



SIX-MONTH PROGRESS AFTER PARIS II

The Paris II Conference was held on November 23, 2002. During the conference, Lebanon received commitments totaling US\$ 4.4 billion from a group of countries and financial institutions, of which US\$ 3.1 billion is dedicated for debt reduction and management. The remaining US\$ 1.3 billion were pledged by multinational funds to finance development projects¹. The objective of this report is to provide an update on the developments that have occurred since the Paris II conference.

I-Implementation of Paris II Fund Mobilization

Six months after Paris II, 7 countries and 2 institutions have honored the commitments they had made during the conference. As a result, proceeds totaling approximately \$2.46 billion have been received. These amounts correspond to 80 percent of the total pledges made in the form of budgetary support for debt management. They have been deposited in the Special Account for Debt Management², and have been subsequently used to retire and replace maturing debt (both principal and interest).

The following table shows the sequence and amount of the funds received:

Table 1. Monthly Disbursement of Paris II Funds: December 2002 – May 2003
Expressed in USD million

| | Countries | | | | | | | Total |
|--------------|------------|-----------|------------|------------|------------|------------|------------|--------------|
| | Malaysia | Oman | UAE | Kuwait | France | KSA | Qatar | |
| Dec-02 | 300 | 50 | | | | | | 350 |
| Jan-03 | | | 300 | 300 | | | | 600 |
| Feb-03 | | | | | | | | - |
| Mar-03 | | | | | 540* | 700 | | 1,240 |
| Apr-03 | | | | | | | | - |
| May-03 | | | | | | | 200 | 200 |
| Total | 300 | 50 | 300 | 300 | 540 | 700 | 200 | 2,390 |

Source: MOF, *Counter value of contributions in Euro at USD/Euro 1.08 rate.

* Funds secured from institutions contributing at the Paris II conference include US\$ 55 million from the Arab Monetary Fund transferred in December 2002 and Euro 12.25 million from the European Union transferred in April 2003.

¹ The US\$ 1.3 billion of committed project loans are divided as follows:

World Bank US\$ 200 million, European Union US\$ 100 million, European Investment Bank US\$ 350 million, Arab Fund for Social & Economic Development US\$ 500 million, Kuwaiti Fund for Development US\$ 150 million.

² The Special Account for Debt Management has been opened in accordance with Law No.430, allowing for the creation of a separate account at BDL to incorporate Paris II funds as well as potential privatization and securitization receipts. Accordingly, all proceeds resulting from debt servicing purposes should be placed in this account, with the law applicable until 2022.

- ☒ The first transaction constituted the issuance of a 15-year **USD 950 million**, 5 percent Eurobond on Friday, December 27, 2002.

These notes were subscribed by four countries with the following shares:

| | |
|------------------------|-----------------|
| - Malaysia | USD 300 million |
| - Sultanate of Oman | USD 50 million |
| - United Arab Emirates | USD 300 million |
| - Kuwait | USD 300 million |

- ☒ The Kingdom of Saudi Arabia transferred USD 700 million on March 7, 2003, with the financing scheme being identical to the Eurobonds subscribed to by the first four donor countries (discussed above).
- ☒ The transaction with the State of Qatar was signed on May 23, 2003 in Beirut and the proceeds were received on May 27th. The Notes purchased were also identical in nature to the ones subscribed to by Malaysia, Oman, the United Arab Emirates, Kuwait, and the Kingdom of Saudi Arabia.

Table 2. Summary of Terms and Conditions of Transactions Mentioned Above

| | |
|--------------------------------------------|--------------------------------------------------------------------------------------------|
| Issue Price | 100 percent |
| Final Maturity date | 15 years from issue date |
| Coupon rate | 5.00 percent per annum payable semi-annually in arrear |
| Amortization of Principal | Redeemable in 20 equal semiannual payments starting from year 6 (grace period of 5 years). |
| Form of Notes | Registered |
| Representations, warranties, and covenants | As per the issuer's Global MTN program |
| Listing | Luxembourg Stock Exchange |
| Governing law | New York |

- ☒ France: The Lebanese Ministry of Finance and the Agence Française du Développement assigned a 15-year, 5 percent loan with a 3-year grace period for principal repayment. Earlier, the French Parliament and Senate had authorized the French Treasury to issue a **Euro 500 million** guarantee for Agence Française du Développement (AFD) to issue bonds in the French financial market earmarked for financing the loan for Lebanon. The loan agreement was signed on February 28, 2003, and the funds were transferred to the Special Account for Debt Management at Banque du Liban on March 3, 2003.
- ☒ The Arab Monetary Fund (AMF) disbursed US\$ 55 million of financing prior to year-end 2002:
 - A loan of **US\$ 15 million** was signed with the Ministry of Finance on December 19, 2002 bearing an annual interest rate of 4 percent. An additional **US\$ 40 million** at 1.3 percent was transferred on December 30, 2002 as part of the trade

finance facilities offered by the Fund (to be transferred to Electricité du Liban for the financing of fuel imports).

- A technical mission from the Arab Monetary Fund is planned to visit Lebanon to prepare for 2 additional loans: a structural adjustment loan and a medium-term loan. The remaining US\$ 50 million is expected to be transferred later in 2003.

☒ **Expected disbursements** also include funds from **Bahrain, Belgium, Italy, and Canada** (discussion with parties currently at various stages of development).

II- Use of Paris II Funds

Six months since the Paris II conference, approximately 87 percent of the Paris II funds received have already been employed to re-profile Lebanon's stock of public debt, i.e. retire and replace domestic and foreign currency denominated principal and interest as they mature, as demonstrated in the following table:

Table 3. Use of Paris II Contributions*
Amounts expressed in US\$ million

| | Jan | Feb | Mar | Apr | May | Total |
|--------------------------------------|------------|------------|------------|------------|------------|--------------|
| Lebanese Pound Treasury Bills | 0 | 389 | 275 | 231 | 354 | 1,249 |
| o/w Maturing Principal | 0 | 304 | 218 | 157 | 248 | 926 |
| Maturing Coupons | 0 | 85 | 57 | 74 | 105 | 322 |
| Eurobonds denominated in USD | 180 | 78 | 0 | 488 | 60 | 806 |
| o/w Maturing Principal | 100 | 0 | 0 | 367 | 0 | 467 |
| Maturing Coupons | 80 | 78 | 0 | 121 | 60 | 339 |
| Eurobonds denominated in Euro | 0 | 0 | 40 | 0 | 0 | 40 |
| o/w Maturing Principal | 0 | 0 | 0 | 0 | 0 | 0 |
| Maturing Coupons | 0 | 0 | 40 | 0 | 0 | 40 |
| Concessional Loans in USD | 0 | 0 | 0 | 34 | 0 | 34 |
| o/w Maturing Principal | 0 | 0 | 0 | 15 | 0 | 15 |
| Maturing Coupons | 0 | 0 | 0 | 19 | 0 | 19 |
| TOTAL (Principal and Coupon) | 180 | 467 | 315 | 753 | 414 | 2,128 |

Source: Ministry of Finance

* Paris II contributions include the amounts mentioned in Table 1, i.e. contributions made by the countries and institutions that participated in the Paris II conference.

III- Central Bank of Lebanon and Commercial Banks' Schemes:

A. Special Scheme with Banque du Liban: By end-December 2002, Banque du Liban held a portfolio of Lebanese Pound denominated Treasury bills and Eurobonds worth approximately LL 5,500 billion. Accordingly, a special scheme for the portfolio of the BDL in government securities was concluded on December 31, 2002 whereby the equivalent of LL 2,700 billion of the BDL's 24-month Lebanese Pound Treasury bill portfolio were retired against Account 115 (re-evaluation account of gold and foreign exchange), and the remaining balance of Lebanese Pound denominated bills (LL 1,221 billion) along with BDL's Eurobond portfolio (USD 1.04 billion) were exchanged into a new USD 1.87 billion, 15-year, 4 percent Eurobond with a 5-year grace period for principal.

This transaction decreased the size of the public debt by approximately **10 percent of GDP**, in addition to saving the treasury approximately **USD 350 million** a year in debt service.

B. Special Scheme with Commercial Banks: As part of the measures adopted to reduce public debt service, on December 16, 2002, Banque du Liban issued Decision N° 8312, pursuant to which all banks operating in Lebanon must subscribe to Lebanese Treasury bills or Eurobonds issued by the Lebanese Republic. These notes do not bear interest and have a maturity of two years, with the aggregate amount subscribed by each bank equaling 10 percent of the bank's deposits in all currencies as of October 31, 2002. The decision provided the commercial banks with the option to subscribe to the non-interest bearing notes in cash or through the delivery of Treasury bills or Eurobonds issued by the Lebanese Republic.

As of end-May 2003, new zero interest Treasury bills were issued for the LL and USD cash contributions, while zero interest Treasury bills and Eurobonds exchanged the interest bearing securities submitted by the banks (depending on the currency of the original contribution).

To date, USD 2.65 billion in cash and securities have been provided by the banks, while the remaining balance (entirely composed of cash) is due in two installments in July and August of 2003. The total contributions to the special scheme will amount to approximately US\$ 3.6 billion, of which 85 percent is in the form of cash or near cash securities, i.e. maturing within three months from the date of submission.

Table 4. Summary of Commercial Banks' Scheme
Amounts expressed in US\$ million

| | Amount | % of total |
|---------------------------------------------------------------------|--------------|-------------|
| A. CASH* | 3,031 | 85% |
| 1. LL Cash** | 864 | 24% |
| 2. USD Cash** | 1,860 | 52% |
| 3. LL denominated T-bills with av. maturity of less than 3 months | 164 | 5% |
| 4. Eurobonds with av. maturity of less than 3 months | 143 | 4% |
| B. SECURITIES (Eurobonds with av. maturity of over 3 months) | 546 | 15% |
| GRAND TOTAL | 3,577 | 100% |

Source: Ministry of Finance

* Securities with maturities of less than three months as of the date of submission to the special scheme are assumed as near-cash amounts in this table.

** Two-year zero interest Lebanese Pound Treasury bills have been issued for the cash submitted in LL and USD.

C. Use of Commercial Banks' Cash Contributions

Within the context of their special scheme, commercial banks submitted cash contributions amounting to US\$ 1.784 billion during Jan-May 2003. These amounts have been deposited in a sub-account at the BDL and have, along side the Paris II funds, been exclusively used to retire principal and interest of maturing debt denominated in Lebanese Pounds.

As of end May 2003, the equivalent of USD 1.16 billion of maturing Treasury bills and coupons have been paid from the sub-account mentioned above.

Table 5. Use of Commercial Banks' Cash Contributions during Jan-May 2003
Amounts expressed in US\$ million

| | Jan | Feb | Mar | Apr | May | Total |
|--------------------------------------|----------|----------|-----------|------------|------------|--------------|
| Lebanese Pound Treasury Bills | 0 | 0 | 79 | 474 | 606 | 1,160 |
| o/w Maturing Principal | 0 | 0 | 49 | 333 | 455 | 837 |
| Maturing Coupons | 0 | 0 | 30 | 141 | 151 | 323 |

Source: Ministry of Finance

Accordingly, and as demonstrated in Table 6 below, the proceeds from Paris II and the special schemes with the BDL and the commercial banks have retired or replaced around 24 percent of the total stock of debt outstanding as of end-November 2002. In nominal terms, more than LL 11,700 billion of mainly high-cost³ and short-term public debt have been retired or replaced since November 2002 by new debt with concessional terms.

As a result of replacing these transactions, the average cost of financing during the first five months of 2003 was approximately 3 percent. In addition, the cost of the total public debt (domestic and foreign combined) declined from 11.9 percent in November 2002 (before the Paris II conference) to 9.8 percent in May 2003, whereas, the cost of domestic debt declined from 13.8 percent to 12.12 percent and that of the foreign debt declined from 9.2 percent to 7.4 percent during the same period.

Table 6. Summary of Debt Transactions Concluded since the Paris II Conference*
Status as of End-May 2003
Amounts expressed in LL billion

| | Amount | Use of Funds | | | End-May Balance |
|------------------------------|---------------|--------------|---------------|------------------|-----------------|
| | | Cancellation | Exchange | Debt replacement | |
| BDL Scheme | 5,520 | 2,700 | 2,820 | | |
| Paris II Inflows | 3,602 | | | 3,210 | 392 |
| Commercial Banks: Cash | 2,690 | | | 1,748 | 941 |
| Commercial Banks: Securities | 1,287 | | 1,287 | | |
| TOTAL | 13,099 | 2,700 | 4,107 | 4,958 | 1,333 |
| | | | 11,765 | | |

Source: Ministry of Finance

* Includes contributions made by the countries that participated in the Paris II conference (see Table 1) and special schemes with the Banque du Liban and the commercial banks.

³ Retired or replaced debt had an original cost of 14.14 percent on LL denominated debt and more than 9 percent of foreign currency debt.

Table 7. Public Sector Outstanding Debt as of end-May 2003
Amounts expressed in LL billion

| | 2001 | 2002 | | 2003 | % change | % change |
|-------------------------------|---------------|---------------|---------------|---------------|-------------------|-------------------|
| | Dec-01 | Nov-02 | Dec-02 | May-03 | May 03- Nov 02 | May 03- Dec 01 |
| Total debt | 42,637 | 48,241 | 47,274 | 49,118 | 1.8% | 3.9% |
| Domestic debt | 28,214 | 28,989 | 25,302 | 25,328 | -12.6% | 0.1% |
| o/w Zero coupon T-bills | | | | 2,936 | | |
| Foreign debt | 14,423 | 19,252 | 21,972 | 23,790 | 23.6% | 8.3% |
| a. Bilateral and Multilateral | 2,046 | 2,158 | 2,214 | 2,243 | 3.9% | 1.3% |
| b. Paris II related FX debt* | | | 4,251 | 6,500 | | |
| c. Market Eurobonds | 11,477 | 16,122 | 14,611 | 13,048 | -19.1% | -10.7% |
| d. Zero Coupon Scheme | | | | 1059 | | |
| e. Other foreign Debt** | 900 | 972 | 896 | 940 | -3.3% | 4.9% |
| Public sector deposits | 1,913 | 2,655 | 2,964 | 3,866 | 45.6% | 30.4% |
| Net debt | 40,724 | 45,586 | 44,310 | 45,252 | -0.7% | 2.1% |
| Net market debt*** | 29,372 | 35,597 | 33,901 | 31,236 | -12.3% | -7.9% |

Source: Ministry of Finance, Banque du Liban

* Includes US\$ 1.87 billion 4 percent Notes issued to BDL on December 31, 2002 as part of the BDL special scheme.

** Includes accrued interest and foreign currency private sector loans.

***Net market debt equals net debt (gross public debt less public sector deposits) less the portfolios of the BDL, NSSF, bilateral and multilateral loans, and Paris II related debt.

As shown in Table 7 above, **gross public debt** amounted to LL 49,118 billion at the end of May 2003. The increase in public debt over end-December 2002 is mainly due to the surplus of new funds over maturing debt. Gross public debt will decline when surplus funds, from the collection of Paris II funds and the partial implementation of the commercial banks scheme, are utilized in the weeks ahead to retire principal and interest as they mature.

IV - Financial Developments since the Paris II Conference

Lebanese capital markets have reacted favorably to the outcome of the Paris II conference:

- ⊗ Interest rates on Lebanese pound Treasury bills of all categories have declined by more than 40 percent following the Paris II conference, from 16.34 percent to 9.2 percent in the last auction of January 16, 2003 on the 24-month category, and the yield curve flattened between the 12 and 24-month maturities. The discount rates on the 3, 6, and 12 month categories also fell to 6.84 percent, 7.86 percent, and 8.37 percent respectively in the last auction of February 6, 2003 (see Tables 8 and 9).

Table 8. Treasury Bill Auction Results: Week of February 6, 2003

| | 3-months | 6-months | 12-months | 24-month |
|------------------|----------|----------|-----------|----------|
| Average discount | 6.84% | 7.86% | 8.37% | |
| Average yield | 6.96% | 8.18% | 9.13% | |
| Average coupon | | | | 9.2 |

Table 9. Comparison of Treasury Bill Yields (primary market)

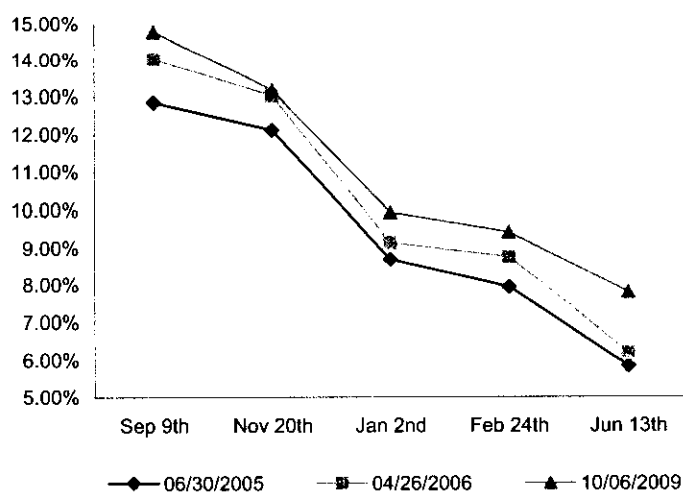
| | Pre-Paris II | Post-Paris II |
|-------------------|--------------|---------------|
| 3-months T-bills | 11.18% | 6.96% |
| 6-months T-bills | 12.12% | 8.18% |
| 12-months T-bills | 13.43% | 9.13% |
| 24-months T-bills | 16.64% | 9.20% |

- ⊗ The issuance of T-bills has been temporarily halted since the last auction on February 6th, 2003 in light of the comfortable liquidity position of the Treasury following the inflows of the Paris II funds, the commercial banks', and the BDL schemes.
- ⊗ The prices of all outstanding Eurobond issues of the Republic marked a substantial improvement following Paris II, with the longer-term maturities improving by 15-20 percentage points on average compared to the levels in September 2002. Since January 30, 2003, all maturities have been trading above par.

Table 10. Secondary Market Prices of Selected USD Denominated Eurobonds of the Lebanese Republic

| Coupon rate | Maturity Date | 2002 | | 2003 | |
|-------------|---------------|----------------------|----------------------|----------------------|----------------------|
| | | Sept. 9 Mid Price | Nov. 25 Mid Price | Jan. 10 Mid Price | Jun. 13 Mid Price |
| 8 5/8 | 04/03 | 98.50 | 100.50 | 101.00 | |
| 9 1/8 | 09/03 | 98.50 | 101.00 | 101.50 | 101.50 |
| 8 1/2 | 03/04 | 94.00 | 97.75 | 100.00 | 102.50 |
| 9 1/2 | 12/04 | 96.50 | 98.75 | 102.50 | 106.50 |
| 9 3/8 | 06/05 | 92.00 | 95.50 | 102.00 | 106.70 |
| 8 3/4 | 09/05 | 87.50 | 93.00 | 100.00 | 105.70 |
| 9 7/8 | 04/06 | 88.50 | 95.00 | 102.50 | 109.50 |
| 8 5/8 | 10/07 | 80.00 | 86.50 | 99.00 | 106.00 |
| 10 1/8 | 08/08 | 83.00 | 89.00 | 102.00 | 111.00 |
| 10 1/4 | 10/09 | 80.50 | 90.00 | 102.00 | 112.00 |

Chart 2. Evolution of Mid-Yields of Selected USD Denominated Eurobonds of the Lebanese Republic



- ⊠ Average lending rates in Lebanese Pounds decreased by 2 percent between August 2002 and April 2003 while lending rates in USD decreased by 0.65 percent for the same period.

Table 11. Average Lending Rates

| | LL lending rates | US\$ lending rates |
|----------------|------------------|--------------------|
| | in percent | |
| August 2002 | 16.54 | 9.87 |
| September 2002 | 16.57 | 9.83 |
| October 2002 | 16.32 | 9.74 |
| November 2002 | 16.11 | 9.69 |
| December 2002 | 16.10 | 9.62 |
| January 2003 | 15.39 | 9.44 |
| February 2003 | 15.40 | 9.48 |
| March 2003 | 15.01 | 9.34 |
| April 2003 | 14.53 | 9.22 |

Source: Banque du Liban

- ⊠ Average deposit rates in LL decreased by 2 percent between August 2002 and April 2003 while deposit rates in USD decreased by 0.55 percent for the same period.

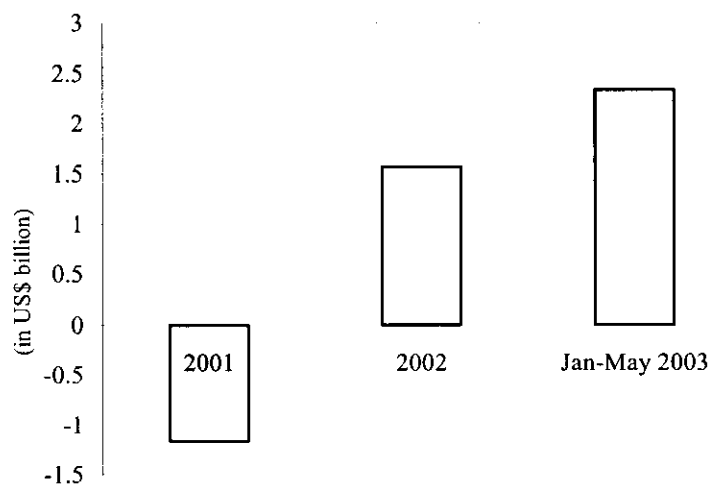
Table 12. Average Deposit Rates

| | LL deposit rates | US\$ deposit rates |
|----------------|------------------|--------------------|
| | in percent | |
| August 2002 | 10.53 | 4.19 |
| September 2002 | 10.55 | 4.19 |
| October 2002 | 10.65 | 4.20 |
| November 2002 | 10.44 | 4.14 |
| December 2002 | 9.83 | 4.00 |
| January 2003 | 9.27 | 3.80 |
| February 2003 | 8.68 | 3.77 |
| March 2003 | 8.73 | 3.74 |
| April 2003 | 8.51 | 3.64 |

Source: Banque du Liban

- ☒ On the foreign exchange rate front, the Central Bank continues to purchase US\$ from the local exchange market, and has acquired over US\$ 8.8 billion in gross reserves (excluding gold) as of end-May 2003, a significant recovery from the May 2002 level - the lowest level of gross reserves (excluding reserves) held by the Central Bank.
- ☒ Lebanon's external position also marked a significant improvement after the Paris II conference. After a balance of payment deficit of US\$ 1.17 billion in 2001, the external position improved in 2002, and continued to improve with the return of private capital inflows and Paris II inflows during the first five months in 2003.

Chart 3. Evolution of the Balance of Payments

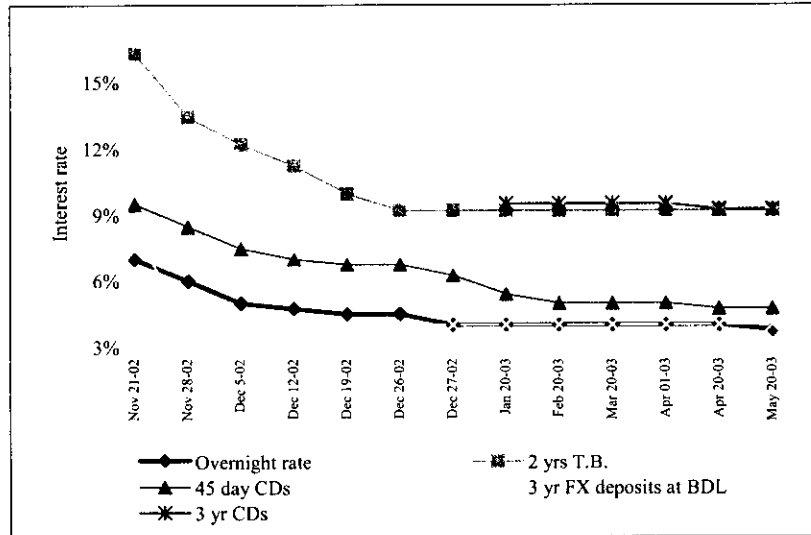


Source: Banque du Liban

- ☒ The dollarization of the economy declined substantially in the fourth quarter of 2002. It ended the year 2002 at a rate of 69.37 percent from a level of 74 percent in May 2002. The dollarization rate as of end-May 2003 was 67.8 percent.
- ☒ Short-term money market rates decreased sharply after Paris II. BDL cut the rate on the 45 days CDs to 4.50 percent as of end-May 2003 from a level of 9.5 percent during November 2002. The overnight rate on the Lebanese pound was reduced by 3.25 percent to reach a level of 3.75 percent by the beginning of May 2003.

- x Banque du Liban began issuing Certificates of Deposits (CDs) with two and three-year maturities to the commercial banks at the beginning of 2003. As of June 20, 2003 the total stock of outstanding CDs of two and three year maturities amounted to LL 450 billion and LL 3,765 billion, respectively. Total outstanding CDs (all categories combined) as of June 20, 2003 amounted to LL 5,978 billion. On June 20, the Banque du Liban introduced a five-year CD for the amount of LL 98 billion.

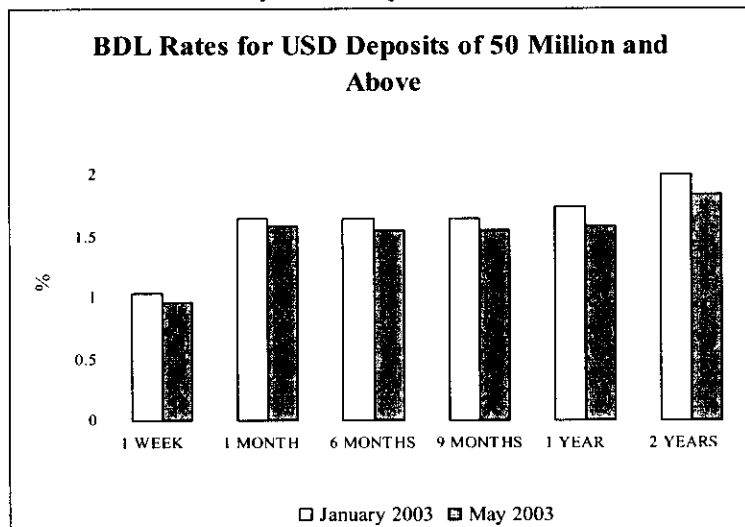
Chart 4. Overnight Rate, 45-day CD Rate, 2 year TBills Rate and 3-year FX Deposit at BDL



Source: Banque du Liban

*Note: 3 Year CDs were not issued before January 2003.

Chart 5. Overnight Rate, 45-day CD Rate, 2 year TBills Rate and 3-year FX Deposit at BDL



Source: Banque du Liban

V - Fiscal Developments and Complimentary Reforms

Table 13. Summary of Fiscal Performance

| | Amounts expressed in LL billion | | | | | |
|------------------------------------|---------------------------------|-------------|-----------------|-----------------|-----------------|-------------|
| | May 2002 | May 2003 | Jan-May 2002 | Jan-May 2003 | change 02-03 | % change |
| Budget revenues | 464 | 625 | 2,042 | 2,505 | 463 | 22.7% |
| Budget expenditures | 600 | 866 | 3,063 | 3,254 | 191 | 6.2% |
| <i>o/w Debt service</i> | 369 | 509 | 1,887 | 2,024 | 137 | 7.3% |
| Budget deficit/surplus | -135 | -240 | -1,021 | -749 | 272 | |
| in % of budget expenditures | -22.6% | -27.8% | -33.3% | -23.0% | | |
| Budget primary deficit/surplus | 234 | 268 | 866 | 1,275 | 409 | |
| in % of budget expenditures | 38.9% | 31.0% | 28.3% | 39.2% | | |
| Treasury receipts | 33 | 25 | 169 | 176 | 7 | |
| Treasury payments | 50 | 57 | 714 | 910 | 196 | |
| Total budget and treasury receipts | 497 | 650 | 2,211 | 2,681 | 470 | 21.3% |
| Total budget and treasury payments | 650 | 923 | 3,777 | 4,164 | 387 | 10.3% |
| Total cash deficit/surplus | -152 | -272 | -1,566 | -1,483 | 83 | |
| in % of total expenditures | -23.5% | -29.5% | -41.5% | -35.6% | | |
| Primary deficit/surplus | 216 | 236 | 321 | 541 | 220 | |
| in % of total expenditures | 33.3% | 25.6% | 8.5% | 13.0% | | |

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

⊗ General Fiscal Developments:

The momentum of fiscal adjustment, which started in 2002 with the proper implementation of the Budget, continued during the first five months of 2003. Overall revenues during the period of January-May 2003 increased by 21.3 percent over the outcome during the comparable period in 2002 mainly due to the implementation of the various revenue enhancement and structural measures (tax regularization, VAT, 5 percent tax on interest). Revenues from the Value Added Tax during January-May 2003 amounted to LL 538 billion (based on VAT and customs declaration forms), compared to LL 295 billion during the comparable period in 2002⁴. Accordingly, the primary surplus amounted to LL 541 billion during the first five months of 2003, marking an increase of LL 220 billion over the primary surplus achieved during the comparable period of 2002. Please note that the fiscal improvements witnessed to date do not yet include proceeds from the professional tax and seashore violations, which are expected to be implemented later during the year.

⊗ Privatization and Securitization:

The Higher Privatization Council "HPC" held a meeting on the 15th of May, in the presence of the Prime Minister and of a number of Ministers to disclose the names of the companies that are eligible to bid in the tender and auction of the two Lebanese cellular networks.

After consulting with the Technical Committee, which valued the financial offers of the participants along with HSBC, HPC released the names of six companies that are eligible to participate in the two auctions, the first being the sale of the two licenses and the second being

⁴ Kindly note that VAT receipts for the period Jan-May 2003 are based on a five-month collection period compared to 4 months during Jan-May 2002 since the VAT was implemented on February 1, 2002.

the awarding of management contracts for the two existing networks (this will come as an alternative in case the financial offers submitted by potential buyers are declined).

The six companies are the following: LibanCell, Investcom Holding SAL (Luxembourg), Orange SAL (France), OTE (Greece), MTC and Wataniya (Kuwait). Detecon (Germany) was qualified to participate only in the second auction for awarding management contract.

On another front, the securitization of future flows emanating from customs duties paid on imported tobacco products is progressing, with the structure as well as legal documentation already finalized. Although this transaction was expected to be launched in the first quarter of 2003, the liquidity generated by the Paris II agreement has prompted the government to postpone the transaction for QII 2003 in order to avoid negative carry.

☒ Budget Law 2003⁵: The 2003 Budget Law was ratified by Parliament on January 28, 2003, with expenditures expected to decrease from LL 9,375 billion in the 2002 Budget Law to LL 8,600 billion in the 2003 Budget Law. Also, revenues are expected to increase from a budgeted level of LL 5,399 billion in FY 2002 to LL 6,475 by year end 2003. The resulting outcome is expected to be a 45 percent decrease in the budget deficit (of LL 2,125 billion) for 2003, and a further amelioration of the primary surplus, from LL 625 billion in the 2002 Budget Law to LL 1,875 billion in the 2003 Budget Law .

The Government plans to achieve the above goals through complementary fiscal reforms and financial consolidation. The following include some of the major revenue enhancing developments for 2002 and 2003:

- ☒ The introduction of a new 5% tax on interest generating income in all currencies and including non-resident accounts.
- ☒ The improvement in the assessment and expanding of the audit capacity at the Ministry of Finance enabling the Ministry of Finance to allocate a Large Taxpayers Unit (LTU), in order to audit and review large taxpayers' income tax declarations.
- ☒ The modernization of the Deduction At Source on Salaries (DASS, Title II of the Income Tax Law) administration by creating a reliable and exhaustive database covering the active and retired labor force in both the private and public sectors.
- ☒ Allowing for the payment of the outstanding tax regularization dues through installments to be made throughout 2003.
- ☒ Lowering the mandatory VAT threshold from the current minimum annual turnover of LL 500 million to LL 300 million starting April 2003.
- ☒ Increasing local fixed line phone call fees from LL 40 to LL 49 per minute (or by 23%).
- ☒ Increasing monthly fixed line subscription fees from LL 12,000 to LL 20,000.
- ☒ Implementing the professional tax.

⁵ Kindly refer to the Brief Note on Budget 2003, 2002 Public Finance Report, and 2003 Monthly Public Finance reports on the Ministry's website (www.finance.gov.lb) for further information on Budget Law 2003 and latest public finance developments.

In addition to the above mentioned reforms, the Ministry of Finance has introduced a number of reform projects aimed at enhancing transparency within the Ministry, improving data collection, and empowering human capacity within the Ministry and outside, as well as reforms in the system of pensions. A comprehensive list of these reforms is found below and for more information on them, please refer to 'Reforms at MOF' on www.finance.gov.lb.

1. Cadastre Operations Modernization and Automation Project
2. Customs Administration Component
3. Social Expenditure Rationalization: 20/20 Project
4. Administrative Modernization: Automation and Upgrading of the IT Infrastructure
5. Modernization of the Government Payment Systems
6. Value Added Tax (VAT)
7. Capacity Building and Human Resource Upgrading
8. Budget and Accounting Reform
9. Treasury Management Reform
10. Municipal Finance and Intergovernmental Financial Links
11. DASS (Deduction at Source of the Income Tax Salaries)
12. Large Taxpayer Unit (LTU)
13. Tax Roll Unit (TRU)
14. Built Property Tax Unit
15. Bilateral Agreements

الجمهورية اللبنانية
مكتب وزير الدولة لشؤون التنمية الإدارية
مركز مشاريع ودراسات القطاع العام

Republic of Lebanon
Office of the Minister of State for Administrative Reform
Center for Public Sector Projects and Studies
(C.P.S.P.S.)