

IN THIS ISSUE

| | |
|--|-----------|
| Leader | 1 |
| Public debt: LL 13.3 billion in daily interest | |
| Public sector | 3 |
| 2004 municipal elections | |
| Beirut municipality: The sectarian knot in the elections | 5 |
| Sectoral Outlook | 6 |
| A closer look: 2003 trade statistics | |
| Opinion Poll | 8 |
| Shopping festival 2004: Sales take a holiday once more | |
| Survey | 11 |
| Banking survey (part IV): Lending | |
| Discover Lebanon | 12 |
| Assia | |
| Legislative Outlook | 13 |
| Money laundering: US complaints head the list | |
| Focus on Syria | 14 |
| Syria asks the WTO: "What about us?" | |
| Interview | 15 |
| A talk with George Boueiri, President of the Physiotherapy Syndicate | |
| Editorial | 16 |
| Current Statistics | 16 |

Public debt: LL13.3 billion in daily interest

Time to reschedule the debt?

As one of the largest debtor nations in the world relative to its population and natural resources, Lebanon and its giant public debt and interest rate are a main concern of Lebanese citizens and the government. The lack of natural resources, big industry or surplus agricultural products means few exports, or \$1,524 million worth of exports in 2003, compared with \$7,168 in imports (see 2003 trade statistics on pages 6–7), resulting in a \$5,644 million trade deficit. On the other hand, the balance of payments saw a \$3.4 billion surplus owing to an increase in remittances from Lebanese living abroad (partly a result of the events of September 11) and funds from the Paris II donor conference. Lebanon's actual debt, its development and the financial dues required to cover the debt in 2004 are explored below.

Origin of the public debt and its development

In early 1993, the net public debt stood at around LL 5,000 billion, distributed in LL 4,433 billion of domestic debt in local currency and \$327 million of external debt in foreign currencies. By the end of 2003, the debt had grown to LL 47,177 billion (the current debt excluding public sector deposits is around LL 50,196 billion), out of which half is external debt.

Interest on the debt rose from LL 325 billion in 1993 to LL 4,874 billion in 2003, or an increase of LL 13.3 billion per day. **Table 2** on the next page details the development of the public debt and interest paid from 1993 to 2003. As for the government's strategy of transferring part of the public debt from local to foreign currency in order to reduce the interest cost, critics say the policy has not proven useful. Instead, half of the public debt has been switched to foreign currencies (of which Lebanon does not have steady sources), and has put the country in a difficult posi-

tion in case the Lebanese exchange rate against the dollar drops.

Nonetheless, some experts prefer this option to the reduction of the public debt, as the decrease in the exchange rate to LL 3,000 against the US dollar will reduce the size of the debt in US dollar terms to around \$23.3 billion. On the other hand, it raises the Lebanese pound debt to approximately LL 70,000 billion.

2004 dues

Debt that is due in 2004 is estimated at around LL 16,657 billion, out of which bills in foreign currency reach \$1,478 million. The maturity date for these bills is distributed in **Table 1**.

Causes of increased public debt

The main factors contributing to the dramatic increase in the debt are:

- **High interest:** The Ministry of Finance imposed high interest rates on T-bills, claiming that it would attract foreign investment and lead to a reduction in the transfer of deposits from Lebanese pounds to US dollars and other foreign currencies. Thus, interest paid reached LL 37,540 billion from 1993 to 2003 and constituted around 80% of the net public debt. **Table 3** shows interest rates on T-bills from 1992 to 2001. It can be observed that lowering the interest rate on T-bills to around 9%, starting in December 2002, did not lead to the reduction of interest paid, since around 85% of bills in Lebanese pounds are two-year bills, and the effect will not be evident before the end of 2004 and 2005.

- **Construction costs:** The government launched a construction program in 1993, which was partly financed by international loans and grants. The government's own contribution was \$6–7 million.

Continued on page 2