REPUBLIC OF LEBANON
MINISTRY OF FINANCE

PUBLIC FINANCE QUARTERLY REPORT

MINISTRY OF FINANCE

QUARTER I - 2010

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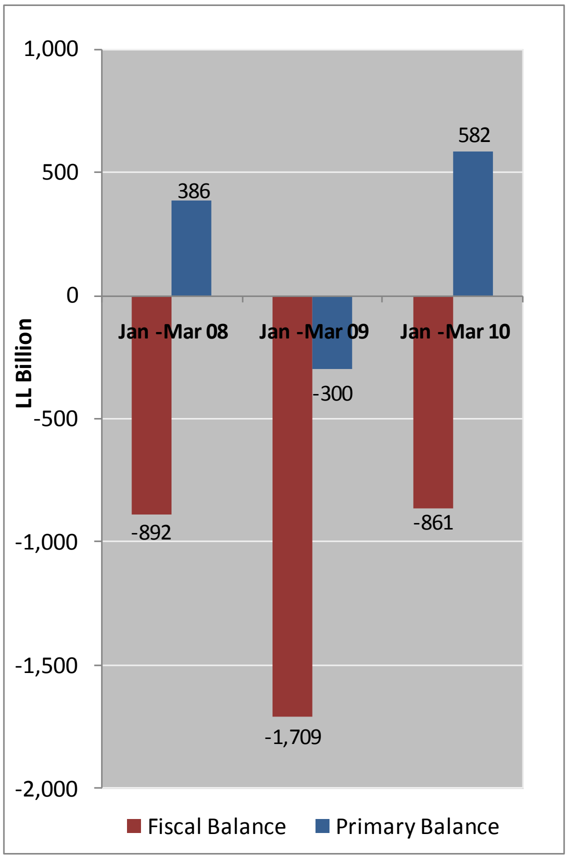
Public Finance Highlights

General Fiscal Developments

The fiscal deficit in the first quarter of 2010 totalled LL 861 billion, compared to a deficit of LL 1,709 billion in 2009. The primary surplus achieved a surplus of LL 582 billion in the first quarter of 2010 compared to a deficit of LL 300 billion recorded in QI 2009.

Figure 1: Fiscal and Primary Balance

January – March 2008 -2010



Revenues

At LL 3,084 billion in the first quarter of 2010, revenues were higher by 9 percent than those collected in the same period of 2009, mainly due to the 17 percent (or LL 348 billion) higher tax revenues, which was partly counter-balanced by an 18 percent (or LL 119 billion) drop in non-tax revenues.

Expenditures

Public expenditures of LL 3,945 billion at the end of the first quarter of 2010 reflected a decrease of 13 percent compared to 2009. Lower treasury expenditures, by 53 percent, contributed to this result.

Public Debt Developments

As of end-March 2010, the stock of debt totalled LL 77,644 billion, registering an increase of 0.74 percent from the end-December 2009 level. Net debt stood at LL 66,989 billion at the end of March 2010, an increase of 0.66 percent against the end-2009 level.

Section I: Fiscal Overview

The first three months of 2010 registered a **fiscal deficit** of LL 861 billion, half the LL 1,709 billion deficit recorded in the same period of 2009. This was led by additional receipts of LL 256 billion (9 percent) coupled with a decrease in total payments of LL 592 billion (13 percent) by end-March 2009.

The **primary balance** was in surplus of LL 582 billion at the end of March 2010, compared to a deficit of LL 300 billion in the same period of 2009. This reversal to a surplus took place owing to an improvement in receipts and despite the increase in primary current expenditures by LL 158 billion.

Table 1: Summary of Fiscal Performance

(LL billion)	2008 Jan-Mar	2009 Jan-Mar	2010 Jan-Mar	% Change 2010/2009
Total Budget and Treasury Receipts	**2,474**	**2,828**	**3,084**	**9%**
Total Budget and Treasury Payments, *of which*	**3,365**	**4,537**	**3,945**	**-13%**
• Interest Payments	1,099	1,370	1,396	2%
• Concessional Loans Principal Payments [(1)]	178	39	47	19%
• Primary Expenditures [(2)]	2,088	3,128	2,502	-20%
Total Deficit/Surplus	**-892**	**-1,709**	**-861**	**-50%**
Primary Deficit/Surplus	**386**	**-300**	**582**	**-294%**

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 deb- related payments (Interest payments and Concessional loans principal repayment).

Section II: Revenue Outcome

Total revenues summed up to LL 3,084 billion, registering an increase of 9 percent (or LL 256 billion) during QI 2010 compared to the same period of 2009. The 17 percent and 19 percent growth in both **tax revenues** and **treasury receipts,** respectively, more than offset the 18 percent drop in **non-tax revenues**.

Table 2: Total Revenues

(LL billion)	2009 March	2010 March	2009 Jan-Mar	2010 Mar	% Change 2010/2009
Budget Revenues, *of which*	**747**	**902**	**2,685**	**2,914**	**9%**
• *Tax Revenues*	625	818	2,014	2,361	17%
• *Non-Tax Revenues*	122	85	672	552	-18%
Treasury Receipts	**49**	**45**	**143**	**170**	**19%**
Total Revenues	**796**	**948**	**2,828**	**3,084**	**9%**

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

Tax Revenues

Tax revenues totaled LL 2,361 billion in the first quarter of 2010, up by LL 347 billion from the same period in 2009. They accounted for 77 percent of total revenues, compared to 71 percent in 2009, due to a drop in non-tax receipts. All major components of tax revenues registered increases in collection during the first three months of 2010. However, the comparison with the growth rates[1] recorded during the similar period of 2009 highlights a deceleration in the rise of some tax revenue items, namely, wages and salaries tax[2], excises on gasoline[3] and taxes on cars (excises and registration fees). This deceleration can be explained by the normalisation of collection following a substantial change in the tax base in 2009 for income tax on wages and salaries and excises on gasoline and a change in import trend of cars. On the other hand, other revenue items witnessed an acceleration in the collection pace, namely taxes on property which were propped up by the buoyant real estate activity and fiscal stamps. Additionally, the rise in both VAT receipts, driven by higher local consumption, and the proceeds from the tax on interest income, following the upsurge in deposits during the last two years, also contributed to the 17 percent growth in tax revenues.

The disaggregated tax performance in the first three months of 2010 is detailed in Table 3.

Table 3: Tax Revenues

(LL billion)	2009 March	2010 March	2009 Jan-Mar	2010 Jan-Mar	Change QI 2010/QI 2009
Taxes on Income, Profits, & Capital Gains, *of which*:	**91**	**135**	**373**	**431**	**16 %**
• Income Tax on Profits	41	73	111	133	20%
• Income Tax on Wages and Salaries	36	6	114	108	-5%
• Income Tax on Capital Gains & Dividends	4	6	17	21	23%
• Tax on Interest Income (5%)	38	46	127	163	28%
• Penalties on Income Tax	1	3	5	5	16%

[1] Lebanon achieved remarkable real growth rates of 9.3% in 2008 (National Accounts) and 9% in 2009 (IMF, Article IV May 2010 Mission). For 2010, the country is projected to achieve an 8% growth rate (IMF, Article IV May 2010 Mission).

[2] The substantial increase in receipts from the withheld tax on wages and salaries in 2009 is explained by the enlargement of the tax base following the wage increase granted as per Law No. 63 dated.

[3] The hike in revenues from excise on gasoline is explained by the uncapping of domestic prices of gasoline, and fixing the excise rate at LL 470 per liter on average, as per COM decision No. 3 dated January 23rd 2009.

Taxes on Property, *of which:*	**82**	**140**	**170**	**275**	**62%**
• Built Property Tax	37	54	54	65	22%
• Real Estate Registration Fees	40	77	102	192	87%
Domestic Taxes on Goods & Services, *of which:*	**206**	**257**	**763**	**867**	**14%**
• Value Added Tax	176	222	686	780	14%
• Other Taxes on Goods and Services, *of which*:	30	35	73	84	14%
- *Private Car Registration Fees*	*20*	*20*	*50*	*53*	*7%*
- *Passenger Departure Tax*	*10*	*14*	*23*	*30*	*30%*
Taxes on International Trade, *of which:*	**220**	**251**	**620**	**663**	**7%**
• Customs	63	74	175	191	9%
• Excises, *of which*:	157	177	446	472	6%
- *Petroleum Tax*	*85*	*93*	*240*	*253*	*5%*
- *Tobacco Tax*	*21*	*29*	*59*	*86*	*46%*
- *Tax on Cars*	*52*	*54*	*146*	*133*	*-9%*
Other Tax Revenues (namely fiscal stamp fees)	**25**	**35**	**88**	**125**	**43%**
Total Tax Revenues	**625**	**818**	**2,014**	**2,361**	**17%**

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

The receipts of taxes on income profits and capital gains augmented by 16 percent year-on-year, up to LL 431 billion in QI 2010, driven by the growth in the revenues of taxes on profits and on interest income. The former gained 20 percent to LL 133 billion on higher declared profits due to the buoyancy of the economic activity in 2009. The latter - the second-highest revenue generating component of taxes on income profits and capital gains - increased by 28 percent, to LL 163 billion, explained by the expansion of the deposit base following the 22 percent increase in both resident and non-resident private sectors deposits as of end-March 2010, compared to the deposit level as of end-March 2009. The upswing in the volume of deposits and the de-dollarization of deposits[4] (to a lesser extent) more than counterbalanced the effect of the decline in interest rates on deposits. As a matter of fact, the weighted average interest rate on deposits denominated in Lebanese pound fell by 99 basis points (bps) to 6.11 percent as of end-March 2010, from the prevailing rate in March 2009; while the average interest rate on deposits in U.S dollar tumbled by 40 bps to 2.86 percent during the same period.

Taxes on Property registered the highest revenue growth among major tax revenue items. The proceeds of these taxes soared by 62 percent to LL 275 billion, contributing to more than 30 percent of the increase in tax revenues during the first quarter of 2010. While the recurrent tax on built properties climbed by 22 percent to LL 65 billion, real estate registration fees witnessed an unprecedented 87 percent hike in collection, amounting to LL 192 billion in the first quarter of 2010, thus mirroring the dynamism of the real estate sector, the vigour of housing units sales and the escalation in property values.

Receipts from domestic taxes on goods and services improved by 14 percent to LL 867 billion by end of March 2010, mainly driven by a 14 increase in the **value added tax** collection that reached LL 780 billion during the first quarter of 2010 against the comparable period of 2009. This was due to an 11 percent increase in VAT receipts collected at customs, amounting to LL 539 billion, and a 19 percent rise (LL 240 billion) in VAT pertaining to internal business activity (see Box 1).

[4]The dollarization rate of deposits as of end of March 2010 was 63.28, or 4.4 below the rate prevailing as of end March 2009. As interest rates on LBP deposits are higher than those on USD deposits, the more the composition of deposits shifts to LBP, the more tax on interest the Treasury collects.

The increase in VAT collected at customs[5] came in line with the 35 percent jump in imports that accrued to LL 6,610 billion by the end of QI 2010. As shown in Table 6 below, this development resulted from a 21 percent (LL 893 billion) rise in non-fuel imports in parallel with a 125 percent (LL 831 billion) surge in fuel imports. The noticeable hike in fuel imports is due to a combined price and quantity effects and to a change in composition of imports.

⇒ Price effect: the recovery of oil prices that averaged US$ 76 per barrel in QI 2010, up by more than 71 percent from their level a year earlier.

⇒ Quantity effect: demand-driven consumption led to a rise of 51 percent in the volume of imports that totaled 1,660 thousand tons during QI 2010.

The share of fuel imports out of total imports increased at a higher pace than the share of non-fuel imports of total imports between Q1 2009 and Q1 2010, the former representing a share of 23 percent in Q1 2010 compared to 14 percent in QI 2009. The new composition of imports, consisting of a larger share of fuel imports in relative terms, translated into *a lower effective VAT rate at import*.

As an illustration, QI 2009 comprised 86 percent non-fuel imports and 14 percent fuel imports, a combination that resulted in an *average effective VAT rate of 10 percent*. In QI 2010 however, with fuel imports' share rising to 23 percent and that of non-fuel imports tumbling to 77 percent, the resulting *average effective VAT rate decreased to 8.5 percent*, as per Table 6 below. The difference in the effective VAT rate is explained by the fact that some fuel imports are exempted from VAT (such as butane gas), and the fact that the main driver behind the rise in non-fuel imports in QI 2010 is jewellery, which is subject to a special VAT scheme and not treated like other imported goods on which a 10 percent VAT is levied. The rise in non-taxable jewellery was partially offset by the rise in other non-fuel imports, such as machinery and mechanical equipment, iron and steel, plastic products, and to an extent some pharmaceutical products, which are all taxable. This led to the rise of import VAT by 11 percent, which is not commensurate with the 35 percent rise in total imports.

[5] The increase in import VAT originates mainly from a bulk collection during the month of March 2010, which accounted for almost 40% of the total LL 539 billion collected during the first three months, and is explained by a hike in fuel imports during that specific month of about 254% compared to March 2009 import level.

Box 1. Insight into VAT Receipts from Internal Activities

Internal VAT receipts represent mostly tax dues on business activities in QIV 2009, that were declared and settled in January 2010. The below analysis reflects VAT performance in 2009, and, most importantly, is indicative of an improved economic activity in QIV 2009 compared to the same period of 2008.

Table 4 outlines revenues in 2009 from the Value Added Tax (VAT) levied on internal business activity, as broken-down by economic activity[6]. In 2009, VAT declared by businesses from **internal activities** hiked up by 25 percent year-on-year, up to LL 834 billion[7], thus reflecting the strong increase in declarations by almost all of the usual top VAT generating economic activities in Lebanon.

Table 4: VAT Declared by Businesses[(1)] -Top 10 Contributing Activities (LL billion)

2009 Rank	Economic Activity (ISIC Nomenclature)	2008	% Share	2009	% Share	% Change
1	Wholesale trade[(2)]	128	19%	145	17%	14%
2	Retail trade[(2)]	107	16%	103	12%	-4%
3	Other business activities	76	11%	99	12%	30%
4	Hotels and restaurants	67	10%	89	11%	32%
5	Construction	41	6%	58	7%	40%
6	Real estate activities	25	4%	39	5%	52%
7	Manufacture of food products and beverages	24	4%	36	4%	48%
8	Manufacture of non-metallic mineral products	16	2%	35	4%	112%
9	Sale, maintenance & repair of motor vehicles & motorcycles; retail sale of automotive fuel	26	4%	33	4%	29%
10	Post and telecommunications[(3)]	17	3%	28	3%	59%
	Other	139	21%	169	20%	22%
	VAT from internal activity	**668**	**100%**	**834**	**100%**	**25%**

Source: MOF, VAT Directorate, VAT Declaration Forms
1/VAT figures in this table represent declared amounts whereas VAT figures in the Fiscal Performance are cash collected amounts. VAT declaration amounts may vary depending on the number of processed declarations at a given date.
2/Except for motor vehicles and motorcycles
3/ The VAT contribution figure from the post & telecommunication sector is understated as it does not capture all the VAT raised from the this sector. The reason is that a large portion of VAT generated by telecom is transferred to municipalities, and hence is not captured in these figures.

Wholesale and retail trade remained the highest contributors to VAT, ascertaining the fact that internal consumption is a major driver for growth in Lebanon. More specifically, *wholesale trade* continued to be the first VAT generating economic activity in 2009. The receipts of VAT from this activity totaled LL 145 billion, up by 14 percent, contributing up to 17 percent of total declared VAT (down from 19 percent in 2008, due to higher contributions from other sectors). VAT receipts generated by *retail trade* fell by almost 4 percent in 2009, down to LL 103 billion, resulting from an ease in retail prices in 2009 following the hike in most commodity prices in 2008.

The **sale of cars, maintenance and repair of vehicles** generated LL 33 billion in VAT receipts in 2009, a substantial increase of almost 29 percent from the previous year, in line with the boom in the car market as ascertained by import and fiscal data, namely car excises and car registration fees, in 2009. Despite this remarkable increase, the ranking of this economic activity retreated down to the ninth position place, from the sixth in 2008, as other activities increased at a much higher pace.

Other business activities registered the highest nominal increase of LL 23 billion, representing a 30 percent surge and amounting to LL 99 billion or 12 percent of total VAT receipts from internal activities. This

[6]Taxpayers' economic activities are classified along the Ministry of Finance's Business Activity Code which adopts the ISIC nomenclature.
[7]Please note that the amounts of VAT declared (extracted from declaration forms) differ from VAT amounts actually collected on a cash-basis (Fiscal Performance figures).

category includes architectural and engineering activities, advertising, and business and legal consulting. VAT receipts generated by **hotels and restaurants** surged by 32 percent, to LL 89 billion, thus in line with the 39 percent increase in number of tourists inflow in 2009 (amounting to 1,851,081 tourists in 2009).

Construction activities ranked fifth in terms of the most VAT generating activities for the last 3 years and increased by 40 percent, up to LL 58 billion, thus reflecting the sizeable expansion of the real estate activity and construction projects. VAT receipts from the **manufacture of non-metallic mineral products** registered the highest growth, with a hike of 112 percent to nearly LL 35 billion. This increase is concurrent with the buoyant construction activity that translated into a high demand for concrete, cement and plaster. In parallel to construction, **real estate**[8] activities generated LL 39 billion in VAT receipts in 2009, representing a 52 percent year-on-year increase .

With more than 70% of VAT revenues **collected at imports**, the analysis of VAT performance requires further examination from the perspective of developments at the imports level.[9] Import declarations in 2009 provide a 2 percent rise in the declared value; in parallel, total imports in 2009 rose by less than 1 percent in 2009. This increase comes despite lower VAT from imported "mineral fuel and oils", and imported "iron and steel", respectively, which are commensurate with less imports of these two categories in 2009. On the other hand, the year 2009 witnessed a 14 percent rise in imports of vehicles, which translated into 14 percent higher VAT. From a fiscal perspective, this comes in parallel with the rise in the collection of all taxes and fees levied on car imports and car sales[10].

Table 5: VAT Declared at Customs - Top Five Largest Contributing Items (by HS Chapter)

(LL billion)	2008		2009		% Change
	Jan-Dec	% Share	Jan-Dec	% Share	
VAT customs collection, *of which:*	**1,993**	**100%**	**2,037**	**100%**	**2%**
Mineral fuels and oils	611	31%	575	28%	-6%
Vehicles other than railway	316	16%	360	18%	14%
Reactors, boilers, other machinery	133	7%	147	7%	10%
Electrical Machinery	107	5%	125	6%	2%
Iron and Steel	123	6%	90	4%	-27%
Others	703	35%	739	36%	5%

Source: Directorate General of Customs (DGC), Import Declarations
Note that VAT collected at Customs in this table differs from the cash basis amount published in Fiscal Performance

Furthermore, the growth in taxes collected from international trade slowed down remarkably in QI 2010, increasing moderately by 7 percent, to LL 663 billion, following a remarkable 106 percent rise in QI 2009. This can be explained by two factors: (a) the flow of revenues from gasoline excise stabilised at normal pace following the policy decision to uncap domestic prices and fix the excise rate in January 2009; and (b) car imports, which expanded significantly in 2008 and 2009, seem to have lost impetus in QI 2010.

Table 6 below depicts the rise in **tariff revenues**, totalling LL 191 billion in QI 2010, mainly due to import growth. It is worth mentioning that the 35 percent increase in total imports had a relatively smaller impact on tariff revenues, which grew by a mere 9 percent, as fuel products (which are the main contributors to the growth in imports in QI 2010) are subject to relatively low custom duties. Hence, the drop in the share of non-fuel imports resulted in a retreat in the effective customs rate that inched down by 70 basis points, to 2.9 percent.

[8] This category only reflects VAT collected on commercial rent as the sale of real estate, and residential rent are VAT exempt.
[9] The top-ranked imported goods are those that contribute most to VAT, except for "natural & cultured pearls" and "pharmaceutical products", both categories of which are to a large extent exempt from VAT.
[10] For further details, refer to the Ministry of Finance Annual Report 2009.

Table 6: Import Statistics

(LL billion)	2008 Jan-Mar	2009 Jan-Mar	2010 Jan-Mar	Change QI 2010/QI2009
Total Imports	**5,273**	**4,886**	**6,610**	**35 %**
• *Fuel Imports (fuel derivatives classified under HS 27)*	*1,441*	*666*	*1,497*	*125%*
• *Non-Fuel Imports*	*3,832*	*4,220*	*5,113*	*21 %*
Revenues from Custom Duties	**149**	**175**	**191**	**9%**
Effective customs rate	*2.8%*	*3.6%*	*2.9%*	-
• Share of Fuel Imports	27%	14%	23%	-
• Share of Non Fuel Imports	73%	86%	77%	-
Revenues from VAT at Imports	**432**	**484**	**539**	**%**
Effective VAT rate	*8.2%*	*10%*	*8.15%*	-

Total excises collected at import[11] registered a 6 percent growth, up to LL 472 billion, mainly due to minor increases in the revenues of excises on tobacco and petroleum.

a. Excises on gasoline remained relatively stable in QI 2010, collecting LL 253 billion compared to LL 240 billion during QI 2009, or 5 percent more revenues mirroring the nearly 5 percent rise in the volume of imports as shown in Table 7 below[12]. It is worth noting that the structure of excises is linked to the volume and not the value. Therefore, even though fuel prices increased substantially, this was not reflected in excise revenues. In fact, the effective excise rate on gasoline remained relatively constant, increasing slightly to LL 491 per litre, while the average import price of gasoline hiked by 68 percent to LL 829 per litre, registering a nearly 34 percent upswing in the domestic retail price. In fact domestic retail prices rose from an average of LL 24,212[13] per tank (20 litres) prevailing in QI 2009, to an average of LL 32,347 per tank in QI 2010, reflecting the automatic pass through of the international oil price increase domestically (which was not the case under the capping regime) .

Table 7: Gasoline Import Statistics

	2008 Jan-Mar	2009 Jan-Mar	2010 Jan-Mar	Change QI 2010/QI 2009
Imports (*LL billion*)	425	243	427	76 %
Volume (*billion litres*)	0.441	0.493	0.515	4.5 %
Collected excises (*LL billion*)	5	240	253	5 %
Average effective Price at imports (LL/litre)	*964*	*493*	*829*	*68 %*
Average effective excise rate (LL/litre)	*11*	*487*	*491*	*0.8 %*

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

b. Following substantial increases in 2008 and 2009, excises on cars retreated in QI 2010 to LL 133 billion (from LL 146 billion in 2009) due to the 11 percent drop in car imports. This is primarily due to a volume-effect, as the number of imported cars slipped by 12.4 percent year-on-year, dragging the value of car imports down by 10.6 percent, while the average price per unit rose by nearly 2 percent from the QI 2009 level at a time when car prices sunk on international markets at the break of the international financial crisis as shown by Table 8 below. This slowdown is possibly due to a relative saturation of the market in the short-term,

[11] 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.
[12] Note that with the uncapping of domestic prices, and with fixing the excise rate, revenues from car gasoline is a function of volume of imports solely, and is not linked to international oil price fluctuations.
[13] Prices are set by the Ministry of Energy and Water on a weekly basis.

following the burst of car sales and imports during the last couple of years (Lebanon imported twice the historical number of cars).

Table 8: Car Import Statistics

	2008 Jan-Mar	2009 Jan-Mar	2010 Jan-Mar	Change QI 2010/QI 2009
Imports (LL billion)	341	518	463	-10.6 %
Number of Cars	16,151	24,776	21,709	-12.4 %
Collected Excises (LL billion)	91	146	133	-9 %
Average price per car (LL million)	*21.1*	*20.9*	*21.3*	*2 %*
Average effective excise rate (%)	*26.7%*	*28.2%*	*28.76 %*	*2 %*

Source: MOF-General Directorate of Customs declaration forms

Note: Figures for QI 2008 and 2009 may differ from previously published figures due to revisions by Customs

c. Excises on tobacco collected LL 86 billion in QI 2010, compared to LL 59 billion in QI 2009, representing a 46 percent increase. This growth in excises stems from a rise in both the volume and the value of tobacco imports that increased by 30 percent and 28 percent, respectively, up to 3,296 tons valued at LL 80 billion. Increased volume of tobacco imports is probably due to higher consumption, which is partially driven by a 32 percent increase in tourist inflows in QI 2010 compared to QI 2009.

Table 9: Tobacco Import Statistics

	2008 Jan-Mar	2009 Jan-Mar	2010 Jan-Mar	Change QI 2010/QI 2009
Imports (LL billion)	55	58	80	28 %
Net weight (in tons)	2,196	2,533	3,296	30 %
Collected Excises (LL billion)	55	59	86	46 %
Average import price (LL per Kg)	*25,046*	*22,996*	*24,271*	*5.5 %*
Average effective excise rate (%)	*100.0%*	*101.3%*	*107.5 %*	*6 %*

Source: MOF-General Directorate of Customs declaration forms

Lastly, the receipts of fiscal stamp fees surged by 43 percent during the first quarter of 2010, to LL 125 billion. This increase may reflect increased transactions in the economy (volume-effect), but also higher values per transaction, and more specifically values in real estate transactions. It is worth noting that property sales contracts are subject to a 3 per mil fiscal stamp at the notary, and other real estate transactions, such as rent, are also subject to fiscal stamps.

Non-Tax Revenues

Following a slight drop of 2 percent in QI 2009, **non-tax revenues** declined further in the first quarter of 2010, by 18 percent to LL 552 billion. This drop is explained by 22 percent lower Income from Public Institutions and Government Properties at a time when **Administrative Fees and Charges** slid by 3 percent.

Table 10 : Non-Tax Revenues

(LL billion)	2009 March	2010 March	2009 Jan-Mar	2010 Jan-Mar	Change QI 2010/QI 2009
Income from Public Institutions and Government Properties	**67**	**25**	**506**	**394**	**-22 %**
Income from Non-Financial Public Enterprises, *of which*:	22	20	452	377	-17 %
- *Revenues from Casino du Liban*	*9*	*12*	*45*	*38*	*-17 %*
- *Revenues from Port of Beirut*	*0*	*0*	*62*	*0*	*-100 %*
- *Budget Surplus of National Lottery*	*13*	*8*	*13*	*8*	*-38 %*
- *Transfer from the Telecom Surplus*	*0*	*0*	*331*	*331*	*0 %*

Income from Financial Public Enterprises (BdL)	40	0	40	0	-100 %
Property Income (rent of Rafic Hariri International Airport)	4	5	*11*	16	37 %
Other Income from Public Institutions (interests)	*1*	0	3	1	-63 %
Administrative Fees & Charges, ***of which:***	**47**	**51**	**135**	**132**	**-3 %**
Administrative Fees, *of which*:	38	44	110	105	-4 %
- *Notary Fees*	*2*	*2*	*6*	*7*	*19 %*
- *Passport Fees/ Public Security*	*10*	*10*	*25*	*26*	*5 %*
- *Vehicle Control Fees*	*21*	*23*	*62*	*51*	*-18 %*
- *Judicial Fees*	*1*	*2*	*5*	*6*	*32 %*
- *Driving License Fees*	*2*	*2*	*5*	*6*	*20 %*
Administrative Charges	3	2	10	11	11 %
Sales (Official Gazette and License Number)	0	0	1	1	11 %
Permit Fees (mostly work permit fees)	4	4	11	12	11 %
Other Administrative Fees and Charges	2	1	4	2	-33 %
Penalties and Confiscations	**0**	**1**	**2**	**2**	**12 %**
Other Non-Tax Revenues (mostly retirement deductibles)	**8**	**8**	**28**	**25**	**-12 %**
Total Non-Tax Revenues	**122**	**85**	**672**	**552**	**-18 %**

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

The decline in **Income from Public Institutions and Government Properties** is primarily the result of the absence of transfers from Port of Beirut (PoB) and Banque du Liban[14] (BDL) in QI 2010. Transfers from these institutions are received once a year. For the year 2009, these transfers were collected in QI. In 2010, transfers from the telecom surplus remained stable at LL 331 billion compared to Q1 2009, however only a single payment was made in February 2010, compared to two payments in January and February of 2009 that amounted to LL 331 billion.

Further, Transfer from the Casino du Liban decreased by 17 percent (or LL 7 billion) in QI 2010. The third instalment payment of the dispute settlement between Casino management and the Government, amounting to LL 14 billion, was not made during QI 2010, whereas the second instalment was received in QI 2009[15]. On the other hand, transfers from the National Lottery were LL 5 billion lower during the period under consideration.

Administrative fees and charges collected a total of LL 132 billion in the first quarter of 2010, representing a 3 percent drop over QI 2009 revenues due to an 18 percent fall in receipts from vehicle control fees.

Treasury Receipts

Treasury receipts amounted to LL 170 billion by the end of QI 2010, up by 19 percent compared to the equivalent period of 2009. In details, revenues to the Independent Municipal Fund climbed by 19 percent to LL 79 billion while guarantees added up 34 percent to LL 21 billion.

[14] As per Article 113 of the Code of Money and Credit, the Treasury has 80% revenue-sharing right in BDL surplus.
[15] 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.

Section III: Expenditure Outcome

Total Expenditures (budget and treasury), in the first quarter of 2010, reached LL 3,945 billion, 13 percent lower than expenditures in the same period of 2009, as Table 11 below shows.

Table 11: Expenditure Summary

(LL billion)	2008 Jan-Mar	2009 Jan-Mar	2010 Jan-Mar	Change QI 2010/QI 2009
Interest Payments	1,099	1,370	1,396	1.9%
Concessional Loans Principal Payments (1)	178	39	47	19.3%
Total Primary Expenditures (2)	2,088	3,128	2,502	-25.0%
Total Budget and Treasury Payments	**3,365**	**4,537**	**3,945**	**-13.0%**

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 592 billion decrease in total expenditures was mainly due to decrease in the line item "**other treasury expenditures" by** LL 806 billion, largely explained by lower spending by LL 580 billion to cover the deficit of the loss-making electricity company EDL, and LL 200 billion less payments to the High Relief Committee.

On the other hand, both current and capital spending witnessed increases. In fact, current expenditures rose by LL 192 billion, of which (i) LL 91 billion was due to higher personnel costs, and (ii) LL 74 billion due to larger various transfer bills. **Capital expenditures** were also larger by LL 23 billion, driven by LL 35 billion higher maintenance spending, among other things.

Total Primary Expenditures amounted to LL 2,502 billion in January-March 2010 compared to LL 3,128 billion registered in the same period of 2009, i.e. decreasing by 25 percent.

Table 12. Expenditure by Economic Classification

(LL billion)	2008 Jan-Mar	2009 Jan-Mar	2010 Jan-Mar	Change QI 2010/QI 2009
1. Current Expenditures	**2,474**	**2,855**	**3,046**	**6.7%**
1.a Personnel Cost, *of which*	882	1,142	1,233	8.0%
• *Salaries, Wages and Related Items (Article 13)*	*574*	*770*	*856*	*11.2%*
• *Retirement and End of Service Compensations, of which:*	*264*	*303*	*309*	*2.0%*
– *Retirement*	*204*	*275*	*266*	*-3.3%*
– *End of Service*	*60*	*28*	*43*	*52.1%*
• *Transfers to Public Institutions to Cover Salaries* (1)	*44*	*69*	*67*	*-2.0%*
1.b Interest Payments, *of which:* (2)	1,099	1,370	1,396	1.9%
• *Domestic Interest Payments*	*711*	*890*	*918*	*3.1%*
• *Foreign Interest Payments*	*389*	*480*	*479*	*-0.3%*
1.c Foreign Debt Principal Repayment	178	39	47	19.3%
1.d Materials and Supplies, *of which:*	54	59	53	-9.8%
• *Nutrition*	*18*	*18*	*12*	*-30.0%*
• *Fuel Oil*	*9*	*4*	*3*	*-18.7%*
• *Medicaments*	*10*	*23*	*15*	*-31.3%*
• *Accounting Adjustments for Treasury*	*12*	*8*	*9*	*15.0%*
1.e External Services	20	25	34	37.1%
1.f Various Transfers, *of which:*	146	98	172	75.5%
• *NSSF*	*0*	*0*	*0*	*NA*
• *Treasury Advances for Diesel Oil Subsidy* (3)	*19*	*0*	*48*	*NA*
• *Wheat Subsidy*	*43*	*0*	*0*	*NA*
• *Special Tribunal for Lebanon*	*18*	*12*	*41*	*237.3%*
1.g Other Current, *of which:*	72	96	80	-17.0%
• *Hospitals*	*63*	*82*	*62*	*-23.6%*
• *Others*	*8*	*15*	*18*	*20.6%*
1.h Reserves	22	25	31	24.2%
• *Interest subsidy*	*22*	*25*	*31*	*24.2%*
2. Capital Expenditures	**136**	**150**	**173**	**15.4%**
2.a Acquisitions of Land, Buildings, for the Construction of Roads, Ports, Airports, and Water Networks	1	2	0	-96.2%
2.b Equipment	11	11	9	-11.6%
2.c Construction in Progress, *of which:*	90	93	96	3.9%
• *Displaced Fund*	*0*	*20*	*30*	*50.0%*
• *Council of the South*	*10*	*10*	*20*	*100.0%*
• *CDR*	*53*	*45*	*22*	*-52.5%*
• *Ministry of Public Work and Transport*	*12*	*13*	*19*	*53.8%*
• *Other*	*15*	*5*	*5*	*8.7%*
2.d Maintenance	21	23	58	148.5%
2.e Other Expenditures Related to Fixed Capital Assets	13	21	9	-56.0%
3. Other Treasury Expenditures	**745**	**1,519**	**713**	**-53.0%**
3.a Municipalities	118	107	76	-29.2%
3.b Guarantees	13	11	15	38.7%
3.c Deposits	12	23	12	-46.4%
3.d Other, *of which:*	86	293	105	-64.2%
• *VAT Refund*	*53*	*64*	*51*	*-18.4%*
• *High Relief Committee*	*7*	*200*	*0*	*-100.0%*
3.e EDL (4)	515	1,085	505	-53.4%
4. Unclassified Expenditures	**1**	**0**	**1**	**523.4%**
5. Customs Cashiers	**9**	**13**	**11**	**-15.2%**
6. Total Expenditures (Excluding CDR Foreign Financed)	**3,365**	**4,537**	**3,945**	**-13.0%**

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) *Transfers to diesel oil subsidy were reclassified under various transfers as payments made in 2010 are either from the 2009 Budget or will regularized from the 2010 Budget.*

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

Current Expenditures

Current primary expenditures[16] amounted to LL 1,603 billion in January-March 2010, which is LL 158 billion higher than the January-March 2009 level of LL 1,445 billion. Details of the main components of current primary expenditures are recorded below:

Personnel cost[17] amounted to LL 1,233 billion, about 8 percent higher than the LL 1,142 billion level of QI 2009, resulting from the increases in both "wages, salaries and related benefits" and "retirement and "end-of-service indemnities".

a. *Wages, salaries and related benefits* (Article 13) went up by LL 86 billion, from LL 770 billion in QI 2009 up to LL 856 billion in QI 2010.

Table 13. Breakdown of Article 13: Salaries, Wages and Related Items

(LL billion)	Basic Salaries 1/		Indemnities		Allowances		Other 2/		Total 3/	
	QI 09	QI 10	QI 09	QI 10	QI 09	QI 10	QI 09	QI 10	QI 09	QI 10
Military Personnel	**393**	**372**	**17**	**18**	**65**	**163**	**1**	**1**	**511**	**554**
Army	250	248	12	12	34	97	0	0	295	357
Internal Security Forces	117	99	5	5	26	54	0	0	147	158
General Security Forces	20	20	1	1	4	9	1	1	25	30
State Security Forces	7	6	0	0	1	3	0	0	8	9
Education Personnel	**153**	**131**	**13**	**14**	**0**	**0**	**0**	**0**	**167**	**146**
Civil Personnel, *of which:*	**67**	**84**	**14**	**14**	**0**	**1**	**38**	**49**	**119**	**148**
Civil Servants' Cooperative	*0*	*0*	*0*	*0*	*0*	*0*	*30*	*40*	*30*	*40*
Customs Salaries	**0**	**0**	**0**	**0**	**0**	**0**	**7**	**9**	**7**	**9**
Total	**613**	**587**	**45**	**47**	**66**	**164**	**45**	**59**	**770**	**856**

Source: Ministry of Finance(MOF), Directorate General of Finance (DGF)
1/ Includes payments made by treasury advances and from the guarantees account which are mainly assumed to be for basic salaries
2/Mainly Includes Bonuses, Contributions of the State to the Various Mutual Funds and Article 13 payments to Customs from the guarantees account
3/Includes Very Minor Unclassified Adjustments with Economic Classification of Rounding Magnitude

Of the LL 86 billion increases in salaries, wages and related benefits:

- LL 98 billion originated from an increase in allowances from LL 65 billion in QI 2009 to LL 163 billion QI 2010 in 2010, driven by i) a LL 7 billion increase in hospitalization allowance from LL49 billion in QI 2009 to LL 56 billion in QI 2010, which is mainly due to the adoption of harmonized hospitalization tariffs across public sector health schemes[18]; and, ii) a LL 97 billion increase in education allowance, reflecting merely a timing-effect as no education allowances were paid in the first quarter of 2009. Minor decreases in maternity and sickness allowances, death allowance and other social spending allowance partially absorbed this increase.
- LL 11 billion is due to an increase in spending on other items classified under Article 13 and, in particular, a LL 10 billion increase in transfers to the Civil Servants' Cooperative, which reached LL 40 billion in QI 2010 compared to LL 30 billion in QI 2009. This is due to a payment timing-effect as a LL 9 billion payment from the 2009 budget allocation was effectively disbursed in QI 2010.

[16] Current primary expenditures is current expenditures excluding interest payments and foreign debt principal repayment.
[17] Personnel cost includes salaries, wages and related benefits (article 13), transfers, retirement and end-of-service.
[18] Following Council of Ministers Decision No 2 dated March 12th, 2009.

These increases are partially offset by a LL 26 billion decrease in payments of basic salaries, which reached LL 587 billion in QI 2010 compared to LL 613 billion in QI 2009. This decrease is due to the payment in January-March 2009 of retroactive amounts that accrued following the Council of Ministers original decision in May 2008[19] to increase monthly salaries and wages in the public sector by LL 200,000 starting May 1st, 2008 and its actual implementation in Fall 2008[20].

b. *Retirement and end-of-service indemnities* rose by LL 6 billion, from LL 303 billion in QI 2009 to LL 309 billion in QI 2010, induced by the LL 15 billion increase in end-of-service indemnities, which offset the LL 9 billion decrease in retirement payments.

On the other hand, within personnel cost, *transfers to public institutions* to cover salaries remained nearly stable at LL 67 billion in QI 2010 compared to LL69 billion in QI 2009, as shown in Table 14 below.

Table 14: Breakdown of Transfers to Public Institutions (Salaries)

(LL billion)	2008 Jan-Mar	2009 Jan-Mar	2010 Jan-Mar	Change QI 2010/QI 2009
Transfer to Council of the South	3	1	5	893%
Transfer to the Council for Development and Reconstruction	3	8	2	-75%
Transfer to Fund for the Displaced	1	1	1	-50%
Transfer to the Lebanese University	34	56	57	2%
Transfer to Educational Centre for Research and Development	3	4	3	-19%
Total Transfers to Public Institutions	**44**	**69**	**67**	**-3%**

Source: Ministry of Finance

Materials and supplies decreased from LL 59 billion in QI 2009 to LL 53 billion in QI 2010, representing a 10 percent drop, and mainly resulting from a LL 7 billion decrease in *medication expenditures* and a LL 5 billion decrease in *food expenses.* This decrease was partially absorbed by an increase in (i) the consumption of clothing, lab material and engine oil for vehicles by the Lebanese Army (+LL1.5 billion), (ii) the consumption of specialized materials and supplies by the Ministry of Public Health (+LL1.5 billion,) and (iii) other administrative supplies by the Ministry of Foreign Affairs, representing the utility bills of the Lebanese Missions Overseas (+ LL3 billion).

External Services, which include payments of rents, postal services, insurance, advertisement, public relations, printing costs, consultancy fees, and cleaning and maintenance service fees amounted to LL 34 billion, up by LL 9 billion from the QI 2009. This is explained - among other things - by the adoption of Law 63 dated December 31st, 2008 which stipulated a 33 percent increase in rent contracts[21]. Moreover, the LL 200,000 increase in the salary and wages paid in the private sector[22] led to an upward revision of cleaning and maintenance contracts.

Various Transfers witnessed an increase of LL 74 billion, from LL 98 billion in QI 2009 to LL 172 billion in QI 2010. This increase resulted from:

[19] As per Council of Ministers Decision 161, dated May 5th 2008. The original decision and its amendments were later approved by Parliament following the adoption of Law 63 dated December 31st, 2008.

[20] As per Council of Ministers Decision 79, dated September 9th 2008

[21] Which are subject to Law 160 dated July 22nd, 1992 (or what is known as "old rents")

[22] Following the issuance Decree 500 dated October 14th, 2008

a. Higher Transfers to pay the Lebanese government's contribution to the *Special Tribunal for Lebanon*[23], which totalled LL 41 billion in QI 2010[24], compared to LL 12 billion in QI 2010[25], and,

b. Transfers to subsidize diesel oil subsidy amounted to LL 48 billion in QI 2010, compared to its absence in the same period of 2009. Of this amount,

   - LL 46.4 billion was paid[26] to cover the diesel oil subsidy[27] in QIV 2009 - QI 2010. The subsidy can be divided into two distinct components: (a) the direct subsidy of LL 2,720 per tank[28], amounting to LL 46.4 Billion and (b) the indirect subsidy of the foregone VAT on the amount subsidize by the treasury, amounting to LL 4.6 billion[29]
   - LL 1.3 billion is on account of QIV 2008 and QI 2009 – but was effectively paid in QI 2010[30]. The amount of the subsidy was low because the subsidy was effective for 10 days only starting December 15th, 2008 as prices of diesel oil remained below LL15,000 per tank throughout the period, and there was no real need to subsidize it.

Other Current Expenditures showed a decrease of LL 16 billion compared to the same period in 2009, attributed to a LL 19 billion decrease in payments to cover hospitalization for citizens which are not covered by any form of insurance, whether public or private. This decrease is mainly due to the provision in QI 2009 of a LL 12 billion treasury advance to the Rafic Hariri University Hospital to cover expenses related to the hospitalization of uninsured patients[31].

Capital Expenditures

Capital expenditures for QI 2010 totalled LL 173 billion, increasing from LL 150 billion in QI 2009. This increase of LL 23 billion is mainly the outcome of the following factors:

a. A LL10 billion increase in transfers to the Council of the South, from LL 10 billion in QI 2009 to LL 20 billion in QI 2010[32],

b. A LL10 billion increase in transfers to the Displaced Fund from LL 20 billion in QI 2009 to LL30 billion in QI 2010[33],

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

24 Following Decree No. 3346 dated 23 February 2010

25 Following Decree No. 1372 dated 17 February 2009

26 Through a treasury advance as per Decree 2986 dated 4 January 2010. The subsidy started on December 24th, 2009 and was planned to end on March 15, 2010, but was discontinued on March 3rd, 2010, following the issuance of Council of Ministers Decision No. 15 adopted on the same day.

27 Of 341 million litres of diesel oil

28 The tank amounts to 20 litres

29 The Treasury also has foregone LL272 of VAT per tank of diesel oil or a total of LL 4.6 billion for the whole quantity subsidized - the subsidy mechanism lowers the price basis on which the VAT is applied, thus bringing the effective subsidy rate to LL 2,992 per tank.

30 This was paid from the 2009 Budget to cover the 49 million litres of diesel oil for heating subsidized between December 15th, 2008 and March 15th, 2009.

31 This payment was made as per Decree No. 1233 dated 22 January 2009 and was reclassified under hospitals starting December 2009. It was previously classified under other treasury expenditures.

32 The LL20 billion paid in QI 2010 was from the LL 51.3 billion allocated to the Council of the South in the 2009 Budget and carried over. The LL 10 billion paid in QI 2009 were by treasury advance as per Decree No. 1167 dated 5 January 2009, based on the authorization granted by Law 362/2001.

c. A LL 7 billion increase in payments to the Ministry of Public Works and Transport from LL 13 billion in QI 2009 to LL 19 billion in QI 2010 due to a (i) LL1 billion increase in construction of buildings, (ii) LL 5 billion increase in construction of roads, (iii) less than LL1 billion increase for the road works program law, (iv) LL1 billion for the Palais de Justice in Tripoli and (v) LL1 billion for the Saida Port and Corniche project.

d. A LL 35 billion, or 149 percent, increase in maintenance expenditures from LL 23 billion[34] in QI 2009 to LL 58 billion[35] in QI 2010. Most of this increase is due to higher spending by the Ministry of Public Works and Transport on roads maintenance and, to a much lesser extent, on buildings. Additionally, maintenance spending by the Ministry of National Defence also witnessed a slight increase.

The magnitude of the increases above offset the impact of the decrease in the following main items:

a. A LL 24 billion decrease in transfers to the Council for Development and Reconstruction for the construction in progress component of capital expenditures. In fact, this item decreased by 53 percent, reaching LL 22 billion in QI 2010 compared to LL 45 billion in QI 2010. This is due to:

(i) absence of transfers to cover the counterpart funding for foreign financed projects[36] in QI 2010, which amounted to LL 25.5 billion in QI 2009,

(ii) LL3 billion decrease in allocations to cover the maintenance of the Rafic Hariri International Airport dropped from LL 4.7 billion in QI 2009 to LL 1.6 billion in QI 2010,

(iii) absence of transfers to CDR in QI 2010 for the building and equipping the Lebanese University campus in Hadath[37]-which amounted to LL3 billion in QI 2009,

(iv) LL2 billion decrease in allocations for the construction of international roads[38] which dropped from LL 6 billion in QI 2009 to LL 4 billion in QI 2010,

(v) absence of transfers for the equipment of the Central Building of the Ministry of Education and Higher Education in QI 2010-which amounted to LL1.5 billion in QI 2009 and,

(vi) absence of transfers LL2 billion in QI 2010[39] in order to fund the construction of secondary roads -which amounted to LL1.5 billion in QI 2009

Meanwhile, the allocations for the restoration and equipment of the Grand Serail[40] slightly went up from LL 2 billion in QI 2009 to LL 2.5 billion in QI 2010, and a payment of LL 13 billion was made for

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[33] The LL 30 billion paid in QI 2010 is the full amount allocated to the Displaced Fund in the 2009 Budget, which was carried forward. The payment of LL 20 billion made in QI 2009 was done by a treasury advance as per Decree No. 1167 dated 5 January 2009, based on the authorization granted by Law 362/2001.

[34] Of this amount, LL4.1 billion was paid to CDR for the maintenance of the campus of the Lebanese University, of which LL1 billion are from the LL16 billion treasury advance provided by Decree 938 dated November 19th, 2007 and LL 3 billion is from the 18 billion treasury advance provided by Decree 374 dated September 29th, 2008. Decree 938/2007 and Decree 374/2008 are to be regularized from the 2010 Budget of the Ministry of Education and Higher Education.

[35] Of this amount, LL3.4 billion was paid to CDR for the maintenance of the campus of the Lebanese University of which LL1 billion as per Decree 374 dated September 29th, 2008 and LL2.4 billion are from the 18 billion treasury advance provided by Decree 3325 dated February 17th, 2010.

[36] Counterpart financing is allocated to CDR under the budget of the Presidency of the Council of Ministers.

[37] Following the issuance of Decree 1115 dated March 18th, 2008 that provided a LL 12 billion treasury advance to pay part of the dues that resulted from building and equipping the Lebanese University campus in Hadath. Treasury advance will be settled from the budget of the Ministry of Education and Higher Education.

[38] Payments from allocations to the Presidency of the Council of Ministers as per Law 246 dated July 12th, 1993 for the execution of various projects in Beirut and Suburbs.

[39] As per payment order 58201/2007 based on Decision 770/1 dated 23 November 2007 to transfer allocations from the budget of the Ministry of Public Works and Transportation's program law for road works to CDR.

[40] Following Decree 1145 dated March 18th, 2008.

the settlement of an arbitration dispute of the Rafic Hariri International Airport in QI 2010. It should be also noted that a LL0.5 billion payment was made in QI 2010, from the allocation of the Directorate General for State Security, as a contribution to the execution of the Directorate General of State Security building versus none in QI 2009.

b. A LL 12 billion decrease in other expenditures related to fixed capital assets, from LL 21 billion to LL 9 billion resulting from the two payments, of LL 10 billion each, made to IDAL for the Export Plus program in QI 2009, in comparison with two payments of LL 1.5 billion and LL 7 billion in QI 2010.

Treasury Expenditures

Treasury expenditures decreased significantly by LL 806 billion in QI 2010, when compared to the same period of 2009 due to :

a. Decrease in Treasury transfers to, or on behalf of, Electricité du Liban (EDL)[41] by LL 580 billion, to a level of LL 505 billion by end-March 2010. This drop is the result of the LL 565 billion decrease in payments to Kuwait Petroleum Corporation (KPC) and Algeria's Sonatrach for fuel and gas oil purchases, coupled with the decrease in debt service by LL 15 billion. The registered 54 percent downward change is rooted mainly in a price-effect, where the average oil price according to which the QI 2010 payments were made is notably lower than that pertaining to 2009.

Table 15. Transfers to EDL

(LL billion)	2009 Jan-Mar	2010 Jan-Mar	% Change 2010/2009
EDL *of which:*	**1,085**	**505**	**-53%**
• **Debt Service** ***of which:***	**36**	**22**	**-40%**
- C-Loans and Eurobonds, *of which:*	31	22	-29%
Principal repayments	*26*	*18*	*-30%*
Interest Payments	*5*	*4*	*-22%*
- BDL Guaranteed Loan payments	6	0	-100%
• **Reimbursement of KPC and Sonatrach Agreements**	**1,048**	**483**	**-54%**

Source: MOF, DGF

b. Transfers to Municipalities decreased by LL 31 billion, from LL 107 billion in QI 2009 to LL 76 billion in QI 2010. The registered decrease is due to a lower transfers to solid waste companies in QI 2010 compared to QI 2009 for reasons related to the timing of these payments.

c. Other expenditures decreased by LL188 billion, from LL 293 billion in QI 2009 to LL 105 billion in QI 2010, as a result of the following main fluctuations:

(i) Decrease in payments of *VAT refund* by LL 12 billion, which is mainly due to a timing issue.
(ii) Treasury advances to the *High Relief Committee* decreased by LL 200 billion, from LL 200 billion in QI 2009[42] to nil in QI 2010.
(iii) Other tax refunds increased by LL 2.5 billion, from LL 6 billion in QI 2009 to LL 8.5 billion in QI 2010.

[41] For further details, check the March 2010 issue of "Transfers to EDL: A Monthly Snapshot" available on www.finance.gov.lb
[42] The LL 200 billion paid in QI 2009, as per Decree No. 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. For more details see Quarter I 2009, Public Finance Report, page 18.

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), and other areas of intervension classified under social assistance.

Social spending reached LL 906 billion in the first quarter of 2010, constituting about 23 percent of total spending. Spending on health represented 17 percent of total social spending and included mainly hospitalization in the private sector and purchase of medication. Spending on education represented 41 percent of social spending and covered mainly the Ministry of Education and Higher Education salary and wage bill, the contribution to salaries' payment 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 34 percent and 4 percent of total social spending, respectively.

The first quarter of 2010 witnessed a higher level of spending on social services relative to 2009, by LL 124 billion or equivalent to an increase of 16 percent. This increase was mainly a result of:

a) Higher spending on education by LL 141 billion (or 60 percent), primarily as a result of a LL 97 billion increase in education allowance payment in the private sector, reflecting merely a timing-effect as no education allowances were paid in the first quarter of 2009, and LL 26 billion higher wages and salaries of the General Directorate of Education.
b) Higher transfers to civil servants' cooperative by LL 10 billion
c) Lower spending on health, by LL 26 billion, as a result of lower private hospitalization bills for citizens taken in charge by the Ministry of Public Health by LL 20 billion and lower costs medication purchases by LL 8 billion. In reverse, hospitalization of public sector employees in private sector increased by Ll 7 billion, to LL 56 billion in the first quarter of 2010.

Table 16: Main Social Expenditures

(LL billion)	2009[1] Jan-Mar	2010 Jan-Mar	% Change QI 2010/QI 2009
Health	**183**	**157**	**-14%**
• Hospitalization in the Private Sector	82	62	-24%
• Purchase of Medication	23	15	-33%
• Hospitalization of Public Sector Employees in Private Sector	49	56	13%
• Maternity and Sickness Allowance	9	8	-8%
• Other	20	16	-21%
Education	**234**	**375**	**60%**
• Ministry of Education and Higher Education, *of which*:	234	278	19%
- *Wages and Salaries of the General Directorate of Education*	*158*	*184*	*17%*
- *Wages and Salaries of the General Directorate of Higher Education*	*0*	*0*	*11%*
- *Wages and Salaries of the General Directorate of Technical Education*	*8*	*8*	*-7%*
- *Contributions in the Salaries of the Lebanese University*	*56*	*57*	*2%*
- *Contributions to Non-Profit Organizations (Private Schools)*	*1*	*0*	*-75%*
- *Construction under Execution (Construction and Restoration of Schools)*	*2*	*0*	*-100%*
• Education Allowance in Private Sector	0	97	93580%
Other Social Spending	**365**	**374**	**2%**
• Marriage Allowance	2	1	-18%
• Birth Allowance	1	1	-40%
• Death Allowance	1	0	-72%
• Other Social Spending Allowance	4	2	-51%
• Participation in several Pension Funds	6	7	14%

• Ministry of Social Affairs, *of which*:	17	12	-29%
- *Transfers to Non-Profit Organizations*	*16*	*9*	*-41%*
• Ministry of Displaced	2	2	7%
• Transfers to Civil Servants Cooperative	30	40	100%
• End-of-Service and Pensions	303	309	2%
• National Social Security Fund	0	0	NA
Total Social Expenditures	**782**	**906**	**16%**

Source: Ministry of Finance (MOF), Directorate General of Finance (DGF)
Note:1/ Social spending figures for 2009 are considered preliminary figures because starting 1 November 2008, and in the absence of a law that allows the opening of 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 Learning, 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.

Interest payments

Interest payments amounted to LL 1,396 billion in the first quarter of 2010, up by LL 26 billion from their QI 2009 level, primarily resulting from a 3 percent growth in interest payments on local currency debt, while interest payments on debt denominated in foreign currencies remained relatively unchanged.

Interest payments on *local currency debt*, discount interest for short term Treasury bills added up LL 48 billion, offsetting the LL 22 billion drop in coupon payments of long-term Treasury bills[43] (see Box 2).

Box 2. Higher Interest Payments on Local Currency Debt

Higher discount interest payments for short-term Treasury Bills by LL 48 billion is the result of an increase in short-term T-Bill maturities in QI 2010, compared to QI 2009. Short-term T-Bills that were due between January and March 2010 amounted to LL 1,457 billion and represented a substantial 37 percent of the total stock of short-term T-Bills as of end-March 2010. In comparison, the volume of short-term T-Bills maturing in QI 2009 amounted to LL 583 billion, equivalent to 17.8 percent of the stock of short-term T-Bills as at end-March 2009. In addition to much higher maturities, the weighted average annual cost of short-term T-Bills climbed by 28 basis points (bps) to 6.59 percent resulting from higher share of 6-month and 12-month T-bills. Specifically, the share of 6 and 12-month T-bills of total short-term maturities in the first quarter of 2010 rose to 51 and 39 percent, from 33 and 18 percent, respectively, for the same period of 2009. Correspondingly, the share of 3-month T-bills fell to 10 percent in QI 2010, compared to 49 percent in QI 2009.

The drop in coupon payments on long-term Treasury Bills by LL 22 billion came despite the increase in the volume of maturities, resulting from a drop in the total weighted average cost. In fact, the volume of long-term T-bills with coupon payments maturing in the first quarter of 2010 augmented by 3.8 percent, amounting to LL 19,508 billion, from LL 18,796 billion in QI 2009. The effect of the increase in the volume of maturities was counterbalanced by the fall in the weighted average cost of long-term T-bills by 32 bps to 8.95 percent, thus bringing total coupon payments down in QI 2010. The drop in the average cost of long-term T-bills can be explained by the effect of the ease in market conditions related to higher demand for Lebanese debt instruments.

43 Short term Treasury Bills are a bullet payment of principal and interest at maturity.

Interest payments on *foreign currency debt* declined slightly by LL 1 billion in QI 2010, compared to QI 2009, as Eurobond coupon payments retreated by LL 4 billion, while interest payments on concessional loans inched up by LL 3 billion. This resulted from a reduction in foreign currency debt by LL 111 billion, mainly as a result of the redemption of Eurobonds issued in the context of the Paris II and Paris III Conferences that have an amortized payment structure.

Concessional Loans Principal Payments amounted to LL 47 billion for the period January-March 2010.

Table 17: Details of Debt Service Transactions

(LL billion)	2008 Jan-Mar	2009 Jan-Mar	2010 Jan-Mar	Change QI 2010/QI 2009
Interest Payments [1]	**1,099**	**1,370**	**1,396**	**2%**
Local Currency Debt	**711**	**890**	**918**	**3%**
• *Discount interest*	*59*	*19*	*67*	253%
• *Coupon*	*652*	*872*	*850*	-3%
Foreign Currency Debt, *of which*:	**3,888**	**480**	**479**	**0%**
• *Eurobond Coupon Interest*[2]	*349*	*452*	*448*	-1%
• *Special Bond Coupon Interest*[2]		*1*	*1*	-17%
• *Concessional Loans Interest Payments*	*39*	*27*	*30*	9%
Concessional Loans Principal Payments [1]	**178**	**39**	**47**	**19%**

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

Section IV: Public Debt Developments

Financing Requirements

Total net financing requirements for the first quarter of 2010 reached LL 918 billion, compared to LL 1,769 billion for the first quarter of 2010.

In the first quarter of 2010, LL Treasury-bill issuances represented the main funding source, with a net issuance of LL 651 billion albeit decreasing by 36 percent compared to LL 1,016 billion in 2009. This decrease reflects the halt in the auction that took place during the month of March 2010, following a decision from the Ministry of Finance. On the other hand, Eurobond issuance increased by LL 128 billion reflecting the Eurobond March 2010 transaction (Refer to Box 4 below). Given the high liquidity level in the Treasury deposits at the end of 2009[44] coupled with the halt in the auction during the month of March 2010, the government further reduced its cash balances by LL 226 billion to finance remaining needs.

Table 18: Financing for January-March 2009 versus January-March 2008

(LL billion)	2009 Jan-Mar	2010 Jan-Mar
Overall balance from the financing side[45]	**-1,769**	**-918**
Total Net in Financing	**1,769**	**918**
• LL treasury bills (2)	1016	651
• Eurobonds (1)	618	128
• Special Tbills in Foreign currencies		0
• Bilateral Loans (1)	-68	-67
• Multilateral Loans (1)	11	-17
• Private sector loans (1)	-11	-2
• Change in treasury accounts (-/increase +/decrease)	204	226

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".

Public Debt

By the end of Q1 2010, **gross public debt** registered LL 77,644 billion (US$ 51.51 billion), 0.74 percent higher than the debt stock at the end of 2009. This near stabilization was solely a result of higher domestic currency debt as foreign currency debt decreased by 0.35 percent over the same period.

Net public debt stood at LL 66,989 billion (US$ 44.44 billion), registering an increase of LL 436 billion over the end-December 2009 level.

[44] Please refer to the "Public Finance Review 2009".
[45] 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.

Table 19: Public Debt Outstanding as of End-March 2010

(LL billion)	Dec-08	Dec-09	Mar-10	Change Dec 09 - Mar 10	% Change Dec 09 - Mar 10
Gross Public Debt[(1)]	70,916	77,075	77,644	569	0.74%
Net Debt	62,590	66,553	66,989	436	0.66%
Gross Market Debt[(2)]	46,992	51,231	52,107	876	1.71%

Source: Ministry of Finance, Banque du Liban
[(1)] Figures for Dec 08 and Dec 09 differ from previously published data reflecting an update of disbursement figures of IBRD and IDB project 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 March 2010, local currency debt registered LL 45,653 billion, 1.51 percent higher than the domestic currency debt stock end-2009, stemming from a higher stock of Treasury bills and notes even though no auctions were held for value dates in March 2010, partly to decrease the pre-funding levels prevalent as of end-February 2010.

By holder, commercial banks had the highest increase in stock of domestic currency debt in Q1 2010, with holdings LL 472 billion higher than at end-2009. This was mainly led by commercial banks' purchase of treasury bills resulting in a higher stock of treasury bill portfolio by LL 459 billion over the same period.

The stock of domestic currency debt held by the Central Bank also increased by LL 74 billion by end-March 2010 led by a higher Treasury bills portfolio of LL 85 billion (loans extended by BDL to public entities decreased by LL 11 billion). However, the stock of Treasury bills held by public entities decreased by LL 112 billion over the quarter even though "other" holders of TBs increased their stock by LL 134 billion.

Results from the weekly auctions in Q1 2010 reflect that commercial banks ranked first in terms of share of subscriptions, with 65 percent of total subscriptions, followed by public at banks with 13 percent of subscriptions (refer to Box 3), and public institutions and the Central Bank with 10 percent of subscriptions each.

By instrument, the stock of long term bonds rose by 3.18 percent to LL 42,140 billion by the end of Q1 2010 compared to end-2009 in contrast to the decreased stock of short-term bills by 16.60 percent to LL 3,115 billion over the same period.

The pattern of subscriptions in Q1 2010 indicates that short-term instruments (3MN,6MN,12MN) captured 28 percent of subscriptions compared to 72 percent of subscriptions in long-term instruments (24MN, 36MN, 60MN). The 60-month Treasury Note acquired the highest share of subscriptions at 37 percent of total subscriptions, followed by 36-month Notes with 24 percent of subscriptions and 24 percent and 6-month Treasury Bills with 15 percent of subscriptions.

The highest increase in stock was witnessed on 60-month Treasury Notes which went up by 18.25 percent followed by a 7.59 percent increase in 24-month Treasury Notes, and a 0.53 percent increase in 36-month Treasury Notes. All three auctioned short-term bills saw a reduction in their stock by end-March 2010 compared to end-2009.

In Q1 2010, maturing t-bills were mainly short term instruments with 6-month TBs accounting for 32 percent of maturing bills and notes, followed by 12-month TBs with 26 percent of maturities. Thirty-six month Treasury Notes were the third largest maturing instrument with 24 percent of maturities during that quarter.

Table 20: Domestic Currency Debt by Holder and Instrument as of end-March 2010

Stocks (end of period)	Dec-08	Dec-09	Mar-10	Change Dec 09 - Mar 10	% Change Dec 09 - Mar 10
Local currency debt	39,007	44,973	45,653	680	1.51%
A. By Holder					
1. Central Bank (including REPOs and Loans to EDL to finance fuel purchases)(1)	8,781	10,334	10,408	74	0.72%
2. Commercial Banks	24,320	27,286	27,758	472	1.73%
3. Other local debt (T-bills)	5,906	7,353	7,487	134	1.82%
o/w Public entities	*5,062*	*6,078*	*5,966*	-112	-1.84%
**Accrued interest included in debt*	*1,029*	*999*	*969*	-30	-3.00%
B. By Instrument					
1. Long term bonds	36,350	40,842	42,140	1,298	3.18%
1.1 60 months bonds	3,049	5,036	5,955	919	18.25%
1.2 54 months bonds	0	0	0	0	-
1.3 48 months bonds	633	0	0	0	-
1.4 36 months bonds	29,650	31,908	32,076	168	0.53%
1.5 30 months bonds	0	0	0	0	-
1.6 24 months bonds	2,052	2,989	3,216	227	7.59%
1.7 Coupon interest	966	909	893	-16	-1.76%
2. Short term bills	2,197	3,735	3,115	-620	-16.60%
2.1 12 months bills	676	2,073	1,794	-279	-13.46%
2.2 06 months bills	1,234	1,510	1,224	-286	-18.94%
2.3 03 months bills	287	152	97	-55	-36.18%
** Accrued interest included*	63	90	76	-14	-15.56%
3. Other local debt	460	396	398	2	0.51%
3.1 Central Bank Loans	362	291	280	-11	-3.78%
3.2 Commercial Banks Loans	98	105	118	13	12.38%

Source: Ministry of Finance, Banque du Liban

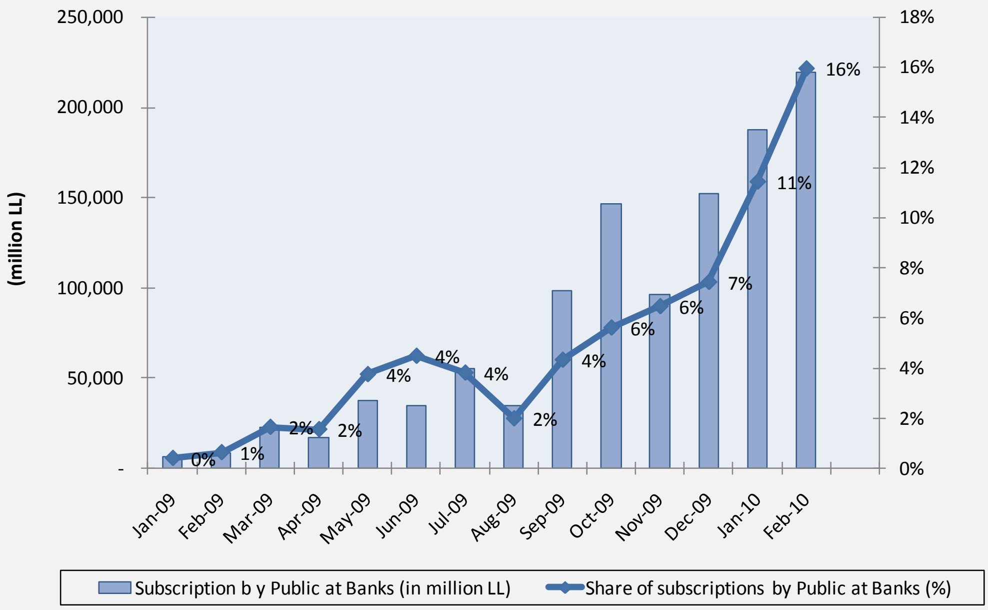
Notes: [1)] *The BDL has extended loans to EDL for the equivalent amount of US$ 300 million to purchase fuel oil. These loans are listed as Public debt as they are government guaranteed*

Box 3. Heightened Participation by "Public At Banks" in Q1 2010

Since 2009 and especially since QIII 2009, the category "public at banks" has been more active in the Treasury Bill primary market. "Public at Banks" is a sub-category which refers to individuals who subscribe via Lebanese commercial banks and also includes subscriptions made by non-residents (be they individuals or institutions) as well as other institutions such as insurance companies or foreign banks that subscribe via Lebanese commercial banks.

In Q1 2010, "public at banks" was the second largest subscriber of TBs with subscriptions of LL 407 billion (13 percent of total subscriptions in that period) compared to subscriptions of LL 38 billion in Q1 2009. This increase in subscriptions is reflected in the higher surplus for public at banks from LL 3 billion in Q1 2009 to LL 323 billion in Q1 2010. In Q1 2010, 48 percent of public at banks' subscriptions were in 60MN Treasury Bills, followed by 6MN notes with 38 percent of subscriptions, and 36MN notes with 12 percent.

Figure 2: Evolution of "Public at Banks" subscriptions Jan 2009 – Mar 2010*



**No auctions were held for value dates in March 2010.*

Primary market interest rates on Treasury Bills and Notes were on average 23 basis points percentage points lower by the end of Q1 2010, compared to end-year 2009. Given that no Treasury Bill auctions were held for value dates in March 2010, the rates reported are those of the last held auctions in February 2010. The rate on the 60MN Treasury Notes witnessed the most decline with a 36 bps over Q1 2010. The was followed by a 28 bps decrease in the rate of 24-month Treasury Notes and a 24 bps lower rate on the 36-month Treasury Notes over the same period. These reductions follow a gradual almost weekly reduction in rates since November 2008.

Table 21: Evolution of Primary Market Rates

Maturity	Dec. 31, 2008 **	Dec. 31, 2009	Mar. 31, 2010 ***
3-month	5.10 percent	4.55 percent	4.44 percent
6-month	7.11 percent	5.72 percent	5.50 percent
12-month	7.57 percent	5.73 percent	5.58 percent
24-month	8.22 percent	6.32 percent	6.04 percent
36-month	8.98 percent	7.10 percent	6.86 percent
60-month*	N/A	7.74 percent	7.38 percent

Source: Ministry of Finance

* 60-month Treasury notes were issued as part of the Treasury Bill Auction Process as of the week of July 20 2009 (value date 23 July 2009).

** Reflects rate of the auction the week of 29 December 2008, value date 1 January 2009.

*** No auctions were held for value dates in March. The rates indicate the rates of the last auctions held in February 2010.

Foreign currency debt stood at LL 31,991 billion by the end of March 2010, a reduction of 0.35 percent compared to the end-2009 stock of foreign currency debt, in contrast to the higher domestic currency debt. The stock of foreign currency debt decreased by LL 179.5 billion due to exchange rate valuations including due to the depreciation of the Euro from a rate of 1.433 EUR/US$ at the end of 2009, to 1.3475 EUR/US$ at the end of March 2010.

Table 22: Foreign Currency Debt by Holder and Instrument as of end-March 2010

(in LL billion)	Dec-08	Dec-09	Mar-10	Change	% Change Year-to-date
B. Foreign currency debt[(1)]	**31,909**	**32,102**	**31,991**	**-111**	**-0.35%**
4. Eurobonds	**26,817**	**27,142**	**27,228**	**86**	**0.32%**
Of which, Paris II at preferential rates[(2)]	4,708	4,192	4,140	-53	-1.26%
Of which, Paris III at preferential rates[(3)]	754	754	731	-23	-3.03%
** Accrued Interest on Eurobonds*	*430*	*460*	*487*	27	5.87%
5. Loans	**4,673**	**4,513**	**4,316**	**-197**	**-4.37%**
5.1 Paris II loans	748	627	528	-99	-15.79%
5.2 Paris III loans[(4)]	1,095	1,210	1,180	-30	-2.46%
5.3 Bilateral loans (non-Paris II and III)	730	713	693	-20	-2.77%
5.4 Multilateral loans (non-Paris II and III)	2,045	1,937	1,891	-46	-2.35%
5.5 Foreign Private Sector Loans	54	27	24	-3	-11.11%
6. Other debt	**419**	**447**	**447**	**0**	**0.00%**
6.1 Special Tbls in Foreign currency[(5)]	419	447	447	0	0.00%

Source: Ministry of Finance, Banque du Liban

Notes:

[(1)] Figures for Dec 08 and Dec 09 differ from previously published data reflecting an update of disbursement figures of IBRD and IDB project 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. These bonds have an amortized payment structure.

[(3)] Issued to Malaysia as part of its Paris III contribution. These bonds have an amortized payment structure.

[(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 decrease in foreign currency debt between December 2009 and March 2010 mainly resulted from a lower stock of loans by LL 197 billion. This was led by the Paris II loan reduction of LL 99 billion, reflecting the principal repayment of €30 million in February 2010 of the *Agence Française de Développement (AFD)* Paris II loan. The LL 30 billion lower Paris III loan debt is purely due to exchange rate valuation changes.

With respect to the LL 86 billion increase in the Eurobond portfolio, this stemmed from a new cash Eurobond transaction in March 2010 for an amount of USD 1.2 billion which outweighed the reductions of Eurobonds issued in the relation to the Paris II and Paris III international donor conferences for Lebanon. The new Eurobond has a ten-year maturity and was issued at a coupon rate of 6.375 percent. More details on the new issue are available in Box 4 below. The LL 53 billion reduction in the Paris II preferential rate stock of Eurobonds reflects the USD 35 million principal repayment on the USD 700 million May 2018 Eurobond. This is one of four Eurobonds issued in relation to the Paris II conference, all of which have an amortized payment structure redeemable in 20 equal semi-annual payments starting from 2008. The LL 23 billion reduction in the Paris III related Eurobonds also reflects the first USD 15 million principal repayment (in January 2010) of the USD 300 million Eurobond due July 2017, which also has an amortized payment structure.[46]

Box 4. New Issuance in March 2010

On March 9th, 2010, the Lebanese Republic issued a ten-year US$ 1.2 billion Eurobond at par with a coupon of 6.375%. The deal was substantially oversubscribed reflecting strong domestic demand and quality demand from international investors. International orders accounted for 30 percent of subscriptions. The lead managers for the transaction were BNP Paribas, BLOM Bank S.A.L, FRANSA INVEST Bank S.A.L.

The proceeds of the issue were utilized for refinancing operations, namely the redemption of the US$ 1.065 billion 7.125% Eurobond coming due in March 2010. The transaction was the first market transaction executed by the Lebanese Republic in 2010.

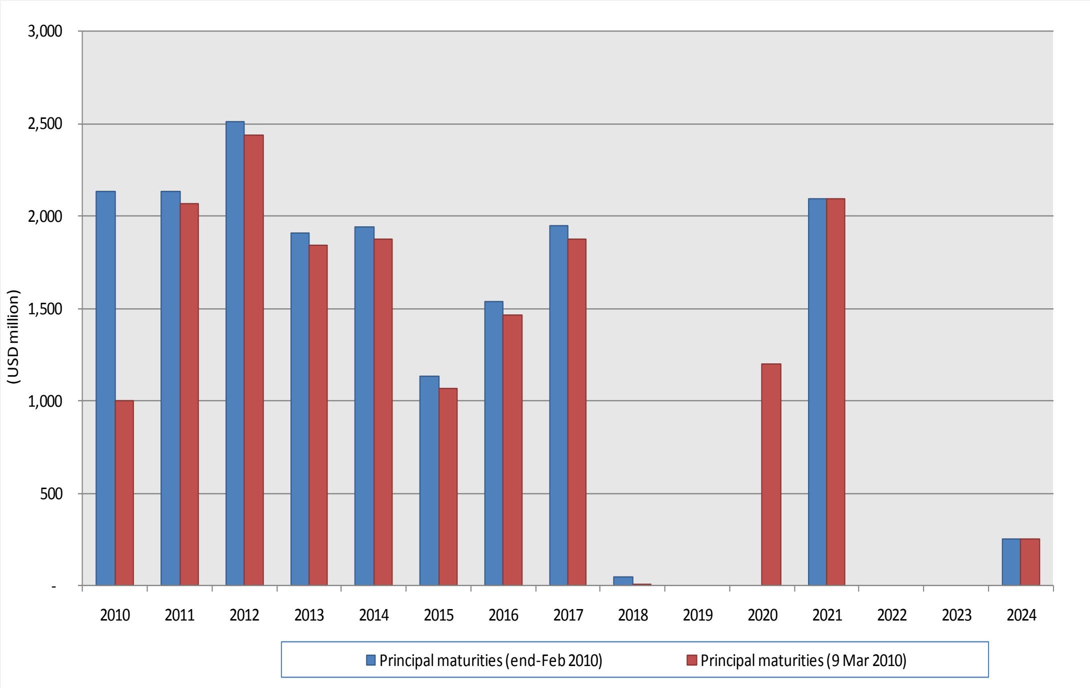
Table 23: Terms and Conditions of the Issuance

Series	55
Issue size (in USD)	1,200,000,000
Issue date	March 9, 2010
Maturity	March 9, 2020
Coupon rate	6.375%
Coupon payment	Semi-annual
Principal payment	Bullet payment at maturity
Issue Price	100.00%
Re-offer Yield	6.375%
ISIN code	XS0493540297
Re-offer Spread on March 4, 2010*	UST 10 years +276.5 bps
Benchmark Bond on March 4, 2010*	UST 3.625% due 15 February 2020
Benchmark Yield on March 4, 2010*	3.610%

* Pricing Date

[46] For more information as to the structure of these bonds, kindly refer to the note "Re-Profiling of Debt Held by Central Bank of Malaysia " accessible here: http://www.finance.gov.lb/Reports+and+Publications/Reports+Related+to+Paris+III+Conference/Agreements+with+Donors/. This is also summarized in "Box 2: Debt Re-profiling with Malaysia" in the Public Finance Quarterly Report for QIII 2007.

Figure 3: Eurobond Debt Maturity Profile Before and After the New Issue



As of end-2009 the Eurobond portfolio's average time to maturity stood at 4.69 years with the weighted average coupon rate at 7.35 percent. By end-March 2010, the ATM of the Eurobond portfolio had been extended to 5.11 years with the weighted average coupon rate decreased to 7.31 percent.

Table 24: Eurobond Price Performance over Q1 2010

	Bid Yield (%)									
Lebanese Issues	11-Jan 2010	19-Jan 2010	26-Jan 2010	2-Feb 2010	9-Feb 2010	16-Feb 2010	9-Mar 2010	16-Mar 2010	23-Mar 2010	31-Mar 2010
EURO										
LEB 5.875 12	4.43	4.18	4.17	4.16	4.38	4.13	4.09	4.06	4.05	4.03
US Dollars										
LEB 7.125 10	1.87	2.85	2.06	2.68	5.12	4.72	N/A	N/A	N/A	N/A
LEB 7.875 11	3.48	3.40	3.34	3.29	3.47	3.45	3.22	3.16	3.09	3.29
LEB 4.000 17 Av Life	5.82	3.96	3.93	3.91	3.86	3.84	5.14	5.07	5.07	5.23
LEB 7.500 12	4.11	4.00	3.98	3.99	3.99	3.90	3.74	3.71	3.68	3.88
LEB 7.750 12	4.13	4.38	4.44	4.42	4.46	4.37	3.81	3.79	3.76	3.97
LEB 9.125 13	4.73	4.62	4.60	4.59	4.66	4.54	4.20	4.17	4.15	4.31
LEB 8.625 13	4.98	5.46	5.40	5.40	5.49	5.34	4.28	4.26	4.24	4.36
LEB 7.375 14	5.44	5.30	5.29	5.29	5.34	5.33	5.18	5.17	5.13	5.05
LEB 9.000 14	5.37	5.17	5.16	5.15	5.25	5.18	5.01	4.99	4.98	5.02
LEB 5.875 15	5.41	5.24	5.23	5.23	5.40	5.29	5.22	5.22	5.22	5.33
LIEB 10.000 15	5.87	5.66	5.59	5.57	5.61	5.61	5.52	5.45	5.43	5.42
LEB 8.500 15	5.69	5.48	5.47	5.47	5.58	5.45	5.32	5.26	5.25	5.34
LEB 8.500 16	5.86	5.66	5.65	5.65	5.75	5.63	5.51	5.46	5.45	5.53
LEB 11.625 16	6.33	5.94	5.89	5.88	5.90	5.85	5.77	5.76	5.74	5.81
LEB 9.000 17	6.20	5.88	5.80	5.83	5.82	5.78	5.72	5.68	5.71	5.78
LEB 6.375 20	N/A	N/A	N/A	N/A	N/A	N/A	6.31	6.31	6.31	6.34
LEB 8.250 21	6.83	6.59	6.59	6.65	6.67	6.64	6.53	6.52	6.52	6.57
LEB 7.000 24	6.94	6.86	6.86	6.88	6.94	6.86	6.78	6.78	6.78	6.82

Source: Credit Suisse

Secondary market yields in Q1 2010 decreased by an average of 54 bps on Eurobonds that were issued and active from 31 December 2009 and 31 March 2010[47].

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

REPUBLIC OF LEBANON
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