REPUBLIC OF LEBANON
MINISTRY OF FINANCE

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QUARTER III - 2010

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Table of Contents

List of Boxes

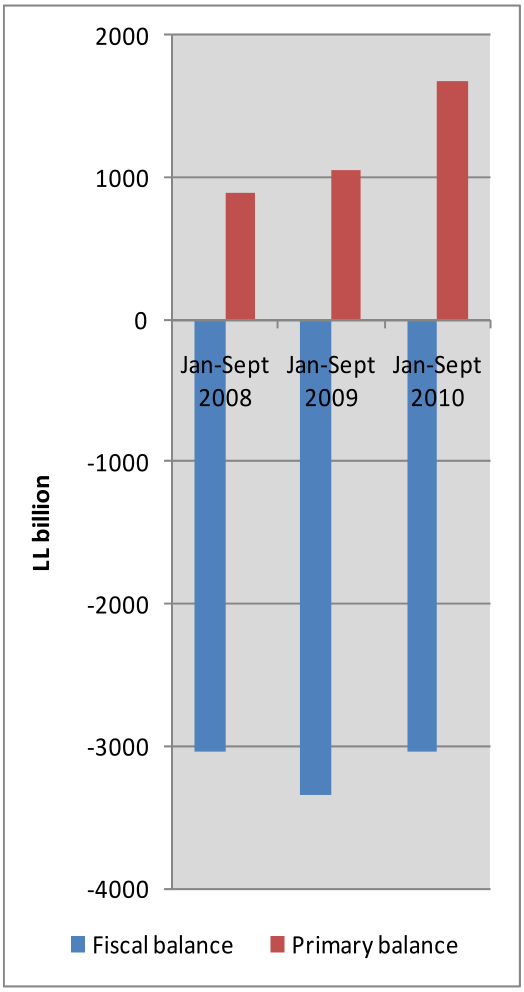
List of Tables

Public Finance Highlights

General Fiscal Developments

The fiscal deficit amounted to LL 3,040 billion in January-September 2010, against LL 3,351 billion during the first nine months of 2009. During the same period, the primary surplus increased to LL 1,670 billion, compared to LL 1,045 billion in 2009.

Figure 1: Fiscal and Primary Balance January – September 2008 -2010



Revenues

Total revenues fell by 1 percent in January-September 2010, down to LL 9,323 billion compared to LL 9,449 billion during the similar period of 2009. This is primarily due to the absence of transfer from Telecom during most of the period under consideration.

Expenditures

Total public expenditures accumulated to LL 12,411 billion in January-September 2010, down by 3 percent from their level during the first nine months of 2009. This is mainly explained by lower transfers to the High Relief Committee and to Electricité du Liban.

Public Debt Developments

The stock of gross public debt totalled LL 76,653 billion by the end-September 2010, down by 1 percent compared to the end-December 2009 level. Meanwhile, the stock of net public debt inched up by 1 percent, reaching LL 67,413 billion.

Section I: Fiscal Overview

The **total fiscal balance** registered a deficit of LL 3,040 billion in January-September 2010, down by 9 percent from its level during the equivalent period of 2009. This is mainly due to a 3 percent fall in total payments that more than counteracted for the 1 percent decline in total receipts.

The **primary surplus** improved by 60 percent, up to LL 1,670 billion in January-September 2010 from LL 1,045 billion a year earlier, on account of an 8 percent drop in primary expenditures (expenditures excluding debt-related payments).

Table 1: Summary of Fiscal Performance

(LL billion)	2008 Jan-Sept	2009 Jan-Sept	2010 Jan-Sept	% Change 2010/2009
Total Budget and Treasury Receipts	**7,613**	**9,449**	**9,323**	**-1%**
Total Budget and Treasury Payments, *of which*	**10,645**	**12,800**	**12,411**	**-3%**
• Interest Payments	3,648	4,180	4,465	7%
• Concessional Loans Principal Payments (1)	282	217	245	13%
• Primary Expenditures (2)	6,715	8,403	7,701	-8%
Total Deficit/Surplus	**-3,032**	**-3,351**	**-3,040**	**-9%**
Primary Deficit/Surplus	**897**	**1,045**	**1,670**	**60%**

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

Section II: Revenue Outcome

In QIII 2010, the upward trend registered by **total revenues** during the first half of the year was halted. In fact, revenues amounted to LL 9,323 billion over the first nine months of 2010, one percent lower than their level during the similar period of 2009. Behind this drop stands a 48 percent fall in **non-tax revenues** that absorbed the 14 percent rise in **tax revenues** and the 5 percent increase in **Treasury receipts**.

Consequently, the share of tax revenues in total revenues increased to 82 percent from 71 percent in January-September 2009, whereas that of non tax revenues fell to 12 percent of total revenues compared to 24 percent a year earlier. As for Treasury revenues, their share in total revenues inched up by one percentage point, up to 6 percent by end-September 2010.

Table 2: Total Revenues

(LL billion)	2009 Sep	2010 Sep	2009 Jan-Sep	2010 Jan-Sep	% Change 2010/2009
Budget Revenues, *of which*	**843**	**736**	**8,962**	**8,808**	**-2%**
• *Tax Revenues*	*605*	*646*	*6,736*	*7,659*	*14%*
• *Non-Tax Revenues*	*238*	*90*	*2,225*	*1,150*	*-48%*
Treasury Receipts	**36**	**38**	**487**	**514**	**5%**
Total Revenues	**879**	**774**	**9,449**	**9,323**	**-1%**

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

Tax Revenues

Over the first nine months of 2010, **tax revenues** increased by LL 923 billion, compared to their level during the similar period of 2009. Around a third of this increase stemmed from taxes on property. Value added tax (VAT) and excises also contributed by 26 percent and 10 percent of this rise respectively .

The disaggregated tax performance by the end of September 2010 is detailed in Table 3.

Table 3: Tax Revenues

(LL billion)	2009 September	2010 September	2009 Jan-Sep	2010 Jan-Sep	% Change 2010/2009
Taxes on Income, Profits, & Capital Gains, *of which*:	**61**	**66**	**1,526**	**1,723**	**13%**
• Income Tax on Profits	8	8	700	767	10%
• Income Tax on Wages and Salaries	2	3	269	287	7%
• Income Tax on Capital Gains & Dividends	7	6	143	176	23%
• Tax on Interest Income (5%)	43	46	401	477	19%
• Penalties on Income Tax	1	2	13	15	10%
Taxes on Property, *of which:*	**62**	**68**	**526**	**811**	**54%**
• Built Property Tax	4	7	82	126	54%
• Real Estate Registration Fees	53	54	389	624	61%
Domestic Taxes on Goods & Services, *of which:*	**226**	**236**	**2,406**	**2,661**	**11%**
• Value Added Tax	184	198	2,136	2,375	11%
• Other Taxes on Goods and Services, *of which*:	42	38	264	279	6%
- *Private Car Registration Fees*	*22*	*18*	*180*	*180*	*0%*
- *Passenger Departure Tax*	*19*	*20*	*83*	*98*	*18%*
Taxes on International Trade, *of which:*	**227**	**243**	**1,991**	**2,127**	**7%**
• Customs	66	68	568	609	7%
• Excises, *of which*:	161	175	1,423	1,517	7%
- *Gasoline Tax*	*80*	*93*	*757*	*787*	*4%*
- *Tobacco Tax*	*28*	*31*	*195*	*264*	*36%*
- *Tax on Cars*	*53*	*51*	*468*	*461*	*-1%*
Other Tax Revenues (namely fiscal stamp fees)	**29**	**32**	**288**	**337**	**17%**
Total Tax Revenues	**605**	**646**	**6,736**	**7,659**	**14%**

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

In details, taxes on income, profits and capital gains rose by LL 197 billion (13 percent) over the first nine months of 2010, amounting to LL 1,723 billion, mainly driven by the increase in the collections of the tax on interest income and the income tax on profits.

In details, the 5 percent tax on interest income yielded LL 477 billion during the first three quarters of 2010, LL 76 billion higher than the amount collected during the similar period of 2009. This improvement resulted from the combined effect of (i) an expansion in the deposit base and (ii) a drop in the dollarization rate of deposits, thereby increasing the share of deposits denominated in LBP which yield higher interest than those denominated in USD. In fact, total private sector deposits grew by nearly 9 percent for the first three quarter of the year, totalling LL 164,558 billion by the end of September 2010. As for the dollarization rate of deposits, it retreated by 187 basis points from the end 2009 level, down to 62.57 percent by the end-September 2010, contributing to the rise in the collection of the tax on interest income. This drop in the dollarization rate of deposits was reflected in the composition of the tax declarations by type of currency as the share of tax receipts in LL increased compared to that in foreign currencies (namely USD) . The figures presented in Table 4 reveal that 70 percent of the tax's total yield was collected in LL against 30 percent in foreign currencies. These shares compare to 63 percent and 37 percent respectively for LL and foreign currency denominated tax receipts during the first nine months of 2009.

The expansion in the deposit base and its continuous de-dollarization mitigated the negative impact of the drop in interest rates on the collections of the tax on interest income. The weighted average interest rate on deposits in LL dropped by 124 basis points between September 2009 and September 2010, down to 5.7 percent. Similarly, the weighted average rate on deposits denominated in U.S dollar dropped by 38 basis points, down to 2.78 percent.

Table 4: Tax on Interest Income

(LL billion)	Jan-Sep 2009	Jan- Sep 2010
By Institution/Instrument	**403**	**476**
• Commercial Banks	236	257
• BDL	166	217
• Tax on US$ Treasury Bills & LL Treasury Bills	1	2
By Currency	**403**	**476**
• Lebanese Pounds	256	332
• Foreign Currencies (US$, Euro)	148	144

Source: MOF - Treasury Department

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

Further, the collection of the **income tax on profits** yielded 767 billion between January and September 2010, LL 67 billion higher than its collection during the equivalent period of 2009. This 10 percent rise is explained by the buoyant activity witnessed by the Lebanese economy in 2009 with an estimated real GDP growth of 8.4[1] percent that resulted in higher profits for the largest companies, namely in the banking and real estate sector[2].

The growth in the profits of major corporations translated into a rise in the dividends distributed to their shareholders, fuelling a LL 33 billion or 23 percent upswing in the collections of the **income tax on capital gains and dividends**. Hence, this tax collected LL 176 billion over the first nine months of 2010, compared to LL 143 billion during the similar period of 2009.

Finally under taxes on income, profit and capital gains, the collections of the **taxes on wages and salaries** improved by 7 percent during the period under consideration, totalling LL 287 billion by end-September 2010, against LL 269 billion by end-September 2009. This rise is mainly explained by the natural growth in the tax base due to the creation of new jobs in the economy and/or to the natural evolution of salaries in the public and private sectors.

On another front, **taxes on property** maintained a high collection level, mirroring the buoyancy of the real estate activity, although with some moderation in the trend

[1] According to the 2009 Economic Accounts published by the Economic Account Mission at the Presidency of Council of Ministers.

[2] The collections of the income tax on profits in a given year usually pertain to the profits realized during the previous year.

towards the end of this third quarter, as the total collection of **real estate registration fees** were up by 61 percent to LL 624 billion. The proceeds of the recurrent **built property tax** increased by 54 percent to LL 126 billion, explained by the issuance of the 2006 and 2007 rental income tax dues in April and June 2010 for Mount Lebanon and Beirut respectively; this comes after a 2-years suspension of schedule issuance (whereby the tax dues on rental income of 2004 and 2005 were issued in mid-2008) [3].

Domestic taxes on goods and services continued to exhibit an upward trend, with their collections increasing by 11 percent to LL 2,661 billion. This rise is mainly due to an 11 percent rise in VAT proceeds that totalled LL 2,375 billion, equivalent to almost one third of tax revenues, the highest revenue generating tax. Of this amount, 29 percent or LL 686 billion were collected from internal business activity (18 percent higher than the LL 583 billion collected during the first nine months of 2009, stemming from stronger VAT generated by economic activity in the first and second quarter of 2010 and collected in April and July) and 71 percent or LL 1,689 billion were collected at customs from the import of goods (up by 9 percent from the LL 1,553 billion collected during the first three quarters of 2009, mirroring the 10 percent rise in imports in January-September 2010). These results show that the growth in VAT collections is attributed to the vigour of both imports and local economic activity.

The rise in VAT from imports is due to the 10 percent expansion in the nominal value of total imports that amounted to LL 19,882 billion, explained by a 9.5 percent increase in **fuel imports** and a 10 percent growth in **non-fuel imports.** It is noteworthy that the rise in the value of fuel imports is attributed to a price effect pertaining to the recovery in oil prices, as for the first time since 2006, the volume of these imports receded by 13.5 percent during the period under consideration. However, the growth in the value of non-fuel imports is primarily due to a volume effect, as the volume of these imports increased by more than 13 percent in January-September 2010 compared to January-September 2009, up to 6.9 million tons, explained by the vitality exhibited by local demand since 2007.

All in all, as revenues from VAT at import increased at a slower pace than total imports explained by the fact that 28 percent of the USD 1,200 million rise in total imports comes from "Unwrought & semi-manufactured gold, diamonds, precious stones and metals", which are exempt from VAT, the effective VAT rate at import then fell by 10 basis points, from 8.59 percent in January-September 2009 to 8.49 percent in January-September 2010. This drop was recorded despite significant 25 percent and 27 percent

[3] For details, kindly refer to the QII 2010 Public Finance Review and to the June 2010 PFM.

rises in imports of taxable "Aircraft engines, boilers, machinery and mechanical appliances" (mostly for construction) and "Iron and steel" respectively.

Table 5: Import Statistics

(LL billion)	2008 Jan-Sep	2009 Jan-Sep	2010 Jan-Sep	% Change 2010/2009
Total Imports	**17,855**	**18,073**	**19,882**	**10%**
• *Fuel Imports (fuel derivatives classified under HS 27)*	*4,554*	*3,473*	*3,803*	*9.5%*
• *Non-Fuel Imports*	*13,301*	*14,600*	*16,079*	*10%*
Revenues from Custom Duties	**495**	**568**	**609**	**7%**
Effective customs rate	*2.8%*	*3.1%*	*3.1%*	*0%*
• Share of Fuel Imports	26%	19%	19%	0%
• Share of Non Fuel-Imports	74%	81%	81%	0%
Revenues from VAT at Import	**1,401**	**1,553**	**1,689**	**9%**
Effective VAT rate	*7.85%*	*8.59%*	*8.49%*	-1%

Source :MOF, DGF

Nevertheless, the composition of imports did not change over the first nine months of 2010 compared to the same period of 2009, as fuel and non-fuel imports augmented at nearly similar rates of around 10 percent each. The share of the former was unchanged, at 19 percent of total imports against 81 imports for the latter as shown by Table 6. And given that the composition of imports in terms of types of goods imported did not change much, the effective customs rate remained constant at 3.1 percent while total revenues from custom duties inched up by 7 percent, up to LL 609 billion, tracking the 10 percent rise in total imports.

Table 6: Import distribution by product (in $ million)

Rank	Product	Jan-Sep 2009	% Share	Jan-Sep 2010	% Share	Value Change	% Change
1	Mineral fuels and oils	2,304	19%	2523	19%	219	9%
2	Vehicles and accessories, cranes & lorries	1,453	12%	1458	11%	5	0%
3	Aircraft engines, boilers, machinery and mechanical appliances	829	7%	1036	8%	207	25%
4	Unwrought & semi-manufactured gold, diamonds, precious stones and metals	505	4%	842	6%	337	67%
5	Pharmaceutical products	554	5%	650	5%	96	17%
6	Electrical machinery and equipment	614	5%	601	5%	(13)	-2%
7	Iron and steel	418	3%	530	4%	112	27%
8	Plastics and articles	314	3%	388	3%	74	24%
9	Articles of apparel	293	2%	312	2%	18	6%
10	Live animals	200	2%	239	2%	39	19%
	Other	4,505	38%	4610	35%	105	2%
	Total	**11,990**	**100%**	**13,189**	**100%**	**1,200**	**10%**

Source: MOF, DGC

Further, **total excises** at import[4] improved by 7 percent to LL 1,517 billion, mainly propped up by the LL 69 billion higher collections of the tobacco tax:

(i) The collections of **excises on car gasoline** increased by 4 percent over the first nine months of 2010, mirroring the 4 percent rise in the volume of imports while the average effective excise rate remained nearly stable at LL 478 per litre (Table 7). However, the total value of imports shot up by 34 percent to LL 1,386 billion, due to the 35 percent rise in the average price of the oil barrel that reached $ 77 in the first nine months of 2010 compared to $ 57 in January-September 2009. Due the Council of Minister's decision to uncap domestic gasoline prices[5], the surge in international oil prices translated into an upswing in the local prices where the price of the 20 litres of 95 octane gasoline averaged around LL 32,143 during the first nine months of 2010 compared to LL 27,490 during the similar period of 2009[6].

Table 7: Gasoline Import Statistics

(LL billion)	2008 Jan-Sep	2009 Jan-Sep	2010 Jan-Sep	% Change 2010/2009
Imports (*LL billion*)	1,600	1,037	1,386	34%
Volume (*billion litres*)	1.400	1.589	1.648	4%
Collected excises (*LL billion*)	5	757	787	4%
Average effective Price at imports (LL/litre)	*1,143*	*653*	*841*	*29%*
Average effective excise rate (LL/litre)	*4*	*476*	*478*	*0.4%*

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

(ii) **Excises on cars** collected LL 461 billion in January-September 2010, one percent lower than their yield during the similar period of 2009, due to the decline in both the value and volume of vehicle imports. In fact, following two years of rapid growth, the number of imported car receded by almost 6 percent 77,783 vehicles with a total import value of LL 1,672 billion, one percent less than the value of car imports in January-September 2010. The decline in car imports highlights a drop in local demand probably due to the saturation of the local market on the one hand; and the recovery in the prices of vehicles as shown by the 6 percent increase in the average price by imported car (Table 8)[7]. The slowdown in the car market is further confirmed by the absence of growth in the proceeds from **car registration fees** that remained unchanged at LL 180 billion by end of September 2010, indicating that sales of newly imported and domestic used vehicles have levelled off.

[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] Dated 23 January 2009. For further details, please refer to the Ministry of Finance "Public Finance Quarterly Report - QI 2009".
[6] According to the prices published weekly by the Ministry of Energy and Water.
[7] Note that the average import price per car dropped from nearly LL 21 million in 2007 to LL20.3 million in 2008-2009.

Table 8: Car Import Statistics

(LL billion)	2008 Jan-Sep	2009 Jan-Sep	2010 Jan-Sep	% Change 2010/2009
Imports (LL billion)	1,375	1,683	1,672	-1%
Number of Cars	67,718	82,695	77,783	-6%
Collected Excises (LL billion)	359	468	461	-1%
Average price per car (LL million)	*20.3*	*20.35*	*21.5*	*6%*
Average effective excise rate (%)	*26.1%*	*27.8%*	*27.57%*	*-1%*

Source: MOF-General Directorate of Customs declaration forms

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

(iii) The most notable development is on the tobacco front, with the collections of **excises on tobacco** increasing by 36 percent year-on-year in January-September 2010, up to LL 264 billion, mainly on account of a 37 percent rise in imports. The upswing in tobacco imports is attributed to a volume effect, as the net weight of imported tobacco hiked by 29 percent over the considered period, as well as to a price effect where the average import price per kilogram of tobacco[8] increased by 7 percent. The increase in tobacco import may be attributed to higher local demand and/or enhanced customs control (given that tobacco has been often subject to smuggling across borders).

Table 9: Tobacco Import Statistics

(LL billion)	2008 Jan-Sept	2009 Jan-Sept	2010 Jan-Sept	% Change 2010/2009
Imports (LL billion)	174	192	263	37%
Net weight (in tons)	7,571	8,179	10,512	29%
Collected Excises (LL billion)	175	195	264	36%
Average import price (LL per Kg)	*22,982*	*23,475*	*25,019*	*7%*
Average effective excise rate (%)	*100.6%*	*101.6%*	*100.4%*	*-1%*

Source: MOF-General Directorate of Customs declaration forms

[8] Calculated based on declared price at imports.

Non-Tax Revenues

During the first nine months of 2010, **non-Tax revenues** turned out to be almost half of those of January-September 2009, as they totalled LL 1,150 billion in 2010 against LL 2,225 billion during the equivalent period of 2009. Behind this drop stands a 61 percent decline in income from public institutions and government properties, arising from an absence of transfer from the Telecom budget surplus to the Treasury for 8 months, noting that telecom revenues have been deposited in the account of the Ministry of Telecom at the BDL. This was only to a minor extent offset by a 5 percent rise in the collections of administrative fees and charges.

Table 10: Non-Tax Revenues

(LL billion)	2009 Sep	2010 Sep	2009 Jan-Sep	2010 Jan-Sep	% Change 2010/2009
Income from Public Institutions and Government Properties	*190*	*42*	*1,783*	*687*	*-61%*
• Income from Non-Financial Public Enterprises, *of which*:	184	27	1,691	569	-66%
- *Revenues from Casino Du Liban*	*13*	*13*	*114*	*126*	*11%*
- *Revenues from Port of Beirut*	*0*	*0*	*62*	*65*	*5%*
- *Budget Surplus of National Lottery*	*5*	*13*	*38*	*44*	*16%*
- *Transfer from the Telecom Surplus*	*166*	*0*	*1,475*	*331*	*-78%*
• Income from Financial Public Enterprises (BDL)	*0*	0	*40*	60	50%
• Property Income (rent of Rafic Hariri International Airport)	5	14	43	55	26%
• Other Income from Public Institutions (interests)	0	0	8	4	-55%
Administrative Fees & Charges, *of which:*	**39**	**38**	**360**	**377**	**5%**
• Administrative Fees, *of which*:	34	32	297	310	4%
- *Notary Fees*	*2*	*2*	*20*	*22*	*12%*
- *Passport Fees/ Public Security*	*10*	*10*	*89*	*90*	*1%*
- *Vehicle Control Fees*	*15*	*12*	*138*	*132*	*-4%*
- *Judicial Fees*	*2*	*2*	*14*	*18*	*28%*
- *Driving License Fees*	*2*	*1*	*17*	*18*	*4%*
• Administrative Charges	1	1	15	16	8%
• Sales (Official Gazette and License Number)	0	0	2	4	93%
• Permit Fees (mostly work permit fees)	4	5	36	39	7%
• Other Administrative Fees and Charges	0	1	10	8	-20%
Penalties and Confiscations	**0**	**1**	**5**	**6**	**9%**
Other Non-Tax Revenues (mostly retirement deductibles)	**8**	**10**	**77**	**81**	**5%**
Total Non-Tax Revenues	**238**	**90**	**2,225**	**1,150**	**-48%**

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

Income from Public Institutions and Government Properties accumulated to LL 687 billion in January-September 2010 compared to LL 1,783 billion during the same period of 2009. This sharp drop is caused by 78 percent lower transfers from the Budget Surplus of the Telecom, which accounted for a unique transfer of LL 331 billion in February 2010, compared to regular monthly transfers cumulating at LL 1,475 billion for the first three quarters of 2009. On the other hand, entrepreneurial income net of Telecom amounted to LL 356 billion, nearly 16 percent higher than entrepreneurial receipts in January-September 2009. In fact, income from Casino du Liban augmented by 11 percent to LL 126 billion (including the LL 14 billion due representing the third instalment of the dispute settlement between Casino management and the Government[9]), mirroring the prosperity of the tourism activity as evidenced by the 18 percent rise in the number of tourists over the first nine months of the year. Moreover, transfers from the budget surplus of National Lottery improved by 16 percent to LL 44 billion. Finally, the yearly transfers[10] from Port of Beirut (PoB) and Banque du Liban[11] (BDL) pertaining to the surplus generated by 2009 activities were transferred in April 2010 and were 5 percent and 50 percent higher respectively.

On another front, **administrative fees and charges** collected LL 377 billion during the first nine months of 2010, 5 percent higher than the revenues collected during the similar period of 2009, mainly on account of higher consular fees (accounting for 77 percent of the overall increase) judicial and notary fees. The rise in most of administrative fees was mitigated by a 4 percent drop in vehicle control fees that may be explained by a delay in car checking and fee collection.

Treasury Receipts

Treasury receipts rose by 5 percent during the first nine months of 2010 compared to the same period of 2009, reaching LL 514 billion. Of this amount, LL 220 billion (equivalent to 43 percent) are revenues to the Independent Municipal Fund (IMF), representing a 16.5 percent increase compared to IMF revenues for the first three quarters of 2009, somehow in line with the increase in tax revenues[12]. Higher amounts of collected guaranties are also behind the rise in Treasury receipts. It is noteworthy that the increase in Treasury receipts came despite the fact that no grants were received during the first nine months of 2010 whereas during the similar period of 2009, the Treasury collected LL 89.6 billion in grants.

[9] 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.

[10] These transfers were made during the month of April 2010.

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

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

Section III: Expenditure Outcome

Total Expenditures (budget and treasury) dropped by LL 389 billion or 3 percent in January-September 2010 compared to their level during the similar period in 2009. **Total Primary Expenditures** followed suit as they registered an 8 percent decrease, down to LL 7,701 billion by end-September 2010 as shown by Table 11 below:

Table 11: Expenditure Summary

(LL billion)	2008 Jan-Sept	2009 Jan-Sept	2010 Jan-Sept	%Change 2010/2009
Interest Payments	3,648	4,180	4,465	7%
Concessional Loans Principal Payments (1)	282	217	245	13%
Total Primary Expenditures (2)	6,715	8,403	7,701	-8%
Total Budget and Treasury Payments	**10,645**	**12,800**	**12,411**	**-3%**

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

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

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

The decline in total outlays stemmed from a LL 990 billion drop equivalent to 31 percent in the line **"other treasury expenditures"** mainly owing to lower transfers to Electricité du Liban (EDL) and lower allocations to the High Relief Committee (HRC) and the National Social Security Fund (NSSF). In contrast, current expenditures rose by LL 489 billion equivalent to 5 percent driven by personnel cost and interest payments. Capital expenditures also followed an upward path, increasing by LL 110 billion or 28 percent, on higher construction and maintenance bill as depicted by table 12 below.

Table 12. Expenditure by Economic Classification

(LL billion)	2008 Jan-Sept	2009 Jan-Sept	2010 Jan-Sept	%Change 2010/ 2009
1. Current Expenditures	**7,792**	**9,176**	**9,665**	**5%**
1.a Personnel Cost, *of which*	2,859	3,589	3,730	4%
• *Salaries, Wages and Related Items (Article 13)*	1,916	*2,440*	*2,466*	*1%*
• *Retirement and End of Service Compensations, of which:*	796	*912*	*1,039*	*14%*
– *Retirement*	*626*	*780*	*807*	*3%*
– *End of Service*	*170*	*133*	*232*	*75%*
• *Transfers to Public Institutions to Cover Salaries* (1)	*147*	*236*	*225*	*-5%*
1.b Interest Payments, *of which:* (2)	3,647	4,180	4,465	7%
• *Domestic Interest Payments*	*2,123*	*2,605*	*2,873*	*10%*
• *Foreign Interest Payments*	*1,524*	*1,575*	*1,592*	*1%*
1.c Foreign Debt Principal Repayment	282	217	245	13%
1.d Materials and Supplies, *of which:*	165	186	208	11%
• *Nutrition*	*33*	*42*	*47*	*12%*
• *Fuel Oil*	*31*	*7*	*6*	*-19%*
• *Medicaments*	*48*	*85*	*102*	*21%*
• *Accounting Adjustments for Treasury*	*31*	*25*	*26*	*4%*
1.e External Services	85	90	82	-9%
1.f Various Transfers, *of which:*	452	530	524	-1%
• *NSSF*	*40*	*160*	*100*	*-38%*
• *Treasury Advances for Diesel Oil Subsidy* (3)	*19*	*0*	*61*	-
• *Wheat Subsidy*	*142*	*10*	*13*	*32%*
• *Special Tribunal for Lebanon*	*18*	*12*	*41*	*237%*
1.g Other Current, *of which:*	242	311	318	2%
• *Hospitals*	*210*	*249*	*243*	*-2%*
• *Others*	*30*	*54*	*74*	*36%*
1.h Reserves	61	73	94	28%
• *Interest subsidy*	*61*	*73*	*94*	*28%*
2. Capital Expenditures	**378**	**395**	**505**	**28%**
2.a Acquisitions of Land, Buildings, for the Construction of Roads,	7	4	1	-78%
2.b Equipment	26	27	30	13%
2.c Construction in Progress, *of which:*	258	265	323	22%
• *Displaced Fund*	*30*	*60*	*75*	*25%*
• *Council of the South*	*20*	*27*	*20*	*-25%*
• *CDR*	*159*	*141*	*124*	*-12%*
• *Ministry of Public Work and Transport*	*24*	*20*	*83*	*312%*
• *Other*	*26*	*15*	*20*	*30%*
2.d Maintenance	52	55	98	79%
2.e Other Expenditures Related to Fixed Capital Assets	35	45	53	17%
3. Other Treasury Expenditures	**2,443**	**3,193**	**2,203**	**-31%**
3.a Municipalities	287	400	408	2%
3.b Guarantees	44	74	57	-23%
3.c Deposits	57	70	46	-34%
3.d Other, *of which:*	366	903	441	-51%
• *VAT Refund*	*188*	*219*	*251*	*15%*
• *High Relief Committee*	*9*	*520*	*0*	*-100%*
3.e EDL (4)	1,690	1,743	1,250	-28%
Treasury advances for water authorities	0	4	0	-100%
4. Unclassified Expenditures	**2**	**2**	**4**	**91%**
5. Customs Cashiers	**29**	**33**	**34**	**1%**
6. Total Expenditures (Excluding CDR Foreign Financed)	**10,645**	***12,800***	***12,411***	**-3%**

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 18.
(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 15.

Current Primary Expenditures

Current primary expenditures[13] rose by LL 176 billion or 4 percent over the first nine months of 2010, totalling LL 4,955 billion by end-September 2010 compared to LL 4,780 billion by end-September 2009. Details of the main components of current primary expenditures are recorded below:

Personnel cost[14] accumulated to LL 3,730 billion in January-September 2010, representing a 4 percent rise from its level during the equivalent period of 2009. This is primarily explained by a rise in retirement and end-of-service indemnities.

a. *Salaries, wages and related benefits* (Article 13) inched up by 1 percent to LL 2,466 billion by the end-September 2010. The breakdown of article 13 is absent from this report due to the delay in extracting the relevant data at the time of publication of the document.

b. R*etirement and end-of-service compensations* surged by 14 percent over the first nine months of 2010 compared to their level during the same period of 2009, amounting to LL 1,039 billion by the end of QIII 2010. In details, retirement compensations rose by 3 percent to LL 807 billion while end-of-service indemnities hiked by 75 percent to LL 232 billion. Of this LL 99 billion upswing, LL 5 billion equivalent to 5 percent are due to higher payments to civil servants and the remaining 95 percent are explained by an increase in end-of-service indemnities paid to military personnel. In fact, civil servants received LL 35 billion in compensations (equivalent to 15 percent of total compensations) in January-September 2010 compared to LL 30 billion (equivalent to 23 percent of total compensations) during the similar period of 2009. In comparison, payments to military personnel amounted to LL 197 billion in January-September 2010, up by LL 94 billion or 91 percent from their level a year earlier. The rise in payments could be explained either by a higher number of beneficiaries or by the fact that retirees during the period under consideration are of higher grade levels[15] and/or have served for a longer period. In the case of civil servants, the second factor explains the rise in payments as the number of retirees fell from 1,466 during the first nine months of 2009 to 1,361 by the end-September 2010. As for payments to militaries, both factors could explain the increase in compensations as no statistics are available regarding the number of military retirees.

[13] Current primary expenditures is current expenditures excluding interest payments and foreign debt principal repayment.
[14] Personnel cost includes salaries, wages and related benefits (article 13), transfers, retirement and end-of-service.
[15] Indemnities are paid on the basis of the last month salary.

c. Lastly, *transfers to public institutions to cover salaries* amounted to LL 225 billion in January-September 2010, representing a 5 percent decrease from their level a year earlier. This drop was recorded despite a LL 5 billion rise in transfers to Council of the South, primarily resulting from a LL 16 billion decline in payments to the Council for Development and Reconstruction (CDR) which was due to one-off transfers that are not related to salaries but that were classified under article 14 (transfers) and that can be enumerated as follows (i) LL10.5 billion in 2009 for the payment of expropriation indemnities for the reconstruction of the Nahr el Bared Camp[16], (ii) LL4.062 billion to cover income taxes and customs duties paid by Ansaldo and Siemens on the Beddaoui and Zahrani projects[17] and (iii) LL 2 billion for the reconstruction of Mar Youhanna Monastry and settlement of a treasury advance made by CDR to the High Relief Committee, as shown in Table 13 below.

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

(LL billion)	2008 Jan-Sept	2009 Jan-Sept	2010 Jan-Sept	%Change 2010/ 2009
Transfer to Council of the South	5	5	10	93%
Transfer to the Council for Development and Reconstruction	17	38	22	-41%
Transfer to Fund for the Displaced	4	6	5	-25%
Transfer to the Lebanese University	115	177	176	-1%
Transfer to Educational Centre for Research and Development	7	10	12	12%
Total Transfers to Public Institutions	*147*	*236*	*225*	*-5%*

Source: Ministry of Finance

Materials and supplies shot up by 11 percent over the first nine months of 2010 compared to their level a year earlier, amounting to LL 208 billion by end-September 2010 against LL 186 billion by end-September 2009. The breakdown of "material and supplies" (article 11) is absent from this report due to the delay in extracting the relevant data at the time of publication of the document.

External Services totalled LL 82 billion by the end-September 2010, down by 9 percent from their level over the first nine months of 2009. This item includes payments of rents, postal services, insurance, advertisement, public relations, printing costs, consultancy fees, and cleaning and maintenance service fees.

Various Transfers amounted to LL 524 billion in January-September 2010, exhibiting a one percent decline from their level during the similar period of 2009. This drop was recorded despite a LL 29 billion rise in the governments contribution to the financing of

[16] This was paid from the USD 7 million grant provided by the Sultanate of Oman which was integrated to the CDR transfer budget in the 2009 Budget Law Proposal as per Decree 1625 dated March 25th, 2009.
[17] As per Decree 2374 dated June 20th, 2009.

the *Special Tribunal for Lebanon* (STC), a LL 61 billion upswing in Treasury advances for diesel oil subsidy[18] and a LL 3 billion increase in transfers covering the *wheat subsidy* (for details, kindly refer to Box 1).

Further under this item, transfers to the *High Relief Committee* (HRC) classified among various transfers amounted to LL 5.18 billion[19] in January-September 2010 compared to LL 2.6 billion[20] during the same period of 2009. These are payments made to HRC from budgeted reserves and are classified as budgeted transfers whereas payments to the Committee for the July 2006 war and other conflicts were made outside the budget framework through Treasury advances.

Finally regarding various transfers, payments to NSSF receded by LL 60 billion, from LL 160 billion in January-September 2009 to LL 100 billion in January-September, 2010 due to different timing of payments.

Table 14. Transfers to the NSSF

(LL billion)	2009 Budget Proposal	2010 Budget Proposal	%Change 2010/2009
Total Allocation, of which:	**240**	**350**	**46%**
Annual state contributions	160	220	38%
Past dues	80	80	0%
Deficit of optional Social	0	50	-
Actual Transfers in Jan-Sept, of which:	**160**	**100**	**38%**
NSSF budget allocation	100	100	0
Treasury advance by decree	60	0	-100%

Source: Ministry of Finance

Other Current Expenditures rose by 2 percent year-on-year to LL 318 billion by the end of QIII 2010, resulting from a LL 20 billion increase in the line item "others" that was offset by a LL 6 billion drop in the payments to cover hospitalization of uninsured citizens by the Ministry of Public Health.

[18] For details, kindly refer to the Public Finance Quarterly Report for QII 2010.

[19] Of which LL 1.58 billion were allocated by 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 vacating of real estate related to the Tripoli Cultural Heritage Project. The remaining LL 3.6 billion were allocated by decree 3858 dated 16/04/2010 which provided indemnities to the families of the victims of the Ethiopian airplane crash on January 25th,2010.

[20] Following Decree 15738 dated November 14th, 2005 for the vacating of the Yammoune Lake.

Box 1: Payments to cover wheat subsidy

Payments to cover wheat subsidy increased from LL 10 billion in January-September 2009 to LL 13 billion during the first three quarters of 2010.

The LL 10 billion(1) paid during the first three quarters of 2009 covered the subsidy of locally produced wheat. This is due to the Council of Ministers' decision to exceptionally suspend in 2009(2) the 3-year phasing-out process of this subsidy that started in 2006(3).

The LL 13 billion paid in January-September 2010 were from a LL 60 billion treasury advance granted to the DG of Wheat and Beetroot (DGWB) (4) to cover the purchase of 100,000 tons of imported wheat to be resold to flour mills at a subsidized price in order to guarantee the stability of the price of bread. In fact, following the upswing in international prices of wheat(5), the owners of mills claimed the right to sell flour to bakeries at prices exceeding the legal ceiling of LL 480,000 per ton(6). CoM's decision (7) to sell wheat to mills at a subsidized price aimed at avoiding an increase in the price of flour that could have resulted in a downsizing of the bread pack below the current weight of 1,120 grams or an increase in its price above the current cap of LL 1,500. It is finally noteworthy that part of the LL 60 billion treasury advance will be refunded to the treasury from the revenues of the wheat sale to mills.

(1) From Decree 2018 dated May 22nd, 2009 which granted a treasury advance of LL10 billion to the Directorate General of Wheat and Beetroot
(2) As per CoM decision number 102 dated March 26th, 2009.
(3) As per CoM decision number 42 dated October 13th 2005. For details, please refer to the Public Finance Review 2009 report.
(4) As per Decree number 4947 dated September 4th, 2010.
(5) On the Chicago Mercantile Exchange, wheat prices soared by more than 42 percent between end-June and end-July 2010.
(6) CoM decision number 68 dated July 28th, 2007.
(7) CoM decision number 102 dated August 18th, 2010.

Capital Expenditures

Capital expenditures amounted to LL 505 billion in January-September 2010, representing a 28 percent rise from their level during the similar period in 2009. This LL 110 billion increase is due to the following:

a. Payments to the Ministry of Public Works and Transport for construction in progress increased by threefold , totalling LL 83 million by the end of September 2010 compared to LL 20 billion by the end of September 2009. The breakdown of payments to MoPWT is absent from this report due to the delay in extracting the relevant data at the time of publication of the document.

b. Maintenance surged by LL 43 billion equivalent to 79 percent, amounting to LL 98 billion[21] during the first nine months of 2010 compared to LL 55 billion[22]

[21] Of this amount, LL 9.7 billion were paid to CDR for the maintenance of the campus of the Lebanese University, of which LL 1.1 billion as per decree 938 dated November 19th, 2007, LL 1 billion as per decree 374 dated September 29th, 2008 and LL 7.6 billion are from the 18 billion treasury advance provided by decree 3325 dated February 17th, 2010. Decree 938/2007 and decree 374/2008 are to be regularized from the 2010 Budget of the Ministry of Education and Higher Education.

during the similar period in 2009. This increase is mainly due to higher spending on road maintenance by the Ministry of Public Works.

c. Payments to the Displaced Fund for construction in progress increased by LL 15 billion equivalent to 25 percent, accumulating to LL 75 billion by the end of the third quarter of 2010 against LL 60 billion by end-September 2009[23].

d. Other expenditures related to fixed capital assets rose by 17 percent or LL 8 billion, from LL 45 billion in January-September 2009 to LL 53 billion during the equivalent period of 2010. This is due to a LL 19 billion increase in payments 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 the first nine months of 2010 have 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, January-September 2009 witnessed the payment of (i) a LL 20 billion carried forward from the 2008 budget proposal to 2009 and (ii) LL 20 billion from allocations prior to 2008 for which payment orders were issued in 2008 but were actually paid in 2009.

e. Equipment purchases amounted to LL 30 billion during the first nine months of 2010 compared to LL 27 billion during the similar period of 2009, representing a LL 3 billion equivalent to a 13 percent increase.

The magnitude of the increases amounting to LL 132 billion above was in part offset by the impact of the decrease in the following main items:

a. Transfers to the Council for Development and Reconstruction for the construction in progress fell by LL 17 billion or 12 percent year-on-year, down to LL 124 billion in January-September 2010 against LL 141 billion during the similar period of 2009. The breakdown of payments to CDR is absent from this report due to the delay in extracting the relevant data at the time of publication of the document.

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[22] Of this amount, LL 11.3 billion was to CDR for the maintenance of the campus of the Lebanese University, of which LL 1.1 billion are from the LL 16 billion treasury advance provided by Decree 938 dated November 19th, 2007 and LL 10.2 billion is from the 18 billion treasury advance provided by Decree 374 dated September 29th, 2008.

[23] Out of the LL 75 billion paid to the Displaced Fund in January-September 2010, LL 30 billion were from the LL 30 billion allocated to the Fund in the 2009 Budget and carried over. The remaining LL 45 billion were by treasury advance as per decree 4722 dated July 31st, 2010 based on the 2010 budget proposal. These LL 45 billion are to be offset from the amounts allocated to the Displaced fund by Law 362/2001. The LL 60 billion paid to the Displaced Fund during the first three quarters of 2009 were by treasury advance as per decree 1167 dated January 5th, 2009, based on the authorization granted by law 362/2001.

b. Transfers to the Council of the South retreated by LL 7 billion equivalent to 25 percent, down to LL 20 billion in January-September 2010 from LL 27 billion during the same period of 2009[24].

c. Acquisitions of Land, Buildings, for the Construction of Roads fell by LL 3 billion (78 percent) during the first nine months of 2010, down to LL 1 billion.

Treasury Expenditures

Treasury expenditures amounted to LL 2,203 billion in January-September 2010, down by LL 990 billion or 31 percent from their level during the equivalent period of 2009 due to the following:

a. Treasury transfers to, or on behalf of, Electricité du Liban (EDL), fell by LL 493 billion to reach LL 1,250 billion in the first three quarters of 2010[25]. This notable drop of 28 percent is explained by decreases at the levels of both debt service (LL 32 billion) and repayment of oil bills to KPC and Sonatrach (LL 460 billion). It is worth mentioning that the decline in payments to oil suppliers is mainly due to lower amounts of gas oil paid for in 2010 than 2009, which is partially attributed to the use of natural gas (as a cheaper substitute for gas oil) in Deir Amar power plant since early November 2009.

Table 15. Transfers to EDL

(LL billion)	2009 Jan-Sept	2010 Jan-Sept	% Change 2010/2009
EDL *of which:*	**1,743**	**1,250**	**-28%**
• **Debt Service** *of which:*	**108**	**76**	**-30%**
- C-Loans and Eurobonds, *of which:*	82	60	-27%
Principal repayments	*69*	*49*	*-28%*
Interest Payments	*14*	*11*	*-22%*
- BDL Guaranteed Loan payments	26	26	-38%
• **Reimbursement of KPC and Sonatrach Agreements**	**1,635**	**1,174**	**-28%**

Source: MOF, DGF

[24] The LL 20 billion paid in January-September 2010 were from the LL 51.3 billion allocated to the Council of the South in the 2009 Budget and carried over. Of the LL 27 billion paid in January-September 2009, LL 10 billion were by treasury advance as per Decree No. 1167 dated January 5th, 2009, based on the authorization granted by Law 362/2001. The remaining LL 17 billion were paid from the 2009 budget proposal.

[25] For further details, check the September 2010 issue of "Transfers to EDL: A Monthly Snapshot" available on www.finance.gov.lb

b. Other expenditures receded by LL 462 billion or 51 percent year-on-year, reaching LL 441 billion by end-September 2010 compared to LL 903 billion a year earlier. This is primarily due to the absence of payments by Treasury advances to the *High Relief Committee* in January-September 2010 compared to LL 520[26] billion of advances during the similar period of 2009. The drop of transfers to HRC was partially counterbalanced by a LL 32 billion rise in *VAT refund* that totalled LL 251 billion by end-September 2010.

The drop in the above mentioned items was in part offset by an LL 8 billion rise in transfers to Municipalities which amounted to LL 408 billion in January-September 2010 compared to LL 400 billion during the similar period of 2009. As shown in Table 15 below, the rise in these transfers is due to a LL 34 billion equivalent to 18 percent upswing in the distribution of revenues accruing to municipalities for the years 2006, 2007 and 2008. In contrast, payments for solid waste management declined by 10 percent to LL 172 billion and payments to the IBRD "First Municipality Infrastructure" fell by 94 percent to LL 0.5 billion[27].

Table 16: Payments to Municipalities

(LL billion)	2008 Jan-Sept	2009 Jan-Sept	2010 Jan-Sept	%Change 2010/2009
Distribution of Revenues Accruing to Municipalities	88	198	232	18%
Payments for Solid Waste Management	191	191	172	-10%
Payments to the "First Municipality Infrastructure Project"	7	8	0.5	-94%
Other Payments	1	2	2	12%
Total Payments to Municipalities	**287**	**400**	**408**	**2%**

Source: MOF, DGF

[26] Of the LL 520 billion paid to HRC in January-September 2009, LL 200 billion were transferred as per decree 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 300 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. Further, LL 15 billion were paid as per decree #1670 (dated 07/04/2009) for compensations related to Tripoli incidents in 2008 and 2009. Finally, LL 5 billion were paid as per decree 2431 (dated 26 June 2009) to compensate Lebanese citizens who suffered damage to their properties during the Nahr El Bared events. It should be noted that in September 2010 a LL0.364 billion was provided to HRC by treasury advance to pay the indemnities due following the heavy rains that occurred in Kaa El Reem in Zahleh as per Decree 1929 dated November 5th, 2009.

[27] For details on payments to municipalities, kindly refer to the Public Finance Quarterly Report for QII 2010.

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 intervention classified as social assistance[28].

Social spending totalled LL 2,855 billion or 23 percent of total budget and treasury payments in January-September 2010, compared to 21 percent during the similar period of 2009. In details, end-of-service indemnities and pensions captured the highest share of the total social bill at 36 percent. Spending on education followed with 34 percent while spending on health ranked third with 19 percent.

During the first three quarters of 2010, the social bill rose by LL 136 billion or 5 percent from its level during the similar period of 2009. This increase resulted from the following factors:

a. A LL 127 billion increase in end-of-service and pension payments.

b. A LL 60 billion rise in education spending mainly owing to a LL 57 billion increase in wages and salaries of the General Directorate of Education and a LL 11 billion upswing in the payment of education allowance in the private sector.

c. A LL 55 billion rise in the health outlays explained by a LL 31 billion augmentation in hospitalization of military and security forces personnel and a LL 17 billion increase in purchases of medication.

[28] 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 17: Main Social Expenditures

(LL billion)	2009 Jan-Sept	2010 Jan-Sept	% Change 2010/ 2009
Health	**482**	**537**	**11%**
• Hospitalization in the Private Sector	237	243	2%
• Purchase of Medication	85	102	21%
• Hospitalization of Public Sector Employees in Private Sector	83	114	37%
• Maternity and Sickness Allowance	25	30	19%
• Other	52	48	-8%
Education	**908**	**968**	**7%**
• Ministry of Education and Higher Education, *of which*:	773	882	6%
- *Wages and Salaries of the General Directorate of Education*	*434*	*491*	*13%*
- *Wages and Salaries of the General Directorate of Higher Education*	*1*	*1*	*6%*
- *Wages and Salaries of the General Directorate of Technical Education*	*31*	*25*	*-18%*
- *Contributions in the Salaries of the Lebanese University*	*177*	*176*	*-1%*
- *Contributions to Non-Profit Organizations (Private Schools)*	*44*	*44*	*-1%*
- *Construction under Execution (Construction and Restoration of Schools)*	*5*	*9*	*87%*
• Education Allowance in Private Sector	136	146	8%
Other Social Spending	**1,329**	**1,350**	**2%**
• Marriage Allowance	2	3	41%
• Birth Allowance	2	2	12%
• Death Allowance	3	2	-20%
• Other Social Spending Allowance	7	5	-26%
• Participation in several Pension Funds	19	20	9%
• Ministry of Social Affairs, *of which*:	81	39	-52%
- *Transfers to Non-Profit Organizations*	*80*	*35*	*-56%*
• Ministry of Displaced	4	5	20
• Transfers to Civil Servants Cooperative	138	134	-3%
• End-of-Service and Pensions	912	1,039	14%
• National Social Security Fund	160	100	-38%
Total Social Expenditures	**2,719**	**2,855**	**5%**

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

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 4,465 billion percent in January-September 2010, up by LL 285 billion or 7 percent from their level during the similar period of 2009. This rise stemmed from a 10 percent upswing in interest payments on local currency debt and a 1 percent augmentation in interest payments on foreign currency debt.

Interest payments on *local currency debt* rose by LL 268 billion over the first nine months compared to their level in January-September 2009, explaining 94 percent of the increase in total interest payments. Behind this rise stands a 50 percent upswing in discount interest payments on short term Treasury Bills and a 9 percent expansion in coupon payments on long term T-bills[29]. This is explained by an increase in the volume of both short and long term instruments with interest maturities falling due in January-September 2010 compared to the previous year. In terms of figures, the volume of long term maturities with coupon payments falling due during the first nine months of 2010 increased by 14 percent compared to their level a year earlier. Similarly, the volume of short term maturities with discount interest over the first three quarters of 2010 surged by 21 percent compared to their level a year earlier.

This volume effect was in part offset by a price effect related to the drop in the weighted average cost of local debt instruments in LL, reflecting the gradual decline in interest rates that started in October 2008. In fact, the weighted average cost of long term instruments declined by 46 basis points (bps) to 8.87 percent as of end September 2010. As for short term instruments, their weighted average cost receded by 39 basis points to 6.13 percent by end-September 2010.

On another front, interests on *foreign currency debt* increased by one percent, mainly on account of 33 percent higher concessional loans interest payments. The rise in interest payments on concessional loans is mainly explained by LL 30 billion payments on eleven Islamic Development Bank (IDB) Project loans with interest payments maturing starting from June 2010[30].

Concessional Loans Principal Payments reached LL 245 billion by end-September 2010, representing a 13 percent rise despite the prepayment of World bank Loans worth of LL 75 billion in June 2009 with the proceeds of USAID grant for budget support[31] This increase is due to the disbursement starting from June 2010 of LL 62 billion as deferred principal payments on ten IDB loans[2] and to the payment in July 2010 of LL 14 billion as a first principal repayment of The IMF EPCA I loan.

[29] For short term Treasury Bills, bullet payment of principal and interest are conducted at maturity.
[30] For details, kindly refer to the QII 2010 Public Finance Review.
[31] Please refer to the "International Conference for Support to Lebanon- Paris III (10th progress report)": www.finance.gov.lb

Table 18: Details of Debt Service Transactions

(LL billion)	2008 Jan-Sept	2009 Jan-Sept	2010 Jan-Sept	Change Jan-Sept 2010/Jan-Sept 2009
Interest Payments [(1)]	**3,648**	**4,180**	**4,465**	**7%**
Local Currency Debt	**2,124**	**2,605**	**2,873**	**10%**
• *Discount interest*	*113*	*108*	*162*	*50%*
• *Coupon*	*2,011*	*2,497*	*2,711*	*9%*
Foreign Currency Debt, *of which*:	**1,524**	**1,575**	**1,592**	**1%**
• *Eurobond Coupon Interest[(2)]*	*1,409*	*1,473*	*1,459*	*-1%*
• *Special Bond Coupon Interest[(2)]*	*8*	*10*	*11*	*10%*
• *Concessional Loans Interest Payments*	*107*	*92*	*123*	*33%*
Concessional Loans Principal Payments [(1)]	**282**	**217**	**245**	**13%**

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 amounted to LL 3,160 billion in January-September 2010 against LL 3,486 billion during the equivalent period of 2009.

As during HI 2010, treasury accounts were the main source of financing during the first nine months of 2010. In fact, the government reduced its cash balances by LL 3,293 billion during the period under consideration. This compares to a much lower decline of LL 396 billion in January-September 2009. Moreover, the net issuance of Treasury Bills denominated in domestic currency resulted in a surplus of LL 234 billion over the first nine months of 2010[32], against a much higher surplus of LL 3,019 billion during the same period of 2009. Conversely, the net issuance of Eurobond resulted in a deficit of LL 162 billion reflecting the $ 1.2 billion Eurobond issue that took place in March 2010 and around $ 1.3 billion of Eurobonds principal repayment during the considered period.

Table 19: Financing for January-September 2010 versus January-September 2009

(LL billion)	2009 Jan-Sept	2010 Jan-Sept
Overall balance from the financing side[33]	**-3,486**	**-3,160**
Total Net in Financing	**3,486**	**3,160**
• LL Treasury bills (2)	3,019	234
• Eurobonds (1)	187	-162
• Special T-bills in Foreign currencies	28	34
• Bilateral Loans (1)	-127	-119
• Multilateral Loans (1)	23	-119
• Private sector loans (1)	-12	-1
• Change in treasury accounts (-/increase +/decrease)	396	3,293

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 accounts".

[32] This includes the halt of the auction during the month of march 2010.
[33] The overall balance from the financing side is calculated as the negative sum of total net financing items. It differs from the overall balance of Section 1 (based on a check-issued basis) because it measures cash going in and cash going out; it also includes CDR operations related to project financing loans and is affected by the cash sources and requirements of all debt operations.

Public Debt

Gross public debt stock totalled LL 76,664 billion ($ 50.86 billion) by end-September 2010, representing a LL 433 billion or a one percent decline from the end-December 2009 level. Behind this decline stands a decrease in the stock of foreign currency debt that outweighed the slight rise in the local currency debt.

Yet, as public sector deposits fell by 11 percent over the first nine month of 2010, the stock of public net debt[34] rose by LL 725 billion or 1 percent compared to its end-December 2009 level, up to LL 67,300 billion ($ 44.64 billion).

Table 20: Public Debt Outstanding as of end-September 2010

(LL billion)	Dec-08	Dec-09	Sept-10	Change Dec 09 -Sept 10	% Change Dec 09-Sept 10
Gross Public Debt[(1)]	70,937	77,097	76,664	-433	-1%
Net Debt	62,611	66,575	67,300	725	1%
Gross Market Debt[(2)]	46,992	51,231	52,039	808	2%

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.

The stock of **local currency debt** reached LL 45,028 billion by the end of the third quarter of 2010, registering a 0.1 percent rise from its end-December 2009 level mainly owing to a higher stock of long term bonds

By holder, the stock of domestic currency debt held by commercial banks inched up by 1 percent in January-September 2010, totalling LL 27,637 billion. This is mainly explained by a LL 338 billion or 1 percent expansion in the portfolio of Treasury bills held by these institutions.

As for Banque du Liban, its holdings of treasury bills declined by 7 percent, down to LL 9,630 billion by end-September 2010.

"Other" holders of T-bills witnessed a 6 percent rise in their holdings of Lebanese debt instruments in local currency that accumulated to LL 7,761 billion by the end of September 2010. This rise is mainly explained by a 25 percent upswing in the stock of T-bills held by the public and a 2 percent increase in the portfolio of Treasury Bills held by public entities. The augmentation in these two items was in part offset by a 11 percent contraction in the portfolio of TBs held by financial institutions.

Results from the weekly auctions of Treasury Bills and Notes show that over the first nine months of 2010, commercial banks remained the largest subscriber of TBs as they captured a stake of 49 percent of all subscriptions in January-September 2010. BDL

[34] The stock of net public debt equals the stock of gross public debt minus public sector deposits.

ranked second with a share of 25 percent while public institutions and public at banks followed with 15 percent and 10 percent respectively. However, when QIII considered alone, commercial banks exhibited a weaker appetite for TBs and were the second largest subscriber with a share of 37 percent of all accepted offers in July-September 2010, behind BDL which captured a stake of 38 percent.

By instrument, the stocks of long term and short term bonds continued to exhibit opposite trends. In fact, the former augmented by two percent during the first nine months of 2010 compared to end-December 2009, totalling LL 41,743 billion by end-September 2010. In contrast, the stock of short term instruments fell by 22 percent to LL 2,922 billion.

Among long term T-bills, the stock of sixty-month notes registered the highest increase in January-September 2010, soaring by 42 percent to LL 7,162 billion, due to the introduction of these instruments in the weekly auctions starting from July 2009. Similarly, the stock of 24MN Treasury notes hiked by 15 percent to LL 3,430 billion. However, the stock of 36MN retreated by 5 percent to LL 30,365 billion.

Concerning short term T-bills, the stock of three-month notes shot up by 128 percent to LL 347 billion. However, the stocks of six and twelve-months TBs fell by 37 percent and 22 percent respectively to LL 949 billion and LL 1,626 billion.

These results mirror the predominance of long term T-bills in total subscriptions during the first three quarters of 2010. In fact, long term Treasury Bills accounted for 73 percent of all subscriptions in January-September 2010, against 27 percent for short term notes. Thirty-six-month bonds captured again the highest share of subscriptions at 33 percent. Sixty-month bonds ranked second with 28 percent followed by 6MN notes with 14 percent of subscriptions. A similar trend is observed over QIII considered alone as long term bonds accounted for 74 percent of all subscriptions in Jul-September 2010 against 26 percent for short term instruments.

Long term instruments also accounted for 65 percent of maturing TBs in January-September 2010, compared to 35 percent for short term instruments. Thirty-six-month notes represented 47 percent of maturities during the considered period followed by 6MN bills with 19 percent. Twelve-month notes ranked third with a stake of 13 percent of maturities.

Table 21: Domestic Currency Debt by Holder and Instrument as of end-September 2010

Stocks (end of period)	Dec-08	Dec-09	Sept-10	Change Dec 09 - Sept 10	% Change Dec 09 - Sept 10
Local currency debt	39,007	44,973	45,028	55	0%
A. By Holder					
1. Central Bank (including REPOs and Loans to EDL to	8,781	10,334	9,630	-704	-7%
2. Commercial Banks	24,320	27,286	27,637	351	1%
3. Other local debt (T-bills)	5,906	7,353	7,761	408	6%
o/w Public entities	*5,062*	*6,078*	*6,210*	132	2%
**Accrued interest included in debt*	*1,029*	*999*	*853*	-146	-15%
B. By Instrument					
1. Long term bonds	36,350	40,842	41,743	901	2%
1.1 60 months bonds	3,049	5,036	7,162	2,126	42%
1.2 54 months bonds	0	0	0	0	0
1.3 48 months bonds	633	0	0	0	0
1.4 36 months bonds	29,650	31,908	30,365	-1,543	-5%
1.5 30 months bonds	0	0	0	0	0
1.6 24 months bonds	2,052	2,989	3,430	441	15%
1.7 Coupon interest	966	909	786	-123	-14%
2. Short term bills	2,197	3,735	2,922	-813	-22%
2.1 12 months bills	676	2,073	1,626	-447	-22%
2.2 06 months bills	1,234	1,510	949	-561	-37%
2.3 03 months bills	287	152	347	195	128%
** Accrued interest included*	63	90	67	-23	-26%
3. Other local debt	460	396	363	-33	-8%
3.1 Central Bank Loans	362	291	245	-46	-16%
3.2 Commercial Banks Loans	98	105	118	13	12%

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.

Primary market interest

The downward trend exhibited by primary market interest rates since June 2008 was halted in QIII 2010 as reflected by a 3 basis points (bps) average increase in interest rates between June and September 2010. Over the first nine months of 2010, interest rates declined on average by 107 bps from their en-December 2009 level, compared to a an average drop of 110 bps over HI 2010. The highest decrease was registered by the rate on 60MN bonds that retreated by 156 bps between September 2010 and December 2009. The rate on 6MN notes followed with a drop of 120 bps against a decline of 116 bps for 36MN bonds.

Table 22: Evolution of Primary Market Rates

Maturity	Dec. 31, 2008 [2]	Dec. 31, 2009	March 31,2010[3]	June. 30, 2010[4]	Sept. 30, 2010
3-month	5.10 percent	4.55 percent	4.44 percent	3.94 percent	3.93 percent
6-month	7.11 percent	5.72 percent	5.50 percent	4.43 percent	4.52 percent
12-month	7.57 percent	5.73 percent	5.58 percent	4.79 percent	4.81 percent
24-month	8.22 percent	6.32 percent	6.04 percent	5.36 percent	5.34 percent
36-month	8.98 percent	7.10 percent	6.86 percent	5.86 percent	5.94 percent
60-month[1]	N/A	7.74 percent	7.38 percent	6.16 percent	6.18 percent

Source: Ministry of Finance

Notes:
[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 23 July 2009)
[2] Reflects rate of the auction the week of 29 December 2008, value date 1 January 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.

The stock of **foreign currency debt** amounted to LL 31,636 billion by the end of September 2010, down by LL 488 billion equivalent to 1.52 percent from its end-December 2009 level. Of this decline, LL 108 billion is due to exchange rate valuations including due to the depreciation of the Euro from a rate of 1.4329 €/$ at the end of 2009, to 1.3652 €/$ at the end of September 2010.

Table 23: Foreign Currency Debt by Holder and Instrument as of end-September 2010

(in LL billion)	Dec-08	Dec-09	Sept-10	Change	% Change Year-to-date
B. Foreign currency debt[(1)]	**31,930**	**32,124**	**31,636**	**-488**	**-2%**
4. Eurobonds	**26,817**	**27,142**	**26,934**	**-208**	**-1%**
Of which, Paris II at preferential rates[(2)]	4,708	4,192	3,882	-311	**-7%**
Of which, Paris III at preferential rates[(3)]	754	754	709	-45	**-6%**
** Accrued Interest on Eurobonds*	*430*	*460*	*469*	9	**-2%**
5. Loans	**4,694**	**4,535**	**4,221**	**-314**	**-7%**
5.1 Paris II loans	748	627	473	-154	**-25%**
5.2 Paris III loans[(4)]	1,095	1,210	1,174	-38	**-3%**
5.3 Bilateral loans (non-Paris II and III)	731	716	720	4	**1%**
5.4 Multilateral loans (non-Paris II and III)	2,065	1,956	1,829	-127	**-6%**
5.5 Foreign Private Sector Loans	54	27	27	0	0%
6. Other debt	**419**	**447**	**481**	**34**	**8%**
6.1 Special Tbs in Foreign currency[(5)]	419	447	481	34	**8%**

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)

In details, the stock of loans in foreign currency contracted by LL 314 billion equivalent to nearly 7 percent primarily owing to a 25 percent decline in the stock of Paris II loans, a 6 percent drop in the stock of (non-Paris II and III) multilateral loans and a 3 percent decrease in the stock of Paris III loans. Excluding fluctuations that are due to exchange rate variations, the decline in the Paris II stock of loans was due to two principal repayments of the *Agence Française de Développement (AFD)* Paris II loan that amounted to € 30 million each and took place in February and August 2010. As for the stock of multilateral loans, its drop is explained by LL 85 billion repayments to the Islamic Development Bank, LL 29 billion repayments to the Arab Fund for Economic and Social Development and LL 18 billion repayments to the International Bank for Development and Reconstruction (IBRD). Lastly, the stock of Paris III loans receded due to a SDR 6.3 principal repayment of the IMF EPCA I loan.

In contrast, the stock of (non Paris II and III) bilateral loans inched higher by LL 4 billion or 0.57 percent over the first nine months of the year, following a drop of 5 percent or LL 37 billion in HI 2010. This rise was triggered by the disbursement during QIII 2010 of LL 10 billion from 5 loans granted by the Kuwaiti Fund for Arab Economic Development, of LL 5 billion from a loan granted by the Japanese Overseas Economic Cooperation Fund, of LL 4 billion from 6 loans granted by the Saudi Fund and to two disbursements of LL 3 billion each from loans granted by the Abu Dhabi Fund for Development and the *Agence Française de Développement*.

On another front, the value of the Eurobonds portfolio inched down by nearly 1 percent, despite the new issuance that took place in March 2010[35]. The stock of Eurobonds issued in the context of Paris II remained constant between June and September 2010, falling by LL 311 billion from its end-December 2009 level due to 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. Moreover, the stock of Paris III related Eurobonds receded by LL 45 billion explained by two $ 15 million principal repayment (in January and July 2010) of the USD 300 million Eurobond due July 2017 which also has an amortized payment structure.[36]

With respect to other debt in foreign currency, the stock of special T-bills in foreign currency rose by LL 34 billion due to two issuances of new contractors bonds during the first nine months of 2010. The Lebanese Republic issued $ 15,984,633.28 6.00 percent

[35] For details, please see the 2010 QI Report.
[36] 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.

bonds due 2015 on April 22nd,2010 and another $ 6,930,256.88 6.00 percent bonds due 2015 on July 15th, 2010, both pursuant to Law # 69 dated April 23rd, 2009. These bonds were issued to contractors to settle the changes in the cost of construction materials.

Table 24: Eurobond Price Performance over QIII 2010

Lebanese Issues	27-Jul-2010	04-Aug-2010	13-Aug-10	23-Aug-10	02-Sept-2010	20-Sept-2010	30-Sept-2010
EURO							
LEB 5.875 12	3.78	3.90	3.87	3.76	3.72	3.66	3.61
US Dollars							
LEB 7.875 11	3.12	3.29	3.14	3.17	2.96	2.66	2.35
LEB 4.000 17 Av Life	4.71	4.69	4.65	4.48	4.49	4.41	4.41
LEB 7.500 12	3.46	3.63	3.57	3.44	3.36	3.25	3.14
LEB 7.750 12	3.70	3.71	3.67	3.50	3.44	3.35	3.27
LEB 9.125 13	3.99	4.00	3.95	3.77	3.76	3.68	3.60
LEB 8.625 13	4.00	3.96	3.93	3.81	3.80	3.73	3.67
LEB 7.375 14	4.66	4.65	4.63	4.40	4.41	4.38	4.36
LEB 9.000 14	4.63	4.61	4.59	4.43	4.43	4.38	4.27
LEB 5.875 15	5.14	5.11	5.11	4.97	4.97	4.96	4.95
LIEB 10.000 15	5.18	5.16	5.14	4.98	4.96	4.84	4.80
LEB 8.500 15	5.13	5.09	5.07	4.90	4.88	4.80	4.78
LEB 8.500 16	5.35	5.32	5.30	5.12	5.10	5.06	5.01
LEB 11.625 16	5.71	5.74	5.72	5.39	5.34	5.29	5.26
LEB 9.000 17	5.79	5.80	5.69	5.35	5.31	5.30	5.22
LEB 6.375 20	6.34	6.34	6.27	5.92	5.89	5.94	5.85
LEB 8.250 21	6.62	6.60	6.54	6.23	6.15	6.16	6.12
LEB 7.000 24	6.90	6.89	6.83	6.62	6.59	6.62	6.60

Source: Credit Suisse

Secondary market yields decreased by an average of 39 bps during the course of QIII 2010[37] due to the solid demand for emerging markets debt instruments and the low international benchmark rates.

[37] Calculated from July 27th to September 30th 2010.

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