REPUBLIC OF LEBANON
MINISTRY OF FINANCE

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QUARTER I - 2009

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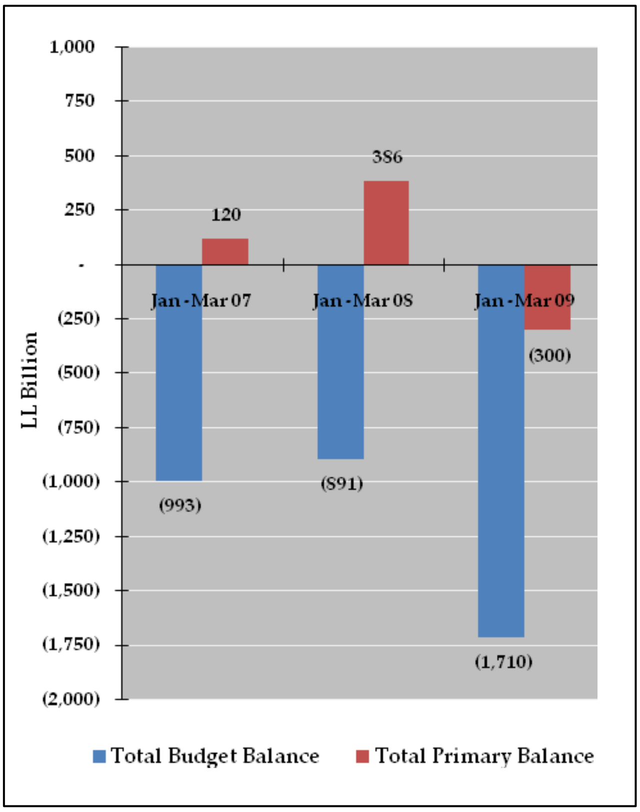
Public Finance Highlights

General Fiscal Developments

The fiscal deficit in the first three months of 2009 totalled LL 1,710 billion, LL 819 billion larger than the deficit recorded for the same period in 2008. The primary balance also witnessed a decline from a surplus of LL 386 billion in January-March 2008 to a deficit of LL 300 billion in the same period of 2009.

Figure 1: Fiscal and Primary Balance

January – March 2007 -2009



Revenues

At LL 2,828 billion in the first quarter of 2009, revenues were higher than those collected in the same period of 2008 by 14 percent, mainly as a result of 34 percent higher tax revenues.

Expenditures

Public expenditures, at LL 4,545 billion during the first three months of 2009, increased by 35 percent compared to January-March 2008. Higher current expenditures by 16 percent and higher treasury expenditures by 101 percent contributed to this result.

Public Debt Developments

As of end-March 2009, the stock of debt totalled LL 72,259 billion, registering an increase of 1.9 percent from the end-December 2008 level. Net debt stood at LL 63,945 billion at the end of the first quarter of 2009, an increase of 2.2 percent against the end-2008 level.

Section I: Fiscal Overview

The first three months of 2009 saw a **fiscal deficit** of LL 1,710 billion, a 92 percent increase from the LL 892 billion deficit posted during the same period of 2008. This result stemmed from higher total receipts of LL 354 billion (14 percent), which did not offset the incremental total payments of LL 1,173 billion (35 percent).

The **primary balance** was in deficit of LL 300 billion in QI 2009, compared to a surplus of LL 386 billion in the same period of 2008. This result is attributed to an increase in primary expenditures by LL 1,040, equivalent to 50 percent.

Table 1: Summary of Fiscal Performance

(LL billion)	2007 Jan-Mar	2008 Jan-Mar	2009 Jan-Mar	% Change QI 2009/QI 2008
Total Budget and Treasury Receipts	**2,122**	**2,474**	**2,828**	**14.3%**
Total Budget and Treasury Payments, *of which*	**3,115**	**3,365**	**4,538**	**34.9%**
• Interest Payments	1,068	1,099	1,370	**24.7%**
• Concessional Loans Principal Payments (1)	45	178	39	**-78.1%**
• Primary Expenditures (2)	2,002	2,088	3,128	**49.8%**
Total Deficit/Surplus	**-993**	**-891**	**-1,710**	**91.7%**
Primary Deficit/Surplus	**120**	**386**	**-300**	**-177.7%**

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

(1) Includes only principal repayments of concessional loans earmarked for project financing.

(2) Primary expenditures exclude debt related payments (Interest payments and Concessional loans principal repayment).

Section II: Revenue Outcome

Total revenues increased to LL 2,828 billion in the first quarter of 2009, from LL 2,474 billion in the comparable period of 2008, reflecting a rise of LL 354 billion, equivalent to 14 percent, as shown in the table below. This growth was induced by a 34 percent improvement in **tax revenues,** which over compensated the 1.5 percent and the 51.1 percent decreases in **non-tax revenues** and **treasury receipts** respectively.

Table 2: Total Revenues

(LL billion)	2008 March	2009 March	2008 Jan-Mar	2009 Jan-Mar	Change QI 2009/QI 2008
Budget Revenues, *of which:*	**738**	**747**	**2,181**	**2,685**	**23.1%**
• Tax Revenues	481	625	1,500	2,014	34.3%
• Non-Tax Revenues	257	122	682	672	-1.5%
Treasury Receipts	**53**	**49**	**292**	**143**	**-51.1%**
Total Revenues	**790**	**796**	**2,474**	**2,828**	**14.3%**

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

Tax Revenues

Tax revenues collected LL 2,014 billion during the first quarter of 2009, a figure that is more than LL 500 billion higher than the collection during the similar period of 2008. This performance is mainly driven by increases in custom collections, petroleum tax, and tax on wages and salaries, induced respectively by rises in international trade, uncapping of car gasoline rates and increasing of wages and salaries to public and private sectors employees.

The disaggregated tax performance in the first three months of 2009 is detailed in Table 3 below.

Table 3: Tax Revenues

(LL billion)	2008 March	2009 March	2008 Jan-Mar	2009 Jan-Mar	Change QI 2009/QI 2008
Taxes on Income, Profits, & Capital Gains, *of which*:	**92**	**91**	**306**	**373**	**21.9%**
• Income Tax on Profits	92	91	104	111	6.7%
• Income Tax on Wages and Salaries	3	6	75	114	50.8%
• Income Tax on Capital Gains & Dividends	4	4	17	17	-0.1%
• Tax on Interest Income (5%)	30	38	107	127	18.9%
• Penalties on Income Tax	1	1	3	5	61.9%
Taxes on Property, *of which:*	**77**	**82**	**161**	**170**	**5.5%**
• Built Property Tax	34	37	46	54	17.8%
• Real Estate Registration Fees	38	40	103	102	-0.1%
Domestic Taxes on Goods & Services, *of which:*	**184**	**206**	**659**	**763**	**15.7%**
• Value Added Tax	163	176	601	686	14.2%
• Other Taxes on Goods and Services, *of which*:	20	30	55	73	32.6%
- *Private Car Registration Fees*	*11*	*20*	*35*	*50*	*42.4%*
- *Passenger Departure Tax*	*9*	*10*	*20*	*23*	*14.0%*
Taxes on International Trade, *of which:*	**107**	**220**	**302**	**620**	**105.6%**
• Customs	50	63	149	175	17.1%
• Excises, *of which*:	57	157	153	446	192.2%
- *Petroleum Tax*	*1*	*85*	*5*	*240*	*4672.0%*
- *Tobacco Tax*	*21*	*21*	*55*	*59*	*6.9%*
- *Tax on Cars*	*35*	*52*	*91*	*146*	*59.8%*
Other Tax Revenues (namely fiscal stamp fees)	**21**	**25**	**72**	**88**	**22.4%**
Total Tax Revenues	**481**	**625**	**1,500**	**2,014**	**34.3%**

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

Some tax collection trends witnessed in 2008 were maintained throughout the first quarter of 2009, namely at the level of international trade, as imports – and more specifically car imports – kept on the rising side. Alternatively, some other taxes witnessed a shift in the collection trend, namely on the real estate front, whereby revenues from property registration fees maintained a rather steady level after a substantial rise in 2008. This in fact reflects a slowdown in the real estate market, which may be the outcome of the financial crisis.

Box 1. Uncapping the Gasoline Excise

Following the break of the international financial crisis, international oil prices witnessed a drop whereby the average import price of gasoline was down to LL 457 per litre. The Lebanese Government ceased this opportunity to uncap, on January 23, 2009, the domestic prices of car gasoline, thus allowing prices to move along international prices.

More specifically, as of early January 2009, the excise rates were fixed at LL 467.5 per litre and LL 473 per litre for the 98 octane and the 95 octane gasoline respectively. With this new pricing regime in place, the Treasury is able to resume collection of excise tax on gasoline independently of international oil price fluctuations, after years of substantial loss in revenues that resulted from the capping regime, coupled with hikes in oil prices. As a result of this Decision, and with 493 million litres of gasoline imported in the first quarter of 2009 (compared to 441 million in QI 2008), the Treasury collected LL 240 billion.

It is worth noting that this measure prevailed prior to May 2004, when the Government decided then to cap the retail price of car gasoline in order to preserve the domestic market from hikes in international oil prices. With the start of the capping regime in May 2004, rough estimates show that the Treasury had foregone around LL 445 billion, LL 559 billion, LL 704 billion, and LL 817 billion in 2005, 2006, 2007, and 2008 respectively. With years, as international oil prices peaked, the excise rate was reduced, reaching LL 0 per litre for more than 6 months in 2008.

Taxes on income profits and capital gains collected LL 373 billion in QI 09, rising from LL 306 billion in QI 2008. The largest three components are the income tax on profits[1] (LL 111 billion), the 5%interest tax (LL 127 billion), and the withheld tax on wages and salaries (LL 113 billion). The latter income tax component witnessed a substantial 51 percent rise in receipts , as a direct result of the implementation of Law 63 which granted higher wages and salaries to the public and private sector employees.

Box 2. Performance of the Tax on Interest

The 5% interest tax witnessed a rise of 19 percent during the first quarter of 2009, explained by:

* the higher growth in private sector deposits, which show a year-on-year (March 2009 – March 2008) rise of around 17 percent

* the lower dollarization rate that reached 67.7 percent in March 2009; this rate is in effect 8.98 percentage points lower than March 2008 and 9.45 percentage points lower than January 2008. In fact, LL deposits earn higher interest rates (the average deposit rate on LL deposits stood at 7.1 percent compared to 3.26 percent on USD deposits in March 2009), thereby explaining the positive impact of a lower dollarization rate on the 5 percent tax on interest.

[1] Corporations, the main contributors to income tax on profit, file and declare taxes during the second quarter of the year.

Taxes on Property showed a slower improvement, rising from LL 161 billion in QI 2008 to LL 170 billion in QI 2009, mainly owing to a slightly better performance on its recurrent item, **built property tax**. Alternatively, receipts from **property registration fees** have receded, as mentioned earlier. Although the performance at this level was only slightly inferior (less than 1 percent decrease from the QI 2008 figure), this is a major departure from the rising trend that had started in QIV 2007, culminating with an overall 52 percent rise in receipts in 2008. In fact, the deceleration in the collection of the real estate fees has started towards the end of 2008, with the break of the international financial crisis, and the world economic slowdown. This suggests a slowdown in the real estate market (lower number of sales transactions and/or lower property values).

On a more positive front, **Domestic taxes on goods and services** were up by LL 104 billion or 16 percent, mainly due to 14 percent increase in the **value added tax** collection. In fact, the VAT collected LL 686 billion, of which LL 484 billion at customs (compared to LL 432 billion in 2008). The remaining LL 202 billion pertain to internal business activity, representing mostly taxes due on businesses in QIV 2008, that were filed and declared in January 2009[2]. This latter figure is almost 20 percent higher than internal VAT collected in the first quarter of 2008, thus reflecting higher economic activity in QIV 2008 as compared to QIV 2007.

The 12 percent increase in import VAT came despite the 7.4 percent drop in imports witnessed in January-March 2009. In fact, **total imports** for QI 2009 were US$ 3,240 million, down from US$ 3,498 million during the same period of 2008. This is explained by the 54 percent (LL 775 billion) drop in fuel imports, which was not compensated for by the 10 percent (LL 388 billion) rise in non-fuel imports, as shown in Table 4 below. It is worth noting that with the change in the composition of imports towards less fuel imports and more non-fuel imports in QI 2009 as compared to QI 2008, the effective VAT rate at import increased. In fact, the first quarter of 2008 comprised 73 percent non-fuel imports and 27 percent fuel imports, a combination that resulted in an average effective VAT rate of 8.2%. In QI 2009 however, with non-fuel imports' share rising to 86% and that of fuel imports decreasing to 14%, the resulting average effective VAT rate reached a figure of about 10%, as per Table 4 below. This difference in the effective VAT rate may be explained by two factors; first, some fuel imports are exempt from VAT (such as butane gas), and second, one of the main drivers behind the rise in non-fuel imports are vehicles, which are all taxable.

Besides VAT collection, **car registration fees** contributed to the overall improvement in Domestic Taxes on goods and services in the first quarter of 2009. In fact, car registration receipts went up by 42 percent, suggesting buoyancy in car sales. In this respect, the surge in car imports that was witnessed in 2008 (represented in a rise of 89 percent) was somehow maintained throughout the first three months of 2009, where car imports increased by 52 percent. The outcome was a substantial rise in revenue collection from all taxes and fees related to car imports and sales in QI 2009.

Taxes collected from international trade stood first in line behind the 34 percent rise in total revenues. In QI 2009, this category went up by 106 percent, totalling LL 620 billion compared to LL 302 billion in the same period of 2008. This is largely the result of the policy decision to fix the excise rate on car gasoline, and to a lesser extent to the rise in non-fuel imports, namely cars.

[2] The VAT collected internally for the first quarter of the year is mostly the January filed and paid amount of the fourth quarter of the previous year.

Table 4 below depicts the rise in **tariff revenues**, totalling LL 175 billion in QI 2009, due to the 10 percent rise in non-fuel imports. In fact, as fuel products are subject to relatively low custom duties, the substantial drop in fuel imports of 54 percent did not impact tariff revenues. Indeed, as the share of non-fuel imports rose in the first quarter of 2009, the effective customs rate registered an increase to reach 3.6 percent as opposed to 2.8 percent in QI 2008.

Table 4: Import Statistics

(LL billion)	2007 Jan-Mar	2008 Jan-Mar	2009 Jan-Mar	Change QI 2009/QI2008
Total Imports	**4,072**	**5,273**	**4,886**	**-7.3%**
• *Fuel Imports (fuel derivatives classified under HS 27)*	*849*	*1,441*	*666*	*-53.8%*
• *Non-Fuel Imports*	*3,223*	*3,832*	*4,220*	*10.1%*
Revenues from Custom Duties	**131**	**149**	**175**	**17.4%**
Effective customs rate	*3.2%*	*2.8%*	*3.6%*	-
• Share of Fuel Imports	21%	27%	14%	-
• Share of Non Fuel Imports	79%	73%	86%	-
Revenues from VAT at Imports	**341**	**432**	**484**	**12%**
Effective VAT rate	*8.4%*	*8.2%*	*10%*	-

The main development though resides on the excise front, with LL 446 billion of revenues in the first quarter of the year, **total excises** collected at import[3] registered a 192 percent rise in receipts. This is explained mainly by the LL 235 billion of additional revenues from the excise on gasoline.

(i) Excises on gasoline collected LL 240 billion in QI 2009, compared to LL 5 billion in QI 2008, as shown in Table 5 below. In fact, the effective excise rate on gasoline averaged LL 11 per litre in the first quarter of 2008, at a time where average import price of gasoline was LL 964 per litre, and the domestic retail price was capped.

Table 5: Gasoline Import Statistics

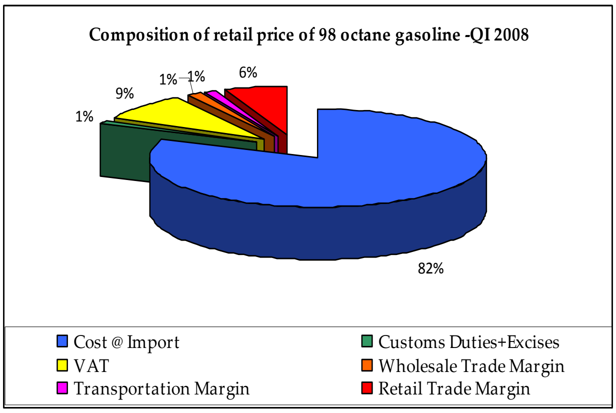
	2007 Jan-Mar	2008 Jan-Mar	2009 Jan-Mar	Change QI 2009/QI 2008
Imports (*LL billion*)	272	425	243	-42.8%
Volume (*billion litres*)	0.412	0.441	0.493	11.7%
Collected excises (*LL billion*)	110	5	235	4672%
Average effective Price at imports (LL/litre)	*660*	*964*	*493*	*-48.9%*
Average effective excise rate (LL/litre)	*267*	*11*	*477*	*4236%*

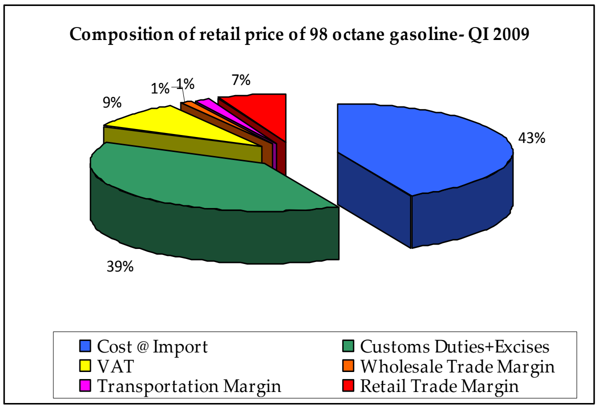
Source: MOF-General Directorate of Customs declaration forms
Note: Figures from import declarations may differ slightly from published figures in the Fiscal Performance Report.

The charts below show the significant change in the Government's share in the domestic pricing composition of gasoline (considering the 98 octane gasoline). In QI 2008, custom duties and excises accounted for only 1 percent of domestic gasoline price, while import cost accounted for 82 percent. With the drop in international oil prices during the first quarter of 2009 (import cost declining to 43 percent of domestic price), the uncapping regime allowed the government's revenue margin to widen considerably, increasing the share of customs duties and excises to 39 percent. Note that, Treasury's share in terms of VAT revenues remained stable at an average of 9 percent of the total domestic price.

[3] Excises are collected on gasoline, tobacco, cars and on alcoholic and non-alcoholic beverages. Most of it is collected at import, except for a small amount that is collected internally on alcoholic beverages.

Figure 2: Gasoline Import Statistics QI 2008 and QI 2009





(ii) As a continuation of the upward trend witnessed in 2008, excises on cars collected LL 146 billion in the first quarter of 2009, up from LL 91 billion during the same period in 2008. Behind this 60 percent surge in the collection of car excises stands a 52 percent rise in the import value of vehicles. Table 6 below indicates a volume effect, as the country imported 24,716 cars during the first three months of the year compared to 16,123 cars during the same period of last year, equivalent to a 53 percent rise. This notable increase more than offset the drop in average import price per car, from LL 21.2 million in QI 2008 to LL 20.9 million in QI 2009. This heavy flow of cars into the country can be explained by heftier local demand encouraged by more appealing car offers and deals, resulting from an oversupply of and lower demand for cars in foreign markets, as a consequence of the international financial crisis.

Table 6: Car Import Statistics

	2007 Jan-Mar	2008 Jan-Mar	2009 Jan-Mar	Change QI 2009/QI 2008
Imports (LL billion)	194	341	518	51.7%
Number of Cars	9,308	16,123	24,716	53.3%
Collected Excises (LL billion)	52	91	146	60.4%
Average price per car (LL million)	*20.8*	*21.2*	*20.9*	*-1%*
Average effective excise rate (%)	*26.8%*	*26.7%*	*28.2%*	*5.7%*

Source: MOF-General Directorate of Customs declaration forms

Note: Figures from import declarations may differ slightly from published figures in the Fiscal Performance Report

(iii) Excises on tobacco collected LL 59 billion in QI 2009, compared to LL 55 billion in QI 2008, representing a 7 percent increase. This rise finds its roots in the 6 percent increase in import value of tobacco. Table 10 below shows that 2,533 tons were imported in the first three months of the year, 15 percent higher than the same period of last year at 2,196 tons.

Table7: Tobacco Import Statistics

	2007 Jan-Mar	2008 Jan-Mar	2009 Jan-Mar	Change QI 2009/QI 2008
Imports (LL billion)	46	55	58	5.9%
Net weight (in tons)	1,684	2,196	2,533	15.3%
Collected Excises (LL billion)	47	55	59	7.3%
Average import price (LL per Kg)	*27,316*	*25,046*	*22,996*	*-8.2%*
Average effective excise rate (%)	*102.2%*	*100.0%*	*101.3%*	*1.3%*

Source: MOF-General Directorate of Customs declaration forms

Further on the tax front, fiscal stamps collected LL 88 billion in the first quarter of 2009, 22 percent more revenues than receipts in the equivalent period of 2008.

Non-Tax Revenues

Non-Tax revenues in the first quarter of 2009 were LL 672 billion, LL 10 billion less than non-tax revenues collected in the first quarter of 2008. This 2 percent drop in collection is explained by 8 percent lower **Property income,** which could not be compensated for by the 26 percent rise in receipts from **Administrative Fees and Charges**.

Table 8 : Non-Tax Revenues

(LL billion)	2008 March	2009 March	2008 Jan-Mar	2009 Jan-Mar	Change QI 2009/QI 2008
Income from Public Institutions and Government Properties	**202**	**67**	**549**	**506**	**-7.7%**
Income from Non-Financial Public Enterprises, *of which*:	198	22	536	452	-15.7%
- *Revenues from Casino Du Liban*	*57*	*9*	*70*	*45*	-35.7%
- *Revenues from Port of Beirut*	*0*	*0*	*0*	*62*	*na*
- *Budget Surplus of National Lottery*	*0*	*13*	*4*	*13*	225.0%
- *Transfer from the Telecom Surplus*	*140*	*0*	*462*	*331*	-28.2%
Income from Financial Public Enterprises (BdL)	0	40	0	40	na
Property Income (rent of Rafic Hariri International Airport)	*3*	*4*	*11*	*11*	3.5%
Other Income from Public Institutions (interests)	*1*	*1*	*2*	*3*	94.6%
Administrative Fees & Charges, ***of which:***	**42**	**47**	**107**	**135**	**26.3%**
Administrative Fees, *of which*:	34	38	86	110	27.5%
- *Notary Fees*	*2*	*2*	*5*	*6*	12.1%
- *Passport Fees/ Public Security*	*10*	*10*	*27*	*25*	-7.5%
- *Vehicle Control Fees*	*17*	*21*	*39*	*62*	57.1%
- *Judicial Fees*	*2*	*1*	*5*	*5*	4.0%
- *Driving License Fees*	*1*	*2*	*4*	*5*	36.6%
Administrative Charges	2	3	8	10	24.8%
Sales (Official Gazette and License Number)	0	0	1	1	14.7%
Permit Fees (mostly work permit fees)	4	4	11	11	3.8%
Other Administrative Fees and Charges	1	2	2	4	121.0%
Penalties and Confiscations	**0**	**0**	**1**	**2**	**19.1%**
Other Non-Tax Revenues (mostly retirement deductibles)	**13**	**8**	**25**	**28**	**14.3%**
Total Non-Tax Revenues	**257**	**122**	**682**	**672**	**-1.5%**

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

At the level of the category **Income from Public Institutions and Government Properties,** the Treasury received LL 506 billion in the first three months of 2009, of which LL 331 billion are transfers from the Budget Surplus of the Telecom. These latter are 28 percent below the transfer of the first three months of 2008[4]. Further behind the drop in the said category is a 36 percent (or LL 25 billion) less Transfer from the Casino Du Liban. In fact, the Treasury received LL 45 billion from Casino Du Liban in QI 2009, including the LL 14 billion received in February 2009 representing the second instalment of the dispute settlement between Casino management and the Government[5]. Adjusting

[4] Note that for March 2009, transfers from the Budget surplus of the telecom was received early April 2009;hence on cash basis, zero transfers were recorded in March, which may explain the year-on-year drop in receipts.

[5] The agreement signed in February 2008, which settled past years dispute between the Government and Casino du Liban Management over the scope of the Treasury revenue sharing right, stipulated a settlement amount of LL 83 billion to be installed over four years, as follows: LL 42 billion paid in 2008 and LL 14 billion/year between 2009 and 2011.

for the impact of the settlement in both 2008 and 2009, Casino transfers in the first quarter of 2009 become around 11 percent higher than transfers during the first quarter of 2008.

On the other hand, transfers from the National Lottery registered LL 9 billion more revenues in the first quarter of 2009. The Treasury also received LL 62 billion from Port of Beirut, representing the Port surplus transfer pertaining to activities in 2008, where no transfers were recorded in 2008. The Treasury has further received LL 40 billion in March 2009, representing its 80% share of Banque du Liban profit in 2008[6].

Administrative fees and charges collected a total of LL 135 billion in the first quarter of 2009, equivalent to a 26 percent rise over QI 2008 revenues, owing to the 57 percent higher receipts from vehicle control fees which may be explained by the higher number of cars in circulation as evidenced by car sales activity indicators during the last couple of years[7].

Treasury Receipts

Treasury receipts totalled LL 143 billion in the first three months of 2009, of which LL 66 billion of revenues to the Independent Municipal Fund, compared to LL 53 billion in January-March 2008. Treasury receipts in QI 2009 further account for LL 12 billion worth of grants[8] (LL 10 billion from Oman for the reconstruction of Nahr El-Bared, and about LL 2 billion of budget support from Greece, for the Ministry of Public Works).

[6] As per Article 113 of the Code of Money and Credit, the Treasury has 80% revenue-sharing right in BDL surplus. For comparative purposes, the equivalent transfer last year took place in April, and was in the amount of LL 41 billion.
[7] Car imports and car registration fees increased by 31 percent and 19 percent respectively in 2007, and increased even further by 89 percent and 51 percent respectively in 2008.
[8] The Treasury received LL 154 billion of grants during the equivalent period of last year: LL 151 billion from USA for debt reduction, namely to used to redeem IBRD loans, and LL 3 billion from Iraq, for Iraqi refugees in Lebanon.

Section III: Expenditure Outcome

Total Expenditures (budget and treasury) in the first quarter of 2009 reached LL 4,545 billion, 35 percent higher than expenditures in the same period of 2008, as Table 9 below shows.

Table 9: Expenditure Summary

(LL billion)	2007 Jan-Mar	2008 Jan-Mar	2009 Jan-Mar	Change QI 2009/QI 2008
Interest Payments	1,050	1,099	1,377	25.3%
Concessional Loans Principal Payments (1)	45	178	39	-77.8%
Total Primary Expenditures (2)	2,002	2,088	3,128	49.8%
Total Budget and Treasury Payments	**3,096**	**3,365**	**4,545**	**35.0%**

Source: Ministry of Finance (MOF), Directorate General of Finance (DGF)
(1) Includes only principal repayments of concessional loans earmarked for project financing.
(2) Primary expenditures exclude debt-related payments (Interest payments and Concessional loans principal repayment).

According to the economic classification, the LL 1,180 billion increase in total expenditures was due to the following two components:

a. An increase in **treasury expenditures** by LL 770 billion, of which (i) LL 569 billion constituted higher spending to cover the deficit of the loss-making electricity company EDL, and (ii) LL 192 billion to more locally financed payments to the High Relief Committee.

b. An increase in **current expenditures** by LL 393 billion, of which (i) LL 260 billion were due to higher personnel costs, and (ii) LL 278 billion to a larger interest bill. These and other increases offset the LL 138 billion decrease in concessional loan principal repayments and LL 43 billion decrease in wheat subsidy, given that no wheat subsidies were made in QI 2009.

Total Primary Expenditures amounted to LL 3,128 billion in January-March 2009 compared to LL 2,088 billion registered in the same period of 2008, i.e. an increase of 50 percent.

Table10. Expenditure by Economic Classification

(LL billion)	2007 Jan-Mar	2008 Jan-Mar	2009 Jan-Mar	Change QI 2009/QI 2008
1. Current Expenditures	**2,435**	**2,455**	**2,848**	**16.0%**
1.a Personnel Cost, *of which*	914	882	1,142	29.5%
• *Salaries, Wages and Related Items (Article 13)*	*642*	*574*	*770*	*34.2%*
• *Retirement and End of Service Compensations, of which:*	*232*	*264*	*303*	*15.0%*
– *Retirement*	*193*	*204*	*275*	*35.0%*
– *End of Service*	*38*	*60*	*28*	*-53.0%*
• *Transfers to Public Institutions to Cover Salaries* (1)	*40*	*44*	*69*	*54.5%*
1.b Interest Payments, *of which:* (2)	1,050	1,099	1,377	25.3%
• *Domestic Interest Payments*	*622*	*711*	*890*	*25.3%*
• *Foreign Interest Payments*	*428*	*389*	*487*	*25.3%*
1.c Foreign Debt Principal Repayment	45	178	39	-77.8%
1.d Materials and Supplies, *of which:*	47	54	59	8.8%
• *Nutrition*	*4*	*18*	*18*	*-3.3%*
• *Fuel Oil*	*10*	*9*	*4*	*-55.9%*
• *Medicaments*	*6*	*10*	*23*	*120.1%*
• *Accounting Adjustments for Treasury*	*21*	*12*	*8*	*-35.4%*
1.e External Services	24	20	25	21.1%
1.f Various Transfers, *of which:*	293	127	96	-24.8%
• *NSSF*	*220*	*0*	*0*	*NA*
• *Wheat Subsidy*	*0*	*43*	*0*	*-100.0%*
• *Special Tribunal for Lebanon*	*0*	*18*	*12*	*-34.2%*
1.g Other Current, *of which:*	42	72	85	18.5%
• *Hospitals*	*29*	*63*	*70*	*11.3%*
• *Others*	*13*	*8*	*15*	*71.5%*
1.h Reserves	20	22	25	10.7%
• *Interest subsidy*	*20*	*22*	*25*	*10.7%*
2. Capital Expenditures	**137**	**136**	**150**	**10.3%**
2.a Acquisitions of Land, Buildings, for the Construction of Roads, Ports, Airports, and Water Networks	3	1	2	101.3%
2.b Equipment	10	11	11	0.9%
2.c Construction in Progress, *of which:*	86	90	90	-0.6%
• *Displaced Fund*	*6*	*0*	*20*	*NA*
• *Council of the South*	*0*	*10*	*10*	*0.0%*
• *CDR*	*53*	*53*	*42*	*-19.9%*
• *Ministry of Public Work and Transport*	*15*	*12*	*13*	*3.7%*
• *Other*	*12*	*15*	*5*	*-68.9%*
2.d Maintenance	27	21	26	22.9%
2.e Other Expenditures Related to Fixed Capital Assets	11	13	21	65.3%
3. Other Treasury Expenditures	**512**	**764**	**1,533**	**100.8%**
3.a Municipalities	52	118	107	-9.3%
3.b Guarantees	11	13	11	-16.3%
3.c Deposits	35	12	23	87.8%
3.d Other, *of which:*	62	86	308	256.1%
• *VAT Refund*	*28*	*53*	*64*	*20.7%*
• *High Relief Committee*	*6*	*7*	*200*	*2680.1%*
3.e EDL (3)	352	515	1,085	110.5%
3.f Treasury Advances for Diesel Oil Subsidy	0	19	0	-100.0%
4. Unclassified Expenditures	**0**	**1**	**0**	**-83.1%**
5. Customs Cashiers	**12**	**9**	**13**	**49.1%**
6. Total Expenditures (Excluding CDR Foreign Financed)	**3,095**	**3,365**	**4,545**	**35.1%**

Source : Statement of Account 36, Cashier Spending, Public Debt Department Figures , Fiscal Performance Gross Adjustment Figures

(1) *For a detailed breakdown of those transfers, kindly refer to Table 11.*

(2) *For a detailed breakdown of interest payments, kindly refer to Table 12.*

(3) *For a detailed breakdown of transfers to EDL, kindly refer to Table 13.*

Current Expenditures

Current primary expenditures[9] amounted to LL 1,431 billion in January-March 2009, which is LL 253 billion higher than in January-March 2008 when current primary expenditures registered LL 1,178 billion.

Details of the main components of current primary expenditures are recorded below.

Personnel costs[10] amounted to LL 1,142 billion, about 30 percent higher than the LL 882 billion level of QI 2008, mainly resulting from the following two factors:

a) Increase in *wages, salaries and related benefits* (Article 13) by LL 196 billion, from LL 574 billion in QI 2008 to LL 770 billion in QI 2009. This was instigated by the government policy to increase monthly salary and wages in the public administration by LL 200,000 and set the minimum monthly wage at LL 500,000.

b) Increase in *retirement and end-of-service indemnities* by LL 40 billion, from LL 264 billion in QI 2008 to LL 303 billion in QI 2009. This rise was induced by the LL 71 billion increase in retirement payments, which offset the LL 32 billion decrease in end-of-service indemnities. In fact, higher retirement payment is due to the government policy of increasing monthly retirement pay by LL 170,000 to compensate retirees for the higher cost of living, while the decline in end-of-service indemnities is actually due to the sizeable payments made in 2008 to the Lebanese Armed Forces. The 2008 high level of spending on end-of-service indemnities was due to resumption of request issuance from December 2007 onward, after a temporary halt following the Nahr el-Bared events in 2007.

On the other hand, within Personnel Cost, *transfers to public institutions* to cover salaries witnessed an increase of LL 24 billion, from LL 44 billion to LL 69 billion. Within this category, transfers to the Lebanese University increased by LL 21 billion (63 percent), as shown in Table 11 below.

Table 11: Breakdown of Transfers to Public Institutions (Salaries)

(LL billion)	2007 Jan-Mar	2008 Jan-Mar	2009 Jan-Mar	Change QI 2009/QI 2008
Transfer to Council of the South	1	3	1	-83.3%
Transfer to the Council for Development and Reconstruction	8	3	8	150.6%
Transfer to Fund for the Displaced	2	1	1	0.0%
Transfer to the Lebanese University	28	34	56	62.6%
Transfer to Educational Centre for Research and Development	3	3	4	16.7%
Total Transfers to Public Institutions	**40**	**44**	**69**	**54.5%**

Source: Ministry of Finance

Materials and supplies increased from LL 54 billion in QI 2008 to LL 59 billion in QI 2009, representing an increase of 9 percent and resulting from a LL 13 billion increase in *medication expenditures*, which rose by more than twofold. The total change of LL 13 billion in the latter category was induced by higher spending by the Ministry of Public Health (from LL 8 billion in QI 2008 to LL 18 billion in QI 2009), Army (from LL 0 billion in QI 2008 to LL 2 billion in QI 2009), and Internal Security Forces (from LL 2 billion in QI 2008 to LL 3 billion in QI 2009). The higher level of spending on medicaments absorbed the decreases in the following items:

[9] Current primary expenditures is current expenditures excluding interest payments and foreign debt principal repayment.
[10] This includes salaries, wages and related benefits (article 13), transfers, retirement and end-of-service.

a) *Food expenses* decreased by about LL 1 billion, from LL18.3 billion in QI 2008 to LL 17.7 billion in QI 2009, due to a decrease in the Army's food bills by the same magnitude, from LL 17 billion in QI 2008 to LL 16 billion in QI 2009

b) *Fuel oil expenses* decreased by LL 5 billion, of which LL 3 billion was due to a decrease in the Internal Security Forces' fuel bills (from LL 6 billion in QI 2008 to LL 3 billion in QI 2009), and LL 2 billion in Army's fuel bills from (LL 2 billion in QI 2008 to none in QI 2009).

External Services (rent, postal, insurance, advertisement and public relations) amounted to LL 25 billion, up by LL 5 billion from the QI 2008 level, mainly due to increases in:

a) rental payments, by LL 4 billion (from LL 10 billion in QI 2008 to LL 14 billion in QI 2009)

b) LL 1 billion in publications (from LL 3 billion in QI 2008 to LL 4 billion in QI 2009)

Various Transfers witnessed a decline of LL 32 billion, from LL 127 billion in QI 2008 to LL 96 billion in QI 2009. Components that witnessed noticeable decreases were:

a) There were no *treasury advances for wheat subsidy* to the General Directorate of Cereals and Sugar Beet in QI 2009, while these reached LL 43 billion in QI 2008; the wheat subsidy policy ended on 15 November 2008 as per Council of Minister Decision #71 dated 8/11/2008

b) Transfers to cover part of the expenses of the *Special Tribunal for Lebanon*[11] totalled LL 12 billion in QI 2009, following Decree #1372 dated 17 February 2009, thus registering a decrease of LL 6 billion as compared to QI 2008, when they reached LL 18 billion, following Decree 1015 dated 24 November 2007

c) Transfers to NGOs, mainly by the Ministry of Social Affairs and the Ministry of Education and Higher Education, decreased by LL 6 billion and totalled LL 23 billion in QI 2009 against LL 29 billion in QI 2008,

Other components of various transfers witnessed increases, namely:

a) Transfers to school funds to cover the cost of registration fees for students increased by LL 1 billion, thus reaching LL1 billion in QI 2009 compared to none in QI 2008;

b) Transfers to the Council of Ministers[12] were LL 1 billion higher, totalling LL 3 billion in QI 2009 compared to LL 2 billion in QI 2008,

c) Transfers to the Lebanese National Conservatory of music increased by LL 2 billion, from LL 2 billion in QI 2008 to LL4 billion in QI 2009,

d) A transfer of LL 1 billion to the General Labourers' Union from Budget 2008 was made in QI 2009 versus none in QI 2008,

e) Transfers to public hospitals also witnessed a very modest increase (less than 1 billion).

Other Current Expenditures showed an increase of LL 13 billion compared to same-period figures in 2008, attributed to increased payments to cover hospitalization in the private sector (LL 7 billion higher) and other current spending (LL 6 billion higher). The latter increase was induced by a LL 3 billion payment by the Directorate General of Civil Aviation/Ministry of Public Works and Transport – following a decision by the State Council – on one hand, and a LL 3 billion increase in spending by Lebanese delegations attending overseas conventions on the other.

[11] The Special Tribunal for Lebanon is the international tribunal for the assassination of Prime Minister Rafic Hariri.
[12] Transfers exclude High Relief Committee, National Council for Scientific Research, and Higher Council for Privatization.

Interest payments reached LL 1,370 billion in the first quarter of 2009, as compared to LL 1,099 billion in the same period of 2008, thus increasing by LL 271 billion.

Higher Interest payments on *local currency debt* account for LL 179 billion of the LL 271 billion increase in interest payments, driven by a rise in coupon payments on long-term Treasury Bills and a drop on discount interest for short term Treasury Bills[13].

Box 3. Higher Interest Payments on Local Currency Debt

* The increase in coupon payments on long-term Treasury Bills by LL 220 billion is a result of: (a) 27 percent rise in the volume of long-term T-Bills, with coupon payments maturing in the first quarter of 2009 (from LL 14,836 billion in QI 2008 to LL 18,796 billion in QII 2009), coupled with (b) higher weighted average annual cost reaching 9.27 percent in QI 2009 compared to 8.78 percent in the same period of 2008. The increase in the average cost of long-term T-Bills pertains to the redemption in March 2008 and July 2008 of LL 1,266 billion worth of Special LL 54-month and LL 60-month at 4 percent coupon.

* On the other hand, lower discount interest payments for short term Treasury Bills by LL 40 billion were coming from a decrease in short-term T-Bill maturities in the first quarter of 2009, compared to the first quarter of 2008. Short term T-Bills falling due between January and March 2009 amounted to LL 583 billion, representing only 17.8 percent of the stock of short term T-Bills as at end March 2009; whereas the volume of short-term T-Bills maturing in the first quarter of 2008 amounted to LL 1,376 billion, equivalent to 89 percent of the stock of short term T-Bills as at end March 2008. In addition to lower maturities, the weighted average annual cost of short term T-Bills decreased from 7.31 percent to 6.31 percent in the first quarter of 2009, due to a higher share of 3-month T-Bills maturing in QI 2009 compared to QI 2008.

Interest payments on *foreign currency debt* increased by LL 92 billion in QI 2009, compared to QI 2008. Higher Eurobond coupon payments by LL 103 billion were offset by lower interest payments on concessional loans.

Additional coupon payments on Eurobonds resulted mainly from the payment of LL 118 billion for the cash premium, accrued interest and discount price following the exchange transaction settled on March 19, 2009[14]. On the other hand, excluding the exchange transaction effect, coupon payments in QI 2009 were LL 15 billion lower than those in QI 2008 due to a lower stock of Eurobonds with coupon maturities falling due in the first quarter of 2009.

Interest payments on concessional loans amounted to LL 27 billion in QI 2009, compared to LL 39 billion in QI 2008, thus registering a decrease of LL 12 billion. In fact, additional interest payments were witnessed in the first quarter of 2008 as opposed to 2009; first, the payment of LL 3.6 billion of accrued interest following the early redemption in January 2008 of three World Bank loans against the disbursement of the USAID grant; second, higher interest paid in the amount of Euro 1.6 million (LL 3 billion) on the EURO 500 Million AFD Paris II Loan with an amortized structure; third, higher payments resulting from higher LL/Euro exchange rates prevailing in the first quarter of 2008 (average rate LL/Euro was LL 2,291.4) compared to the first quarter of 2009 (average rate LL/euro was LL 1,911.7).

[13] Short term Treasury Bills are a bullet payment of principal and interest at maturity.
[14] For detailed information, please refer to the Box 4.

Concessional Loans Principal Payments amounted to LL 39 billion for the period January-March 2009. The repayment of LL 178 billion that occurred during the first quarter of 2008 was exceptionally high due to the early settlement of three World Bank loans paid by the USAID grant for budget support[15].

Table 12: Details of Debt Service Transactions

(LL billion)	2007 Jan-Mar	2008 Jan-Mar	2009 Jan-Mar	Change QI 2009/QI 2008
Interest Payments (1)	**1,068**	**1,099**	**1,370**	**24.7%**
Local Currency Debt	**640**	**711**	**890**	**25.2%**
• *Discount interest*	*65*	*59*	*19*	-68.5%
• *Coupon*	*575*	*652*	*872*	33.7%
Foreign Currency Debt, *of which*:	**428**	**388**	**480**	**23.7%**
• *Eurobond Coupon Interest(2)*	*391*	*349*	*452*	29.4%
• *Special Bond Coupon Interest(2)*			*1*	
• *Concessional Loans Interest Payments*	*37*	*39*	*27*	-29.6%
Concessional Loans Principal Payments (1)	**45**	**178**	**39**	**-77.8%**

Source: Ministry of Finance (MOF), Directorate General of Finance (DGF)
(1) Please note that the classification of debt service expenditures is now broken down into two separate categories as follows: Interest payments (as per GFS classification) and repayment of principal on concessional loans earmarked for project financing.
(2) Includes general expenses related to the transaction

Capital Expenditures

Capital expenditures for QI 2009 totalled LL 150 billion, increasing from LL 136 billion collected in QI 2008. This increase of LL 14 billion is the outcome of the following factors combined:

a. An LL 1 billion – or twofold – increase in acquisitions of land and buildings for the construction of roads, ports, airports, and water networks; totalling LL 2 billion in QI 2009.

b. A LL 5 billion, or 23 percent, increase in maintenance expenditures from LL 21 billion in QI 2008 to LL 26 billion in QI 2009. Of this increase, LL 3 billion is due to the maintenance of Lebanese University Hadath Campus, where expenditures went up from LL 4 billion in QI 2008 to LL 7 billion in QI 2009. Another LL 1 billion pertains to the increase in spending on the maintenance of the Ministry of Finance .

c. An LL 8 billion increase in other expenditures related to fixed capital assets, from LL 13 billion to LL 21 billion. This resulted from two payments, of LL 10 billion each, made to IDAL for the Export Plus program in QI 2009 versus one LL 10 billion payment in QI 2008.

The magnitude of the increases above offset the impact of the decrease in the construction in progress component of capital expenditures. In fact, this item decreased by LL 1 billion – or 0.6 percent – reaching LL 89.5 billion in QI 2009 as compared to LL 90.1 billion in QI 2008. The decrease in construction in progress is due to lower transfers to:

i. The Council of Development and Reconstruction (CDR), by LL 10 billion

ii. Other government agencies, by LL 10 billion, due to lower construction spending by the Ministry of Energy and Water (LL 8 billion drop), the Ministry of National Defence (LL 3 billion decline) and the Ministry of Youth and Sports (LL 1 billion decrease). .

[15] Please refer to the "International Conference for Support to Lebanon- Paris III (6th progress report)": www.finance.gov.lb

Treasury Expenditures

Treasury expenditures increased significantly by LL 770 billion in QI 2009, when compared to the same period of 2008. This item witnessed major increases in many components, as follows:

a) Other expenditures which include the following:

i. Increase in transfers to, or on behalf of, Electricité du Liban (EDL) by LL 569 billion. Transfers to EDL reached LL 1,085 billion during the first three months of 2009, compared to LL 515 billion for the same period in 2008. The increased transfers can be explained by the increase in Treasury payments to Kuwait Petroleum Corporation (KPC) and Algeria's Sonatrach for fuel and gas oil purchases, by LL 572 billion. In the first three months of 2009, Treasury payments to KPC reached LL 353 billion, compared to LL 83 billion in the first three months of 2008. Payments to Sonatrach reached LL 696 billion in the first three months of 2009, compared to LL 394 billion in QI 2008. The increase in payments is in fact two-fold, with price and quantity effects. First, international oil prices rose notably in 2008, especially during the third quarter of the year. In fact, most of the payments made to KPC and Sonatrach in QI 2009 pertain to fuel consumed (and thus priced) in QIII 2008, at a time of soaring oil prices. Second, EDL registered increased gas oil consumption from 218,939 metric tons[16] paid in QI 2008 to 463,000 metric tons paid in QI 2009. This notable rise was accompanied by a 21 percent drop in consumption of fuel oil, from 381,218 metric tons paid in QI 2008 to 302,000 metric tons paid in QI 2009. The increase in Treasury payments to KPC and Sonatrach for fuel and gas oil purchases was only partly offset by a decrease in debt service by LL 3 billion, equivalent to 7 percent;

Table 13: Transfers to EDL

(LL billion)	2007 Jan-Mar	2008 Jan-Mar	2009 Jan-Mar	% Change QI 2009/QI 2008
EDL, *of which:*	**352**	**515**	**1,085**	**110%**
Debt Service, *of which:*	**109**	**39**	**36**	**-7%**
• C-Loans and Eurobonds, *of which:*	**40**	**39**	**31**	**-22%**
- *Principal Repayments*	31	31	26	**-18%**
- *Interest Payments*	9	8	5	**-35%**
• BDL-Guaranteed Loan Payments	69	0	6	**na**
Reimbursement of KPC and Sonatrach Agreements	**243**	**476**	**1,048**	**120%**

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

ii. Increase in payments of *VAT refund* by LL 11 billion.

iii. Treasury advances to the *High Relief Committee* increased by LL 193 billion from LL 7 billion in QI 2008 to LL 200 billion in QI 2009. Of the LL 7 billion transferred in 2008, LL 4.7 billion were paid pursuant to Decree #1044 (dated 24/11/2007), which granted LL 10 billion to cover costs associated with the Nahr El-Bared events, and another LL 2 billion were paid pursuant to Decree #616 (dated 08/08/2007), which granted LL 20 billion to cover execution of work and various needs. The LL 200 billion paid in QI 2009, as per Decree #1168 (dated 5/1/2009), were provided to continue indemnity payments to the owners of damaged housing units in the villages and the Southern Suburbs on one hand, and relief payments related to the July 2006 War on the other.

[16] The quantities of gas oil and fuel oil consumed by EDL are as per Letters of Credit for these purchases, which are co-signed by the Ministry of Finance. Payments for these purchases are made 6 to 9 months after the quantities are received and consumed.

iv. Treasury Advances to the Rafic Hariri University Hospital increased by LL 6 billion. In fact, LL 12 billion were paid in QI 2009 following Decree # 1233 dated 22/1/2009, , whereas LL 6 billion were paid in QI 2008 following Decree #884 (dated 3/11/2007), which granted a treasury advance of LL 6 billion.

v. A LL 2.6 billion payment was made to the High Relief Committee to cover the indemnities resulting from the evacuation of the Yammouné Lake in the Caza of Baalback, as per Decree 15738 dated 14/11/2005.

vi. Budget advances increased by LL 5 billion, from LL 9 billion in QI 2008 to LL 14 billion in QI 2009. Of the LL 9 billion paid in QI 2008 and of the LL 14 billion paid in QI 2009, LL 9 billion and LL 8 billion[17] respectively were settled from Article 11 (material and supplies).

Social Spending

Spending on social services covers the basic social services of:

- Health
- Education
- Pension and end-of-service indemnity
- Transfers to the National Social Security Fund (NSSF)
- Other areas of intervension classified as social assistance

Preliminary[18] social spending reached LL 770 billion at the end of QI 2009, constituting about 17 percent of total spending. Preliminary spending on health represented 22 percent of total social spending and included mainly hospitalization in the private sector, purchase of medication, and maternity and sickness allowance for public sector employees.

Preliminary spending on education represented around 30 percent of preliminary social spending, and covered mainly the Ministry of Education and Higher Education salary and wage bill, the contribution to the salaries of the Lebanese University's personnel, education allowance for public sector employees and contributions to non-profit organizations, also known as subisidies to private schools.

Pension and end-of-service payments and transfers to civil servants cooperatives constituted 39 percent and 4 percent of preliminary total social spending, respectively.

The first quarter of 2009 witnessed a higher level of preliminary spending on social services relative to the same period of 2008, by LL 108 billion, equivalent to an increase of 16 percent. This increase was mainly a result of:

[17] This is the amount reclassified as per the publication date of the report.

[18] Figures for QI 2009 are preliminary because starting November 1, 2008 and in the absence of a law that would allow opening additional allocations in the budget to cover the payment of salaries and wages following the Council of Ministers' decision (Decision #79 dated 9/9/2008) to increase the monthly salary and wage increase, salary and wage payments made to the Ministry of Education and Higher Education, Ministry of Social Affairs and Ministry of Displaced, as well as the social allowances paid to civil servants, all had to be made from LL 350 billion treasury advance that was granted to the Ministry of Finance by Decree 706 (dated 15 November 2008). Payments made from the treasury advance granted by Decree 706 cannot be broken down by recipient Ministries and economic classification until they are settled from budget allocations.

a) Higher preliminary spending on health, by around LL 14 billion, 9 percent, as a result of higher private hospitalization bills for citizens taken in charge by the Ministry of Public Health by LL 7 billion, and twofold increase in purchase of medication by LL 12 billion,

b) Higher preliminary spending on education by LL 51 billion, 28 percent, following higher wage bills at the Directorate General of Education and the Lebanese University by LL 41 billion and LL 22 billion respectively after the implementation of Law 63 dated 31/12/2008 that provided a flat LL 200,000 monthly increase to public sector employees,

c) End-of-service and pension expenditures showed a rise of LL 40 billion in QI 2009, from LL 264 billion to LL 303 billion[19],

d) Transfers to the Civil Servants Cooperative increased by LL 11 billion in QI 2009, or 54 percent, as compared to QI 2008.

Table14: Main Social Expenditures (Preliminary Figures)

(LL billion)	2008 Jan-Mar	2009 Jan-Mar	% Change QI 2009/QI 2008
Health	**157**	**170**	**11%**
• Hospitalization in the Private Sector	63	70	11%
• Purchase of Medication	11	23	106%
• Hospitalization of Public Sector Employees in Private Sector	57	49	-14%
• Maternity and Sickness Allowance	13	9	-30%
• Other	13	20	54%
Education	**183**	**234**	**28%**
• Ministry of Education and Higher Education, *of which*:	183	234	28%
- *Wages and Salaries of the General Directorate of Education*	*117*	*158*	*35%*
- *Wages and Salaries of the General Directorate of Higher Education*	*0*	*0*	*57%*
- *Wages and Salaries of the General Directorate of Technical Education*	*12*	*8*	*-29%*
- *Contributions in the Salaries of the Lebanese University*	*34*	*56*	*63%*
- *Contributions to Non-Profit Organizations (Private Schools)*	*7*	*1*	*-92%*
- *Construction under Execution (Construction and Restoration of Schools)*	*5*	*2*	*-67%*
• Education Allowance in Private Sector	0	0	NA
Other Social Spending	**322**	**365**	**14%**
• Marriage Allowance	2	2	-10%
• Birth Allowance	*2*	*1*	-51%
• Death Allowance	1	1	78%
• Other Social Spending Allowance	6	4	-45%
• Participation in several Pension Funds	7	6	-9%
• Ministry of Social Affairs, *of which*:	20	17	-17%
- *Transfers to Non-Profit Organizations*	*20*	*16*	-18%
• Ministry of Displaced	1	2	128%
• Transfers to Civil Servants Cooperative	20	30	154%
• End-of-Service and Pensions	264	303	15%
• National Social Security Fund	0	0	NA
Total Social Expenditures	**662**	**770**	**16%**

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

[19] For more details on retirement and end-of-service indemnities, please refer to section on "personnel costs" under "Current Primary Expenditures".

Section IV: Public Debt Developments

Financing Requirements

Total net financing requirements for the first quarter of 2009 reached LL 1,769 billion, compared to LL 824 billion for the first quarter of 2008.

In the first quarter of 2009, Treasury-bill issuances represented the main funding source, followed by Eurobond issuances. The LL 618 billion increase in the stock of Eurobonds is a net effect of the USD 445 million new cash tranches issued in conjunction with the voluntary Eurobond exchange transaction that took place on March, 19 2009[20], less the repayment of the principal instalment amounting to USD 35 million of the USD 700 Million March 2018 amortized Eurobond issued in the context of the Paris II Conference. Given the high liquidity level in the Treasury deposits at the end of 2008[21], the government reduced its cash balances by LL 204 billion to finance remaining needs.

On the contrary, the first quarter of 2008 witnessed a building up of cash in the treasury accounts resulting from the Commercial Banks' oversubscription in the LL Treasury-bill weekly auctions, coupled with lower financial requirement by LL 945 billion when compared to the first quarter of 2009.

Table15: Financing for January-March 2009 versus January-March 2008

(LL billion)	2008 Jan-Mar	2009 Jan-Mar
Overall balance from the financing side[22]	**-824**	**-1,769**
Total Net in Financing	**824**	**1,769**
• LL treasury bills (2)	1,188	1016
• Eurobonds (1)	10	618
• Bilateral Loans (1)	245	-68
• Multilateral Loans (1)	-91	11
• Private sector loans (1)	-15	-11
• Change in treasury accounts (-/increase +/decrease)	-512	204

Source: Ministry of Finance (MOF), Directorate General of Finance (DGF)
(1) The net variation of foreign currency debt excludes foreign exchange variations as well as accrued interest
(2) The net variation of treasury bills excludes accrued interest
Note: Positive numbers indicate a net increase and negative numbers indicates a net decrease except for line item "change in treasury accounts".

[20] Please refer to Box 4 below.
[21] Please refer to the "Public Finance Review 2008".
[22] The overall balance from the financing side is calculated as the negative sum of total net financing items. It differs from the overall balance of Section 1 (based on a check-issued basis) because it measures cash going in and cash going out; it also includes CDR operations related to project financing loans and is affected by the cash sources and requirements of all debt operations.

Public Debt

Gross public debt registered LL 72,259 billion (US$ 47.93 billion), 1.9 percent more than the stock of debt level at the end of 2008. Seventy percent of this increase was a result of higher domestic currency debt.

Net public debt totalled LL 63,945 billion (US$ 42.42 billion), registering an increase of LL 1,383 billion over the end-December 2008 level.

Table 16: Public Debt Outstanding as of end-March 2009

(LL billion)	Dec-05	Dec-06	Dec-07	Dec-08	Mar-09	Change Dec 08 -Mar 09	% Change Dec 08- Mar 09
Gross Public Debt[(1)]	57,985	60,851	63,350	70,888	72,259	1,371	1.93%
Net Debt	52,395	56,407	58,823	62,562	63,945	1,383	2.21%
Gross Market Debt[(2)]	34,721	38,670	39,216	46,992	47,176	184	0.39%

Source: Ministry of Finance, Banque du Liban

[(1)] *Figures for Dec 05 – Mar 09 may differ from previously published data due to updated information regarding bilateral and multilateral loans in the Debt Management and Financial Analysis System (DMFAS)*

[(2)] *Gross market debt equals gross debt less the portfolios of the BDL, NSSF, bilateral and multilateral loans, Paris II and Paris III related debt.*

By the end of the first quarter of 2009, local currency debt stood at LL 39,969 billion, an increase of 2.47 percent compared to the end-2008 stock.

- **By holder**, the central bank had the highest increase in stock of domestic currency debt in Q1 2009, with holdings LL 1,263 billion higher than at end-2008. This was mainly led by the central bank's purchase of treasury bills on the secondary market during the quarter (and mainly in January 2009) with the central bank's treasury bill portfolio higher by LL 1,276 billion over the quarter.

  This activity compensated the reduction in commercial banks' holdings of domestic currency debt over the same period. The domestic debt stock held by commercial banks decreased by LL 552 billion in Q1 2009, with a LL 565 billion reduction in their holdings of treasury bills.

  Results from the weekly auctions reflect that commercial banks continued to have healthy appetite for government paper. In fact, 67 percent of subscriptions in Q1 2009 were made by commercial banks. Public entities accounted for 16 percent of subscriptions, followed by the Central Bank with 15 percent of subscriptions for the quarter.

- **By instrument**, in contrast to previous quarter trends, the increase in the stock of domestic currency debt in Q1 2009 stemmed from an increase in the stock of short-term bills by LL 1,136 billion, in contrast to a lower stock of long-term bonds of LL 174 billion.

  Thirty-six month treasury notes were the most demanded instrument during Q1 2009, accounting for 48 percent of subscriptions and reflected by a LL 195 billion increase in stock. However, the long-term bond portfolio decreased as mainly due to the maturity of LL 298 billion worth of 48 month treasury bills which were redeemed in the month of March 2009.

  Three-month treasury bills were the second most demanded instrument in the first quarter of 2009 – with 16 percent of subscriptions, followed by 12-month treasury bills – with 13 percent of subscriptions.

Table 17: Domestic Currency Debt by Holder and Instrument as of end-March 2009

Stocks (end of period)	Dec-05	Dec-06	Dec-07	Dec-08	Mar-09	Change Dec08-Mar09	% Change Dec 08- Mar 09
Local currency debt	**29,141**	**30,204**	**31,373**	**39,007**	**39,969**	**962**	**2.47%**
A. By Holder							
1. Central Bank (including REPOs and Loans to EDL to finance fuel purchases)(1)	11,686	9,588	9,052	8,781	10,044	1,263	14.38%
2. Commercial Banks	14,130	16,487	16,847	24,320	23,768	-552	-2.27%
3. Other local debt (T-bills)	3,325	4,129	5,474	5,906	6,157	251	4.25%
o/w Public entities	*2,446*	*3,313*	*4,796*	*5,062*	*5,265*	203	4.01%
Accrued interest included in debt	*517*	*685*	*754*	*1,001*	*947*	*-54*	*-5.39%*
B. By Instrument							
1. Long term bonds	23,384	26,862	28,617	36,350	36,176	-174	-0.48%
1.1 60 months bonds	*1,772*	*2,172*	*3,699*	*3,049*	*3,049*	*0*	*0.00%*
1.2 54 months bonds	*616*	*616*	*616*	*0*	*0*		
1.3 48 months bonds	*633*	*633*	*633*	*633*	*335*	*-298*	*-47.08%*
1.4 36 months bonds	*14,520*	*21,093*	*21,051*	*29,650*	*29,845*	*195*	*0.66%*
1.5 30 months bonds	*3,033*	*0*	*0*	*0*	*0*	*0*	
1.6 24 months bonds	*2,385*	*1,751*	*1,927*	*2,052*	*2,063*	*11*	*0.54%*
1.7 Coupon interest	*425*	*597*	*691*	*966*	*884*	*-82*	*-8.49%*
2. Short term bills	5,246	2,839	2,288	2,197	3,333	1,136	51.71%
2.1 12 months bills	*3,023*	*1,579*	*529*	*676*	*1,152*	*476*	*70.41%*
2.2 06 months bills	*2,067*	*1,117*	*1,750*	*1,234*	*1,490*	*256*	*20.75%*
2.3 03 months bills	*156*	*143*	*9*	*287*	*691*	*404*	*140.77%*
Accrued interest included	92	88	63	35	63	28	80.00%
3. Other local debt	511	503	468	460	460	0	0.00%
3.1 Central Bank Loans	*453*	*445*	*405*	*362*	*349*	*-13*	*-3.59%*
3.2 Commercial Banks Loans	*58*	*58*	*63*	*98*	*111*	*13*	*0*

Source: Ministry of Finance, Banque du Liban

(1) The BDL has extended loans to EDL for the equivalent amount of US$ 300 million to purchase fuel oil. These loans are listed as Public debt as they are government guaranteed.

Primary market interest rates were on average 0.19 percentage points lower by the end of Q1 2009, compared to end-year 2008. The highest decrease in rates was witnessed on 12-month treasury bills by 31 bps, to reach 7.27 percent by the end of the quarter, followed by a 30 bps decrease of the 24-month instrument, to reach 7.96 percent over the same period.

Table 18: Evolution of Primary Market Treasury Bills Yields

Maturity	Dec. 31, 2005	Dec. 31, 2006	Dec. 31, 2007	Dec. 31, 2008	Mar. 31,2009
3-month	5.22 percent	5.22 percent	5.22 percent	5.10 percent	5.07 percent
6-month	7.24 percent	7.24 percent	7.24 percent	7.10 percent	6.96 percent
12-month	7.75 percent	7.75 percent	7.75 percent	7.58 percent	7.27 percent
24-month	8.50 percent	8.50 percent	8.50 percent	8.26 percent	7.96 percent
36-month	9.34 percent	9.32 percent	9.32 percent	9.00 percent	8.84 percent

Source: Ministry of Finance

Foreign currency debt registered LL 32,290 billion by the end of March 2009, higher than the end of 2008 level by 1.28 percent. The stock of foreign currency debt decreased by LL 235.5 billion due to exchange rate valuations mainly due to the depreciation of the Euro from a rate of 1.417 EUR/US$ at the end of 2008, to 1.3332 EUR/US$ at the end of March 2009.

Table 19: Foreign Currency Debt by Holder and Instrument as of end-March 2009

(in LL billion)	Dec-05	Dec-06	Dec-07	Dec-08	Mar-09	Value Change	% Change Year-to-date
Foreign currency debt[1]	**28,844**	**30,647**	**31,977**	**31,881**	**32,290**	**409**	**1.28%**
4. Eurobonds	**24,743**	**26,441**	**27,099**	**26,817**	**27,437**	**620**	**2.31%**
Of which, Paris II at preferential rates[2]	5,608	5,608	5,156	4,708	4,655	-53	-1.12%
Of which, Paris III at preferential rates[3]	0	0	754	754	754	0	0.00%
Accrued Interest on Eurobonds	*406*	*434*	*410*	*430*	*502*	*72*	*16.74%*
5. Loans	**3,682**	**3,787**	**4,459**	**4,645**	**4,406**	**-239**	**-5.15%**
5.1 Paris II loans	893	932	907	748	643	-105	-14.04%
5.2 Paris III loans[4]	0	0	603	1,095	1,075	-20	-1.82%
5.3 Bilateral loans (non-Paris II and III)	703	714	759	745	698	-47	-6.30%
5.4 Multilateral loans (non-Paris II and III)	1,928	2,026	2,104	2,002	1,948	-54	-2.70%
5.5 Foreign Private Sector Loans	158	115	86	54	41	-13	-24.07%
6. Other debt	**419**	**419**	**419**	**419**	**447**	**28**	**6.68%**
6.1 Special T-bills in Foreign currency[5]	419	419	419	419	447	28	6.68%

Source: Ministry of Finance, Banque du Liban

(1) Figures for Dec 05 – Mar 09 may differ from previously published data due to updated information regarding bilateral and multilateral loans in the Debt Management and Financial Analysis System (DMFAS)

(2) Paris II related debt (Eurobonds and Loans) including a Eurobond originally issued at USD 1,870 billion to BDL in the context of the Paris II conference.

(3) Issued to Malaysia as part of its Paris III contribution

(4) IBRD Loan, UAE Loan and first tranche of the French loan received in February 2008, and IMF loans.

(5) Special T-bills in Foreign currency (expropriation bonds)

The increase in foreign currency debt between December 2008 and March 2009 stemmed from a higher Eurobond portfolio and other bonds, as the loan portfolio decreased by LL 239 billion over the quarter.

The increase in the Eurobond portfolio of LL 620 billion stems from a Eurobond new cash transaction performed in conjunction with a voluntary exchange offer presented and settled by the Lebanese Republic in March 2009. The issuance of US$ 444.7 million of new cash with the Eurobond voluntary exchange transaction resulted in new issues of US$ 2.1 billion and € 211.097 million. More details on the exchange are available in Box 2 below.

Other foreign currency debt was higher by LL 28 billion over Q1 2009 given that on March 25, 2009 the Lebanese Republic issued 6.00 percent US$ 18.5 billion Treasury Bonds due 2014 for the settlement of expropriations.

Box 4: March 2009 Exchange and New Cash Transaction

With the objective of conducting proactive debt management operations, the Ministry of Finance approached capital markets with a voluntary exchange transaction of Eurobonds maturing in 2009. MoF's aim from this voluntary debt exchange transaction was to ensure smooth financing of the high level of maturing bonds in 2009 as well as to soften the redemption schedule of maturing Eurobonds in the medium term. This came against a backdrop of renewed confidence by the IMF in Lebanon's government reform policy by signing a second Emergency Post-Conflict Assistance program on November 3, 2008. In addition, Moody's changed Lebanon's sovereign ratings outlook from stable to positive on December 11, 2008.

On February 13, 2009, the Ministry of Finance appointed Credit Libanais s.a.l., Byblos Bank s.a.l. and Credit Suisse Securities (Europe) Limited as joint lead managers in connection with the offer to exchange some or all of the Eurobonds issued by the Republic and maturing in 2009. The transaction was launched on March 6, 2009 and settled on March 19, 2009.

The participation rate in the exchange transaction reached an average of 82.8 percent. This rate by far exceeds the prevailing rates in Lebanon and the rest of the world, making this the biggest foreign currency bond exchange in Lebanon and the Middle East and one of the biggest such operations outside the United States.

Details of the Exchange

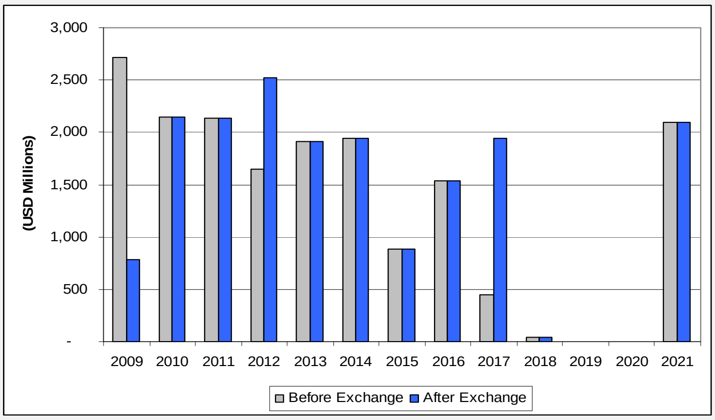
Original Notes	Outstanding Amount (in original cur)	Amounts exchanged (in original cur)	Participation rate (%)
US$ 7.500% due Aug 2009	$351,591,000	$263,698,000	75.0%
US$ 10.250% due Oct 2009	$635,500,000	$485,490,000	76.4%
US$ FRN due Nov 2009	$625,000,000	$584,797,000	93.6%
US$ 7.000% due Dec 2009	$425,000,000	$321,339,000	75.6%
Total (US$)		**$1,655,324,000**	**81.3%**
€ 7.250% due May 2009	€225,000,000	€211,097,000	93.8%
Average participation rate			**82.8%**

The yields for the new issues were determined based on the secondary market prices of existing comparable maturities, the yields for comparables in other emerging markets, in addition to the sovereign rating of the Lebanese Republic.

New Bond Issues

New Notes	ISIN	Price at issuance	Coupon	Yield
US$ due March 2012	XS0418193750	100.00	7.50%	7.50%
US$ due March 2017	XS0418193917	100.00	9.00%	9.00%
€ 5.875% due April 2012 (reopening)	XS0250883013	95.038	5.875	7.75%

Eurobond Debt Maturity Profile Before and After the Exchange



The average time to maturity of the total Eurobond portfolio went from 4.66 years before the exchange to 5.08 after, whereas the weighted average coupon rate increased from 7.24 percent to 7.34 percent.

Table 20: Eurobond Price Performance

	Bid Yield (%)					
Lebanese Issues	**13-Jan-09**	**15-Jan-09**	**21-Jan-09**	**29-Jan-09**	**17-Mar-09**	**25-Mar-09**
EURO						
LEB 7.250 09	8.20	10.24	8.06	8.12	N/A	N/A
LEB 5.875 12	8.62	8.82	8.39	8.41	7.57	7.39
US Dollars						
LEB 10.250 09	8.03	6.55	6.48	6.38	N/A	N/A
LEB FRN 09	8.55	7.07	6.67	6.75	N/A	N/A
LEB 7.000 09	7.57	6.99	6.84	6.84	N/A	N/A
LEB 7.125 10	8.05	7.82	6.88	6.87	6.98	6.98
LEB 7.875 11	8.35	8.23	7.63	7.51	7.17	7.11
LEB 4.000 17 Av Life	10.05	9.72	9.40	9.42	9.58	9.62
LEB 7.500 12	N/A	N/A	N/A	N/A	7.31	7.31
LEB 7.750 12	8.89	8.81	8.23	8.07	7.54	7.37
LEB 9.125 13	9.41	9.16	8.61	8.61	8.15	8.00
LEB 8.625 13	9.47	9.22	8.62	8.59	8.30	8.05
LEB 7.375 14	9.86	9.47	8.70	8.58	8.42	8.24
LEB 9.000 14	9.92	9.48	8.72	8.63	8.42	8.26
LIEB 10.000 15	6.72	9.50	8.93	8.93	8.63	8.55
LEB 8.500 15	9.87	9.60	8.81	8.76	8.60	8.47
LEB 8.500 16	9.91	9.65	8.87	8.84	8.77	8.59
LEB 11.625 16	9.96	9.82	8.96	9.13	8.88	8.75
LEB 9.000 17	N/A	N/A	N/A	N/A	8.85	8.71
LEB 8.250 21	10.05	10.47	9.81	9.66	9.39	9.26

Source: Credit Suisse

Secondary market yields on Eurobonds, that were issued and active between January 13, 2009 and March 25, 2009, decreased by an average of 185 basis points over this period[23].

[23] Calculated for those active Eurobonds with available data.

REPUBLIC OF LEBANON
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