REPUBLIC OF LEBANON
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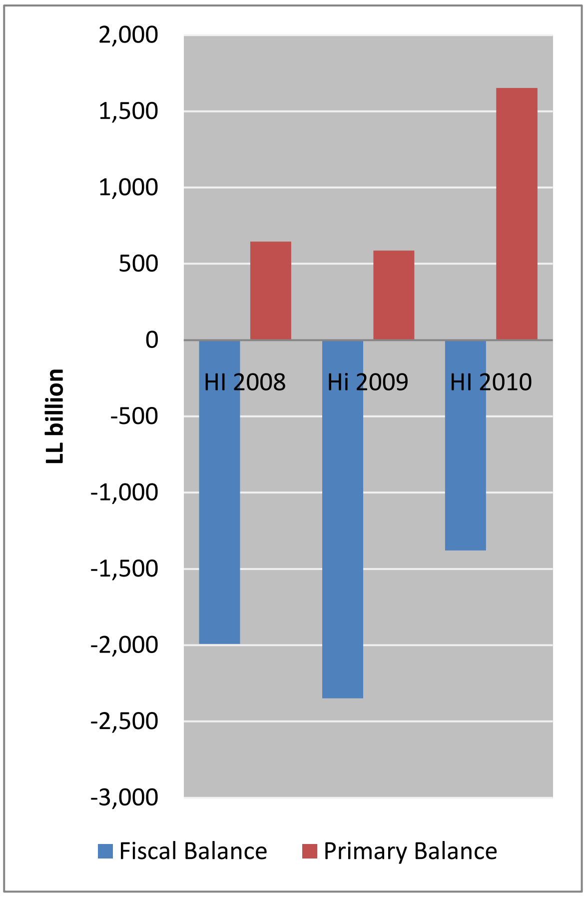
General Fiscal Developments

The fiscal deficit totalled LL 1,379 billion during HI 2010, compared to LL 2,349 billion during the first six months of 2009. In parallel, the primary balance registered a surplus of LL 1,652 billion against a smaller surplus of LL 586 billion during January-June 2009.

Figure 1: Fiscal and Primary Balance

January – June 2008 -2010



Revenues

Total revenues inched up by 2 percent over HI 2010 compared to their level during the similar period of 2009, amounting to LL 6,547 billion by the end-June 2010. Behind this increase primarily stands a 16 percent rise in tax revenues which more than counteracted for the decline in other revenue aggregates.

Expenditures

Total public expenditures amounted to LL 7,926 billion during HI 2010, representing a 10 percent year-on-year decrease. This decline stemmed from a 42 percent drop in Treasury outlays.

Public Debt Developments

The stock of gross public debt totalled LL 76,940 billion by the end-June 2010, down by 0.20 percent compared to the end-December 2009 level. The stock of net public debt also declined by LL 3 billion over the end-December 2009 level, totalling LL 66,572 billion.

Section I: Fiscal Overview

The **total fiscal balance** registered a deficit of LL 1,379 billion during HI 2010, representing a 41 percent decline compared to the deficit of LL 2,349 billion recorded during the similar period of 2009. The drop in the overall deficit stems from the combined effect of a LL 130 billion percent rise in total receipts and a LL 840 billion decline in total payments.

As a result of a LL 936 billion drop in primary expenditures (expenditures excluding debt-related payments), the **primary balance** witnessed a surplus of LL 1,652 billion, higher by LL 1,066 billion than the primary surplus during HI 2009.

Table 1: Summary of Fiscal Performance

(LL billion)	2008 Jan-June	2009 Jan-June	2010 Jan-June	% Change HI 2010/HI 2009
Total Budget and Treasury Receipts	**5,200**	**6,417**	**6,547**	**2%**
Total Budget and Treasury Payments, *of which*	**7,191**	**8,766**	**7,926**	**-10%**
• Interest Payments	2,432	2,787	2,882	3%
• Concessional Loans Principal Payments [1]	206	148	149	1%
• Primary Expenditures [2]	4,554	5,831	4,895	-16%
Total Deficit/Surplus	**-1,991**	**-2,349**	**-1,379**	**-41%**
Primary Deficit/Surplus	**646**	**586**	**1,652**	**182%**

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

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

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

Section II: Revenue Outcome

Total revenues continued to follow an upwards trend during the second quarter of 2010. They amounted to LL 6,547 billion during the first half of the year, representing a LL 135 billion or a 2 percent increase from the same period in 2009. This growth stemmed from a 16 percent increase in **tax revenues** that was in part offset by a 40 percent decline in **non tax revenues** and a 2 percent drop in **Treasury receipts** as shown in Table 2.

Table 2: Total Revenues

(LL billion)	2009 June	2010 June	2009 Jan-June	2010 Jan-June	Change HI 2010/HI 2009
Budget Revenues, *of which:*	**1,139**	**1,095**	**6,075**	**6,210**	**2%**
• Tax Revenues	1,064	1,017	4,586	5,318	16%
• Non-Tax Revenues	74	77	1,489	893	-40%
Treasury Receipts	**117**	**66**	**342**	**336**	**-2%**
Total Revenues	**1,256**	**1,161**	**6,417**	**6,547**	**2%**

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

Tax Revenues

Tax revenues climbed by 16 percent year-on-year or LL 732 billion, totaling LL 5,318 billion during the first six months of 2010. In relative terms, their share in total revenues increased to 81 percent, compared to 71 percent a year earlier, as non-tax receipts fell during the considered period. The main drivers behind the improvement in tax collections were, as during QI 2010, taxes on income, property and VAT that contributed LL 150 billion, LL 232 billion and LL 180 billion additional receipts respectively. The disaggregated tax performance in the first six months of 2010 is detailed in Table 3 below.

Table 3: Tax Revenues

(LL billion)	2009 June	2010 June	2009 Jan-June	2010 Jan-June	Change HI 2010/HI 2009
Taxes on Income, Profits, & Capital Gains, *of which*:	**529**	**375**	**1,240**	**1,390**	**12%**
• Income Tax on Profits	453	297	672	744	11%
• Income Tax on Wages and Salaries	5	4	195	196	1%
• Income Tax on Capital Gains & Dividends	32	26	103	128	24%
• Tax on Interest Income (5%)	36	45	259	310	20%
• Penalties on Income Tax	3	3	10	11	6%
Taxes on Property, *of which:*	**69**	**104**	**335**	**567**	**69%**
• Built Property Tax	7	18	70	100	44%
• Real Estate Registration Fees	50	78	229	426	86%
Domestic Taxes on Goods & Services, *of which:*	**212**	**242**	**1,546**	**1,746**	**13%**
• Value Added Tax	174	204	1,377	1,557	13%
• Other Taxes on Goods and Services, *of which*:	37	38	164	184	12%
- *Private Car Registration Fees*	*24*	*23*	*112*	*118*	*5%*
- *Passenger Departure Tax*	*13*	*14*	*52*	*65*	*26%*
Taxes on International Trade, *of which:*	**224**	**263**	**1,279**	**1,376**	**8%**
• Customs	65	70	364	395	9%
• Excises, *of which*:	159	193	915	980	7%
- *Petroleum Tax*	*85*	*97*	*492*	*504*	*2%*
- *Tobacco Tax*	*20*	*34*	*123*	*174*	*42%*
- *Tax on Cars*	*54*	*61*	*298*	*299*	*0%*
Other Tax Revenues (namely fiscal stamp fees)	**31**	**34**	**187**	**240**	**28%**
Total Tax Revenues	**1,064**	**1,017**	**4,586**	**5,318**	**16%**

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

In details, **Taxes on income profits and capital gains** collected LL 1,390 billion during HI 2010, representing a LL 150 billion or a 12 percent increase from the same period in 2009. This is mainly the result of the solid increases in proceeds from the income tax on profits and from the 5 percent tax on interest income.

In fact, the collections of the **Income tax on profits** augmented by 11 percent, reaching LL 744 billion and mirroring the 9 percent estimated growth of the real GDP in 2009, as corporations usually file and settle the income tax on profits realised in a given year during the second quarter of the following year, particularly in May and June. Therefore, proceeds received in May and June account for the tax on profits of corporations, the largest contributors of which are banks. More specifically, the May-June 2010 proceeds are 13 percent higher than those received in May-June 2009 mirroring to a certain extent the solid increase in the profits of banks in 2009[1].

Further, the collections of the **Tax on interest income** climbed by 20 percent year-on-year, reaching LL 310 billion by the end of QII 2010. This is explained by the combined effect of the expansion of the deposit base and the additional decline of the dollarization rate of deposits, as deposits in Lebanese pound yield higher interests than those in USD. In fact, private sector (resident and non-resident) deposits amounted to LL 150,934 billion by the end of June 2010, up by 17 percent from their level by end of June 2009. In parallel, the dollarization rate of deposits dropped by 446 basis points (bps) year-on-year, down to a 13-years low of 62.54 percent. The effect of the upswing in the volume of deposits and their continuous de-dollarization was partially offset by the drop in average interest rates on deposits. Indeed, the weighted average interest rates on deposits in Lebanese pound retreated by 113 bps year-on-year, down to 5.83 percent as of end-June 2010 compared to the average as of end of June 2009, while that on deposits denominated in U.S dollar declined by 43 bps to 2.75 percent.

It is also worth highlighting that following an outstanding rise in HI 2009 explained by the enlargement of the tax base triggered by the wage increase granted as per Law # 63 dated 31/12/2008, the receipts of the **Income tax on wages and salaries** remained relatively stable at LL 196 billion during the first six months of 2010.

As for the income of **Taxes on property**, they witnessed a 69 percent upsurge, reaching LL 567 billion during the first half of 2010 and contributing to more than 30 percent of the increase in total revenues during the considered period. The two components of this item registered significant increases.

First, the proceeds of the recurrent **Tax on built properties** surged by 44 percent to LL 100 billion by end-June 2010, explained by the new stock of properties registered at higher values as shown by the figures below[2]. This surge may be also explained, to a certain extent, by the issuance in April and June 2010 by the built property tax administration of tax dues for the years 2006 and 2007 following a 2-year suspension of schedule issuance[3].

[1] The total profits of Lebanese Alpha Banks –i.e Lebanese banks with more than $ 2 billion in deposits- totaled LL 1,943,921 million in 2009, up by 19.3 percent from the 1,629,540 million registered in 2008, according to BankData Financial Services. Profits of Alpha banks are a reliable indicator of the total aggregated profits of the banking sector. In fact, the net result of Alpha banks historically accounted for nearly 80 percent of the total net result of the banking sector.

[2] According to built property tax law dated September 17th, 1962, properties with rental values above LL 20 million are subject to yearly self assessment and settlement of tax dues whereas properties with estimated rental values below LL 20 million await the issuance by tax administration of tax dues prior to settlement.

[3] Tax payers were granted a period of 2 months to settle the tax due amount. The aggregate tax payable amounted to around LL 108 billion for Mount Lebanon and LL 150 billion for Beirut. For details, kindly refer to the June 2010 Public Finance Monitor.

Second, **Real estate registration fees** hiked by 86 percent to LL 426 billion as of end-June 2010, explained by the vigour of the property market (for details, kindly refer to Box 1). In comparison with the first six months of the previous year, property sales registered between January and June 2010 jumped by 13 percent to 144,087 properties registered in HI 2010, valued LL 7,106 billion in total, representing a 94 percent upsurge in the declared aggregate value of properties registered in HI 2010. Consequently, the average value per property amounted to LL 49.3 billion, 72 percent higher than its average value a year earlier, pointing out to an acceleration of growth in real estate prices.

Box 1: The Performance of the Real Estate Market

Table 4: Real Estate Sales

(LL billion)	2006	2007	2008	HI 2009	2009	HI 2010	Change HI 2010/HI 2009
Number of properties registered	227,559	246,791	267,358	127,601	273,417	144,087	13
Declared Aggregate Values in Sales Contracts *(in LL billion)*	4,727	6,329	9,770	3,658	10,229	7,106	94
Average Declared Value per Property *(in LL million)*	21	26	37	29	37	49	72
Fees Collected from Property Sales *(in LL billion)*	251	344	525	210	547	386	84

Source: Ministry of Finance (MOF), Cadastre

The sizeable growth in the collections of the two components of taxes on property echoes the vigour exhibited by the real estate sector despite the setbacks of peer markets in the region, as both the value and volume of property sales have been steadily rising during the last four years. In fact, the yearly aggregate number of registered properties surged by 20 percent between 2006 and 2009, peaking at 273,417 by the end of 2009 compared to 227,599 in 2006. In parallel, the declared aggregate sales value more than doubled, soaring by 116 percent to LL 10,229 billion in 2009. As such, the average property value (declared) shot up by more than 80 percent to LL 37.4 million per registered property, reflecting a appreciable growth in real estate prices. This bullish trend has persisted on the real estate market during the first half of 2010.

On another front, the collections of **Domestic taxes on goods and services** rose by 13 percent to LL 1,746 billion, mainly propped up by a 13 percent growth in the receipts of the **Value added tax** that amounted to LL 1,557 billion explained by the 11 percent growth in VAT collected at customs that reached LL 1,107 billion and the 20 percent rise in VAT generated by internal economic activities that amounted to LL 450 billion.

The 11 percent increase in import VAT reflected the 4.3 percent increase in fuel imports and the 10.8 percent growth in non-fuel imports that translated into a 9.6 percent rise in total imports, up to LL 12,934 billion. It is noteworthy that the increase in the fuel bill is due to higher prices considering that the volume of imported "mineral fuels and oils" was lower by 23 percent compared to HI 2009 (the VAT being an ad valorem tax, it is only impacted by nominal values). However, the jump in non-fuel imports is not solely the result of a price effect as the volume of these imports surged by 21 percent to 3,713,285 tons, mirroring the continuous expansion in local demand.

As non-fuel imports rose at a higher pace than fuel imports, their share in total imports slightly increased to 82 percent, compared to 81 percent in HI 2009. The moderate shift of imports' composition towards non-fuel imports translated into an increase in the effective VAT rate that inched up by 8 bps to 8.56 percent as some fuel imports are exempt from VAT (such as butane gas), while the main drivers behind the rise in non-fuel imports are taxable (machineries, iron and steel, etc).

It is also worth noting that the proceeds of the **Passenger departure tax** surged by 26 percent, reaching LL 65 billion, explained by the 18 percent increase in the number of departing passengers at the Rafic Hariri International Airport that totaled 1.16 million during the first six months of 2010.

Regarding **Taxes collected from international trade,** their receipts totalled LL 1,376 billion during HI 2010, representing an 8 percent increase year-on-year. As a result of the 9.6 percent growth in imports during the considered period, revenues from **customs** added up 9 percent to LL 395 billion, while the effective customs rate remained constant at 3.1 percent due to little change in the composition of imports as show in Table 5.

Table 5: Import Statistics

(LL billion)	2008 Jan-June	2009 Jan-June	2010 Jan-June	Change HI 2010/HI 2009
Total Imports	**11,027**	**11,804**	**12,934**	**9.6%**
• *Fuel Imports (fuel derivatives classified under HS 27)*	*2,833*	*2,273*	*2,371*	*4.3%*
• *Non-Fuel Imports*	*8,195*	*9,530*	*10,563*	*10.8%*
Revenues from Custom Duties	**309**	**364**	**395**	**9%**
Effective customs rate	*2.8%*	*3.1%*	*3.1%*	-
• Share of Fuel Imports	26%	19%	18%	-
• Share of Non Fuel Imports	74%	81%	82%	-
Revenues from VAT at Imports	**885**	**1,001**	**1,107**	**11%**
Effective VAT rate	*8.02%*	*8.48%*	*8.56%*	-

Source: MOF-General Directorate of Customs declaration forms

Further on taxes collected from international trade, the receipts of **total excises** at import[4] amounted to LL 980 billion during HI 2010, up by 7 percent year-on-year. This moderate growth follows a 180 percent upsurge in the first half of 2009 generated by the policy decision to uncap domestic gasoline prices and fix the gasoline excise rate in January 2009 as well as by the boom of car imports that have lost impetus during the first six months of 2010:

(i) Excises on gasoline collected LL 504 billion in HI 2010, representing a slight year-on-year increase of 1.2 percent, in line with the 1.8 percent growth in the volume of imports (billion litres)[5]. As shown in Table 6, the average effective excise rate remained relatively stable at LL 472 per litre. However, resulting from the bounce back of international oil prices, the average effective price at import hiked by 46.6 percent, triggering an 25 percent increase in local average gasoline prices that reached LL 32,709 during HI 2010, compared to LL 26,256 during the similar period of 2009, ascertaining that the uncapping allows a complete pass-through of international oil price fluctuations to the domestic market.

Table 6: Gasoline Import Statistics

(LL billion)	2008 Jan-June	2009 Jan-June	2010 Jan-June	Change HI 2010/HI 2009
Imports (*LL billion*)	980	600	895	49%
Volume (*billion litres*)	0.904	1.028	1.046	1.8%
Collected excises (*LL billion*)	5	488	494	1.2%
Average effective Price at imports (LL/litre)	*1,084*	*584*	*856*	*46.6%*
Average effective excise rate (LL/litre)	*6*	*474*	*472*	*-0.4%s*

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

[4] 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.
[5] Note that with the uncapping of domestic prices, and with fixing the excise rate, revenues from car gasoline is function of volume of imports solely, and is not linked to international oil price fluctuations.

(ii) The proceeds of Excises on cars remained nearly unchanged at LL 299 billion, as the value of car imports continued to hover around LL 1,075 billion, despite the 4.5 percent fall in the number of imported cars that is probably due to a slowdown of demand. As the volume of car imports tumbled down while their value remained constant, the average value per unit increased by 4.7 percent to LL 21.38 billion, pointing out to a possible recovery of vehicle prices internationally that could cause an additional deceleration in local demand.

Table 7: Car Import Statistics

(LL billion)	2008 Jan-June	2009 Jan-June	2010 Jan-June	Change HI 2010/HI 2009
Imports (LL billion)	786	1,075	1,075	0%
Number of Cars	36,535	52,643	50,288	-4.5%
Collected Excises (LL billion)	208	298	299	0%
Average price per car (LL million)	*21.51*	*20.42*	*21.38*	*4.7%*
Average effective excise rate (%)	*26.5%*	*27.7%*	*27.8%*	*0.4%*

Source: MOF-General Directorate of Customs declaration forms

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

(iii) The collections of Excises on tobacco continued to grow in HI 2010, increasing by 39 percent to LL 171 billion. Behind this improvement stands a 29 percent increase in the net weight of imports that reached 6,863 tons valued at LL 170 billion or 42 percent higher than the value of tobacco imports during the first six months of 2009. This increase in volume may be attributed to higher internal consumption and/or to tighter border control which is preventing illicit entry of merchandise, hence boosting the volume of tobacco imports declared at customs.

Table 8: Tobacco Import Statistics

(LL billion)	2008 Jan-June	2009 Jan-June	2010 Jan-June	Change HI 2010/HI 2009
Imports (LL billion)	110	120	170	42%
Net weight (in tons)	4,412	5,324	6,863	29%
Collected Excises (LL billion)	112	123	171	39%
Average import price (LL per Kg)	*24,932*	*22,539*	*24,771*	*10%*
Average effective excise rate (%)	*101.8%*	*102.5%*	*100.6%*	*-2%*

Source: MOF-General Directorate of Customs declaration forms

Finally, the receipts of fiscal stamp fees surged by 28 percent during the first half of 2010, to LL 240 billion. This increase probably stems from a higher number of transactions taking place in the economy (volume effect), but also higher values per transaction, and more specifically values in real estate transactions[6].

Non-Tax Revenues

Non-Tax revenues slid by 40 percent in HI 2010, down to LL 893 billion, owing to a 51 percent drop in income from public institutions that was partially counterbalanced by a moderate 4 percent improvement in administrative fees and charges.

[6] Property sales contract at the Notary are subject to a 3 per mil fiscal stamp, and other real estate transactions, such as rent as also subject to fiscal stamp.

Table 9 : Non-Tax Revenues

(LL billion)	2009 June	2010 June	2009 Jan-June	2010 Jan-June	Change HI 2010/HI 2009
Income from Public Institutions and Government Properties	**27**	**26**	**1,187**	**581**	**-51%**
Income from Non-Financial Public Enterprises, *of which*:	21	20	1,109	490	-56%
- *Revenues from Casino Du Liban*	*11*	*12*	*77*	*72*	*-6%*
- *Revenues from Port of Beirut*	*0*	*0*	*62*	*65*	*5%*
- *Budget Surplus of National Lottery*	*10*	*8*	*28*	*21*	*-25%*
- *Transfer from the Telecom Surplus*	*0*	*0*	*941*	*331*	*-65%*
Income from Financial Public Enterprises (BdL)	0	0	40	60	50%
Property Income (rent of Rafic Hariri International Airport)	5	6	32	28	-12%
Other Income from Public Institutions (interests)	1	0	6	2	-66%
Administrative Fees & Charges, ***of which:***	**38**	**42**	**247**	**257**	**4%**
Administrative Fees, *of which*:	31	34	202	210	4%
- *Notary Fees*	*2*	*2*	*12*	*15*	*19%*
- *Passport Fees/ Public Security*	*11*	*11*	*55*	*56*	*1%*
- *Vehicle Control Fees*	*13*	*14*	*102*	*94*	*-8%*
- *Judicial Fees*	*1*	*2*	*9*	*12*	*34%*
- *Driving License Fees*	*2*	*2*	*10*	*12*	*14%*
Administrative Charges	1	1	12	14	11%
Sales (Official Gazette and License Number)	0	2	1	3	135%
Permit Fees (mostly work permit fees)	4	4	22	25	10%
Other Administrative Fees and Charges	2	1	9	6	-34%
Penalties and Confiscations	**1**	**1**	**3**	**3**	**-2%**
Other Non-Tax Revenues (mostly retirement deductibles)	**9**	**9**	**52**	**52**	**0%**
Total Non-Tax Revenues	**74**	**77**	**1,489**	**893**	**-40%**

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

Behind the decline in the **Income from Public Institutions and Government Properties** stands a 65 percent drop in transfers from Telecom that stood at LL 331 billion, as only one surplus transfer was effected throughout the first six months of 2010. It is noteworthy that historically, these transfers were conducted on a monthly basis. In parallel, the yearly transfers from Port of Beirut (PoB) and Banque du Liban[7] (BDL) pertaining to the surplus generated by 2009 activities, were made during the month of April 2010. The transfer from PoB inched up by 5 percent to LL 65 billion while that from BDL rose by a hefty 50 percent to LL 60 billion.

Moreover, Transfer from the Casino Du Liban were down by 6 percent to LL 72 billion (including the LL 14 billion due representing the third instalment of the dispute settlement between Casino management and the Government[8]) and transfers from the National Lottery registered LL 7 billion less revenues in the first quarter of 2009.

As for **Administrative fees and charges**, they collected a total of LL 257 billion in the first half of 2010, representing a 4 percent increase over HI 2009 revenues. This growth was registered despite an 8 percent fall in receipts from vehicle control fees –which usually accounts on average for 37 percent of total administrative fees and charges- that totalled LL 94 billion.

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

[8] 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.

Treasury Receipts

Treasury receipts inched down by 2 percent to LL 336 billion during the first six months of 2010 compared to the same period of 2009, mainly explained by the fact that the Treasury received around LL 87 billion grants in the first half of 2009 (the bulk of which was the LL 75 billion US grant pertaining to Paris III pledge) whereas no grants were received during the first half of this year. On the other hand, revenues to the Independent Municipal Fund were 21 percent higher in HI 2010, somehow commensurate with the growth in tax receipts[9].

[9] Municipalities have revenue sharing rights in numerous taxes and fees which the central government collects.

Section III: Expenditure Outcome

Total Expenditures (budget and treasury) fell by 10 percent over the first half of 2010 compared to the same period of 2009, amounting to LL 7,926 billion. **Total Primary Expenditures** exhibited a similar trend as they totalled LL 4,895 billion by the end of HI 2010, down by 16 percent year-on-year as shown by Table 10 below:

Table 10: Expenditure Summary

(LL billion)	2008 Jan-June	2009 Jan-June	2010 Jan-June	Change HI 2010/HI 2009
Interest Payments	2,432	2,787	2,882	3%
Concessional Loans Principal Payments [1]	206	148	149	1%
Total Primary Expenditures [2]	4,554	5,831	4,895	-16%
Total Budget and Treasury Payments	**7,191**	**8,766**	**7,926**	**-10%**

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).

The LL 840 billion drop in total expenditures primarily resulted from a LL 1,031 decline in the line item **"other treasury expenditures".** This is explained by LL 662 billion less transfers to Electricité du Liban (EDL) and lower allocation to the High Relief Committee (HRC) by LL 415 billion, as depicted by Table 11 below.

Nevertheless, the two other main components of total expenditures, namely current and capital spending both registered increases during HI 2010. The former rose by LL 165 billion, due to higher interest payments, material and supplies and larger various transfers. The latter inched up by LL 27 billion, mainly driven by higher maintenance spending.

Table 11. Expenditure by Economic Classification

(LL billion)	2008 Jan-June	2009 Jan-June	2010 Jan-June	Change HI 2010/HI 2009
1. Current Expenditures	**5,193**	**6,016**	**6,180**	**3%**
1.a Personnel Cost, *of which*	1,905	2,427	2,402	-1%
• *Salaries, Wages and Related Items (Article 13)*	*1,268*	*1,670*	*1,629*	*-2%*
• *Retirement and End of Service Compensations, of which:*	*537*	*595*	*633*	*6%*
– *Retirement*	*409*	*527*	*531*	*1%*
– *End of Service*	*128*	*68*	*102*	*50%*
• *Transfers to Public Institutions to Cover Salaries* [(1)]	*100*	*161*	*140*	*-12%*
1.b Interest Payments, *of which:* [(2)]	2,431	2,787	2,882	3%
• *Domestic Interest Payments*	*1,334*	*1,698*	*1,788*	*5%*
• *Foreign Interest Payments*	*1,097*	*1,090*	*1,094*	*0%*
1.c Foreign Debt Principal Repayment	206	148	149	1%
1.d Materials and Supplies, *of which:*	113	108	133	23%
• *Nutrition*	*25*	*25*	*19*	*-22%*
• *Fuel Oil*	*19*	*5*	*5*	*-8%*
• *Medicaments*	*33*	*47*	*73*	*55%*
• *Accounting Adjustments for Treasury*	*21*	*17*	*19*	*13%*
1.e External Services	56	56	58	4%
1.f Various Transfers, *of which:*	291	248	297	20%
• *NSSF*	*0*	*0*	*0*	-
• *Treasury Advances for Diesel Oil Subsidy* [(3)]	*116*	*0*	*61*	-
• *Wheat Subsidy*	*18*	*10*	*0*	*-100%*
• *Special Tribunal for Lebanon*	147	*12*	*41*	*237%*
1.g Other Current, *of which:*	*130*	195	198	1%
• *Hospitals*	*15*	*154*	*167*	*8%*
• *Others*	44	*36*	*31*	*-13%*
1.h Reserves	*44*	47	61	31%
• *Interest subsidy*	**265**	*47*	*61*	*31%*
2. Capital Expenditures	2	**281**	**308**	**10%**
2.a Acquisitions of Land, Buildings, for the Construction of Roads,	17	3	1	-75%
2.b Equipment	188	17	22	27%
2.c Construction in Progress, *of which:*	*20*	192	165	-14%
• *Displaced Fund*	*10*	*55*	*30*	*-45%*
• *Council of the South*	*120*	*10*	*20*	*100%*
• *CDR*	*18*	*102*	*73*	*-29%*
• *Ministry of Public Work and Transport*	*22*	*14*	*31*	*119%*
• *Other*	35	*11*	*11*	*4%*
2.d Maintenance	23	36	71	98%
2.e Other Expenditures Related to Fixed Capital Assets	**1,714**	33	50	50%
3. Other Treasury Expenditures	196	**2,445**	**1,414**	**-42%**
3.a Municipalities	25	136	154	14%
3.b Guarantees	26	66	43	-35%
3.c Deposits	260	39	35	-12%
3.d Other, *of which:*	*149*	690	333	-52%
• *VAT Refund*	*9*	*184*	*187*	*2%*
• *High Relief Committee*	1,188	*415*	*0*	*-100%*
3.e EDL [(4)]	19	1,511	849	-44%
Treasury advances for water authorities	0	4	0	-
4. Unclassified Expenditures	**2**	**1**	**3**	**105%**
5. Customs Cashiers	**18**	**24**	**21**	**-12%**
6. Total Expenditures (Excluding CDR Foreign Financed)	**7,191**	**8,767**	**7,926**	**-10%**

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 13.*

[(2)] *For a detailed breakdown of interest payments, kindly refer to Table 17.*

[(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 14.*

Current Primary Expenditures

Current primary expenditures[10] increased by 2.25 percent over HI 2010, totalling LL 3,149 billion compared to LL 3,080 billion during the first six months of 2009. Details of the main components of current primary expenditures are recorded below:

Personnel cost[11] inched down by 1 percent from their end-June 2009 level, down to LL 2,402 billion due to a drop in both "wages, salaries and related items" and "transfers to public institutions to cover salaries" that was offset by a rise in "retirement and end of service indemnities".

a. *Salaries, wages and related benefits* (Article 13) went down by LL 41 billion over HI 2010 compared to the same period of the previous year, amounting to LL 1,629 billion.

Table 12. Breakdown of Article 13: Salaries, Wages and Related Items

(LL billion)	Basic Salaries[1]		Indemnities		Allowances		Other [2]		Total [3]	
	HI 09	HI 10	HI 09	HI 10	HI 09	HI 10	HI 09	HI 10	HI 09	HI 10
Military Personnel	**853.7**	**794.2**	**34.5**	**35.9**	**176.4**	**192.2**	**0.92**	**1.14**	**1,066**	**1,024**
Army	558.9	534.5	22.9	24.1	95.7	107.1	0.16	0.43	678	666
Internal Security Forces	238.7	207.2	9.4	9.6	65.3	67.9	0.07	0.04	313	285
General Security Forces	42.5	40.4	1.4	1.4	11.3	13.2	0.67	0.64	56	56
State Security Forces	13.6	12.05	0.8	0.8	4.1	4	0.02	0.03	19	17
Education Personnel	**295.6**	**268.6**	**28.8**	**29.9**	**0**	**0**	**0.07**	**0.06**	**325**	**299**
Civil Personnel, *of which:*	**147.1**	**167.2**	**29.6**	**32.3**	**1.2**	**1.3**	**84.7**	**86.32**	**263**	**287**
Civil Servants' Cooperative	*0*	*0*	*0*		*0*		*70*	*71*	*70*	*71*
Customs Salaries	**16.1**	**20.6**	**0**		**0**				**16**	**21**
Total	**1,312**	**1,250**	**92.9**	**98**	**177.6**	**193.5**	**85.7**	**87.5**	**1,669**	**1,630**

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

This decline primarily stems from a LL 62 billion decrease in payments of basic salaries which totalled LL 1,250 billion in HI 2010 compared to LL 1,312 billion in HI 2009. This is mainly due to:

- A LL 20 billion decrease in payments of retroactive amounts for the years 1996-1998 that reached LL 75 billion in HI 2010 compared to LL 95 billion in HI 2009[12].
- An estimated LL 32 billion decrease in retroactive amounts that accrued following the Council of Ministers' original decision in May 2008 to increase monthly salaries and wages in the public sector by LL 200,000 starting May 1st, 2008[13] and its actual implementation in Fall 2008[14].

The magnitude of this decrease was partially offset by the following:

- A LL 16 billion rise in allowances from LL 177 billion in HI 2009 to LL 193 billion in HI 2010 fuelled by an increase in nearly all social spending items (for details, kindly refer to the Social Spending section below).

[10] Current primary expenditures is current expenditures excluding interest payments and foreign debt principal repayment.
[11] Personnel cost includes salaries, wages and related benefits (article 13), transfers, retirement and end-of-service.
[12] As per law 63 dated December 31st 2008. For more information kindly refer to the 2009 Public Finance Review, page 18.
[13] 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.
[14] As per Council of Ministers Decision 79, dated September 9th 2008.

- A LL 5 billion increase in indemnity payments that mainly cover transportation, family and administrative indemnities.

b. R*etirement and end-of-service compensations* climbed by 6 percent year-on-year over HI 2010, amounting to LL 633 billion, mainly driven by a 50 percent upswing in end-of-service indemnities which totalled LL 102 billion as of end-June 2010. This LL 34 billion increase in end-of-service indemnities is primarily due to higher payments to military personnel that received a total of LL 78 billion in compensations (equivalent to 76 percent of total compensations) during HI 2010 compared to LL 46 billion (equivalent to 67 percent of total compensations) during the same period of 2009. In comparison, total indemnities received by civil servants during HI 2010 amounted to LL 24 billion, up by LL 2 billion from their end-June 2009 level. The upswing in payments for military retirees is either the result of a higher number of beneficiaries[15] or due to the fact that the military who retired during the considered period are of higher grade levels (since indemnities are paid on the basis of the last month salary) and/or have served for a longer period. Regarding civil servants, the second factor is probably behind the rise in end-of-service payments as the number of beneficiaries retreated by 22 percent, down to 596 civil servants compared to 763 beneficiaries in HI 2010.

Also within Personnel Cost, *transfers to public institutions to cover salaries* retreated by 12 percent, amounting to LL 140 billion in HI 2010 compared to LL 160 billion during the same period of the previous year. This was primarily the result of a LL 12 billion drop in transfers to the Council for Development and Reconstruction and a LL 13 billion decline in payments to the Lebanese University, as shown in Table 13 below.

Table 13: Breakdown of Transfers to Public Institutions (Salaries)

(LL billion)	2008 Jan-June	2009 Jan-June	2010 Jan-June	Change HI 2010/HI 2009
Transfer to Council of the South	5	4	8	124%
Transfer to the Council for Development and Reconstruction	15	27	15	-44%
Transfer to Fund for the Displaced	4	4	3	-14%
Transfer to the Lebanese University	72	120	107	-11%
Transfer to Educational Centre for Research and Development	5	7	7	4%
Total Transfers to Public Institutions	**100**	**161**	**140**	**-12%**

Source: Ministry of Finance

Materials and supplies soared by 23 percent over the first six months of 2010, totalling LL 133 billion compared to LL 108 billion during HI 2009. This LL 25 billion rise mainly stemmed from (i) a LL 26 billion upswing in *medication expenditures* that was mainly absorbed by the Ministry of Public Health (ii) a LL 2 billion increase in *other administrative supplies* mainly due to a LL 4 billion rise in utility bills for diplomatic missions overseas, and (iii) a LL 1.2 billion rise in *specialized materials and supplies* for the Ministry of Public Health. These increases were in part offset by a LL 6 billion decline in *food expenses.*

External Services amounted to LL 58 billion as of end-June 2010, exhibiting a 4 percent increase from their level during the first half of 2009. This item includes payments of rents, postal services, insurance, advertisement, public relations, printing costs, consultancy fees, and cleaning and maintenance service fees. This LL 2 billion rise was primarily the result of the 33 percent increase in rent fees[16] and the

[15] No statistics are available regarding the number of military retirees.

[16] Law 63 dated December 31st, 2008 revaluated rent contracts that are subject to Law 160 dated July 22nd, 1992 (or what is known as "old rents")

revision of the cleaning and maintenance contracts following the readjustment of salaries and wages in the private sector[17].

Various Transfers amounted to LL 297 billion during HI 2010, representing a 20 percent increase from their level during the similar period of 2009. Behind this upsurge primarily stands a 237 percent rise in the government's contribution to the financing of the *Special Tribunal for Lebanon* (STC) that reached LL 41 billion during the first half of 2010, compared to LL 12 billion during HI 2009.

Furthermore, *Treasury advances to cover the diesel oil subsidy* totalled LL 61 billion during the first two quarters of 2010, compared to nil during the same period of 2009. Of this amount, LL 46.4 billion was paid to cover the diesel oil subsidy in QIV 2009-QI 2010 and LL 1.3 billion is on account of QIV 2008-QI 2009 [18]. The remaining LL 13.6 billion were used by the Ministry of Energy within the framework of a national plan for energy saving following the Council of Ministers' decision to interrupt the subsidy of diesel oil due to its inefficiency[19]. Of this amount, LL 10.5 billion was allocated to the purchase and distribution of Compact Fluorescent Lamps (CFL), LL 2.3 billion was allocated to the subsidy of loans funding the purchase of Solar Water Heaters (SWH) and LL 0.75 billion was allocated to the installation of photosensors to streamline the street lighting system[20].

Regarding the *wheat subsidy* , the transfers covering this item went down from LL 12 billion in HI 2009 to zero in HI 2010. This drop is due to the CoM decision to phase out the subsidy over a period of three years starting 2006[21] that was exceptionally suspended in 2009[22], when the Council of Ministers decided to subsidy the wheat production for a net cost of LL 7.6 billion[23].

Lastly, transfers to the *High Relief Committee* (HRC) classified among various transfers declined from LL 2.6 billion[24] in HI 2009 to LL 1.58 billion[25] in the first quarters of 2010.

Other Current Expenditures inched up by 1 percent to LL 198 billion during the considered period compared to HI 2009. This was mainly the outcome of an 8 percent rise in payments to cover hospitalization for citizens who are not covered by any form of insurance, in public or private institutions, probably resulting from the timing of payments.

[17] Following the issuance of Decree 500 dated October 14th, 2008 that increased salaries and wages in the private sector by LL 200,000.
[18] For details, kindly see the Public Finance Quarterly Report for QI 2010.
[19] CoM decision number 15 dated March 3rd 2010.
[20] CoM decision number 59 dated March 10th 2010.
[21] CoM decision number 42 dated October 13th 2005.
[22] CoM decision number 102 dated March 26th 2009.
[23] For details, please refer to the Public Finance Review 2009 report.
[24] Following Decree 15738 dated November 14th, 2005 for the emptying of the Yammoune Lake.
[25] Following Decree 1296 dated April 2nd,2009 and Decree 1946 dated May 13th, 2009 which provided respectively a grant to the Palestinian people and funding for the emptying of real estate related to the Tripoli Cultural Heritage Project.

Capital Expenditures

Capital expenditures totalled LL 308 billion in HI 2010, up by LL 27 billion from their end-June 2009 level. This 10 percent upswing is primarily explained by the following factors:

a. A LL 35 billion hike in the **Maintenance** bill, from LL 36 billion[26] at the end of QII 2009 to LL 71[27] billion at the end of HI 2010. This is mainly due to a LL 39 billion upsurge in payments for the maintenance of small scale roads by the Ministry of Public Works and Transport.

b. A LL 17 billion upsurge in payments to the **Ministry of Public Works and Transport** that totalled LL 31 billion in HI 2010 from LL 14 billion in HI 2009. This is mainly due to:

- A LL 13.8 billion upswing in payments for the construction of roads[28].
- A LL 3 billion increase in payments for the construction of Tripoli's Palais de Justice.

c. A LL 17 billion rise in **Other expenditures related to fixed capital assets** from LL 33 billion in HI 2009 to LL 50 billion in HI 2010. This is due to a LL 19 billion increase in payments made to IDAL for the Export Plus Program although the subsidy policy is officially in the process of being totally phased out by March 2011. This is due to the cumulative effect resulting from the fact that HI 2010 has witnessed the payments of (i) LL 29.5 billion carried forward from previous budgets, (ii) LL 8.5 billion from the 2009 Budget allocation for which payment orders were issued in 2009 but were actually paid in 2010, and (iii) LL 11 billion from the 2010 Budget allocation. In contrast, HI 2009 witnessed the payment of (i) a LL 20 billion carried forward from previous budgets and (ii) LL 10 billion from the 2008 Budget allocation for which payment orders were issued in 2008 but were actually paid in 2009.

d. A LL 10 billion increase in transfers to the **Council of the South** from LL 20 billion in HI 2009 to LL 20 billion during the similar period of 2010[29].

e. A LL 5 billion rise in **Equipment** purchases that amounted to LL 22 billion during the first six months of 2010 compared to LL 17 billion in HI 2009.

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

a. Transfers to the **Displaced Fund** tumbled down from LL 55 billion during the first six months of 2009 to LL 30 billion in HI 2010[30].

b. Transfers to the **Council for Development and Reconstruction for the construction in progress** fell by LL 29 billion, down to LL 73 billion from LL 102 billion in HI 2009. Behind this decline stand the following elements:

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[26] Of this amount, LL7.7 billion was paid to CDR for the maintenance of the campus of the Lebanese University, of which LL1.1 billion are from the LL16 billion treasury advance provided by Decree 938 dated November 19th, 2007 and LL 6.6 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.

[27] Of this amount, LL6 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 , LL1.1 billion as per Decree 938 dated November 19th, 2007 and LL3.9 billion are from the 18 billion treasury advance provided by Decree 3325 dated February 17th, 2010.

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

[28] Of which LL 9 billion are under the Ministry's Program Law for the construction of roads and LL 4.8 billion are under the National Program for Roads.

[29] The LL20 billion paid in HI 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 HI 2009 were by treasury advance as per Decree No. 1167 dated January 5th, 2009, based on the authorization granted by Law 362/2001.

[30] The LL 30 billion paid in QI 2010 are the full amount allocated to the Displaced Fund in the 2009 Budget which was carried forward. The payment of LL 55 billion made in HI 2009 was done by treasury advance as per Decree No. 1167 dated January 5th, 2009, based on the authorization granted by Law 362/2001

- A LL 27 billion drop in payments to CDR for the construction of international roads[31],
- Lower transfers to cover the counterpart funding for foreign financed projects[32] by LL 22 billion, from LL 51 billion in QI 2010 to LL 29 billion in HI 2010,
- LL 3.2 billion decrease in allocations to cover the maintenance of the Rafic Hariri International Airport dropped from LL 13.5 billion in QII 2009 to LL 10.3 billion in HI 2010,
- Absence of transfers to CDR in HI 2010 for the building and equipping the Lebanese University campus in Hadath[33]-which amounted to LL 3 billion in QII 2009,
- A LL 1.5 billion drop in payments to CDR for the construction of the headquarters of the Ministry of Education and Higher Education and for the building of schools and,
- Absence of transfers of LL2 billion in HI 2010[34] in order to fund the construction of secondary roads -which amounted to LL1.5 billion in QII 2009

Meanwhile, the allocations for the restoration and equipment of the Grand Serail[35] slightly went up from LL 2 billion in QII 2009 to LL 2.5 billion in HI 2010, and a payment of LL 26 billion was made for the settlement of an arbitration dispute of the Rafic Hariri International Airport in HI 2010.

c. **Acquisitions of Land, Buildings, for the Construction of Roads** dropped by LL 2 billion during the first six months of 2010, to LL 1 billion.

Treasury Expenditures

Treasury expenditures registered a sizeable drop of 42 percent over HI 2010, amounting to LL 1,414 billion as of end HI 2010 compared to LL 2,445 billion by end-June 2009, due to:

a. A LL 662 billion drop in Treasury transfers to, or on behalf of, Electricité du Liban (EDL)[36] to a level of LL 849 billion by end-June 2010. Behind this decline stands a LL 20 billion fall in debt service as well as a LL 643 billion decrease in payments to the company’s oil suppliers, Kuwait Petroleum Corporation (KPC) and Algeria's Sonatrach, as shown in Table 14 below. The 44 percent retreat in reimbursements to suppliers stems from the combination of price and volume effect. As a matter of fact, the average oil price according to which the HI 2010 payments were made is lower than that pertaining to 2009. In parallel, payments to oil suppliers in the first half of 2010 reflect around 33 percent lower quantity of gas oil than that paid in the same period of 2009. This decline in gas oil quantities is partially attributed to the fact that commercial quantities of natural gas from Egypt, a substitute for KPC’s and Sonatrach’s gasoil, started flowing to the Deir al-Ammar/Beddawi power plant in early November 2009. EDL has not yet started to pay for the natural gas.

[31] 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.
[32] Counterpart financing is allocated to CDR under the budget of the Presidency of the Council of Ministers.
[33] 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.
[34] As per payment order 58201/2007 based on Decision 770/1 dated November 23rd, 2007 to transfer allocations from the budget of the Ministry of Public Works and Transportation’s program law for road works to CDR.
[35] Following Decree 1145 dated March 18th, 2008.
[36] For further details, check the June 2010 issue of “Transfers to EDL: A Monthly Snapshot” available on www.finance.gov.lb

Table 14. Transfers to EDL

(LL billion)	2009 Jan-June	2010 Jan-June	% Change HI 2010/HI 2009
EDL *of which:*	**1,511**	**849**	**-44%**
• **Debt Service** *of which:*	**61**	**41**	**-32%**
- C-Loans and Eurobonds, *of which:*	41	31	-23%
Principal repayments	*35*	*27*	*-23%*
Interest Payments	*6*	*5*	*-23%*
- BDL Guaranteed Loan payments	20	10	-49%
• **Reimbursement of KPC and Sonatrach Agreements**	**1,450**	**807**	**-44%**

Source: MOF, DGF

b. **Transfers to Municipalities** rose by LL 18 billion, amounting LL 154 billion in HI 2010 compared to LL 136 billion during the same period of 2009 (kindly refer to Box 2 for further details).

c. **Other expenditures** fell by LL 357 billion, down to LL 333 billion by end-June 2010 from LL 690 billion, due to a 100 percent decrease in Treasury advances to *High Relief Committee,* that went down from LL 415 billion in HI 2009[37] to nil in HI 2010. Further, budget advances for HI 2010 reached LL 113 billion compared to LL 60 billion in HI 2009 or a LL 53 billion increase. However, the budget system does not currently allow us to breakdown the budget advance payments by economic classification as they are paid.

[37] Of the LL 450 billion paid in HI 2009, LL 200 billion were transferred as per Decree No. 1168 (dated 5/1/2009), 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. Further, 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. Finally, LL 15 billion were paid as per Decree #1670 (dated 07/04/2009) for compensations related to Tripoli incidents in 2008 and 2009. For more details see Quarter II 2009, Public Finance Report, page 17.

Box 2: An Analysis of Payments to Municipalities during HI 2010

Table 15: Payments to Municipalities

(LL billion)	2008 Jan-June	2009 Jan-June	2010 Jan-June	Change HI 2010/HI 2009
Distribution of Revenues Accruing to Municipalities	88	0	21	21
Payments for Solid Waste Management	108	125	131	6
Payments to the "First Municipality Infrastructure Project"	0	7	0	-7
Other Payments	0	3	3	0
Total Payments to Municipalities	**196**	**136**	**154**	**18**

Source: MOF, DGF

Payments by the treasury to municipalities are divided into three main categories:

- The distribution of revenues collected by MoF on behalf of municipalities: These revenues are transferred to the Independent Municipal Fund and distributed to municipalities once a year based on a decree jointly issued by the Ministry of Finance and the Ministry of Interior and Municipalities. Since 2008, 90 percent of revenues accruing to municipalities are distributed according to two factors: the number of registered residents in each municipality and its average collections during the last two years. The remaining 10 percent are equally split between municipalities with less than 4,000 residents to finance development projects.
- Payments for Solid Waste Management: The Independent Municipal Fund bears the cost of waste management services in the perimeter of some municipalities[1]. In return, the fund receives 40 percent of the revenues accruing to municipalities that benefit from these services.
- Payments to the "First Municipality Infrastructure Project": The "First Municipality Infrastructure Project" (FMIP) aims at restoring basic municipal infrastructure to improve the living conditions of the population and enabling municipalities to assume the responsibility for local infrastructure maintenance and rehabilitation needs. Two types of payments related to this project are made by the Independent Municipal Fund: the government's total contribution of $ 20 million[2] that was entirely settled and the reimbursement of IBRD's contribution of $ 80 million.

During HI 2010, payments to municipalities increased by LL 18 billion (Table 15), mainly as a result of the increase of LL 21 billion in the distribution of revenues accruing to municipalities from the years 2006 and 2007 which reached LL 21 billion in HI 2010 compared to none in HI 2009. The LL 21 billion paid in HI 2010 are mainly made of small payments hovering around LL 36 million for municipalities with 4,000 registered residents or less for development projects on behalf of 2006[3] and 2007[4] revenues respectively.

Further, the LL 6 billion increase in payments to solid waste management companies during HI 2010 was offset by the LL 7 billion decrease in the payment for the IBRD "First Municipality Infrastructure" which had been settled for January 2010 from the USD 125 million US AID grant whereas a LL 7 billion payment from the Independent Municipal Fund was made in January 2009.

[1] As per article 64 of law number 326 dated June 28th, 2001 (2001 budget law).
[2] As per law number 238/2000. The effective contribution of the Lebanese government was less than $ 20 million.
[3] As per Decree 614 dated October 27th, 2008.
[4] As per Decree 2339 dated June 19th, 2009.

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 as social assistance[38].

Social spending amounted to LL 1,747 bilion in HI 2010, representing 22 percent of total spending, compared to 23 percent during the similar period of 2009. The breakdown of social outlays reveals that spending on education and end-of-service payments captured the highest shares of the total social bill, with a stake of 36 percent for each item. Spending on health followed with a share of 20 percent.

During the first half of 2010, social spending inched up by 4 percent or LL 72 billion from its end-June 2009 level. This increase resulted from the following factors:

a. A LL 39 billion upswing in health spending due to (i) a LL 25 billion increase in hospitalization bills for citizens taken in charge by the Ministry of Public Health and (ii) higher purchases of medication by LL 26 billion.

b. Higher end-of-service and pension payments by LL 38 billion

c. A LL 5 billion increase in education spending explained by higher wages and salaries of the General Directorate of Education by LL 27 billion and a LL 14 billion rise in the payment of education allowance in the private sector. These increases were partially offset by a drop in all other education spending items.

[38] The definition of social spending adopted in this section differs from the functional classification included in the national budget. The social spending table following attempts to capture spending on health, education and other social services by all public entities (Line Ministries, NSSF, Civil Servants Cooperative, Mutual Funds etc.) following GFS methodology. In contrast, what the current budget functional classification defines as social spending is more restrictive and omits items such as transfers to the NSSF and the Civil Servants Cooperatives.

Table 16: Main Social Expenditures

(LL billion)	20091 Jan-June	2010 Jan-June	% Change HI 2010/HI 2009
Health	**314**	**353**	**12%**
• Hospitalization in the Private Sector	142	167	17%
• Purchase of Medication	47	73	54%
• Hospitalization of Public Sector Employees in Private Sector	59	61	3%
• Maternity and Sickness Allowance	18	19	11%
• Other	48	33	-32%
Education	**626**	**631**	**1%**
• Ministry of Education and Higher Education, *of which*:	536	526	-2%
- *Wages and Salaries of the General Directorate of Education*	*300*	*327*	*9%*
- *Wages and Salaries of the General Directorate of Higher Education*	*0*	*0*	*-10%*
- *Wages and Salaries of the General Directorate of Technical Education*	*24*	*17*	*-28%*
- *Contributions in the Salaries of the Lebanese University*	*120*	*106*	*-11%*
- *Contributions to Non-Profit Organizations (Private Schools)*	*33*	*30*	*-10%*
- *Construction under Execution (Construction and Restoration of Schools)*	*5*	*3*	*-34%*
• Education Allowance in Private Sector	90	104	16%
Other Social Spending	**735**	**763**	**4%**
• Marriage Allowance	2	3	30%
• Birth Allowance	1	1	9%
• Death Allowance	2	2	-8%
• Other Social Spending Allowance	6	3	-41%
• Participation in several Pension Funds	12	12	2%
• Ministry of Social Affairs, *of which*:	43	34	--21%
- *Transfers to Non-Profit Organizations*	*42*	*31*	*-27%*
• Ministry of Displaced	3	3	-11%
• Transfers to Civil Servants Cooperative	70	71	1%
• End-of-Service and Pensions	595	633	6%
• National Social Security Fund	0	0	-
Total Social Expenditures	**1,675**	**1,747**	**4%**

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 rose by 3.4 percent or LL 94 billion during the first half of 2010, totalling LL 2,881 billion by the end of June 2010, compared to LL 2,787 billion a year earlier.

Interest payments on *local currency debt* contributed to 96 percent of the increase in total interest payments as they rose by LL 90 billion, amounting to LL 1,788 billion during the first six months of 2010. This was fuelled by the combination of a 46.5 percent rise in discount interests on short term Treasury Bills and a 3.5 percent increase in coupon payments on long term T-bills[39].

The increase in both coupon and discount interest payments was the outcome of a rise in the volume of maturities during the first half of 2010, compared to the volume of debt instrument in local currency that matured during the similar period of the previous year (see Box 3 below for details).

[39] For short term Treasury Bills are, bullet payment of principal and interest are conducted at maturity.

Box 3. Higher Interest Payments on Local Currency Debt

The increase in coupon payments on long-term Treasury Bills by LL 57 billion is primarily the outcome of a 3 percent increase in the volume of maturities that more than counteracted for the drop in the weighted average cost. In fact, the weighted average cost of long-term maturities declined by 36 basis points (bps), down to 9.05 percent, as of the end of June 2010. This drop was registered despite the increase in the share of 60-month T-bills falling due in HI 2010, that reached 14 percent by end-June 2010 compared to 7 percent in HI 2009, reflecting the introduction of the 60 month tenor in the auction starting July 2009. In contrast, the share of 24-month T-bills remained relatively stable at 8 percent.

The LL 33 billion increase in discount interest payments for short term Treasury Bills is the result of the rise in short term T-bill maturities during the first half of 2010, compared to the same period of 2009. The effect of higher maturities was in part offset by a slight drop in the weighted average cost of short term T-bills. As a matter of fact, the weighted average cost of short term T-bills retreated by 5 bps year-on-year, down to 6.34 percent. This decline in the cost of short-term debt instrument in local currency came despite a sharp drop in the share of 3-month T-bills, from 41 percent in HI 2009 to 10 percent in HI 2010, and a significant upswing in the share of 6 and 12-month T-bills during HI 2010, respectively to 60 and 30 percent, from 51 and 8 percent respectively by the end of QII 2009.

Regarding Interest payments on *foreign currency debt*, they inched up by 0.3 percent to LL 1,093 billion during the first half of 2010, compared to the similar period of 2009. This slight growth resulted from an LL 23 billion rise in interest payments on concessional loans that was partially offset by an LL 20 billion drop in Eurobond coupon interest as a result of the 2009 Eurobonds maturities of May, October and November 2009. The rise in interest payments on concessional loans is coming from payments worth of LL 22 billion on eight Islamic Development Bank (IDB) Project loans with interest payments maturing in June 2010. These interest payments were originally due between June 2007 and December 2009. However, the IDB granted Lebanon a 3-year grace period for the repayment of interest and principal on a package of loans representing their budgetary support contribution to the Paris III Conference. The settlement of interest and principal for the period 2007-2009 on those IDB loans has been deferred to the month of June 2010.

Concessional Loans Principal Payments retreated by LL 27 billion or 18.2 percent year-on-year, totalling LL 121 billion during HI 2010. This drop came despite the one-time settlement of LL 46 billion in lieu of a deferred payment on eight IDB Loans (refer to paragraph above) as the treasury had prepaid World bank Loans worth of LL 75 billion in June 2009 with the proceeds of USAID grant for budget support[40].

Table 17: Details of Debt Service Transactions

(LL billion)	2008 Jan-June	2009 Jan-June	2010 Jan-June	Change 2010/ 2009
Interest Payments [1]	**2,431**	**2,787**	**2,881**	**3.4%**
Local Currency Debt	**1,334**	**1,698**	**1,788**	**5.3%**
• *Discount interest*	*85*	*71*	*104*	*46.5%*
• *Coupon*	*1,249*	*1,627*	*1,684*	*3.5%*
Foreign Currency Debt, *of which*:	**1,097**	**1,090**	**1,093**	**0.3%**
• *Eurobond Coupon Interest[2]*	*1021*	*1,020*	*1,000*	*-2%*
• *Special Bond Coupon Interest[2]*	*7*	*9*	*9*	*0%*
• *Concessional Loans Interest Payments*	*69*	*61*	*84*	*37.7%*
Concessional Loans Principal Payments [1]	**206**	**148**	**121**	**-18.2%**

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

[40] Please refer to the "International Conference for Support to Lebanon- Paris III (10th progress report)": www.finance.gov.lb

Section IV: Public Debt Developments

Financing Requirements

Total net financing requirements reached LL 1,337 billion in January-June 2010 compared to LL 2,532 million during HI 2009.

Treasury accounts were the main source of deficit financing in HI 2010 as the government reduced its cash balances by LL 1,283 billion in January-June 2010, however still below the decrease of LL 2,025 billion registered during the similar period of 2009. Despite the halt in the auction during March 2010, the net issuance of T-bills denominated in LL amounted to LL 506 billion, increasing by 239 percent from its level during HI 2009. This rise reflects the vigorous performance in LL T-bills weekly auctions during HI 2010 compared to the weak market appetite witnessed during HI 2009. In contrast, the net issuance of foreign debt resulted in a negative balance of LL 87 billion, despite the $ 1.2 billion Eurobond issue that took place in March 2010. This is explained by $ 1.257 billion of Eurobond principal repayment in January-June 2010.

Table 18: Financing for January-June 2010 versus January-June 2009

(LL billion)	2009 Jan-June	2010 Jan-June
Overall balance from the financing side[41]	-2,532	**-1,337**
Total Net in Financing	**2,532**	**1,337**
• LL Treasury bills [(2)]	149	506
• Eurobonds [(1)]	372	-87
• Special T-bills in Foreign currencies	28	24
• Bilateral Loans [(1)]	-76	-199
• Multilateral Loans [(1)]	48	-186
• Private sector loans [(1)]	-14	-3
• Change in treasury accounts (-/increase +/decrease)	2,025	1,283

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

Gross public debt stock amounted to LL 76,940 billion ($ 51.04 billion) by the end-June 2010, down by 0.20 percent compared to the end-December 2009 level. This LL 157 billion drop resulted from a decline in foreign currency debt that counteracted a slight rise in domestic currency debt.

Correspondingly, the **net public debt** declined by LL 3 billion over the end-December 2009 level, amounting to LL 66,572 billion ($ 44.14 billion).

[41] 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-June 2010

(LL billion)	Dec-08	Dec-09	June-10	Change Dec 09 -June 10	% Change Dec 09-June 10
Gross Public Debt[1]	70,937	77,097	76,940	-157	-0.20%
Net Debt	62,611	66,575	66,572	-3	0%
Gross Market Debt[2]	46,992	51,231	51,561	330	0.75%

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.

In details, **local currency debt** reached LL 45,439 billion by the end of the first half of 2010, representing a 1.04 percent increase from the stock prevailing at the end of December 2009. This is primarily due to a higher stock of long term bonds, as the outstanding stock of short term bills registered a slight drop.

By holder, the Central Bank registered the highest increase in the stock of domestic currency debt in HI 2010. More specifically, the holdings of Banque du Liban (BDL) climbed by 2.31 percent or LL 239 billion, to LL 10,573 billion. This is explained by a LL 273 billion expansion in the T-bills portfolio held by BDL during the considered period, while the Central Bank's loans to public entities decreased by LL 34 billion.

In parallel, commercial banks, the main holders of the Lebanese debt denominated in local currency, increased their portfolio of T-bills by LL 105 billion. Consequently, the stock of domestic currency debt held by these institutions inched up by 0.4 percent during HI 2010, reaching LL 27,396 billion by the end of June 2010. Lastly, "other" holders of T-bills increased their stock by 1.59 percent to LL 7,470 billion, albeit an 1.12 percent decline in the portfolio of public entities.

Over the first half of 2010, results from the weekly auctions show that commercial bank came again in the first position among subscribers, by capturing a stake of 58.5 percent of total subscriptions. BDL followed with a share of 14.3 percent, while public institutions and public at banks came respectively in the third and fourth positions with 13.6 percent and 11.8 percent of total subscriptions.

By instrument, the stock of long term bonds augmented by 2.91 percent reaching LL 42,032 billion by the end of QII 2010, compared to end-2009. The stock of short term bills followed an opposite path, falling by 19 percent to LL 3,040 billion compared to the end-2009 level.

All three auctioned long term bonds saw an increase in their stock as of end-June 2010, when compared to the stocks prevailing at the end of December 2009. The stock of 60-month T-bills registered the highest increase during the first half of 2010, hiking by LL 832 billion equivalent to 16.52 percent, up to LL 5,868 billion. Further, the stocks of 36 and 24-month T-bills rose by 0.66 percent and 3.71 percent respectively to LL 32,120 billion and LL 3,100 billion.

As for short term tenors, the stock of 12-month bills retreated by 10 percent to LL 1,864 billion while that of 6-month instruments declined by 35 percent to LL 989 billion. In contrast, the stock of 3-month bills inched higher by 23 percent to LL 187 billion.

Behind these figures stands a predominance of long term T-bills in total subscriptions during the first two quarters of 2010. Long term bonds represented 72 percent of total subscriptions during the considered period, compared to 28 percent for short term bills. The 36-month Treasury Note captured the highest share of subscriptions at 31.6 percent, followed by 60-month bonds with 30.2 percent and 6-month bills with 15.1 percent.

Long term bonds also represented the bulk of total maturities during HI 2010, capturing a stake of 53 percent of maturing instruments, compared to 47 percent for short term bills. Thirty-six-month bills accounted for 30 percent of maturities during the considered period. Six-month-bills ranked second with a stake of 25 percent followed by 60-month bonds with 18 percent of maturities.

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

Stocks (end of period)	Dec-08	Dec-09	June-10	Change Dec 09 - June 10	% Change Dec 09 - June 10
Local currency debt	39,007	44,973	45,439	466	1.04%
A. By Holder					
1. Central Bank (including REPOs and Loans to EDL to finance fuel purchases)(1)	8,781	10,334	10,573	239	2.31%
2. Commercial Banks	24,320	27,286	27,396	110	0.40%
3. Other local debt (T-bills)	5,906	7,353	7,470	117	1.59%
o/w Public entities	*5,062*	*6,078*	*6,010*	-68	-1.12%
**Accrued interest included in debt*	*1,029*	*999*	*1,028*	29	0.03%
B. By Instrument					
1. Long term bonds	36,350	40,842	42,032	1,190	2.91%
1.1 60 months bonds	3,049	5,036	5,868	832	16.52%
1.2 54 months bonds	0	0	0	0	n/a
1.3 48 months bonds	633	0	0	0	n/a
1.4 36 months bonds	29,650	31,908	32,120	212	0.66%
1.5 30 months bonds	0	0	0	0	n/a
1.6 24 months bonds	2,052	2,989	3,100	111	3.71%
1.7 Coupon interest	966	909	944	35	3.85%
2. Short term bills	2,197	3,735	3,040	-695	-18.6%
2.1 12 months bills	676	2,073	1,864	-209	-10.1%
2.2 06 months bills	1,234	1,510	989	-521	-34.5%
2.3 03 months bills	287	152	187	35	23.0%
** Accrued interest included*	63	90	84	-6	-6.77%
3. Other local debt	460	396	389	-29	-7.32%
3.1 Central Bank Loans	362	291	257	-34	-11.68%
3.2 Commercial Banks Loans	98	105	132	5	4.76%

Source: Ministry of Finance, Banque du Liban

Notes:

1) 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

The fall in the primary market interest rates on Treasury Bills and Notes accelerated in QII 2010, as these rates declined on average by 110 basis points (bps) during the first six month of the year from the end of December 2009, compared to 23 bps during QI considered alone. The rate of the 60-month bond registered the highest decline with 158 bps over HI 2010. The rate on six-month bills followed with a drop of 129 bps, compared to a decrease of 124 bps for 36-month bonds. It is worth highlighting that primary market interest rates have been declining gradually since June 2008, and at an almost weekly pace since November 2008.

Table 21: Evolution of Primary Market Rates

Maturity	Dec. 31, 2008 [2]	Dec. 31, 2009	March 31,2010[3]	June. 30, 2010[4]
3-month	5.10 percent	4.55 percent	4.44 percent	3.94 percent
6-month	7.11 percent	5.72 percent	5.50 percent	4.43 percent
12-month	7.57 percent	5.73 percent	5.58 percent	4.79 percent
24-month	8.22 percent	6.32 percent	6.04 percent	5.36 percent
36-month	8.98 percent	7.10 percent	6.86 percent	5.86 percent
60-month[1]	N/A	7.74 percent	7.38 percent	6.16 percent

Source: Ministry of Finance

[1] 60-month Treasury notes were issued as part of the Treasury Bill Auction Process as of the week of July 20th, 2009 (value date July 23rd, 2009).

[2] Reflects rate of the auction the week of December 29th, 2008, value date January 1st, 2009.

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

[4] For the 12, 24 and 36-month bills, figures reflect the rates of the auction held on June 28th 2010, value date July 1st 2010. For other instruments, the rate are those of the auction held on the 21st of June 2010, value date June 24th 2010.

In contrast with the slight rise in the local currency debt, **foreign currency debt** decreased by 2 percent over HI 2010, totalling LL 31,501 billion by the end of June 2010. The stock of foreign currency debt decreased by LL 414 billion due to exchange rate valuations including due to the depreciation of the Euro from a rate of 1.433 EUR/$ at the end of 2009, to 1.229 EUR/$ at the end of June 2010.

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

(in LL billion)	Dec-08	Dec-09	June-10	Change	% Change Year-to-date
B. Foreign currency debt(1)	**31,930**	**32,124**	**31,501**	**-623**	**-1.94%**
4. Eurobonds	**26,817**	**27,142**	**26,879**	**-263**	**-0.97%**
Of which, Paris II at preferential rates(2)	4,708	4,192	3,882	-311	**-7.41%**
Of which, Paris III at preferential rates(3)	754	754	731	-23	**-3.03%**
** Accrued Interest on Eurobonds*	*430*	*460*	*449*	-11	**-2.39%**
5. Loans	**4,694**	**4,535**	**4,151**	**-384**	**-8.47%**
5.1 Paris II loans	748	627	481	-146	**-23.29%**
5.2 Paris III loans(4)	1,095	1,210	1,142	-68	**-5.59%**
5.3 Bilateral loans (non-Paris II and III)	731	716	679	-37	**-5.15%**
5.4 Multilateral loans (non-Paris II and III)	2,065	1,956	1,825	-131	**-6.68%**
5.5 Foreign Private Sector Loans	54	27	24	-3	-11.11%
6. Other debt	**419**	**447**	**471**	**24**	**5.37%**
6.1 Special Tbls in Foreign currency(5)	419	447	471	24	**5.37%**

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)

Further, the simultaneous decline in the stock of loans and in the Eurobond portfolio triggered an additional contraction in the stock of debt in foreign currency.

First, the stock of loans fell by LL 384 billion, driven down by a LL 146 billion decline in the stock of Paris II loans and a LL 131 billion drop in the stock of multilateral loans. Excluding fluctuations that are due to exchange rate variations, the Paris II stock of loans fell due to the principal repayment of €30 million in February 2010 of the *Agence Française de Développement (AFD)* Paris II loan. The stock of multilateral loans decreased by LL 60 billion principal repayments to the Islamic Development Bank, LL 19.5 billion repayments to the Arab Funds for Economic and Social Development and LL 11.5 billion repayments to the International Bank for Development and Reconstruction (IBRD).

Second, the Eurobonds portfolio witnessed a one percent reduction despite the new issuance that took place in March 2010[42]. The LL 311 billion reduction in the Paris II preferential rate stock of Eurobonds primarily stems from the amortized principal repayment 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. Further, the LL 23 billion drop in the Paris III related Eurobonds is the result of the first $ 15 million principal repayment (in January 2010) of the $ 300 million Eurobond due July 2017 which also has an amortized payment structure.[43]

Special T-bills in foreign currency increased by LL 24 billion due to the issuance of new contractor bonds on April 22, 2010. In fact, the Ministry of Finance, as authorized by the Government, issued $ 15,984,633.28 6.00 percent bonds due 2015 pursuant to Law # 69 dated April 23rd, 2009. In summary, these bonds were issued to contractors to settle the changes in the cost of construction materials.

Table 23: Eurobond Price Performance over QII 2010

Lebanese Issues	15-Apr-10	20-Apr-10	6-May-10	28-May-10	11-Jun-10	18-Jun-10	30-Jun-10
EURO							
LEB 5.875 12	4.00	3.99	3.94	3.61	3.84	3.82	4.00
US Dollars							
LEB 7.875 11	3.14	3.11	3.12	3.35	3.45	3.38	3.18
LEB 4.000 17 Av Life	5.17	5.17	4.71	4.71	4.67	4.68	4.70
LEB 7.500 12	3.55	3.53	3.96	3.58	3.79	3.75	3.67
LEB 7.750 12	3.55	3.54	3.88	3.62	3.73	3.70	3.69
LEB 9.125 13	4.13	4.11	4.29	4.21	4.10	4.08	4.06
LEB 8.625 13	4.19	4.18	4.28	4.13	4.12	4.10	4.09
LEB 7.375 14	4.86	4.86	4.89	4.79	4.84	4.83	4.74
LEB 9.000 14	4.89	4.85	4.94	4.75	4.79	4.77	4.70
LEB 5.875 15	5.27	5.27	5.26	5.20	5.19	5.19	5.18
LIEB 10.000 15	5.34	5.34	5.40	5.30	5.28	5.26	5.23
LEB 8.500 15	5.22	5.21	5.24	5.16	5.19	5.18	5.14
LEB 8.500 16	5.42	5.42	5.49	5.37	5.38	5.38	5.36
LEB 11.625 16	5.74	5.73	5.87	5.91	5.80	5.79	5.78
LEB 9.000 17	5.72	5.72	5.86	5.82	5.79	5.82	5.83
LEB 6.375 20	6.31	6.30	6.44	6.44	6.41	6.37	6.39
LEB 8.250 21	6.54	6.57	6.68	6.62	6.58	6.58	6.61
LEB 7.000 24	6.81	6.83	6.92	6.89	6.94	6.94	6.94

Source: Credit Suisse

Secondary market yields on Eurobonds that were issued and active from December 31st, 2009 to June 30th, 2010 continued to follow a downward trajectory during QII 2010. Bid yields fell by an average of 71 bps[44] over HI 2010, reflecting demand for Lebanese debt instruments and the low global interest rate climate.

[42] For details, please refer to the 2010 QI Report.

[43] 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.

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

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