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Economic Accounts of Lebanon
2006-2007

Compiled and published under the direction of Robert Kasparian

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Foreword

In 2002, H.E. Prime Minister Rafik Hariri and H.E. Minister of Economy and Trade Basil Fuleihan launched the project to develop the economic accounts of Lebanon to produce a report documenting the Lebanese economy and its evolution. From its roots, this project has benefited from the technical support of the French Institute of Statistics and Economic Studies (INSEE), whose reputation in this discipline is indisputable.

The choice was to retain 1997 as the base year due to the availability of a number of statistical surveys. The base year provided the springboard for the comprehensive calculation of the accounts for the year 1997¹, which were then followed by a series of economic accounts for the period 1997-2002², in addition to the economic accounts for 2003³, 2004⁴ and 2005⁵.

I am pleased to announce the publication of the Economic Accounts for the years 2006 and 2007, and I trust that from this day forward, the annual accounts for any given year will be made available on time and in conformity with international standards regarding the publication dates of national accounts.

The year 2006 was underscored by the July war with Israel. This incident had a major impact on the significant growth witnessed at the start of the year, which resumed after an interruption in the growth rate of 2005 from its previous upward progression in 2004. Due to the destruction and damage caused by the Israeli attacks, final consumption fell sharply, which affected economic activity negatively in 2006. However, once the effect of the war began to dissipate due to the relentless efforts of the Lebanese government as well as the effects of the favorable economic tide of regional expansion, the country once again resumed its growth pattern. The GDP in 2007 reached record heights reminiscent of those attained in 2004 before the days when this nation was affected adversely by vicious events such as those witnessed in 2005 and 2006. This is proof enough that when our nation is not affected by the dramatic events witnessed in recent years, our economy is able to achieve outstanding performances.

The systematic evolution of the economic accounts provide an extensive and detailed description of the Lebanese economy through a series of statistics, which are put at the disposal of all parties interested in its operation. This work has made it possible today and in the future to develop a vast database of information for researchers and professionals, who deal in economic affairs, to carry out economic studies.

¹ Ministry of Economy and Trade - Republic of Lebanon - May 2003

² Ministry of Economy and Trade - Republic of Lebanon - July 2005

³ Presidency of the Council of Ministers - Republic of Lebanon - May 2006

⁴ Presidency of the Council of Ministers - Republic of Lebanon - February 2007

⁵ Presidency of the Council of Ministers - Republic of Lebanon - October 2007

I would like to take this opportunity to extend my sincere thanks to Mr. Robert Kasparian for his continued efforts in developing these accounts and to the team who played a valuable role in this project. In addition, I wish to thank all the Lebanese and international organizations that contributed to this venture. I also express my gratitude to INSEE, which readily makes available its vital support and expertise throughout the stages leading to the realization of this essential project.

The President of the Council of Ministers

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Introduction

The present publication provides an outline of the economic accounts for 2006 and one provisional estimate for the accounts of 2007. These accounts are established according to same conventions and methodology adopted in the compilation of the accounts from 1997 to 2005.⁶

It should be noted that estimates of certain sectors were revised progressively given the availability of new data regarding the national economy. Thus, in addition to the information released in preceding publications, the team responsible for the accounts determined and included a conclusive module for some of the most important municipalities, for the two years: 2004 and 2005, which made it possible to revise the account of public administrations.

Economic growth began in 2003 and continued in its upward progression in 2004 but came to an abrupt halt in 2005, following the assassination of Prime Minister Rafic Hariri on February 14, and in 2006, following the July war with Israel. It resumed its cyclical growth in 2007.

Similarly, foreign trade suffered profoundly because of the ports and airport blockade during the summer of 2006, but resumed strongly in 2007 as a result of corrective measures. During this two-year period, an important development regarding foreign transfers made it possible to produce a balance of payments surplus despite an augmented deficit in the exchange of goods and services.

The entire analysis of the above is detailed in these accounts, which are presented in two parts:

Part one reviews the goods and services accounts and depicts various aspects of the real economy and their evolution. It comprises of five chapters devoted to the variables that constitute the basic balance of these accounts, namely:

$$\text{production} + \text{imports} = \text{consumption} + \text{gross fixed capital formation and changes in inventories} + \text{exports}.$$

Part two, which comprises of two chapters, presents the general balance of accounts by integrating the whole set of flows that constitute broad-spectrum economic activity. The first chapter is devoted to the integrated accounts of the national economy, incorporating production accounts and linking these with the distribution and financial transactions accounts whilst the second chapter provides the rest of the world accounts and the balance of payments.

⁶ For more information concerning the account model and estimation methods used, kindly consult the two previous Ministry of Economy and Trade publications, namely: “Economic Accounts of Lebanon, 1997” (May 2003); and “Economic Accounts of Lebanon, 1997-2002” (July 2005).

A review of the 1997 to 2007 accounts, which were revised according to new data, will be published in a separate volume. The volume will include the basic accounts and a statistical appendix.

It will thus become possible to evaluate the performance of the Lebanese economy during the various economic phases of this period.

PART ONE
The goods and services account

From the year 2003, the economy of Lebanon witnessed systematic growth, which peaked in 2004, and came to an abrupt standstill in 2005 due to the significant and turbulent political developments in the country, including the assassination of Prime Minister Rafic Hariri in February and the withdrawal of Syrian troops from Lebanon in April.

Economic recovery resumed in the second quartile of 2005, and the first quartile of 2006 demonstrated equal impetus, promising a strong rate of growth for the year. Unfortunately, the July war with Israel in 2006, which lasted for more than six weeks, completely paralyzed the economy and destroyed most of the road network infrastructure; thus, the rate of growth was driven downwards to almost zero. The year 2007 was a year of adjustments, and the Lebanese economy began to recover, resuming the growth trend benchmarked three years earlier.

Table 1 below highlights aggregate demand, which regressed in real value by 0.5% in 2006 and increased to 10.4% in 2007. Clearly, local production failed to match fluctuations in increased foreign imports and lower local outputs. Thus, in 2006, while the volume of imports decreased by 3.2% output increased by 0.6%. In 2007, the GDP rate of growth was much lower than that of imports: 7.5% against 17.2%.

Table 1
Total goods and services account 2005-2007

	Value in billion LBP			% Change / year			
				In Price		In Volume	
	2005	2006	2007	2006	2007	2006	2007
<i>Uses</i>							
		28					
Private consumption	27 763	045	31 404	3.2	5.0	-2.1	6.6
Public consumption	4 968	5 115	5 375	0.4	0.6	2.6	4.5
Private GFCF, var. inventories	6 347	6 824	9 449	3.4	8.7	4.0	27.3
Public GFCF	872	908	1 012	4.1	4.1	0.1	7.0
		40					
Total: national expenditure	39 950	893	47 239	2.9	5.2	-0.5	9.8
Exports	7 047	7 189	8 507	2.9	4.0	-0.9	13.8
		48					
Uses = resources	46 996	082	55 746	2.9	5.0	-0.5	10.4
<i>Resources</i>							
		33					
GDP	32 955	826	37 758	2.1	3.8	0.6	7.5
		14					
Imports	14 042	256	17 988	4.8	7.6	-3.2	17.2

Actually, household consumption declined appreciably in 2006 (- 2.1%), whereas public consumption and private sector investments continued to progress at a modest rate; therefore, partially offsetting the decrease in domestic demand. In 2007, the 10.4-point growth percentile in total demand is due to household consumption and private sector investments of 3.8 points and 3.9 points respectively, and 0.6 points for public expenditure, i.e. a total expenditure growth rate of 8.3 points attributed to domestic demand, whereas foreign imports contributed for 2.1 points.

Measured by changes in the consumer price index that affect purchasing power, inflation displayed an annual rate of increase: +2.1% in 2005, 3.2% in 2006 and +5% in 2007. This rate of inflation, however, remained modest given the import price index calculated by the unit values index, which increased from 4.9% in 2006 to 7.6% in 2007 whereas the domestic prices of the factors of production displayed progressions that were more moderate: +2.0% in 2006 and +3.8% in 2007.

The evolution of aggregates concerning the goods and services account for the years 2006 and 2007 are set forth in detail under the following five chapters:

1. Domestic output
2. Imports
3. Consumption
4. Gross formation of fixed capital and changes in inventories
5. Exports

Chapter 1 Domestic output

Gross Domestic Product (GDP) measures the production activity level of the various economic agents within a country. It is defined as the sum of a value-added at every stage of production *or* the annual total market value of all final goods and services produced by establishments (sole proprietorships, private companies and public enterprises). This equals total consumer, investment and Government output of non-market services evaluated at factor cost, plus the value of exports, minus the value of imports.

Table 2 demonstrates the GDP distribution of economic activity by various economic sector compositions and its evolution in 2006 and 2007 compared to the previous year.

Table 2
Value added by sector 2005-2007

Sector	Value in billion LBP			% Change / year			
				In Price		In Volume	
	2005	2006	2007	2006	2007	2006	2007
Agriculture and livestock	1 731	2 069	2 348	20.3	18.9	-0.7	-4.6
Energy and water supply	-258	-390	-507	...	...	...	...
Industry	3 516	3 289	3 579	0.3	1.5	-6.7	7.2
Construction	2 654	2 927	4 052	5.9	18.6	4.2	16.8
Transport & communications	2 926	2 877	3 118	-0.3	1.9	-1.3	6.3
Market services	11	12	13	-0.1	2.0	6.1	5.6
Trade	415	092	029	4.5	1.4	-4.9	11.6
Government	7 633	7 585	8 587	0.0	0.0	1.2	5.2
	3 338	3 377	3 553	0.0	0.0	1.2	5.2
Total GDP	32	33	37	2.1	3.8	0.6	7.5
	955	826	758				

The growth or regression of the value-added in a given sector are not only determined by the parameters of aggregate real activity, but also by producer price variations and input prices.

Details of the value-added across the various sector components of the economy are set forth below.

Section I. Agriculture and livestock

The value-added of the agriculture and livestock output sector is calculated by subtracting the estimated value of intermediate consumption from gross farm receipts valued at farm gate prices as the table below demonstrates (table 3).

Table 3
Agricultural output 2005-2007

Output sector	Value in billion LBP			% Change / year			
				In Price		In Volume	
	2005	2006	2007	2006	2007	2006	2007
Cereals	93	117	104	15.3	4.2	8.7	-14.3
Fruit	804	1 085	1 108	20.5	17.0	12.0	-12.7
Industrial crops	103	103	113	9.9	7.3	-9.5	2.2
Vegetables and other field crops	625	698	830	22.9	17.5	-9.0	1.1
Agricultural products	1 625	2 003	2 155	20.4	16.0	2.4	-7.2
Livestock	303	289	358	6.2	13.3	-10.1	9.1
Livestock products	221	212	327	16.4	36.1	-17.4	13.3
Fisheries products	57	46	60	5.9	7.0	-24.1	22.8
Livestock, Fisheries products	581	547	745	9.9	21.7	-14.3	11.9
Grand total	2 206	2 550	2 900	18.0	17.4	-2.0	-3.1
- intermediate consumption	475	480	552	8.8	11.5	-7.0	3.0
= Gross value added	1 731	2 069	2 348	20.3	18.9	-0.7	-4.6

In general, the value-added of the agriculture and livestock sector displayed a significant and positive progression in 2006 and 2007. Nevertheless, this progression is due entirely to the increase in farm gate prices during summer and is more significant than prices of intermediate goods consumed. In fact, the output volume tended to drop against a decrease in the value-added at constant prices.

Evolution of agricultural output

After demonstrating a moderate rise in volume during the year 2006, *vegetable output* fell significantly in 2007. With fruit crops representing more than half of the vegetable output value, the poor fruit crop yield triggered this fluctuation.

The annual rotational cycle of harvesting olives is the primary factor that caused this significant vacillation in fruit output. Within this context, the Ministry of Agriculture estimated the output of olives at 76 500 tons in 2005, 177 300 tons in 2006 and 76 200 tons in 2007. Output volume of all other fruit crops is estimated to have dropped by only 0.5% in 2006 and increased by 3% in 2007.

The output costs of fruits progressed upwards significantly in 2006 and 2007. For example, the average costs of olives at farm gate prices rose from LBP 1 480/kg to LBP 1 600/kg in 2006 and reached LBP 1 900/kg in 2007; apples also increased from LBP 700/kg to LBP 900/kg in 2006 and reached LBP 1 000/kg in 2007.

Vegetable output, ranking second in terms of importance in the agricultural sector, also benefited correspondingly to fruits from the increased selling prices at farm gates. However, the output volume in 2006 regressed (- 9%) and increased slightly in 2007 (+1.1%). There was a noteworthy decline in potato output, which fell from 511 000 tons in 2005 to 498 000 tons in 2006 and increased to 515 000 tons in 2007.

Industrial crops include the following components: sugar beet, which recorded a drop in output - from 79.2 thousand tons in 2005 to 30.9 thousand tons in 2007, and tobacco, which recorded an output variation of approximately 9 thousand tons between 2005 and 2007.

The output of cereals continued its upward progression in 2006 but declined in 2007. In particular, maize output, which constitutes 60% of the agricultural sector's value, increased from 137 thousand tons in 2004 to 144 thousand tons in 2005 and reached 153 thousand tons in 2006 before declining to 116 thousand tons in 2007.

The livestock and fisheries sector's output was both significantly and adversely affected by the July 2006 war but improved considerably in 2007.

The increase in the output volume of livestock in 2007 is due to an increase in ovine and caprine production (from 8 700 to 14 800 tons for red meat categories) and poultry (from 140 400 to 143 600 tons), whereas the output of bovine stagnated (approximately 15 000 tons).

Livestock products also include fresh milk, eggs and honey. According to estimates acquired from the Ministry of Agriculture, the output volume of fresh milk fell from 251 900 tons in 2005 to 205 900 tons in 2006 and increased to 231 500 tons in 2007. The output volume of eggs fell from 758 million units to 670 million units and then increased to 762 million units for the years 2005, 2006 and 2007 respectively. Finally, the output volume of honey fell from 1 095 tons to 810 tons and reached 762 tons for the years 2005, 2006 and 2007 respectively.

Intermediate consumption in agriculture and livestock

Contrary to output, which is subject to regular reviews by the Ministry of Agriculture, the intermediate consumption of agriculture and livestock is not captured by direct farmer surveys. Consequently, this is estimated indirectly by analyzing the output and import of products intended for use in agriculture and livestock, including, among others, seeds and seedlings, water for irrigation, fertilizers, pesticides and cattle feed. In general, most of these products are imported, which also makes it possible to estimate the volume used as well as gauge price trends from the perspective of farmers.

In 2006, the fall in volume of agricultural input surpassed the fall in output whereas, in 2007, both increased despite the fall in the output volume. This is the consequence of the disparate evolutionary trends in the two large agricultural subdivisions; namely, vegetable and livestock output.

The price increases of the products consumed in agriculture (+8.9% in 2006 and +11.4% in 2007) is a direct result of the increase in the import prices of cereals and cattle feed (+7.6% and +37%), and fertilizers and pesticides (+4.7% and +13.6%).

Section II. Energy and water sector

In addition to public companies, which control the production and distribution of electricity and water, many small private enterprises produce and sell electricity at the local level given the frequent power cuts on the public network, while other private companies distribute water to households via water tankers.

The evolution of the output account for this sector between 2005 and 2007 is as follows (Table 4):

Table 4
Energy and water output 2005-2007

Output sector	Value in billion			% Change / year			
	LBP			In Price		In Volume	
	2005	2006	2007	2006	2007	2006	2007
Solid fuels	10	11	11	...	...	...	...
Electricity	1 149	1 114	1 191	0.3	3.9	-3.3	3.0
Water	173	173	174	0.0	0.0	0.0	0.9
Total	1 332	1 298	1 377	0.3	3.3	-2.8	2.7
- intermediate consumption	1 590	1 688	1 885	19.5	9.4	-3.0	2.9
= Gross value added	-258	-390	-507	...	...	...	...

Evolution of electricity output

The evolution in terms of electricity output volume is estimated according to statistics concerning the distribution of electrical current on the network, which reveal a reduction of 3.3% between 2005 and 2006 (from 10 581 gigawatt-hours (GWh) to 10 214 GWh) and an increase of 3% in 2007 (10 548 GWh).

In the absence of data reviews regarding the distribution of water, the consumption of this natural resource is assumed to increase in proportion to the intrinsic population growth rate.

In theory, rates remained constant given that tariffs were not modified between 2005 and 2007. In practice, however, given that electricity tariffs are progressive, the average price of the kilowatt-hour distribution depends largely on the breakdown of consumption between households. According to Electricité du Liban (EDL) statistics, the average cost of invoiced kilowatt-hours increased from LBP 140.8 in 2005 to LBP 141.2 in 2006 and reached LBP 146.7 in 2007.

Evolution of value-added intermediate consumption in the energy sector

Intermediate consumption in this sector is mainly comprised of oil products whose prices were on the rise. The output selling price remained almost constant while the value-added in this sector, which represents a negligible share of the output value, fell significantly and remained negative from 2005 onwards.

Section III. Industry

Table 5 demonstrates the output evolution in the various industry sectors as well as intermediate consumption.

Table 5
Industrial output 2005-2007

Output sector	Value in billion LBP			% Change / year			
				In Price		In Volume	
	2005	2006	2007	2006	2007	2006	2007
Output							
Food industry products	3 130	3 201	3 400	5.3	3.4	-2.8	2.7
Textiles	749	697	754	-5.5	10.6	-1.5	-2.3
Non-metallic ores	1 220	1 156	1 427	3.1	11.1	-8.1	11.1
Metals, machinery, equipment	1 648	1 495	1 855	-1.6	5.4	-7.9	17.8
Timber, rubber, chemicals	1 161	1 157	1 271	12.1	-5.9	-11.1	16.7
Furniture	500	501	572	3.4	12.8	-3.0	1.3
Other sectors	931	896	1 065	-6.2	5.1	2.7	13.0
			10				
Total	9 339	9 104	343	3.4	6.3	-5.7	6.8
- Intermediate consumption	5 823	5 815	6 764	5.2	9.1	-5.1	6.6
= Gross value added	3 516	3 289	3 579	0.3	1.5	-6.7	7.2

Overall, the real growth rate of industrial output between 2005 and 2007 was almost nil. The regression of 2006 (- 5.7%) was compensated by a recovery in 2007 (+6.8%). In 2007, given a proportionally insignificant increase in the volume of industry inflow (input), the value-added at constant prices witnessed a net growth (+7.2%). In addition, the prices of inputs rose higher than producer prices, resulting in keeping constant the factors of production prices or causing a modest rise (+0.3% in 2006 and 1.5% in 2007).

Evolution of industrial output

The various industrial sectors were not affected equally by the downturn of economic activity in 2006, and in turn, did not follow the same growth rate in 2007. Although the food industry products grew moderately (+2.7%), textiles, leather and clothing continued to regress while output in the majority of other industrial sectors recorded partially noteworthy progressions. Industrial sectors associated with construction, in particular, witnessed their output volume increase appreciably.

Evolution of intermediate consumption in industry

Data for the years 2006 and 2007 are well retained because of the significant price increases in the principal raw materials for industrial use. In the food industry products the most notable price increases include those of durum wheat (+17.8% in 2006, +50.8% in 2007), milk (+21.2% and +23.4%), olives (+9.2% and +14.8%) and livestock for slaughter (+2.8% and +13.3%). In other industries, moderate increases

were observed in the following intermediate products: aluminum (+33% in 2006 and +6.7% in 2007), iron (+17.5% in 2007), timber (+3.9% on average in 2006 and +12.2% in 2007), basic chemicals (+3.2% and +8.7%). The price of oil, which is used as fuel for industrial output, increased by 16.1% in 2006 and 12.5% in 2007.

Section IV. Construction

The real growth of the construction sector is deduced from statistics concerning the raw materials utilized in this sector, namely: national cement deliveries by local cement factories and imported products used in building and public works. Table 6 shows the construction output variation in terms of value and volume in addition to intermediate products consumed in the construction process.

After a total halt of construction activities due to the 2006 summer hostilities, the sector resumed its regular momentum during the last quarters of the year; thus, recording a real growth rate of 3%. In 2007, the need to reconstruct accelerated the sector's augmentation, recording a real growth rate of 16.7%.

Table 6
Construction output 2005-2007

	<i>Value in billion LBP</i>			<i>% Change / year</i>			
	2005	2006	2007	<i>In Price</i>		<i>In Volume</i>	
Output sector	2005	2006	2007	2006	2007	2006	2007
Output	5 030	5 472	7 222	5.6	13.1	3.0	16.7
- Intermediate consumption	2 377	2 546	3 171	5.3	6.7	1.7	16.7
= Gross value added	2 654	2 927	4 052	5.9	18.6	4.2	16.8

Given that it is not observed directly, the variation of construction prices is estimated as a function of the weighted average affecting changes in the wages of manual workers and prices of raw materials. Within this context, the price of labour increased to approximately 4.5% in 2006 and to 15.4% in 2007. In 2006 and 2007, the price of cement increased by 8% and 7.9% while the prices of raw materials imported for use in construction increased by 8.1% and 8.7%. Thus, the increase in output prices was estimated at +5.6% in 2006 and +13.1% in 2007. The increase in prices across the intermediate consumption scale was lower than that of raw materials because of constant prices for services and other products re-entering the input formula.

Section V. Transportation and communications

The transportation and communications sector experienced a critical setback at the abrupt cessation of economic activities during the 2006 summer war, recording a drop of 4.2% in its output volume. In 2007, however, air transportation resumed appreciably. According to IATA statistics, airline ticket sales on the territory increased by 36.1% in value while the number of passengers embarked at the Beirut airport, after having fallen from 1 601 thousand in 2005 to 1 366 thousand in 2006, increased to 1 649 thousand in 2007, i.e. a rise of 20.7%.

Table 7 demonstrates the significance of the telecommunications sector whose output marked a rise of 3.7% in 2007 alongside stable prices.

Table 7
Transport and communications services output 2005-2007

Output sector	Value in billion LBP			% Change / year			
	2005	2006	2007	In Price		In Volume	
	2005	2006	2007	2006	2007	2006	2007
Road transport	769	761	855	2.9	11.4	-3.8	0.8
Air transport and others	438	440	599	1.7	12.8	-1.1	20.6
Post and telecommunications	3 863	3 760	3 898	2.1	0.0	-4.7	3.7
Total	5 069	4 961	5 352	2.2	3.0	-4.2	4.7
- intermediate consumption	2 143	2 083	2 234	5.9	4.6	-8.2	2.5
= Gross value added	2 926	2 877	3 118	-0.3	1.9	-1.3	6.4

It is important to note, however, given the lack of relevant data, the road transportation sector is underestimated due to the fact that it does not take into account the haulage of goods. The utilization of public transportation by private individuals did not increase significantly in 2007 (+0.8%) partly due to an increase in prices (+11.4%) in addition to a negligible increase in tourist arrivals.

Section VI. Commercial services

Table 8 below reproduces the output account of the commercial services sector, excluding transportation, communications and trade. This sector continued to grow steadily as expected in 2006 and 2007.

Evolution of commercial services output

The commercial services sector is highly heterogeneous and regroups various activities, many of which experienced disparate developments. The July 2006 war affected mainly the tourist sector, while conversely, other sectors such as health and finance witnessed significant growth.

a) Business services

Business services include such services as, among others, engineering, legal procedures, accountancy, data processing, hiring of materials and brokering. The output of these services is not estimated from direct business surveys. Rather, it is equal to the sum of intermediate consumptions and usage of these services in various sectors, particularly the Government and exports. Possible errors in estimating the intermediate consumptions do not affect the estimate of the GDP; rather it affects the breakdown between the commercial services sector and other sectors. On the other

hand, an error in estimating the export of services does affect GDP.⁷ According to a recent survey, exports of such services represent the principal factor in their development.

The prices of these services are not subject to evaluation and are maintained constant.

Table 8
Market services output 2005-2007

Output sector	Value in billion LBP			% Change / year			
	2005	2006	2007	In Price		In Volume	
Services to businesses	1 333	1 356	1 476	0.0	0.0	1.7	8.8
Maintenance and repairs	216	225	282	4.1	19.1	-0.1	5.4
Housing	2 389	2 410	2 434	0.0	0.0	0.9	1.0
Hotels and restaurants	1 236	1 167	1 223	-2.0	4.2	-3.7	0.6
Various personal services	814	861	971	5.7	11.7	0.0	1.0
Health services	1 806	1 998	2 376	-0.8	3.3	15.4	7.7
Education services	3 201	3 323	3 509	1.1	2.7	2.7	2.8
Financial services	2 708	3 182	3 439	0.0	0.0	17.5	8.1
	13	14	15				
Total	705	522	711	0.4	2.4	5.6	5.7
- Intermediate consumption	2 290	2 430	2 682	2.9	4.2	3.1	5.5
	11	12	13				
= Gross value added	415	092	029	-0.1	2.0	6.1	5.6

b) Maintenance and repair services

These include only maintenance and repair services used by households and administrations, which represent the only such services that are captured statistically. The maintenance services used by companies were not subject to estimates and were omitted. Consequently, the breakdown of GDP between the service sector and other sectors could be skewed.

Household consumption in maintenance and repair services, which represent the principal components of this sector's output, is well documented owing to the Household Budget Survey of 1997. Estimates for other years were carried out using various indicators, including imports of spare parts for motor vehicle repair and household appliances, and the growing number of households or dwellings requiring maintenance. According to these indicators, the consumption and, by extension, the output of such services would have grown in volume by 5.4% in 2007 after a negligible regression in 2006 (- 0.1%). The increase in the price of these services is estimated to have reached 4.1% in 2006 and 19.1% in 2007, according to the price

⁷ The accounts of this sector were revised in 2003 after a subsequent investigation into the large enterprises study, which revealed the original results for exports of services were underestimated in the 1997-2002 accounts.

survey performed by the Chamber of Commerce, Industry and Agriculture of Beirut (CCIAB).

c) Housing services

The housing services output takes into consideration the rental fees paid by public administrations as well as the rental value of the residences occupied by households. However, rentals paid by companies are not known and consequently belong to the value-added of the various commercial sectors.

In the absence of verifiable statistics on housing growth, the number of occupied residences was assumed to be equal to the annual number of registered marriages, and net of the re-entries into existing housing units. This figure accounts for 1% of occupied residences in the previous year as well as in 2006 and 2007. Additionally, the average rental value of an apartment remained stable.

d) Hotel and restaurant services

By convention and statistical expediency, the output of hotels and restaurants is equal to their sales turnover, subtracted by the purchase value of food and beverage used to serve customers. Based on 1997 estimates, the output of this sector for subsequent years was estimated by using the simple growth rate averages of tourist arrivals and the resident population, thereby yielding an indicator of real growth. Thus, according to this estimation method, the growth rate for this sector in 2006 was estimated at -3.7%, following the decrease of tourist arrivals: the arrival of foreign travellers dropped by 7.4% in 2006 compared to 2005 (from 1 323 thousand arrivals in 2005 to 1 226 thousand arrivals in 2006). In 2007, the number of foreign visitors reached 1 229 thousand, exceeding the negligible arrivals of 2006.

Prices changes of restaurant services are deduced from the prices collected by the CCIAB; and price changes of hotel services are taken as being equal to those recorded in restaurant services.

e) Various personal services

These include leisure, personal and domestic care services, and are well documented owing to the Household Budget Survey of 1997. Estimates for subsequent years were extrapolated using data from 1997 to yield a real growth rate of some 1.4% per annum over the period 1997-2002; 1.2% for 2003 and 2004; 1% for 2005 and 2007, and 0% for 2006. The price change rate is calculated using the price survey of CCIAB.

f) Health services

Health services were subject to a number of studies and surveys between 1997 and 1999: including the Survey of Living Conditions of Households by the Central Administration of Statistics (CAS 1997, the accounts of health (WHO 1998), enquiry into the use of health services (CAS, WHO 1999); and the National Household Health Expenditure and Utilization Survey in 1999. These surveys yielded estimates for 1997, which were projected over subsequent years by using pharmaceutical imports as

an indicator of the health services output. If required, social security expenditure is also taken into account.

According to these estimates, the health sector (commercial sector, excluding public health services) witnessed remarkable growth in 2006 and 2007 (+15.4% and +7.7%). The import of pharmaceuticals increased from LBP 647 million in 2005 to LBP 771 million in 2006 and reached LBP 917 million in 2007. In addition, the CNSS expenditure for allowances on illness was LBP 451 billion in 2006 and LBP 540 billion in 2007 compared to LBP 439 billion in 2005.

Price variations (-0.8% in 2006 and +3.3% in 2007) were based on the prices collected by both the CAS and CCIAB.

g) Educational services

Expenditure output under this heading relates to tuition fees and other income services received by schools and universities in the private sector. Public school services and the Lebanese University are taken into account in non-market services of the Government (see chapter 3, section 2). Estimates based on data from 1997 were projected over subsequent years according to pupil trends and student enrolments in private educational establishments, in addition to tuition fees as surveyed by CCIAB.

The result of these estimates demonstrates a real growth rate in this sector, namely 2.8% in 2007 against 2.7% in 2006, 2.9% in 2005 and 6.5% in 2004. Price surveys undertaken by the CAS reveal a moderate increase in fees (+1.1% in 2006 and 2.7% in 2007).

h) Financial services

Financial services include banking and insurances services.

The value of banking services output is defined as being equal to the difference between interests and commissions, which are received by banks, and interests, which are paid to depositors. The “profit and loss” account statements communicated to the Central Bank of Lebanon (BDL) provide the data for calculating the output of these services.

It is difficult to define a value for banking services. In the absence of a relevant study aimed at developing a method for determining such a value, prices of banking services were assumed to have remained constant over the period studied. Consequently, a portion of this sector’s growth can be attributed to inflation.

The value of the banking output (commercial and investment banks) increased from LBP 2 344 billion in 2005 to LBP 2 787 billion in 2006 and to LBP 2 990 billion in 2007.

Similarly, the output of insurance services is defined as being equal to the difference between received premiums and paid allowances, with no formulated plans to define a

price for the service. Their value increased from LBP 365 billion in 2005 to LBP 396 billion in 2006 and reached LBP 449 billion in 2007.

Section VII. Trade

Evolution of trade output

The output of trade services is measured in value by trade margins (amounting to the difference between the purchase and sale cost), and by the commissions received by intermediaries between users and producers of goods. These margins include the consumption taxes paid by traders through the trade sector and include their theoretical trade margins. Table 9 below recapitulates the basic variables concerning the calculations of the trade sector output.

Only import duties collected at the instance of goods entering into the national territory could be detailed, including customs duties, taxation on consumption and, since 2002, VAT on imported goods.

Margins of domestic trade are equal to the difference between the value, uses and imports of goods and services and the national output, net of taxes paid by importers. Consequently, these margins incorporate local taxes, including domestic VAT, which cannot be broken down into the constituent sectors of the economy

Table 9
Trade sector account 2005-2007

	<i>Value in billion LBP</i>			<i>% Change / year</i>			
	2005	2006	2007	<i>In Price</i>		<i>In Volume</i>	
Components of trade output	2005	2006	2007	2006	2007	2006	2007
Import duties	2 643	2 451	2 856	-4.2	-2.2	-3.2	19.1
Local trade margins	5 449	5 724	6 580	8.9	3.7	-3.5	10.9
Foreign trade services	917	753	724	0.0	0.0	-17.8	-3.9
Total = output	9 008	8 928	161	4.2	1.7	-4.9	11.9
- Intermediate consumption	1 375	1 344	1 574	2.4	3.2	-4.6	13.5
= Gross value added	7 633	7 585	8 587	4.5	1.4	-4.9	11.6

Essentially, the calculation of trade margins at previous year prices translates into the compilation of margins for a given year. This is reached by applying the trade margin ratio of the previous year to the volume of goods exchanged for that year. This calculation is made separately for taxation and domestic trade margins. Prices of foreign trade services were maintained at the same level given the inability to estimate their variations.

Table 9 underscores the following:

- Import duties dropped to 7.2% in 2006 and increased to 16.5% in 2007. Compared to the growth rate of the value of imports at current prices (+2.3% in 2006 and +25.8% in 2007), this indicates a fall in the imports tax ratio from 19.4% in 2005 and 17.5% in 2006 to 16.3% in 2007. At constant import prices and duties, the value of import duties is estimated at LBP 2 558 billion, which represents a negligible decrease in 2006 compared to only 3.2% in 2005. Furthermore, the reduction of duties at constant prices and rate variations define the real change rate of imports (-2.4%). This discrepancy results from the difference between the import growth of taxed products and tax-free products. In the opposite direction, duties at constant prices and rates produced an estimated increase of 19.1% in 2007; thus, demonstrating an increase higher than the rate of growth for imports at constant prices, which reached 16.8%.

Conversely, domestic trade margins increased as well in 2006 and 2007 (+5% and +15.3%). Calculated at constant prices and rate margins, the margins are estimated at LBP 5 258 billion in 2006, or a fall of 3.5%, and LBP 6 349 billion in 2007, or a rise of 11% against 2006. Consequently, the “price” of trade services is estimated to have increased by 8.9% in 2006 and 3.7 % in 2007.

Intermediate consumption and value-added in the trade sector

Intermediate consumption, which was estimated for 1997, was projected over subsequent years in line with the methodology used for other sectors of the economy. Transportation services of goods were not included in trade inputs, thereby resulting in a slight overvaluation of the value-added in this sector, and in counterbalancing the undervaluation of the value-added of the transportation sector.

Overall, the prices of products consumed by the trade sector increased by 2.4% in 2006 and 3.2% in 2007.

Section VIII. Non-market services

The Government provides non-market services, which include the central administration, autonomous administrations and municipalities. As indicated by the term, these services are not sold on a market and, therefore, do not have a value label as such. Consequently, their value is estimated at costs comprising the following three elements: (a) value of consumed goods and market services; (b) value of depreciation of public fixed capital; and (c) compensations, including salaries, of civil servants.

Only the accounts of the central Government and of the Council of Development and Reconstruction (CDR) are published regularly; the last publication pertained to the year 2006 whereas the accounts for 2007 are provisional. All other administrations are subject to estimates, which are projected over subsequent years using Treasury account indicators.

Table 10 details the variables in calculating the output of the Government.

Table 10
Computation of non-market services output 2005-2007

Cost elements	Value in billion LBP			% Change / year			
	2005	2006	2007	In Price		In Volume	
				2006	2007	2006	2007
<i>Acquisition of goods&services</i>							
Energy and water	88	123	143	10.2	8.7	25.7	7.6
Manufactured goods	148	138	161	3.7	8.0	-9.8	8.3
Transport & communications	23	29	34	2.1	0.1	23.0	16.8
Financial services	693	903	935	0.0	0.0	30.3	3.5
Other market services	678	545	548	0.2	1.3	-19.8	-0.7
Total: intermed. consumption	1	1	1	1.0	1.7	5.5	3.1
Gross value added	3	3	3	0.0	0.0	1.2	5.2
<i>Depreciation</i>	672	665	664	0.0	0.0	-1.1	-0.1
<i>Compensation of employees</i>	2	2	2	0.0	0.0	1.8	6.5
Value of output	4	5	5	0.4	0.6	2.6	4.5

The value of consumed market goods and services constitutes the intermediate consumption in the production process. Consequently, the value-added of the Government is equal to the compensations, including salaries, of civil servants and the depreciation of the fixed capital in collective use.

a) Intermediate consumption of market goods and services

In 2006 and 2007, more than 50% of market goods and services consumed by the Government include the value of banking services integrated in debt servicing. In fact, part of the interests paid by the State to banks that have subscribed to treasury bills constitute the payment of banking services whose value is measured by the difference between received interests and interests paid to depositors. The estimated value of financial services paid by the Government increased significantly in 2006. This development is a consequence of the increased interests paid to banks, which rose from LBP 1 978 billion in 2005 and LBP 2 502 billion in 2006 to LBP 2 754 billion in 2007.

b) The value-added of Government

The value-added of Government is calculated at factor cost, namely: the value of fixed assets depreciation and compensation of the labour force. By convention, the net interest values paid for banking services do not account for the value-added of the Government, and thus, do not form part of the GDP.

The *depreciation value of public assets* is equal to one-thirtieth of their actualised value. This value is calculated by adding the national expenditure of gross fixed capital formation of the past 30 years, whereby the value of a past year is converted to current value through an appropriate price index. In the absence of such an index, the indicator of minimum wage is used instead (see appendix for details of the calculations). Using this methodology, the value of depreciation declined moderately in 2006 and 2007. This fall is the consequence of the decrease in the rate of public investment.

The *compensation of employees* by Government includes basic wages, various premiums and allowances, and employer contributions to social security agencies. This cost factor increased from 1.8% in 2006 to 6.5% in 2007.

c) Volume change of non-market services

Strictly speaking, given that non-market services do not carry a value, the calculation of the volume of such services at a reference year value is performed by adding the components of cost evaluated at selected reference values. Only the values of consumed products varied (+1 % in 2006 and 1.9% in 2007), the factors of production values, including wages and fixed assets value index, remained unchanged during this period.

Thus, the variation in volume of non-market services was estimated at +2.6% in 2006 and 4.5% in 2007, yielding a variation in value of 2.9% and 5.2% respectively.

Chapter 2 Imports

Imports include the import of goods into the national territory and consumer expenditure made abroad by Lebanese citizens. Imports of services have been excluded in these accounts in view of the fact they are deducted from exports of services.

Due to comprehensive customs statistics, the import of goods into Lebanon is well documented. The calculation of total value includes the rates of Cost, Insurance and Freight (CIF) to customs stations. However, these statistics have undergone two vital modifications: the import of gold ingots intended for national reserves or speculation trading are not taken into account, and the value and volume of imported oil products have been adjusted in accordance to the statistics provided by the General Directorate of Oil.⁸

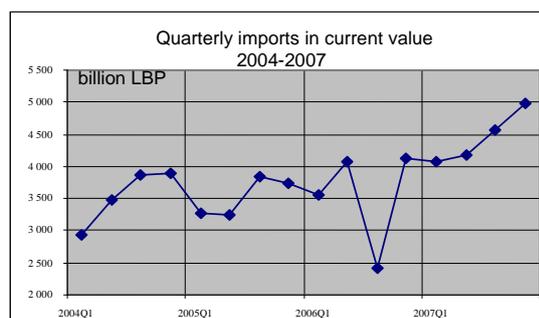
According to the classification adopted for the compilation and development of these accounts, Table 11 presents a comparative analysis for imports by type of product between 2006 and 2007 in terms of value and volume.

As the graph below clearly illustrates : imports into the national territory in 2006 demonstrated strong growth in the first two quarters compared to the same period in 2005. Following the war in July with Israel, the significant decline recorded in the third quarter was not compensated entirely by the recovery of the last quarter. Overall, imports for this year recorded a 2.6% increase in current value, but considering the rise of CIF prices, the volume of imports fell by 2.4%.

⁸ The table below shows the modifications made to customs statistics.

	Value in billion LBP			% Change / year			
				In Price		In Volume	
	2005	2006	2007	2006	2007	2006	2007
Customs values	14 085	14 172	17 817	5.2	7.8	-4.3	16.6
Correction oil:							
- customs values	-2 988	-3 282	-3 578	11.9	14.1	-1.8	-4.4
+values Directorate of oil	2 966	3 208	3 624	16.5	12.4	-7.1	0.5
Values excluded							
Money	-18	-8	-8				
gold ingots	-502	-219	-398	35.7	13.4	-67.9	60.2
+ gold for jewellery	99	96	113	35.7	13.4	-28.4	3.6
Total of corrections	-444	-205	-246				
Total corrected	13 640	13 967	17 571	5.0	7.7	-2.4	16.8

The recovery trend, which began at the end of 2006, persisted with increasing strength in 2007. Thus, during this year, imports demonstrated a 25.9% rise in value and 16.9% in volume. The bulk of this rise is attributed to the significant needs for stock replenishment, which started in the third quarter of 2006.



Prices of imports, calculated in unit values, rose slightly during this two-year period: 5% in 2006 and 7.7% in 2007. The Lebanese pound remained stable against major foreign currencies in 2006; however, the increase in import prices recorded in 2006 is attributed to the rise in the price of oil and its derivatives. In 2007, the increase in the price of oil and its derivatives played a significant role in raising the prices of food products, particularly the prices of cereals (+46%), dairy products (+20%) and fats and oils (+15%). The appreciation of the euro (+9%) is also partly responsible for these increases.

Table 11
Import of goods by type of product 2005-2007

Type of product	Value in billion LBP			% Change / year			
	2005	2006	2007	In Price		In Volume	
				2006	2007	2006	2007
Agricultural	565	539	822	4.6	21.3	-8.9	25.7
Animal products	288	303	313	-1.0	11.5	6.0	-7.4
Oil	3 209	3 457	3 967	16.4	12.7	-7.5	1.8
Agro-food	1 291	1 324	1 776	2.5	9.6	0.0	22.4
Textiles	890	863	963	-4.9	5.2	2.0	6.1
Non-metallic ores	515	468	695	0.4	6.0	-9.5	40.0
Metals, machinery, equipment	3 966	4 025	5 283	3.3	3.7	-1.7	26.6
Timber, rubber, chemicals	2 282	2 355	3 055	1.8	6.4	1.4	21.9
Furniture	101	99	109	-8.8	2.0	8.0	8.2
Others	531	534	588	0.1	3.1	0.5	6.8
	13	13	17				
Total territorial imports	640	967	571	4.9	7.7	-2.4	16.8
Residents expenditure abroad	401	289	417	0.6	4.5	-28.5	38.0
	14	14	17				
Total	042	256	988	4.8	7.6	-3.2	17.2

In terms of imports volume, the products which experienced strong downward fluctuations during both years are those used in agriculture (- 8.9% in 2006, +25.7% in 2007), agro-foods (+22.4% in 2007), non-metal ores (- 7.5% and subsequently +40%), metals, machinery and equipment (- 1.7% and subsequently 26.9%) and timber and chemicals (+21.9% in 2007).

The imports of capital and consumer goods met the initial needs of companies and households. In fact, in 2007, as (table 12 below) exemplifies, durable goods intended for households increased by 22.3% in value and those intended for gross fixed capital formation followed suit, recording a 32.3% increase in value. It is worth highlighting the significant rise in the importation of goods intended for the transportation and communications sector (+63.7% in value). However, the growth in volume of these goods is difficult to determine, because the variation in unit values do not reflect the real variation in prices.

Table 12
Domestic import of goods by type of use 2005-2007

Type of use	Value in billion LBP			% Change / year			
	2005	2006	2007	In Price		In Volume	
Intermediate use in:							
<i>Agriculture and livestock</i>	266	250	394	5.6	22.5	-11.0	28.9
<i>Energy and industry</i>	3 579	3 572	4 758	6.7	12.6	-6.4	18.3
<i>Construction</i>	525	527	705	7.5	8.7	-6.6	23.1
<i>Transport, com. & services</i>	1 023	1 089	1 315	12.6	9.0	-5.4	10.8
<i>Other sectors</i>	708	725	788	10.0	9.0	-7.0	-0.3
Total of intermediate uses	6 100	6 163	7 960	8.1	11.7	-6.6	15.6
Consumption							
<i>Durable goods</i>	1 906	1 832	2 241	2.0	2.1	-5.8	19.8
<i>Non durable goods</i>	4 300	4 586	5 537	3.7	8.3	2.9	11.5
Total of final uses	6 205	6 417	7 778	3.2	6.4	0.2	13.9
Goods for GFCF							
<i>Agriculture and livestock</i>	95	87	124	1.6	5.7	-10.1	34.6
<i>Industry</i>	458	399	563	1.6	-0.4	-14.2	41.4
<i>Construction</i>	62	84	82	-6.1	2.5	43.4	-5.1
<i>Transport and commun.</i>	275	339	555	1.8	-4.3	21.3	70.8
<i>Services and trade</i>	423	454	482	-6.0	-6.0	14.3	13.1
<i>Other sectors</i>	22	22	28	2.1	6.9	0.1	16.7
Total goods for GFCF	1 335	1 386	1 833	-1.4	-2.5	5.4	35.7
Total: Territorial Imports	13 640	13 967	17 571	4.9	7.7	-2.4	16.8

The year 2007 witnessed the resumption of economic activity with particular emphasis on augmented reconstruction projects, producing a subsequent rise in the importation of intermediate goods. Tables 13a to 13e provide importation details of intermediate products and their development, and highlight their use in the various sectors of the economy during the years 2006 and 2007.

As observed in the *agriculture and livestock sector*, the volume of imports in intermediate products demonstrated extremely strong fluctuations: -11% in 2006 and +28.9% in 2007 despite the significant rise in the unit values of these products (+22.5%). This condition is most likely due to an increase in stock replenishments, predominantly of products such as fertilizers and pesticides. (See table 13a)

Table 13a
Import of intermediate products for agriculture and livestock 2005-2007

Type of intermediate product	Value in billion LBP			% Change / year			
				In Price		In Volume	
	2005	2006	2007	2006	2007	2006	2007
Seeds and seedlings	51.9	49.5	70.8	3.4	7.5	-7.7	33.0
Fertilizers	66.9	60.5	85.5	4.0	18.3	-13.0	19.4
Pesticides	34.8	25.0	41.1	6.8	4.8	-32.7	56.9
Cattle feed	108.7	111.4	193.6	7.6	37.0	-4.8	26.9
Other products	3.3	3.2	3.3	-2.5	6.1	-1.7	-1.3
Total	265.6	249.6	394.4	5.6	22.5	-11.0	28.9

The intermediate products imported for the *industry sector* include oil products intended for use in the production of electricity. This account focuses primarily on fuel oil and its CIF price per ton, which rose from LBP 454 thousand in 2005 to LBP 514 thousand in 2006, and reached LBP 595 thousand in 2007. Other imported oil products for industrial use were not sufficiently detailed for accurate identification; therefore, they were classified under products not broken down by sector. (See table 13e)

Table 13b
Import of intermediate products for energy & industry 2005-2007

Type of intermediate product	Value in billion LBP			% Change / year			
				In Price		In Volume	
	2005	2006	2007	2006	2007	2006	2007
Agriculture products	199	165	297	11.3	29.8	-25.4	38.6
Livestock products	227	241	235	-1.3	12.8	7.5	-13.3
Oil products	948	931	1 150	14.3	14.5	-14.1	7.9
Agro-food products	127	125	148	9.1	9.2	-9.7	8.7
Textiles and leather	165	152	174	1.9	0.7	-9.2	13.2
Non-metallic ores	229	220	368	-0.3	2.6	-3.8	63.4
Metals	927	988	1 348	6.1	14.7	0.5	18.9
Timber, rubber, chemicals	726	723	1 005	3.2	10.6	-3.4	25.7
Other	31	27	32	8.2	7.6	-19.7	10.4
Total	3 579	3 572	4 758	6.7	12.6	-6.4	18.3
Without Oil	2 630	2 642	3 607	4.2	12.0	-3.6	21.9

The unit values of all non-oil products intended for industry use increased by 4.2% in 2006 and 12% in 2007 against a 3.6% fall in the import volume in 2006 and recorded one rise of 21.9% in 2007. It is particularly important to cite (table 13b) the significant decline in the importation of livestock intended for the production of meat in 2007 (-13.3%) compared to the growth it recorded in 2006. Thus, the importation of cattle intended for slaughter rose from 86 324 tons in 2005 to 92 749 tons in 2006 and then fell to 81 267 tons in 2007. Similarly, the importation of sheep

fell to 7 418 tons in 2007 against its previous peaks of 8 819 tons in 2005 and 10 010 tons in 2006. Conversely, and as can be observed, the volume of imports for agricultural products intended for use in the food industry increased contrary to its decline in 2006. The significance of this increase is attributed particularly to the importation of durum wheat, which reached 405 140 tons in 2007 after witnessing an earlier decline from 402 406 tons in 2005 to 321 451 tons in 2006. Also observed is a similar fluctuation regarding the importation of raw materials intended for use in the manufacture of fats and oils such as sesame seeds, which witnessed a drop from 20 701 tons in 2005 to 16 786 tons in 2006 and then rose to 23 459 tons in 2007.

In construction, given the price increase in unit values over this two-year period, imports intended for the purpose of construction across the various sectors of the economy increased by 23.1% in volume after a 6.6% decline in 2006. Overall, the value of imported intermediate goods for construction remained stable for 2006 and witnessed a significant rise in 2007 (+33.8%). Table 13c below provides data regarding the importation trends for the various types of goods entering into the production system for construction and public works.

Table 13c
Import of intermediate products for construction 2005-2007

Type of intermediate product	Value in billion LBP			% Change / year			
				In Price		In Volume	
	2005	2006	2007	2006	2007	2006	2007
Stones, sand, cement	70	59	90	2.6	11.0	-18.0	37.4
Ceramics	76	72	97	-1.4	7.7	-3.9	25.5
Glass	31	23	27	-3.0	11.8	-24.8	5.9
Metals	206	229	302	20.6	10.2	-7.8	19.5
Machines, equipment	105	105	135	-1.0	6.5	0.4	21.6
Wood chemicals	36	40	53	-2.3	2.5	13.2	31.7
Total	525	527	705	7.5	8.7	-6.6	23.1

Regarding the importation of intermediate products intended for use in the *transportation and services sector*, the value of imported fuels for transportation grew sharply due mainly to the rise in the prices of oil. Equally, the volume of imports fell in 2006 and rose moderately in 2007 (See table 13d).

It is important to note that some products are prone to usage in more than one sector; thereby, hindering the establishment of a distribution key. Particularly, this occurrence applies to liquid fuels such as gas oil and various chemicals (See table 13e).

Table 13d
Import of intermediate products for transport and services 2005-2007

Type of intermediate product	Value in billion LBP			% Change / year			
				In Price		In Volume	
	2005	2006	2007	2006	2007	2006	2007
Oil products	706	770	916	19.0	11.8	-8.3	6.4
Products other than oil	317	319	399	-0.4	3.0	0.9	21.7
<i>Metals</i>	134	140	187	-1.8	3.4	6.9	29.1
<i>Timber, rubber, chemicals</i>	102	96	120	-0.3	2.9	-5.7	21.6
<i>Other products</i>	82	78	89	2.2	2.4	-6.8	11.3
Total	1 023	1 089	1 315	12.6	9.0	-5.4	10.8

Table 13e
Import of intermediate products not categorized by sector 2005-2007

Type of intermediate product	Value in billion LBP			% Change / year			
				In Price		In Volume	
	2005	2006	2007	2006	2007	2006	2007
Oil products	477	519	523	14.1	11.8	-4.7	-9.8
Products other than oil	231	206	265	1.0	4.0	-11.6	23.5
<i>Timber, rubber, chemicals</i>	178	155	205	2.0	5.9	-14.4	24.9
<i>Other products</i>	53	51	60	-1.9	-2.1	-2.5	19.2
Total	708	725	788	10.0	9.0	-7.0	-0.3

Within the context of *consumer expenditures abroad by Lebanese citizens*, estimates are based upon the Household Budget Survey of 1997. In the absence of direct statistics for the period after 1997, this expenditure is assumed to grow in volume according to the activities of Lebanese citizens travelling abroad: -28.5% in 2006 and +38% in 2007.

An indicator was used in calculating the expenditure variations in terms of value, which considered the average exchange rates of the euro and the United States dollar against the Lebanese pound. The Central Bank of Lebanon has maintained constant the exchange rates of the dollar against the Lebanese pound; however, the euro appreciated against the Lebanese pound by 1.2% in 2006 and 9% in 2007.

Chapter 3 Consumption

Final consumption refers to the final use of goods and services to provide utility and represents the most significant portion of these statistics, accounting for 70-75% of available resources over the years. It comprises of both household consumption (private consumption) and Government consumption (public consumption) - each of which is reviewed in the two sections set forth in this chapter.

Section I. Household consumption

Household consumption data is obtained by estimating domestic consumption (private consumption in Lebanon), deducting the consumption of tourists and adding consumer expenditures of Lebanese citizens abroad. The value of this consumption is based on the Household Budget Survey of 1997, with extrapolated estimates for subsequent years using adequate indicators.

Table 14 demonstrates the evolution of household consumption by type of product, according to its various components. A specially compiled consumer price index has been formulated to demonstrate the real evolution of consumption. The sources of all data applied are published in the Appendix.

Table 14
Household consumption by type of product 2005-2007

Type of product	Value in billion LBP			Changes in %/ year			
				In Price		In Volume	
	2005	2006	2007	2006	2007	2006	2007
Food	6 765	6 944	8 074	8.0	11.1	-4.9	4.7
Tobacco	564	507	561	1.2	0.2	-11.2	10.3
Textiles and clothing	1 952	2 013	1 931	5.7	-4.2	-2.5	0.1
Energy and water	1 778	1 714	1 806	1.7	3.8	-5.2	1.5
Durable goods	2 975	2 883	3 495	3.2	4.7	-6.1	15.8
Other manufactured goods	1 996	1 984	2 307	2.3	5.2	-2.8	10.5
Transport and communications	2 907	2 789	3 084	2.2	5.2	-6.2	5.1
Rental housing	2 376	2 400	2 423	0.0	0.0	1.0	1.0
Education and health	4 885	5 223	5 776	0.4	2.9	6.5	7.4
Other services	2 687	2 755	3 064	1.1	6.3	1.5	4.6
Domestic consumption	28 885	29 213	32 521	3.2	5.0	-2.0	6.0
- net expenditure of travellers	-1 122	-1 167	-1 116	3.8	5.2	0.2	-9.1
Total	27 763	28 045	31 404	3.2	5.0	-2.1	6.6

The growth rate of domestic private consumption (the total of households and tourists in the national territory) regressed in 2006 (-2.1% in volume) but progressed in 2007, demonstrating a real growth rate of 6%. With the rise in prices, recording +3.2% in 2006 and 5% in 2007, the value of this specific consumption continued to develop gradually in 2006 (+1.1%) and more significantly in 2007 (+11.3%). This growth is attributed to the recovery of household disposable income in which expenditures were particularly driven by the purchase of capital goods - an expenditure that was previously restricted because of the July 2006 war. The evolution of the various expenditures is outlined below.

a) Consumption of foods

In 2006, the combination of the movement in the resident population on the national territory and a rise in prices contributed to a fall in the volume of food products consumed. Thus, the modest increase of household expenditure on food (2.6%) is a direct result of a rise in prices, surpassing the fall in the volume of consumption (+8% against -4.9%). Conversely, in 2007 the volume of consumption increased despite the price rises – a development most probably due to two main factors : the return of the displaced population, which had taken refuge abroad, and improved living conditions. Following this development, the share of food consumption in domestic private consumption grew from 24.4% in 2005 to 24.8% in 2006 and reached 25.7% in 2007.

Table 15 below illustrates the value of food consumption and demonstrates the price changes by type of food, and estimates the growth of volume for each category of consumption.

Table 15
Household consumption of food by type of product 2005-2007

Type of product	Value in billion LBP			% Change / year			
	2005	2006	2007	In Price		In Volume	
Agricultural:	1 642	1 796	1 982	15.2	8.5	-5.1	1.7
<i>Fruits</i>	745	781	839	11.8	5.0	-6.3	2.4
<i>Vegetables</i>	809	925	1 036	19.4	11.4	-4.2	0.5
<i>Cereals and others</i>	88	89	106	5.4	9.6	-3.2	8.6
Livestock&fisheries products:	552	506	722	8.1	27.2	-15.2	12.0
Food industry products	4 571	4 642	5 370	5.4	10.1	-3.6	5.0
<i>Fresh meats</i>	1 141	1 201	1 311	8.2	8.6	-2.7	0.5
<i>Grains & cereals</i>	872	876	1 038	2.5	13.6	-2.0	4.3
<i>Dairy</i>	719	731	886	5.1	17.0	-3.2	3.7
<i>Fats and oils</i>	435	456	509	8.6	10.9	-3.6	0.7
<i>Sugar, chocolate, sweets</i>	189	196	219	10.3	5.2	-6.3	6.6
<i>Processed foods</i>	242	233	262	3.4	7.4	-6.9	4.7
<i>Other food provisions</i>	470	466	532	3.0	5.0	-3.7	8.7
<i>Alcoholic drinks</i>	131	119	142	1.4	7.2	-10.7	11.9
<i>Non-alcoholic Beverages</i>	372	365	471	3.0	5.0	-4.6	22.8
Total	6 765	6 944	8 074	8.0	11.1	-4.9	4.7

Note: the strong discrepancy recorded in the consumption of fisheries and livestock products (fresh milk, eggs and honey) in 2007 was produced artificially rather than by a natural process, and it was due to the strong decline in consumption of these products in 2006 because of the July war. Over this two-year period, the rate of growth in consumption was negative (- 2.1% on average per annum) and was accompanied by a significant rise in prices, particularly in the prices of eggs.

b) Consumption of tobacco

According to statistics provided by the State-owned tobacco monopoly, Régie des Tabacs, the volume of tobacco purchased by residents and non-residents in the national territory fell drastically in 2006, and in 2007, progressed to equal the 2005 benchmark. (-11.2% to +10.3% in volume) : in 2006, the sales volume of Régie des Tabacs dropped to their lowest recorded level since 1997 : 7 252 tons compared to 8 729 tons in 2004. In fact, the sales volume of local tobacco demonstrated the most significant decline, dropping from 1 671 tons in 2004 to 675 tons in 2006.

c) Private expenditure on textiles and clothing

Consumer expenditure on textiles and clothing did not reach the previous levels attained in 2005, following a price increase that occurred in 2006. The 5.7% rise in prices that took effect in 2006 was met with an equivalent fall in quantities consumed (- 2.5%). This expenditure represents approximately 7% of total consumption in market goods and services, and does not account for more than 6.1% in 2007. The changes in consumption trends for specific components that comprise this group of products, aside from textiles and clothing items, are hindered by a lack of data for, among others, leather articles, household linen and carpets.

d) Private consumption of energy

The private consumption of energy includes expenditures on electricity, water and oil products. The budgetary coefficient of this consumption fell from 6.4% in 2005 to 5.7% in 2007. Kindly note, the marginal price increases in comparison to the significant increase in the price of oil products were a direct result of the price stabilization policy for electricity and gasoline.

Table 16 provides energy and water consumption details. It is worth noting that electricity consumption increased by 1% in 2007, and was met with a rise of 3.9% in the average cost of the kilowatt-hour. (It is important to note that even at a constant tariff, the average price can change to reflect the consumption configuration).

In the absence of updated statistics, water consumption for these accounts is based on estimation and this is achieved by assuming increased per capita demand at stable population growth rates; however, the volumetric rates have remained unchanged. Consumption of oil products increased in volume by 1.4% in 2007 after a 5.6% decline in 2006. Price progression was comparatively moderate, ranging between 3% and 4.5% per annum.

Households have two main uses for oil and its derivatives: transportation (as fuel for private cars) and domestic purposes such as central heating and cooking (gas oil and butane gas).

Table 16
Household consumption of energy and water 2005-2007

Type of product	Value in billion LBP			% Change / year			
	2005	2006	2007	In Price		In Volume	
				2006	2007	2006	2007
Electricity	677	637	668	0.3	3.9	-6.2	1.0
Water	157	157	159	0.0	0.0	0.0	1.0
Oil products	925	900	953	3.0	4.5	-5.6	1.4
Solid fuels	19	20	25	3.2	2.1	0.4	25.8
Total	1 778	1 714	1 806	1.7	3.8	-5.2	1.5

Note: the consumption of oil products was revised taking into consideration the drop in price.

- The volume of gasoline consumed increased marginally between 2004 and 2007 (+3.4% over three years at an average of 1.1% per annum) despite very moderate price increments. Indeed, the continuing price stabilization policy adopted by the Government played a vital role in regulating the average price of twenty liters, which rose from LBP 22 050 in 2004 to LBP 22 187 in 2006 and reached LBP 23 127 in 2007 from its previous fall in 2005 to LBP 21 555. These pump prices were maintained despite the increase in import prices that were approximately 30% in 2005, 19% in 2006 and 12% in 2007. This price stabilization was achieved by reducing excise duties. Thus, the actual consumer share of taxes on gasoline prices fell from 55.5% in 2003 to 43.7% in 2004, to 28.7% in 2005, then to 21.2% in 2006 and finally reached 18.3% in 2007.
- On the other hand, household consumption of gas oil was affected both significantly and negatively by the steep rise in the price of this fuel: 39.5% in 2005, +13.6% in 2006 and +9.6% in 2007. (LBP 11 212 per 20 liters in 2004 to LBP 19 406 in 2007). The reduction in household consumption of this product is estimated at 40% between 2004 and 2007.
- Similarly, consumption of domestic gas fell in volume by 4% in 2006 following a 9.8% price rise: the average price of a 10-kilogram bottle increased from LBP 12 226 in 2005 to LBP 13 426 in 2006. Thereafter, both the consumption and price value of this product remained almost stagnant even after a moderate fall in 2006 that led to a slight increase in 2007, exceeding the 2005 level and taking the price of a 10-kilogram bottle up to LBP 13 572.

e) Purchase of capital goods by households

After two years of decline, household expenditure directed at purchasing capital goods grew appreciably in 2007: +21.2% in value and +15.8% in volume.

The purchase of motor vehicles constituted the principal expenditure on capital goods (approximately 63% in 2007). In terms of volume, the number of imported motor vehicles dropped between 2004 and 2006 from 45 443 units to 39 702 units and reached 51 937 units in 2007. Taking into account the changes in the various motor vehicle categories, purchases of private motor vehicles for 2006 are estimated at 22.3% in volume, considering the increase in prices (+4.7%), and household expenditure towards purchasing motor vehicles increased by 28.1% in 2007 compared to 2006.

Table 17
Purchase of capital goods by households 2005-2007

Type of equipment	Value in billion LBP			% Change / year			
				In Price		In Volume	
	2005	2006	2007	2006	2007	2006	2007
Cars	1 782	1 728	2 214	0.9	4.7	-3.9	22.3
Machinery and equipment	478	482	504	7.8	2.9	-6.4	1.6
Furniture	264	263	293	-2.5	-0.3	2.0	11.9
Various instruments	217	209	255	6.3	4.3	-9.2	16.5
Jewellery	233	200	229	20.8	16.6	-29.0	-2.0
Total	2 975	2 883	3 495	3.2	4.7	-6.1	15.8

Alternatively, the expenditure on purchases for machinery and equipment, and electric household appliances increased moderately (+4.6% in 2007).

f) Consumption of other manufactured goods

Under the heading, “Other manufactured goods”, various products are grouped into the following categories: chemical and pharmaceutical industries; products for personal and domestic care; printing works and a variety of glass, pottery or metal products. Table 18 provides the consumption evolution of these products.

Table 18
Consumption of manufactured goods by type 2005-2007

Type of consumed good	Value in billion LBP			% Change / year			
				In Price		In Volume	
	2005	2006	2007	2006	2007	2006	2007
Chemicals and pharmaceuticals	1	1	1	1.6	5.3	4.5	10.8
Printing works	390	366	425	6.2	5.7	-	9.8
Glass, metalwork	112	83	113	-3.5	1.3	-	33.9
Other products	67	19	0	3.9	4.8	-	-
Total	1	1	2	2.3	5.2	-2.8	10.5

- Chemicals and pharmaceuticals represent the most important goods of this category, and constitute a little more than 5% of total domestic private consumption. The expenditure in this sector constantly increased in both value and volume. It is important to take note of the evolution in volume of imported drugs intended for retail trade. The value of these imports rose from LBP 593.6 billion in 2005 to LBP 707.5 billion in 2006 and then to LBP 830.3 billion in 2007, representing volumes of 4 553 tons to 5 254 tons and 5 658

tons respectively: in other words, a rise of 19.2% and 17.4% respectively in value and 15.4% and 7.7% respectively in volume.

- In general, printing works encompasses newspapers, magazines and books, including schoolbooks. The growth of household expenditure on printing works witnessed in previous years resumed in 2007 after a moderate decline in 2006.

g) Private expenditure on transportation and communications

Tourist and household expenditure on transportation and communications represents one of the sectors that was affected by the July 2006 war: -4.1% in value, -6.2% in volume.

Table 19
Domestic consumption of transport and communications services 2005-2007

Type of service	Value in billion LBP			% Change / year			
				In Price		In Volume	
	2005	2006	2007	2006	2007	2006	2007
Road transportation	754	746	839	2.9	11.4	-3.8	0.9
Air transportation and travel	434	436	595	1.7	12.8	-1.1	20.8
Post and telecommunications	1 720	1 607	1 651	2.1	0.0	-8.5	2.7
Total	2 907	2 789	3 084	2.2	5.2	-6.2	5.1

In 2007, expenditure on *air transportation* services resumed robustly: +36.5% in value, +20.8% in volume with a 12.8% rise in prices. It should be noted that domestic consumption of *air transportation* services is equal to the value of passenger tickets sold by travel agencies in the national territory. These sales figures are taken from the statistics provided by IATA.

Alternatively, *road transportation* services usage remained relatively stable, recording a 12.5% rise in 2007 against 2006. This rise is almost entirely due to price increases.

In the *postal services and telecommunications (PTT)* sector, household expenditure continued to grow, and 2007 figures were more modest than the years preceding 2006: 22.1% in 2004, +18.0% in 2005 and +2.7% in 2007, but this last figure is subject to revision since the *postal services and telecommunications* authorities have yet to publish their final accounts.

h) Rental value of housing

In the absence of verifiable statistics on housing development, the number of occupied residences was assumed to be equal to the annual number of registered marriages, and net of the re-entries into existing housing units. This number accounts for 1% of occupied residences for both 2006 and 2007. The average rental value of apartments was stable. Relying on data from the Survey of Living Conditions of Households, the rental value of housing units was estimated at LBP 2 059 billion in 1997, and rose to LBP 2 423 billion in 2007.

i) Consumption of education and health services

The social services sector represents more than 18% of total private consumption. The real growth of this expenditure was not affected negatively by the July 2006 war. It reached 6.5% in 2006 and 7.4% in 2007.

Expenditures on education and health progressed at varied measures as table 20 below illustrates.

Table 20
Consumption of social services by type 2005-2007

Type of service	Value in billion LBP			% Change / year			
				In Price		In Volume	
	2005	2006	2007	2006	2007	2006	2007
Education	3 201	3 323	3 509	1.1	2.7	2.7	2.8
Health	1 684	1 900	2 267	-0.8	3.3	13.7	15.5
Total	4 885	5 223	5 776	0.4	2.9	6.5	7.4

Tuition fees for primary and secondary education, and private universities amounted to LBP 3 201 billion in 2005, LBP 3 323 billion in 2006 and LBP 3 509 billion in 2007, i.e. a growth rate of 3.8% in 2006 and 5.7% in 2007. Considering the moderate increase in tuition fees, the real growth rate for both years were 2.7% and 2.8% per annum respectively. This growth can be largely attributed to the proliferation of private universities. In fact, the number of students registered in private universities increased from 38 202 in 1997 to 71 414 in 2005, and 76 334 in 2006 to 87 403 in 2007; this represents an average growth rate of 8.1% in the period 1997-2004 and 8.5% in 2005, and 6.9% in 2006 and 14.9% in 2007. During the same period, the number of students registered in private schools rose from 510 740 to 522 755 (representing an annual average of 0.3%), and then rose from 528 320 in 2005 (1.1%) to 535 114 in 2006 (+1.3%) and reached 529 378 in 2007 (-1.1%). Overall, the budgetary coefficient of the expenditure on education grew from 8.5% in 1997 to 11.5% in 2005, and from 11.8% in 2006 to 11.1% in 2007.

The evolution of *health services* is less well documented. Assuming a direct correlation is drawn from the number of imported drugs, the volume of healthcare provided by private health services grew significantly in the two-year period of 2006 and 2007 (could this position be due to the effects of the war?): +13.7% in 2006 and +15.5% in 2007. Moreover, price logs associated with healthcare indicate moderate price drops in 2006 (-0.8%), which was followed by significant price increases in 2007 (+3.3%). Thus, health sector expenditure increased to 12.8% in 2006 and 19.3% in 2007, and the bulk of health expenditure in household consumption increased from 6.1% in 2005 to 6.8% in 2006 and 7.2% in 2007.

j) Consumption of individual services

Typically, individual services represent 9% of the total tourist and household expenditures on the national territory. These services take into account and include

hotels and restaurants, maintenance and repairs, and various services in such areas as leisure, personal care and domestic help.

Table 21 below illustrates the breakdown of these services and their evolution between 2005 and 2007.

Table 21
Consumption of individual services by type 2005-2007

Type of service	Value in billion LBP			% Change / year			
				In Price		In Volume	
	2005	2006	2007	2006	2007	2006	2007
Hotels and restaurants	1 236	1 167	1 223	-2.0	4.2	-3.7	0.6
Maintenance and repairs	99	144	193	4.1	19.1	39.9	12.3
Insurances and banks	537	583	677	0.0	0.0	8.6	16.1
Other services	814	861	971	5.7	11.7	0.0	1.0
Total	2 687	2 755	3 064	1.1	6.3	1.5	4.6

The *hotel and restaurant sector* is dependent in part on the number of tourists and improvements in the living standards of the resident population. In 2006, the rate of growth for arrival of tourists was negative (- 7.4%); the local population frequenting hotels and restaurants was assumed to have remained stagnant; hence, the estimated real rate of growth for this sector was -3.7% in 2006. In 2007, the arrival of tourists remained stagnant, but a significant increase in the arrivals of Lebanese citizens was noted (see chapter 1, section VI, subsection c).

In the sector of *maintenance and repairs services*, consumption is deduced from the estimated output of such services (see chapter 1, section VI, subsection b).

Consumption of *financial services* consists largely of insurance services whose value is equal to the sum of premiums paid by households less received allowances. Growth in this sector continued, albeit at a slower rate compared to the significant growths of previous years (see chapter 1, section VI, subsection g).

Section II. Public consumption

By definition, public consumption is equal to the output of non-market services by the Government. The estimated value of such services was accounted for in the chapter associated with production (see chapter 1, section VIII).

In addition to the value of collective services, public consumption encompasses production costs of individual services that are either free-of-charge or entail nominal fees, including education and healthcare services dispensed through State-owned establishments. Normally, these services are required to be subject to a separate estimate. However, the current system of public accounts does not make it possible to establish a separate report for such social services provided by the Government. Consequently, the value of such services is inferred by drawing on the main variables entered in the relevant calculations. Table 22 shows the expenditure on education as these appear in the State's closure accounts vis-à-vis primary and secondary education, and in the accounts of the Lebanese University as regards to higher

education. Moreover, the table below highlights the amounts disbursed by the Ministry of Health for the hospitalization of patients treated at the State's expense. Seeing that the closure of the financial accounts for the year 2007 is not finalized at present, the table only provides the figures from the years 2002 to 2006.

Table 22
Cost estimates of public education and health services 2002-2006

	<i>LBP billion</i>				
Type of service	2002	2003	2004	2005	2006
Primary and secondary education					
<i>Wages</i>	460	499	504	495	485
<i>Consumption of goods and services</i>	22	23	41	24	20
Total	482	522	545	519	505
Lebanese University					
<i>Wages</i>	128	121	118	116	...
<i>Consumption of goods and services</i>	16	21	17	18	...
Total	144	142	135	134	...
Total education	599	663	680	653	...
Hospital expenditure	217	274	227	222	180
Total social services	816	937	907	875	...

In order to complete the cost estimates of such services, there is a need to include an evaluation of the depreciation of school and university buildings that belong to the State, and to deduct part of the bank debt burden borne by the State to cover its deficit.

In terms of the annual change in the number of registered students in public education, the growth in volume varies significantly from the growth in value, particularly in primary and secondary education:

- *In primary and secondary education*, the total number of pupils registered in free-of-charge primary and secondary education in both the public and private sectors increased from 480.4 thousand in 2000-2001 to 485.5 thousand in 2004-2005, representing an average growth rate of 0.3% per annum. During the same period, costs increased from LBP 470 billion to LBP 519 billion, which represents an average growth rate of 2% per annum. In 2006, the number of pupils fell to 475 thousand (-2.2%) with an equivalent reduction in costs.

- The *Lebanese University*, on the other hand, witnessed education costs developing at approximately the same rate as the number of registered students between 2001 and 2005. During that period, the number of registered students fell from 71 050 to 70 065, representing an average drop of 0.3% per annum, while the average rate of costs dropped by 0.9% per annum.

Chapter 4 Investments

Gross fixed capital formation (GFCF) is defined as the value of acquisitions, minus the tangible and intangible fixed assets value of disposals, plus on-site improvements.

Section I. Gross fixed capital formation

Overall, GFCF is calculated by adding the general value of capital goods purchased by companies and the Government to the general value of the construction sector's output. Given the majority of such goods are imported, foreign trade statistics provide the necessary indicators for estimating their value. Table 23 illustrates the breakdown of GFCF and its formation from 2005 to 2007.

Table 23
Gross fixed capital formation by type 2005-2007

Type of fixed capital	<i>Value in billion LBP</i>			<i>% Change / year</i>			
	2005	2006	2007	<i>In Price</i>		<i>In Volume</i>	
				2006	2007	2006	2007
Construction and public works	5 030	5 472	7 222	5.6	13.1	3.0	16.7
Metal works	190	152	160	-7.6	1.0	-13.3	4.2
Machinery and equipment	856	745	884	-1.7	-2.9	-11.4	22.1
Transportation means	499	613	970	-1.9	-5.6	25.2	67.6
Furniture	330	324	360	0.8	0.9	-2.6	10.2
Other products	405	456	521	-0.8	4.4	13.6	9.5
Total	7 310	7 762	10 117	3.3	8.3	2.8	20.3

In 2006, the July war adversely affected the upward trend in investments observed in previous years. As a result, the year 2007 should be regarded as a year of adjustment and recovery from the activities that were blocked during the third quarter of 2006. Moreover, as previously noted (chapter 1, section IV), the urgent need to reconstruct infrastructure destroyed by the war boosted construction activity. In consequence, the value of investments in construction and public works soared to 32% in 2007 compared to the previous growth of only 6.8% in 2006. A part of this growth is attributed to the increase in construction costs. In real terms, the growth rate of this investment category would be 16.7% in 2007 compared to 208% in 2006.

In 2007, a strong growth in capital goods investments is indicated with particular emphasis on means of transportation (+58.2% in value) and machinery and equipment where values increased by 18.7% in 2007 following a 13% fall in 2006. Price changes used for calculating variations in the volume of capital investments are inferred from capital goods, which are estimated as the import unit values of these goods plus taxes. Within this context, price variations could be partly attributed to changes in quality.

Breakdown of GFCF in both the private and public sectors

The gross fixed capital formation of enterprises is not known directly. Rather, it is measured by calculating the difference between the total value and the value represented by public investments. Consequently, the statistical aggregate of GFCF is a measure of the net new investments by enterprises in the private sector, rather than of all enterprises. Indeed, public investments include, in addition to Governmental GFCF, infrastructural expenditures towards electricity, water distribution and telecommunications, which constitute a part of public companies' GFCF.

Table 24
Breakdown of GFCF in both the private and public sectors 2002-2007

End-user sector	2002	2003	2004	2005	2006	2007
Private sector	4 700	5 252	5 935	6 438	6 854	9 106
Public sector	901	739	950	872	908	1 012
Total	5 601	5 991	6 884	7 310	7 762	10 117

Public investments are estimated from the accounts of the State and of autonomous administrations, including CDR.⁹

Public investments resumed their growth in 2004 after a sustained period of contraction, namely: +23.6% in value compared to -8.5% in 2003. Following a recession in 2005, public investments once again progressed in 2006 (4.2%) and in 2007 (11.4%). The necessity to reconstruct the infrastructure destroyed by the July 2006 war explains this growth partly. In fact, this growth should have been better augmented. In effect, a significant portion of the repairs made to bridges that were destroyed was achieved through the kind support of either private or foreign aid. Because these financial contributions were used directly for the repairs, they were not entered into the public expenditure account and consequently appear as private sector investments throughout. The sum of these figures is estimated at approximately LBP 100 billion.

Section II. Variations in inventories

Statistics are unavailable concerning inventories of enterprises. Variations in inventories appearing in these accounts are aimed at regularizing the use of resources in goods and services across successive years. In 2007, the significant increase in imports would be attributed partly to the need for stock replenishments, which began in 2006 following the port embargo and the restriction of provisions during the six-week war period. The balancing of accounts resulted in a variation of stocks estimated at LBP -30 billion in 2006 and LBP +343 billion in 2007.

Prices used for calculating changes in inventories in volume were drawn from the unit values of stocked goods at import.

⁹ Public investments have been revised following a detailed examination of municipalities' accounts and projects executed by the CDR.

Chapter 5 Exports

According to the domestic concept, exports take account of the exchange of goods and services in addition to foreign tourist expenditure on the national economic territory.

After the economic slump caused by the war in 2006, exports resumed their rate of growth from previous years: 2% in 2006 and 16.6% in 2007. The sections set forth below review the export trends of the various sectors, which are highlighted in table 25.

The values selected to appraise the variations in volume for exported goods are based on the transaction value recorded for customs purposes and involves dividing values by volume. Moreover, the prices of services are assumed to have remained constant, and the price index of foreign tourist expenditure on the national territory is assumed to be equal to the consumer price index.

Table 25
Export of goods and services by type 2005-2007

Type of product	Value in billion LBP			% Change / year			
				In Price		In Volume	
	2005	2006	2007	2006	2007	2006	2007
Agricultural products	344	336	436	-1.3	5.4	-1.0	23.1
<i>Agriculture products</i>	323	309	396	-1.6	6.9	-2.8	20.0
<i>Livestock products</i>	21	27	40	2.1	-7.4	27.9	59.5
Manufactured goods	3 618	3 713	4 875	4.5	5.0	-1.9	25.0
<i>Food products</i>	352	366	468	5.5	5.3	-1.7	21.5
<i>Textiles and leather</i>	485	498	579	-3.2	-1.3	6.1	17.7
<i>Non-metallic ores</i>	296	225	323	4.6	3.0	-27.3	39.5
<i>Metals, machines, equipment</i>	1 361	1 416	1 957	5.0	5.0	-0.9	31.6
<i>Timber, rubber, chemicals</i>	515	539	738	4.0	10.4	0.7	24.1
<i>Furniture</i>	64	84	101	-5.6	-0.3	39.1	20.9
<i>Other</i>	545	585	708	12.4	6.7	-4.6	13.5
Total goods	3 962	4 048	5 311	4.0	5.1	-1.8	24.9
Services	1 561	1 684	1 663	0.2	0.0	7.6	-1.3
<i>Telecommunications</i>	203	198	205	2.1	0.0	-4.7	3.7
<i>Business services</i>	383	405	430	0.0	0.0	6.0	6.0
<i>Financial Services</i>	59	328	304	0.0	0.0	457.1	-7.2
<i>Trade</i>	917	753	724	0.0	0.0	-17.8	-3.9
Exports abroad	5 523	5 733	6 974	2.9	3.8	0.9	17.2
Tourists expenditures	1 523	1 456	1 533	3.2	5.0	-7.4	0.2
Total	7 047	7 189	8 507	2.9	4.0	-0.9	13.8

a) Agricultural exports

The agricultural sector experienced the most significant and adverse effect among the other sectors of the economy from 2006 due to the volatile political situation. However, in 2007, it marked a quick recovery and exports resumed, attaining a growth rate of 30.6% in value and 23.1% in volume. It is important to note the value of agricultural exports in these accounts; their values are significantly higher than those entered in customs statistics. Consequently, coefficients of adjustment in the range of 1.5 to 3 are applied in order to balance the accounts of the agricultural products uses/resources.

In 2007, fruit exports, which account for more than half of all agricultural exports, generally increased by 18.7% in value and 14.4% in volume. There was a significant increase in exports of raw tobacco (+42.2%) set against a dramatic downturn in the production of cigarettes by the State-owned tobacco monopoly, Régie des Tabacs, due to a drop in demand.

b) Industrial exports

Comparable to agricultural exports, customs statistics regarding the exports of manufactured goods were corrected upwards for some goods, albeit to significantly lesser degrees.

In 2007, industrial exports continued the upward trend first started in 2000, but came to a halt in 2006: +31.3% in value compared to 2006, and 37.7% compared to 2005; thereby, recording a 16.1% average per annum for two years. Considering the steady evolution of prices, the growth export quantum of manufactured goods is estimated at an average of 11.4% per annum between 2005 and 2007.

It is important to note that exports and imports of gold ingots were excluded from these accounts, given that their inclusion would have distorted the real tendencies of industrial exports. Indeed, as illustrated in the table below, gold exports fluctuated erratically between 2004 and 2007: -33.4% in 2005, +270.3% in 2006 and -29.4% in 2007.

Table 26
Export of gold ingots 2004-2007

	2004	2005	2006	2007	% Change rate/ year		
					2005	2006	2007
Value (LBP billion)	272.3	181.3	671.4	474.2	-33.4	270.3	-29.4
Quantity (kg)	16 504	9 878	26 994	16 254	-40,1	173,3	-39.8
Price (LBP million/kg)	16.5	18.4	24.9	29.2	11.2	35.5	17.3

- Food industries witnessed their exports increasing in 2007 in variable proportions across almost all segments: processed foods (+27.3% in value, 21.7% in volume), confectionery and chocolate (17.4% in value, 5.1% in volume) and grains and cereals (27% in value, 22.4% in volume), fats and oils (33.8% in value, 34.9% in volume) and alcoholic drinks (27% in value, 28% in volume). Overall, the food industry increased its exportations of products

by 27.9% in value and 21.5% in volume after a 1.7% fall in volume during the year 2006.

- Exports of textiles and leather continued to plummet into 2006 following their decline, which was noted in the previous year: 2.7% in value compared with +5.5% in 2005 and +21.2% in 2004. In 2007, their rate of growth started to increase to reach 16.2% in value. The growth in volume noted was higher due mainly to the fall in prices. The products are primarily shoes and leather articles.
- Non-metallic ore exports and derivatives containing these minerals experienced strong fluctuations: -27.3% and +39.5% in volume in 2006 and 2007 respectively. In 2006, cement exports, which accounted for more than half of all exports in this category, increased from 1 654 thousand tons valued at LBP 168.2 billion in 2005 to 916 thousand tons valued at LBP 105 billion in 2006, marking a decline of 45.9% in volume and 37.6% in value. In 2007, the exported quantities of cement drop to 903 thousand tons (- 1.5%); however, the 8.7% price increase affected the export value of this product increased by 7.1%. In addition, the robust growth of non-metallic ore exports observed in 2007 is due to the export (or rather the re-exportation) of uncut diamonds.
- The metal, machines and equipment sector occupies an important position in industrial exports (accounting for 40% of the total value of exported manufactured goods in 2007). It is classified under the following subcategories: metals, other than gold (12.1%); metal works (6.7%); machinery and equipment (18.8%) and equipment for transportation (2.4%).
 - o Metal exports increased in 2007 by 59% in value. This rise comes from the export of scrap metal (waste), which increased from LBP 133 billion in 2006 to LBP 239 billion in 2007.
 - o The value of exports for metal works increased by 26.7%. Metal structures for use of construction projects are among the main products exported in this subcategory, and their export value increased from LBP 21.9 billion in 2006 to LBP 33.9 billion in 2007.
 - o Additionally, the exports of machinery and equipment also increased to 27.7% in 2007 compared to 2006.
- All the subcategories classified under “timber, rubber, chemicals” witnessed an export growth between 2005 and 2007. Namely: woodwork - excluding furniture sets (from LBP 32.1 billion in 2005 and LBP 28.3 billion in 2006 to LBP 34.6 billion in 2007); pulp and paper (from LBP 120.9 billion and LBP 139 billion to LBP 174.4 billion); basic chemicals (from LBP 197.7 billion and LBP 194.3 billion to 277.8 billion); rubbers (from LBP 6.9 billion and LBP 12.4 billion to LBP 15.6 billion) and finally plastics (from LBP 66.4 billion and LBP 63.8 billion to LBP 84.7 billion).
- Although not as significant as the other subcategories, exports of furniture sets also grew in value: +31.3% in 2006 and +20.5% in 2007.
- The other various products include primarily print works, which witnessed an increase in exports of 16.2% and 40.2% in value, from LBP 164 billion in 2005 and LBP 191 billion in 2006 to LBP 267 billion in 2007. The export of jewellery also recorded an increase of 2.3% and 12.7% (from LBP 297 billion and LBP 303 billion to LBP 341 billion).

c) Exports of services

Foreign exchanges of services are not yet well inventoried. At present and due to regular reviews, only the net receipts of public services for telecommunication are known. The net exports of transportation services have been omitted. However, the net exports of business services have been estimated based on parameters set by a survey of large enterprises, which was performed in 2004. In financial services, including insurance and reinsurance, exports cover financial intermediary and auxiliary services, and the service earnings of these financial institutions are presented net of any overseas expenses. The result for this sector was negative. It is important to note the triangular trade receipts retained in these accounts are extremely rough estimates.

The net receipts of the General Directorate of Telecommunications, resulting from overseas communications, resumed their rate of growth in 2007 (+3.7%) after two consecutive years of decline: -3.6% in 2005 and -4.7% in 2006.

According to the declarations made available by large companies in the above-mentioned survey of enterprises, the overseas turnover by Lebanese companies in business services, net of services payments to non-residents, increased from LBP 205 billion in 2002 to LBP 245 billion in 2003, representing a rise of 19.3%.¹⁰ A growth rate figure of 25%, which was derived from the 2004 and 2005 values, was retained, taking into account tax returns of offshore companies to the Ministry of Finance. In the absence of recent statistics, an average growth rate of 6% per annum was adopted for the 2006 and 2007 estimates.

The significantly strong growth recorded by financial institutions in 2006 resulted from an increase in the dividends received from their branches overseas, which, according to the Central Bank of Lebanon estimates an increase from LBP 279 billion in 2005 to 1 047 billion in 2006. The banking services/earned interests ratio was 28.2% in 2005 and 29.9% in 2006; the interest dividends declared as exports amounted to LBP 97.8 billion in 2005 and LBP 377.8 billion in 2006. In addition, services of reinsurances overseas represented net imports of LBP 50 and LBP 51.2 billion respectively in 2006 and 2007. These amounts were deducted from the exports of services.

The growth rate retained for net prices of triangular trade was estimated using data that monitor transit activities and re-exportation. Following a year of strong growth in 2004 (+32.4%), there was a decline in the foreign trade activity: -3.5% in 2005, -17.8% in 2006 and -3.9% in 2007.

d) Expenditure of tourists

By convention, the growth rate in volume of the expenditure of tourists and other foreign travellers in Lebanon is equal to the growth rate of total annual number of foreign visitors in Lebanon, excluding Syrian nationals: +24.9% in 2004 and -2.9% in 2005, -7.4% in 2006 and +0.2% in 2007. The consumer price index was selected to estimate the expenditure of this value.

¹⁰ A subsequent investigation revealed the survey results of the large enterprises study concerning exports of services in the 1997-2002 accounts were underestimated.

PART TWO

Integrated economic accounts

The international System of National Accounts (SNA93) is aimed at establishing a standard set of accounts for each of the five economic agent categories in a national economy, indicated by S.1; and for the rest of the world, indicated by S.2.

The five economic agent categories of the national economy are:

- S.11 : non-financial corporations
- S.12 : financial corporations
- S.13 : public administrations
- S.14 : households
- S.15 : non-profit institutions serving households

At their current stage of development, the national statistics of Lebanon prohibit the establishment of a separate and accurate measurement of the integrated economic accounts for each of the five agents. Therefore, it is practically impossible to provide a breakdown of the output and distribution operations between non-financial corporations and households. In contrast, the main elements of the integrated economic accounts of domestic economic agents as a whole and those concerning the rest of the world can be approximated.

Tables 27 and 28 present both the integrated economic accounts of the national economy (S.1) and rest of the world (S.2). These account modules make it possible to measure the main trends that represented economic activity in the period 2005-2007.

Chapter 1 presents the integrated economic accounts of the national economy, which measure the main aggregates: production account, generation of income and primary distribution of income account, secondary distribution of income account, use of income account, capital account and financial account.

Chapter 2 presents the estimates of the main elements for the balance of payments, which are divided into four accounts: exchange of goods and services account, account of primary incomes and current transfers, capital transfers account, and finally, the financial account.

The accounts of economic agents that could be established are related to the central Government and commercial banks accounts. These accounts are reproduced in the appendix.

Table 27
Integrated accounts of the national economy (S.1) 2005-2007

Accounts	Uses			Resources		
	2005	2006	2007	2005	2006	2007
<i>LBP billion</i>						
I. Production account						
P11. Market output				40 442	41 865	47 134
P12. Non-market output				4 968	5 115	5 375
D2-D3. Taxes(-)				5 247	4 970	5 932
P2. Intermediate consumption	17 703	18 124	20 683			
<i>B1. Gross value-added (GDP)</i>	<i>32 955</i>	<i>33 826</i>	<i>37 758</i>			
Total	50 658	51 950	58 440	50 658	51 950	58 440
II.1. Generation and allocation of primary income account						
B1. GDP				32 955	33 826	37 758
D2-D3. Taxes(-)	5 247	4 970	5 932	5 247	4 970	5 932
D41. Interests	6 212	6 397	7 426	6 355	6 674	7 502
<i>private sector</i>	3 180	2 925	2 925			
<i>public sector</i>	3 031	3 472	3 472			
D1+D4. Compensations, other income	21 550	22 868	25 185	22 194	23 158	25 745
<i>B5. Balance of primary income</i>	<i>33 742</i>	<i>34 394</i>	<i>38 394</i>			
Total	66 751	68 628	76 937	66 751	68 628	76 937
II.2. Secondary distribution of income account						
B5. GNI				33 742	34 394	38 394
D5. Direct taxes	1 554	2 029	2 117	1 554	2 029	2 117
D61. Social security contributions	1 031	951	1 110	1 031	951	1 110
D62. Social security benefits	1 675	1 764	1 839	1 698	1 787	1 863
D79. Other current transfers	407	473	486	4 211	6 601	6 774
<i>B6. Bal. of sec. income (GNDI)</i>	<i>37 569</i>	<i>40 545</i>	<i>44 706</i>			
Total	42 235	45 761	50 259	42 235	45 761	50 259
II.4. Use of income account						
P2. Consumption	32 731	33 161	36 779			
<i>B8. Gross saving</i>	<i>4 838</i>	<i>7 384</i>	<i>7 928</i>			
Total : GNDI	37 569	40 545	44 706	37 569	40 545	44 706
III. 1 Capital account						
B8. Gross saving				4 838	7 384	7 927
P51. Gross fixed capital	7 219	7 732	10 460			
D9. Capital transfers	121	88	105	1 393	4 178	2 204
<i>B9. Balance: net</i>	<i>-1 109</i>	<i>3 742</i>	<i>-434</i>			
Total	6 231	11 562	10 132	6 231	11 562	10 132
III. 2 Financial Account						
B9. Net lending/borrowing				-1 109	3 742	-434
F2. Currency and deposits	5 186	9 303	12 624	4 060	5 090	9 554
F3. Securities other than loans	2 757	4 001	2 434	3 316	2 152	2 464
F4. Loans	189	3 671	2 225	328	3 783	3 154
F5. Shares/other equities	1 624	5 347	-340	3 160	7 555	2 204
Total	9 755	22 322	16 942	9 755	22 322	16 942

Table 28
Rest of the world accounts (S.2) 2005-2007

Accounts	Uses			Resources		
	2005	2006	2007	2005	2006	2007
I. Transactions of goods and services						
Imports				14 042	14 256	17 988
Exports	7 047	7 189	8 507			
<i>B11. Trade balance</i>	<i>6 995</i>	<i>7 067</i>	<i>9 481</i>			
Total	14 042	14 256	17 988	14 042	14 256	17 988
II. Primary income and current transfers account						
B11. Trade balance				6 995	7 067	9 481
D1. Compensation of employees	674	586	755	822	937	1 201
D41. Interests	2 284	2 203	2 317	2 142	1 926	2 241
D4... Other income	1 101	997	1 427	309	355	421
D62. Social benefits	23	23	24			
D79. Other current transfers (net)	3 804	6 128	6 288			
<i>B12. Current balance</i>	<i>2 381</i>	<i>348</i>	<i>2 532</i>			
Total	10 268	10 285	13 344	10 268	10 285	13 344
III. 1 Capital account						
B12. Current balance				2 381	348	2 532
D9. Capital transfers (net)	1 272	4 090	2 099			
<i>B9. Balance: Net lending/borrowing</i>	<i>1 109</i>	<i>-3 742</i>	<i>434</i>			
Total	2 381	348	2 532	2 381	348	2 532
III. 2 Financial Account						
B9. Net lending/borrowing financing				1 109	-3 742	434
F2. Currency and deposits (net)				1 126	4 213	3 070
F3. Securities other than loans	559	-1 849	30			
F4. Loans	140	112	930			
F5. Shares / other equities	1 536	2 208	2 544			
Total	2 235	471	3 504	2 235	471	3 504

Chapter 1

Integrated accounts of the national economy

The various operations carried out between the economic agents, or flows arising from economic activity, are broken down into the following six categories or sub-categories of accounts: (the numerals used are the international classification codes of the accounts).

- I. Production account
- II.1. Generation and allocation of primary income account
- II.2. Secondary distribution of income account
- II.4. Use of income account
- III.1. Capital account
- III.2. Financial account

These accounts make it possible to measure the main aggregates that represent economic activity. These aggregates are summarized in Table 29 below.

Table 29
Evolution of the main aggregates 2003-2007

	<i>LBP billion</i>				
Type of aggregate	2003	2004	2005	2006	2007
GDP	30 276	32 848	32 955	33 826	37 758
+Net income factors	-681	-531	787	567	636
= GNI	29 595	32 317	33 742	34 394	38 394
+ Net current transfers	5 457	4 428	3 827	6 151	6 312
= GNDI	35 052	36 745	37 569	40 545	44 706
- Final consumption	-30 717	-32 666	-32 731	-33 161	-36 779
= Gross national saving	4 335	4 079	4 838	7 384	7 928
+ Net capital transfers	2 720	1 894	1 272	4 090	2 099
= Gross disposable saving	7 055	5 973	6 110	11 475	10 027
- GFCF	5 802	7 284	7 219	7 732	10 460
= Net lending (+)/borrowing (-)	1 253	-1 312	-1 109	3 742	-434
+Foreign financing	3 852	1 567	2 235	471	3 504
= Balance of payments	5 105	255	1 126	4 213	3 070

Note : The figures from 2003 to 2005 have been revised

As follows :

- Gross domestic product (GDP) is the balancing item in the production account of all economic agents
- Gross national income (GNI) is derived from the allocation of primary income account
- Gross national income (GNDI) is the balancing item of the secondary distribution of income account
- Gross national saving is the balancing item in the use of income account
- Gross national saving and net lending/borrowing are deduced from the capital account
- The balancing item in the balance of payments appears in the financial account under the heading, "Changes of cash and deposits"

The details of these accounts are presented in the sections set forth below.

Section I. Production account

The production account records the production value in terms of resources received by various economic agents, and the value of intermediate consumption in terms of uses. The balance of this account is equal to gross domestic product or GDP.

The value of the output is sub-divided as: market output (P.11), non-market output (P.12), and taxes minus product subsidies (D.2 – D.3).

a) Market output (P.11)

Market output is equal to the net income of all production units resulting from sales of goods and services. However, given the methodology used in the absence of adequate statistics, the market value output described herein also includes the output value of subsidies on products used domestically.

The market value output is equal to the sum of all market sectors output calculated at market prices, minus indirect taxes and plus operational subsidies in use.

Details of the market output evaluated at consumer prices are provided in part one, chapter one of this report.

b) Non-market output (P.12)

Non-market output, as it appears in these accounts, is represented only as an estimate of Government output. Thus, it does not include the output value of subsidies on products used by non-profit institutions serving households.

The estimation method used for this output is described in part one, chapter one of this report.

c) Taxation less subsidies/products (D.2 – D.3)

In theory, only exact net profit taxes on products, less subsidies, should appear in this account. However, given the lack of sufficient data in this area, all indirect taxes that feature in the generation of income account were retained. These comprise of the following: customs duties, taxation on the consumption of specific products, including, as from 2002, VAT, as well as taxation on the profits of public companies, municipal taxes and other taxes.

Following a deferment, the municipality taxes were revised through an analysis, which sampled the accounts average from the most to the least important municipalities for the years 2004 and 2005. Taxes for other years were estimated using indicators from the Treasury accounts, which collects specific taxes on behalf of the municipalities. These necessitate an adjustment to balance the accounts of the public sector. Concerning other taxes, these are drawn from the closure account of the

State. Table 30 demonstrates the evolution of the various indirect taxes types from 2003 to 2007.

Table 30
Indirect taxes by type 2003-2007

Type of taxation	<i>LBP billion</i>				
	2003	2004	2005	2006	2007
Customs duties	475	529	481	461	561
Taxation on consumption	2 575	2 874	2 440	2 349	2 779
Profits of public companies	1 260	1 453	1 663	1 428	2 003
Stamps and other duties	224	274	261	259	271
Municipal taxes and adjustment	384	424	422	497	343
- <i>subsidies</i>	-20	-61	-19	-26	-27
Total	4 898	5 493	5 247	4 970	5 932

Following Government policy to replace progressively *customs duties* by VAT, these duties declined from 2001 to 2003 and set out to rise again in 2004, albeit at a lower growth rate than imports. The real customs value ratio of imports dropped from 4.3% in 2003 to 3.1% in 2007.

As Table 31 demonstrates, the *taxation on consumption* comprises mainly of VAT, which was introduced in 2002.

Table 31
Taxation on consumption by type 2003-2007

Type of Taxation	<i>LBP billion</i>				
	2003	2004	2005	2006	2007
- on value-added	1 322.4	1 688.2	1 560.8	1 660.2	2 003.2
- on tobacco	184.6	196.5	190.8	162.0	211.0
- airport embarkations	72.3	84.2	83.8	64.4	77.7
- on fuels	816.3	644.7	362.2	230.3	185.0
- on motor vehicles	164.2	242.2	230.5	216.5	286.0
- Others	15.4	18.1	11.9	16.0	16.3
Total	2 575.2	2 873.9	2 440.0	2 349.3	2 779.2

In 2004, high returns of VAT receipts (+27.7%) were not entirely the consequence of a growth in transactions; these were due in part to a widening tax base and the time discrepancy between receipts and rebates. Between 2004 and 2007, the growth rate of VAT was on average 5.9% per annum. The drop in fuel taxes, which has been recorded regularly since 2004, can be attributed to the policy aimed at stabilizing gasoline prices.

The *profits of public corporations* are entered as product taxes, given the prices of goods and services produced by these companies are fixed by the State. Among the profits of public companies, the telecommunications sector, which is the most important, displayed the most significant growth over the past years: its value soared from LBP 141 billion in 1997 to LBP 785 billion in 2002, LBP 1 086 billion in 2003, LBP 1 310 billion in 2004 and reached LBP 1 456 billion in 2005. Estimations measure them at LBP 1 298 billion in 2006 and LBP 1 820 billion in 2007.

Subsidies to public corporations, which appear in the State accounts, are demonstrated below: (Table 32)

Table 32
Subsidies to public corporations 2003-2007

	<i>LBP billion</i>				
	2003	2004	2005	2006	2007p
Enterprise					
Wheat and beet	-	15.0	-	5.0	...
Water	0.4	1.6	-	-	...
Public transport	15.0	14.0	15.0	13.0	...
Lebanese television	2.5	28.2	4.0	4.0	...
Others	2.4	2.1	0.3	4.0	...
Total	20.3	60.9	19.3	26.0	27.0

P: Provisional figures

The subsidies granted to Electricité du Liban (EDL) are not entered in the budgetary expenditure of the State. Rather, these are treated as financial transactions and entered in the accounts of the Treasury in the form of advances to State-owned corporations. The EDL debts to the Treasury increased to LBP 81 billion in 2003, LBP 511 billion in 2004 and LBP 734 billion in 2005. The Treasury accounts for 2006 and 2007 are not currently available. It is important to note and include indirect subsidies granted to tobacco farmers whose values are unknown but are deduced from taxation on manufactured tobacco.

d) Intermediate uses

Intermediate uses are recorded as a purchases function by industries of consumable goods and services, minus changes in inventories. These are evaluated at market prices, in other words, inclusive of applicable taxes.

Intermediate consumption of the various sectors is described in part one, chapter one of this report.

Section II. Generation and allocation of the primary income account

Primary income includes factors of production and other variables involved in estimating GDP. The generation and allocation of the primary income account records GDP and all primary income received by domestic economic agents in terms of resources; and of the primary income paid by domestic economic agents in terms of uses. The balance of this account yields the second significant aggregate, namely, the gross national income (GNI). Aimed primarily at focusing on institutional units, the generation and allocation of the primary income account provides the breakdown of GDP according to the income approach.

a) Income approach of GDP

Table 33 below demonstrates the distribution value of GDP components by factors of production, such as wages and salaries; taxes, net of subsidies on products; interests; other income and depreciation.

Table 33
Breakdown of GDP by factors of production 2003-2007

	<i>LBP billion</i>				
GDP components	2003	2004	2005	2006	2007
Taxes – subsidies/products	4 898	5 493	5 247	4 970	5 932
Interests	2 567	3 085	3 180	2 925	3 631
Compensation and other income	20 026	21 421	21 550	22 868	25 185
Depreciation (balance)	2 785	2 849	2 977	3 063	3 010
Total = GDP	30 276	32 848	32 955	33 826	37 758

Wages and salaries represent all labour charges borne by the public and private sectors. Salaries paid by the Government are drawn from public sector accounts that are in table 10 (see part one, chapter 1, section VIII). Surveys undertaken during the establishment of the 1997 accounts detailed wages, salaries and other labour charges paid by firms. These estimated the share of GDP from wages and salaries at an average of 35.5%, namely, 83.2% in the public sector and 29.1% in the private sector.

Unfortunately, owing to a lack of adequate data for the period 1998-2007, the evolution of this GDP share remains sketchy. The survey of large corporations undertaken in 2004, which included 240 industrial plants, 270 service-oriented establishments (other than telecommunication, financial and educational services) and 96 trade firms, provided the approximate wages/gross value-added ratio of labour in 2002 and 2003 as follows:

<u>Sector</u>	<u>2002</u>	<u>2003</u>
Industry	24.6%	24.2%
Services	32.4%	32.9%
Trade	10.5%	10.9%

In contrast, *the share of indirect taxes, less subsidies*, in GDP grew significantly between 1997 and 2004, increasing from 10.5% in 1997 to 16.7% in 2004. This evolution is due to the introduction of VAT in February 2002 and the widening of its base during the two subsequent years. In 2005 and 2006, on the other hand, the fall in consumption entailed a drop in indirect taxes and their share in GDP, thereby, yielding a decline to 15.9% and then to 14.7%. With the recommencement of consumption in 2007, the share of indirect taxes in GDP rose back to 15.7%.

Interests represent the returns of financial capital paid by corporations to owners of this capital, and exclude interests paid by the Government. By convention, these interests are not entered in the estimate of the non-market output and are consequently excluded from GDP.

In order to estimate interest charges borne by corporations, the accounts presented here retained only the deposit income of commercial and investment banks. Interests paid by banks were allocated between debtor agents and measured in proportion to their banking debts. It is important to note that part of the interests received by banks represent remuneration for services rendered in the area of financial intermediation.

Table 34
Banking interests paid by corporations and public administrations 2003-2007

	<i>LBP billion</i>				
Bank data	2003	2004	2005	2006	2007
Interests received					
on Treasury bills	2 903	2 083	1 978	2 502	2 754
from non-residents	220	279	279	1 047	1 047
from other debtors	3 527	4 171	4 429	4 173	5 009
Total	6 650	6 533	6 686	7 722	8 810
Interests paid to depositors	4 839	4 832	4 801	5 413	6 386
<i>Ratio interests paid/received</i>	<i>0.728</i>	<i>0.740</i>	<i>0.718</i>	<i>0.701</i>	<i>0.725</i>
Estimates of interests paid to depositors per debtor:					
administrations	2 112	1 541	1 420	1 754	1 996
non-residents	160	206	200	734	759
corporations	2 567	3 085	3 180	2 925	3 631
Total	4 839	4 832	4 801	5 413	6 386

Thus, interests paid by the private sector to deposit owners via commercial banks were estimated at LBP 3 180 billion in 2005, LBP 2 925 billion in 2006 and LBP 3 631 billion in 2007, representing 9.7%, 8.6% and 9.6% of GDP respectively. In 1997, this distribution only accounted for 5.3%.

The interests paid by the public sector are not included in the value of GDP, but are entered in the primary distribution account, nevertheless, in accordance with relevant international conventions. These were drawn from public administration accounts after deducting the value of banking services. These banking services are estimated by applying the ratio of banking services/interests in table 34 to the interests received on Treasury bills by banks. The following table describes the evolution of the national debt burden and its distribution between interests and banking services.

Table 35
Evolution of the national debt burden and interests 2003-2007

	<i>LBP billion</i>				
Breakdown of charges	2003	2004	2005	2006	2007
Debt servicing	4 952	4 219	3 724	4 375	4 730
- value of banking services	941	675	693	903	935
= interests paid	4 011	3 544	3 031	3 472	3 795

Other income consists of dividends paid to owners of capital engaged in production and to various incomes of sole proprietors. While these incomes were the subject of an overall estimate in 1997, the remuneration of shareholders were not documented. As in the case of wages and salaries, only year 1997 produces a verifiable estimate, which revealed a relative 42.3% share of these incomes in GDP.

Owing to the lack of relevant data, wages, salaries and other incomes, excluding interests, have been compiled using the same aggregate since 1998.

Depreciation is calculated as the balancing item between the generation of income accounts of corporations, plus the estimated depreciation value of the Government's fixed assets. This last component is set forth in table 10 and demonstrates the calculation value of non-market output.

b) Calculation of the gross national income (GNI)

GNI is equal to the balancing item of the generation and allocation of primary income account of all domestic economic agents. It is therefore equal to GDP plus the primary income balance (resources/uses), which in turn is equal to the net income of factors received from the rest of the world. The latter are drawn from the accounts of the rest of the world, S.2 (table 28), which are made available in the following chapter.

The balances for the three types of primary incomes (compensation, interests and other incomes) are detailed in table 36.

Table 36
Structure of the gross national income 2003-2007

	<i>LBP billion</i>				
Components of GNI	2003	2004	2005	2006	2007
GDP	30 276	32 848	32 955	33 826	37 758
Net foreign compensation	-1 104	-867	143	277	76
Other net foreign income	423	336	644	290	560
Total = GNI	29 595	32 317	33 742	34 394	38 394

After four years of declining foreign net income, resulting in a lower growth of GNI compared to GDP, the years 2006 and 2007 witnessed a recommencement of such incomes: there was a modest decrease in the employment of foreigner workers complemented by a significant increase in the income of Lebanese labour abroad, according to the estimates of the Central Bank of Lebanon (BDL). Moreover, interests paid to non-residents, which tended to exceed those received by Lebanese nationals on their investments abroad was reversed. Thus, in 2007, GNI increased in the same way as GDP at current value (11.6%).

Section III. Secondary distribution of income account

The secondary distribution of income account analyses GNI and resources of domestic economic agents evolving from various types of transfers, namely: direct taxes, social security contributions, social security benefits and current transfers. Payments for such transfers are undertaken by domestic economic agents and carried over in uses. The balance of this account is therefore equal to the GNI increased by the current net foreign transfers. This yields the third aggregate, which is useful in analyzing the progression of a national economy, namely, “gross national disposable income” (GNDI).

a) Direct taxes

Direct taxes and social security deductions are compulsory levies collected by the State as resources of domestic economic agents. These are entered as uses for the private sector and Government resources.

Two types of direct taxes can be distinguished, namely: income tax and property tax. Taxation on private motor vehicles is similar to that of property and was taken into account with direct taxes. This runs counter to the administrative classification, which includes property tax among taxes related to consumption. Table 37 carries over the amounts collected by the Government according to these different taxes, such as they appear in the State closure account.

Table 37
Breakdown of direct taxes by type 2003-2007

	<i>LBP billion</i>				
Type of tax	2003	2004	2005	2006	2007p
Income tax	708	801	907	1 184	1 308
Property tax	310	396	409	579	532
Private motor vehicle tax	238	238	237	265	276
Total	1 256	1 435	1 554	2 029	2 117

P: Provisional figures

b) Social security contributions

Within the context of these accounts, social security contributions are associated with contributions received by the National Fund of Social Security (NFSS), and levies collected by the State from the wages and salaries of civil servants for pension fund

purposes. Compulsory contributions to other funds, including the Cooperative of Civil Servants, were omitted owing to a lack of relevant statistics.

All contributions, including those paid by employers to the NFSS are supposed to be paid by employees, given that such disbursements are calculated in the remuneration of labour. These are entered as resources of the public administration.

The payments by the State to NFSS are classified in the accounts as transfers and not contributions, owing to differences that exist between the public and private sectors. This becomes clear in employer/employee contractual obligations, which are not subjected to statutes governing civil servants, but are instead governed by labour regulations. Typically, such payments are sporadic (LBP 60 billion in 2000, LBP 80 billion in 2004, LBP 340 billion in 2005, LBP 220 billion in 2006 and not payments between 2001 and 2003). These payments were excluded from both the remuneration of workers and social security contributions.

Table 38
Social security contributions paid by domestic economic agents 2003-2007

Type of contribution	<i>LBP billion</i>				
	2003	2004	2005	2006	2007
Contribution to NFSS	648	759	946	865	1 022
Contribution of civil servants	74	86	85	85	88
Total	722	845	1 031	951	1 110

c) Social security benefits

The social security benefits that appear in the account as resources II.2 are higher than those registered in uses, owing to the fact that households receive, in addition to local services, retirement pensions paid by non-resident bodies. According to data in the Survey of Living Conditions of Households, these pensions were estimated at LBP 23 billion in 1997. This figure was kept constant for subsequent years, owing to the lack of updated statistics in this area.

Table 39
Breakdown of social security benefits received by type 2003-2007

Social security benefit	<i>LBP billion</i>				
	2003	2004	2005	2006	2007
Social security benefits from NFSS	806	812	801	829	943
<i>Health allowances</i>	397	444	439	451	540
<i>Family benefits</i>	215	217	221	231	224
<i>Severance payments</i>	194	150	141	147	179
Retirement pensions paid by the State	849	821	874	935	897
by the rest of the world	23	23	23	23	23
Total	1 678	1 656	1 698	1 787	1 863

Social security benefits provided by domestic economic agents (entered in uses) are limited to the allowances and expenses paid by NFSS, and to the retirement pensions

paid by the State. The former rose from LBP 407 billion in 1997 to LBP 812 billion in 2004 and reached LBP 943 billion in 2007, whereas the latter rose from LBP 528 billion to LBP 821 billion and reached LBP 897 billion during the same period.

Benefits provided by other social security funds were omitted in these accounts.

d) Current transfers and calculation of GNDI

The heading “current transfers” groups three types of capital flows, namely: non-tax receipts of the State; State assistance to individuals, and corporations and other organizations in the private sector, whether resident or non-resident, and finally, current transfers made or received by resident households to or from other non-resident households.

The first two headings are drawn from the State closure account and augmented with an adjustment regarding financial aid provided by other administrations.

The net foreign transfers result from the methods adopted for estimating the various headings of the balance of payments. These methods are described in the following chapter.

Table 40
Breakdown of current transfers received by type 2003-2007

	<i>LBP billion</i>				
Type of transfer	2003	2004	2005	2006	2007
Non-tax receipts	332	303	283	298	289
Aid	150	147	113	168	189
Net foreign transfers	5 439	4 418	3 815	6 135	6 296
Total	5 921	4 868	4 211	6 601	6 774

The balance of the secondary distribution of income account is equal to GNI increased by net foreign payments on secondary distribution account, as demonstrated by table 41.

Table 41
Calculation of GNDI 2003-2007

	<i>LBP billion</i>				
	2003	2004	2005	2006	2007
GNI	29 595	32 317	33 742	34 394	38 394
Migrant transfers	23	23	23	23	23
Net foreign transfers	5 439	4 418	3 815	6 135	6 296
Less international aid	-5	-13	-11	-7	-7
Total = GNDI	35 052	36 745	37 569	40 545	44 706

From 1997 to 2002, net foreign transfers tended to decline. Consequently, the growth of GNDI during this period was weaker than that of GDP. In 2003, the results of the balance of payments revealed a significant influx of transfers towards Lebanon (see the following chapter) in which growth of GNDI exceeded that of GDP in current value (12.8% compared to 5.5% for GDP). The level of net foreign transfers,

accounting for 18.3% of GDP in 1997, dropped to 11.6% of GDP in 2005 and rose significantly in years 2006 and 2007, which once more registered strong surpluses in the balance of payments. These transfers account for 16.7% of GDP in 2007.

Section IV. Use of income account

The income account records national consumption in terms of uses, and the available GNI in terms of resources. The balance of this account represents the national saving. After a growth in 1998, the national saving appeared to be in constant decline, especially from the year 2000 to 2002. Thus, the rate of total saving estimated at 13.4% in 1997 fell to 7.7% in 2002. This downward progression could be attributed to the significant decline in foreign transfers over that period as indicated by reviewing the balance of payments. Similarly, with the recovery of such transfers in 2003, the saving rate grew to 12.4%. In 2004, it declined to 11.1%; and rose to 12.9% in 2005. In 2006 and 2007, growth of income shares is higher than consumption, which results in an approximated rate of 18%.

Section V. Capital account

In terms of uses, the capital account records GFCF and variations in inventories, and capital transfers performed by domestic economic agents. In terms of resources, it records gross saving and capital transfers received.

Capital transfers recorded in uses represent subsidies aimed at rebuilding activities for those displaced by the war in Lebanon as well as subsidies towards rebuilding Southern Lebanon. Initially, these transfers were substantial (LBP 481 billion in 1997); however, the transfers decreased gradually to become negligible from 2002 to 2003. As from 2004, a moderate resumption of these subsidies have been recorded. They were estimated at LBP 105 billion in 2007.

In addition to transfers recorded in uses, capital transfers under resources include net foreign transfers received. The latter also decreased gradually from LBP 1 999 billion in 1997 to LBP 375 billion in 2002; however, these recovered in subsequent years to reach LBP 1 272 billion in 2005, LBP 4 091 billion in 2006 and LBP 2 099 billion in 2007. However, this remains a very rudimentary approximation, resulting from the estimates of the balance of payments. These estimates are described in the following chapter.

The capital account balance is the capacity or need for financing, equally referred to as net lending or borrowing according to whether the result is positive or negative. Overall, the Lebanese economy has always exhibited a need for foreign financing as table 42 demonstrates; however, with the exception of 2006 in which the economy realized a surplus. The capacity for financing households was insufficient to meet the needs for financing corporations and public administrations.

Table 42
Breakdown of net lending (+) or borrowing (-) by domestic economic agent 2003-2007

	<i>LBP billion</i>				
Economic agent	2003	2004	2005	2006	2007
Public administrations	-3 655	-2 529	-1 840	-2 576	-2 144
Corporations	-2 976	-4 172	-4 042	-4 425	-7 103
Households	7 885	5 390	4 894	10 743	8 813
Total	1 253	-1 312	-1 109	3 742	-434

Within the framework of this accounting system, the net lending of households is equal to their savings added to the undistributed income of corporations and to net capital transfers received from abroad, which are indeed supposed to be paid entirely to households¹¹. Thus defined, the capacity for financing households is dependant on foreign transfers as well as current capital transfers. Thus, in 2006, the significant transfers recorded a rise in the financing capacity to a record level (more than LBP 10 thousand billion), exceeding by far the financing needs of corporations and public administrations for that year.

The net borrowing of companies is equal to the GFCF of the private sector, and variations in inventories are recorded as capital depreciation. In evolutionary terms, the net borrowing of corporations emulated that of investments in the private sector, which were regressing in 2005 but rose significantly in 2007.

The net borrowing of the Government is equal to the deficit of the public sector. While this deficit exceeds by far the value of public investments, there is a progressive downward trend. It accounted for 15.7% of GDP and 14.5% of GNDI in 2002. In 2007, these ratios fell to 5.7% and 4.8% respectively. Note, however, the budget deficit of Treasury operations is excluded from the budget. It would have been more significant if the Treasury advances to EDL were recorded as subsidies rather than advances.

Section VI. Financial account

The financial account, as recorded in uses, measures variations in credits and claims, and as recorded in resources, changes in the debts of domestic economic agents. The balance of the financial account is equal to the capacity or need for financing. This equality results from the principle of the general balance of accounts. The methodology adopted in compiling this account rests largely on this principle of balance. Thus, the capacity for financing households gives rise to an equivalent increase in credits and claims held; the need for financing corporations is met by an increase in contributions and appropriations of corporate credits obtained and the Government deficit results in an equivalent increase in the national debt.

In line with their international classifications, receivables and liabilities retained in the current account are classified under the four categories that follow: currency and

¹¹ It must be noted that individual businesses are not grouped with households but with other corporations

deposits (F2), securities other than shares (F3), credits (F4), and shares or other equities (F5).

a) Variations in currency and deposits (F2)

The currency and deposits listed herein include only banknotes in Lebanese pounds (LBP) issued by the Central Bank of Lebanon (BDL), bank deposits held by residents and net foreign assets of Lebanese banks. By this definition, the entries exclude banknotes in United States dollars or other currencies, and deposits in foreign banks held by residents (excluding Lebanese offshore banks). The figures retained in this context are derived from BDL data regarding money supply.

The changes in money supply are recorded in resources for banks and in uses for the non-banking private sector. These are mainly deposits held by households, given the variations in currencies and bank accounts of non-financial companies are typically negligible. Thus, the variation increase in money supply from LBP 4 060 billion in 2005 to LBP 5 090 billion in 2006, and then to LBP 9 554 billion in 2007, is partly a reflection of the evolution in the financing capacity of households (see above).

Table 43
Variations in the money supply and net foreign assets of the banking sector 2003-2007

	<i>LBP billion</i>				
Type of currency	2003	2004	2005	2006	2007
Currency (LBP)	5 672	-98	-1 513	-987	1 353
Foreign currency deposits	1 132	7 000	5 573	6 077	8 200
Total = resources	6 805	6 902	4 060	5 090	9 554
Net foreign assets of banks	5 106	255	1 126	4 213	3 070
Total = uses	11 910	7 157	5 186	9 303	12 624

Note: The variation of deposits in currency is calculated at fixed rates of exchange

The significant fluctuations recorded in the money supply between the Lebanese pound and foreign currencies arise from discrepancies in the confidence of the national currency and interest differentials. It is important to note that variations of foreign currency deposits were calculated at constant rates of exchange.

As recorded in uses, the total currency held by residents is added to the increase in net foreign assets held by resident banks. The latter is equal to the deposits of Lebanese offshore banks minus the deposits of non-residents. It is calculated at constant rates of exchange. By definition, this variation represents the balancing item in the balance of payments.

b) Variations in securities other than shares

Only Lebanese Treasury bills were retained in these accounts; securities from the private or foreign sectors were omitted. Table 44 below provides the breakdown of Treasury bills by subscriber¹².

¹² Treasury bills subscribed to by banks are drawn from their assessments as published by the Central Bank of Lebanon (BDL). Those subscribed to by the public and Government is entered at face value. Variations of these bills

The variation of Treasury bills held by banks and other residents is recorded in uses. Those held by autonomous administrations are excluded by consolidation. In terms of resources, the Government holds bills on behalf of non-residents in addition to bills held by the public. There is a need to note, however, the exact breakdown of Treasury bills between residents and non-residents is unknown, and the figures adopted herein are drawn from the estimated variables of the balance of payments released by BDL.

Table 44
Breakdown of Treasury bills by subscriber 2003-2007

Subscriber	2003	2004	2005	2006	2007
	<i>LBP billion</i>				
	<i>Treasury bills in LBP</i>				
Public administrations	-618	-361	250	860	1 475
Banks *	3 621	990	2 312	773	2 626
Others	-1 206	-1 316	-279	-134	-398
Total	1 798	-687	2 283	1 500	3 704
	<i>Treasury bills in foreign currencies</i>				
Banks *	-815	3 472	724	3 361	205
Excluding banks	787	374	559	-1 849	30
Total	-28	3 846	1 283	1 513	235
	<i>Total resources</i>				
Banks *	2 806	4 463	3 035	4 135	2 831
Private sector residents	-1 206	-1 316	-279	-134	-398
Non-residents	787	374	559	-1 849	30
Consolidated Total	2 387	3 520	3 316	2 152	2 464

*BDL, commercial banks and investment banks

In 2004, the issuance of Treasury bills in foreign currencies tended to replace those issued in Lebanese pounds. In fact, banks subscribed to a significant portion of these bills. In 2005, Treasury bills in currency, net of refunding, were notably weaker (LBP +1 283 billion at constant rates of exchange of which LBP 724 billion was subscribed to by banks against LBP 3 472 billion from a total issuance of LBP 3 846 billion in 2004). In 2007, the BDL balance sheet shows in the assets section a decrease in the portfolio of Treasury bills (LBP -2 500 billion) whereas in the liabilities section, it shows a decrease of the “currency translation” section entered in the credit of the Treasury by virtue of article 115 regarding the Code of Money and Credit.

c) Variations in credits

As recorded in uses, the amounts entered represent variations in bank credits, as documented in existing statistics of the monetary situation, and estimated advances by the Treasury to public corporations. In terms of resources, the credits include, in addition, net foreign loans received by the Government.

in foreign currencies are calculated at constant rates of exchange. Significant divergences appear between the accounts of the Treasury and BDL statistics. The figures adopted in these accounts are the result of arbitration.

Bank credits to the private sector recovered in 2004, following a net decline during the period 1997-2003. This recovery slowed down in 2005, but resumed its progressive growth in the subsequent two years, albeit without attaining its former 2004 level. The credits net of refunding amounted to LBP 914 billion in 2007 against LBP 1 464 billion in 2004. Table 46 below demonstrates by user sector the evolutionary breakdown of credit from the financial sector, as published by BDL.

Table 45
Variations in credits by type 2003-2007

Type of credit	<i>LBP billion</i>				
	2003	2004	2005	2006	2007
Bank credits					
to the private sector	-549	1 464	678	1 163	914
to the public sector (net)	129	-1 190	-1 223	1 137	-118
<i>Credits</i>	184	151	8	-9	-35
<i>- deposits of public sector</i>	-54	-1 341	-1 231	1 146	-83
Total bank credits	-419	274	-545	2 301	796
Advances from the Treasury	431	511	734	1 370	1 429
Total in uses	12	785	189	3 671	2 225
Foreign loans	1 205	307	140	112	930
Total: resources	1 217	1 092	328	3 783	3 154

While these credits vary from those reported in the monetary situation, it remains possible to analyse changes in the breakdown of credits by sector. For example, credits in the construction sector fell most prominently during the period 2000-2003, and recovered moderately in 2004 to decline again in 2005. These credits began to progress modestly in 2006 and more appreciably than 2007. On the other hand, it should be noted, there was an increase in the credits to industry in 2003 and 2004 and one strong growth in 2007. Also in the latter year, there was a significant conduit of credits to the services sector.

Table 46
Variations in credits to the private sector by economic sector 2003-2007

Sector	<i>LBP billion</i>				
	2003	2004	2005	2006	2007
Agriculture	0	-54	52	-16	34
Industry	338	385	191	31	592
Construction	-441	293	-414	111	440
Trade	61	404	-410	67	891
Services	96	139	80	782	1 675
Financial institutions	67	86	197	254	485
Other bodies	-350	54	189	15	190
Individuals	448	582	398	885	1 157
Total	221	1 889	283	2 130	5 462
Adjustment	-770	-425	395	-967	-4 548
Total = Banking credits	-549	1 464	678	1 163	914

Bank credits to the public sector are net of deposits. Strictly speaking, variations in credits reflect largely changes in deposits rather than in credits. The latter are

negligible owing to the financing of the public sector through Treasury bills subscriptions held by banks. In 2004 and 2005, for example, net bank credits to the public sector decreased by more than LBP 1 200 billion, following a frail increase in credits (LBP +151 billion in 2004 and LBP +8 billion in 2005) and a strong increase in deposits (LBP +1 341 billion and LBP +1 231 billion respectively). Given the variation in Treasury bills held by the banking sector (BDL and commercial banks), which was LBP +3 547 billion in 2005, the net credits of banks to the public sector increased by LBP 2 324 billion. In 2006, on the other hand, the banking sector contributed significantly to the financing of the public sector: LBP 4 833 billion, including LBP 3 696 billion in Treasury bills and 1 146 billion in deposit deductions.

Specific advances by the Treasury to such public corporations as Electricité du Liban (EDL) are not documented. The current system of public accounts does not make it possible to identify the breakdown of advances by recipient. The figures indicated are approximations aimed at rendering the balance of State accounts.

Foreign public loans entered are those evaluated by the CDR and other public organizations are those listed by BDL. The recourse of the State to foreign financing is largely accomplished by issuing credits in euro bonds.

d) Variations in shares and other equities

Currently, there is a lack of data regarding the balance sheets of enterprises. The figures indicated in uses represent the theoretical change in the property rights of enterprises by households, whether they are corporate entities or sole proprietorships. Moreover, they would necessarily include amounts spent by households on purchasing new housing units, which were estimated at LBP 1 328 billion in 1997 by the Survey of Living Conditions of Households. In the absence of other relevant data over subsequent years, the participation of households in the gross capital formation of enterprises can only be roughly estimated.

In resources, direct investments of non-residents add to the contributions of residents, which are estimated within the framework of the balance of payments. See the following chapter.

Chapter 2

Rest of the world accounts and balance of payments

Transactions carried out with the rest of the world are entered in four accounts, which yield the main balances of the balance of payments, as follows:

- I. Goods and services transactions account, whose balance is equal to the trade balance
- II. Primary income and current transfers account, whose balance is equal to the current balance
- III.1 Capital transfers account, whose balance is equal to the capacity or the need for foreign financing;
- III.2 Financial account, whose balance is equal to the balance of payments deficit or surplus.

These various balances are demonstrated in Table 47.

Table 47
Evolution of the various balancing items in the balance of payments 2003-2007

	<i>LBP billion</i>				
Balancing item	2003	2004	2005	2006	2007
Trade balance	6 242	7 102	6 995	7 067	9 481
+ incomes and net transfers	-4 776	-3 897	-4 614	-6 719	-6 949
= Current balance	1 466	3 205	2 381	348	2 532
+ Net transfers of capital	-2 720	-1 894	-1 272	-4 090	-2 099
= Net lending/borrowing	-1 253	1 312	1 109	-3 742	434
+ Net financing	-3 852	-1 567	-2 235	-471	-3 504
<i>Credits</i>	-787	-374	-559	1 849	-30
<i>Treasury bills</i>	-1 205	-307	-140	-112	-930
<i>Net direct investments</i>	-1 860	-886	-1 536	-2 208	-2 544
= Balance of payments	-5 106	-255	-1 126	-4 213	-3 070

Note: A positive balance in the foreign account represents a deficit for the country, while a negative balance represents a surplus. Thus, the balance of payments was in surplus from 2003 till 2007.

Section I. External accounts on goods and services

The goods and services account with the rest of the world records retains exports in uses and imports in resources. These aggregates were reviewed in chapter 2 and chapter 5 of part one. The balance of this account, referred to as trade balance, has a broader meaning than its definition given that these exchanges are not limited to goods; rather they include net exports of services.

The trade balance has always been in deficit in Lebanon. Between 1997 and 2002, the deficit of foreign exchange of goods and services dropped from LBP 8 009 billion to LBP 5 440 billion in the wake of stagnating imports and significant growth of exports. In 2003 and 2004, following a growth of imports that were more considerable than exports, the deficit rose to LBP 6 242 billion then to LBP 7 101 billion. In 2005 and 2006, this deficit remained at almost the same level. In 2007, it reached a record level of LBP 9 480 billion, following a significant growth in imports. In 1997, this deficit accounted for 33% of GDP and 24.8% of national expenditure; in 2002, it accounted for only 18.8% of GDP and 15.9% of national expenditure. These ratios rose respectively to 21.2% and 17.5% in 2005, 20.9% and 17.3% in 2006, and 25.1% and 20.1% in 2007.

It is important to note, the estimate of the trade balance has been revised downwards, following the upward revision of net exports of services.

Section II. Primary income and current transfers account

In uses, this account retains the primary incomes paid to Lebanese residents by the rest of the world in addition to net transfers received from abroad. In resources, it carries forward the balance of goods and services transactions and enters payments of primary income carried out by the domestic economy to non-residents.

The balance of this account is equal to the current balance of payments. Similar to the trade balance, this balance has been positive in favour of the rest of the world, thereby indicating a deficit for Lebanon. From 1997 to 2002, the current balance dropped following a trade balance improvement in the favour of Lebanon; and in 2003, it fell sharply following improvements in transfer behaviour, restoring the trade balance to the level attained in 1997. In 2005, this balance was again in decline. The decline in imports and significant acceleration in the behaviour of current transfers to Lebanon resulted in diminishing the current balance to its lowest level in 10 years.

The evolution of the variables entered in this account is set forth below.

a) Primary income

Primary income, which is equally referred to as income factors, includes wages of employees, interests and other labour or capital incomes.

Wages and other labour incomes received from abroad by Lebanese residents were estimated for 1997 in the Survey of Living Conditions of Households. These figures were projected over subsequent years by using as an indicator the frequency of Lebanese residents travelling abroad. Within the context of salaries paid to non-residents, these were projected proportionately with value-added in the agricultural and construction sectors. Moreover, new indicators on the evolution of these incomes were adopted in the light of recent analyses by BDL on the balance of payments. However, these have not yielded more reliable data (see table 28).

Interests received by Lebanese residents on their overseas investments and interests paid to non-residents are estimated by BDL within the framework of its reviews on

the balance of payments. These estimates show a clear decline in interests received, which fell from LBP 1 297 billion in 1997 to LBP 549 billion in 2003, while interests paid to non-resident investors increased considerably, from LBP 951 billion in 1997 to LBP 1 652 billion in 2003, after peaking at LBP 1 747 billion in 2002. In 2004, while there was an increase in interests for both recipients, the balance remained in favour of non-residents (1 813-946 billion LBP). By contrast, in 2005, interests received by Lebanese residents exceeded those paid to non-residents, thereby yielding a positive surplus of LBP 143 billion in 2005, LBP 277 billion in 2006 and LBP 76 billion in 2007.

Given that interests constitute the most significant share of the primary income exchanged with foreign countries, the net income of the factors coming from the rest of the world has witnessed a significant decline since 2001. Specifically, after a positive progression between 1997 and 2000 when foreign contribution to the national income increased from LBP 472 billion to LBP 739 billion, this net income fell to LBP 177 billion in 2001 and became negative in 2002 (LBP -388 billion), 2003 (LBP -683 billion) and 2004 (LBP -534 billion). As from 2005, it returned positive in favour of Lebanon (+784 billion, +565 billion and +633 billion LBP respectively in 2005, 2006 and 2007). (See table 29).

b) Net current transfers

Historically, Lebanon has always profited from a flow of foreign transfers. However, there is a distinct lack of verifiable statistics on the nature and amount of such transfers. The methodology adopted herein for estimating current transfers records all the remainders of the balance of payments as transfers, in other words, under the heading “error and omission”, these are broken down between current transfers and transfers of capital using a ratio that varies according to the general economic situation, particularly with regards to investments. Excluding adjustments as required, the ratios between current transfers and transfers of capital were as follows: 0.7/0.3 in 1997, 1998 and 2004; 0.8/0.2 in 1999; 0.85/0.15 in 2000 and 2002; 0.9/0.1 in 2001; two-thirds/one-third in 2003; three quarters/one quarter in 2005 and 2007, and finally 0.6/0.4 in 2006.

In general, there was a decline in net foreign transfers between 1997 and 2002. Given the downward trend of investments in Lebanon, it is normal to assume that this fall affected transfers of capital to a greater degree than current transfers. In 2003, the strong surplus in balance of payments was a precursor to a substantial movement of transfers towards Lebanon owing to the increase in oil incomes. With increasing investments in the private sector, the rise in transfers of capital was comparatively more significant than that in current transfers. This behaviour was maintained in 2004 and 2005, albeit at a lower level. In 2006, a record level of transfers must be highlighted (more than LBP 10 thousand billion) of which 40% would fall under transfers of capital and 60% under current transfers.

Net current transfers need to include payments related to retirement pensions and other social security benefits received from abroad. These payments, which were estimated at LBP 23 billion in 1997 following the Survey of Living Conditions of Households, were maintained constant throughout the period under study.

Section III. Capital transfers account

This account carries forward the current balance retained in resources, and the net transfers of capital retained in uses.

Net transfers of capital were estimated using the same methodology as that adopted for current transfers: see preceding section. This yielded declining net foreign transfers in capital between 1997 and 2002: LBP 1 895 billion in 1997 to LBP 494 billion in 2002. From 2003, these transfers become more significant and cumulated to reach LBP 4 thousand billion in 2006 before falling to LBP 2 099 billion in 2007.

Set against the overall balance of the accounts, the balance of this account is equal in absolute values to the need or the capacity for financing of the national economy. With the exception of 2003 and 2006, this balance was positive during the entire 1997-2007 period.

Section IV. Financial account

The financial account retains variations in credits and is recorded in uses, and changes in debts of the rest of the world vis-à-vis the national economy is recorded in resources. The balance of the financial account is strictly equal to the capacity or the need for financing. The receivables and liabilities are entered as net values in each category.

In uses, the analysis underscores the following:

a) *Securities other than shares*

Concerning the variations in the portfolio of Lebanese Treasury bills held by non-residents. These amounts are estimated by BDL. See preceding chapter, section VI, paragraph b.

b) *Credits*

These refer exclusively to foreign credits undertaken by CDR and other public bodies.

c) *Shares and other equities*

These include the claims of non-residents on local enterprises, particularly in the real estate sector. From an initial estimate established within the framework of year 1997 account, these claims were projected over subsequent years in proportion to direct investments, as entered by BDL in the course of its reviews on the balance of payments.

In resources, it should be noted, the capacity for financing is added to the net variation of foreign assets of the Lebanese banking sector, under the heading “currency and deposits”. By definition, this variation represents the final balance of the balance of payments.

As portrayed in the ongoing analysis, the balance of payments was significantly in deficit in 2001 and in surplus in 2002 as a consequence of contributions made by foreign bodies in financing the Lebanese Treasury, pursuant to pledges made during the Paris II Conference. In 2003, the balance of payments recorded more significant gains under the double effect of continued purchases of Treasury bills and contributions of capital or current transfers. In 2004, despite a substantial volume of transfers, the balance of payments surplus was moderate given the significant rise in imports and a more modest subscription to euro bonds. From 2005, the surplus of the balance of payments can be attributed to a recovery of direct investments, particularly in the real estate sector.

Conclusion

The projections of the economic accounts over the years 2003 to 2007 have been made possible by applying the methodology developed during the compilation of the accounts for 1997-2002. This methodology has been adopted for subsequent years, making it possible not only to evaluate macro-economic developments, but also to establish and underline changes in the features of the Lebanese economy and finances, and to record the impact of major political events that have shaped economic activity over the past few years. In summary, some of the salient observations that have emerged are set forth below:

- a) The Lebanese economy is characterized by a degree of rigidity vis-à-vis the fluctuations in demand which influence imports significantly*

The two years of significant growth 2004 and 2007 were made noteworthy following a growth of GDP that was lower than demand: 7.5% against an increase in demand at constant prices of 9.1% in 2004 and 10.4% in 2007. On the contrary, a decline in demand does not inevitably involve a decline in domestic activity. Thus, in 2005 and 2006, the total demand fell in real terms by 1% and 0.5% whereas the growth rate of the economy remained positive (+1% in 2005 and + 0.6% in 2006).

On the other hand, a variation in demand is followed by a more significant variation of imports in the same direction: thus, the real growth rate in terms of imports was 13.4% in 2004 and 17.2% in 2007. During the years 2005 and 2006, in which total demand was in decline, the volume of imported goods dropped by 5.7% and 3.2% respectively.

- b) According to the economic state-of-affairs, the principal role of private consumption in the demand variation is weakened or reinforced by the behaviour of investments and foreign demand*

In 2004, households, investments and foreign demand contributed almost equally to the increase in total demand. In 2007, the second year of significant growth, the input of exports was moderate; investments rather than consumption created this growth. (See table 48).

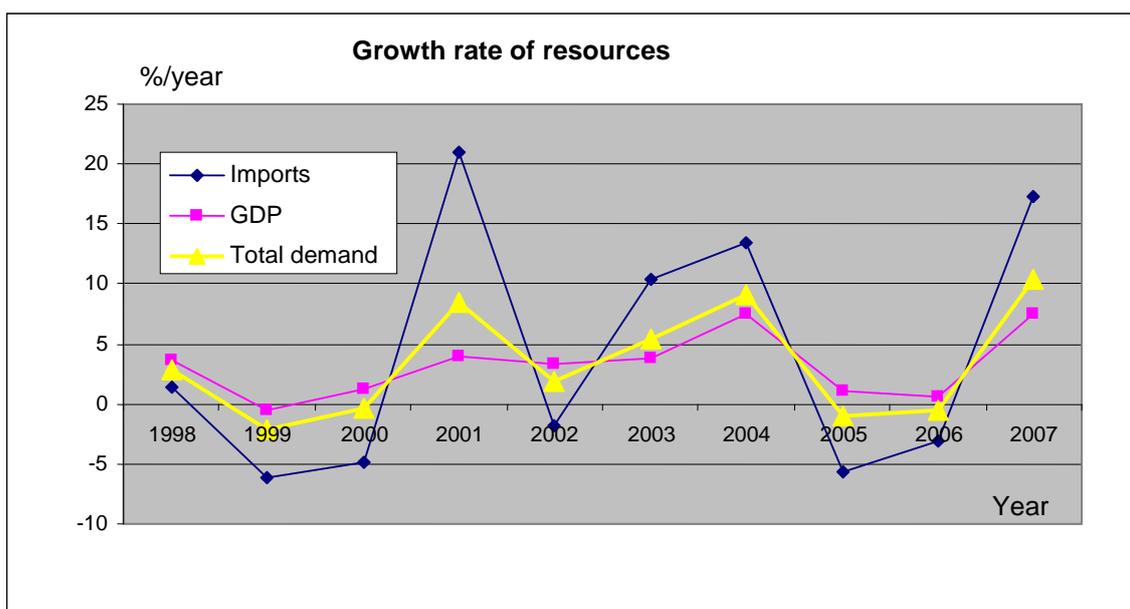
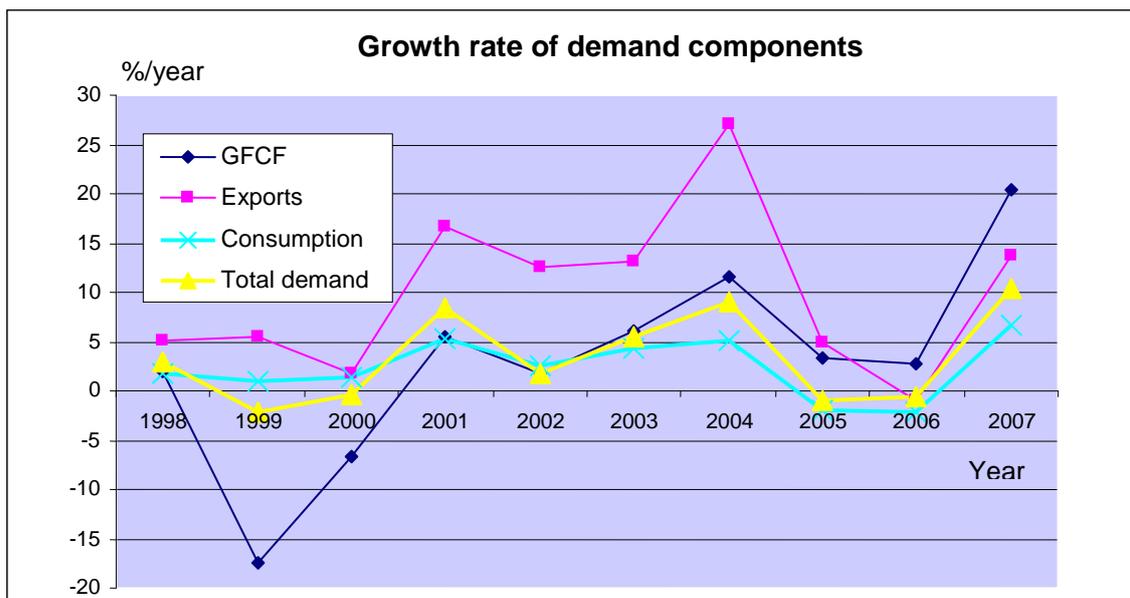
Table 48
Contribution of the various components to the demand growth, %/yr.

Components of GDP	2003	2004	2005	2006	2007
Private consumption	2.7	3.1	-1.1	-1.2	3.8
Public consumption	0.2	-0.4	0.0	0.3	0.5
GFCF and change in inventories	1.0	3.1	-0.6	0.5	4.0
Exports	1.5	3.3	0.7	-0.1	2.1
Total demand	5.5	9.1	-1.0	-0.5	10.4

Note : The contribution to the growth of demand is calculated by multiplying the growth of the component by the ratio given by component value/total value.

c) Perseverance of private investments

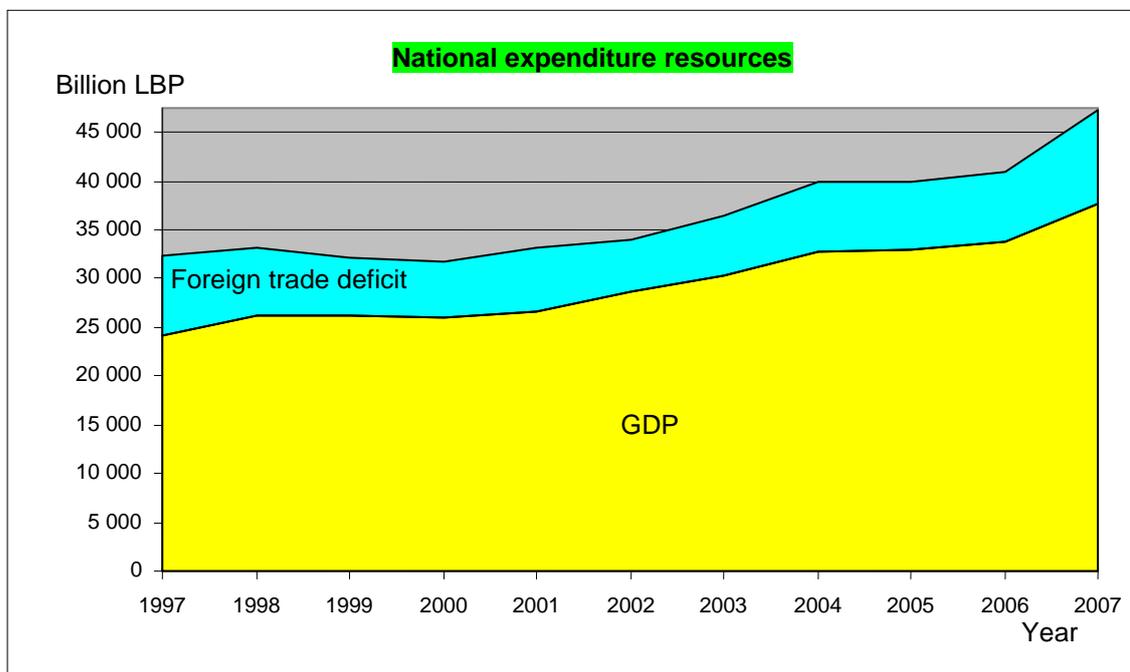
After a period of decline, investments recovered significantly in 2003 (11.9% in value), continuing to grow in 2004 (+23.4%) but stagnated in 2005 (+0.1%). This stagnation can be attributed to the drop in public investments and the decline in inventories, whereas GFCF of private enterprises continued to grow (+9.5% in value, 5.6% in volume) owing to the contribution of foreign capital in search of investment. In 2006, despite the hostilities, both private and public investments increased in real value to reach 3.5% and in 2007, they demonstrated a growth rate record of 25% (21% if the increase in inventories is excluded).



d) Moderate increase over the last few years in the structural discrepancy between national expenditure and domestic output

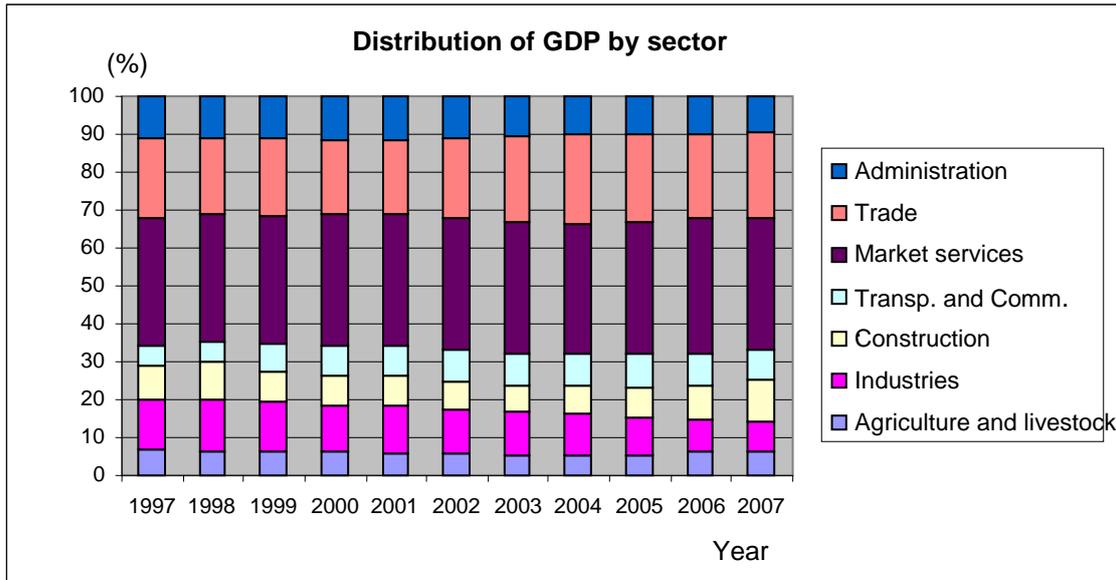
Subsequent to the evolutionary period between 1997 and 2002, this led to a reduction gap in relative value between national expenditure and GDP, namely, from 33.0% of GDP in 1997 to 18.5% in 2002. Subsequently, this value fluctuated between 21% and 22% from 2003 to 2006 to reach 25% in 2007. This evolution is the consequence of the development disparity in the various sectors of economy, and between import and production prices.

In parallel, the trade deficit in goods and services, which initially comprised 24.8% of national expenditure in 1997, dropped to 15.6% of this expenditure in 2002. This ratio fluctuated between 17% and 18% between 2003 and 2006 respectively and reached 20.1% in 2007.



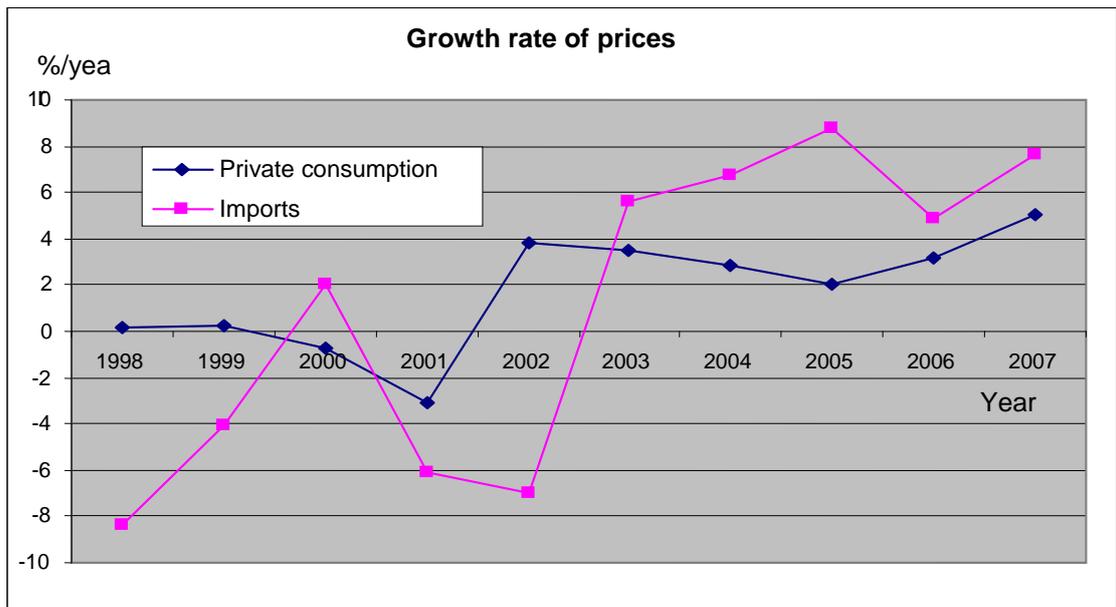
e) Continuing limitations in the production of goods

The agricultural sector in GDP was in constant decline from 1997 to 2005, dropping from 6.7% to 5.2%, and increasing in 2006 and 2007 to a slightly higher benchmark of more than 6%. Conversely, the industrial sector continued to decline, falling from 13.7% in 1997 to 8.1% in 2007. The significant drain of the value-added in the energy sector is largely responsible for this regression. Overall, the contribution of these two production sectors of goods is currently estimated at 15.0%. Essentially, the industrial sector would have witnessed greater growth if the values concerning the factors of production had not dropped or stagnated and had, instead, followed the same trend as the prices of the total value-added.



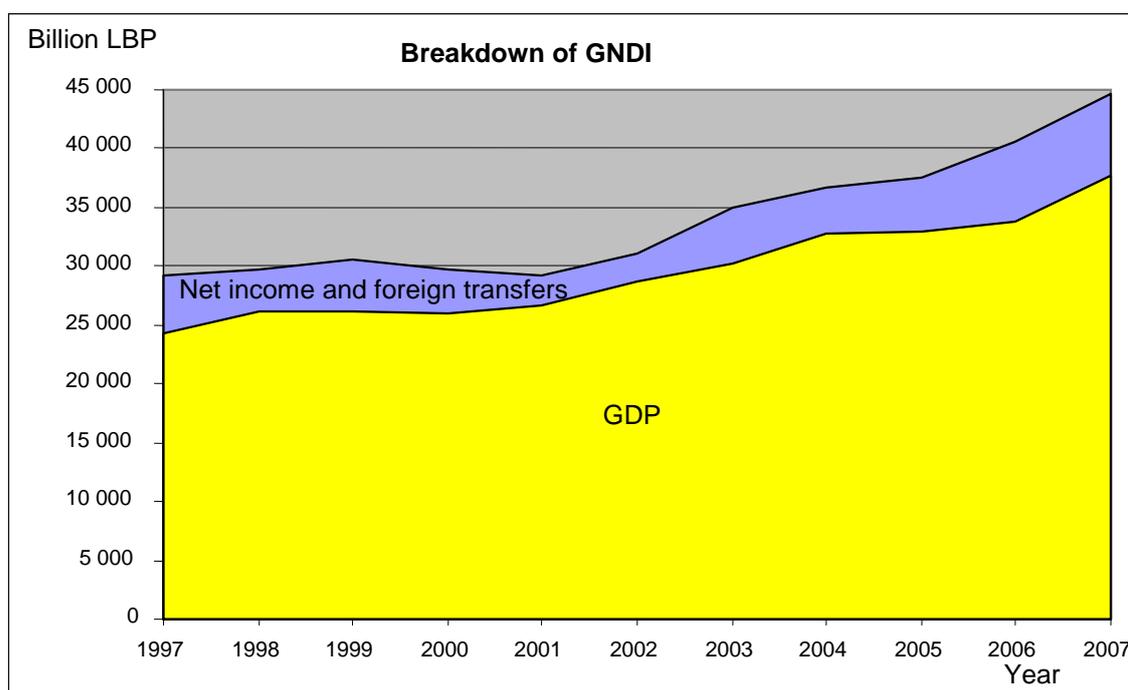
f) A rise in import prices partially reflected on consumer prices

On average, import unit prices dropped by 4.1% during the period 1997-2002, owing largely to the appreciation of the Lebanese pound against other major foreign currencies and the declining trend in the prices of raw materials. The Lebanese pound, which is pegged to the United States dollar, began to depreciate in 2003, while the prices of raw materials began to increase once more. Consequently, import prices increased by 5.6%. However, given that domestic prices did not follow the same trend, consumer prices increased by only 3.6%. The same trend was observed in subsequent years: from 2004 to 2007, the unit values of imported goods increased on average by 7% per annum whereas consumer prices increased by only 3.3% per annum.



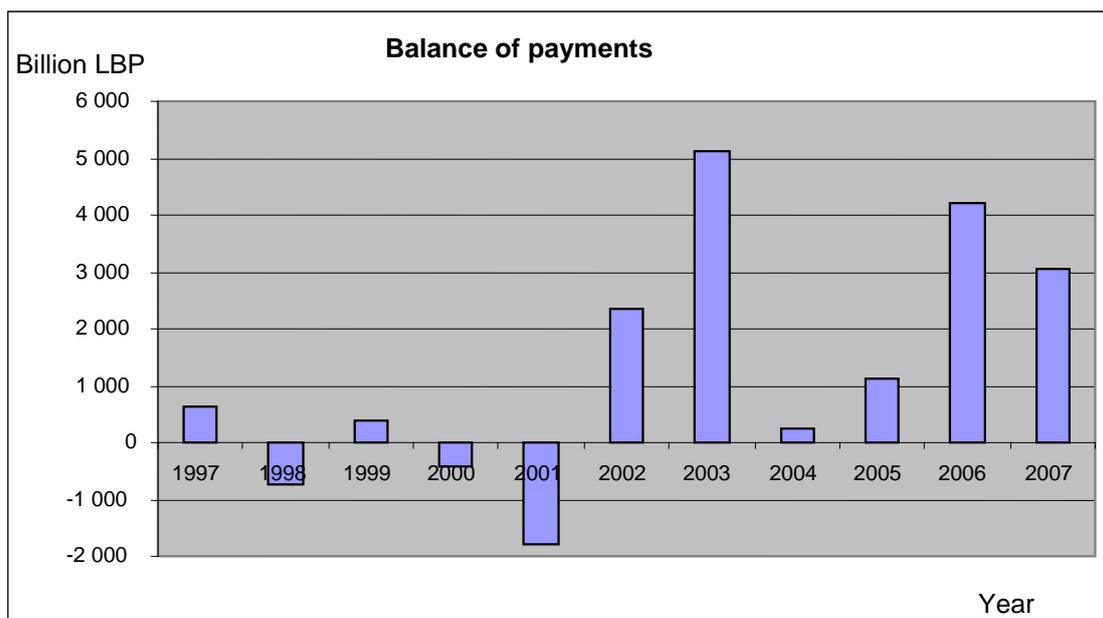
g) An increased dependency on foreign transfers

The foreign exchange of goods and services deficit has always been covered by foreign incomes and transfers, which have contributed towards financing the national economy either directly or indirectly by contributing to the household savings configuration. After a period of decline, the estimated transfers excluding direct investments started recovering significantly in 2003. The net income and current foreign transfers in GNDI fell from 18.6% in 1997 to 7.5% in 2002 and rose to 13.6% in 2003 and 15.6% in 2007.



h) A constantly positive balance of payments

Significant current or capital transfers, often in the form of direct investments or subscriptions to Treasury bills, have more than made up for the deficit in the trade balance, thereby, indicating a surplus in the balance of payments. In 2005 and 2006, this surplus was expanded further with the decline of imports following a drop in demand - a surplus that was more significant in 2006 following an increase in transfers. Actually, in 2007, transfers made it possible to indicate a surplus despite the significant increase in imports and trade balance deficit.



i) Continued national savings growth measured against 2004

Gross national savings declined sharply between 1999 and 2002, subsequent to a peak of LBP 4 476 billion in 1998. Owing to the recovery of economic activity and, especially, to the surplus in the balance of payments, gross national savings grew significantly in 2003, then declined moderately in 2004 in the wake of the rise in consumer expenditure. Political events in 2005 and 2006 encouraged households to save rather than to consume. In 2007, the GNI was higher than consumption and savings attained a record level of LBP 7 925 billion, accounting for 17.7% of GNDI.

j) Negligible participation of banks in financing private sector investments

The participation of the banking sector in financing private investments has continued to decrease since 1997 to produce negative figures in 2003. Typically, bank surpluses were invested in Treasury bills or in foreign countries, or were blocked in BDL. In 2004, banking credits to the private sector recovered to indicate positive figures, estimated at 20% of investments in this sector. However, since 2005, these credits declined once more, set against a modest growth in private sector investments (represented by GFCF + changes in inventories): consequently, the participation of the banking sector in financing investments contributed for about only 10%.

k) A public budget deficit in constant decline

The decline of the public deficit began in 2003 and continued in 2005. The deficit/GDP ratio, which was in the range of 15% and 20% during the period 1997-2002, fell to 12.1% in 2003, 6% in 2005 and 5.7% in 2007 after an increase to 7.6% in 2006. Subsequently, covering this deficit will entail comparatively weaker proportions of the domestic and foreign capacity financing.

However, the budget deficit does not include subsidies granted by the Treasury to EDL. If these subsidies appeared in the budget under subsidy in the State account, the deficit would have exceeded 9% of GDP in 2007.

l) The burden of the public debt continues to be significant

Despite a noticeable fall, pure interests (excluding bank margins) continue to be disbursed to cover the public debt in the secondary distribution sector. Specifically, these represent 141% of compulsory levies in direct taxes, social security deductions on income and domestic insurance in 1997. This ratio increased to 175% in 2002 and 174% in 2003; and dropped to 137% in 2004 and 106% in 2005 and 2006. It rose once more to 108% in 2007.