REPUBLIC OF LEBANON
MINISTRY OF FINANCE

PUBLIC FINANCE QUARTERLY REPORT

MINISTRY OF FINANCE

QUARTER II - 2009

Prepared in October 2009

Table of Contents

List of Tables

List of Figures

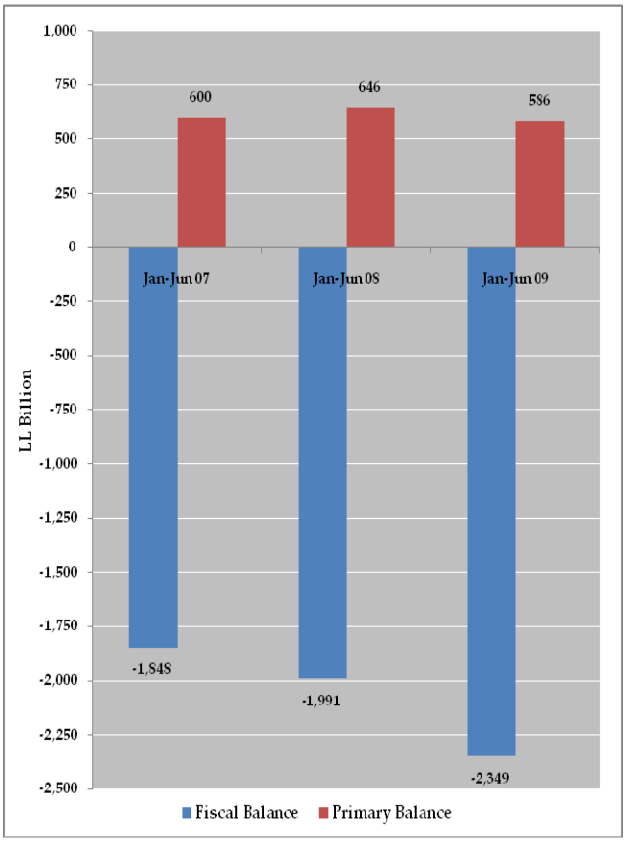
Public Finance Highlights

General Fiscal Developments

The fiscal deficit in the first six months of 2009 totalled LL 2,349 billion, LL 358 billion larger than the deficit recorded for the same period in 2008. The surplus in the primary balance declined from LL 646 billion in January-June 2008 to LL 586 billion in the same period of 2009.

Figure 1: Fiscal and Primary Balance

January – June 2007 -2009



Revenues

At LL 6,417 billion in the first half of 2009, revenues were higher than those collected in the same period of 2008 by 23 percent, owing mainly to the 34 percent higher tax revenues.

Expenditures

Public expenditures, at LL 8,766 billion during the first six months of 2009, increased by 22 percent compared to January-June 2008. Higher current expenditures by 15 percent, coupled with higher treasury expenditures by 44 percent contributed to this result.

Public Debt Developments

As of end-June 2009, the stock of debt totalled LL 71,346 billion, registering an increase of 0.6 percent from the end-December 2008 level. Net debt stood at LL 64,787 billion at the end of the first half of 2009, an increase of 3.6 percent against the end-2008 level.

Section I: Fiscal Overview

The first six months of 2009 saw a **fiscal deficit** of LL 2,349 billion, an 18 percent increase from the LL 1,991 billion deficit posted during the same period of 2008. This result stemmed from higher total receipts of LL 1,217 billion (23 percent), which did not offset the incremental total payments of LL 1,575 billion (22 percent).

The **primary balance** was in surplus of LL 586 billion in HI 2009, compared to a higher surplus of LL 646 billion in the same period of 2008. This result is attributed to an increase in primary expenditures by LL 1,277, equivalent to 28 percent.

Table 1: Summary of Fiscal Performance

(LL billion)	2007 Jan-Jun	2008 Jan-Jun	2009 Jan-Jun	% Change HI 2009/HI 2008
Total Budget and Treasury Receipts	**4,498**	**5,200**	**6,417**	**23.4%**
Total Budget and Treasury Payments, *of which*	**6,346**	**7,191**	**8,766**	**21.9%**
• Interest Payments	2,358	2,432	2,787	14.6%
• Concessional Loans Principal Payments [1]	90	206	148	-28.1%
• Primary Expenditures [2]	3,898	4,554	5,831	28.0%
Total Deficit/Surplus	**-1,848**	**-1,991**	**-2,349**	**18.0%**
Primary Deficit/Surplus	**600**	**646**	**586**	**-9.3%**

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

The revenue performance of the second quarter of the year is in line with that witnessed during the first three months. The rising trend in collection was pursued, where **total revenues** reached LL 6,417 billion by the end of June 2009, representing a 23 percent rise in receipts compared to total revenues during the first six months of 2008. Around 72 percent of total receipts in HI 2009 are tax collection (in the amount of LL 4,586 billion), and 23 percent are non-tax revenues (in the amount of LL 1,489 billion), mostly income from government properties and fee collection.

Table 2: Total Revenues

(LL billion)	2008 Jun	2009 Jun	2008 Jan-Jun	2009 Jan-Jun	Change HI 2009/HI 2008
Budget Revenues, *of which:*	**1,085**	**1,139**	**4,764**	**6,075**	**27.5%**
• Tax Revenues	829	1,064	3,433	4,586	33.6%
• Non-Tax Revenues	256	74	1,331	1,489	11.8%
Treasury Receipts	**57**	**117**	**436**	**342**	**-21.61%**
Total Revenues	**1,142**	**1,256**	**5,200**	**6,417**	**23.4%**

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

Tax Revenues

Tax revenues witnessed a 34 percent rise in the first half of 2009, equivalent to LL 1,153 billion additional receipts, more than half of which emanate from taxes on International Trade (LL 643 billion). Taxes on Income, Profits and Capital Gains on one hand and Domestic Taxes on Goods and Services on the other contributed LL 236 billion and LL 234 billion additional receipts respectively.

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

Table 3: Tax Revenues

(LL billion)	2008 Jun	2009 Jun	2008 Jan-Jun	2009 Jan-Jun	Change HI 2009/HI 2008
Taxes on Income, Profits, & Capital Gains, *of which*:	**417**	**529**	**1,004**	**1,240**	**23.5%**
• Income Tax on Profits	352	453	537	672	25.1%
• Income Tax on Wages and Salaries	7	5	140	195	38.9%
• Income Tax on Capital Gains & Dividends	25	32	98	103	5.1%
• Tax on Interest Income (5%)	31	36	222	259	16.8%
• Penalties on Income Tax	1	3	6	10	63.1%
Taxes on Property, *of which:*	**67**	**69**	**327**	**335**	**2.4%**
• Built Property Tax	11	7	65	70	8.2%
• Real Estate Registration Fees	51	50	234	229	-2.4%
Domestic Taxes on Goods & Services, *of which:*	**196**	**212**	**1,312**	**1,546**	**17.8%**
• Value Added Tax	170	174	1,186	1,377	16.1%
• Other Taxes on Goods and Services, *of which*:	26	37	123	164	34.0%
- *Private Car Registration Fees*	*18*	*24*	*83*	*112*	*35.2%*
- *Passenger Departure Tax*	*8*	*13*	*39*	*52*	*31.0%*
Taxes on International Trade, *of which:*	**123**	**224**	**636**	**1,279**	**101.0%**
• Customs	55	65	309	364	17.6%
• Excises, *of which*:	68	159	327	915	179.8%
- *Petroleum Tax*	*0*	*85*	*5*	*492*	*9595.8%*
- *Tobacco Tax*	*21*	*20*	*112*	*123*	*9.4%*
- *Tax on Cars*	*47*	*54*	*208*	*298*	*43.4%*
Other Tax Revenues (namely fiscal stamp fees)	**26**	**31**	**154**	**187**	**21.9%**
Total Tax Revenues	**829**	**1,064**	**3,433**	**4,586**	**33.6%**

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

Whereas the developments on the international trade front and on the domestic consumption front are a continuation of the trends witnessed during the first quarter of the year, **taxes on Income Profits and Capital Gains** saw significant inflows in the second quarter of the year, explained by the fact that corporations and individual taxpayers file and settle the income tax on profits during this quarter, particularly during May and June. The total rise of 24 percent registered for this category is explained by the following factors:

- The aggregate amount of **income tax collected on profits** realised in 2008, declared and settled in May and June 2009, is around 25 percent higher than the amount taxpayers paid on profits realised in 2007 and settled in May and June 2008. Underlying these results is an estimated 8.5% real economic growth in 2008, compared to 7.5% for 2007[1].
- Receipts from **taxes on wages and salaries** increased by 39 percent, which may be explained by the higher tax base owing to Law 63 which raised the minimum wage and granted LL 200,000 additional salary in the public sector.
- Tax on **interest income** witnessed a rise of 17 percent, as a result of the 19 percent growth in private sector deposits in June 2009 as compared to June 2008. The analysis of the tax declarations by type of currency reveals an increasing share of Lebanese-Pound denominated tax receipts, where 63 percent of the HI 2009 tax amount was collected on interest earned on Lebanese Pound - against 37 percent on interest earned on foreign currencies (mainly US Dollars), compared to 52 percent and 48 percent respectively in HI 2008. This notable change is explained by the gradual decline in the dollarization rate of deposits by 7.64 percentage points in June 2009 as compared to June 2008, to reach 67 percent. This substantial de-dollarization has also contributed to the rise in the overall tax receipts, as Lebanese Pounds deposits earn higher interest than USD deposits, and therefore higher tax amount comes due. The impact of higher deposit growth and lower dollarization outweighed the negative impact on revenue collection from a decline in the average commercial banks deposit rates (from 7.25% in June 2008 down to 6.96% in June 2009 on LL deposits, and from 3.55% in June 2008 down to 3.18% in June 2009 on USD deposits).

Table 4: Tax on Interest Income

(LL billion)	Jan-Jun 2008	Jan-Jun 2009
By Institution/Instrument	**224**	**262**
• Commercial Banks	146	153
• BDL	77	88
• Tax on US$ Treasury Bills & LL Treasury Bills	1	20
By Currency	**224**	**262**
• Lebanese Pounds	116	165
• Foreign Currencies (US$, Euro)	108	97

Source: MOF - Treasury Department
Please note that figures in this table are obtained from tax declaration forms, which may differ from cash figures presented in the fiscal performance (Table 3).

In line with the performance witnessed during the first quarter of the year, **domestic taxes on goods and services** collected 18 percent higher revenues, mainly on account of 16 percent higher VAT collection. In fact, **VAT revenues** amounted to LL 1,377 billion, of which LL 376 billion collected from domestic business activity (compared to LL 301 billion in the first half of 2008) and LL 1,001 billion collected at customs from the imports of merchandise (compared to LL 885 billion in the first half of 2008).

[1] Source: National Accounts 2006-2007, published in February 2009, and IMF estimation for 2008 figure.

The rise in VAT revenues is mostly attributed to the 13 percent rise in import VAT, which account for about 73 percent of VAT revenues, reflecting the 7 percent rise in total imports (Table 5). The effective VAT rate at customs rose by about 0.5 percentage points to reach 8.48 percent, suggesting higher share of taxable imports. To illustrate, import distribution by product reveals higher share of imports of taxable product categories such as vehicles and machinery and lower share of mineral & fuel imports, a category that includes the exempted butane gas.

Table 5: Import Statistics

(LL billion)	2007 Jan-Jun	2008 Jan-Jun	2009 Jan-Jun	Change HI 2009/HI 2008
Total Imports	**8,245**	**11,027**	**11,804**	**6.6%**
• *Fuel Imports (fuel derivatives classified under HS 27)*	*1,711*	*2,833*	*2,273*	*-19.8%*
• *Non-Fuel Imports*	*6,534*	*8,195*	*9,530*	*16.3%*
Revenues from Custom Duties	**265**	**309**	**363**	**17.5%**
Effective customs rate	*3.2%*	*2.8%*	*3.1%*	*9.7%*
• Share of Fuel Imports	21%	26%	19%	-
• Share of Non Fuel-Imports	79%	74%	81%	-
Revenues from VAT at Imports	**684**	**885**	**1,001**	**13%**
Effective VAT rate	*8.30%*	*8.02%*	*8.48%*	5.7%

The first half of 2009 witnessed a 16 percent rise in non-fuel imports, overcompensating for the nearly 20 percent drop in the value of fuel imports resulting from the drop in international fuel prices. As such, the composition of imports has significantly changed in favour of higher non-fuel imports at 81 percent of total imports in HI 2009, compared to 74 percent in HI 2008. This notable change in composition yielded a 10 percent higher effective customs rate (noting that fuel products are subject to relatively lower tariff than non-fuel products) to reach 3.1 percent in January-June 2009 up from 2.8 percent in January-June 2008, mirroring the 17.5 percent rise in tariff revenue during that period.

With 41 percent rise in vehicle imports, this category stands first in line behind the 7 percent rise in total imports in the first half of the year. More specifically, cars – the imports of which rose by about 37 percent year-on-year – are a major source of revenues to the Treasury through:

- tariffs and excises (classified as revenues from international trade)
- registration fees on car sales (classified within domestic taxes on consumption)
- vehicle control fees on road usage (or mechanic, classified within non tax revenues)

As such, the Treasury has collected cumulatively 39 percent more revenues from car taxation in the first half of this year, compared to the collection during the first half of last year.

The rise in car imports during HI 2009 is a volume effect, where the actual number of cars imported increased by 44 percent, totalling 52,479 imported cars by the end of June 2009. On the other hand the average price per car at imports decreased by 5 percent, which may be attributed to an oversupply of cars in foreign markets, resulting from the world economic slowdown.

Table 6: Car Import Statistics

	2007 Jan-Jun	2008 Jan-Jun	2009 Jan-Jun	Change HI 2009/HI 2008
Imports (LL billion)	432	786	1,074	36.6%
Number of Cars	20,642	36,445	52,479	44.0%
Collected Excises (LL billion)	116	208	298	43.3%
Average price per car (LL million)	*20.9*	*21.6*	*20.5*	*-5.1%*
Average effective excise rate (%)	*26.9%*	*26.5%*	*27.7%*	*4.9%*

Source: MOF-General Directorate of Customs declaration forms

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

Mirroring the rise in car imports is a 43 percent increase in the collection of **excises on cars**, which collected LL 298 billion during the first six months of 2009. Moreover, **car registration fees** collected LL 112 billion by the end of June 2009, representing 35 percent rise in receipts, suggesting buoyant car sales in the domestic market.

The surge in car imports and in domestic car sales (a phenomenon which started in 2007[2] and pursued during the first six months of 2009) consequently resulted in a larger and renewed stock of cars in the country, thus generating higher **vehicle control fees** by 32 percent in HI 2009 compared to HI 2008.

Further on the **international trade** front, **excises on car gasoline** are behind the most substantial revenue development this year. The notable drop in international oil prices (evidenced by the 46 percent decrease in the average effective import price per litre – as depicted in Table 7 below), coupled with the policy decision to restore the excise rate on gasoline at an average of around LL 470 per litre[3], secured the Treasury a steady stream of revenues, totalling LL 492 billion by the end of June 2009, compared to only LL 5 billion in the first half of 2008. The table below shows a 39 percent drop in gasoline imports in terms of value, whereas from a volume perspective (billion litres), the first half of the year witnessed a 14 percent rise. This could be explained by higher domestic demand originating from lower prices on one hand, and larger number of cars in circulation on the other.

Table 7: Gasoline Import Statistics

	2007 Jan-Jun	2008 Jan-Jun	2009 Jan-Jun	Change HI 2009/HI 2008
Imports (*LL billion*)	660	980	600	-38.8%
Volume (*billion litres*)	0.867	0.904	1.028	13.7%
Collected excises (*LL billion*)	138	5	488	9660%
Average effective Price at imports (LL/litre)	*761*	*1,084*	*584*	*-46.1%*
Average effective excise rate (LL/litre)	*159*	*6*	*474*	*7800%*

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

Excises on tobacco collected LL 123 billion in January-June 2009, nearly 10 percent higher than the amount collected in the equivalent period in 2008. This goes in line with the 9 percent rise in tobacco imports during that same period. In fact, the rise in tobacco import is a volume effect, where the weight of imported tobacco rose by 21 percent, as opposed to a price effect, where the average price per kilogram of tobacco imported decreased by about 10 percent, as shown in Table 8 below. Besides, the underlying effective excise rate rose by almost 1 percent in HI 2009.

Table 8: Tobacco Import Statistics

	2007 Jan-Jun	2008 Jan-Jun	2009 Jan-Jun	Change HI 2009/HI 2008
Imports (LL billion)	92	110	120	9.1%
Net weight (in tons)	3,483	4,412	5,324	20.7%
Collected Excises (LL billion)	100	112	123	9.8%
Average import price (LL per Kg)	*26,414*	*24,932*	*22,539*	*-9.6%*
Average effective excise rate (%)	*108.7%*	*101.8%*	*102.5%*	*0.7%*

Source: MOF-General Directorate of Customs declaration forms

[2] 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.
[3] For further details, please refer to the Ministry of Finance "Public Finance Quarterly Report - QI 2009".

Non-Tax Revenues

Non-Tax revenues totalled LL 1,489 billion by the end of the first half of 2009, representing 12 percent higher receipts than the first six months of 2008. Around 80 percent of non-tax revenues are **Income from Public Institutions and Government Properties**, which reached LL 1,187 billion by the end of June 2009, as a result of changes in the following sub-components:

- The most significant income to the Treasury is generated by the Telecommunication, which has transferred a total of LL 941 billion in HI 2009, compared to LL 868 billion in HI 2008, equivalent to an 8 percent rise in receipts.
- Transfer from the Casino Du Liban totalled LL 77 billion, accounting for the LL 14 billion (received in February 2009) - the second instalment of the dispute settlement between Casino management and the Government[4]. Adjusting for the impact of the settlement in both 2008 and 2009, Casino transfers become 24 percent higher during HI 2009 than HI 2008.
- The Treasury further received LL 62 billion from Port of Beirut in January 2009, representing the surplus transfer pertaining to 2008 activities, whereas no transfers were recorded in 2008.
- The Treasury also received LL 40 billion in March 2009, representing its 80% share of Banque du Liban profit in 2008[5].

Table 9: Non-Tax Revenues

(LL billion)	2008 Jun	2009 Jun	2008 Jan-Jun	2009 Jan-Jun	Change HI 2009/HI 2008
Income from Public Institutions and Government Properties	**202**	**27**	**1,056**	**1,187**	**12.4%**
• Income from Non-Financial Public Enterprises, *of which*:	159	21	987	1,109	12.4%
- *Revenues from Casino Du Liban*	*15*	*11*	*93*	*77*	-17.2%
- *Revenues from Port of Beirut*	*0*	*0*	*0*	*62*	NA
- *Budget Surplus of National Lottery*	*9*	*10*	*26*	*28*	7.7%
- *Transfer from the Telecom Surplus*	*136*	*0*	*868*	*941*	8.4%
• Income from Financial Public Enterprises (BdL)	*41*	*0*	*41*	*40*	-2.4%
• Property Income (rent of Rafic Hariri International Airport)	2	5	24	32	33.3%
• Other Income from Public Institutions (interests)	1	1	3	6	100.0%
Administrative Fees & Charges, ***of which:***	**36**	**38**	**219**	**247**	**12.8%**
• Administrative Fees, *of which*:	29	31	177	202	14.1%
- *Notary Fees*	*2*	*2*	*11*	*12*	9.1%
- *Passport Fees/ Public Security*	*11*	*11*	*57*	*55*	-3.5%
- *Vehicle Control Fees*	*11*	*13*	*77*	*102*	32.5%
- *Judicial Fees*	*2*	*1*	*11*	*9*	-18.2%
- *Driving License Fees*	*1*	*2*	*8*	*10*	25.0%
• Administrative Charges	1	1	11	12	9.1%
• Sales (Official Gazette and License Number)	0	0	2	1	-50.0%
• Permit Fees (mostly work permit fees)	5	4	25	22	-12.0%
• Other Administrative Fees and Charges	1	2	4	9	125.0%
Penalties and Confiscations	**0**	**1**	**3**	**3**	**0.0%**
Other Non-Tax Revenues (mostly retirement deductibles)	**16**	**9**	**54**	**52**	**-3.7%**
Total Non-Tax Revenues	**256**	**74**	**1,331**	**1,489**	**11.9%**

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

[4] 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.

[5] 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.

The second most significant component of non-tax revenues, is **administrative fees and charges** which collected LL 247 billion by the end of the first half of 2009, equivalent to a 13 percent rise in receipts as compared to the same period of 2008, owing largely to the 33 percent higher revenues from vehicle control fees explained by the higher number of cars in circulation as evidenced by car imports and sales indicators during the last couple of years (please refer to above paragraph on revenues from car import and sales).

Treasury Receipts

Treasury receipts totalled LL 342 billion in the first six months of 2009, of which LL 109 billion are revenues to the Independent Municipal Fund, compared to LL 90 billion in the first six months of 2008. Treasury receipts further account for LL 87.5 billion worth of grants[6] of which LL 75 billion were received in June 2009, representing the third tranche of the US Pledge in PIII, the proceeds of which were used to redeem IBRD loans, LL 10.5 billion project grant 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] The Treasury received LL 168 billion of grants during the first six months of 2008 accounting for LL 165 billion from USA for debt reduction, and LL 3 billion from Iraq, for Iraqi refugees in Lebanon.

Section III: Expenditure Outcome

Total Expenditures (budget and treasury) in the first half of 2009 reached LL 8,766 billion, 22 percent higher than expenditures in the same period of 2008, as Table 10 below shows.

Table 10: Expenditure Summary

(LL billion)	2007 Jan-Jun	2008 Jan-Jun	2009 Jan-Jun	Change HI 2009/HI 2008
Interest Payments	2,358	2,432	2,787	14.6%
Concessional Loans Principal Payments (1)	90	206	148	-28.1%
Total Primary Expenditures (2)	3,898	4,554	5,831	28.0%
Total Budget and Treasury Payments	**6,346**	**7,191**	**8,766**	**21.9%**

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 1,575 billion increase in total expenditures was mainly due to the following two components:

a. An increase in **current expenditures** by LL 804 billion, of which (i) LL 520 billion were due to higher personnel costs, and (ii) LL 356 billion to a larger interest bill. These and other increases offset the LL 58 billion decrease in concessional loan principal repayments and LL 45 billion decrease in various transfers due the end of bread price capping policy that led to a sharp decline in wheat subsidy[7].

b. An increase in **treasury expenditures** by LL 749 billion, of which (i) LL 323 billion constituted higher spending to cover the deficit of the loss-making electricity company Electricité du Liban, and (ii) LL 406 billion to finance payments to the High Relief Committee in local currency.

Total Primary Expenditures amounted to LL 5,831 billion in January-June 2009 compared to LL 4,554 billion registered in the same period of 2008, i.e. an increase of 28 percent.

[7] Please refer to page 14 for more details.

Table11: Expenditure by Economic Classification

(LL billion)	2007 Jan-Jun	2008 Jan-Jun	2009 Jan-Jun	Change HI 2009/HI 2008
1. Current Expenditures	**4,891**	**5,193**	**5,997**	**15.5%**
1.a Personnel Cost, *of which*	1,788	1,905	2,425	27.3%
• *Salaries, Wages and Related Items (Article 13)*	*1,232*	*1,268*	*1,670*	*31.6%*
• *Retirement and End of Service Compensations, of which:*	*451*	*537*	*595*	*10.9%*
– *Retirement*	*386*	*409*	*527*	*28.9%*
– *End of Service*	*64*	*128*	*68*	*-46.7%*
• *Transfers to Public Institutions to Cover Salaries* [1]	*105*	*100*	*160*	*59.6%*
1.b Interest Payments, *of which:* [2]	2,358	2,431	2,787	14.6%
• *Domestic Interest Payments*	*1,299*	*1,334*	*1,698*	*27.2%*
• *Foreign Interest Payments*	*1,058*	*1,097*	*1,090*	*-0.7%*
1.c Foreign Debt Principal Repayment	90	206	148	-28.1%
1.d Materials and Supplies, *of which:*	99	113	108	-4.1%
• *Nutrition*	*12*	*25*	*25*	*-2.0%*
• *Fuel Oil*	*17*	*19*	*5*	*-72.3%*
• *Medicaments*	*24*	*33*	*47*	*42.2%*
• *Accounting Adjustments for Treasury*	*27*	*21*	*17*	*-21.6%*
1.e External Services	49	56	56	-0.1%
1.f Various Transfers, *of which:*	362	291	246	-15.4%
• *NSSF*	*220*	*0*	*0*	*NA*
• *Wheat Subsidy*	*0*	*116*	*10*	*-91.4%*
• *Special Tribunal for Lebanon*	*0*	*18*	*12*	*-34.2%*
1.g Other Current, *of which:*	103	147	180	22.7%
• *Hospitals*	*80*	*130*	*142*	*9.4%*
• *Others*	*21*	*15*	*33*	*114.5%*
1.h Reserves	41	44	47	6.6%
• *Interest subsidy*	*41*	*44*	*47*	*6.6%*
2. Capital Expenditures [3]	**271**	**265**	**281**	**5.9%**
2.a Acquisitions of Land, Buildings, for the Construction of Roads, Ports, Airports, and Water Networks	13	2	3	34.0%
2.b Equipment	24	17	17	1.8%
2.c Construction in Progress, *of which:*	182	188	192	2.0%
• *Displaced Fund*	*21*	*20*	*55*	*182.1%*
• *Council of the South*	*20*	*10*	*10*	*0.0%*
• *Council for Development and Reconstruction*	*107*	*120*	*102*	*-14.9%*
• *Ministry of Public Work and Transport*	*19*	*18*	*14*	*-20.8%*
• *Other*	*16*	*22*	*11*	*-51.1%*
2.d Maintenance	30	35	36	2.8%
2.e Other Expenditures Related to Fixed Capital Assets	22	23	33	42.6%
3. Other Treasury Expenditures	**1,164**	**1,714**	**2,463**	**43.7%**
3.a Municipalities	101	196	136	-30.8%
3.b Guarantees	21	25	69	178.0%
3.c Deposits	47	26	39	49.9%
3.d Other, *of which:*	148	260	704	170.5%
• *VAT Refund*	*87*	*149*	*184*	*23.4%*
• *High Relief Committee*	*6*	*9*	*415*	*4417.3%*
3.e EDL [4]	847	1,188	1,511	27.2%
3.f Treasury Advances for Diesel Oil Subsidy	0	19	0	-100.0%
3.g Refund to Water Authorities	0	0	4	NA
4. Unclassified Expenditures	**2**	**2**	**1**	**-9.5%**
5. Customs Cashiers	**19**	**18**	**24**	**32.6%**
6. Total Expenditures [5]	**6,346**	**7,191**	**8,766**	**21.9%**

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

[1] *For a detailed breakdown of these transfers, kindly refer to Table 12.*

[2] *For a detailed breakdown of interest payments, kindly refer to Table 13.*

[3] *Capital expenditures exclude foreign financed spending by the Council for Development and Reconstruction (CDR)*

[4] *For a detailed breakdown of transfers to EDL, kindly refer to Table 14.*

[5] *Total expenditures exclude foreign financed spending by the CDR and spending by the HRC outside the scope of the Budget and the Treasury*

Current Expenditures

Current primary expenditures[8] amounted to LL 3,062 billion in January-June 2009, which is LL 507 billion higher than in January-June 2008 level when current primary expenditures registered LL 2,556 billion.

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

Personnel costs[9] amounted to LL 2,425 billion, about 27 percent higher than the LL 1,905 billion level of HI 2008, mainly resulting from the following two factors:

a. Increase in *wages, salaries and related benefits* (Article 13) by LL 401 billion, from LL 1,268 billion in HI 2008 to LL 1,670 billion in HI 2009. Of this increase, LL 94.5 billion resulted from the payments in May-June 2009 of the retroactive amounts related to the years 1996-1998 following the salary and wage increase granted in 1999. The remaining augmentation stemmed from the 2008 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 59 billion to reach LL 595 billion in HI 2009. This rise was induced by the LL 118 billion increase in retirement payments, which offset the LL 60 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 and the payment of the retroactive amount (LL 4.9 billion) related to the years 1996-1998 following the retirement increase granted in 1999. The decline in end-of-service indemnities is actually due to the sizeable payments made in 2008 to the Lebanese Armed Forces, 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 increased from LL 100 billion to LL 160 billion. Within this category, transfers to the Lebanese University and the Council for Development and Reconstruction[10] increased by LL 47 billion (65 percent) and LL 13 billion (86 percent) respectively, as shown in Table 12 below.

Table 12: Breakdown of Transfers to Public Institutions (Salaries)

(LL billion)	2007 Jan-June	2008 Jan-June	2009 Jan-June	Change HI 2009/HI 2008
Transfer to Council of the South	3	5	3	-46.9%
Transfer to the Council for Development and Reconstruction	18	15	27	86.4%
Transfer to Fund for the Displaced	3	4	4	0.0%
Transfer to the Lebanese University	76	72	120	65.4%
Transfer to Educational Centre for Research and Development	5	5	7	40.0%
Total Transfers to Public Institutions	**105**	**100**	**160**	**59.6%**

Source: Ministry of Finance

[8] Current primary expenditures is current expenditures excluding interest payments and foreign debt principal repayment.
[9] This includes salaries, wages and related benefits (article 13), transfers, retirement and end-of-service.
[10] Decree 2348 dated 20/6/2009 set the minimum wage paid at the Council for Development and Reconstruction, at LL 500,000. It also granted them a monthly raise of LL 200,000 as cost of living adjustment and re-evaluated their echelon scale by LL 14,000 per echelon starting 1 May 2008.

Materials and supplies decreased by 4 percent from LL 113 billion in HI 2008 to LL 108 billion in HI 2009. Excluding *accounting adjustments for Treasury advances*, materials and supplies declined by LL 1 billion to reach LL 91 billion, as the result of the following changes combined:

- A decrease of LL 13 billion in *fuel oil expenses*, due to lower spending chiefly by Internal Security Forces (from LL 15 billion in HI 2008 to LL 3 billion in HI 2009)
- An increase LL 14 billion in *medicament* expenditures due to higher spending by the Army, Internal Security Forces and the Ministry of Public Health by LL 1.5 billion, LL 1.5 billion and LL 11 billion respectively

Various Transfers witnessed a decline of LL 45 billion, to reach LL 246 billion in HI 2009, due to the noticeable decreases in two of its components. First, *treasury advances for wheat subsidy* to the General Directorate of Cereals and Sugar Beet reached LL 10 billion in HI 2009 down from LL 116 billion in HI 2008[11]. Second, transfers to cover part of the expenses of the *Special Tribunal for Lebanon*[12] totalled LL 12 billion in HI 2009, following Decree #1372 dated 17 February 2009, as compared to LL 18 billion in HI 2008, following Decree 1015 dated 24 November 2007.

On the other hand, *transfers to NGOs*, mainly by the Ministry of Social Affairs and the Ministry of Education and Higher Education, increased by LL 23 billion to total LL 88 billion in HI 2009. Also *transfers for primary school contractual teachers* witnessed a rise of LL 20 billion, to reach LL 30 billion in the first half of 2009.

Box 1. The Wheat Production Subsidy Policy in Lebanon

Wheat production subsidy in HI 2009 reached LL 10 billion following a payment to the Directorate General of Cereals and Beetroot as per Decree # 2018 dated 22/5/2009 that granted a LL 10 billion treasury advance for the purchase of 75,000 tons of wheat from local farmers. The decree was issued following the decision by the Council of Ministers (Decision 102 dated 26/3/2009) to purchase exceptionally and for one time only the production of the 2009 wheat season at the price of LL 475,000/ton compared to an average international price of LL 250,000/ton in order to shelter Lebanese farmers from the impact of the international crisis and the resulting decline in wheat prices that followed.

This decision reverses a previous COM decision (Decision 42 dated 13/10/2005) which states that the subsidy to the wheat and beetroot should be gradually phased out over three years starting from 2006. The phasing out rate was set at 33.33% of the subsidised value per annum. The subsidy was also to be provided to the farmers through a direct mechanism that takes into account the cultivated area and not the amount of wheat produced. The application of Decision 42 was, however, suspended in 2006 for the following reasons 1)- inability of farmers to sell a large surplus of wheat produced, 2)- difficult socio-economic conditions in the rural world and 3) the unawareness of farmers regarding the new policy before the wheat production season began.

The application of the decision was also suspended in 2007 and 2008 but its impact was minimal as high international wheat prices allowed farmers to sell their produce in both domestic and external markets.

In comparison, the LL 116 billion paid in HI 2008 was a subsidy to cap the price of bread by subsidising the purchase of wheat by flour producing mills and protect Lebanese households from the adverse impact of inflation. This policy ended on 15 November 2008 as per Council of Minister Decision #71 dated 8/11/2008. For further details, please refer to the Ministry of Finance "Public Finance Quarterly Report - QI 2009".

Other Current Expenditures increased by LL 33 billion compared to same-period figures in 2008, attributed to increased payments to cover hospitalization in the private sector (LL 12 billion higher) on one hand and other current spending (LL 18 billion higher) on the other. The latter increase was induced mainly by:

[11] For more details, please see Box 1.

[12] The Special Tribunal for Lebanon is the international tribunal for the assassination of Prime Minister Rafic Hariri.

- LL 8 billion payment by the Ministry of Public Works and Transport, following decisions by the State Council
- LL 3.5 billion increase in spending for delegations and conventions (LL 1.6 billion abroad and LL 1.9 billion locally)

Interest payments reached LL 2,787 billion in the first half of 2009, as compared to LL 2,431 billion in the same period of 2008, thus increasing by LL 356 billion.

The increase resulted from higher interest payments on *local currency debt* by LL 363 billion driven by a rise in coupon payments on long-term Treasury Bills and a drop on discount interest for short term Treasury Bills[13]. The increase in coupon payments during the first half of 2009 compared to the first half of 2008 reflects a higher stock of long term T-Bills (by 27 percent) coupled with a higher weighted average cost of 9.4 percent compared to 9.2 percent last year. On the other hand, the decrease in interest payments on short-term T- Bills is behind lower weighted average cost of short term T-bills from 7.3 percent in the first half of 2008 to 6.4 percent in the first half of 2009.

Interest payments on *foreign currency debt* decreased by LL 7 billion during the first half 2009, as compared to the first half of 2008. Eurobond coupon payments were only LL 1 billion less than last year while interest payments on concessional loans decreased by LL 8 billion.

In fact, additional interest payments were witnessed in the first half of 2008 as opposed to 2009, due to:

a. 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

b. higher payments resulting from higher LL/Euro exchange rates in HI 2008 (average rate LL/Euro was LL 2,286.80) compared to HI 2009 (average rate LL/euro was LL 1,978.23)

Concessional Loans Principal Payments amounted to LL 148 billion for the period January-June 2009 decreasing by LL 58 billion when comparing to the same period of last year. During the first half of 2008 the treasury had prepaid World Bank loans worth of LL 132 billion against LL 75 billion in June 2008, both with the proceeds of USAID grant for budget support[14].

Table 13: Details of Debt Service Transactions

(LL billion)	2007 Jan-Jun	2008 Jan-Jun	2009 Jan-Jun	Change HI 2009/HI 2008
Interest Payments [1]	**2,358**	**2,431**	**2,787**	**356**
Local Currency Debt	**1,299**	**1,334**	**1,698**	**363**
• *Discount interest*	*114*	*85*	*71*	*-14*
• *Coupon*	*1,185*	*1,249*	*1,627*	*378*
Foreign Currency Debt, *of which*:	**1,058**	**1,097**	**1,090**	**-7**
• *Eurobond Coupon Interest[2]*	*991*	*1021*	*1,020*	*-1*
• *Special Bond Coupon Interest[2]*	*13*	*7*	*9*	*2*
• *Concessional Loans Interest Payments*	*55*	*69*	*61*	*-8*
Concessional Loans Principal Payments [1]	**90**	**206**	**148**	**-58**

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

[13] Short term Treasury Bills are a bullet payment of principal and interest at maturity.

[14] Please refer to the "International Conference for Support to Lebanon- Paris III (10th progress report)".

Capital Expenditures

Capital expenditures for HI 2009 totalled LL 281 billion, increasing from LL 265 billion registered in HI 2008. This increase of LL 16 billion is mainly the outcome of the following major factors:

a. A LL 4 billion increase in the construction in progress component of capital expenditures. This was due to several changes within, where the LL 36 billion increase in transfers to Displaced Fund offset the decreases in transfers to the Council of Development and Reconstruction-CDR (by LL 18 billion), to the Ministry for Public Works and Transports (by LL 4 billion) and to other government agencies[15] (by LL 11 billion).

b. An LL 10 billion increase in other expenditures related to fixed capital assets, to reach LL 33 billion. This resulted from three payments of LL 10 billion each made to IDAL for the Export Plus program in HI 2009 versus two payments of LL 10 billion each in HI 2008.

Treasury Expenditures

Treasury expenditures increased significantly by LL 749 billion in HI 2009, when compared to the same period of 2008. This item witnessed major increases in many components, as follows:

- Increase in Treasury transfers to, or on behalf of, Electricité du Liban (EDL) by LL 323 billion, to a level of LL 1,511 billion in the first half of 2009. This rise is explained by the increase in payments to Kuwait Petroleum Corporation (KPC) and Algeria's Sonatrach for fuel and gas oil purchases, by LL 336 billion, on one hand, and the decrease in debt service by LL 12 billion on the other.

  Treasury payments to KPC reached LL 505 billion in HI 2009, compared to LL 191 billion in HI 2008, and those to Sonatrach reached LL 945 billion in the first half of 2009, compared to LL 923 billion in the same period of 2008. This notable increase in payments is two-fold, with both price and quantity effects:

  - International oil prices rose notably in 2008, especially during the third quarter of the year. In fact, most payments made to KPC and Sonatrach in January-June 2009 pertain to fuel consumed (and thus priced) in the second half of 2008[16]. Although oil prices subsided during the last quarter of 2008, the overall impact on HI 2009 remained upwards as QIII 2008 was a time of soaring oil prices.
  - EDL registered increased gas oil consumption from 558,751 metric tons paid in HI 2008 to 715,000 metric tons paid in HI 2009. This notable rise was accompanied by a 23 percent drop in consumption of fuel oil, from 684,218 metric tons paid in HI 2008 to 523,492 metric tons paid in HI 2009.

[15] This LL 11 billion drop is due to lower construction spending mainly by the Ministry of Energy and Water (LL 9 billion).
[16] Fuel oil and gas oil bills are settled six and nine months - for Sonatrach and KPC respectively - after purchase (and thus consumption), based on Letters of Credit opened at the time of purchase.

Table 14: Transfers to EDL

(LL billion)	2007 Jan-Jun	2008 Jan-Jun	2009 Jan-Jun	% Change HI 2009/HI 2008
EDL, *of which:*	**847**	**1,187**	**1,511**	**27%**
Debt Service, *of which:*	**287**	**73**	**61**	**-17%**
• C-Loans and Eurobonds, *of which:*	210	48	41	-16%
- *Principal Repayments*	*188*	*39*	*35*	*-10%*
- *Interest Payments*	*22*	*10*	*6*	*-40%*
• BDL-Guaranteed Loan Payments	77	25	20	-20%
Reimbursement of KPC and Sonatrach Agreements	**560**	**1,114**	**1,450**	**30%**

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

- Increase in payments of VAT refund by LL 35 billion.
- Treasury advances to the High Relief Committee increased by LL 406 billion from LL 9 billion in HI 2008 to LL 415 billion in HI 2009. Of LL 415 billion paid in HI 2009:

  a. LL 200 billion pertain to Decree #1168 (dated 5/1/2009), which provided a LL 200 billion treasury advance 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,

  b. LL 200 billion were paid following Decree #1971 (dated 16/05/2009) which provided a LL 300 billion treasury advance to cover the HRC deficit and pay for housing indemnities

  c. LL 15 billion were paid as per Decree #1670 (dated 07/04/2009) for compensations related to latest Tripoli incidents.

  Of the LL 9 billion transferred in 2008, LL 5.7 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 3 billion were paid pursuant to Decree #616 (dated 08/08/2007), which granted LL 20 billion to cover execution of work and various needs.

- Budget advances increased by LL 24 billion, to reach LL 60 billion in HI 2009 up from LL 36 billion in H1 2008. Of these sums, LL 20 billion and LL 14 billion[17] were settled from Article 11 (material and supplies) in HI 2009 and HI 2008 respectively.

Alongside the above rises, municipalities witnessed a decrease of LL 60 billion (31 percent) from LL 196 billion in HI 2008 to LL 136 billion in HI 2009. This drop is in fact a timing issue; it resulted from the fact that during the period January-June 2009 the government did not transfer to the municipalities their 2007 share of revenues[18]. It is worth mentioning that these payments were later made in QIII 2009.

[17] This is the amount reclassified as per the publication date of the report.
[18] Municipalities are entitled to receive a share of certain taxes and fees collected by the government.

Section IV: Public Debt Developments

Financing Requirements

Total net financing requirements for the first half of 2009 reached LL 2,532 billion, compared to LL 2,127 billion for the first half of 2008.

In the first half of 2009, the government further reduced its treasury account balance by LL 2,025 billion representing the main source of deficit financing. During this period, treasury-bill issuances in LL were limited due to the weak performance in the LL T-bills weekly auctions coupled with high level of liquidity in the Treasury deposits which was accumulated at the end of 2008[19].

New issuances of foreign currency debt were also limited to the USD 445 million new cash tranches issued in conjunction with the voluntary Eurobond exchange transaction that took place on March, 19 2009 as well as the USD 18.5 million Special T-bills issued in March, 25 2009 for the settlement of expropriations. With total repayment of Eurobond principal maturities amounting to USD 197 million, the net increase in the stock of Eurobonds and Special T-bills reached LL 400 billion.

Financing through additional multilateral loans is mainly explained by the disbursement in June 2009 of two Paris III budget support Loans: the Arab Monetary Fund US$ 32 million and the European Commission €25 million as part of the first tranche of the Macro-Financial Assistance.

On the contrary, the first half 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 405 billion when compared to the first half of 2009.

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

(LL billion)	2008 Jan-Jun	2009 Jan-Jun
Overall balance from the financing side[20]	**-2,127**	**-2,532**
Total Net in Financing	**2,127**	**2,532**
• LL treasury bills (2)	3,220	149
• Eurobonds (1)	-145	372
• Special T-bills in US dollars	-	28
• Bilateral Loans (1)	242	-76
• Multilateral Loans (1)	70	48
• Private sector loans (1)	-18	-14
• Change in treasury accounts (-/increase +/decrease)	-1,243	2,025

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".

[19] For further details, please refer to the Ministry of Finance "Public Finance Quarterly Report - QI 2009".

[20] 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 by the end of the first half of 2009 registered LL 71,346 billion (US$ 47.3 billion), a 0.65 percent increase compared to gross public debt at end-December 2008. This rise was due to a LL 154 billion increase in domestic currency debt and a LL 304 billion increase in foreign currency debt.

Net public debt stood at LL 64,787 billion (US$ 43.0 billion) by end-June 2009, an increase of LL 2,225 billion over the end-December 2008 level.

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

(LL billion)	Dec-07	Dec-08	Jun-09	Change Dec 08 - Jun 09	% Change Dec 08 - Jun 09
Gross Public Debt[1]	63,350	70,888	71,346	458	0.65%
Net Debt	58,823	62,562	64,787	2,225	3.56%
Gross Market Debt[2]	39,216	46,992	45,697	-1,295	-2.76%

Source: Ministry of Finance, Banque du Liban

[1] Figures for Dec 05 – Jun 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.

Local currency debt increased by 0.39 percent in the first half of 2009 to stand at LL 39,161 billion by end-June 2009.

- **By holder**, the highest increase in the stock of domestic currency debt was undertaken by the Central Bank in the first half of 2009. Banque du Liban's (BdL) holdings increased by LL 1,749 billion over this period to LL 10,530 billion. This higher stock was led by the central bank's purchase of treasury bills on the secondary market during the first quarter of 2009 (mainly in January 2009) and subsequent purchases of treasury bills on the primary market. In QII 2009, subscriptions by the BdL accounted for 28 percent of subscriptions. By end-June 2009, BdL's treasury bill portfolio was LL 1,785 billion higher than at the end of 2008.

  The central bank's activity on the secondary market in QI 2009 compensated the reduction in commercial banks' holdings of domestic currency debt over the same period, as commercial banks had healthy appetite for government paper and subscribed to 67 percent of subscriptions that quarter. In the second quarter of 2009, commercial banks subscribed to 49 percent of subscriptions; however, their stock of treasury bills was reduced by LL 1,484 billion that quarter reflecting commercial banks' rollover ratio of 49 percent in QII 2009. The cumulative effect is such that commercial banks' treasury bill portfolio decreased by LL 2,049 billion over the first half of 2009.

  Over the first half of 2009, results from the weekly auctions reflect that commercial banks were the highest subscribers of TBs accounting for 60 percent of subscriptions, followed by the Central Bank (20 percent) and public institutions (17 percent).

- **By instrument**, the stock of domestic currency debt in QII 2009 stemmed from an increase in the stock of long-term bills by LL 550 billion, in contrast to a lower stock of short-term bonds of LL 1,306 billion. Over the course of the first six months of 2009, the long term bonds portfolio was LL 376 billion higher and short term portfolio LL 170 billion lower compared to the end-2008 levels.

Thirty-six month treasury notes were the most demanded instrument during QII 2009, accounting for 74 percent of subscriptions followed by 24-month TBs (9 percent of subscriptions) and 12-month TBs (7 percent of subscriptions). During HI 2009, subscriptions were mainly made in the 36-month TB category (59 percent of subscriptions), 3-month category (12 percent of subscriptions), and 12-month and 24-month categories (with 11 percent of subscriptions each). The higher share of 36-month TBs in the domestic currency portfolio reflects demand for the instrument such that stock of 36-months TBs increased by LL 1,144 billion over the first half of 2009.

The reduction in the short term bill portfolio in the first half of 2009 was led by just over halving the stock of 6-month TBs to LL 601 billion by end-June 2009.

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

Stocks (end of period)	Dec-07	Dec-08	Jun-09	Change Dec 08-Jun 09	% Change Dec 08- Jun 09
Local currency debt	**31,373**	**39,007**	**39,161**	**154**	**0.39%**
A. By Holder					
1. Central Bank (including REPOs and Loans to EDL to finance fuel purchases)[1]	9,052	8,781	10,530	1,749	19.92%
2. Commercial Banks	16,847	24,320	22,255	-2,065	-8.49%
3. Other local debt (T-bills)	5,474	5,906	6,376	470	7.96%
o/w Public entities	*4,796*	*5,062*	*5,398*	*336*	*6.64%*
Accrued interest included in debt	*754*	*1,001*	*1,058*	*57*	*5.69%*
B. By Instrument					
1. Long term bonds	28,617	36,350	36,726	376	1.03%
1.1 60 months bonds	*3,699*	*3,049*	*3,049*	*-*	*-*
1.2 54 months bonds	*616*	*0*	*-*	*-*	*-*
1.3 48 months bonds	*633*	*633*	*-*	*-633*	*-100.00%*
1.4 36 months bonds	*21,051*	*29,650*	*30,794*	*1,144*	*3.86%*
1.5 30 months bonds	*0*	*0*	*-*	*-*	*-*
1.6 24 months bonds	*1,927*	*2,052*	*1,882*	*-170*	*-8.28%*
1.7 Coupon interest	*691*	*966*	*1,001*	*35*	*3.62%*
2. Short term bills	2,288	2,197	2,027	-170	-7.74%
2.1 12 months bills	*529*	*676*	*1,272*	*596*	*88.17%*
2.2 06 months bills	*1,750*	*1,234*	*601*	*-633*	*-51.30%*
2.3 03 months bills	*9*	*287*	*154*	*-133*	*-46.34%*
Accrued interest included	*63*	*35*	*57*	*22*	*62.86%*
3. Other local debt	468	460	408	-52	-11.30%
3.1 Central Bank Loans	*405*	*362*	*326*	*-36*	*-9.94%*
3.2 Commercial Banks Loans	*63*	*98*	*82*	*-16*	*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 55 bps points lower by the end of HI 2009, compared to end-year 2008. The highest decrease in rates was witnessed on 24-month treasury bills by 76 bps, to reach 7.50 percent by the end of June 2009, followed by a 73-bp decrease of 12-month treasury bills to reach 6.85 percent over the same period.

Table 18: Evolution of Primary Market Treasury Bills Yields

Maturity	Dec. 31, 2007	Dec. 31, 2008	Jun. 30,2009
3-month	5.22 percent	5.10 percent	4.94 percent
6-month	7.24 percent	7.10 percent	6.50 percent
12-month	7.75 percent	7.58 percent	6.85 percent
24-month	8.50 percent	8.26 percent	7.50 percent
36-month	9.32 percent	9.00 percent	8.48 percent

Source: Ministry of Finance

Foreign currency debt registered LL 32,185 billion by the end of June 2009, rising 0.95 percent from the end-2008 level. The stock of foreign currency debt decreased by almost LL 50 billion due to exchange rate valuations.

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

(in LL billion)	Dec-07	Dec-08	Jun-09	Value Change	% Change Year-to-date
Foreign currency debt[1]	**31,977**	**31,881**	**32,185**	**304**	**0.95%**
4. Eurobonds	**27,099**	**26,817**	**27,180**	**363**	**1.35%**
Of which, Paris II at preferential rates[2]	5,156	4,708	4,450	-258	-5.48%
Of which, Paris III at preferential rates[3]	754	754	754	0	0.00%
Accrued Interest on Eurobonds	*410*	*430*	*425*	*-5*	*-1.16%*
5. Loans	**4,459**	**4,645**	**4,558**	**-87**	**-1.87%**
5.1 Paris II loans	907	748	681	-67	-8.96%
5.2 Paris III loans[4]	603	1,095	1,201	105	9.61%
5.3 Bilateral loans (non-Paris II and III)	759	745	720	-25	-3.37%
5.4 Multilateral loans (non-Paris II and III)	2,104	2,002	1,916	-86	-4.30%
5.5 Foreign Private Sector Loans	86	54	40	-14	-25.93%
6. Other debt	**419**	**419**	**447**	**28**	**6.68%**
6.1 Special T-bills in Foreign currency[5]	419	419	447	28	6.68%

Source: Ministry of Finance, Banque du Liban

(1) Figures for Dec 05 – Jun 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, first tranche of the French loan received in February 2008, IMF loans, first tranche EC/EU loan, and AMF loan disbursed in June 2009.

(5) Special Tbs in Foreign currency (expropriation bonds)

The increase in foreign currency debt between December 2008 and June 2009 was led by a higher stock Eurobonds and expropriation bonds as the loan portfolio decreased by LL 87 billion over the first half of the year.

The increase in the Eurobond portfolio of LL 363 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.

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.

The stock of Paris III loans increased by LL 105 billion due to the disbursement of two loans negotiated in the context of the Paris III conference that were disbursed in June 2009: The Arab Monetary Fund disbursed US$ 32 million and the European Commission disbursed €25 million as part of the first tranche of the Macro-Financial Assistance.

Table 20: Eurobond Price Performance

	Bid Yield (%)						
Lebanese Issues	**2-Apr-09**	**22-Apr-09**	**11-May-09**	**19-May-09**	**1-Jun-09**	**9-Jun-09**	**23-Jun-09**
EURO							
LEB 5.875 12	6.72	6.30	6.75	6.21	6.26	6.06	6.26
US Dollars							
LEB 7.125 10	5.97	6.05	5.98	5.38	5.31	4.91	4.88
LEB 7.875 11	6.78	6.82	6.80	6.62	6.60	6.44	5.90
LEB 4.000 17 Av Life	8.70	8.68	8.90	8.97	8.62	8.44	8.39
LEB 7.500 12	7.12	7.11	7.05	6.93	6.87	6.86	6.68
LEB 7.750 12	7.24	7.17	7.18	7.05	7.05	6.83	6.69
LEB 9.125 13	7.63	7.66	7.55	7.43	7.27	7.04	6.95
LEB 8.625 13	7.80	7.76	7.66	7.55	7.35	7.10	6.88
LEB 7.375 14	8.11	8.12	8.06	8.03	7.80	7.62	7.62
LEB 9.000 14	8.02	8.00	8.01	7.88	7.81	7.72	7.50
LIEB 10.000 15	8.37	8.33	8.29	8.29	8.10	8.01	7.93
LEB 8.500 15	8.21	8.24	8.22	8.17	8.08	8.00	7.95
LEB 8.500 16	8.37	8.34	8.27	8.15	8.10	8.03	7.95
LEB 11.625 16	8.57	8.59	8.60	8.47	8.32	8.27	8.15
LEB 9.000 17	8.58	8.58	8.51	8.44	8.35	8.22	8.07
LEB 8.250 21	9.07	9.06	9.06	8.98	8.99	8.52	8.18

Source: Credit Suisse

Secondary market yields on Lebanese Eurobonds decreased by an average of 58 basis points over the 2nd quarter of 2009.[21]

[21] Calculated from April 2, 2009 to June 23, 2009.

REPUBLIC OF LEBANON
MINISTRY OF FINANCE

For further information please contact:

Ministry of Finance

UNDP Project

Tel: 961 1 981057/8

Fax: 961 1 981059

Email: infocenter@finance.gov.lb

Website: www.finance.gov.lb