FOR AGENDA

SM/83/32

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February 11, 1983

To: Members of the Executive Board

From: The Secretary

Subject: Lebanon - Staff Report for the 1982 Article IV Consultation

Attached for consideration by the Executive Directors is the staff report for the 1982 Article IV consultation with Lebanon. A draft decision appears on page 11.

This subject will be brought to the agenda for discussion on a date to be announced.

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INTERNATIONAL MONETARY FUND

LEBANON

Staff Report for the 1982 Article IV Consultation

Prepared by the Staff Representatives for the
1982 Consultation with Lebanon

Approved by A. S. Ray and Subimal Mookerjee

February 10, 1983

I. *Introduction*

The 1982 Article IV consultation discussions with Lebanon were held in Beirut during the period December 15-20, 1982. The Lebanese representatives included the Minister of Finance, the Governor of the Bank of Lebanon, and the Chairman of the Council for Development and Reconstruction, as well as other senior officials. The staff team consisted of Messrs. A. S. Ray (Head - MED), J. E. Blalock (MED), J.-F. Garnier (FAD), B. K. Short (MED), and Miss J. S. Smith (Secretary - ADM). Lebanon continues to avail itself of the transitional arrangements of Article XIV.

II. Background

The basic problem confronting the Lebanese economy since 1975 has been a generally low level of security interspersed with particularly violent episodes. The fighting caused considerable death and injury, dislodged a large part of the population, destroyed physical assets, and disrupted economic activity. The World Bank has estimated the current replacement cost of all property destroyed at about US$9 billion of which US$1.5 billion is for damage suffered in West Beirut and southern Lebanon from the Israeli invasion. Housing, in particular, suffered severe damage and about one quarter of private industry's fixed assets was destroyed. Agriculture has also suffered with, for example, close to 4,000 acres of citrus orchards having fallen out of production due to neglect, destruction, and disease. Private investment in productive projects stagnated and a significant portion of the labor force, especially skilled workers and professionals, emigrated to take advantage of employment opportunities in the Gulf countries and elsewhere.

It is difficult to describe macroeconomic developments in the Lebanese economy with any precision because official statistics on production, prices, and foreign trade have not been compiled since 1975. In addition, the Government's fiscal position has not been fully ascertained for budgets beyond 1977 because the Ministry of Finance was unable to close its accounts thereafter due to the security situation. The staff analysis and assessment are based on incomplete official statistics and other information that may be subject to large uncertainties. Nevertheless, the broad outlines of economic developments may be discerned from these sources.

Since the first outbreak of fighting, there have been partial recoveries of economic activity during periods of relative calm. Indications are that there was some real growth in 1979-80 yet real output in the latter year was still well below the prewar level. Output probably declined in 1981 as the security situation gradually worsened. In 1982 production must have fallen sharply due to the continued slow deterioration in security over the first five months of the year and especially the Israeli invasion in the summer. During this latter period, economic and financial activity came to a virtual halt in a number of areas. Security in Beirut and its environs returned almost to normal after the multinational force was installed leading to a resurgence of private sector confidence. However, the recovery of economic activity came late in the year, was mainly confined to the Beirut area, and was retarded by the physical destruction which had occurred.

Considering the destruction of fixed assets, the scarcity of labor, and the security situation which it has faced during the last eight years, private sector activity has been remarkably resilient. One factor was relatively vigorous domestic demand that was supported by foreign contributions to the different politico-military factions and by emigrants' remittances to their families. The sectors which performed relatively well were construction (especially construction of single-family housing units along the coast and shopping facilities in the suburbs of Beirut), banking, and trade. Unofficial price indices put the rate of inflation below 20 per cent for 1981 and in the range of 20-25 per cent for the first three quarters of 1982. In the last quarter of 1982 the rate of inflation is regarded as having moderated due to the appreciation of the Lebanese pound.

To supervise and encourage reconstruction after the first outbreak of fighting, the Government created the Council for Development and Reconstruction (CDR) in 1977. However, implementation of the CDR's initial eight-year program of LL 22 billion 1/ was postponed by renewed hostilities. Drawing upon its original eight-year plan, the CDR formulated a flexible twelve-month program of projects costing LL 1 billion and was largely successful in completing this program by the end of 1981. In 1982 reconstruction activity virtually came to a standstill as the security situation worsened. At the 1979 Conference of Arab League Heads of State, Lebanon received pledges of US$2 billion in grants over 1980-84 for reconstruction. In the event, grants received only reached US$384 million by early 1982, but the most serious obstacle to reconstruction remained the security situation.

Despite the absence of closed fiscal accounts since 1977 and the growing gap between official budget estimates and actual budgetary outcomes (in part because of the growth of extrabudgetary expenditures), the general dimensions of the public sector's finances are known. Since 1975 the public sector's budgetary position has been one of rapidly growing deficits financed mainly by borrowing from the domestic banking

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1/ At the time, the exchange rate was about LL 2.95 = US$1. In mid-December 1982 the rate was LL 3.95 = US$1.

system. Without effective government control over much of the country, revenues grew slowly. Customs duties, which comprised over one third of total revenue in the prewar period, have fallen since 1980 due to closings of Beirut port during fighting, the illegal use of ports under the control of foreign forces and domestic paramilitary organizations, and the spread of smuggling in general. On the other hand, expenditures have increased rapidly as the Government has tried to continue to perform its normal functions. In addition, the Government has paid subsidies, which accounted for as much as one fifth of expenditures in 1981, on certain commodities (petroleum products, wheat, sugar, water, and electricity). Banking and financial data indicate that the 1981 deficit for the public sector was equal to two thirds of government expenditures with bank financing equal to one quarter of the increase in domestic liquidity.

The 1982 budget projected a deficit 37 per cent higher than the provisional estimate for 1981. Expenditures were budgeted to be somewhat higher due mainly to a 34 per cent increase in wages and salaries, while revenues were expected to fall slightly, reflecting the continued difficulty of collecting indirect taxes. In the event, the security situation for the year as a whole was much worse than had been anticipated. On the basis of banking and financial data for 11 months, it appears that the public sector deficit may have been over two thirds higher than in 1981, with bank financing equal to about 90 per cent of the increase in domestic liquidity.

Over 1978-81 the growth rate of domestic liquidity accelerated from 20 per cent to 40 per cent. During this period, the most important factor affecting domestic liquidity was credit to the private sector. To slow its growth, the Bank of Lebanon imposed bank credit ceilings for the last half of 1979 and 1980. In the first 11 months of 1982 domestic liquidity grew by only 14 per cent (at a compound annual rate) due to the virtual stagnation in the growth of credit to the private sector after May 1982. In 1982 credit to the public sector became the main factor in the expansion of domestic liquidity. As a result of a shift by residents from foreign currency deposits to Lebanese pound deposits combined with the slack demand for credit by the private sector, banks' deposits with the Bank of Lebanon at the end of November 1982 were far above their reserve requirements. To absorb some of this liquidity the authorities sold Treasury bills beyond the Government's financing needs and sterilized the additional receipts.

Lebanon's exchange system remains virtually free of restrictions with rates for the Lebanese pound determined by supply and demand in the market. The Bank of Lebanon's interventions therein have been intended to smooth out random fluctuations, counteract speculation, and slow too rapid changes in exchange rates. Until 1982 these interventions were infrequent and limited in amount, but over the last half of 1982 the Bank has intervened more determinedly to slow the remarkably sharp appreciation of the pound. Whereas the Lebanese pound had depreciated by 57 per cent against the U.S. dollar from the first outbreak of fighting in February 1975 until the end of July 1982, it appreciated by 27 per cent against the U.S. dollar from then until the end of November 1982.

The Lebanese pound's depreciation from 1975 through 1981 occurred at the same time that the overall balance of payments was usually in surplus. However, the surpluses in 1978, 1980, and 1981 were small and offset by a large deficit in 1979. Throughout this period the objective of the Bank of Lebanon was to hold its net foreign assets constant and, if an occasion presented itself, to add modestly to its reserves without disturbing the exchange market. In the first half of 1982 when the Lebanese pound came under pressure, the Bank committed about SDR 250 million of reserves to slow the depreciation of the pound. Similarly, when the pound subsequently began appreciating rapidly, the Bank intervened to moderate the appreciation. As a result, the prospect is for a quite substantial surplus--over SDR 650 million--in 1982. The Bank of Lebanon's gross reserves, excluding gold, amounted to SDR 1.9 billion at the end of November 1982, equivalent to about seven months' imports. 1/

Lebanon has experienced large trade deficits which have been accommodated since 1975 by remittances from external elements to the paramilitary organizations (at least until mid-1982) and from Lebanese working abroad to their families. Since mid-1982 there has been a substantial inflow of funds both from residents who were holding assets abroad and from nonresidents, as well as from Lebanese banks.

Lebanon has bilateral payments agreements with Guinea, Romania, and two nonmember countries (Czechoslovakia and Poland). The outstanding balances under all four agreements are modest. The bilateral payments agreement with Guinea is inoperative and there are no outstanding balances being maintained under the agreement. The agreement with Romania is expected to be terminated shortly and is the only restriction subject to Article VIII.

III. Report on the Discussions

The discussions with the authorities focused on reconstruction strategy as well as monetary, fiscal, and external sector policies in the context of the reconstruction effort, assuming that before too long a settlement would be reached restoring effective control over all of Lebanon to the Government.

1. Reconstruction

The authorities informed the mission that a study was being prepared on the economic effects of the Israeli occupation of southern Lebanon. The opening of the southern border to imports from Israel and from other countries via Israel had displaced imports through other illegal ports but with no additional deterioration in customs receipts. However, the

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1/ The Bank's gold holdings have been practically unchanged at 9.2 million fine ounces for over ten years. Valued by the Bank at US$42.22 per fine ounce, these holdings were worth SDR 361 million at the end of November 1982. The Bank of Lebanon's foreign liabilities have been extremely small, amounting to SDR 16 million at the end of November 1982.

authorities felt that all sectors of the economy, and in particular public sector finances, could not improve significantly until foreign forces left and all points of entry were brought under government control. Agricultural imports (especially potatoes, and apples and other fruits) from Israel had harmed Lebanese farmers but Israel had unilaterally cut these back. Perhaps even more damaging to the agricultural sector was the closing of the highway to Damascus which was a main route for Lebanese agricultural exports.

The authorities reported that the cost of the CDR's reconstruction plan, to be carried out over 5-8 years, had just been revised upward to US$15 billion. 1/ This revision reflected the greater amount of destruction which had occurred since the original program was drawn up four years ago, higher costs, and additional needs that had arisen. The authorities intended that reconstructed facilities should take account of requirements which had arisen since the destruction as well as indicated future needs. The mission agreed with the authorities that a comprehensive new reconstruction plan was needed which would specify the sectoral distribution of public sector investments, annual financing requirements, and the macroeconomic consequences of this financing. The World Bank was assisting in developing this reconstruction plan and the planning phase of reconstruction appeared to be proceeding on schedule.

The CDR was preparing a short list of priority projects focused on the most urgent need of providing housing for the many displaced persons. However, in light of the urgent need to proceed on many fronts, the authorities intended to implement the reconstruction program with flexibility, taking into account available external financing and other considerations. For 1983 the CDR would propose a program costing about LL 1.5-1.6 billion. Since there would inevitably be delays in receipts of foreign assistance, the CDR would also propose to the Government that it temporarily finance this program from domestic financial institutions so that work could commence on reconstruction before receipt of expected aid. Although this would involve deficit financing, it would allow reconstruction to get under way more quickly. While the mission was seriously concerned about the size of prospective budget deficits, it agreed that it was important to make an early start on reconstruction.

Two programs were being established whereby the Treasury would provide subsidized credit to housing and industry for a limited period. To help repair damaged housing, the Treasury would subsidize most of the interest cost on commercial bank loans for housing rehabilitation. As this lending was only to repair damaged housing, the authorities considered the subsidies to be nonrecurring and not open-ended. With regard to industry, the Government was also preparing to subsidize half the interest cost of bank credit to the private sector for investment in new plant and equipment. In this case the subsidies might amount to

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1/ The difference between this sum and the US$9 billion estimated cost to replace damaged assets (page 1) represents additional requirements resulting from depreciation and deferred investment as well as indicated future needs.

LL 1 billion over the next six years. The authorities stated their belief that entrepreneurs needed encouragement and that, after a few years of assistance, the Government would be a net gainer from profit taxes received from the enterprises which had been helped. The mission cautioned that the proposed credit subsidies would not only weaken government finances in the short run, but might also provide an unnecessary stimulus to the economy. In addition, without tight controls, both subsidy programs could be abused. The mission advised that subsidized credit for housing should be carefully targeted to ensure that it was received by qualified borrowers and used in the manner for which it was intended. With regard to credit to industry, the mission stated that private industry had flourished without subsidies in the past and felt that private investment would respond again once businessmen had sufficient confidence about security. In the meantime no interest subsidy would be sufficient to overcome their concern about security. The mission suggested that there was a greater need for longer maturity credit and that efforts might be made to develop institutions providing such credit.

As regards long-term financing of the CDR's reconstruction program, the authorities indicated that the objective was for 25 per cent of the total US$15 billion to be financed domestically, leaving the remainder to be provided by foreign financing. Nothing concrete had been arranged yet, but there were indications that foreign assistance of about US$11 billion might well be forthcoming over the plan period. The authorities stated that the World Bank had been asked to sponsor an international fund-raising effort. The Government's capacity to borrow abroad was enhanced by its relatively low level of external debt, as well as by the high level of the Bank of Lebanon's gold and foreign exchange reserves. However, the authorities recognized that careful attention had to be paid to this means of finance to ensure that the proceeds were used in the most productive way and that the debt service burden remained manageable.

The authorities explained that even in the prewar period many Lebanese had gone abroad to earn a living and that this would inevitably continue even after security was fully restored, although they anticipated that the number of people working abroad would decrease from the present level. Nevertheless, during reconstruction, shortages of certain types of labor could develop. To avoid this, the authorities realized that technical training should be extended, and that production should become more capital intensive and efficient. To improve productivity, new investment would have to be accompanied by a transfer of technology from industrialized countries. Recognizing that prior to 1975 Lebanon had also had to import labor, especially less skilled workers for construction, a decree had just been issued admitting foreign workers under certain conditions. The mission observed that the availability of qualified labor would be a crucial factor determining the pace of reconstruction and that Lebanon would have to compete for both Lebanese and foreign labor in a generally tight labor market for the region.

2. Fiscal and credit policies

The authorities reported that the 1983 budget, which was being finalized at the time of the discussions, contained no provisions for the reconstruction program that the CDR was preparing for 1983, nor for most of the additional outlays to strengthen the Government's security forces, nor for the high levels of extrabudgetary spending in 1982. The mission commented that without reliable data accurately bringing together all government revenues and expenditures as well as the budgets of semi-autonomous agencies and especially the CDR, it was not possible to make a reasonable analysis of the impact of government finances on the economy. The authorities agreed that there was an urgent need to develop a comprehensive framework consolidating the CDR and auxiliary budgets with the government budget. They requested technical assistance from the Fund to develop such a framework for preparing the 1984 budget and to implement the resulting reforms.

The mission observed that, in the past, the Lebanese economic system had been laissez-faire with the State playing only a limited role. However, now a greater part would have to be assumed by the Government to equip and expand the security forces, to carry out reconstruction, to provide (at least temporarily) more basic social services, and to finance these and other activities. In view of the scarcity of labor and other resources, a highly expansionary fiscal stance could give too much stimulation to the economy so that, subsequently, restraints would have to be applied. Such a start-stop pattern would produce a lower overall growth path than if a more sustainable fiscal position were taken at the beginning. The mission cautioned that the low level of domestic revenues was a major area of concern. While some categories of spending would inevitably have to increase, others, such as the petroleum and electricity subsidies, could be trimmed at once. The authorities agreed with the mission's overall assessment, recognizing that relying on borrowing from the Bank of Lebanon rather than taking actions to contain the deficit would only postpone and aggravate adjustment in the long run. Certainly, increasing tax revenues was important but this partly depended on improvement in security. When government authority was fully extended to all entry points, the authorities were confident that customs collections would exceed the amount of LL 2 billion projected in the 1983 budget, which itself was five times larger than actual collections in 1982. In the interim, the Ministry of Finance was collecting whatever revenues the security situation permitted. In addition, the Ministry was studying how existing taxes might be restructured to increase receipts and was also considering what new taxes (such as a value added tax and a tax on real estate holdings) would be suitable once security improved. The authorities expected that, with improved security, the Ministry's staff would be able to exert better control over spending.

The authorities reported that the money supply and the demand for credit by the private sector had both grown slowly since the Israeli invasion. The demand for credit had not revived even after the authorities lowered interest rates in September, and it was clear that the cost of credit was not the most important obstacle to the recovery of private activity. Although improved security in Beirut and the prospect of further improvements had stimulated economic confidence, businessmen were waiting for further developments before committing themselves to new real investments or to major new commercial undertakings. Considering the degree of uncertainty for 1983 with regard to bank financing of the budget deficit and to monetary movements resulting from the balance of payments, it was not feasible to forecast monetary developments for 1983. Nevertheless, the authorities felt that the commercial banks were excessively liquid and were therefore buying Treasury bills to reduce their liquidity. The proceeds from these investments were being sterilized by the Government improving its net position with the Bank of Lebanon.

The authorities informed the mission that they were giving serious consideration to issuing government bonds to the general public at an early date as a means of further reducing the Government's dependence on the Bank of Lebanon for financing. So that the first issue would be fully subscribed and be widely acknowledged as a success, the mission advised that it might be better to delay the issue until interest rate fluctuations had settled down.

3. External sector policies

The authorities remarked that the Lebanese pound had appreciated by over 25 per cent against the U.S. dollar since mid-July 1982 despite intervention by the Bank of Lebanon to slow the appreciation. Initially, at least, the most important reason for the appreciation was the change in confidence resulting from the improvement in security in the Beirut area. More recently, after visits abroad by the President of Lebanon, Lebanese and foreigners had been sending funds into Lebanon to be converted into Lebanese pounds. So far, these funds were being held mainly as bank deposits since there had been relatively little pickup in investment. Another factor explaining the appreciation of the pound was the decline in U.S. dollar interest rates which had produced an interest differential in favor of the Lebanese pound. Although the authorities had been taking steps to lower interest rates on Lebanese pounds, by lowering both the yield on Treasury bills and the Bank of Lebanon's rediscount rate, the differential persisted.

The mission commented that it was difficult to say how much intervention in the exchange market was appropriate, but the Bank of Lebanon seemed to be doing well in slowing down the appreciation of the Lebanese pound and in acquiring a cushion of reserves. The appreciation of the pound and accompanying intervention by the Bank had both positive and negative aspects. One negative aspect was that the appreciation combined with high domestic rates of inflation made it more difficult for Lebanese producers to compete in export markets and with imports in Lebanon. A second aspect was that the sale of Lebanese pounds by the Bank of Lebanon was generating liquidity both for commercial banks and the private sector.

Such liquidity might soon be activated, perhaps with inflationary consequences. The beneficial aspects were that the cost to consumers of imported goods was falling and that the Bank of Lebanon was adding reserves which it could use to support the pound if it became subject to pressure during reconstruction.

The many uncertainties facing Lebanon precluded forecasting the balance of payments outcome for 1983. For some time exchange rate movements had been strongly influenced by remittances and short-term capital flows. In 1983 the direction and magnitude of these flows would depend crucially on confidence within and outside Lebanon. Another unknown factor was the pace of reconstruction and the demand therefrom for imports of capital goods. Hence, it was impossible to gauge some of the important elements underlying the balance of payments and the pressures which these would place on the exchange rate. In view of the Bank of Lebanon's objective not to intervene in the exchange market unless the rate for the Lebanese pound began to change rapidly, it was crucial to know the extent as well as the direction of the coalescence of factors affecting the exchange rate. Without such information, the direction and extent of intervention, if any, by the Bank of Lebanon and thus the overall balance of payments during 1983 could not be forecast.

IV. Staff Appraisal

Lebanon has undergone eight years of political disturbances and instability which have brought suffering to the population of Lebanon as well as extensive property damage. The prospect that security will be restored and that the Government will be able to exert its authority throughout the country has turned attention toward reconstruction. However, since reconstruction planning was in a formative stage, it was not possible for the staff to review the CDR reconstruction program, although overall strategy was discussed with the authorities. The CDR is proceeding with the formulation of a comprehensive reconstruction plan with technical assistance from the World Bank, which is also helping to form a consortium of aid donors. To the extent that the staff has been able to make a judgment, it finds the approach that the authorities intend to follow during reconstruction to be generally reasonable. The staff fully agrees with the short-run objectives of getting reconstruction under way quickly and of rehabilitating essential services. While sympathetic to the need to assist low-income groups in meeting their immediate housing needs, the staff is concerned that interest subsidies to housing and to industry may miss their targets. While the level of reserves held by the Bank of Lebanon gives some room for using deficit financing to get reconstruction under way, the staff believes that, given the scarcity of labor and some other resources, the authorities should exercise caution so that a too expansionary posture is not taken during recovery.

In the past, Lebanon's economic philosophy was laissez-faire but the events of the last few years have indicated the need for a larger role by the State. Public sector expenditures for a larger and better equipped security force, for reconstruction, and for providing more basic services will inevitably rise as a proportion of GDP. In these circumstances, it is imperative that the budget become a more effective tool of demand management and development planning, as well as a reliable indicator of the Government's fiscal activities. The staff believes that it is essential to consolidate the auxiliary budgets--especially the CDR's--into the government budget as well as to incorporate all expenditures undertaken through Treasury advances which are currently outside the budget. In the future, to prevent the rising level of expenditures from pushing budget deficits to unsustainable levels, a concerted effort will have to be made to raise revenues, which are now only a small fraction of expenditures. A major problem has been the loss of customs revenues due to the illegal entry of imports through ports not controlled by the Government and, most recently, the open southern border. The restoration of government authority will help to solve this problem, but other actions will have to be taken to raise revenues. The authorities are studying various possibilities to raise receipts from existing taxes and to introduce new taxes. The staff believes that some action can be taken to reduce the size of the fiscal deficit. Perhaps the most important steps, in view of both their share of total spending and the capacity of the Government to take effective action at once, are increases in petroleum product prices and electricity rates to completely erase subsidies on these commodities. The staff agrees that the authorities should further pursue issuing government paper to the nonbank public so as to shift some deficit financing from the banking system, especially the Bank of Lebanon.

The authorities have been concerned over the very rapid appreciation of the Lebanese pound since mid-1982. The staff recognizes the difficult task which the Bank of Lebanon has faced in determining the appropriate degree of intervention in this situation. The staff believes that the Bank has performed creditably in slowing down the appreciation of the pound and acquiring a cushion of reserves which could be used to finance imports during reconstruction, if pressure on the pound should develop. Despite the difficulties through which the economy has passed, the exchange and trade system has remained virtually free of restrictions.

The rapid increase in commercial bank liquidity over the last half of 1982 merits the Bank of Lebanon's careful attention to see that bank credit to the private sector and bank deposits do not expand too rapidly in 1983. The staff commends the authorities' strategy of absorbing some of this liquidity through Treasury bill sales with the proceeds therefrom being sterilized. Nevertheless, should there be a resurgence of demand for credit by the private sector, the authorities may also have to resort to their back-up strategy of reinstating credit ceilings.

V. Proposed Decision

The following draft decision is proposed for adoption by the Executive Board:

1. The Fund takes this decision in concluding the 1982 Article XIV consultation with Lebanon in the light of the 1982 Article IV consultation with Lebanon conducted under Decision No. 5392-(77/63), adopted April 29, 1977 (Surveillance over Exchange Rate Policies).

2. The Fund notes with satisfaction that Lebanon maintains an exchange system which is virtually free of restrictions on payments and transfers for current international transactions. The Fund hopes that Lebanon will terminate as soon as possible the outstanding bilateral payments agreement with a Fund member.

Lebanon - Fund Relations

Date of membership:	April 14, 1947. (Lebanon became a participant in the SDR Department in December 1978.)
Status:	Article XIV.
Quota:	SDR 27.9 million.
Fund holdings of Lebanese pounds (January 31, 1983):	SDR 21.78 million (78.05 per cent of quota).
SDR position (January 31, 1983):	Holdings amount to SDR 2.04 million (46.44 per cent of net cumulative allocation of SDR 4.39 million).
Direct distribution of profits from gold sales:	US$1.44 million.
Gold distribution (four distributions):	7,701.998 fine ounces.
Exchange system:	The Lebanese pound has been freely floating since 1952. The central bank occasionally intervenes, usually in U.S. dollars, to moderate short-term fluctuations, counter speculation, and slow too rapid changes in exchange rates.
Technical assistance:	Subsequent to the 1979 consultation, a joint MED/CBD report entitled "The Effects of the Implementation of the Reconstruction Plan on the Balance of Payments and Prices" was submitted to the authorities. In addition, following an investigatory mission, a joint INST/CBD report was submitted in 1979 on establishing a training institute within the central bank for its own staff. Two CBD experts were assigned to the central bank: one served as Accounting Adviser from September 1979 to July 1980; the other as Research Adviser from April 1980 to June 1981. A mission to provide technical assistance on issuing government bonds visited Beirut in April 1982; its report was submitted to the authorities in September 1982.

Lebanon - Fund Relations (concluded)

Last Article IV consultation:	The Staff Report (SM/82/30) was discussed by the Executive Board on March 22, 1982. Discussions were held by the staff in Beirut during December 11-16, 1981.

The Executive Board's decision (Decision No. 7081-(82/35)), adopted March 22, 1982, was as follows:

1. The Fund takes this decision relating to Lebanon's exchange measures subject to Article VIII, Sections 2 and 3, and in concluding the 1981 Article XIV consultation with Lebanon in the light of the 1981 Article IV consultation with Lebanon conducted under Decision No. 5392-(77/63), adopted April 29, 1977 (Surveillance over Exchange Rate Policies).

2. The Fund notes with satisfaction that Lebanon continues to maintain an exchange system which is virtually free of restrictions on payments and transfers for current international transactions. The Fund hopes that Lebanon will terminate as soon as possible the outstanding bilateral payments agreements with two Fund members.

Lebanon: Basic Data

Area	10,400 square kilometers
Population	3.1 million (1979 estimate)

	1977	1978	1979	1980	1981
	(In millions of Lebanese pounds)				
Production and prices					
GDP in current prices	8,200	8,480	11,620	14,390	...
GDP in constant 1974 prices	4,810	4,431	4,817	4,905	...
Growth rate of real GDP (in per cent)	(70.2)	(-7.9)	(8.7)	(1.8)	(...)
Change in Beirut consumer price index (in per cent)	(19.3)	(10.2)	(23.8)	(23.7)	(17.0)

		Provisional Estimates				Budget Estimates	
	1977	1978	1979	1980	1981	1982	1983
	(In millions of Lebanese pounds)						
Public finance							
General budget receipts	1,439	1,443	1,792	2,890	3,095	3,024	5,000
Of which: foreign grants	(--)	(--)	(--)	(708)	(655)	(--)	(--)
General budget expenditures	2,007	2,260	2,806	5,034	5,220	5,945	6,706
Of which: salaries and wages	(682)	(841)	(1,091)	(1,193)	(1,400)	(1,878)	(...)
Overall budget deficit	-568	-817	-1,014	-2,144	-2,125	-2,921	-1,706
Overall deficit (-) as reflected in financial statistics	-552	-793	-1,190	-2,614	-3,510	-5,590 1/	...
	(In per cent)						
Ratios							
General budget receipts to GDP	17.5	17.0	15.4	20.1	...	...	...
General budget expenditures to GDP	24.5	26.7	24.1	35.0	...	...	...
Overall budget deficit 2/ to GDP	6.7	9.4	10.2	18.2	...	...	...

1/ Fund staff estimate based on eleven months' actuals.
2/ As reflected in financial statistics.

Lebanon: Basic Data (continued)

	1977	1978	1979	1980	1981	Dec. 1981-Nov. 1982
	(In millions of Lebanese pounds)					
Changes in money and credit						
Total liquidity	3,166	2,856	4,639	6,958	11,570	6,876
Money	(157)	(1,086)	(536)	(982)	(1,339)	(1,490)
Quasi-money	(3,009)	(1,770)	(4,103)	(5,976)	(10,231)	(5,386)
Net foreign assets due to balance of payments	2,072	258	1,200	2,010	3,283	1,228
Domestic claims	1,284	2,795	4,216	4,807	8,122	8,877
Net claims on public sector	(499)	(774)	(1,162)	(1,651)	(2,976)	(5,539)
Gross claims on private sector	(785)	(2,021)	(3,054)	(3,156)	(5,146)	(3,338)
	(In per cent)					
Rates of growth						
Total liquidity	28	20	27	32	40	18
Money	3	22	9	15	18	17
Foreign currency deposits	46	4	108	61	64	-13
Quasi-money in domestic currency	49	25	14	27	37	46
Gross claims on private sector	11	25	30	24	32	16

	1977	1978	1979	1980	1981 1/	1982 Jan.-Nov. 1/
	(In millions of SDRs)					
Balance of payments						
Trade balance	-583	-752	-1,349	-1,822	-1,916	-1,088 2/
Exports	(610)	(614)	(601)	(674)	(457)	(157) 2/
Imports	(-1,193)	(-1,366)	(-1,950)	(-2,496)	(-2,373)	(-1,245) 2/
Change (increase-) in commercial banks' net foreign assets	-377	123	-517	-369	-711	196
Other items, including errors and omissions	1,115	723	1,620	2,282	2,712	...
Overall balance	155	94	-246	91	85	650
Oil imports/total imports (in per cent)	(14)	(11)	(13)	(18)	(21)	(...)

1/ Preliminary
2/ First six months.

Lebanon: Basic Data (concluded)

	1977	1978	1979	1980	1981	1982 Nov.
			(In millions of SDRs)			
International reserve position						
Gross official reserves (end of period)	1,612	1,707	1,458	1,551	1,637	2,284
Of which: gold (at US$42.22 per ounce)	(320)	(299)	(296)	(305)	(335)	(361)

	1977	1978	1979	1980	1981	Projected 1982	1983
			(In millions of U.S. dollars)				
External debt							
Debt service (during period)	8	8	9	13	54	69	67
Debt service/exports (in per cent)	(1.1)	(1.0)	(1.2)	(1.4)	(10.0)	(...)	(...)
Debt service/government revenue 1/ (in per cent)	(1.8)	(1.6)	(1.7)	(2.0)	(9.5)	(...)	(...)
Debt service/GDP (in per cent)	(0.3)	(0.3)	(0.3)	(0.3)	(...)	(...)	(...)

1/ Excluding foreign grants.