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SUPPLEMENTARY MEMORANDUM
ON SOME
ASPECTS OF THE LEBANESE ECONOMY

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SUMMARY

Some of Mr. Busson's opinions on the economy of the Lebanon are not confirmed by the findings of the IIRD Mission and by the most recent information. It seems, in particular, that there is no serious intention on either side to disrupt the existing economic links between Syria and the Lebanon; that there is a certain deficit in the Lebanese balance of payments resulting in the loss of foreign assets, although the size of this deficit cannot now be ascertained; that present prices of most Lebanese exports are not competitive in available foreign markets; and that, from a purely developmental point of view, investment in the field of irrigation should, in general, be given priority over investment in hydroelectric power. From the point of view of foreign exchange earning capacity some other projects may perhaps be more attractive.

On the other hand, Mr. Busson's optimistic valuation of the wealth, liquidity, and foreign exchange resources of Beirutian merchants should not be completely disregarded, in view of the former's unique opportunities to gain insight into the affairs of this group.

The latest available economic report of the U.S. Legation in Beirut confirms the Mission's findings with regard to the conflict of interests between some merchants and financiers of Beirut and the agricultural and industrial producers in the rest of the country --- a conflict reflected in divergent evaluations of the Lebanon's economic position.

Middle Eastern developments of the last six months have contributed to a relative strengthening of the Lebanon's position vis a vis other Arab countries, and, in particular, Syria. In the Lebanon itself, the part of the population with the more western outlook, and, possibly, also the "free trade" interests of Beirut have gained increased influence. So far, however, political improvement has been only mildly reflected in the economic life of the country.

A detailed analysis of the Lebanese Government's present foreign exchange resources shows that there is little chance of the Government being able to cover all its dollar needs from dollar exchange received at the official rate. There is no doubt, however, that the Government could, without difficulty, service a \$1 million loan for development purposes from dollar purchases in the free market. The free market is infinitely more important than the official controlled market; it is subject to the influence of the internal monetary position and the chances are that the head of the Central Bank is right when he assumes that restrictions of credit would bring about sales of foreign exchange. The Government's sterling position is similar, though comparatively easier than the dollar position; a repayment of obligations incurred in French francs would, on the other hand, present no difficulty at all.

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Supplementary Memorandum
on Some Aspects of the Lebanese Economy

I. Introduction.

On March 2nd, during a meeting in Mr. Iliff's office, in which Messrs. Iliff, Schmidt, Consolo, Svoboda, and Bochenksi took part, the latest developments in the economy of the Lebanon, as well as Mr. R. Busson's opinions on this subject, were discussed, and the request was made for a report on the dollar availabilities of the Lebanese Government from the point of view of the possibility of servicing an IBRD loan of about \$1 million.

The following report contains, a) a review of those of Mr. Busson's opinions which seem to disagree with the findings of the Bank Mission, after analysis of the latest available information; b) a study of the estimated dollar, sterling, and French franc resources of the Lebanese Government.

II. Review of Mr. Busson's opinions on some economic problems of the Lebanon.

Mr. R. Busson, President of the Banque de Syrie et du Liban, during his conversations with officials of the IBRD, expressed several general opinions about the economy of the Lebanon, which deserve careful analysis, as they partly contradict the findings of the IBRD Mission and bear directly on elements of the country's creditworthiness of importance for the Bank's decision on the Lebanese loan application.

As far as Mr. Busson's views are known to the writer, he agreed with the Mission with regard to the very limited foreign exchange resources of the Lebanese Government, but disagreed on the following problems: 1) future of economic relations with Syria, 2) balance of payments estimates, 3) competitiveness of Lebanese export prices, 4) priority of investment projects. His views on the merits of a possible devaluation of the Lebanese pound can probably be disregarded, because any direct reference to this problem has now been removed from the Mission's

reports, and also because Mr. Busson's opinion in this respect does not seem definite. (In a conversation with Messrs. Iliff and Consolo, he mentioned — contrary to his previous opinions -- that a devaluation of about 20% could perhaps be recommended in a few months.)

1. Relations with Syria.

Mr. Busson declared himself an advocate of a complete rupture of the existing customs union with Syria, of the creation of a customs frontier between Syria and Lebanon, and of a complete abolition of tariffs for Lebanese imports. He also believed that this was the ultimate aim of Lebanese leaders, who "in their hearts" wished such a solution.

As all the Lebanese statesmen, interviewed by the Mission in September 1948 on this matter, took an exactly opposite stand, the question arises whether the situation has been basically changed in the meantime.

The latest information obtained yesterday from the State Department (interview with Mr. Brewer, Secretary of the U.S. Legation in Beirut, who returned here in January 1949) shows that, during the negotiations carried on between September 1948 and January 1949, the Lebanese made several concessions to the Syrians.

Early in March 1949, the Syrian Prime Minister, Mr. Khaled El Azem, declared during a press conference in Damascus:

"Our discussions with the Lebanese Government were characterized by the greatest harmony. They took place in a mutually cordial atmosphere and we have reviewed all the problems of interest for both countries. It appeared to us that a rupture of the present economic union would be harmful to both countries. That is the reason why we have decided to continue and even to reinforce it, but to do it on a frank and clear basis, in order to avoid all friction or dispute in the future. This new policy has been generally established; further meetings will decide about details."

Another member of the Syrian cabinet declared on March 4th to one of the foreign diplomats that he had complete confidence in the future of Syrian-Lebanese relations and pointed out that Syria had facilitated negotiations by receding from the program of comprehensive import controls.

About a fortnight ago the Syrian frontier has been reopened unconditionally for unlimited sales of most food articles to the Lebanon.

To sum up this recent information: there is no indication whatsoever, on either side, of an intention to carry out the program recommended by Mr. Busson. The main new element which developed during the last month, and consists of a strengthening of Lebanon's position vis-a-vis Syria, seems to facilitate a rapprochement as it makes Syria more cooperative than before.

2. Balance of Payments Estimates.

Mr. Busson believes that the Lebanese balance of payments is strong and that transactions on current account on both sides are balanced without the necessity to cover any large deficits by the liquidation of assets.

In a field where practically all the elements are uncertain, as in the case of the Lebanese balance of payments, wide divergencies of views are possible. Where only trends are discussed -- Mr. Busson, to my knowledge, did not give a single estimate to support his, generally expressed, views -- it is difficult for either side of the argument to prove the truth.

Yet, there remains the undisputed adverse balance of trade of the Lebanon, which, although unknown in detail, must, however, even if the most optimistic estimates are accepted, have ranged in 1948 from 200 to 350 million Lebanese pounds. It has been said, often enough, that the Lebanese "invisibles" are also, to a large extent "incalculables", but, unless one is determined to leave the field of economic analysis altogether, some idea at least of the order of magnitude involved must be obtained.

It is again undisputed that income from tourist trade has recently been negligible; in fact, it seems doubtful whether this source of foreign exchange was not more than counterbalanced by the expenditure of Lebanese travelling abroad.

Emigrant remittances were never estimated at more than LL 45 million, but even if, for argument's sake, they are accepted at LL 60 million, that would still leave a gap from LL 140 to LL 290 million.

As donations from abroad, expenditure of foreign investment and revenue from Lebanese assets held abroad are comparatively measurable factors, and are roughly balanced by transfers of foreign enterprises, etc., there remains the Lebanese income from transit and entrepot trade as the only possibility to cover the above deficit.

It is absolutely true that estimates of this income are vague and that the total of these earnings of foreign exchange may be several times larger than it was assumed on Table XVII of the economic report of the IIRD Mission. There are, however, certain limits to this margin of error. The total value of transit goods which pass through Syria and Lebanon averages from LL 150 to LL 200 million. Professor S. Himeleh, of the American University in Beirut, estimates that the profit of Syrian and Lebanese middlemen on this trade amounts to 5 percent, which would point to an even lower figure than the one used in Table XVII.

To argue, however, that this income is sufficient to cover the deficit in the balance of payments would mean to assume, not only that all of these profits go to the Lebanon and none to Syria, but also that the profits of Lebanese middlemen exceed 100 percent of the value of the handled merchandise itself.

That the Lebanon draws on its foreign assets can also be proved by the undisputed fact that 5 billion French francs from the "Old No. 2 Account", and, in addition, probably some further 2 billion French francs from the "Old No. 1 Account" have disappeared during 1948. No equivalent for these sums is to be found in the foreign exchange holdings of the Exchange Office; Mr. Busson, however, believes that equivalents of them are held by Lebanese individuals in the form of various foreign exchange assets. He also holds that any measure of credit tightening would in effect bring about large sales of foreign exchange to the Central Bank or in the market.

To sum up, it can be said that, while the existence of a deficit in the Lebanese balance of payments must be accepted as a certainty, its actual magnitude cannot at present be ascertained. This deficit undoubtedly represents an unfavorable factor in the country's economic position, although it can be explained by the effects of war and post-war developments, and, if gradually diminished, may in itself not cause an eventual economic breakdown. The foreign exchange resources of Lebanese merchants, which no one has yet been able to estimate with any assurance, but which -- according to Mr. Busson's testimony -- are considerable, may act as a safety cushion for the country, during the time required for the reestablishment of its financial equilibrium.

3. Competitiveness of export prices.

During some of his conversations, Mr. Busson seemed either to deny that Lebanese prices were an obstacle to exports of those goods of which the country produced a surplus, or else to regard exports from the Lebanon as a not very important problem.

While the latter view would be roughly in line with Mr. Busson's general approach to the Lebanese economy -- emphasis on services rather than production -- and can be disputed, the former opinion is obviously wrong, which can be proved by a simple inquiry at any Chamber of Commerce dealing with the Middle East.

Merely to point out that the Lebanese Government is well aware of this serious handicap in the country's development, the following extract from a speech by Mr. Z. Bitar, head of the Economic Division of the Lebanese Foreign Office, delivered a fortnight ago in Beirut, is quoted:

"Is it necessary to remind you of the unsurmountable difficulties which we encounter because of our high prices, when we try to sell our few products? Whenever we explore foreign markets, we always hear the same answer: 'Your prices are too high'".

4. Investment priorities.

Mr. Busson favored investment in hydroelectric projects rather than in irrigation.

It has been always the view of the IIRD Mission that hydroelectric projects in the Lebanon seem a highly interesting and promising venture, which should be further investigated. Priority is, however, given to some irrigation projects for the following reasons:

a) several technical experts have stated that in utilising the limited water resources of the Lebanon, first priority should be given to use of water for general purpose, i.e., human and animal consumption, second priority to irrigation, third priority to power production.

b) irrigation would provide permanent additional employment on a larger scale than power projects and it would either increase the self-sufficiency of the country in cereals or increase exportable surpluses of other crops;

c) while hydroelectric projects have not even reached the blue print stage and require thorough studies such as flow recordings and geological research, the simpler irrigation projects are largely worked out in detail, and, to a considerable extent, already under construction and partial operation.

Nothing has happened in the Lebanon between September 1948 and March 1949 which would render these considerations unconvincing.

III. Economic Report of the Commercial Attaché of the U.S. Legation in Beirut.

The latest available periodical economic and financial report of the U.S. Commercial Attaché in Beirut, dated December 22, 1948, covers the third quarter of 1948. It says in its general part:

"The hue and cry of the Lebanese press during the first two quarters of 1948 for governmental action to attempt economic stabilization continued unabated during the third quarter.

Similar expressions of concern and uneasiness over the country's economic plight were heard in certain trade, financial and official circles.

"Exponents of the view that Lebanon is faced with economic chaos and near-bankruptcy pointed to her heavy imbalance of payments, the government's critical shortage of hard currencies, the unattacked problem of inflation, the adverse effect of high costs of labor and materials on industry, and exportation stifled by the disparity between local and world market prices."

* * * * *

"In spite of this situation, there remained a hard core of merchants and financiers who worried less, confident in Lebanon's role as a center of transit trade and free market money operations."

The above quotations not only reflect opinions of the U.S. Legation, which are not very different from the views of the Bank's mission, but also point out again the basic conflict of views and of interests between Beirut bankers and merchants and the agricultural and industrial producers in the rest of the country. This may also account for some of the extremes in the opinions of Mr. Busson, who, by virtue of his position and the main interests of his bank, must largely identify himself with the first of these two groups.

IV. Latest developments in the Lebanon.

1) Political. The Government of the Lebanon is the only one in the Arab countries which fought in Palestine, to survive defeat. As the Lebanese war effort was always half-hearted and dictated mainly, if not solely, by solidarity with the Arab League, feelings of hurt national pride did not arise to a point endangering the stability of the regime. At the same time, the weakening, if not complete collapse, of the Arab League removed such obstacles to a Lebanese independent policy which resulted from the ties with the League, respected by the Lebanese Government in prudent consideration for the sentiments of the Moslem half of the population. Effects of this double-barrelled, relative and absolute improvement in the Lebanon's position are immediately reflected in Syria, whose present, westernly orientated Government followed Lebanon's lead in agreements with France and with the TAF line, and seems to favor a prolongation of the customs union with the Lebanon. In Lebanon itself, the Christian, pro-French and western orientated part of the population became strengthened, which, to a certain extent, though not completely, corresponds to a stronger influence of Beirutian merchants and financiers on the government of the country. The increased interest in a loan from the IBRD may be a further reflection of this development.

2) Economic. As reported on January 25, 1949, (see my memo: "Latest Economic Developments in the Lebanon") the favorable political trend of events was accompanied by some signs of improvement of the economic position of the country.

With all due respect to the dissenting stand of the IMF (motivated by formal considerations) the new Foreign Exchange Regulations, although -- it is understood -- not 100 percent successful, are a step in the right direction.

While the cost of living has fallen slightly, the Lebanese pound -- liberated from the encumbrances of unlawful operators -- is somewhat stronger. A reserve of grain has been assembled, the free trade zone of the port of Beirut has been enlarged, some progress is taking place in the construction of the Khaïde Airport -- all developments which, strangely enough, seem to anticipate the IIRD Mission's suggestions. The unfavorable developments consist of an increase in the volume of the budget, and of dues imposed by the Government on sales of de-rationed sugar and rice. (This step intended to offset the deficit, previously incurred by subsidizing the prices of rationed food, is obviously a wrong decision, contributing to a further high cost of living.)

Apart from the above-mentioned elements, there are no signs of any basic change in the economic position of the country. Beneficial results can be expected from renewed economic relations with Palestine. To date, however, according to Mr. Brewer's testimony, no increase in the turnover with this area has been noticed; economic boycott of the Zionists has not been relaxed, although -- as before -- it is not fully respected.

To sum up, it can be said that, while the political position of the Lebanon has improved, and this fact in itself raises justified hopes of economic improvement, to date only a few signs of the latter can be observed.

V. Estimated Dollar, Sterling and French Franc Resources of the Lebanese Government

1. U.S. Dollars

a. Exports

Total exports of the Syrian and Lebanese Customs Union to the U.S. amounted, in 1946, to \$6.6 million, of which Lebanon's share might have been approximately \$1.65 million, in 1947, to \$2.6 million*, of which Lebanon's share might have been \$0.65 million.

The available figures for the first half of 1948 indicate a further decrease of the total of exports for both countries by 50%, and there is no reason to assume that exports to the U.S. have not been following this general trend.**

Until November 1948, the Government received theoretically all foreign currency resulting from exports at the official rate, but in practice permitted exporters to use their proceeds whenever it was assured that the price of the exported goods was higher in Lebanon than in the importing country.

According to the new foreign exchange regulations, 10% of the foreign exchange entering the country should be sold to the Government's Exchange Office at the official rate.

If it is assumed that the 1948 exports to the U.S. will amount to 50% of the 1947 exports, the Government's share in the proceeds would amount to \$325,000 = \$32,000. The Lebanese Government, however, in answering my
10 relevant question in November 1948 -- admittedly before the issue of the now

* Figure for 1947 based on an estimate of the U.S. Legation in Beirut.

** In fact, the value of Syrian and Lebanese exports to the U.S. during the first half of 1948 represented the value of LLS 1.5 million, while the corresponding figure for the first half of 1947 was LLS 3.3 million.

foreign exchange regulations -- estimated the 1948 Government receipts of dollars from exports at \$1,000.

As there is no reason to be more optimistic than the Government itself, it is proposed to accept the latter figure.

b. Emigrant Remittances

In 1947, about 7% of the total emigrant remittances in all currencies entering the Exchange Office were remittances in U.S. dollars. As dollars are sold in the Lebanese free market at a relatively larger premium than other currencies, it is believed that a greater proportion of dollar remittances is sold in the free market than of remittances in other foreign currencies, and that the proportion of dollar remittances entering the country is considerably higher than 7%.

According to the latest information, the loss of about 4%, which the recipient of a dollar remittance would have to suffer by selling 10% of the total amount at the official rate, is a sufficient inducement to disregard the new liberal exchange regulations, and Government receipts from this source continue to be unsatisfactory.

Under these circumstances the Lebanese estimate of \$450,000 from emigrant remittances in 1948 may even be too high. As the total value of remittances in 1948 is estimated at around \$20 million, the Government's figure would presuppose that either about 25% of all the remittances are in dollars and that nearly all the recipients are surrendering 10% or that more than 25% of all remittances are in dollars. We shall, however, accept the estimate of \$450,000.

c. Foreign Investment

In reply to my question, the Government estimated the dollar inflow from this source in 1948 at only \$5,000. There are eight business establishments

in the Lebanon owned totally or partly by Americans.* The total value of their investment represents, according to a U.S. Legation report, at least \$2 million. Considering that, in this field, information from the U.S. Legation is presumably more reliable than Lebanese Government data, and also in view of the favorable development of TAP line plans, (signing of the agreement between TAP line and Syria) one can assume that the total of foreign investment in dollars in 1949 will be considerably, say ten times, larger, and amount to \$50,000.

In the case that TAP line would start large-scale operations before the end of this year, this revenue may further increase; it is estimated that full operations would yield about \$500,000 a year, or even more.

d. Expenditure of Foreign Diplomats

The Lebanese Government's estimate for 1948 puts the total dollar revenue from this source at \$50,000. This is obviously over-optimistic. While most of the foreign legations sell their exchange in the free market, the U.S. Legation draws on U.S. accounts in local currency originating from the U.S. surplus sales. These funds will presumably cover the U.S. Legation expenses for the next two years. We shall, therefore, estimate dollar receipts from foreign diplomats at the lower sum of \$20,000.

e. Miscellaneous

The Lebanese Government's estimate of this group of dollar receipts amounts to \$1,535,000, but no breakdown is given.

* American Levant Shipping and Distributing Company, S.A.; American Near Eastern Distributing Co., Beirut; Ibrahim S. Ul-Khoury and Sons, Beirut; Iraq Petroleum Company; Singer Sewing Machine Company, Beirut; Socony-Vacuum Oil Company, Beirut; Trans-Arabian Pipeline Company, Beirut; United States Rubber Export Company, Ltd., Beirut

Presumably the following categories of receipts could be included here:

-- Investment and current expenses of American Religious Missions, including their schools and hospitals; there are eight such Missions operating in the Lebanon, with 305 foreign and 67 American staff members, 2 hospitals and 19 schools; their total investment to date is estimated at \$1,415,000.

-- Investment and current expenses of American Colleges and Schools (not included with any Mission); 3 colleges, 1 hospital, 378 foreign and 67 American staff members belong to this group; total investment to date is estimated at \$6,975,000.

-- Investment and current expenses of American Charitable Institutions, numbering 6 with 46 foreign and American staff and an estimated investment of \$71,200.

-- Current expenditure of American ships. Seventy-five American ships with a total net tonnage of 366,416 arrived in Beirut during 1947. Fifty-six of them were freighters of the American Export Lines, Inc. from N.Y., but the Company has no capital investment in Lebanon.

-- Dollar proceeds from Lebanese investments in the U.S., as far as they are transferred to the Lebanon. No estimates are available.

-- Current expenditure of tourists. It is estimated that during 1948 the number of tourists might have been about 3,000 (as against 9,000 in 1947), and that their total expenditure might have amounted to the equivalent of about \$1 million. Most of the tourists came from Egypt and Iraq, and the amount of dollars spent by them must be completely negligible. There was, however, some dollar inflow from delegates to the UNESCO Conference, late in 1948.

In view of the lack of better data for this group of dollar receipts, it is proposed to accept the Government figure of around \$1,500,000, and project it into a 1949 forecast.

f. Estimated Total Dollar Availability

As the foregoing discussion shows, the Lebanese Government will presumably receive in 1949 the following amount of dollars at the official rate:

From:

Exports	\$ 3,000
Emigrant remittances	450,000
Foreign investment	50,000
Foreign diplomats	20,000
Other sources	<u>1,500,000</u>
Total	\$2,023,000

g. Existing dollar commitments

Against these estimated receipts of round \$2 million, the following dollar expenditure has to be considered:

(1) Lebanese representation abroad. The 1948 budget shows that the total annual expenditure for the Lebanese Legation and Consulates in the U.S., as well as U.N. delegation costs and U.N. contributions, amount to around \$190,000. The cost of Lebanese representations in Canada and some Latin American countries, as well as the expenses connected with some international organizations other than the U.N., presumably also have to be paid in dollars. It is assumed that this expenditure may amount to \$100,000.

(2) Purchases of bread grains. In the second half of 1947, depleted dollar holdings and the shortage of bread cereals compelled the Lebanese Government to block the dollar holdings of the Exchange Office except for the purchase of cereals in dollar areas. With the recent

recognition of the free market for foreign currencies, it can probably be assumed that the Lebanese Government will not allocate dollars for any imports apart from cereals.

The average annual deficit of cereals for local consumption in the Lebanon is about 120,000 million tons, and this quantity has to be imported. At the price of \$2 per bushel, this would roughly represent \$9 million.

Experience of the last years shows that the Lebanon can purchase roughly some 50% of its cereals requirements from other than the dollar area. This would mean that the amount of dollars required for the purchase of cereals amounts yearly to about \$4,500,000.

(3) Other commitments. At present the Lebanese Government has no foreign debt in dollars. If the \$700,000 credit required for the electronic equipment of the Khalde Airport, to be supplied by the I.T. & T., materializes, some of the dollar income of the Lebanon may be earmarked for the servicing of this loan.

b. Conclusions.

With all the reservations dictated by the crude nature of the above estimates, the following conclusions can be made:

The Lebanese Government can expect at present to receive from its Exchange Office, at the official exchange rate, some \$2 million per year. It is committed to spend some \$0.3 million for foreign representation. The rest of \$1.7 million is earmarked for the purchase of cereals, but is not sufficient for this purpose.

It follows that the greater part of grain purchases from the dollar area will not be financed from cheap dollars allocated by the Government to

importers, but -- like all the other imports -- will be based on dollars bought at the free market rate, which, naturally, will contribute to keeping the bread price in Lebanon on the present, high level.

We can also conclude that, as the Lebanese Government's dollar resources are in any case insufficient to cover all the dollar expenditure for which they are earmarked at present, it will not make a great difference if additional dollar transactions will be made on the free market. In order to service a small IBRD loan, the Government may either use some of the \$1.7 million, thus reducing the allocation for imports of grain, or else purchase the required dollars in the free market.

In view of the presumably fairly large total volume of dollar transactions in the Beirut market, there seems to be no danger of either particular difficulties in finding such amounts of dollars or of an upward trend in the free market price caused by this additional demand, in particular if the purchases are properly planned and staggered.

As free market operations were illegal until mid-November 1948, there are no figures available with regard to the volume of dollar transactions in Beirut. But, as an illustration, opinions of private bankers can be quoted; while one banker estimated that some \$250,000 are available on the money market of Beirut each week, another was of the opinion that up to \$1,000,000 could be bought there at one time, without raising the rate more than 10%.

Considering the small amounts involved,* it also seems likely that

* If, e.g., a \$1 million loan were made at 4½% over a 20-year period, and if the first 4 years were to be free from amortization rates, servicing of the loan would require \$45,000 annually during the first 4 years, and \$88,000 annually in the following years.

the Lebanese Government will encounter no particular difficulties in mobilizing the necessary means out of its budget, which -- in 1949 -- amounts to L 72 million; although neither in this nor in the two preceding years surpluses were realized or anticipated, this budget seems balanced and no claims are made against the reserve fund.

2. Sterling

a. Exports

In 1947 exports of Syria and Lebanon to the U.K. amounted to little more than LSh 1 million, while imports represented over LSh 65 million. In view of this fact, the Lebanese Government's estimate of £ 90,000, from this source is obviously too high. It is proposed to accept an estimate of around £ 15,000, which would correspond roughly to 10% of the value of exports.

b. Emigrant remittances

It is proposed to accept the Government's estimate of £ 100,000 annually from this source, as there are no elements available which would justify any revision of this figure.

c. Receipts from foreign investment

Government estimate, £ 6,000.

d. Expenditure of foreign diplomatic missions

The U.K. Legation is one of the few foreign representations which sells all its sterling through the Exchange Office. This applies also to substantial sums which were and still are paid by the U.K. Treasury as subsidies for Polish refugees in the Lebanon.

In view of these facts, it is proposed to accept the Lebanese estimate of £ 360,000.

e. Miscellaneous

Under this heading, the Lebanese Government lists an unspecified total of £ 3,300,000. It can be assumed that the main contribution comes from the I.P.C. royalties and other expenditure. The Mission was informed by I.P.C. representatives in the Lebanon that this Company expects to spend annually from two to three million pounds in the country.

An estimate of around £ 3,000,000 can therefore probably be accepted.

f. Estimated totals of available sterling

To sum up the previous discussion, it is estimated that the Lebanese Government receives annually the following amounts of pound sterling at the official exchange rate:

From:

Exports	£ 15,000
Emigrant remittances	100,000
Foreign investment	6,000
Foreign diplomatic missions	360,000
Other sources (I.P.C.)	3,000,000
<hr/>	
Total	£ 3,481,000

g. Conclusions

As in the case of dollars, these sterling receipts are insufficient to cover imports from the U.K. which, in 1947, amounted to £ 65 million (equivalent to some £ 7.7 million at the official and to some £ 5.8 million at the free market rate). Presumably, a large part of these imports is paid from sterling assets accumulated during the war. Other sterling requirements than those to cover imports are probably not substantial and can be disregarded.

Again, it can be said that while official sterling receipts of the Lebanese Government are not sufficient to cover imports from the sterling

area, the balance has to be procured from other sources.

The difference between the dollar and the sterling position of the Lebanese Government, however, consists of the much smaller gap between the funds which are available and those which are needed. It seems that over 50% of imports from the sterling area could be covered from official sterling receipts, while less than 10% of imports from the dollar area could be covered in the same way.

Another difference between the dollar and sterling position lies in the fact that pounds sterling are easily obtained in the free market at a premium of only approximately 30% above the official rate.

It is, therefore, possible to conclude that it might be somewhat easier for the Lebanese Government to service a sterling than a dollar loan.

3. French francs

The position of the French franc in the Lebanon is completely different from the position of the dollar and the pound sterling. Imports from and exports to France are much nearer to a balance than trade with the U.S. or the U.K. The Lebanese Government has substantial revenues in French francs, and -- apart from that -- French francs are easily obtainable in the free market without premium and even without bank commission.

The Lebanese Government would undoubtedly find it easier to service a foreign loan in French francs than in any other of the two previously discussed currencies.