,604	1,658
Capital and financial account	1,167	2,043	5,172	1,313	2,434	2,160	3,088	2,722	1,436	1,785
Direct investment (net)	1,518	1,766	2,038	1,980	2,246	2,171	3,894	3,071	1,542	1,764
Portfolio investment, loans, other capital	-351	276	3,134	-667	188	-11	-806	-349	-105	21
Government (net)	-94	1,210	-505	-342	-390	-298	-522	-233	-89	-68
Eurobonds (net)	357	743	-207	112	-442	-145	-203	-20	107	119
Treasury bills (net)	-487	506	-268	-362	112	-35	-93	-11	20	39
Loans (net)	36	-39	-29	-92	-59	-117	-225	-202	-215	-226
Banks (net) 2/	274	-248	2,740	-650	384	183	-343	-305	-136	-103
Non-bank private sector (net)	-531	-685	898	325	195	104	58	190	120	192
Errors and omissions	949	652	215	952	215	215	215	215	215	215
Overall balance	-1,471	312	3,024	195	260	300	1,227	880	-340	140
Financing	1,471	-312	-3,024	-195	-260	-300	-1,227	-880	340	-140
Official reserves (- increase)	1,471	-612	-5,119	-482	-348	-300	-1,227	-880	340	-140
Exceptional financing (Paris II)	0	300	2,095	288	88	0	0	0	0	0
Memorandum items:										
Current account balance (in percent of GDP)	-21.5	-13.8	-13.1	-10.9	-12.2	-10.0	-9.5	-8.9	-8.1	-7.2
Exports (in percent of GDP)	5.3	5.9	8.0	8.7	9.1	9.7	10.0	10.4	10.7	11.0
Imports (in percent of GDP)	-40.8	-34.5	-36.9	-36.6	-41.8	-41.9	-41.5	-41.4	-41.0	-40.6
Gross official reserves (excl. gold, end-year)										
in millions of U.S. dollars	4,402	5,094	10,213	10,695	10,560	10,860	12,087	12,967	12,627	12,767
in months of next year's g/s imports	5.7	6.0	10.2	11.8	9.9	9.7	10.2	10.5	9.7	9.5
External debt (end-year) 3/										
in percent of GDP	131	139	166	101	166	166	164	164	163	161
in percent of g/s exports	391	357	387	237	346	337	333	334	327	318
Public external debt										
in percent of GDP	23.0	31.5	40.6	38.1	35.9	32.4	27.9	25.4	23.7	22.2
Official creditors	8.3	10.4	23.3	22.6	21.5	19.7	17.6	15.8	13.9	11.6
o.w. Paris II	0.0	1.7	13.7	14.6	13.0	12.3	11.6	11.0	10.3	9.0
Private creditors	14.7	21.1	17.3	15.5	14.3	12.6	10.3	9.6	9.8	10.6
Public external debt service										
in millions of U.S. dollars	...	...	1,675	1,039	2,086	1,258	2,272	998	1,756	1,474
in percent of g/s exports	...	...	21.7	...	22.3	12.4	21.1	8.7	14.4	11.2

Sources: Lebanese authorities; BIS; and Fund staff estimates.

1/ Reflects fiscal adjustment scenario, including privatization in 2006 and 2007.
2/ Differs from reported net foreign asset flows of the banking system to include estimated deposit inflows by Lebanese nationals living abroad but classified as residents.
3/ Includes all banking deposits held by non-residents.

Table 11. Lebanon: Indicators of Financial and External Vulnerability, 2000–04

	2000	2001	2002	2003	Proj. 2004
Monetary and financial indicators					
Broad money, M3 (annual percentage change)	9.6	7.4	7.6	13.0	8.5
Domestic currency broad money (M2)					
In percent of broad money	39.5	32.7	35.8	40.5	39.2
In percent of domestic currency public debt	74.1	63.5	149.4	159.1	164.5
Private-sector credit (annual percentage change)	6.0	-0.4	2.5	-1.1	4.6
Broad Money, M3 (in millions of U.S. dollars)	32,710	35,115	37,792	42,713	46,344
Public finance indicators					
Overall fiscal balance (in millions of U.S. dollars)	-4,036	-3,238	-2,608	-2,633	-1,610
In percent of GDP	-24.6	-19.4	-15.1	-14.6	-8.2
In percent of government revenue	-128	-105	-67	-60	-34
Gross debt (in millions of U.S. dollars)	24,979	28,312	30,727	33,381	34,719
In percent of government revenue	793	918	792	763	732
Interest payments on debt (in millions of U.S. dollars)	2,785	2,861	3,127	3,280	2,484
In percent of GDP	17.0	17.2	18.1	18.2	12.7
In percent of government revenue	88.4	92.8	80.6	74.9	52.3
			(In percent)		
Banking-sector indicators					
Problem loans/total loans (net of provisions and unearned interest) 1/	7.8	10.0	12.4	12.8	12.2
Provisions against problem loans/problem loans 1/	72.5	69.3	68.2	70.6	71.8
Risk-weighted capital adequacy ratio 1/	16.9	18.0	19.4	22.3	...
Credit to the private sector (in percent of GDP) 1/	91.0	89.2	88.1	84.1	82.6
			(In millions of U.S. dollars)		
Debt indicators					
Gross public debt	24,979	28,312	30,727	33,381	34,719
In percent of GDP	153.7	169.9	177.7	185.0	177.9
Of which: foreign currency	7,538	10,261	13,943	15,575	15,840
In percent of GDP	45.9	61.6	80.6	86.3	81.2
External public debt	3,956	3,829	5,443	7,325	7,001
In percent of GDP	24.1	23.0	31.5	40.6	35.9
Gross public debt held by the market	20,543	20,392	24,448	19,550	18,677
In percent of GDP	125.3	122.4	141.4	108.4	95.7
Short-term external debt (public and private), excluding non-resident deposits 2/	2,536	1,565	1,804	2,948	2,456
Short-term foreign currency debt, excluding foreign currency deposits (public and private) 3/	...	...	2,848	5,002	4,759
Short-term external debt, including non-resident deposits (public and private) 4/	8,604	8,912	10,089	12,867	13,606
Short-term foreign currency debt, including foreign currency deposits (public and private) 5/	...	...	32,696	37,318	40,772
Total foreign currency deposits (resident and non-resident)	25,282	29,252	29,848	32,316	36,013
Official reserves					
Gross official reserves 6/	5,895	4,402	5,094	10,213	10,560
In percent of short-term external debt, excluding non-resident deposits	232.4	281.3	282.4	346.5	430.0
In percent of short-term foreign currency debt, excluding foreign currency deposits			178.9	204.2	221.9
Commercial banks' foreign assets	6885.3	7370.3	8241.4	8055.5	9188.1
Gross official reserves and commercial banks' foreign assets	12781	11772	13335	18268	19748
In percent of short-term external debt, including non-resident foreign currency deposits	148.5	132.1	132.2	142.0	145.1
In percent of short-term foreign currency debt, including total foreign currency deposits	...	...	40.8	49.0	48.4
			(In millions of U.S. dollars)		
External current account indicators					
Merchandise exports, f.o.b.	712	880	1,018	1,444	1,784
Annual percentage change	2.5	23.6	15.6	41.9	23.5
Merchandise imports, f.o.b.	5,795	6,800	5,974	6,665	8,162
Annual percentage change	0.3	17.3	-12.1	11.6	22.5
External current account balance	-2,836	-3,587	-2,382	-2,363	-2,389
In percent of GDP	-17.3	-21.5	-13.8	-13.1	-12.2
In percent of exports of goods and services	-55.4	-64.5	-35.4	-30.6	-25.6

Sources: Lebanese authorities; Bank for International Settlements; and Fund staff estimates and projections.

1/ For 2004, the latest observation is for May/June 2004.
2/ Includes short-term public debt (external public debt coming due in the next 12 months) and short-term private non-bank external debt.
3/ Includes short-term public debt (debt in foreign currency coming due in next 12 months) and short-term non-bank private debt in foreign currency.
4/ Includes short-term external public debt (external public debt coming due in next 12 months), short-term non-bank private external debt and foreign liabilities of commercial banks.
5/ Includes short-term public debt (debt in foreign currency coming due in next 12 months), short-term non-bank private debt in foreign currency and foreign currency liabilities of commercial banks.
6/ Excluding gold holdings.

Table 12. Lebanon: Public Sector Debt Sustainability Framework, 1999–2009
(In percent of GDP, unless otherwise indicated)

	Actual							Adjustment Scenario						
	1999	2000	2001	2002	2003			2004	2005	2006	2007	2008	2009	
								I. Adjustment Scenario						**Debt-stabilizing primary balance 10/**
Public sector debt 1/	135.2	153.7	169.9	177.7	185.0			**177.9**	**173.6**	**160.2**	**151.8**	**149.5**	**145.5**	**5.1**
o/w foreign-currency denominated	30.4	40.1	50.8	64.1	84.0			83.0	79.2	72.1	65.4	63.2	60.0	
Change in public sector debt	21.6	18.5	16.3	7.8	7.3			-7.1	-4.4	-13.3	-8.5	-2.3	-3.9	
Identified debt-creating flows (4+7+12)	14.8	25.8	16.5	8.9	8.2			-5.7	-4.5	-13.3	-8.5	-2.3	-3.3	
Primary deficit	1.6	7.6	1.7	-3.0	-3.6			-4.5	-5.1	-6.4	-6.9	-7.7	-8.5	
Revenue and grants	19.6	19.6	18.7	22.4	24.3			24.3	24.7	25.2	25.0	25.2	25.4	
Primary (noninterest) expenditure	21.2	27.2	20.4	19.4	20.7			19.8	19.6	18.8	18.1	17.5	16.9	
Automatic debt dynamics 2/	13.1	18.2	14.8	11.9	10.8			-1.2	0.6	2.2	4.9	5.4	5.2	
Contribution from interest rate/growth differential 3/	13.1	18.2	14.8	11.9	10.8			-1.2	0.6	2.2	4.9	5.4	5.2	
Of which contribution from real interest rate	14.5	17.7	13.8	15.1	14.2			7.3	7.4	7.9	10.2	10.5	10.2	
Of which contribution from real GDP growth	-1.4	0.5	1.0	-3.3	-3.4			-8.6	-6.7	-5.7	-5.3	-5.0	-5.0	
Contribution from exchange rate depreciation 4/	0.0	0.0	0.0	0.0	0.0			...	...	...	...	...	...	
Other identified debt-creating flows	0.0	0.0	0.0	0.0	1.0			0.0	0.0	-9.1	-6.5	0.0	0.0	
Privatization receipts (negative)	0.0	0.0	0.0	0.0	1.0			0.0	0.0	-9.1	-6.5	0.0	0.0	
Recognition of implicit or contingent liabilities	0.0	0.0	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0	
Other (tobacco excise securitization)	0.0	0.0	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0	
Residual, including asset changes (2-3) 5/	6.8	-7.3	-0.2	-1.1	-0.9			-1.4	0.1	0.0	0.0	0.0	-0.6	
Public sector debt-to-revenue ratio 1/	690.9	783.5	911.0	792.1	762.8			731.9	702.5	636.9	606.8	592.7	573.1	
Key Macroeconomic and Fiscal Assumptions						Historical Average	Standard Deviation							Projected Average
Real GDP growth (in percent)	1.2	-0.4	-0.4	1.8	1.3	3.0	2.8	5.0	4.0	3.5	3.5	3.5	3.5	3.8
Average nominal interest rate on public debt (in percent) 7/	13.0	12.4	11.3	11.0	10.7	14.9	4.0	7.4	6.5	7.4	8.8	9.4	9.3	8.1
Average real interest rate (nominal rate minus change in GDP deflator, in percent)	13.0	13.0	9.1	9.3	8.4	10.4	2.4	4.4	4.5	4.9	6.8	7.4	7.3	5.9
Nominal appreciation (increase in US dollar value of local currency, in percent)	0.0	0.0	0.0	0.0	0.0	1.3	1.5	...	...	...	...	...	...	...
Inflation rate (GDP deflator, in percent)	0.0	-0.5	2.3	1.8	2.3	4.5	4.0	3.0	2.0	2.5	2.0	2.0	2.0	2.3
Growth of real primary spending (deflated by GDP deflator, in percent)	5.0	28.1	-25.6	-2.8	8.5	7.1	23.9	0.8	2.7	-0.6	-0.2	-0.2	-0.1	0.4
Primary deficit	1.6	7.6	1.7	-3.0	-3.6	3.9	4.9	-4.5	-5.1	-6.4	-6.9	-7.7	-8.5	-6.5
								II. Stress Tests for Public Debt Ratio						**Debt-stabilizing primary balance 10/**
A. Alternative Scenarios														
A1. Unchanged policies: no primary adjustment and no privatization								**177.9**	**174.2**	**171.9**	**172.6**	**174.3**	**175.3**	**6.1**
A2. Fiscal adjustment, privatization and unchanged interest rates from 2004 onwards								**177.9**	**173.6**	**159.7**	**149.3**	**144.5**	**137.9**	**2.0**
B. Bound Tests														
B1. Real interest rate is at historical average plus two standard deviations in 2005 and 2006								**177.9**	**191.7**	**197.3**	**189.9**	**189.0**	**186.4**	**6.5**
B2. Real GDP growth is at historical average minus two standard deviations in 2005 and 2006								**177.9**	**186.8**	**186.6**	**180.5**	**181.5**	**180.9**	**6.3**
B3. Primary balance is at historical average minus two standard deviations in 2005 and 2006								**177.9**	**192.3**	**199.2**	**192.0**	**191.1**	**188.6**	**6.6**
B4. Combination of B1-B3 using one standard deviation shocks								**177.9**	**208.7**	**233.2**	**226.5**	**226.8**	**225.6**	**7.9**
B5. One time 30 percent real depreciation in 2005 9/								**177.9**	**212.0**	**199.2**	**191.9**	**191.0**	**188.5**	**6.6**
B6. 10 percent of GDP increase in other debt-creating flows in 2005								**177.9**	**183.6**	**170.4**	**162.2**	**160.3**	**156.7**	**5.5**

1/ Central government gross debt.
2/ Derived as $[(r - \pi(1+g) - g + \alpha\varepsilon(1+r)]/(1+g+\pi+g\pi))$ times previous period debt ratio, with r = interest rate; π = growth rate of GDP deflator; g = real GDP growth rate; α = share of foreign-currency denominated debt; and ε = nominal exchange rate depreciation (measured by increase in local currency value of U.S. dollar).
3/ The real interest rate contribution is derived from the denominator in footnote 2/ as $r - \pi(1+g)$ and the real growth contribution as -g.
4/ The exchange rate contribution is derived from the numerator in footnote 2/ as $\alpha\varepsilon(1+r)$.
5/ For projections, this line includes exchange rate changes.
6/ Defined as public sector deficit, plus amortization of medium and long-term public sector debt, plus short-term debt at end of previous period.
7/ Derived as nominal interest expenditure divided by previous period debt stock.
8/ The implied change in other key variables under this scenario is discussed in the text.
9/ Real depreciation is defined as nominal depreciation (measured by percentage fall in dollar value of local currency) minus domestic inflation (based on GDP deflator).
10/ Assumes that key variables (real GDP growth, real interest rate, and primary balance) remain at the level in percent of GDP/growth rate of the last projection year.

Lebanon: Fund Relations
(As of June 30, 2004)

I. **Membership Status:** Joined 04/14/47; Article VIII (07/01/93).

II. **General Resources Account:**	SDR million	% Quota
Quota	203.00	100.00
Fund holdings of currency	184.17	90.72
Reserve position in Fund	18.83	9.28

III. **SDR Department:**	SDR Million	% Allocation
Net cumulative allocation	4.39	100.00
Holdings	20.89	475.52

IV. **Outstanding Purchases and Loans:** None

V. **Financial Arrangements:** None

VI. **Projected Obligations to Fund:** None

Nonfinancial Relations

VII. **Exchange Arrangement**

The Lebanese pound is a conventional peg. Since October 1999, the Banque du Liban has intervened to keep the pound around a mid-point parity of LL 1,507.5 per $1, with a bid-ask spread of LL+/-6.5.

VIII. **Article IV Consultation**

The 2004 Article IV consultation was concluded by the Executive Board on May 7, 2004 (SM/04/146).

IX. **Financial Sector Assessment Program**

Lebanon participated in the Financial Sector Assessment Program (FSAP) in 1999,and the related report was presented to the Executive Board at the time of the Article IV consultation (FO/DIS/99/113). A Financial System Stability Assessment (FSSA) update was conducted in 2001,and the related report similarly presented to the Executive Board at the time of the Article IV consultation (SM/01/281).

X. Technical Assistance, 1997–2003

Fiscal area—In recent years, FAD has provided advice on introducing the VAT, reforming customs tariffs and income taxes, strengthening the tax and customs administrations, and improving public expenditure management. This technical assistance was well received by the ministry of finance and, notably on the VAT, its positive impact has been substantial. However, considerable needs remain in several areas of public finance, including tax policy, tax administration, budget preparation, fiscal management, and public accounting and reporting. Two technical assistance missions are expected to take place this year in support of the government's reform initiatives and will deal with: (i) treasury and budget reforms and (ii) reforms in revenue administration. A fiscal ROSC mission is scheduled to visit Beirut in September 2004.

Financial sector—Over the past few years, the Monetary and Exchange Affairs Department has provided technical assistance in the areas of payments system and vulnerability indicators. The related missions undertook an assessment of compliance with Core Principles for Systemically Important Payments Systems, advised on development of systems to improve efficiency and liquidity management in public sector payments and receipts, and assisted in the elaboration of a framework for collecting and analyzing macro-prudential indicators to facilitate the development of capacity to monitor systemic financial sector vulnerabilities. The authorities have reported some progress in these areas. A mission provided technical assistance in financial sector indicators and payments systems in March 2004.

Statistical area—The Statistics Department has provided technical assistance on the development of price and balance of payments statistics, but so far, little progress has been achieved. There are no official producer price index (PPI) and consumer price index (CPI) data available, and the balance of payments data remain incomplete. In addition, Lebanon still does not report balance of payments data to the Statistics Department. In early 2002, a multisector statistics/GDDS mission provided an update on the status of data in all economic sectors, and prepared action plans for improvement. The Technology and General Services Department has provided technical assistance for creating a time-series database at the BdL. Technical assistance needs remain substantial, particularly in the areas of national accounts, price statistics, and balance of payments.

Missions—Technical assistance missions during the last five years were:

Date	Department	Topic
March 10–24, 1999	FAD	Review of public expenditure management and tax policy
Oct. 25–Nov. 5, 1999	STA	Price statistics
November. 8–19, 1999	FAD	Public finance management
Feb. 28–Mar.10, 2000	STA	Balance of payments statistics

July 3–10, 2000	FAD	Income tax administration
Oct. 23–Nov. 3, 2000	STA	Price statistics
August 3–10, 2000	FAD	Public expenditure management
August 9–21, 2000	FAD	Tariff reform
March 27–April 10, 2001	FAD	Tax policy and administration
June 11–22, 2001	STA	Portfolio investment and capital flows
June 20–July 3, 2001	FAD	Tax policy and administration
June 27–July 6, 2001	FAD	Public expenditure management
July 2–12, 2001	MAE	Development of macro-prudential indicators
July 9–23, 2001	MAE	Payments system development
Oct. 29–Nov. 13, 2001	FAD	Tariff and VAT
March 25–April 5, 2002	STA	Multisector statistics/GDDS
April 15–26, 2002	BTS	Database at Banque du Liban
August 6–20, 2002	FAD	VAT and customs administration
Sept. 9–23, 2002	FAD	Income tax reform
Jan. 27–31,2003	MAE	Payment Systems
July 29–23, 2003	FAD	Revenue administration
July 26–August 10, 2003	FAD	Public expenditure management
Aug. 27–Sept. 8, 2003	FAD	Tax policy
March 18–29, 2004	MFD	Payments and Settlement Systems and Developing Early Warning Systems
September 6–17, 2004	FAD	Fiscal transparency ROSC

XI. **Resident Representatives**

None

Relations with the World Bank Group

The World Bank (Bank) is currently preparing a full-fledged new Country Assistance Strategy (CAS), expected to be presented to the Board during the first quarter of 2005. The strategy will cover the fiscal years 2006–8 and will be prepared together with IFC in a fully participatory manner, including discussions with donors and civil society. Discussions with the government have already started on the priority areas for Bank involvement. The Bank envisages the CAS to encompass three clusters of activities:

(i) Economic management: statistical data bases, pension reform, debt management, building national planning/coordination capacity, and macroeconomic dialogue;

(ii) Resource management: surface water, ground water, waste water treatment, other environmental issues; and

(iii) Mitigating poverty effects: demand driven/small-scale operations implemented by local governments/NGOs.

The Bank's existing portfolio in Lebanon consists of $388 million in commitments for nine projects (of which $265 million is undisbursed), all of which were approved after 1993. The portfolio still largely reflects an emphasis on addressing strategic priorities and rebuilding basic physical, social, and institutional infrastructure after the damage of 15 years of war. Recent projects reflect an enhanced poverty focus and more comprehensive development orientation, signaling a reorientation toward the poorest parts of Lebanon with smaller, faster implementing projects. The portfolio is suffering from slow disbursements and serious delays, reflecting weak implementation capacity of most public agencies.

Analytical and advisory services provided by the Bank include support on the overall economic reform process, assessing poverty, asset-liability management, public expenditures, the social security/pension system, and the agriculture, energy, and water sectors.

In terms of IFC activities, Lebanon is the fifth largest market for IFC in the MENA region (excluding Pakistan). As August 2004, IFC's held portfolio in Lebanon was $63 million. The Corporation's activities have focused heavily on the financial sector (mostly credit lines to the Lebanese banks), along with tourism and agribusiness investments. Due to Lebanon's macroeconomic situation and high level of indebtedness, there has been no new business in Lebanon since fiscal year 2002, and IFC has focused instead on strengthening its portfolio and providing technical assistance to the government.

The Bank is maintaining a close dialogue with the Fund on macro-economic issues, as well as on statistical issues. The Bank is also collaborating with the Fund to develop an Action Plan Program on Central Government Debt Management and Domestic Debt Market Development, upon Lebanon's request.

Appendix Table 1. Status of World Bank Group Operations
As of August 6, 2004
(In millions of U.S. dollars)

Closed Projects	**12**
IBRD/IDA *	
Total Disbursed (Active)	119.85
of which has been repaid	21.31
Total Disbursed (Closed)	485.75
of which has been repaid	232.87
Total Disbursed (Active + Closed)	605,599,092.54
of which has been repaid	254,179,937.38
Total Undisbursed (Active)	265.15
Total Undisbursed (Closed)	0.00
Total Undisbursed (Active + Closed)	265,153,923.16

Active Projects		Last PSR Supervision Rating			Original Amount (in millions of U.S. dollars)		
Project ID	**Project Name**	**DO**	**IP**	**Fiscal Year**	**IBRD**	**Cancel.**	**Undisb.**
P071113	COMMUNITY DEVELOPMENT PROJECT	S	S	2001	20		18.59798
P074042	BA'ALBECK WATER AND WASTEWATER	S	S	2002	43.53		42.35799
P050529	CULTURAL HERITAGE AND URBAN DEV.	S	S	2003	31.5		30.47673
P045174	EDUCATION DEVELOPMENT	S	S	2000	56.57		53.02928
P050544	FIRST MUNICIPAL INFRASTRUCTURE	S	S	2000	80		39.9933
P038674	NATIONAL ROADS	S	S	1997	42		8.570213
P005340	TA FOR REVENUE ENHANCEMENT	S	S	1994	25.25		3.839932
P034038	URBAN TRANSPORT DEV. PROJECT	S	U	2002	65		62.97621
P034037	AGRI. INFRA. DEVEL.	S	S	1997	31	7	5.312284
OVERALL RESULT					**394.85**	**7**	**265.1539**

Appendix Table 2. Lebanon: Statement of IFC's Held and Disbursed Portfolio
As of 6/30/2004
(In millions of U.S. Dollars)

		Held				Disbursed			
FY Approval	Company	Loan	Equity	Quasi	Partic	Loan	Equity	Quasi	Partic
1997	ADC	2.08	0	0	0	2.08	0	0	0
1997	Bank of Beirut	9.68	0	0	0	9.68	0	0	0
1997	Banque Saradar	3.13	0	0	0	3.13	0	0	0
1996/99	Byblos Bank	16.3	0	0	8.87	16.3	0	0	8.87
1996	Fransabank	1.2	0	0	1.09	1.2	0	0	1.09
1998	Idarat SHV	1.71	0	0	0	1.71	0	0	0
2001	Lebanese Leasing	2.25	0	0	0	2.25	0	0	0
2004	Lecico Lebanon	5.25	0	0	0	0	0	0	0
1996	Libano-Francaise	2.5	0	0	2.46	2.5	0	0	2.46
1996	MidEast Capital	0	3	0	0	0	3	0	0
1996	SGLEB	1.88	0	0	1.89	1.88	0	0	1.89
Total Portfolio:		45.98	3	0	14.31	40.73	3	0	14.31

Lebanon: Statistical Issues

Gaps in the coverage of macroeconomic statistics since the civil war period hamper effective monitoring of economic developments. At present, monetary accounts, financial markets data, public debt statistics, and central government budgetary accounts are available on a regular basis. Most other data (national accounts, prices, employment, nongovernmental public sector, and balance of payments) are estimated on the basis of partial information and indicators. Lebanon participates in the GDDS, and in January, 2003 its metadata were posted on the IMF's Dissemination Standards Bulletin Board.

The availability of real sector data remains very limited, although there has been progress in compiling national accounts. The ministry of economy and trade is currently receiving technical assistance from the French National Institute of Statistics and Economic Studies, for the development of national accounts statistics. The first set of national accounts estimates for 1997 (the base year) was published in 2003 and production of estimates for 1998–2003 is expected by end-2004. Prior to this initiative, official national accounts statistics had not been produced since the mid-1970s, although preliminary estimates for the major components of GDP at current prices for the years 1994 and 1995 were published in October 1997. A household income survey was published in 1997. In parallel, the CAS has made progress on its own working plan for the implementation of a sustainable improvement in the statistics system, with the assistance from the EU. The implementation of the following key steps are currently underway: a new census on buildings, dwellings and establishments; developing and undertaking economic surveys; and conducting a household budget survey on a national level.

No comprehensive official price index is produced. Consumer price indices are prepared by the ministry of economy and private organizations on the basis of a limited basket of goods for the greater Beirut metropolitan area. With technical assistance from STA, quarterly price indices for 1999 were complied using weights from the 1997 household survey. The index was released in 2000. The weights on the consumer price index basket is expected to be revised once the new household budget survey is completed by CAS. This could form the basis for a more comprehensive official price index.

Published monthly data on the central government budgetary accounts are not comprehensive. The published figures do not include certain transfers and financing data, omit foreign-financed capital expenditure, and do not cover arrears.[8] Certain (treasury) spending is only identified ex-post, and its economic classification with a lag. However, these items are provided to the staff in the context of surveillance activities. No monthly data are available on central government, as available data do not cover the social security funds. No

[8] These certain transfers apparently include some transfers to municipalities, subsidies for the state-owned electricity company, foreign-financed capital expenditure, and payments to service providers (e.g., for waste management and cleaning services in Beirut).

sub-annual fiscal data are currently reported for publication in *International Financial Statistics (IFS)*.

The monetary accounts are generally reliable and timely. STA has been able to bridge occasional delays in reporting to *IFS* by obtaining the missing data from the BdL's website.

Lebanon's balance of payments statistics are weak. The data reflect both deficiencies in the current account (unrecorded exports, underestimation of private sector services and workers' remittances) and the capital account (equity investment in the nonbank private sector, corporate borrowing abroad). Correcting for some of these deficiencies still yields substantial errors and omissions of about $1 billion in each of the last three years. This is less than what was estimated in previous years and, on the whole, reflects an improvement of the BdL's institutional capacity to produce adequate balance of payments statistics. The statistical base is expected to improve substantially with the recently implemented International Transactions Reporting System (ITRS), which was recommended by several missions and developed with technical assistance from STA.

The main recommendations of the 2002 GDDS multi-sector mission were (i) implementation of the CPIS, as it will improve the coverage and reporting of data on portfolio investment abroad by residents; (ii) compilation of detailed quarterly data and their dissemination through BdL's website, Monthly Bulletin, and Annual Report; (iii) improvement in the transmission of balance of payments data to the Fund for publication in *IFS* and the *Balance of Payments Statistics Yearbook (BOPSY)* using the Statistics Department's electronic report form; (iv) adoption of the fifth edition of the *Balance of Payments Manual (BPM5)*; (v) undertaking of surveys to complement the information obtained from the ITRS, and capture those transactions that do not transit through the banking system; and (vi) increase in resources allocated to the Balance of Payments Section, due to the expected additional workload associated with the other recommendations. The 2002 GDDS mission also received from the authorities a draft version of the reserves template with data for June 2003.

Appendix Table 3. Lebanon: Reporting of Main Statistical Indicators

(As of July 2004)

	Exchange Rates	International Reserves	Reserve/ Base Money	Central Bank Balance Sheet	Broad Money	Interest Rates	Consumer Price Index	Exports/ Imports	Current Account Balance	Overall Government Balance	GDP/GNP	External Public Debt/ Debt Service
Date of latest observation	7/04	6/04	6/04	6/04	6/04	6/04	5/04	5/04	12/03	6/04	Est. 2003	6/04
Date received	7/04	7/04	7/04	7/04	7/04	7/04	7/04	7/04	4/03	7/04	2/04	7/04
Frequency of data	D	M	M	M	M	D/W/M	M	M	M	M	A	M
Frequency of publication	D	M	M	M	M	W/M	M	M	M	M	A	M
Frequency of reporting	D	M	M	M	M	W/M	At the time of mission or on request	M	At the time of mission	M	At the time of mission	M
Source of Update	Reuters	BdL	BdL	BdL	BdL	BdL/MoF	BdL	BdL	BdL	Ministry of Finance (MoF)	Ministry of Finance with Department of Statistics and BdL	BdL
Mode of reporting	Reuters	e-mail	e-mail	e-mail	e-mail	e-mail	e-mail	Internet	Obtained on mission	Internet	Obtained on mission	e-mail
Confidentiality	Unrestricted	Restricted	Unrestricted	Unrestricted	Unrestricted	Unrestricted	Restricted	Unrestricted	Unrestricted	Unrestricted	Unrestricted	Unrestricted
Published data	BdL webpage	BdL webpage	BdL webpage	BdL webpage	BdL webpage	BdL/MoF webpages	Unpublished	BdL webpage	BdL webpage	MOF webpage	BdL webpage	BdL webpage