Executive Summary

Background and recent developments

The economy is slowly recovering from the 2006 conflict with Israel. A political stalemate continues to paralyze legislative activity, and, combined with repeated security incidents, is weighing negatively on economic activity. Money demand has remained robust. In support of the government's 2007 program, the Executive Board approved EPCA in April 2007.

Outlook and policy discussions

- The government's five-year reform program lays out an ambitious strategy aimed at reducing Lebanon's large debt overhang and financial vulnerabilities. The strategy is subject to recognized risks from domestic and regional tensions, macroeconomic shocks, contingent fiscal liabilities, and the difficulty of mobilizing political support for sustained adjustment. To address some of these risks, the authorities' fiscal strategy is complemented by structural reforms to promote private sector growth (with privatization at its core) and social sector reforms.
- The objectives of the 2007 program are to contain the budget deficit and to maintain financial stability during this difficult transition year, while preparing for sizeable fiscal adjustment and structural reforms in 2008. Revenue, expenditure and public financial management reforms have been identified; structural reforms in the key power and social sectors are being finalized in collaboration with the World Bank.
- Successful fiscal adjustment would provide an opportunity to strengthen the central bank's balance sheet and reform the monetary policy framework by relying on short-term monetary instruments.
- Banks face balance sheet risks from dollarization and exposure to the sovereign. They are diversifying their portfolio through regional expansion and increased retail lending. The sector appears well prepared for the introduction of Basel II in 2008.

Staff appraisal

- Performance in the first quarter was consistent with the 2007 program objectives, but the uncertain economic and financial outlook requires monitoring. The authorities rightly intend to create a fiscal buffer through tight expenditure control. Early introduction of a floor on gasoline excises would help safeguard revenues.
- Full implementation of major reforms and adjustment measures planned for 2008 will be important to establish the credibility of the strategy and safeguard external stability over the medium term.
- The exchange rate peg remains key to financial stability, and needs to be supported by the authorities' planned fiscal adjustment as well as greater interest rate flexibility and a strengthening of the central bank's balance sheet.

I. Introduction

1. **The Lebanese authorities presented an ambitious five-year reform program to donors at the Paris III conference in January 2007.** The program aims at raising growth, improving living standards, and reducing Lebanon's large debt overhang and financial vulnerabilities, taking account of the special challenges created by the conflict with Israel in July–August 2006. A number of reforms were developed in close consultation with the Fund (Box 1), and, on April 9, 2007, the Executive Board approved the authorities' request for EPCA in support of their 2007 program.

Box 1. Implementation of Past Fund Advice

Since the Paris II conference of 2003, Fund advice has focused on the implementation of the authorities' medium-term strategy of fiscal adjustment, privatization, and structural reforms. The pace of reform and fiscal adjustment has fallen short of the initial plans and of Fund recommendations because of political instability and insufficient domestic consensus on the reform agenda. The conflict between Hezbollah and Israel in 2006 caused a further setback and led to the authorities' decision to delay most adjustment measures until 2008.

In developing their reform strategy, the authorities have, to a large extent, relied on Fund advice. Most of the tax policy and administration measures, as well as the public financial management reforms, embedded in the revised strategy presented by the authorities at the Paris III conference were developed in close consultation with staff, and have benefited from extensive Fund technical assistance. The Fund has supported the authorities' view that the exchange rate peg remains key to financial stability.

2. **Even with the strong fiscal adjustment envisaged for 2008-12, Lebanon will continue to be highly vulnerable to swings in investor confidence, and the level of public debt will remain high for years to come.** Against this background, discussions for the Article IV consultation stepped back from the immediate program context and focused on: (i) making the reform strategy more resilient to inherent risks and potential shocks; (ii) reforms in the monetary policy framework and banking sector; and (iii) policies for 2007 and 2008 to support the authorities' medium-term objectives.

II. Background and Recent Developments

3. **Economic developments in 2006 were significantly affected by the conflict with Israel (Tables 1–10).**[1] Real GDP is estimated to have been flat in 2006, with strong growth in the first half offsetting the disruptions created by the conflict (Figure 1). Inflation

[1] Developments in 2006 were discussed in more detail in IMF Staff Country Report No. 07/177.

accelerated in July–August, largely reflecting supply shortages during the conflict and the ensuing blockade. Financial pressures were managed effectively owing to the banking system's strong liquidity position. Immediately after the conflict, donors pledged $1.7 billion for relief and recovery (mostly at the Stockholm conference in August 2006), and disbursements in 2006 roughly offset the immediate fiscal costs of the conflict (Text Table 1). Nonetheless, the overall fiscal deficit increased in 2006 because of rising interest expenditures and higher than expected transfers to the power company, Electricité du Liban (EdL). Government debt rose to over $40 billion (178 percent of GDP) at end-2006.

Text Table 1. Lebanon: Economic Impact of the July–August 2006 Conflict, 2006–09
(In billions of U.S. dollars)

	2006 Act.	2007 Proj.	2008 Proj.	2009 Proj.	Cumulative Proj. 1/
Damage	2.0	…	…	…	2.0
Of which: to housing	1.1	…	…	…	1.1
Budgetary impact	0.7	0.9	0.4	…	2.0
Estimated conflict-related revenue loss	0.5	…	…	…	0.5
Conflict-related spending	0.2	0.9	0.4	…	1.5
Grant disbursements (including Stockholm conference) 2/	0.7	0.6	0.2	…	1.4

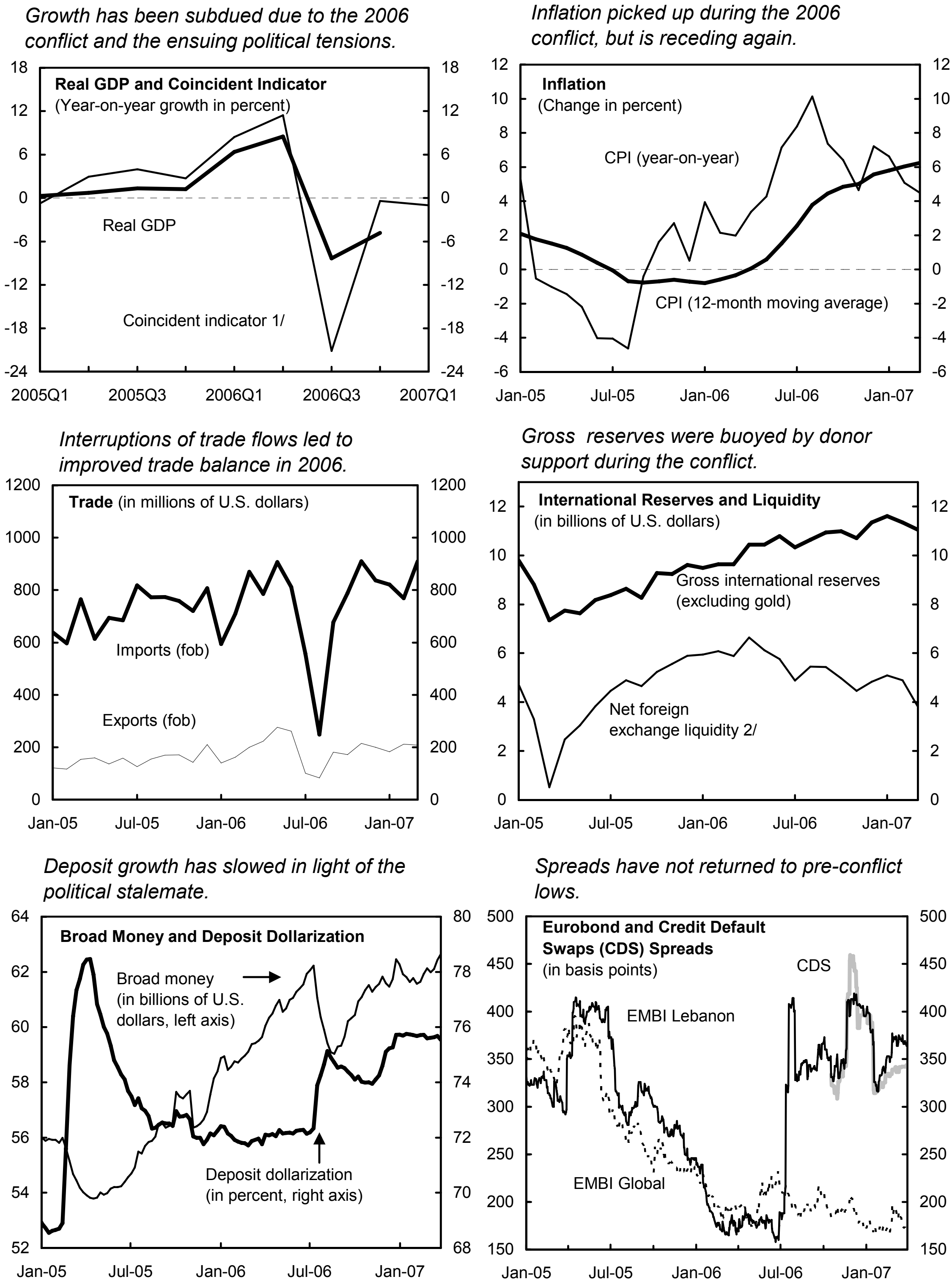
Sources: Lebanese authorities; and Fund staff estimates.
1/ May not add up due to rounding.
2/ Excluding support pledged at the Paris III conference.

4. **Despite continued political uncertainty, economic developments in the first quarter of 2007 pointed to an incipient recovery.** Indicators of economic activity during the first quarter suggest that GDP had recovered, faster than expected, to the level of early 2006. Inflation has receded as the impact of supply shortages during the 2006 conflict is fading out, notwithstanding the depreciation of the U.S. dollar to which the currency is pegged. Due to strong year-on-year import growth, the trade deficit widened in the first quarter of 2007. With lower capital inflows and limited donor disbursements, gross international reserves fell by $300 million, to $11 billion at end-March.[2]

5. **The political tensions that erupted after the conflict with Israel between the government and the opposition remain high.** If not resolved, the political confrontation could lead to a constitutional crisis by the time of the presidential election later this year. On June 10, the United Nations established a tribunal to investigate the assassination of former Prime Minister Hariri. After a period of calm, the security situation deteriorated again in late May with fighting between the Lebanese army and the Fatah al-Islam militants in northern Lebanon and several bomb explosions in and around Beirut.

[2] Excluding gold valuation changes.

Figure 1. Lebanon: Recent Developments, January 2005–March 2007



Source: Lebanese authorities; J.P. Morgan; Bloomberg; and Fund staff calculations.

1/ Coincident indicator is a composite indicator of economic activity monitored by the central bank.

2/ Defined as gross international reserves minus principal and interest due over the next 12 months on all foreign currency liabilities of the central bank to entities other than the government of Lebanon. Excludes long-term foreign exchange liabilities of the central bank.

6. **The political tensions have also affected financial markets, though money demand remains robust.** Notwithstanding considerable monthly volatility, bank deposits have grown at an average (annualized) rate of 9 percent between October 2006 and May 2007.[3] Lebanese Eurobond and Credit Default Swap spreads remain some 200 basis points above the levels prevailing prior to the 2006 conflict, but have also been quite volatile reflecting political developments. Deposit dollarization (currently at 76 percent) is also higher than prior to the conflict, while the stock market index has remained broadly constant since end-2006 in very low trading.

III. Outlook and Authorities' Views on Policies[4]

7. **Discussions were based on a scenario developed by staff that incorporates full implementation of the Paris III reform program (Text Table 2).** Fiscal adjustment and privatization are expected to begin in 2008, and, as a result, government debt would be reduced by almost 50 percentage points to below 130 percent of GDP by 2012, in line with the authorities' targets. In addition to the contribution of fiscal adjustment (7 percentage points), the debt reduction comes from privatization (31 percentage points), the projected Paris III donors assistance (6 percentage points), and the transfer of unrealized gold valuation gains from the Banque du Liban (BdL) to the budget (7 percentage points). The associated improvement in confidence is assumed to result in a pick-up of growth to 4–5 percent a year (similar to the historical average rate over the last 15 years), and a narrowing of interest rate spreads. The authorities considered the macroeconomic scenario realistic, but believed that they will obtain a higher fiscal yield from their reforms.

A. Minimizing Risks to the Paris III Reform Strategy

8. **The Paris III reform strategy is subject to a number of risks, which were acknowledged by the authorities.** Given the large debt overhang and fiscal and external imbalances that are financed by short-term deposit inflows, Lebanon will remain vulnerable to shocks to confidence for years, even with full implementation of the reforms. The most immediate risk to the strategy is the political risk that reforms cannot be initiated or would be reversed. Shortfalls in growth or higher than projected real interest rates constitute the main macroeconomic risks. Lastly, there are some uncertainties over the yield of reforms, as well contingent liabilities that have yet to be quantified. The effects of these risks are illustrated by the debt sustainability analysis (Box 2).

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[3] A temporary peak in deposits at end-2006 was reportedly related to some "window dressing" by banks aimed at posting high deposit growth rates for the year.

[4] Staff's views are given in Section IV.

Text Table 2. Lebanon: The Paris III Fiscal Adjustment Objectives, 2006–12

Measures	Timeline to Implementation	Executive or Legislative Prerogative	Cumulative Yield in Percent of GDP (2006 to 2008)	Cumulative Yield in Percent of GDP (2006 to 2012)
Revenue			**2.8**	**5.4**
Increase in the VAT rate (from 10 to 12, and then to 15 percent)	Rate to 12 percent is already in the 2007 draft budget law with implementation on January 1, 2008. Increase to 15 percent is scheduled for 2010.	Legislative	1.1	2.5
Introduce a global income tax	Law needs to be passed before end-2007 for the tax to be collected in 2008. Administrative reforms and taxpayer information require significant lead time between the passage of the law and the implementation of the new tax regime.	Legislative	0.0	1.0
Increase in gasoline excises to their pre-capping level	Implementation is immediate following a Council of Ministers decree. First increase by September 2007, thereafter annual until pre-capping levels of 2004 have been re-instated.	Executive	0.8	1.1
Increase in the rate of tax on interest income (from 5 to 7 percent)	2007 budget law with implementation on January 1, 2008.	Legislative	0.4	0.4
Improved revenue from government properties (Casino du Liban, etc.)	Immediate. Negotiations have been completed.	Executive	0.4	0.4
Improvement in property tax administration and taxation of seashore properties	Reforms are ongoing.	Executive	0.2	0.2
Expenditure			**0.4**	**4.5**
Reforms leading to a nominal freeze of the wage bill	Ongoing	Executive	0.1	0.9
Reduction in EdL losses	Reforms are ongoing. The World Bank is actively involved.	Executive	0.2	2.1
Reduction in other current expenditures (mostly transfers)	Key measures include closing the Council of the South and the Fund for the Displaced (now scheduled for end-2009).	Executive	0.6	1.9
Increased capital spending (growth enhancing)	To be implemented each year within the new budget law.	Legislative	-0.3	-0.4
Adjustments			**-2.4**	**-5.9**
Revenue loss due to privatization	Ongoing	Executive	-1.6	-3.4
Change in grants	Ongoing	Executive	-0.4	-3.0
Conflict-related expenditure	Ongoing	Executive	-0.5	1.0
Other 1/			0.0	-0.6
Change in primary fiscal balance (including grants)			**0.9**	**3.9**

Sources: Lebanese authorities; and Fund staff.
1/ Includes the fiscal impact of exogenous factors and one-off effects.

Box 2. Debt Sustainability Analysis

The debt sustainability analysis (DSA) reveals that under a number of shocks, the debt-to-GDP ratio would revert to an unsustainable path. The DSA shows the impact of six shocks on the baseline debt trajectory as well as the implications of using historical values for the interest rate, growth rate, and the primary balance (Figure 2, and Table 11):

Panel 1: The baseline scenario—full implementation of the Paris III agenda.

Panel 2: A permanent increase in the real interest rate by 170 basis points (i.e., one-half standard deviation from its past distribution) relative to the baseline.

Panel 3: A drop in average GDP growth from 4 percent in the baseline to 3 percent, i.e., the average rate for 2002–06.

Panel 4: A shortfall in the yield from fiscal reforms, i.e. halving of the yield of the fiscal reform package. This reduces the average primary surplus to just over 1 percent of GDP in 2007–12, compared with over 4 percent of GDP in the baseline, and implies that the primary surplus converges to 1 percent of GDP in the long-run, compared with 3 percent of GDP in the baseline.

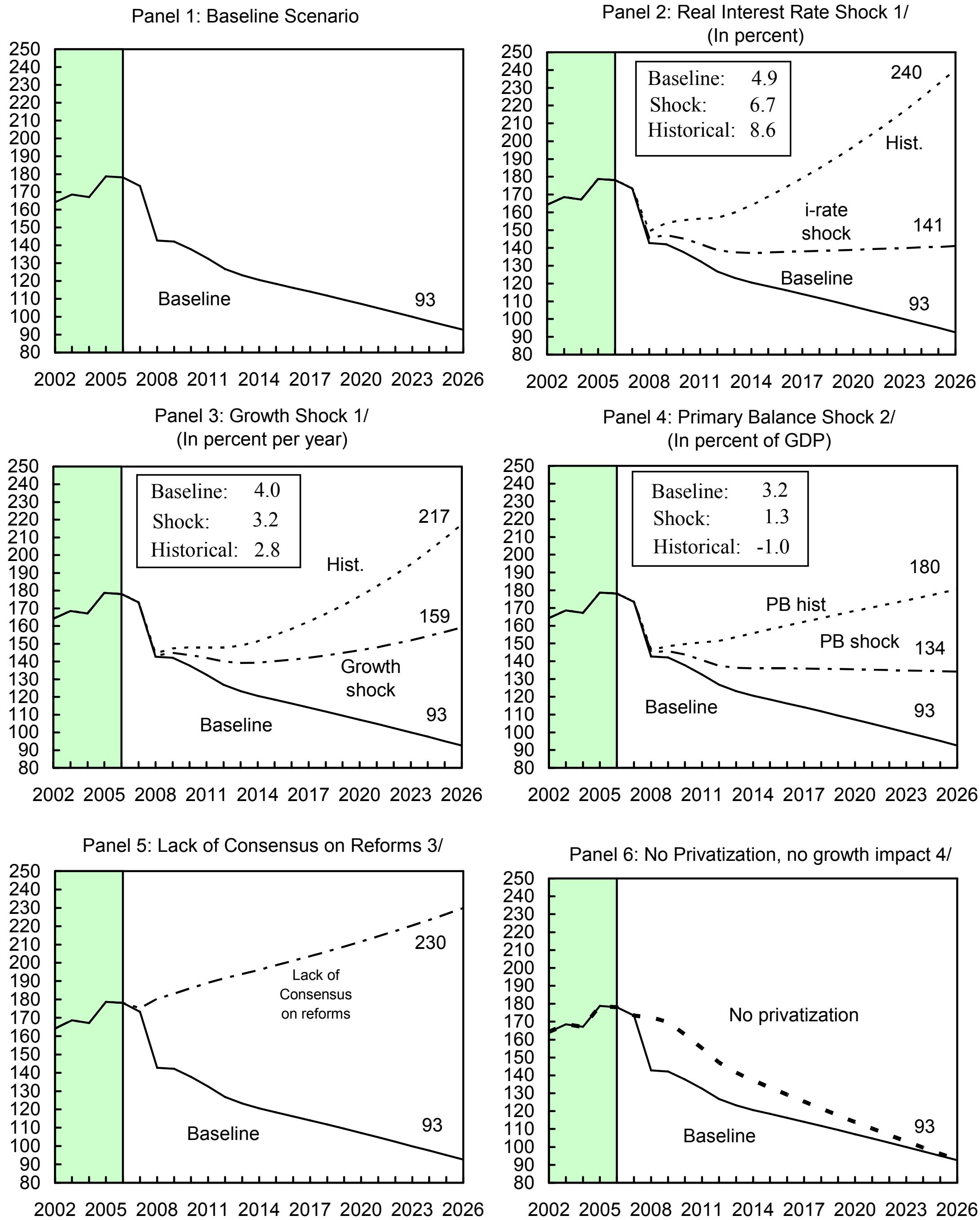
Panel 5: Absent sustained reforms, no privatization and only partial fiscal adjustment (the primary surplus reaches only 3 percent by 2012); growth remains sluggish at 3 percent per annum, while interest rate spreads widen by 220 basis points relative to the baseline.

Panel 6: No privatization—since privatization essentially brings forward the income stream from the privatized companies, the scenarios with and without privatization converge to the same debt-ratio in the long-run. However, this abstracts from the negative impact that abandoning privatization plans would have on growth and possibly interest rates relative to the Paris III scenario.

9. **The authorities concurred with staff that broad domestic support was needed to achieve and sustain the targeted fiscal adjustment.** They considered that the tranched donor support, which was conditional on reform implementation, would provide an effective incentive to maintain the reform momentum over time. Beyond that, they noted that the growth and social pillars of their Paris III program were intended to build public support for reforms by compensating for the inevitable difficulties of fiscal adjustment.

10. **The program's growth pillar is centered on privatization, improvements in the business climate, and opening of markets.** The authorities emphasized that privatization of the telecom sector was the lynchpin of their growth strategy, and that additional public sector enterprises were also being slated for privatization. Furthermore, they were establishing a competitiveness council, consisting of private sector and government representatives that would be tasked with identifying legal and administrative impediments to growth. In this context, they were taking steps to streamline the process of obtaining business licenses, and, more generally, to lower the cost of doing business. The authorities also thought that accession to the World Trade Organization—envisaged for 2008—would contribute to further liberalizing markets; they expected to have all relevant legislative changes ready for parliament by the end of 2007.

Figure 2. Lebanon: Public Debt Sustainability, 2002–26
(Public debt in percent of GDP)



Sources: International Monetary Fund, country desk data, and staff estimates.
1/ Growth shock based on average 2002–06 values. Interest rate shock is permanent one-half standard deviation shock. Figures in the boxes represent average projections for the respective variables in the baseline scenario and shock scenario; historical refers to 10-year averages.
From 2012, the primary fiscal surplus reverts slowly to a long-term level of 3 percent of GDP.
2/ Through 2012, the planned revenue and expenditures reforms generate half of their estimated yield in the scenario; after 2012, the primary surplus slowly declines to 1 percent of GDP.
3/ Lack of consensus on reform prevents privatization and allows only partial fiscal adjustment.
4/ No privatization in the projected period. Assumes no adverse dynamic impact of no privatization.

11. **The main elements of the social pillar are to improve service delivery in health and education and strengthen the social safety nets.** The authorities noted they could achieve a lot by redirecting the existing envelope of social spending, improving public services, and creating public social safety nets (including through a cash transfer system).

12. **The authorities were less concerned about uncertainties over the yield of reforms, arguing that there was also an upside potential.** For example, the ongoing revision of the reform plan for EdL was expected to lower reform costs, while yielding the same reduction in transfers from the budget. They also expected tax administration reforms to increase tax buoyancy relative to staff's revenue projections. However, the authorities acknowledged the risk of added spending pressures on account of the security situation.

13. **Reforms to address imbalances (and possible contingent liabilities) in the pension and health system are being developed.** The authorities did not see immediate pressures developing in the public pension system, and felt therefore that they had time to assess imbalances (ongoing) and introduce reforms. The reform of the private pension system—currently in parliament—envisions the system's transformation from an end-of-service allowance to a fully funded pension system. Transition costs may have to be borne by the state, but their extent would only be revealed once the audits of the National Social Security Fund's (NSSF's) accounts are completed (Table 12), and the contribution and replacement rates for the new system are finalized. In the meantime, the authorities plan to introduce professional asset management to raise the private pension systems' return on investment. Another source of open-ended budget transfers are the losses of the health fund of the NSSF. In this regard, the authorities are discussing with the World Bank options for addressing underlying structural problems in contribution rates and coverage, which, among other problems, create a bias toward hospitalization that is pushing up costs.

14. **In parallel, the authorities plan to develop institutions that will help sustain the adjustment effort.** They have taken steps to develop a medium-term budget framework to better align short-term policies with strategic objectives, and are also aiming to move gradually toward program budgeting. They also consider adopting a fiscal responsibility law to provide a self-reinforcing mechanism of fiscal adjustment and debt reduction that reduces the risk of backtracking. The authorities acknowledged that such institutional reforms will require substantial preparation.

B. Monetary and Exchange Rate Policies

15. **The authorities consider that their monetary policy framework has enabled them to deal effectively with financial pressures.** They believe that interest rate stability, notably in treasury bill (T-bill) rates, played a key role in maintaining confidence during periods of pressure (Table 13). However, they recognized that the counterpart to that was the need for the BdL to occasionally rely on alternative instruments (central bank CDs, special discount windows, swaps, etc.) to manage liquidity and safeguard international reserves. The

authorities also reiterated that the BdL's mandate was to maintain financial stability, and that, in their view, this involved providing financing to the government in times of shortfalls from other sources. Nonetheless, they agreed that such financing should only be temporary, and that prolonged shortfalls in market demand would have to be met by raising T-bill rates.

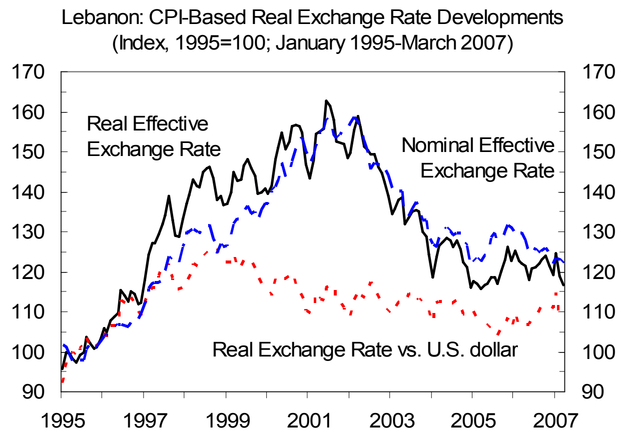
16. **The monetary authorities confirmed their intention to introduce new short-term instruments for managing liquidity once the financial situation improves.** They considered a resolution of the political and security situation, and an improved fiscal environment as preconditions for moving toward short-term, market-based instruments of monetary control (such as repos and reverse repos). However, they acknowledged that this would require greater price flexibility in T-bill auctions. In the context of monitoring performance relative to the EPCA monetary and fiscal targets, the authorities are planning to establish a technical working group to enhance information sharing between the ministry of finance and the BdL.

17. **The authorities continue to regard the exchange rate peg as key to financial stability.** Exchange rate stability was particularly important given balance sheet risks related to widespread dollarization and the government's high foreign currency debt servicing obligations. They agreed with staff that fiscal imbalances, but also temporary factors related to the post-conflict environment, were at the core of Lebanon's high current account deficit, and noted that the planned fiscal adjustment would help improve the current account position significantly. Against this background, and the fact that trade competitiveness was being maintained, the authorities concurred with the staff analysis (Box 3), which does not suggest that the exchange rate is misaligned. Furthermore, the authorities were confident that the envisaged structural reforms would generate the competitiveness gains needed to sustain growth.

18. **The authorities were confident that the weakening of the BdL's balance sheet has not impaired monetary control.** They noted that the weakening was largely the result of managing past crises, although quasi-fiscal activities carried out by the BdL had also contributed. They did not see an immediate risk to their ability to control liquidity, and thought that the BdL's balance sheet could absorb the transfer to the government of unrealized gold valuation gains. Looking forward, the authorities expected that fiscal adjustment and improvements in confidence would help reduce dollarization, which would facilitate a further build-up of net international reserves and strengthen the BdL's income position.

Box 3. Assessment of the Level of the Real Exchange Rate

Traditional indicators do not suggest that Lebanon has an external competitiveness problem.



Sources: National authorities; and Fund staff calculations.

- Largely reflecting the weakening of the U.S. dollar, the real effective exchange rate (REER) has depreciated 20 percent relative to its 2000–02 average, offsetting some competitiveness losses since the mid-1990s. The bilateral real exchange rate vis-à-vis the U.S. dollar—to which the Lebanese pound is pegged—has remained broadly stable over the past decade.
- Lebanese exports have remained competitive during difficult times. Merchandise exports grew at an average rate of 5 percent a year in volume terms in 2004–05 (staff estimate based on Lebanese customs data), and maintained positive momentum in 2006 (2 percent) and into 2007, despite the conflict-related disruptions in production and the two-month air, land, and sea blockade. As such, Lebanon's exports have more than kept pace with the buoyant demand in the region; the market shares vis-à-vis all trading partners have been stable in 2005–06. Exports of services (primarily but not exclusively tourism) have suffered from the political and security disruptions of 2005–07, but still have strong growth potential as was demonstrated in 2004.

Applying the three methodologies proposed by the IMF's Consultative Group on Exchange Rate Issues (CGER) does not suggest that the REER is misaligned.

- *Equilibrium real exchange rate approach:* An estimation of the long-run equilibrium REER derived from key macroeconomic fundamentals (the net external asset position (NEAP), the productivity differential with trading partners, terms of trade, and government consumption) suggests that the REER could actually be modestly undervalued relative to its estimated equilibrium level. However, the result is well within the margins of error in this type of analysis.
- *External sustainability approach:* In this approach, the underlying current account deficit in 2007 is compared to the current account deficit that would stabilize Lebanon's NEAP at the end of 2006. The empirical estimate of Lebanon's NEAP is subject to large uncertainty, and depending on the choice of the NEAP, the REER is either slightly undervalued or slightly overvalued, also within the typical margin of error.
- *Macroeconomic balance approach:* For this approach, a current account norm of –5 to –6 percent of GDP is derived based on macroeconomic fundamentals (fiscal balance, dependency ratio, population growth, NEAP, oil balance, output growth, income relative to the United States in purchasing power parity terms). The current account norm is then compared to medium-term projections based on the authorities' planned policies under the Paris III program. With full implementation of the authorities' program, the projected current account deficit for 2012 would narrow to –5½ percent of GDP. However, if the fiscal adjustment planned under the Paris III program is not achieved in full, the projected current account deficit under current policies would exceed the norm which could potentially lead to external instability. This result is also reflected in the historical scenarios of the DSA (Figure 2) that show an unsustainable debt path if the program is not implemented and the key macroeconomic variables remain at their average levels over the last decade.

19. **The BdL has introduced a scheme to provide relief to banks and businesses affected by the 2006 conflict.** Under the scheme, the BdL would provide loans to banks at below-market interest rates which the banks would re-invest in fresh T-bills. Banks would then use the interest differential to provide a 60 percent subsidy toward the reconstruction of productive facilities destroyed during the conflict. The authorities argued that in the absence of any assistance, some banks with large exposures would find it difficult to absorb conflict-related losses. The authorities estimated the total subsidy under the scheme would be at most $180 million, although disbursements could be significantly lower owing to strict eligibility requirements.

C. Banking Sector Vulnerabilities

20. **The banking sector is profitable and its capitalization is increasing, though vulnerabilities remain high (Tables 14–15).** The balance sheet of domestic banks stands at $77 billion (320 percent of GDP) and exposure to the sovereign (government and central bank) is around 50 percent of assets. The authorities were concerned about the substantial maturity mismatch that banks carry on their books, largely from sourcing their holdings of government paper from short-term deposits (Table 16). In addition, the high degree of dollarization exposes banks to substantial credit risk. Reducing these vulnerabilities will ultimately depend on the success of the debt reduction strategy, although the authorities are working in parallel to encourage banks to strengthen risk management and diversify their portfolio. While some banks are targeting a reduction in their sovereign exposure, their systemic exposure to the government makes it difficult for them as a group not to roll over government paper. The authorities took some comfort in the fact that banking sector profitability increased in 2006 and early 2007, although this was in part the reflection of regulatory measures to ease provisioning rules in the wake of the conflict.

21. **The authorities welcomed the regional diversification strategy of commercial banks.** The larger banks are expanding very rapidly their presence in countries where their expertise puts them at a strong comparative advantage by setting up local subsidiaries and branches, and potentially by cross-border lending.[5] They are also developing domestic private sector lending, in particular retail lending. Among the larger banks, 20 percent of assets are by now in foreign operations, with the objective of generating half of their profits abroad within three years. The banking control commission has taken steps to facilitate and enhance its monitoring of the banks' diversification strategy. Thus, for instance, in 2006 it issued a circular raising the limits on the exposure of Lebanese banks to non-resident borrowers, and has signed, or is negotiating, memoranda of understanding on consolidated supervision with supervisory authorities in countries where Lebanese banks are expanding.

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[5] In addition to their traditional bases in Europe and Cyprus, Lebanese banks are (or plan to be) present in Algeria, Egypt, Iraq, Jordan, Nigeria, Oman, Qatar, Sudan, Syria, Tunisia, and the United Arab Emirates.

22. **The authorities expect commercial banks to strengthen risk management in response to the introduction of Basel II standards in 2008.** The banking system seems well-prepared for the introduction of Basel II, and the authorities expect all banks to meet the tightened capital adequacy criteria. The increased risk weight on foreign currency denominated government and BdL debt instruments would force banks to internalize in part the systemic risks associated with sovereign foreign currency debt.[6] The authorities are also trying to encourage banks to better manage their maturity mismatch. To that end, they decided, for the time being, not to reopen the repo window for Lebanese lira T-bills which they had closed during last year's conflict to ease pressures on the Lebanese lira.

23. **The authorities saw scope for consolidation of the banking sector over the medium term.** In particular, smaller banks whose main source of income is lending to the government may lose ground to larger banks which are better positioned to adapt to Basel II and diversify their asset structure. The promotion of mergers, including through financial incentives provided by the BdL, has been the main instrument to facilitate the exit of non-viable banks in the past. The BdL believes this is the most suitable instrument in the Lebanese context, because of concerns that outright bank failures would destabilize the system. However, this instrument could give rise to moral hazard, notably in terms of depositor, shareholder, and management behavior.

D. Policies for 2007 and 2008

24. **Political tensions and outbreaks of violence are key obstacles to reform implementation and economic recovery.** The political stalemate is constraining the government's room for maneuver and paralyzing legislative activity. This, combined with security concerns, is expected to weigh negatively on economic activity. As such, real GDP growth is projected at about 2 percent in 2007. Under the fixed exchange rate regime, CPI inflation should return to around 2 percent by year-end. Capital (including deposit) inflows are subject to a high degree of uncertainty and are therefore projected conservatively—money growth is put at 5 percent for the year as a whole. Reflecting reconstruction expenditure and replenishment of inventories, the current account deficit is expected to increase to 11 percent of GDP in 2007, largely financed by official inflows and foreign direct investment.

25. **The authorities expected to be able to contain the primary fiscal deficit (excluding grants) to 3.7 percent of GDP in 2007 as programmed.** First-quarter performance was within program targets (Box 4). However, the authorities recognized the

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[6] The risk weight on Eurobonds would increase from 20–50 percent presently to 100 percent, and that on central bank foreign currency debt from zero to 100 percent. The risk weight on domestic currency sovereign debt is expected to remain at zero.

risks of unforeseen expenditure pressures, such as from security measures and transfers to EdL on account of higher oil prices. They indicated that, as in 2006, they would maintain tight expenditure control—delaying low-priority spending until later in the year—to build up a buffer in the event of unforeseen shocks. On the revenue front, the widening gap between domestic and international oil prices reduced the gasoline excise to near zero in May. On current trends, gasoline excise revenues would fall short of program targets by around ½ percent of GDP for the year. However, the authorities were confident that, if the political situation stabilized, they could introduce a floor on excises (of $0.20 per liter) by September 2007, as agreed under the program, which is expected to yield ½ percent of GDP during the remainder of 2007. At the same time, they noted that other revenues have been more buoyant than expected.

Box 4. Performance Under the Program Supported by EPCA[1]

The authorities met all end-March 2007 quantitative targets under EPCA, except for the ceiling on government borrowing from the BdL, which was exceeded by a small margin (Table 17). Stronger than projected revenue collection helped contain the primary deficit and the accumulation of net debt in the first quarter. However, insufficient demand for government paper by commercial banks led the government to rely more on BdL financing than programmed. The outcome was LL 106 billion ($70 million) above the LL 903 billion ($602 million) flow envisaged for the first quarter. Despite the difficult market situation, the gross reserves target was met with a modest margin. No domestic or external arrears were accumulated.

The authorities also reported on progress toward achieving the monitorable actions for end-June (Table 18). On May 21, the cabinet approved the draft budget for 2007, which includes the foreign financed component of the Council of Development and Reconstruction and activities of the Higher Relief Council. The auditing of EdL has already started, and the launching of the audit of NSSF is on track. With respect to privatization, the authorities have modified their strategy to privatize only the licenses of the two mobile phone companies and effect the transfer of assets and contracts through separate transactions. This would avoid the need for a special law prior to privatization, and ensure that privatization can proceed as planned, making the end-June submission of such a law to parliament no longer relevant.

[1] IMF Staff Country Report No. 07/177.

26. **The authorities were confident that they could meet their financing needs through donor support and from the market during the remainder of 2007.** They pointed to recent T-bill auctions and a Eurobond issue in May as indications that commercial banks had returned to the market, and, therefore, saw no immediate need for raising T-bill rates. At the same time, negotiations with key donors are proceeding, and disbursements of grants and loans could amount to $1.9 billion in 2007 (Text Table 3). As such, the authorities were confident that they would reduce net borrowing from the BdL and achieve the programmed build-up of international reserves over the rest of 2007 (Tables 19–20). As another risk to their financing strategy, they listed EdL's fuel payments over which they had only limited control. Negotiations with domestic banks on a possible Paris III contribution have not progressed, with banks being reluctant to make commitments before reform implementation is underway.

Text Table 3. Lebanon: Paris III Aid
(In millions of U.S. dollars, unless otherwise specified)

	Total Pledges	New Grants and Loans to Government						
		Paris III Pledges			Rev. Proj. for 2007—10 1/		2007	
		Total	Budget Support	Project Assistance	Total	Grant Element 2/ (Estimate, in percent)	Rev. Proj.	Received Jan-May
Total	7,565	5,018	2,327	2,691	3,083	51.5	1,888	100
Multilateral	3,978	2,213	835	1,378	738	37.7	306	0
Bilateral	3,587	2,805	1,492	1,313	2,346	55.9	1,583	100

Sources*:* Lebanese authorities, and Fund staff estimates.

1/ Projection assumes partial conversion of project assistance pledges to budget support, and non-acceptance of a majority of remaining project assistance, particularly project loans.

2/ Discounting debt service projections at Lebanon's average projected interest rate for market financing in U.S. dollars (7.45 percent).

27. **The authorities reported on recent steps toward fiscal adjustment in 2008.** On the revenue side, the draft 2007 budget already provides for increasing the value-added tax rate and the tax on interest income as of 2008. Preparations for the introduction of a global income tax in 2008 were advancing, with a view to submitting the draft law to parliament in 2007. The authorities also expected ongoing revenue administration reforms, such as the introduction of a medium taxpayer office, new audit procedures, and changes to the property valuation system, to yield revenue gains. On the expenditure side, they were finalizing the reform plans for EdL (Box 5) and NSSF, and were developing a reform plan for the health sector, all in cooperation with the World Bank. With respect to EdL, they were more optimistic than staff about the potential yield of reforms.[7] Moreover, they were aiming for an

[7] Staff's scenario envisages that net transfers to EdL (excluding debt service, but including investment costs) would decline to 1.3 percent of GDP by 2012, from 3.3 percent of GDP in 2006.

across-the-board cut in discretionary spending of five percent in 2008, and a reduction of expenditure duplication across ministries through better cooperation and information sharing. They also pointed to the planned establishment of a debt management office charged with reducing debt service costs and improving asset management, although details remain to be worked out.

Box 5. Energy Sector Reforms

Electricity production in Lebanon comes at a high budgetary cost, while service delivery is of poor quality. Budget transfers to EdL net of debt service amounted to $750 million (3.3 percent of GDP) in 2006. Weak management, poor governance, inadequate infrastructure, and reliance on oil instead of less expensive gas are the sector's main problems. Technical losses are estimated at 15 percent of production, while non-technical losses (essentially illegal connections) account for another 18 percent. At the same time, power cuts are endemic.

The government is finalizing a comprehensive energy sector reform plan in close cooperation with the World Bank. EdL's financial management will be enhanced through: corporatization (which would allow hiring a more professional work force); the appointment of a new board of directors and qualified advisors; auditing of EdL's accounts; and installing remote meters. Reforms also seek to promote private sector involvement and increase capacity through independent power producers; tendering is envisaged for early 2008. Fuel costs are to be reduced by switching to natural gas in at least one power plant in the second quarter of 2008; this plant might also be privatized alongside the entry of independent power producers. A National Control Center, planned for 2008, is expected to realize efficiency gains in distribution. Toward the end of the reform period, the authorities plan to unbundle and partially privatize the sector. A regulator would be set up in parallel.

The tariff structure is far from achieving cost recovery and suffers from inefficiencies. Given the high production costs and losses, the average tariff of 9.4 cents/kWh achieves cost recovery at a fuel price of $25/barrel. The above reforms would narrow the gap relative to current oil prices, but an increase in tariffs may also be required, although international experience suggests that tariff increases should be introduced following improvements in service quality to avoid even higher non-payment and illegal connections. At the same time, Lebanon's tariff is already significantly higher than regional tariffs which puts Lebanese producers at a disadvantage. In addition, there are inefficiencies in the tariff structure, for example, the peak tariff for industry encourages self generation.

28. **The authorities also emphasized ongoing efforts toward strengthening public financial management.** The carryover of committed and uncommitted spending from one budget year to the next has seriously weakened the ability to control budgetary outcomes and to align spending to current priorities. To address this problem, the authorities intend to roll-back the carry-over of committed spending starting in the 2008 budget. As a first step, they plan to explicitly revoke the ability of line ministries to carryover uncommitted

expenditures beyond one month into the new budget year in the 2007 budget. The authorities explained that the 2008 budget circular also introduces the notion of medium-term planning and top-down spending envelopes for line ministries. In particular, they would pilot medium-term budgeting that incorporates the implications of investment spending for future current spending in four ministries and agencies.

E. Other Issues

29. **The authorities are working on improving the statistical system, but significant data problems remain.** With support from INSEE, they are revising the national accounts, including the compilation of quarterly GDP data. The 2004 National Accounts have just been released. However, statistical provision in other areas (balance of payments, prices, employment, wage and social indicators) remains seriously deficient. Lebanon is due to be assessed by the Middle East North Africa Financial Action Task Force in January 2008.

IV. Staff Appraisal

30. **The authorities' reform strategy lays out a promising path toward reducing Lebanon's large debt overhang and financial vulnerabilities.** The authorities' medium-term fiscal adjustment objectives are appropriately ambitious in the circumstances. The reform measures are designed to yield the targeted improvement in the primary balance, and, combined with pledged donor support and privatization, should reduce the debt-to-GDP ratio significantly over the next five years. The challenge now is to move from the planning stage to implementation, which would be facilitated by improvements in the political and security situation.

31. **Performance in the first quarter of 2007 bodes well for the attainment of the program objectives for the year, but the uncertain economic and financial environment requires close monitoring.** The authorities' intention to create a buffer by maintaining strict expenditure discipline is welcome. At the same time, gasoline excise revenues should be safeguarded by promptly raising gasoline prices in line with recent increases in international oil prices. The authorities' commitment to reduce reliance on central bank financing over the remainder of the year is equally welcome. Every effort should be made to limit any new borrowing from the BdL to short-term bridge financing in order to safeguard international reserves. To that end, greater interest rate flexibility is necessary.

32. **This transition year is the time to prepare the ground for sizeable adjustment and deep-seated reforms starting in 2008.** The decision to include in the draft 2007 budget law the 2008 increase in the value-added tax and the tax on interest income provides a strong positive signal in this direction. The authorities are also encouraged to ensure that all legislative and administrative work for the introduction of the GIT in 2008 is completed before the end of 2007. The largest source of adjustment on the expenditure side over the medium term is to come from structural reforms of the energy and social sectors, which have

been a source of large fiscal leakages over the years. Completion of these reform plans and their swift implementation are therefore key priorities for 2007–08. The success of energy sector reforms will require a careful sequencing of infrastructural and governance initiatives to avoid compounding existing problems, and NSSF reforms should be guided by fiscal considerations.

33. **Significant improvements in public financial management are necessary to strengthen budgetary control, improve the allocation of scarce resources to priority areas, and enhance the effectiveness of policies.** Staff encourages the authorities to follow-up on the action plan developed with Fund technical assistance to improve cash and budget management functions. At the same time, across-the-board expenditure cuts should, in general, be avoided because they are hard to sustain and undermine the quality of public spending. More generally, comprehensive public financial management reforms would be a prerequisite for the envisaged adoption of a fiscal responsibility law.

34. **Fiscal adjustment will facilitate the reform of the monetary policy framework.** Once more stable and predictable market conditions prevail, the central bank should be able to focus on guiding interest rates through transparent short-term instruments, which would allow the BdL to achieve its balance of payments and monetary objectives more efficiently. This will need to be accompanied by price flexibility in T-bill auctions. Such an environment would create the conditions for the government securities market to develop, thereby attracting a wider range of investors and helping the government diversify its financing base. As a first step, the authorities could consider reopening the repo window and relying on the repo rate to influence banks' behavior. In the short term, the interlinkages between the government's cash and debt management and the BdL's liquidity and reserve management call for close cooperation between the two institutions to increase the efficiency of financial policies. Steps being taken in this direction are welcome.

35. **Progress is also needed on strengthening the central bank's balance sheet to preserve the monetary authority's ability to control liquidity over the medium term.** An improvement in the overall financial situation and de-dollarization will help in this regard. However, financing operations, such as the transfer of unrealized gold valuation gains to the budget, and quasi-fiscal activities, such as providing subsidized lending to banks, adversely impact on the BdL's income and balance sheet positions and should therefore be avoided. More generally, public support to the private sector should be provided through the budget to ensure consistency with policy priorities. The privatization of the assets held by the BdL would also strengthen its financial position, while contributing to the government's growth agenda.

36. **The exchange rate peg to the U.S. dollar has contributed significantly to maintaining financial stability under very difficult circumstances and without impairing competitiveness.** The peg played an important role as a nominal anchor during recent financial pressures. In the current circumstances, international reserves held by the

BdL combined with the banking system's liquidity cushion appear sufficient to meet temporary pressures on the exchange rate, and the REER appears broadly in line with fundamentals. Going forward, macroeconomic policies need to be geared toward supporting the exchange rate peg. The debt overhang and the large external current account deficits are the counterpart of fiscal imbalances and, therefore, should be addressed by implementing the authorities' Paris III fiscal adjustment program.

37. **Domestic banks remain the primary source for the government's financing needs.** The resulting interdependence of the government, the central bank, and the commercial banks has created incentives for all actors to behave in a concerted way to preserve financial stability. However, this interdependence also creates systemic risks, in that shocks to either the fiscal or the financial sector would be quickly passed on to other sectors. In this regard, the commercial banks' strategy of regional expansion and focus on private sector lending is welcome both from a risk management perspective, and given the envisaged decline in government financing needs over the medium term. The authorities have been aptly accompanying this process through regulatory and supervisory reforms, and it is important that they deepen these efforts as banks expand into new cross-border activities, including by implementing the applicable Basel Core Principles. Moreover, there is a need to strengthen the bank resolution mechanism to facilitate consolidation when needed, while minimizing moral hazard and increasing banks' management accountability and shareholder responsibility.

38. **The authorities' program appropriately emphasizes private sector growth and improved delivery of social services.** Privatization of the telecom sector is a crucial element of the growth strategy and should be accompanied by endowing the regulatory authority with the powers and capacity to ensure proper competition in the sector. Staff also welcomes the authorities' intention to widen the privatization agenda to other sectors, as well as ongoing efforts to improve the business climate. In this regard, the growth agenda should be complemented by actions to dismantle oligopolistic practices and eliminate barriers to entry and exit.

39. **Timely and flexible disbursement of Paris III pledges is another important element for the success of the authorities' strategy.** Progress has been made in locking in the terms and conditions for the release of funds from some key donors, but negotiations are still underway with others. Staff fully supports the authorities' request that donors make timely disbursements and convert their pledges from project to budget support, or at least align their project disbursements to the government's own spending priorities.

40. **Risks to the reform strategy call for a continuous reassessment of policies.** Shocks to the macroeconomic environment, shortfalls in the privatization program, and contingent fiscal liabilities (from actuarial imbalances in the public and private pension systems, open-ended transfers to the health fund, and unforeseen costs from power sector reform) all have the potential to throw the economy off course relative to the targeted debt

reduction path, and to require corrective actions. Equally important are implementation risks, particularly in view of domestic and regional tensions and the need to maintain consensus around the reform program. The authorities' emphasis on a multipillar approach of fiscal adjustment, growth promotion, and improved social services should help mitigate these risks. In addition, a wider public debate about the economic and financial challenges facing Lebanon would be important to sustain public and political support for reform and adjustment during and beyond the Paris III horizon.

41. Data gaps hamper the analysis of real and external sector developments. High level commitment is needed to address these shortcomings through a comprehensive strategy to strengthen the statistical system.

42. It is proposed that the next Article IV consultation will be held on the standard 12-month cycle. Quarterly reports on performance under the program supported by EPCA will be issued for the information of Executive Directors, as requested by Directors at the time of the EPCA approval.

Table 1. Lebanon: Selected Economic Indicators, 2003–12

	2003 Act.	2004 Act.	2005 Act.	2006 Prel. Act.	2007 Proj.	2008 Proj.	2009 Proj.	2010 Proj.	2011 Proj.	2012 Proj.
Output and prices	(Annual percentage change)									
Real GDP (market price)	4.1	7.4	1.0	0.0	2.0	3.5	4.5	5.0	5.0	5.0
Consumer prices (end-of- period)	2.2	2.0	0.5	7.2	2.0	3.0	2.0	3.5	2.0	2.0
Consumer prices (period average)	1.3	1.7	-0.7	5.6	3.5	2.5	2.5	2.8	2.8	2.0
Investment and saving	(In percent of GDP)									
Gross capital formation	19.3	22.0	17.0	11.4	17.6	17.1	18.7	20.1	21.3	21.4
Government	3.1	3.3	2.2	2.5	4.9	3.0	2.8	2.9	2.9	2.9
Nongovernment	16.2	18.8	14.8	8.9	12.7	14.1	15.9	17.2	18.4	18.5
Gross national savings	6.1	6.5	3.4	5.2	7.0	7.7	9.2	12.1	15.5	15.9
Government	-10.2	-5.4	-6.3	-8.6	-7.3	-6.1	-5.3	-2.1	-0.8	-0.1
Nongovernment	16.3	11.9	9.6	13.8	14.3	13.8	14.5	14.2	16.4	15.9
Public finances	(In percent of GDP)									
Revenue (including grants)	22.1	23.1	22.8	24.8	26.5	25.9	22.0	23.2	23.4	23.3
Expenditure	35.4	31.8	31.2	35.9	38.7	35.1	30.1	28.2	27.1	26.3
Budget balance (including grants)	-13.3	-8.6	-8.4	-11.1	-12.2	-9.1	-8.1	-5.0	-3.8	-3.0
Primary balance (including grants)	3.3	3.5	2.1	1.7	0.1	2.6	1.8	4.4	5.2	5.6
Total government debt	169	167	179	178	173	143	142	138	133	127
Monetary sector	(Annual percentage change, unless otherwise indicated)									
Credit to the private sector	0.3	5.2	1.9	6.0	6.3	24.0	6.0	6.0	6.0	6.0
Base money	12.3	10.3	4.7	8.2	5.9	5.1	5.1	5.1	5.1	5.0
Broad money 1/	15.5	12.3	3.5	6.4	5.0	5.0	5.0	5.0	5.0	5.0
Velocity of broad money (level)	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4
Interest rates (period average, in percent)										
Three-month treasury bill rate	6.7	5.2	5.2	5.2	...	...	...	...	...	...
Two-year treasury bill rate	8.0	7.9	8.5	8.7	8.7	8.5	8.2	7.8	7.6	7.4
External sector	(In percent of GDP, unless otherwise indicated)									
Exports of goods (in US$, percentage change)	43.2	18.3	11.1	22.5	14.8	13.2	11.8	11.8	11.6	10.3
Imports of goods (in US$, percentage change)	10.4	30.3	-1.2	1.8	17.3	7.4	6.0	5.9	5.1	8.7
Merchandise trade balance	-24.2	-30.1	-28.4	-25.3	-28.4	-28.2	-27.3	-26.1	-24.7	-24.8
Current account excluding official transfers	-13.9	-16.0	-14.2	-7.4	-13.0	-12.0	-10.5	-8.5	-6.3	-5.9
Current account including official transfers	-13.2	-15.5	-13.6	-6.2	-10.6	-9.4	-9.4	-8.0	-5.8	-5.5
Foreign direct investment	8.7	10.9	12.2	12.0	9.6	24.7	9.1	8.9	8.7	8.5
Total external debt	175	187	190	198	195	186	176	168	161	152
Gross reserves (in millions of U.S. dollars)	10,271	9,575	9,611	11,353	11,121	12,347	10,920	10,963	11,574	11,897
In months of next year imports of goods and services	8.1	7.7	7.2	7.6	6.9	7.2	6.0	5.7	5.5	5.7
In percent of short-term external debt 2/	35.6	27.1	28.5	32.1	31.0	34.0	29.9	29.1	29.5	30.8
In percent of banking system foreign currency deposits	40.3	31.9	29.0	30.1	27.9	29.9	26.0	24.9	25.5	25.4
In percent of total banking system deposits	24.8	21.0	20.1	21.9	20.3	21.5	18.1	17.3	17.4	17.0
Memorandum items:										
Nominal GDP (in billions of U.S. dollars)	19.8	21.5	21.5	22.7	24.0	25.3	27.0	28.9	31.0	33.2
Net imports of petroleum products (in millions of U.S. dollars)	-1,057	-1,833	-2,082	-2,172	-2,094	-2,310	-2,404	-2,515	-2,620	-2,729
Local currency per U.S. dollar (period average)	1,508	1,508	1,508	1,508	...	...	...	...	...	...
Real effective exchange rate change)										
(annual average, percent change)	-10.7	-6.8	-4.1	2.2	...	...	...	...	...	...
Stock market index	457	637	1,309	1,184	...	...	...	...	...	...

Sources: Lebanese authorities; and Fund staff estimates.

1/ Defined as cash in circulation plus resident and non-resident deposits.

2/ Short-term debt on a remaining maturity basis.

Table 2. Lebanon: Central Government Primary Balance, 2003–08
(In billions of Lebanese pounds)

	2003 Year Act.	2004 Year Act.	2005 Year Act.	2006 Year Act.	2007 Q1 IMF Country Report 07/177	2007 Q1 Prel Act	2007 Year IMF Country Report 07/177	2007 Year Proj.	2008 Year Proj.
Primary balance	975	1,129	680	578	-575	-98	-1	27	979
Revenue and grants	6,597	7,485	7,405	8,486	1,763	2,155	9,534	9,591	9,895
Revenue	6,597	7,485	7,405	7,490	1,763	2,153	8,218	8,273	8,931
Tax revenue	4,527	5,169	4,867	4,922	1,175	1,353	5,394	5,374	6,414
Taxes on income and profits	783	908	1,047	1,166	281	273	1,236	1,233	1,408
Taxes on property	321	405	414	579	106	125	441	441	522
Taxes on domestic goods and services	1,560	1,971	1,896	1,844	430	547	1,996	2,023	2,618
Of which: VAT revenues	1,386	1,763	1,693	1,659	389	499	1,802	1,830	2,385
Taxes on international trade 1/	1,645	1,617	1,268	1,074	300	344	1,450	1,406	1,580
Tariffs	475	530	481	461	109	131	493	493	520
Excises	1,170	1,087	787	613	191	213	957	913	1,060
Other taxes	217	268	241	259	59	64	271	271	286
Nontax revenue	2,070	2,316	2,538	2,568	588	800	2,824	2,899	2,517
Entrepreneurial and property income	1,252	1,420	1,663	1,702	393	559	1,914	1,984	1,417
Profit transfer from BdL	0	0	0	0	0	113	113	113	0
Other	1,252	1,420	1,662	1,702	393	446	1,801	1,872	1,417
Administrative fees and charges	383	365	365	426	90	97	393	393	415
Other nontax revenue	81	93	89	91	23	20	92	92	231
Fines and forfeits	6	5	4	4	1	1	4	4	4
Other	75	88	85	87	22	19	88	88	227
Other treasury revenue	354	439	421	349	82	124	425	429	454
Grants	0	0	0	996	0	2	1,316	1,318	964
Primary expenditure 2/	5,622	6,356	6,725	7,908	2,338	2,253	9,535	9,564	8,916
Current primary expenditure	4,708	5,304	6,025	7,051	2,008	1,943	7,770	7,799	7,754
Wages, salaries and pensions	3,078	3,094	3,193	3,307	856	914	3,529	3,529	3,677
Wages and salaries	2,234	2,284	2,329	2,386	643	682	2,568	2,568	2,632
Pensions	844	810	864	927	213	232	961	961	1,044
Transfers to EDL 3/	174	184	637	1,137	315	310	1,450	1,430	1,206
Other current	1,456	2,026	2,195	2,607	837	719	2,790	2,840	2,871
Materials and supplies	120	116	213	140	68	47	195	182	187
External services	81	113	82	87	21	24	90	90	92
Transfers 4/ 5/	271	360	655	878	419	334	819	887	853
Of which: NSSF	...	89	290	200	230	230	230	230	230
Other	440	452	377	507	176	154	814	808	829
Of which: "Housing compensations" 6/	...	...	...	136	60	80	452	452	465
Other treasury outflows 7/	544	985	868	995	153	160	872	872	909
Capital expenditure	914	1,052	700	857	331	310	1,765	1,765	1,162
Domestically financed	713	817	534	446	116	131	490	490	586
Foreign financed	201	235	166	411	215	179	1,275	1,275	576
Of which: conflict reconstruction 6/	...	...	...	111	120	99	895	895	95
Memorandum items:									
Underlying primary balance (excl. conflict impact)	975	1,129	680	-73	-395	116	30	56	575
Total conflict-related budgetary spending	...	...	...	345	180	216	1,347	1,347	560
Primary balance excluding grants	975	1,129	680	-418	-575	-100	-1,317	-1,291	15

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 principal and interest payments paid on behalf of EdL.
4/ From 2005 onward includes additional transfers to the social security funds (NSSF) to clear the stock of arrears.
5/ Includes (i) $275 million for telecom settlements (2006 and 2007); and (ii) $500 million to the Council of the South and the Displaced Fund (2007 to 2009).
6/ The budgetary cost of the 2006 conflict is estimated to at $1.48 billion.
7/ Includes transfers to municipalities.

Table 3. Lebanon: Central Government Primary Balance, 2003–08

(In percent of GDP)

	2003	2004	2005	2006	2007				2008
					Q1		Year		
	Year Act.	Year Act.	Year Act.	Year Act.	IMF Country Report 07/177	Prel Act.	IMF Country Report 07/177	Proj.	Year Proj.
Primary balance	3.3	3.5	2.1	1.7	-1.6	-0.3	0.0	0.1	2.6
Revenue and grants	22.1	23.1	22.8	24.8	4.9	6.0	26.7	26.5	25.9
Revenue	22.1	23.1	22.8	21.9	4.9	6.0	23.1	22.9	23.4
Tax revenue	15.2	16.0	15.0	14.4	3.3	3.7	15.1	14.9	16.8
Taxes on income and profits	2.6	2.8	3.2	3.4	0.8	0.8	3.5	3.4	3.7
Taxes on property	1.1	1.3	1.3	1.7	0.3	0.3	1.2	1.2	1.4
Taxes on domestic goods and services	5.2	6.1	5.8	5.4	1.2	1.5	5.6	5.6	6.9
Of which: VAT revenues	4.6	5.4	5.2	4.8	1.1	1.4	5.1	5.1	6.2
Taxes on international trade 1/	5.5	5.0	3.9	3.1	0.8	1.0	4.1	3.9	4.1
Tariffs	1.6	1.6	1.5	1.3	0.3	0.4	1.4	1.4	1.4
Excises	3.9	3.4	2.4	1.8	0.5	0.6	2.7	2.5	2.8
Other taxes	0.7	0.8	0.7	0.8	0.2	0.2	0.8	0.7	0.7
Nontax revenue	6.9	7.2	7.8	7.5	1.6	2.2	7.9	8.0	6.6
Entrepreneurial and property income	4.2	4.4	5.1	5.0	1.1	1.5	5.4	5.5	3.7
Administrative fees and charges	1.3	1.1	1.1	1.2	0.3	0.3	1.1	1.1	1.1
Other nontax revenue	0.3	0.3	0.3	0.3	0.1	0.1	0.3	0.3	0.6
Other treasury revenue	1.2	1.4	1.3	1.0	0.2	0.3	1.2	1.2	1.2
Grants	0.0	0.0	0.0	2.9	0.0	0.0	3.7	3.6	2.5
Primary expenditure 2/	18.8	19.6	20.7	23.1	6.6	6.2	26.7	26.4	23.3
Current primary expenditure	15.8	16.4	18.6	20.6	5.6	5.4	21.8	21.6	20.3
Wages, salaries and pensions	10.3	9.6	9.8	9.7	2.4	2.5	9.9	9.8	9.6
Wages and salaries	7.5	7.1	7.2	7.0	1.8	1.9	7.2	7.1	6.9
Pensions	2.8	2.5	2.7	2.7	0.6	0.6	2.7	2.7	2.7
Transfers to EDL 3/	0.6	0.6	2.0	3.3	0.9	0.9	4.1	4.0	3.2
Other current	4.9	6.3	6.8	7.6	2.3	2.0	7.8	7.9	7.5
Materials and supplies	0.4	0.4	0.7	0.4	0.2	0.1	0.5	0.5	0.5
External services	0.3	0.3	0.3	0.3	0.1	0.1	0.3	0.2	0.2
Transfers 4/ 5/	0.9	1.1	2.0	2.6	1.2	0.9	2.3	2.5	2.2
Of which: NSSF	...	0.3	0.9	0.6	0.6	0.6	0.6	0.6	0.6
Other	1.5	1.4	1.2	1.5	0.5	0.4	2.3	2.2	2.2
Of which: "Housing compensations" 6/	...	...	...	0.4	0.2	0.2	1.3	1.3	1.2
Other treasury outflows 7/	1.8	3.0	2.7	2.9	0.4	0.4	2.4	2.4	2.4
Capital expenditure	3.1	3.3	2.2	2.5	0.9	0.9	5.0	4.9	3.0
Domestically financed	2.4	2.5	1.6	1.3	0.3	0.4	1.4	1.4	1.5
Foreign financed	0.7	0.7	0.5	1.2	0.6	0.5	3.6	3.5	1.5
Of which: conflict reconstruction 6/	...	...	...	0.3	0.3	0.3	2.5	2.5	0.2
Memorandum items:									
Underlying primary balance (excl. conflict impact)	3.3	3.5	2.1	-0.2	-1.1	0.3	0.1	0.2	1.5
Total conflict-related budgetary spending	...	...	...	1.0	0.5	0.6	3.8	3.7	1.5
Primary balance excluding grants	3.3	3.5	2.1	-1.2	-1.6	-0.3	-3.7	-3.6	0.0

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 principal and interest payments paid on behalf of EdL.

4/ From 2005 onward includes additional transfers to the social security funds (NSSF) to clear the stock of arrears.

5/ Includes (i) $275 million for telecom settlements (2006 and 2007); and (ii) $500 million to the Council of the South and the Displaced Fund (2007 to 2009).

6/ The budgetary cost of the 2006 conflict is estimated to at $1.48 billion.

7/ Includes transfers to municipalities.

Table 4. Lebanon: Government Expenditure by Function, 2002–06 1/

	2002	2003	2004	2005	2006
	(In billions of Lebanese pounds)				
Total expenditure	9,778	10,564	10,278	10,135	12,289
General public services	1,190	1,229	1,313	1,407	1,335
Defense	879	877	866	888	1,005
Public order and safety	352	368	354	381	427
Education	721	785	795	902	835
Health	240	346	315	287	321
Social security and welfare	169	201	165	156	194
Housing	54	79	62	50	47
Recreation, culture, and religious affairs	55	52	85	72	52
Economic affairs and services	1,095	1,275	1,596	1,742	2,590
Fuel and energy	306	413	494	839	1,371
Agriculture, forestry, and fishing	29	28	36	28	23
Mining, manufacturing, and construction	4	11	10	5	3
Transportation and communication	210	217	178	123	395
Other economic affairs and services	546	606	879	747	798
Interest payments	4,712	4,942	3,921	3,410	4,381
Unclassified treasury expenditure 2/	310	412	806	840	1,103
	(In percent of GDP)				
Total expenditure	34.7	35.4	31.8	31.2	35.9
General public services	4.2	4.1	4.4	4.3	3.9
Defense	3.1	2.9	2.9	2.7	2.9
Public order and safety	1.2	1.2	1.2	1.2	1.2
Education	2.6	2.6	2.7	2.8	2.4
Health	0.9	1.2	1.1	0.9	0.9
Social security and welfare	0.6	0.7	0.6	0.5	0.6
Housing	0.2	0.3	0.2	0.2	0.1
Recreation, culture, and religious affairs	0.2	0.2	0.3	0.2	0.2
Economic affairs and services	3.9	4.3	5.3	5.4	7.6
Fuel and energy	1.1	1.4	1.7	2.6	4.0
Agriculture, forestry, and fishing	0.1	0.1	0.1	0.1	0.1
Mining, manufacturing, and construction	0.0	0.0	0.0	0.0	0.0
Transportation and communication	0.7	0.7	0.6	0.4	1.2
Other economic affairs and services	1.9	2.0	2.9	2.3	2.3
Interest payments	16.7	16.6	13.1	10.5	12.8
Unclassified treasury expenditure 2/	1.1	1.4	2.7	2.6	3.2
Memorandum item:					
GDP (in billions of Lebanese pounds)	28,216	29,851	32,357	32,446	34,253

Sources: Ministry of Finance; IMF *Government Finance Statistics;* and Fund staff estimates.

1/ Includes treasury and foreign-financed capital expenditure by the Council for Reconstruction and Development.
2/ Includes subsidies on diesel oil and interest, and transfers to municipalities.

Table 5. Lebanon: Overall Fiscal Deficit and Financing, 2003–08

	2003	2004	2005	2006	2007				2008
					Q1		Year		
	Year	Year	Year	Year	IMF Country		IMF Country		Year
	Act.	Act.	Act.	Act.	Report 07/177	Est.	Report 07/177	Proj.	Proj.
	(In billions of Lebanese pounds)								
Primary balance	975	1,129	680	578	-575	-98	-1	27	979
Interest bill	4,942	3,921	3,410	4,381	1,071	1,077	4,408	4,424	4,471
Overall balance (checks-issued basis)	-3,968	-2,793	-2,730	-3,803	-1,646	-1,175	-4,409	-4,398	-3,492
Float and statistical discrepancy	125	346	86	-148	...	287	...	...	...
Overall balance (cash basis)	-4,093	-3,139	-2,816	-3,655	-1,646	-1,462	-4,409	-4,398	-3,492
Net financing	4,093	3,139	2,816	3,655	1,646	1,462	4,409	4,398	3,492
Banking system	3,555	4,268	3,189	1,904	1,481	416	-793	-2,075	-8,560
Banque du Liban 1/	8,779	654	602	-2,342	905	1,005	-2,162	-2,280	-3,061
Commercial banks 1/	-5,224	3,614	2,587	4,247	576	-589	1,369	205	-5,500
Government institutions	-605	-352	245	835	61	775	348	1,740	372
Other creditors	-1,375	-1,163	-465	1,067	105	345	-216	24	-761
Net change in arrears	0	0	-419	0	0	0	0	0	0
Exceptional financing	2,999	601	-133	39	0	-49	5,070	4,732	12,441
Privatization	-280	0	0	0	0	0	0	0	11,743
Bilateral and multilateral	3,279	84	-133	39	0	-49	2,690	2,352	698
Other 2/	0	517	0	0	0	0	2,380	2,380	0
Valuation adjustment	-480	-215	399	-190	0	-24	0	-24	0
	(In percent of GDP)								
Primary balance	3.3	3.5	2.1	1.7	-1.6	-0.3	0.0	0.1	2.6
Interest bill	16.6	12.1	10.5	12.8	3.0	3.0	12.3	12.2	11.7
Overall balance (checks-issued basis)	-13.3	-8.6	-8.4	-11.1	-4.6	-3.2	-12.3	-12.2	-9.1
Float and statistical discrepancy	0.4	1.1	0.3	-0.4	...	0.8	...	...	...
Overall balance (cash basis)	-13.7	-9.7	-8.7	-10.7	-4.6	-4.0	-12.3	-12.2	-9.1
Net financing	13.7	9.7	8.7	10.7	4.6	4.0	12.3	12.2	9.1
Banking system	11.9	13.2	9.8	5.6	4.1	1.1	-2.2	-5.7	-22.4
Banque du Liban 1/	29.4	2.0	1.9	-6.8	2.5	2.8	-6.0	-6.3	-8.0
Commercial banks 1/	-17.5	11.2	8.0	12.4	1.6	-1.6	3.8	0.6	-14.4
Government institutions	-2.0	-1.1	0.8	2.4	0.2	2.1	1.0	4.8	1.0
Other creditors	-4.6	-3.6	-1.4	3.1	0.3	1.0	-0.6	0.1	-2.0
Net change in arrears	0.0	0.0	-1.3	0.0	0.0	0.0	0.0	0.0	0.0
Exceptional financing	10.0	1.9	-0.4	0.1	0.0	-0.1	14.2	13.1	32.6
Privatization	-0.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0	30.8
Bilateral and multilateral	11.0	0.3	-0.4	0.1	0.0	-0.1	7.5	6.5	1.8
Other 2/	0.0	1.6	0.0	0.0	0.0	0.0	6.6	6.6	0.0
Valuation adjustment	-1.6	-0.7	1.2	-0.6	0.0	-0.1	0.0	-0.1	0.0
	(In billions of Lebanese pounds)								
Memorandum item:									
Nominal GDP (annual)	29,851	32,357	32,446	34,253	35,805	36,173	35,805	36,173	38,188

Sources: Lebanese authorities; and Fund staff estimates and calculations.
1/ Figures in 2003 are affected by the role played by the Banque du Liban (BdL) in the debt exchange with banks that tends to increase BdL financing and decrease commercial bank financing of the government.
2/ Debt cancellation and Banque du Liban revaluation of gold and foreign exchange.

Table 6. Lebanon: Government Debt, 2003–12 1/

	2003	2004	2005	2006	2007				2008	2009	2010	2011	2012
					March		December						
	Year	Year	Year	Year	IMF Country		IMF Country		Year	Year	Year	Year	Year
	Act.	Act.	Act.	Act.	Report 07/177	Est.	Report 07/17	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
					(In millions of U.S. dollars)								
Net debt 2/	32,838	34,719	36,700	39,452	40,544	40,389	40,799	40,757	35,284	37,458	38,908	40,072	41,064
Gross debt by currency	33,381	35,875	38,465	40,464	41,358	41,232	41,612	41,600	36,160	38,368	39,851	41,048	42,073
Domestic currency debt	17,806	17,493	19,331	20,036	20,379	20,787	19,587	19,966	16,140	19,401	20,142	20,701	21,209
Foreign currency debt	15,575	18,382	19,135	20,428	20,979	20,445	22,025	21,634	20,021	18,966	19,709	20,346	20,864
Of which: Eurobonds (including Paris II)	13,007	15,709	16,413	17,540	18,172	17,633	17,571	17,367	15,090	13,843	14,506	15,084	15,704
Gross debt by holder	33,381	35,875	38,483	40,405	41,358	41,232	41,612	41,600	36,160	38,368	39,851	41,048	42,073
Debt to Banque du Liban	7,937	9,052	10,106	7,785	8,186	8,269	6,152	6,090	4,093	3,538	3,234	3,053	2,838
Domestic currency	5,929	7,066	7,752	6,360	6,786	6,967	4,839	4,906	2,961	2,712	2,486	2,442	2,278
Foreign currency	2,009	1,986	2,355	1,424	1,400	1,302	1,313	1,184	1,132	826	748	612	560
Debt to commercial banks	14,543	16,916	18,698	21,620	22,002	21,215	22,528	21,743	18,094	19,592	20,290	20,535	21,549
Domestic currency	8,161	8,105	9,373	10,937	10,813	10,525	11,777	11,125	8,997	12,178	12,729	12,890	13,085
Foreign currency	6,382	8,810	9,325	10,684	11,190	10,690	10,751	10,618	9,098	7,414	7,561	7,645	8,463
Debt to public entities 3/	1,701	1,451	1,623	2,198	2,238	2,718	2,429	3,359	3,606	3,869	4,151	4,453	4,777
Debt to non-bank sector	9,200	8,457	8,056	8,803	8,931	9,029	10,503	10,409	10,367	11,369	12,175	13,006	12,909
Domestic currency	2,016	871	583	541	541	576	541	576	576	642	775	917	1,069
Foreign currency	7,184	7,586	7,473	8,261	8,390	8,453	9,962	9,833	9,791	10,727	11,401	12,089	11,841
Central government deposits	543	1,156	1,765	1,012	813	843	813	843	876	909	943	976	1,009
					(In percent of GDP)								
Net debt	166	162	171	174	171	168	172	170	139	139	135	129	124
Gross debt by currency	169	167	179	178	174	172	175	173	143	142	138	133	127
Domestic currency debt	90	82	90	88	86	87	82	83	64	72	70	67	64
Foreign currency debt	79	86	89	90	88	85	93	90	79	70	68	66	63
Gross debt by holder	169	167	179	178	174	172	175	173	143	142	138	133	127
Debt to Banque du Liban	40	42	47	34	34	34	26	25	16	13	11	10	9
Debt to commercial banks	73	79	87	95	93	88	95	91	71	73	70	66	65
Debt to public entities 3/	9	7	8	10	9	11	10	14	14	14	14	14	14
Debt to non-bank sector	46	39	37	39	38	38	44	43	41	42	42	42	39
Central government deposits	3	5	8	4	3	4	3	4	3	3	3	3	3
Memorandum items:					(In millions of U.S. dollars, unless otherwise indicated)								
Nominal GDP (annual)	19,802	21,464	21,523	22,722	23,751	23,995	23,751	23,995	25,332	27,001	28,918	30,971	33,170
Foreign currency debt in percent of gross debt	46.7	51.2	49.7	50.5	50.7	49.6	52.9	52.0	55.4	49.4	49.5	49.6	49.6

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

1/ Includes all debt contracted by the treasury on behalf of the central government and public agencies other than the Banque du Liban; accrued interest; and Banque du Liban lending to Electricite du Liban. Excludes government arrears to the private sector.

2/ Defined as gross debt less central government deposits.

3/ Denominated in domestic currency; mainly to the National Social Security Fund, and the National Deposit Insurance Fund.

Table 7. Lebanon: Monetary Survey, 2003–08

	2003 Year Act.	2004 Year Act.	2005 Year Act.	2006 Year Act.	2007 March IMF Country Report 07/177	2007 March Act.	2007 December IMF Country Report 07/177	2007 December Proj.	2008 Year Proj.
	(Stocks in billions of Lebanese pounds)								
Net foreign assets	33,509	36,803	37,832	43,594	41,460	43,224	43,181	46,578	52,753
Banque du Liban	20,970	20,185	21,078	23,047	22,211	23,057	22,132	23,211	25,086
Commercial banks	12,539	16,618	16,754	20,547	19,249	20,167	21,049	23,367	27,667
Net domestic assets	42,848	48,930	50,888	50,784	52,446	51,530	54,529	52,504	51,284
Net claims on public sector	30,670	34,029	36,891	38,619	40,100	39,403	37,826	36,544	27,984
Of which: Net claims on government	31,989	35,646	38,898	40,984	42,465	41,400	40,192	38,910	30,349
Banque du Liban	10,983	11,490	12,201	9,791	10,696	10,797	7,630	7,511	4,451
Lebanese pounds	8,278	9,415	9,537	8,935	9,576	9,904	6,640	6,758	3,817
Foreign currency	2,706	2,076	2,664	856	1,121	893	990	753	634
Commercial banks	21,006	24,155	26,697	31,193	31,769	30,603	32,562	31,398	25,899
Lebanese pounds	11,366	10,853	12,608	15,043	14,858	14,425	16,317	15,334	12,132
Foreign currency	9,640	13,302	14,089	16,150	16,911	16,178	16,245	16,064	13,766
Claims on private sector	23,233	24,375	24,774	26,209	26,345	26,663	27,508	27,844	34,468
Lebanese pounds	4,254	4,622	4,613	5,048	4,982	5,141	5,230	5,304	5,605
Foreign currency	18,980	19,752	20,161	21,162	21,362	21,523	22,278	22,540	28,863
Other items (net)	-11,056	-9,474	-10,777	-14,044	-13,998	-14,536	-10,805	-11,883	-11,168
Broad money (M5) 1/	76,357	85,733	88,720	94,378	93,906	94,754	97,710	99,083	104,037
In Lebanese pounds	27,458	27,427	25,503	24,159	24,138	24,383	25,580	25,468	27,738
Currency in circulation	1,531	1,586	1,535	1,809	1,667	1,695	1,742	1,765	1,853
Deposits in Lebanese pounds	25,927	25,840	23,968	22,350	22,471	22,688	23,838	23,704	25,886
Deposits in foreign currency	48,900	58,306	63,217	70,219	69,768	70,372	72,130	73,614	76,298
	(Year-to-date change in billions of Lebanese pounds)								
Net foreign assets	8,754	3,294	1,029	5,762	-2,134	-370	-413	2,984	6,175
Net domestic assets	1,502	6,082	1,959	-104	1,662	746	3,744	1,720	-1,221
Net claims on public sector	2,480	3,359	2,863	1,727	1,481	784	-793	-2,075	-8,560
Net claims on government	2,912	3,657	3,252	2,086	1,481	416	-793	-2,075	-8,560
Banque du Liban	8,484	507	711	-2,410	905	1,005	-2,162	-2,280	-3,061
Commercial banks	-5,572	3,150	2,541	4,496	576	-589	1,369	205	-5,500
Broad money (M5) 1/	10,256	9,375	2,987	5,658	-472	376	3,332	4,704	4,954
In Lebanese pounds	6,338	-31	-1,924	-1,344	-21	224	1,421	1,309	2,270
Deposits in foreign currency	3,918	9,406	4,911	7,002	-451	152	1,911	3,395	2,684
	(Year-to-date change in percent of beginning of period broad money)								
Broad money (M5) 1/	15.5	12.3	3.5	6.4	-0.5	0.4	3.5	5.0	5.0
In Lebanese pounds	9.6	0.0	-2.2	-1.5	0.0	0.2	1.5	1.4	2.3
Deposits in foreign currency	5.9	12.3	5.7	7.9	-0.5	0.2	2.0	3.6	2.7
Memorandum items:									
Net foreign assets (in millions of U.S. dollars)	22,228	24,413	25,096	28,918	27,503	28,673	28,644	30,898	34,994
Share of foreign currency deposits in total private sector deposits	66.2	70.1	73.2	76.2	76.0	76.0	75.5	76.0	75.0
Credit to private sector (in percent of GDP)	77.8	75.3	76.4	76.5	...	...	77.2	77.0	90.3
Credit to private sector (in twelve month percent change)	0.3	5.2	1.9	6.0	5.0	6.3	5.0	6.3	24.0
M5 to GDP (in percent)	255.8	265.0	273.4	275.5	...	...	274.1	273.9	272.4

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

1/ Broad money is taken to be M5 which is defined as M3 (currency + resident deposits) + non-resident deposits.

Table 8. Lebanon: Balance Sheet of the Banque du Liban, 2003–08

	2003 Year Act.	2004 Year Act.	2005 Year Act.	2006 Year Act.	2007 March IMF Country Report 07/177	2007 March Act.	2007 December IMF Country Report 07/177	2007 December Proj.	2008 Year Proj.
	(Stocks in billions of Lebanese pounds)								
Net foreign exchange position 1/	8,935	6,712	2,873	3,465	2,449	3,080	2,684	3,541	6,442
Foreign assets	21,263	20,473	22,081	26,321	25,485	26,330	25,570	26,648	28,497
Of which: gold	5,779	6,039	7,140	8,755	9,379	9,215	9,379	9,432	9,432
Foreign currency liabilities	12,328	13,762	19,208	22,856	23,036	23,250	22,886	23,107	22,055
Of which: commercial bank deposits 2/	11,776	13,213	17,901	19,189	19,382	19,660	19,067	19,328	18,303
Of which: other foreign liabilities 3/	293	288	1,003	3,274	3,274	3,273	3,439	3,438	3,411
Net domestic assets	-2,528	1,411	4,491	3,762	4,893	4,401	5,052	4,657	2,403
Claims on public sector (net)	10,990	11,354	11,900	9,005	9,910	10,010	6,843	6,725	3,664
Net claims on government	10,983	11,490	12,201	9,791	10,696	10,797	7,630	7,511	4,451
Credit	11,800	13,232	14,860	11,318	11,922	12,069	8,856	8,783	5,772
Treasury bills	8,772	10,238	11,310	9,170	9,813	10,106	6,877	6,998	4,067
Eurobonds	3,028	2,994	3,550	2,147	2,110	1,963	1,979	1,785	1,706
Deposits	817	1,741	2,659	1,526	1,226	1,272	1,226	1,272	1,322
Net claims on non financial public institutions	7	-137	-302	-787	-787	-787	-787	-787	-787
Claims on private sector in Lebanese pounds (net)	375	313	257	232	240	238	240	242	242
Claims on commercial banks	-9,859	-7,657	-6,163	-3,796	-3,879	-3,814	-3,847	-2,923	-2,837
Of which: Certificates of deposit in Lebanese pounds	-11,686	-9,516	-7,959	-5,639	-5,639	-5,579	-5,608	-4,679	-4,593
Claims on specialized banks in Lebanese pounds (net)	-1,032	-1,004	-837	-539	-509	-513	-509	-524	-524
Other items (net)	-3,002	-1,595	-665	-1,140	-869	-1,520	2,324	1,137	1,857
Reserve money	6,407	8,123	7,364	7,227	7,342	7,481	7,736	8,198	8,845
Currency issued	1,717	1,783	1,736	2,010	1,916	1,931	1,993	2,019	2,120
Commercial bank deposits in Lebanese pounds	4,690	6,340	5,628	5,217	5,426	5,550	5,743	6,179	6,725
	(Year-to-date flows in billions of Lebanese pounds)								
Reserve money	1,753	1,715	-759	-137	115	254	509	971	646
Currency issued	176	66	-47	274	-95	-79	-17	9	101
Commercial bank deposits in Lebanese pounds	1,577	1,649	-711	-412	210	333	526	963	545
	(Year-to-date changes in percent of beginning-of-period reserve money)								
Reserve money	38	27	-9	-2	2	4	7	13	8
	(In millions of U.S. dollars)								
Memorandum items:									
Gross international reserves (including gold) 4/	14,105	13,581	14,347	17,160	16,605	17,166	16,662	17,377	18,603
Gross international reserves (excluding gold) 4/	10,271	9,575	9,611	11,353	10,383	11,053	10,440	11,121	12,347
In percent of banking system foreign currency deposits	40	32	29	30	27	29	27	28	30
In percent of total banking system deposits	25	21	20	22	20	21	19	20	21
Program gross reserves 5/	16,113	15,567	16,202	18,084	17,505	17,647	17,475	17,613	18,837
Lebanese pound money multiplier	4.3	3.4	3.5	3.4	3.3	3.3	3.3	3.2	3.2

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

1/ Defined by currency (not by residency), as official foreign currency assets, including gold and SDR, less foreign currency liabilities.
These include the $1.5 billion deposits by the Saudi and Kuwaiti governments in August 2006, but exclude liabilities to the government of Lebanon and other official creditors.

2/ Includes certificates of deposits in foreign currency held by commercial banks.

3/ Includes the deposits by the Saudi and Kuwaiti governments. Excludes all other special bilateral long-term deposits.

4/ Defined as all official foreign currency assets, less encumbered foreign assets.

5/ Defined as gross international reserves including gold and Eurobonds issued by the Republic of Lebanon.

Table 9. Lebanon: Commercial Banks' Balance Sheet, 2003–08

	2003 Year Act.	2004 Year Act.	2005 Year Act.	2006 Year Act.	2007 March IMF Country Report 07/177	2007 March Act.	2007 December IMF Country Report 07/177	2007 December Proj.	2008 Year Proj.
	(Stocks in billions of Lebanese pounds)								
Net foreign assets	12,539	16,618	16,754	20,547	19,249	20,167	21,049	23,367	27,667
Foreign assets	14,937	20,431	20,017	24,784	22,784	25,107	24,584	28,307	32,607
Foreign liabilities	2,398	3,813	3,263	4,236	3,534	4,940	3,534	4,940	4,940
Net domestic assets	60,974	66,223	69,240	71,042	72,047	72,018	73,975	73,039	73,609
Net claims on public sector	19,680	22,675	24,992	29,614	30,190	29,393	30,983	29,819	24,320
Of which: Treasury bills	11,366	10,853	12,608	15,043	14,858	14,425	16,317	15,334	12,132
Of which: Foreign currency bonds	9,621	13,281	14,057	16,105	16,868	16,115	16,207	16,006	13,715
Claims on Banque du Liban	28,339	29,265	31,690	30,245	30,696	31,025	30,669	30,441	29,888
Currency in vault	186	197	201	201	248	236	251	255	267
Deposits with Banque du Liban	16,466	19,552	23,530	24,405	24,808	25,210	24,810	25,507	25,027
Certificates of deposit in Lebanese pounds	11,686	9,516	7,959	5,639	5,639	5,579	5,608	4,679	4,593
Claims on private sector	22,836	24,020	24,467	25,930	26,059	26,382	27,223	27,559	34,183
Other items (net)	-9,881	-9,738	-11,908	-14,747	-14,899	-14,781	-14,899	-14,781	-14,781
Liabilities to private sector	73,513	82,841	85,994	91,590	91,296	92,185	95,025	96,406	101,277
Lebanese pounds 1/	24,873	24,796	23,081	21,763	21,913	22,130	23,280	23,137	25,319
Foreign currency 2/	48,641	58,046	62,914	69,826	69,383	70,055	71,745	73,269	75,957
	(Year-to-date flows in billions of Lebanese pounds)								
Net foreign assets	72	4,079	136	3,793	-1,298	-380	502	2,820	4,300
Net domestic assets	9,010	5,249	3,017	1,802	1,004	976	2,933	1,997	570
Net claims on public sector	-6,306	2,995	2,316	4,622	576	-221	1,369	205	-5,500
Claims on Banque du Liban	16,323	926	2,425	-1,444	451	779	423	196	-554
Claims on private sector	78	1,185	446	1,463	130	452	1,293	1,630	6,624
Other items (net)	-1,085	143	-2,170	-2,839	-152	-35	-152	-35	0
Liabilities to private sector	9,082	9,328	3,153	5,595	-294	596	3,435	4,817	4,870
Lebanese pounds 1/	5,187	-77	-1,715	-1,318	150	367	1,516	1,374	2,182
Foreign currency 2/	3,895	9,405	4,868	6,913	-443	228	1,919	3,442	2,689
Memorandum items:									
Foreign currency assets to liabilities (in percent)	108.4	107.8	109.0	109.7	110.3	109.9	109.1	110.2	115.5
Local currency assets to liabilities (in percent) 3/	83.6	81.6	75.8	69.1	68.0	68.0	72.3	67.5	53.0
Exposure to the government (percent of total assets)	23.2	23.6	25.2	27.2	27.8	26.3	27.3	25.8	20.3
Exposure to the sovereign (percent of total assets)	54.5	52.3	55.1	53.5	54.6	53.1	53.1	50.9	43.7

Source: Banque du Liban.

1/ Includes nonresident deposits.

2/ Includes bonds denominated in foreign currency.

3/ Includes other items net as assets.

Table 10. Lebanon: Balance of Payments, 2003–12

	2003	2004	2005	2006	2007		2008	2009	2010	2011	2012
	Est.	Est.	Est.	Est.	IMF Country Report 07/177	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
	(in millions of U.S. dollars, unless otherwise indicated)										
Current account	-2,615	-3,332	-2,926	-1,406	-2,596	-2,546	-2,391	-2,546	-2,314	-1,798	-1,829
Goods (net)	-4,794	-6,452	-6,118	-5,755	-6,895	-6,820	-7,140	-7,362	-7,560	-7,645	-8,235
Exports, f.o.b.	1,733	2,050	2,278	2,792	3,151	3,206	3,630	4,059	4,538	5,067	5,588
Imports, f.o.b.	-6,528	-8,502	-8,397	-8,547	-10,046	-10,026	-10,771	-11,421	-12,098	-12,712	-13,823
Services (net)	983	1,691	2,467	3,045	2,898	2,491	2,633	2,921	3,464	4,078	4,584
Receipts	7,009	8,411	8,974	10,501	10,671	10,497	11,147	12,064	13,256	14,565	15,815
Payments	-6,026	-6,720	-6,508	-7,456	-7,773	-8,006	-8,515	-9,143	-9,792	-10,487	-11,232
Income (net)	-1,231	-1,473	-1,474	-1,284	-993	-1,260	-1,113	-1,058	-1,085	-1,149	-1,156
Of which: interest on government debt	-525	-502	-696	-457	-522	-529	-545	-546	-579	-610	-647
Current transfers (net)	2,427	2,902	2,200	2,588	2,393	3,043	3,229	2,952	2,867	2,918	2,979
Government	134	111	139	275	1,012	580	659	302	152	139	139
Other sectors	2,293	2,791	2,061	2,314	1,382	2,463	2,570	2,651	2,715	2,779	2,840
Capital and financial account	5,682	4,254	2,048	1,977	-1,885	721	3,154	923	2,295	2,408	2,153
Capital transfers (net)	29	50	27	1,319	0	463	150	30	30	33	35
Direct investment (net)	1,722	2,333	2,629	2,723	1,800	2,297	6,251	2,464	2,578	2,698	2,824
Portfolio investment, loans, other capital	3,931	1,871	-609	-2,064	-3,685	-2,039	-3,246	-1,570	-313	-323	-706
Government (net)	-773	-87	297	764	-342	-160	-500	233	240	320	-418
BdL 1/	-18	-3	474	1,507	109	108	-18	-550	-69	-88	-69
Of which: IMF (net)	0	0	0	0	77	77	0	0	-19	-38	-19
Banks (net) 2/	3,845	1,293	469	-1,446	-167	-1,730	-2,582	-1,164	-808	-782	-754
Foreign assets of banks 3/	-48	-2,706	-90	-2,516	-333	-1,871	-2,852	-1,658	-1,327	-1,327	-1,327
Non-resident deposits 2/	3,892	3,999	560	1,071	166	140	271	494	519	545	572
Non-bank private sector (net)	876	668	-1,849	-2,889	-3,285	-257	-147	-89	323	228	535
Errors and omissions	-38	-1,619	914	1,170	0	0	0	0	0	0	0
Overall balance	3,030	-696	36	1,742	-4,481	-1,824	763	-1,623	-19	610	324
Financing	-3,030	696	-36	-1,742	4,481	1,824	-763	1,623	19	-610	-324
Official reserves (- increase)	-5,125	696	-36	-1,742	912	232	-1,226	1,427	-43	-610	-324
Exceptional financing	2,095	0	0	0	3,569	1,593	463	196	63	0	0
Memorandum items:											
Current and capital grants: Stockholm and Paris III	0	0	0	662	873	874	640	163	13	0	0
Current account balance (in percent of GDP)	-13.2	-15.5	-13.6	-6.2	-11.0	-10.6	-9.4	-9.4	-8.0	-5.8	-5.5
excluding official transfers (in percent of GDP)	-13.9	-16.0	-14.2	-7.4	-15.3	-13.0	-12.0	-10.5	-8.5	-6.3	-5.9
Gross official reserves (excl. gold, end-year) 4/											
in millions of U.S. dollars	10,271	9,575	9,611	11,353	10,440	11,121	12,347	10,920	10,963	11,574	11,897
in months of next year's goods and services imports	8.1	7.7	7.2	7.6	6.7	6.9	7.2	6.0	5.7	5.5	5.3
in percent of short-term external debt 5/	35.6	27.1	28.5	32.1	32.5	31.0	34.0	29.9	29.1	29.5	30.8
in percent of short-term foreign currency debt 6/	26.8	20.4	19.3	21.0	19.9	19.4	20.8	18.0	17.4	17.5	18.1
net of foreign assets of commercial banks	34.3	26.7	26.0	28.7	28.1	27.6	31.3	27.8	27.1	27.4	28.5
External debt (year end) 5/											
in percent of GDP	174.8	187.5	189.9	197.9	182.6	195.4	185.8	175.8	168.4	160.9	152.4
in percent of goods and services exports	396.0	384.6	363.3	338.4	312.4	342.1	318.5	294.5	273.6	253.8	236.1
Government external debt (in percent of GDP)	36.8	33.9	35.6	37.1	41.7	41.0	38.6	37.8	36.4	35.0	31.4
Government external debt service											
in millions of U.S. dollars	1,669	2,218	3,209	1,677	1,528	1,488	1,633	1,853	1,539	1,715	2,436
in percent of goods and services exports	19.1	21.2	28.5	12.6	11.1	10.9	11.1	11.5	8.7	8.7	11.4
GDP (in millions of U.S. dollars)	19,802	21,464	21,523	22,722	23,646	23,995	25,332	27,001	28,918	30,971	33,170

Sources: Lebanese authorities; BIS; and IMF staff estimates and projections.

1/ Change in the foreign liabilities of the BdL.
2/ Differs from banks' reported data, to include estimated deposit flows by Lebanese nationals living abroad but classified as residents.
3/ Net of non-deposit foreign liabilities.
4/ Excludes Eurobonds and encumbered reserves.
5/ Includes all banking deposits held by non-residents, including estimated deposits of Lebanese nationals living abroad but classified as residents.
6/ Includes private sector foreign currency deposits in commercial banks.

Table 11. Lebanon: Public Sector Debt Sustainability Framework, 2003–26

(In percent of GDP, unless otherwise indicated)

	Actual				Projections									
	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2017	2022	2026	Debt-Stabilizing Primary Balance 7/
Baseline: Public sector debt 1/	168.6	167.1	178.7	178.1	173.4	142.7	142.1	137.8	132.5	126.8	114.1	102.4	92.6	0.5
Of which: foreign-currency denominated	78.7	85.6	88.9	89.9	90.2	79.0	70.2	68.2	65.7	62.9	57.0	51.2	46.3	
Change in public sector debt	4.4	-1.4	11.6	-0.6	-4.7	-30.6	-0.6	-4.3	-5.3	-5.7	-2.2	-2.4	-2.5	
Identified debt-creating flows	5.2	-6.0	8.0	1.7	-3.9	-30.8	-0.8	-4.4	-5.4	-5.8	-2.2	-2.4	-2.5	
Primary deficit	-3.3	-3.5	-2.1	-1.7	-0.1	-2.6	-1.8	-4.4	-5.2	-5.6	-3.0	-3.0	-3.0	
Revenue and grants	22.1	23.1	22.8	24.8	26.5	25.9	22.0	23.2	23.4	23.3	20.6	20.6	20.6	
Primary (noninterest) expenditure	18.8	19.6	20.7	23.1	26.4	23.3	20.2	18.8	18.1	17.7	17.6	17.6	17.6	
Automatic debt dynamics 2/	7.6	-0.9	10.1	3.4	2.8	2.6	1.1	0.0	-0.1	-0.2	0.8	0.6	0.5	
Contribution from interest rate/growth differential 3/	7.6	-0.9	10.1	3.4	2.8	2.6	1.1	0.0	-0.1	-0.2	0.8	0.6	0.5	
Of which: contribution from real interest rate	14.0	10.6	11.7	3.4	6.1	8.3	7.1	6.6	6.3	6.0	5.2	4.6	4.1	
Of which: contribution from real GDP growth	-6.4	-11.6	-1.7	0.0	-3.4	-5.7	-6.0	-6.6	-6.4	-6.2	-4.4	-4.0	-3.6	
Contribution from exchange rate depreciation 4/	0.0	0.0	0.0	0.0	...	...	...	...	...	...	...	...	...	
Other identified debt-creating flows	0.9	-1.6	0.0	0.0	-6.6	-30.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Privatization receipts (negative)	0.9	0.0	0.0	0.0	0.0	-30.8	0.0	0.0	0.0	0.0	0.0	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	0.0	0.0	
Other (Paris II and III assistance)	0.0	-1.6	0.0	0.0	-6.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Residual, including asset changes 5/	-0.8	4.6	3.6	-2.3	-0.8	0.1	0.1	0.1	0.1	0.1	0.0	0.0	0.0	
Public sector debt-to-revenue ratio 1/	762.8	722.5	783.1	718.8	653.9	550.9	645.2	593.4	567.0	544.3	554.9	498.1	450.7	
Key Macroeconomic and Fiscal Assumptions Underlying Baseline														
Real GDP growth (in percent)	4.1	7.4	1.0	0.0	2.0	3.5	4.5	5.0	5.0	5.0	4.0	4.0	4.0	
Average nominal interest rate on public debt (in percent) 6/	10.7	7.8	6.3	7.6	7.3	7.1	7.4	7.1	7.0	6.9	6.8	6.7	6.7	
Average real interest rate (nominal rate minus change in GDP deflator, in percent)	9.1	6.9	7.0	2.0	3.7	5.1	5.4	5.1	5.0	4.9	4.9	4.9	4.9	
Nominal appreciation (increase in U.S. dollar value of local currency, in percent)	0.0	0.0	0.0	0.0	...	...	...	...	...	...	...	...	...	
Inflation rate (GDP deflator, in percent)	1.6	0.9	-0.7	5.6	3.5	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	
Growth of real primary spending (deflated by GDP deflator, in percent)	9.2	12.1	6.6	11.4	16.8	-8.6	-9.6	-2.1	1.1	2.7	4.0	4.0	4.0	
Primary deficit	-3.3	-3.5	-2.1	-1.7	-0.1	-2.6	-1.8	-4.4	-5.2	-5.6	-3.0	-3.0	-3.0	
Memorandum items:														
Public sector debt based on historical GDP growth data 8/	168.6	167.1	178.7	178.1	173.4	145.1	145.5	142.8	139.9	136.8	130.8	126.4	122.6	
Public sector debt based on historical data 9/	168.6	167.1	178.7	178.1	173.4	151.0	156.7	160.3	163.9	167.6	200.1	245.1	290.9	

Sources: Lebanese authorities; and Fund staff projections.

1/ Central government gross debt.

2/ Derived as [(r - p(1+g) - g + ae(1+r)]/(1+g+p+gp)) times previous period debt ratio, with r = interest rate; p = growth rate of GDP deflator; g = real GDP growth rate; a = share of foreign-currency denominated debt; and e = 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 - π (1+g) and the real growth contribution as -g.

4/ The exchange rate contribution is derived from the numerator in footnote 2/ as ae(1+r).

5/ For projections, this line includes exchange rate changes.

6/ Derived as nominal interest expenditure divided by previous period debt stock.

7/ Assumes that key variables (real GDP growth, real interest rate, and other identified debt-creating flows) remain at the level of the last projection year.

8/ This path assumes that, from 2008 onwards, real GDP growth is set at its 10-year average level while the primary fiscal balance and real interest rates are the same as in the baseline scenario.

9/ This path assumes that, from 2008 onwards, real interest rate and real GDP growth are set at their 10-year average level while the primary fiscal balance is the same as in the baseline scenario.

Table 12. Lebanon: National Social Security Fund Operations, 2000–06

	2000 Year Act.	2001 Year Act.	2002 Year Act.	2003 Year Act.	2004 Year Act.	2005 Year Act.	2006 Year Est.
	(In percent of GDP)						
Total NSSF operations							
Revenue	4.7	4.1	3.8	3.7	3.5	3.9	3.8
Expenditure	2.6	3.3	3.5	3.0	2.7	2.6	2.7
Balance	2.0	0.8	0.4	0.7	0.8	1.3	1.1
Healthcare							
Revenue	1.3	1.1	1.0	0.9	1.0	1.5	1.2
Expenditure	1.0	1.4	1.5	1.5	1.4	1.4	1.5
Balance	0.3	-0.3	-0.5	-0.6	-0.3	0.1	-0.3
Family allowances							
Revenue	1.1	0.8	0.6	0.5	0.5	0.7	0.5
Expenditure	0.8	0.8	0.8	0.8	0.8	0.8	0.7
Balance	0.3	-0.1	-0.3	-0.3	-0.2	-0.1	-0.2
Retirement							
Revenue	2.2	2.3	2.3	2.3	1.9	1.8	2.1
Expenditure	0.7	1.0	1.1	0.7	0.5	0.5	0.5
Balance	1.5	1.2	1.2	1.6	1.4	1.3	1.6
NSSF assets (end-of-period)							
Treasury bills	8.6	9.4	8.9	5.9	4.2	4.6	n.a.
Bank deposits	0.8	0.7	0.7	3.8	5.7	6.5	n.a.
Other	0.5	0.7	0.8	1.1	1.1	0.1	n.a.
Total assets	10.0	10.7	10.4	10.8	11.0	11.2	n.a.
GDP (in billions of Lebanese p	25,359	25,947	28,216	29,851	32,357	32,446	34,253

Source: National Social Security Fund (NSSF).

Table 13. Lebanon: Interest Rates, 2003–07
(In percent, end-of-period)

	2003 Year	2004 Year	2005 Year	2006 Year	2007 Apr.
Government (yield)					
Treasury bills, 3 months	5.5	5.2	5.2	5.2	5.2
Treasury bills, 6 months	6.5	6.3	7.2	7.2	7.2
Treasury bills, 1 year	6.9	6.7	7.8	7.8	7.8
Treasury bills, 2 years	8.0	7.9	8.7	8.7	8.7
Treasury bills, 3 years	8.9	8.9	9.6	9.5	9.5
Eurobond, 5 years	7.0	7.0	7.5	7.5	8.8
Banque du Liban					
Certificates of deposit in LL, 60 days	4.9	4.9	4.9	4.9	4.9
Certificates of deposit in LL, 3 years	9.4	9.4	9.4	9.4	9.4
Certificates of deposit in USD, 3 years	…	…	7.5	7.5	7.5
Foreign currency deposits, 2 years or more	…	3.8	5.3	5.1	5.1
Commercial banks					
Deposits in LL, 1 year or more	8.3	7.6	8.5	7.6	7.1
Deposits in LL, weighted average	7.8	7.0	7.7	7.5	7.5
Deposits in USD, 1 year or more	4.7	4.3	6.0	6.2	6.2
Deposits in USD, weighted average	3.4	3.3	4.1	4.8	4.8
Lending in LL, weighted average	11.3	10.5	10.1	10.4	10.4
Lending in USD, weighted average	8.8	8.0	8.4	8.6	8.4

Source: Banque du Liban.

Table 14. Lebanon: Banking Sector Financial Soundness Indicators, 2003–07

	2003 Year	2004 Year	2005 Year	2006 Year	2007 Feb.
	(In percent, unless otherwise specified)				
Assets (in millions of U.S. dollars)	61,589	70,595	73,565	79,948	79,140
Capital					
Capital adequacy ratio 1/	22.3	21.2	22.9	24.7	n/a
Capital to asset ratio	6.9	6.8	7.5	8.4	9.4
Asset quality					
Net problem loans/net total loans	12.8	10.6	9.1	6.9	6.8
Provisions against problem loans/problem loans	46.3	46.1	49.0	53.9	54.2
Total provisions/problem loans	53.1	57.3	63.3	72.0	73.0
Asset concentration					
Share of claims on government 2/	23.2	23.6	25.2	27.2	26.2
Of which: T-bills	12.6	10.6	11.9	13.1	12.4
Of which: Eurobonds	10.6	13.0	13.3	14.0	13.8
Share of claims on BdL 2/	31.3	28.6	29.9	26.3	27.0
Of which: Certificates of Deposit	16.1	12.0	13.4	11.5	11.4
Share of claims on private sector 2/	25.2	23.5	23.1	22.6	23.1
Share of claims on nonresidents 2/	14.4	17.6	16.4	12.3	11.3
Of which: foreign banks	13.4	16.3	14.9	14.7	n/a
Net foreign currency assets as percent of capital	22.0	23.3	18.3	17.1	17.0
Earnings					
Average return on assets (post tax) 3/	0.7	0.7	0.7	0.9	0.9
Average return on equity (post tax) 3/	10.9	9.3	11.0	10.6	9.8
Net interest margin	2.1	1.7	1.8	2.0	n/a
Liquidity					
Net liquid assets/total assets	49.1	43.2	45.2	42.9	42.9
Net liquid assets/short-term liabilities	56.6	57.0	52.8	51.0	51.3
Private sector deposits/assets 2/	68.2	66.8	67.6	67.4	69.0
Nonresident deposits/assets	12.9	14.1	13.5	12.3	11.3
Other indicators 4/					
Change in assets (12 month, in percent)	12.8	15.2	4.2	8.7	5.8
Change in private sector credit (12 month, in percent) 2/	0.3	5.2	1.9	6.0	6.1
Change in deposits (12 month, in percent) 2/	15.5	12.3	3.5	6.8	3.7
FC deposits/total deposits 5/	66.2	70.1	73.2	75.7	75.5
FC loans/total loans	87.0	86.4	86.6	87.0	87.0
FC loans/GDP	62.8	61.7	69.5	75.7	76.4
Exports of goods and services/GDP	42.7	49.0	54.1	58.5	n/a
Memorandum items: 2/					
LL deposit rate (average)	7.8	7.1	7.7	7.5	7.6
LL loan rate (average)	13.4	10.8	10.6	10.3	10.4
FC deposit rate (average)	3.6	3.3	3.7	4.4	4.3
FC loan rate (average)	9.0	8.3	8.2	8.5	8.4
Government's 2-year T-bill rate (marginal)	8.0	7.9	8.7	8.7	8.7
Spread over 6-month USD Libor	6.8	6.1	4.8	3.4	3.3
Government's Eurobond rate (marginal)	7.0	7.0	7.5	7.5	8.8
Spread over 5-year U.S. note	4.0	3.5	2.7	1.8	3.2
GDP (in millions of U.S. dollars)	19,802	21,464	21,523	22,722	n/a

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

1/ As of June 2006.
2/ 2007 figures are as of April.
3/ 2007 figures are the annualized February data.
4/ FC and LL stand for "foreign currency" and "Lebanese pound", respectively.
5/ FC deposits of residents and nonresidents as a share of total deposits of residents and nonresidents.

Table 15. Lebanon: Indicators of Financial and External Vulnerability, 2003–07

	2003 Year	2004 Year	2005 Year	2006 Year	2007 March
Monetary and financial indicators					
Broad money, M5 (annual percentage change)	15.5	12.3	3.5	6.4	4.7
Private-sector credit (annual percentage change)	0.3	5.2	1.9	6.0	6.3
Broad money, M5 (in millions of U.S. dollars)	50,652	56,871	58,852	62,606	62,855
Public finance indicators					
Overall fiscal balance (in millions of U.S. dollars)	-2,632	-1,852	-1,811	-2,523	-780
In percent of GDP 1/	-13.3	-8.6	-8.4	-11.1	-13.4
In percent of government revenue	-60.1	-37.3	-36.9	-44.8	-54.5
Interest payments on debt (in millions of U.S. dollars)	3,280	2,602	2,263	2,906	715
In percent of GDP 1/	16.6	12.1	10.5	12.8	12.3
In percent of government revenue	74.9	52.4	46.0	51.6	50.0
Nominal GDP (in millions of U.S. dollars) 1/	19,802	21,464	21,523	22,722	23,234
Government revenue (in millions of U.S. dollars)	4,377	4,967	4,914	5,631	1,430
			(In percent)		
Banking-sector indicators					
Problem loans/total loans (net of provisions and unearned interest) 2/	12.8	10.6	9.1	6.9	6.8
Provisions against problem loans/problem loans 2/	46.3	46.1	49.0	53.9	54.2
Capital adequacy ratio	22.3	21.2	22.9	24.7	n/a
Credit to the private sector (in percent of GDP)	77.8	75.3	76.4	76.5	0.0
			(In millions of U.S. dollars)		
Debt indicators					
Gross public debt	33,381	35,875	38,483	40,405	41,232
In percent of government revenue 1/	762.6	722.3	783.2	717.6	720.9
In percent of GDP 1/	168.6	167.1	178.8	177.8	177.5
Of which: foreign currency	15,575	18,382	19,135	20,428	20,445
In percent of GDP 1/	78.7	85.6	88.9	89.9	88.0
Gross public debt held by the market	23,743	25,372	26,754	30,423	30,934
In percent of GDP 1/	119.9	118.2	124.3	133.9	133.1
External debt 3/	34,621	40,236	40,879	44,977	45,701
In percent of GDP 1/	174.8	187.5	189.9	197.9	196.7
External public debt (central government and Banque du Liban)	7,483	7,462	8,328	10,599	10,641
In percent of GDP 1/	37.8	34.8	38.7	46.6	45.8
Short-term external public debt 4/	1,716	2,512	1,220	960	947
Short-term foreign currency public debt 4/	1,770	2,452	2,838	1,827	n/a
Short-term external debt 3/ 4/	28,855	35,286	33,770	35,338	36,007
Short-term foreign currency debt 4/ 5/	38,318	46,875	49,707	54,038	46,471
Total foreign currency deposits (resident and non-resident) 3/	32,266	38,505	41,734	46,319	46,471
International reserves					
Gross official reserves 6/	10,271	9,575	9,611	11,353	11,053
In percent of short-term external debt	35.6	27.1	28.5	32.1	30.7
In percent of short-term ext. debt, plus short-term domestic public debt in f.c. 7/	34.4	26.2	27.0	31.1	...
In percent of short-term ext. debt, plus residents' f.c. deposits minus banks' foreign assets	34.3	26.7	26.0	28.7	27.4
Gross official reserves and commercial banks' foreign assets	18,589	20,599	20,725	24,983	24,431
In percent of short-term external debt	64.4	58.4	61.4	70.7	67.8
In percent of short-term foreign currency debt 5/	48.5	43.9	41.7	46.2	52.6
			(In millions of U.S. dollars)		
External current account indicators					
Merchandise exports, f.o.b.	1,733	2,050	2,278	2,792	769
Annual percentage change	43.2	18.3	11.1	22.5	…
Merchandise imports, f.o.b.	6,528	8,502	8,397	8,547	2,306
Annual percentage change	10.4	30.3	-1.2	1.8	…
External current account balance	-2,615	-3,332	-2,926	-1,406	-569
In percent of GDP	-13.2	-15.5	-13.6	-6.2	-9.8
In percent of exports of goods and services	-29.9	-31.9	-26.0	-10.6	…

Sources: Lebanese authorities; Bank for International Settlements; and Fund staff estimates and projections.
1/ On an annualized basis.
2/ 2007 refers to February data.
3/ Includes estimates for public debt and banking deposits held by non-residents, and non-resident claims on the nonfinancial sector.
4/ On a remaining maturity basis (scheduled amortization over the next year).
5/ Short-term foreign currency debt of the public sector and the banking sector plus external debt of the nonbank sector.
6/ Excludes gold and encumbered assets.
7/ "F.C." denotes foreign currency.

Table 16. Lebanon: Size and Distribution of Deposits, February 28, 2007 1/

Deposit Size	Number of Depositors	Deposits in L.L.	Deposits in F.C. 2/	Total Deposits	Deposits <1 month
			(in billions of LL)		
< 5 million L.L.	…	721	575	1,296	483
> 5 million L.L., < 10 million L.L.	…	624	705	1,330	426
> 10 million L.L., < 50 million L.L.	…	3,782	5,136	8,918	2,756
> 50 million L.L., < 250 million L.L.	…	7,206	14,444	21,650	5,765
> 250 million L.L., < 750 million L.L.	…	4,110	13,532	17,643	3,410
> 750 million L.L., < 1500 million L.L.	…	1,788	8,273	10,061	1,493
> 1500 million L.L., < 4000 million L.L.	…	1,723	9,478	11,201	1,405
> 4000 million L.L., < 6500 million L.L.	…	791	3,573	4,364	591
> 6500 million L.L.	…	1,930	10,983	12,913	1,184
Total	2,151,848	22,675	66,701	89,376	17,512
In percent of GDP		*62.7*	*184.4*	*247.1*	*48.4*
			(in percent of total)		
< 5 million L.L.		3.2	0.9	1.5	2.8
> 5 million L.L., < 10 million L.L.		2.8	1.1	1.5	2.4
> 10 million L.L., < 50 million L.L.		16.7	7.7	10.0	15.7
> 50 million L.L., < 250 million L.L.		31.8	21.7	24.2	32.9
> 250 million L.L., < 750 million L.L.		18.1	20.3	19.7	19.5
> 750 million L.L., < 1500 million L.L.		7.9	12.4	11.3	8.5
> 1500 million L.L., < 4000 million L.L.		7.6	14.2	12.5	8.0
> 4000 million L.L., < 6500 million L.L.		3.5	5.4	4.9	3.4
> 6500 million L.L.		8.5	16.5	14.4	6.8

Source: Banque du Liban, Banking Control Commission.
1/ "L.L." denotes Lebanese pounds.
2/ "F.C." denotes foreign currency.

Table 17. Lebanon: Quantitative Indicative Targets Under the EPCA, March–December 2007
(Preliminary. In billions of Lebanese pounds, unless otherwise indicated; end-of-period) 1/

		2006	2007					
		December	March			June	September	December
		Act.	Prog.	Adj. Prog.	Prel. Act.	Prog.	Prog.	Prog.
I.	Gross reserves of the Banque du Liban (stocks) 2/	18,084	17,505	17,257	17,647	17,166	16,863	17,475
II.	Net debt of the government (stocks) 3/	59,376	61,121	61,121	60,804	59,766	60,507	61,504
III.	Primary balance of the government, before grants (cumulative flows)	...	-575	-575	-324	-848	-1,005	-1,317
IV.	Accumulation of government gross arrears (cumulative flows, continuous)	...	0	...	0	0	0	0
V.	Accumulation of external arrears by the government and the Banque du Liban (cumulative flows, continuous)	...	0	...	0	0	0	0
VI.	Government net borrowing from the Banque du Liban (stocks) 4/	9,791	10,696	10,694	10,800	9,237	8,696	7,630
Memorandum items:								
	Letters of credit contracted by Electricité du Liban (stock)	690	...	...	690	...	...	...
	Disbursements of official grants and loans to the public sector (cumulative flows)	...	0	...	2	620	2,197	4,006
	Banque du Liban's holdings of Eurobonds (stock)	2,147	...	...	1,963	...	...	...
	Disbursements of grants to the government (cumulative flows)	...	0	...	2	318	983	1,316
	Of which: disbursements of project grants (cumulative flows)	...	0	...	0	0	43	91
	Receipts from privatization/securitization operations (cumulative flows)	...	0	...	0	0	0	0
	Transfers of gold valuation gains from Banque du Liban to government (cumulative flows)	...	0	...	0	2,380	2,380	2,380
	Projection of revenue from companies slated for privatization (cumulative flows)	...	331	...	...	521	1,036	1,566

Source: Lebanese authorities.

1/ At program exchange rates.

2/ In millions of U.S. dollars. Defined as Banque du Liban's foreign exchange deposits abroad, foreign exchange holdings (including SDR), gold and holdings of investment grade liquid foreign currency-denominated securities, less encumbered foreign assets.

3/ Includes CDR and HRC balances at the Banque du Liban.

4/ Includes the decline in net borrowing of LL2380 billion on account of the gold revaluation transfer.

Table 18. Lebanon: Monitorable Actions for the Period March–December 2007

Measure	Target Date	Implementation Status
Fiscal		
Submit to parliament a draft 2007 budget law consistent with the targeted primary balance of the central government, and including detailed HRC operations and CDR foreign-financed expenditures. The budget law should not allow budget carryovers for expenditures for which no third-part liability already exists, and treasury advances of more than one month after the fiscal year.	End-June 2007	Draft budget approved by cabinet on May 21.
Issue a Cabinet of Ministers decision setting a specific floor on gasoline excise of LL 300 per liter of gasoline.	End-September 2007	
Appoint auditor for NSSF accounts. Auditor to prepare an audit plan of NSSF for 2001–06.	End-June 2007	
Power sector		
Appoint auditor for EdL accounts. Auditor to prepare an audit plan of EdL for 2002–06. Publish 2001 audit report.	End-June 2007	
Privatization		
Submit to parliament the draft law to authorize the sale of the mobile sector's assets and relevant operating licenses by the government.	End-June 2007	Privatization might proceed without new law.
Issue an invitation for expression of interest (EOI) in participating in the process of acquiring the licenses and assets of the two mobile telephone companies (MIC1 and MIC2).	End-December 2007	

Table 19. Lebanon: External Financing Requirements and Sources, 2003–08

(In millions of U.S. dollars)

	2003 Act.	2004 Act.	2005 Act.	2006 Act.	2007 Proj.	2008 Proj.
Gross financing requirements	-27,847	-27,209	-32,330	-31,945	-32,201	-33,851
External current account balance 1/	-2,615	-3,332	-2,926	-1,568	-2,987	-2,911
Government debt amortization	-1,143	-1,716	-2,512	-1,220	-960	-1,088
Non-resident deposits	-18,964	-22,857	-26,856	-27,415	-28,486	-28,626
Repayment of arrears	0	0	0	0	0	0
Gross reserves accumulation (- increase)	-5,125	696	-36	-1,742	232	-1,226
IMF repurchases	0	0	0	0	0	0
Available financing	25,752	27,209	32,330	31,283	29,657	32,749
Capital transfers (net) 1/	29	50	27	819	30	30
Foreign direct investment (net)	1,722	2,333	2,629	2,723	2,297	6,251
Portfolio investment, loans, other capital	24,038	26,444	28,759	26,571	27,330	26,468
Government (excl. exceptional financing)	370	1,629	2,809	1,984	800	587
Banque du Liban (liabilities, net) 2/	-18	-3	474	1,507	32	-18
Commercial Banks	22,809	24,150	27,325	25,970	26,756	26,045
Non-resident deposits	22,857	26,856	27,415	28,486	28,626	28,897
Other (net)	-48	-2,706	-90	-2,516	-1,871	-2,852
Non-bank private sector (net)	876	668	-1,849	-2,889	-257	-147
Errors and omissions	-38	-1,619	914	1,170	0	0
Financing gap	-2,095	0	0	-662	-2,544	-1,103
Exceptional financing	2,095	0	0	662	2,544	1,103
Exceptional grants to government	0	0	0	662	874	640
Exceptional loans to government	2,095	0	0	0	1,593	463
IMF purchases	0	0	0	0	77	0
Residual financing gap	0	0	0	0	0	0

Sources: Lebanese authorities; BIS; and IMF staff estimates and projections.

1/ Excluding exceptional grants to government.
2/ Excluding IMF.