

PUBLIC FINANCE REVIEW 2009

MINISTRY OF FINANCE YEARLY REPORT



REPUBLIC OF LEBANON
MINISTRY OF FINANCE

Public Finance Review 2009

Ministry of Finance Yearly Report

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Public Finance Highlights

- **General Fiscal Developments**
The fiscal deficit in 2009 totalled LL 4,462 billion, 1 percent larger than the deficit recorded in 2008. The primary surplus improved substantially by 80 percent, from 900 billion in 2008 to LL 1,625 billion in 2009. (Section 1).
- **Expenditures**
Public expenditures, at LL 17,167 billion in 2009, increased by about 15 percent compared to 2008, whereby current expenditures increased by 19 percent and capital expenditures by 7 percent. (Section 3).
- **Revenues**
At LL 12,705 billion in 2009, revenues were higher than those collected in 2008 by 20 percent, mainly as a result of 25 percent higher tax revenues. Non-tax revenues also increased by 17 percent. (Section 2).
- **Public Debt Developments**
By the end of December 2009, the stock of debt totalled LL 77,019 billion, registering an increase of 9 percent from the end December 2008 level. Net debt stood at LL 66,497 billion at the end of 2009, an increase of 6 percent against the end 2008 level. (Section 4).

Section I: Fiscal Overview

Table 1: Summary of Fiscal Performance

(LL billion)	2007 Jan-Dec	2008 Jan-Dec	2009 Jan-Dec	Change 2009/2008
Total Budget and Treasury Receipts	8,749	10,553	12,705	20.4%
Total Budget and Treasury Payments, of which	12,587	14,957	17,167	14.8%
• Interest Payments	4,695	4,957	5,784	16.7%
• Concessional Loans Principal Payments 1/	246	347	303	-12.7%
• Primary Expenditures 2/	7,647	9,652	11,080	14.8%
Total Deficit/Surplus	-3,838	-4,404	-4,462	1.3%
Primary Deficit/Surplus	1,102	900	1,625	80.6%

Source: MOF, 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).

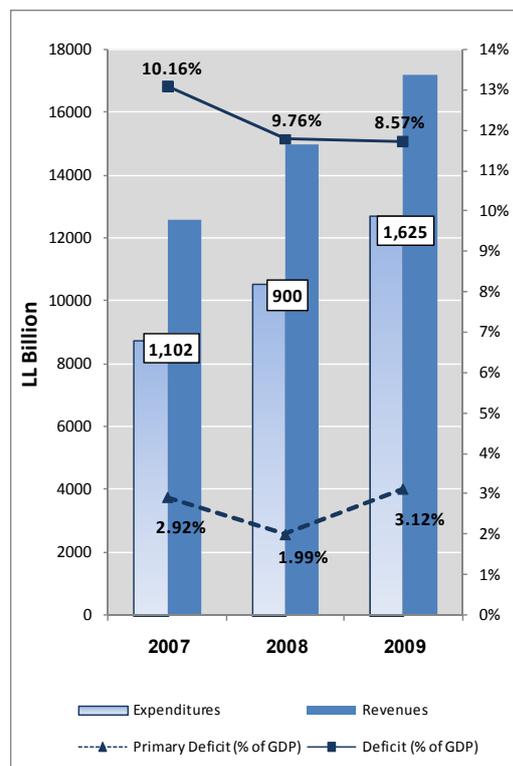
The **fiscal deficit** stood at LL 4,462 billion in 2009, a percentage point increase from the LL 4,404 billion deficit in 2008, as shown in Table 1 above. This result is due to higher total payments of LL 2,210 billion compared to incremental total receipts of LL 2,152 billion in this period.

The fiscal deficit as a share of GDP however decreased from 9.8 percent in 2008 to 8.6 percent in 2009¹, explained by higher growth in the economy in 2009.

Table 1 also shows that the **primary surplus** of LL 1,625 billion strengthened by 81 percent in 2009 from level of LL 900 billion achieved in 2008, as the increase in revenues (in the magnitude of LL 2,152 billion) counterbalanced the rise in primary expenditures (equivalent to LL 1,428 billion).

Primary surplus to GDP increased from 2 percent in 2008 to 3 percent in 2009, the highest level achieved the past decade.

Figure 1: Fiscal and Primary Balances
January – December, 2006 -2009



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¹ GDP was LL 45,124 billion in 2008 and LL 52,051 billion in 2009, as per National Account Statistics published.

Section II: Revenue Outcome

Total revenues were LL 12,705 billion in 2009 (24 percent of GDP) compared to LL 10,533 billion in 2008 (23 percent of GDP), as shown in Table 2 below.

Table 2: Total Revenues

(LL billion)	2008 December	2009 December	2008 Jan-Dec	2009 Jan-Dec	Change 2009/2008
Budget Revenues, of which:	907	1,027	9,795	12,036	22.9%
• Tax Revenues	591	694	7,182	8,967	24.9%
• Non-Tax Revenues	316	332	2,613	3,069	17.5%
Treasury Receipts	149	44	758	669	-11.7%
Total Revenues	1,056	1,071	10,553	12,705	20.4%

Source: MOF, DGF

Tax Revenues

The notable result of total revenues is due to the annual increase of 25 percent in tax revenues in 2009 (Table 3). In fact, tax revenues increased from LL 7,182 or 15.9 percent of GDP in 2008 to LL 8,967 billion or 17.2 percent of GDP in 2009, largely attributed to the uncapping of the gasoline excise, and to an estimated 15.3 percent nominal growth in 2009 (8 percent real growth and 6.8 percent GDP deflator). In fact, the main drivers behind this performance in 2009 reflects general buoyancy of domestic consumption as reflected in the 36 percent increase in collection of consumption taxes (namely VAT and excises), and the unprecedented 23 percent growth in private sector bank deposits, as mirrored by the 15 percent increase in revenues from the interest income tax.

From a policy perspective, the Council of Ministers' Decision No. 9 dated 23 January 2009 uncapped the retail price of gasoline at pump stations and fixed the excise rate level, thus returning to the pre-May 2004 pricing regime. As a result, domestic prices now reflects international price fluctuations, and this has boosted revenues from car gasoline excises. In addition, Law number 63 dated 31 December 2008, providing for public sector wage increase and minimum wage increase, has consequently increased the income tax base on wages and salaries, thus translating to a 28 percent higher receipts from the withheld taxes on wages & salaries.

Table 3: Tax Revenues

(LL billion)	2008 December	2009 December	2008 Jan-Dec	2009 Jan-Dec	Change 2009/2008
Taxes on Income, Profits, & Capital Gains, of which:	67	89	1,564	1,839	17.6%
• Income Tax on Profits	18	14	616	731	18.7%
• Income Tax on Wages and Salaries	18	8	273	350	28.2%
• Income Tax on Capital Gains & Dividends	6	13	170	179	5.3%
• Tax on Interest Income (5%)	32	50	485	558	15.1%
• Penalties on Income Tax	5	4	20	21	5.0%
Taxes on Property, of which:	97	126	786	809	2.9%
• Built Property Tax	15	8	130	101	-22.3%
• Real Estate Registration Fees	73	106	580	626	7.9%
Domestic Taxes on Goods & Services, of which:	197	220	2,895	3,260	12.6%
• Value Added Tax	161	185	2,584	2,889	11.8%
• Other Taxes on Goods and Services, of which:	36	35	305	363	19.0%
- Private Car Registration Fees	18	20	197	238	20.8%
- Passenger Departure Tax	17	14	107	123	15.0%
Taxes on International Trade, of which:	206	225	1,588	2,664	67.8%
• Customs	60	70	686	768	12.0%
• Excises, of which:	146	155	902	1,896	110.2%

- Petroleum Tax	67	74	112	999	792.0%
- Tobacco Tax	23	30	246	277	12.6%
- Tax on Cars	55	50	539	614	13.9%
Other Tax Revenues (namely fiscal stamp fees)	24	33	350	396	13.1%
Total Tax Revenues	591	694	7,182	8,967	24.9%

Table 3 above shows that **taxes on income profits and capital gains** collected LL 1,839 billion in 2009 (or 3.5 percent of GDP), 18 percent higher than the level achieved in 2008.

The **income tax on profits** realised in 2008 are filed and settled in 2009. They amounted to LL 731 billion compared to LL 616 billion, representing the tax amount on profits realised in 2007 and collected in 2008 (Table 3). This 19 percent increase in receipts may be largely explained by higher real growth in 2008, namely 9.3 percent, compared to the 7.5 percent in 2007 (see Box 1).

Box 1. Income Tax on Profits Declared by Economic Activity

The distribution of the income tax on profit of 2008 (declared and filed in 2009), by economic activity provides insights on the most performing sectors of the Lebanese economy during that year.

Table 4: Income Tax on Profits Declared by Economic Activity

(in LL millions)	Profit Year 2006	share	Profit Year 2007	share	Profit Year 2008	share	Change 08-07
Financial Intermediaries	96,176	29%	114,012	28%	136,021	26%	19.3%
Real Estate Activities	39,138	12%	48,728	12%	70,818	14%	45.3%
Manufacturing of Fertilisers and azotes products	4,387	1%	7,973	2%	19,764	4%	147.9%
Wholesale Trade of Household Appliances	10,486	3%	12,309	3%	19,583	4%	59.1%
Manufacturing of Cement and like products	10,915	3%	10,967	3%	13,350	3%	21.7%
Business Consultancy	11,537	4%	9,685	2%	12,898	2%	33.2%
Wholesale Trade of Food Products, Beverages & Tobacco	7,028	2%	10,717	3%	12,662	2%	18.1%
Sales of Vehicles	6,692	2%	11,564	3%	12,282	2%	6.2%
Telecommunications	9,596	3%	11,083	3%	11,292	2%	1.9%
Retail sale of Clothing & shoes	4,830	1%	5,395	1%	9,209	2%	70.7%
Others	125,255	38%	158,793	40%	201,036	39%	26.6%
Total Declared Tax Amounts	326,040	100%	401,226	100%	518,915	100%	29.3%

Source: MOF SIGTAS Database Income Tax on Profits Declarations

Note: Income tax on profits realised in 2006, 2007 and 2008 are declared and settled in 2007, 2008 and 2009 respectively.

Income tax figures in this table are self-assessed declared amounts which differ from the income tax cash amounts published in Fiscal Performance. The latter represents the cash amounts collected by the Treasury which account for self-assessed tax amounts paid and any additional imposition pertaining to the current year or previous years.

Similar to past years, the pillars of the Lebanese economy are the financial and the real estate sectors, which cumulatively account for 40 percent of the aggregate tax declared.

On the industrial front, the most notable development is the 148 percent increase in the tax amount declared by manufacturers of fertilisers, which pulled them from the 10th position to the 3rd position in the ranking of the highest profit-making economic activity in 2008. Its share of the aggregate tax amount rose from 1 percent in 2006 to nearly 4 percent in 2008¹. On the other hand, cement manufacturing maintained past years' performance with a 3 percent share of the aggregate amount of the tax.

Services such as business consultancies seem to have enjoyed a more profitable year in 2008, after a downturn in 2007, as witnessed by the 33 percent rise in the declared tax amount.

Furthermore, income tax on profit declarations ascertains the fact that Lebanon has long been a trade driven economy, with wholesale and retail trade contributing cumulatively around 10% of the aggregate amount of tax declared, right behind the financial and the real estate sectors.

(continued)

Within trade, wholesalers of household appliances declared 59 percent higher tax amount, assuming a higher share from 3 percent to nearly 4 percent of the aggregate declared tax amount. This may be an outcome of the buoyancy in the real estate market, which increased the need to furnish the newly constructed apartments. Further within the trade sector, wholesalers of food and beverages and car dealers filed 18 percent and 6 percent higher tax amount, respectively. Car dealers declared 72 percent higher tax amount on 2007 profits, whereas the peak in car imports was recorded in 2008). Newly admitted to the top 10 of the highest profit-making sectors in 2008 is the retail sale of clothing and shoes, which witnessed a 71 percent rise in the amount of the tax declared. This rise may be partially attributed to the 31 percent rise in the number of tourists visiting Lebanon, in 2008 compared to 2007.

The above results indicate that high growth in 2008 originates from buoyancy in private consumption, attributed to renewed confidence in Lebanon in light of the post-Doha Agreement, which revived tourism. As such, Lebanon was able to regain its position as a market for petro- dollars (the year 2008 witnessed a peak in the price of oil per barrel) and a preferred destination for Arab tourists. This buoyancy in private consumption may also be partly attributed to an increase in the purchasing power of Lebanese consumers, given that in the last quarter of 2008, the Government granted a public sector wage increase and a minimum wage increase.

Finally, contrary to past years' trend, the wholesale trade of fuel products dropped out of the top 10 ranking to the 13th position, with wholesalers filing cumulatively a 25 percent lower tax amount than that of the previous year (i.e. on 2007 profits).

The **withheld tax on wages and salaries** demonstrated steady improvement in collection since the launch of the Deduction At Source of the Income Tax on Salaries (DASS)² reform effort in 2003, which enlarged the tax base and improved compliance.

More recently, the policy decision granting a wage increase in the public sector and a minimum wage increase (as per Law number 63 dated 31 December 2008, effective as of September 2008, with a retroactive effect back to May 2008), explains largely the 25 percent and the 28 percent respective increases in tax receipts in 2008 and 2009.

The **5 percent tax on interest income** collected LL 558 billion in 2009, 15 percent higher receipts (Table 5), behind which stands a 23 percent rise in the private sector bank deposits in 2009, which culminated at nearly US\$ 96 billion by end- December 2009 (compared to US\$ 78 billion by end- December 2008). In addition, the continuous trend in the de-dollarization of deposits, which started in December 2007 with a dollarization rate of 77.3 percent, declined to 69.6 percent by end of December 2008, and further down to 64.5 percent by end of December 2009, contributed favourably to fiscal revenues given that LL deposits earn higher interest compared to USD deposits, and hence higher tax due. The decline in the deposit dollarization rate is reflected in the composition by currency of the interest tax receipts. In fact, the currency composition of the 5 percent interest tax proceeds in favour of the Lebanese Pound, whereby the share of tax receipts collected in foreign currency declined from 49 percent in 2007, to 35 percent in 2009, whereas the share of tax receipts collected in Lebanese Pound rose from 51 percent in 2007 to 65 percent in 2009. On the other hand, the subsequent drops in the average USD deposit rates (from 4.7 percent in 2007, to 3.3 percent 2008 and 3 percent in 2009), and in the average LL deposit rates (from 7.4 percent in 2007, to 7.2 percent 2008 and 6.75 percent in 2009), did not have a negative fiscal impact as their effect on interest tax receipts was overcompensated by the substantial widening of the tax base.

² For details on this reform initiative, refer to "Reforms MOF, 2005-2007 and Beyond", (2007) on www.finance.gov.lb.

Furthermore, the composition of the interest tax receipts by institution (instrument) reveals a shift toward a higher contribution from BDL (interest earned on CD's and T-bills), as opposed to a lower contribution from commercial banks (interest earned on deposits). The share of interest tax receipts earned on deposits transferred to the Treasury from commercial banks dropped from 64 percent in 2007 to 58 percent in 2008 and 57 percent in 2009; whereas the share of interest tax receipts earned on CD's and T-bills transferred to the Treasury by BDL rose from 36 percent in 2007, to 41 percent in 2008 and 43 percent in 2009. This rise may be explained by a higher stock of outstanding T-bills and CD's, and higher interest earned on these two instruments as compared to interest earned on deposit accounts.

Table 5: Tax on Interest Income

(LL billion)	2007	2008	2009
By Institution/Instrument			
Commercial Banks	281	285	317
BDL	156	201	242
Tax on US\$ Treasury Bills	1	2	2
By Currency			
Lebanese Pounds	222	276	365
Foreign Currencies (US\$, Euro)	216	213	196
Total collection	439	489	560

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).

Taxes on Property, namely, **property registration fees** witnessed major developments by the end of 2007. More specifically, the rising trend in collection fees started in Nov-Dec 2007, and levelled at a peak during the summer months of 2008, with total revenues rising to 1.3 percent of GDP by end of 2008, compared to 1 percent of GDP in 2007, and a historical average of 0.8 percent of GDP in subsequent years. This rising pace decelerated somehow after the break of the international financial crisis, and throughout the first half on 2009, before rising again and, and even more notably towards the end of the fourth quarter of 2009. Total collection reached LL 626 billion in 2009, equivalent to 1.2 percent of GDP, lower than the 2008 collection level in percentage of GDP.

Further in line with the fiscal figures, cadastre statistics reflects a slowdown in real estate activity in 2009 compared to 2008. As such, the number of registered properties in 2009 rose by 2 percent compared to an 8 percent increase in 2008; and the average value per property, as declared in sales contracts, rose by 2 percent, compared to a hike of nearly 43 percent in average property values in 2008. In parallel, the inflation rate nearly doubled in 2008, compared to 2007 (as the CPI period average was calculated at 10.8 percent in 2008 compared to 4.1 percent in 2007), whereas the inflation rate decelerated in 2009, with the CPI yearly average standing at 3.4 percent.

Finally, Table 6 reveals that the 8 percent increase in property registration fees collected in 2009, equally arises from 2 percent higher sales volume and 2 increase in property value.

Table 6: Property Registration Statistics from Cadastre

	2007	2008	2009	Change 08/09
Number of Properties registered in Cadastre	246,791	267,358	273,417	2.27%
Declared Aggregate Properties Value in Sales Contracts (LL billion)	6,329	9,770	10,229	4.69%
Declared Average Value per Property (LL million)	25.65	36.54	37.41	2.37%
Total Fees collected from Sales Transactions	344	525	547	4.25%

Source: MOF-Cadastre, please note that these are declaration statistics (based on sales contracts) that may differ from collection figures as published in the Fiscal Performance.

Domestic taxes on goods and services totalled LL 3,260 billion in 2009, of which LL 2,889 billion from VAT, equivalent to 5.6 percent of GDP compared to a collection level of 5.7 percent of GDP in 2008. The 12 percent rise in VAT receipts in 2009 was below the 15.3 percent nominal growth during that year. Of this amount, LL 2,061 billion were collected at import, compared to LL 1,910 billion in 2008, representing an 8 percent rise in receipts, which mirrors the 8 percent increase in non-fuel imports. It should be noted that with the change in the composition of imports towards higher share on non-fuel commodities, the effective VAT rate at customs rose to 8.4 percent in 2009, compared to 7.8 percent in 2008, and in line with the 2004-2007 period average. VAT collected LL 827 billion from domestic business activity in 2009 compared to LL 674 billion in 2008, resulting in a 23 percent rise in receipts, thus reflecting economic growth and buoyancy in local consumption of goods and services.

Within domestic taxes on goods and services, car registration fees collected LL 238 billion, or 21 percent more receipts than in 2008, indicating continued buoyancy in car markets, following the surge in the demand for cars witnessed in 2008 (evidenced by an 89 percent increase in imports). The high demand for cars continued in 2009, albeit at a decreasing rate, evidenced by a 14 percent increase in car imports. This may be explained by the high inflow of liquidity in 2009, which brought down lending rates (by 91 bps and 19 bps year on year on LL and USD rates respectively) and the policy orientation to encourage consumer loans (cars being a prime candidate for consumer loans).

Finally, the passenger departure tax, the third most significant source of revenues from domestic taxes on goods and services, collected LL 123 billion, a 15 percent rise in collection, attributed to a higher flow of passengers at the Rafiq Hariri International Airport, and evidenced by 39 percent rise in the number of tourists; in total, 1,851,081 tourists visited Lebanon in 2009, compared to 1,332,551 in 2008.

Taxes collected from international trade (Table 3) totalled LL 2,664 billion in 2009, compared to LL 1,588 billion in 2008, equivalent to a 68 percent rise in receipts. The policy decision to uncap domestic prices of car gasoline and to fix the excise rate at an average level of LL 470 per litre (independently of international price fluctuations) allowed the Treasury to resume collection from this tax at a consistent pace throughout the year, thus giving a higher yield from fuel excises from an all-time low of 0.25 percent of GDP in 2008 to 1.92 percent of GDP in 2009. Consequently, overall revenues from international trade taxes rose from 3.5 percent of GDP in 2008 to 5.1 percent in 2009.

On the international trade front, tariff revenues totalled LL 768 billion in 2009, 12 percent higher than collection in 2008, keeping with the historical 1.5 percent share of GDP. This rise in receipts was achieved despite a limited 0.7 percent growth in imports emanating from a nearly 8 percent rise in non fuel imports, outweighing a 21 percent drop in fuel imports. Noteworthy, all categories of fuel imports are subject to low or zero tariff, whereas non-fuel imports are subject to higher custom duties, which explains the performance of tariff revenues in light of import developments in 2009:

Imports, as per Table 7 below, totalled LL 24,485 billion in 2009 (47 percent of GDP) compared to LL 24,327 in 2008 (54 percent of GDP³). Of total imports in 2009, 20 percent are fuel imports worth LL 4,872 billion, compared to LL 6,146 billion in 2008 (equivalent to 25 percent of 2008 imports).

Non-fuel imports totalled LL 19,613 billion in 2009, compared to LL 18,180 billion in 2008, representing almost 8 percent rise in receipts (Table 7); and accounting for 80 percent of total imports in 2009 compared to 75 percent in 2008. This shift in the composition of imports is explained by the high volatility in the oil market with prices peaking at US\$ 130 per barrel in 2008 to a low of US\$ 40 per barrel

³ For a historical perspective, note that Import as a share of GDP averaged 43% in 2004-2005, with a first hike in 2007 to at 47% of GDP, and a peak in 2008 at 54% of GDP.

in 2009. With the share of non-fuel imports increasing (driven mainly by imports of vehicles and machineries which are subject to relatively high tariff), the effective customs rate has also increased from 2.8 percent in 2008 to 3.1 percent in 2009, explaining higher tariff revenues.

Table 7: Import Statistics

(LL billion)	2003	2004	2005	2006	2007	2008	2009
Total Imports	10,806	14,167	14,080	14,167	17,811	24,327	24,485
• Fuel Imports (fuel derivatives classified under HS 27)	1,690	2,988	3,243	3,540	3,942	6,146	4,872
• Non-Fuel Imports	9,116	11,180	10,837	10,628	13,869	18,180	19,613
Revenues from Custom Duties	475	530	481	461	561	686	768
<i>Effective customs rate</i>	4.40%	3.74%	3.42%	3.25%	3.15%	2.82%	3.14%
Composition of Total Imports							
• Share of Fuel Imports	16%	21%	23%	25%	22%	25%	20%
• Share of Non Fuel Imports	84%	79%	77%	75%	78%	75%	80%
Share of GDP							
Total Imports	36.20%	43.80%	42.70%	41.90%	47.20%	55.00%	47.04%
Fuel Imports (all fuel derivatives classified under HS 27)	5.70%	9.20%	9.80%	10.50%	10.40%	13.90%	9.36%
Non-Fuel Imports	30.50%	34.50%	32.90%	31.40%	36.70%	41.10%	38.00%

Source: MOF-General Directorate of Customs declaration forms

Please note that figures from import declarations may differ slightly from published figures in the Fiscal Performance report.

As per Table 3, **total excises** (collected at import) were LL 1,896 billion⁴ in 2009 (3.6 percent of GDP), double the total amount of excises collected in 2008 (which stood at 2 percent of GDP). These 110 percent higher receipts are largely explained by the policy to uncap domestic gasoline prices⁵ which generated LL887 billion more revenues. In addition, excise revenues from cars and from tobacco increased by 13 percent and 14 percent, respectively.

(i) **Excises on gasoline** collected LL 999 billion in 2009 equivalent to 1.92 percent of GDP, back to the collection level in 2004 at 1.96 percent of GDP (the year that saw the capping regime installed). As such, the Treasury's revenues from gasoline excise dropped continuously reaching an all time low of 0.25 percent of GDP in 2008. From a volume perspective, Table 8 below shows that 2009 saw a nearly 11 percent increase in imports of gasoline from 1.92 billion litres in 2008 to 2.12 billion litres in 2009. This higher demand arises from mainly from a higher number of cars in circulation in the country, as evidenced by the surge in car imports throughout the period 2007-2009. It is worth mentioning the average annual effective import price in 2009 substantially declined to LL 689 per litre, near the 2005 price level and well below the peak of 2008, while the annual average excise rate stood at LL 473 per litre, close to the rate of LL 489 per litre prevailing prior to the capping regime.

Table 8: Gasoline Import Statistics

	2005	2006	2007	2008	2009
Imports (LL billion)	1,051	1,183	1,497	1,982	1,459
Volume (billion Liters)	1.666	1.624	1.830	1.916	2.119
Collected excises (LL billion)	362	228	183	111	1,002
<i>Average effective Price at imports (LL/liter)</i>	631	728	818	1,034	689
<i>Average effective excise rate (LL/liter)</i>	217	140	100	58	473

Source: MOF-General Directorate of Customs declaration forms

Note that 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 (equivalent to around LL 3 billion in 2008) that is collected internally on alcoholic beverages.

⁵ The hike in the international fuel prices during the second and third quarters of 2008, in the context of the domestic price capping regime prevailing throughout 2008 reduced significantly the petroleum excise rate, reaching 0 LL/liter of gasoline for 6 months in a row starting April 08. The substantial drop in international fuel prices by the end of 2008 provided an opportunity to the Government to uncap the retail price of gasoline and to fix the excise rate at an average of LL 470/liter (as per COM decision # 9 dated January 23rd, 2009), restoring a regular stream of revenues to the Treasury.

ii) After the surge in car imports in 2007 and particularly in 2009, car imports slowed down at a nominal growth rate of 8 percent. The number of cars imported also increased by 8 percent from the 2008 level, and the average price per car kept at nearly the same level, suggesting no change in source of imports (substitution effect). Consequently, the Treasury collected LL 614 billion or 1.18 percent of GDP from car excises, compared to 1.19 percent of GDP in 2008, but well above the historical average of 0.7 percent of GDP (Table 9).

Table 9: Cars Import Statistics

	2005	2006	2007	2008	2009
Imports (LL billion)	847	810	1,085	2,049	2,204
Number of Cars	41,986	39,852	52,014	100,333	108,739
Collected Excises (LL billion)	231	216	287	536	610
Average price per car (LL million)	20.2	20.3	20.9	20.4	20.3
Average effective excise rate (%)	27.3%	26.7%	26.5%	26.2%	27.7

Source: MOF-General Directorate of Customs declaration forms

Note that figures from import declarations may differ slightly from published figures in the Fiscal Performance Report.

(iii) Excises on tobacco collected LL 277 billion in 2009, compared to LL 246 billion in 2008, representing 12 percent increase (Table 3), representing a 0.53 percent share of GDP, compared to 0.55 percent in 2008. This comes in parallel with an equivalent percentage increase in tobacco imports, which stems from a 6 percent rise in volume (10,937 tons of tobacco were imported in 2008 compared to 11,606 tons in 2009 as per Table 10 below), and a similar 6 percent increase in the average price of tobacco imports from LL 22,584 per kg in 2008 to LL 23,867 per kg in 2009.

Table 10: Tobacco Import Statistics

	2005	2006	2007	2008	2009
Imports (LL billion)	185	159	199	247	277
Net weight (in tons)	7,258	5,971	7,607	10,937	11,606
Collected Excises (LL billion)	190	165	206	247	277
Average import price (LL per Kg)	25,489	26,629	26,160	22,584	23,867
Average effective excise rate (LL per Kg)	26,178	27,634	27,080	22,584	23,867
Average effective excise rate (%)	102.7%	103.8%	103.5%	100.0%	100.0%

Source: MOF-General Directorate of Customs declaration forms

Note that figures from import declarations may differ slightly from published figures in the Fiscal Performance Report.

Another indicator of a healthy economic activity in 2009 is the 13 percent higher collection of fiscal stamps (Table 3) with LL 396 billion collected in 2009 compared to LL 350 billion in 2008, stabilising at 0.8 percent of GDP. Fiscal stamps' collection reflects higher volume of transactions in the economy (all types of sales transactions, administrative transactions, real estate transaction, etc...).

Non-Tax Revenues

Non-Tax revenues in 2009, as shown in Table 11, were notably 17 percent above the collection level in 2008, increasing by more than nominal growth thus assuming a higher share of GDP, to 5.9 percent of GDP from 5.8 percent of GDP.

Table 11: Non-Tax Revenues

(LL billion)	2008 December	2009 December	2008 Jan-Dec	2009 Jan-Dec	Change 2009/2008
Income from Public Institutions and Government Properties	247	257	2,028	2,456	21.1%
• Income from Non-Financial Public Enterprises, of which:	243	251	1,931	2,327	20.5%
- Revenues from Casino Du Liban	10	11	142	151	6.4%
- Revenues from Port of Beirut	0	0	0	62	-
- Budget Surplus of National Lottery	7	14	54	57	5.8%
- Transfer from the Telecom Surplus	226	226	1,734	2,055	18.5%
• Income from Financial Public Enterprises (BdL)	0	0	41	40	-1.5%
• Property Income (rent of Rafiq Hariri International Airport)	4	5	48	78	62.7%
• Other Income from Public Institutions (interests)	1	0	8	10	27.4%
Administrative Fees & Charges, of which:	62	66	484	505	4.5%
• Administrative Fees, of which:	56	54	398	415	4.2%
- Notary Fees	2	2	23	27	15.4%
- Passport Fees/ Public Security	8	9	117	114	-1.9%
- Vehicle Control Fees	37	34	189	203	7.5%
- Judicial Fees	2	2	21	19	-5.7%
- Driving License Fees	2	2	20	24	17.9%
• Administrative Charges	2	6	22	25	14.7%
• Sales (Official Gazette and License Number)	1	1	3	3	-5.2%
• Permit Fees (mostly work permit fees)	3	4	51	48	-4.5%
• Other Administrative Fees and Charges	0	2	9	13	45.8%
Penalties and Confiscations	1	1	7	7	5.0%
Other Non-Tax Revenues (mostly retirement deductibles)	7	8	94	100	21.1%
Total Non-Tax Revenues	316	332	2,613	3,069	17.5%

Source: MOF, DGF

The rise in non-tax revenues was strongly boosted by the 21 percent rise in [entrepreneurial income](#), equivalent to LL 428 billion additional receipts, of which LL 321 billion higher [transfers from the budget surplus of the Telecom](#), a 19 percent rise in receipts, increasing the share to GDP from 3.8 percent of GDP in 2008 to 3.9 percent of GDP, but still far below the historical average of 4.4 percent of GDP. The rise in entrepreneurial income is further attributed to LL 62 billion transfer from [Port of Beirut](#) (compared to an absence of transfer in 2008) coupled with LL 30 billion (or 63 percent) additional receipts (rent) from the [Rafiq Hariri International Airport](#). Transfer from the [Casino Du Liban](#) totalled LL 151 billion in 2009, of which LL 14 billion representing the second instalment of the LL 83 billion settlement amount agreed upon with the Casino Management⁶. Netting the settlement amounts, Casino transfers were 37 percent more in 2009, reflecting the growth in tourism. The rise in receipts from other property income, although less significant, namely transfers from the [National Lottery](#) (by 6 percent) and revenues from [touristic sites](#) (by 37 percent), further reflect economic growth, and buoyant tourism in 2009. Finally, similar to the previous year, the [surplus transfer from Banque du Liban](#)⁷ totaled LL 40 billion.

[Administrative fees and charges](#) collected a total of LL 505 billion in 2009, equivalent to 0.97 percent of GDP. Most importantly, reflecting the increase in car imports and the larger number of cars in circulation in the country, both [vehicle control fees](#) and [driving license fees](#) increased by 7.5 percent and 17.9 percent, respectively.

⁶ An agreement was reached between the Government of Lebanon and the Casino du Liban management, thereby putting an end to past years' dispute over the scope of the Treasury's rightful share from Casino revenues. The new amendment to the contract, which was signed in February 2008, stipulates that the Treasury is now rightfully entitled to a share of revenues from all the gambling machines (unlike previously where some gambling machines were excluded from the Treasury's revenue sharing base). As such an amount equivalent to LL 83 billion was agreed upon in settlement of past years' dispute, to be paid in four yearly instalments starting 2008.

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

Treasury Receipts

Treasury receipts were LL 669 billion in 2009, compared to LL 758 billion in 2008, explained by the lower amount of grants received, LL 90 billion in 2009 compared to LL 200 billion in 2008. Of the 2009 grant, LL 75 billion reflects the implementation of the third tranche of the US pledge in PIII, LL1.9 billion was received from Greece for the Ministry of Public Transportation, and LL 12 billion was received in Treasury account for Nahr El Bared and other Palestinian refugees. Within Treasury accounts, revenues to the Independent Municipal Fund registered 15 percent rise in receipts, reflecting to a large extent the 25 percent rise in central government tax revenues, as this Fund accounts for the Municipalities revenue shares from a number of taxes the central government collects (namely custom duties, property taxes, income taxes, etc).

Section III: Expenditure Outcome

Total Expenditures (budget and treasury) for 2009 reached LL 17,167 billion, 15 percent higher than expenditures in 2008, as Table 12 below shows.

Table 12: Expenditure Summary

(LL billion)	2007	2008	2009	Change
	Jan-Dec	Jan-Dec	Jan-Dec	2009/2008
Interest Payments	4,695	4,957	5,784	16.7%
Concessional Loans Principal Payments 1/	246	347	303	-12.7%
Total Primary Expenditures 2/	7,647	9,652	11,080	14.8%
Total Budget and Treasury Payments	12,587	14,957	17,167	14.8%

Source: MOF, DGF

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

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

According to economic classification, the LL 2,210 billion increase in total expenditures was due to the following two components:

- a. An increase in **current expenditures** by LL 1,976 billion, of which LL 966 billion were due to higher personnel costs, LL 827 billion to a larger interest bill, LL 140 billion increase in transfers to NSSF, and LL 96 billion to higher 'other current expenditures' (mainly hospitalization in the private sector, which was up by LL 62 billion).
- b. An increase in **treasury expenditures** by LL 189 billion, of which (i) LL 473 billion constituted higher spending to the High Relief Committee. This increase was partially offset by the LL 172 billion decrease in transfers to EDL⁸ and LL 70 billion to municipalities.

Total Primary Expenditures amounted to LL 6,531 billion in 2009 compared to LL 5,334 billion registered in 2008, i.e. an increase of 22.4 percent.

⁸ For further details on transfers to EDL, check our recently published report titled "Electricité du Liban: A Fiscal Perspective", which presents a detailed overview of the 2001-2009 period.

Table 13: Expenditures by Economic Classification

(LL billion)	2007 Jan-Dec	2008 Jan-Dec	2009 Jan-Dec	Change 2009/2008
1. Current Expenditures	9,661	10,639	12,617	18.6%
1.a Personnel Cost, of which	3,583	3,970	4,936	24.3%
• Salaries, Wages and Related Items (Article 13)	2,473	2,676	3,325	24.3%
• Retirement and End of Service Compensations, of which:	889	1,087	1,286	18.3%
- Retirement	778	893	1,055	18.1%
- End of Service	108	195	232	19.0%
• Transfers to Public Institutions to Cover Salaries 1/	221	206	324	57.0%
1.b Interest Payments, of which: 2/	4,695	4,957	5,784	16.7%
• Domestic Interest Payments	2,515	2,847	3,663	28.7%
• Foreign Interest Payments	2,179	2,110	2,121	0.5%
1.c Foreign Debt Principal Repayment	246	347	303	-12.8%
1.d Materials and Supplies, of which:	198	273	238	-12.7%
• Nutrition	25	52	52	-0.3%
• Fuel Oil	28	37	9	-76.6%
• Medicaments	68	94	104	10.7%
• Accounting Adjustments for Treasury	52	57	39	-30.6%
1.e External Services	84	106	114	7.0%
1.f Various Transfers, of which:	563	568	717	26.2%
• National Social Security Fund	220	100	240	140.0%
• Treasury Advance for Wheat Subsidy	32	142	10	-93.0%
1.g Other Current, of which:	0	18	12	-32.7%
• Hospitals	209	332	428	28.9%
• Others	172	289	351	21.5%
1.h Reserves	34	40	65	61.4%
• Interest subsidy	83	85	99	15.7%
2. Capital Expenditures	558	514	550	7.0%
2.a Acquisitions of Land, Buildings, for the Construction of Roads, Ports, Airports, and Water Networks	18	7	4	-37.0%
2.b Equipment	41	33	35	8.8%
2.c Construction in Progress, of which:	416	366	356	-2.7%
• Fund for the Displaced	76	49	60	22.7%
• Council of the South	40	40	41	3.2%
• CDR	214	210	192	-8.6%
• Ministry of Public Work and Transport	39	33	34	2.7%
• Other	47	33	28	-15.8%
2.d Maintenance	48	72	103	43.2%
2.e Other Expenditures Related to Fixed Capital Assets	35	36	50	40.5%
3. Other Treasury Expenditures	2,319	3,757	3,947	5.0%
3.a Municipalities	305	527	457	-13.2%
3.b Guarantees	59	57	54	-5.2%
3.c Deposits, of which:	79	82	90	9.6%
• National Social Security Fund	377	612	1,083	76.8%
3.d Other, of which:	200	306	326	6.5%
• VAT Refund	29	47	520	995.6%
• High Relief Committee	1,479	2,430	2,259	-7.1%
3.e EDL 3/	0	0	4	-
3.f Treasury Advances for Diesel Oil Subsidy	20	49	0	-100.0%
4. Unclassified Expenditures	5	4	3	-24.3%
5. Customs Cashiers	43	43	50	17.4%
Total Expenditures (Excluding CDR Foreign Finance)	12,587	14,957	17,167	14.8%

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

1/ For a detailed breakdown of those transfers, refer to Table 14.

2/ For a detailed breakdown of interests payments, refer to Table 19.

3/ For a detailed breakdown of transfers to EDL, refer to Table 16.

Current primary expenditures

Current primary expenditures⁹ amounted to LL 6,531 billion in 2009, which is LL 1,196 billion or 22.4 percent higher than in 2008 when current primary expenditures registered LL 5,334 billion.

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

Personnel costs¹⁰ amounted to LL 4,936 billion, LL 966 billion (24.3 percent) higher than the LL 3,970 billion registered in 2008, mainly resulting from:

- a) Increase in wages, salaries and related benefits (Article 13) by LL 649 billion, from LL 2,676 billion to LL 3,325 billion, which was partially driven by the government policy to increase monthly salary and wages in the public administration by LL 200,000, set the minimum monthly wage at LL 500,000¹¹ and begin to pay the 1996-1998 retroactive (see Box 2).

Box 2: The 1996-1998 Salary and Wage Retroactive in the Public Sector

Between 1996 and 1998, salaries and wages in the public sector were not re-evaluated. On November 5th, 1998, Parliament voted a series of laws (Laws No. 716, 717 and 718) amending salaries and wages for public servants starting 1/1/1999. These laws stipulated that "when resources are available to the Treasury, the Government will send to Parliament draft laws opening allocations in the budget to pay the retroactive due to the beneficiaries of these laws starting 1/1/1996".

On December 31st, 2008 Parliament voted Law 63, whereby Article 15 states that "an allocation equivalent to the amount needed to cover the salary and wage retroactive for the beneficiaries of Laws 716, 717 and 718 and their amendments is to be attributed in the reserve of National Budget starting 2009 and until 2011. The payment of the allocations mentioned above is to be scheduled over three years starting in 2009 and ending in 2011."

The amount needed to cover these payments over three years has been officially estimated by the Ministry of Finance at LL1,200 billion, and accordingly, LL400 billion were allocated in the 2009 Budget Proposal Law and similar amounts are to be allocated in the reserves of Budgets 2010 and 2011.

It was decided to make the 2009 payments for the 1996-1998 retroactive into two parts. The first set of payments was made starting May 2009. Seventeen Ministerial decisions were issued transferring a total of LL159 billion from salary and wage budgetary reserves to the various administrations and public institutions entitled to the payment of the retroactive. The second set of payment was made starting December 2009. Thirty two Ministerial decisions were issued transferring a total of LL154 billion.

Therefore, of the LL400 billion allocated in the 2009 Budget Proposal, a total of LL313 billion only was actually transferred from the reserves to "fill" the allocations of the administrations and public institutions. This amount excludes "filling" transfers to Telecom, DG of Wheat and Beetroot and National Lottery which were made from the reserves of the respective annexed budgets of these institutions.

⁹ Current primary expenditures is current expenditures excluding interest payments and foreign debt principal repayment.

¹⁰ This includes salaries, wages and related benefits (article 13), transfers, retirement and end-of-service.

¹¹ For additional details on the salary and wage increase policy, refer to the Public Finance Review 2008, Box 1 on p.15.

(continued)

The below table depicts the Transfers Made from the Budget Reserves to the Administrations and Public Institutions in 2009 for the Payment of the 1996-1998 Retroactive:

(LL Billion)	Transfers from Reserves for First Payment	Transfers from Reserves for Second Payment	Total
Total Retroactive	159.0	153.9	312.9
Article 13, of which:			
<i>Civilian</i>	147.4	136.7	284.1
<i>Army</i>	39.8	37.1	76.9
<i>ISF</i>	70.3	65.2	135.5
<i>ISF</i>	28.0	24.0	52.0
<i>GSF</i>	4.5	4.4	8.9
<i>SSF</i>	1.8	1.3	3.1
<i>Customs</i>	3.0	4.7	7.7
Transfers to Public Institutions (Personnel Cost), of which:	10.1	15.3	25.4
<i>Lebanese University</i>	9.6	14.5	24.1
<i>Council of South</i>	0.2	0.3	0.5
<i>Education Center for Research and Development</i>	0.3	0.3	0.5
<i>Council for Development and Reconstruction</i>	0.0	0.4	0.4
Various Transfers (Article 14)	1.5	1.8	3.4

Source: Budget Directorate, MOF

At the time of publication, it was not possible to determine how much of the actual transfers of reserves to the allocation accounts were actually paid to the various administrations and public institutions. However, these figures do help us understand part of the increases observed in 2009 in the following items as they represent the maximum amount of 1996-1998 retroactive that could have actually been paid: salaries, wages and related benefits (Article 13), transfers to public institutions (transfers to public institutions reclassified under personnel cost instead of Article 14 previously) and various transfers (transfers not reclassified under personnel cost and kept under Article 14).

Of the LL649 billion increase witnessed in salaries, wages and related benefits (Article 13), up to LL284 billion could be explained by the payment of 1996-1998 retroactive in 2009. Of the LL118 billion increase witnessed in transfers to public institutions classified under personnel cost, up to LL25 billion could be attributed to the payment of 1996-1998 retroactive in 2009. Finally, of the LL149 billion increase observed in various transfers (Article 14), a maximum amount of LL3 billion could be due to the payment of the 1996-1998 retroactive.

- b) Increase in *retirement and end-of-service indemnities* by LL 199 billion, from LL 1,087 billion in 2008 to LL 1,286 billion in 2009, of which LL 162 billion were due to increase in retirement payments and LL 37 billion were due to higher end-of-service indemnities.

Within personnel Cost, *transfers to public institutions* to cover salaries witnessed a substantial increase of LL 118 billion (57 percent), from LL 206 billion in 2008 to LL 324 billion in 2009. Educational institutions, primarily the Lebanese University and the Educational Centre for Research and Development, received 79 percent of this increase. Transfers to the Lebanese University (see Box 6) and the Council for Development and Reconstruction increased by LL 89 billion and LL 24 billion, respectively, as shown in Table 14.

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

(LL billion)	2007 Jan-Dec	2008 Jan-Dec	2009 Jan-Dec	Change 2009/2008
Transfer to Council of the South	6	7	7	-2.9%
Transfer to the Council for Development and Reconstruction	38	21	45	113.6%
Transfer to Fund for the Displaced	6	6	8	25.0%
Transfer to the Lebanese University	161	162	251	55.1%
Transfer to Educational Centre for Research and Development	10	10	13	32.5%
Total Transfers to Public Institutions	221	206	324	57.0%

Source: MOF

Box 3: Compensation to Lebanese Citizens Liberated from Israeli Prisons

Following the liberation of Southern Lebanon in 2000, the Lebanese Parliament voted Law 364 dated August 16th, 2001 which granted the following financial compensations to the Lebanese citizens that were imprisoned by Israel or its proxy militias:

- Liberated prisoners who endured less than a year of imprisonment were to receive a flat LL2,500,000
- liberated prisoners who endured one to three years of imprisonment were to receive LL5,000,000 per year spent in prison
- liberated prisoners who endured more than three years of imprisonment were given the choice between getting LL5,000,000 per year spent in prison or receive a monthly retirement wage fixed at LL400,000 (this was increased to LL570,000 following the adoption of Law 63/2008 by Parliament which provided a LL170,000 monthly increase to all those benefitting from a monthly retirement wage in the public sector) to which were added half of the grade earned by a first rank military for each year spent in prison in excess of the first three years they had spent in jail (i.e. LL11,000).

The law also covered prisoners who had been deceased during captivity and prisoners who had become disabled as a result. However, the law capped the number of beneficiaries in the latter category to twenty-five. This law was followed by the issuance of Decree 7879 dated May 14th, 2002 in order to determine the application of the procedures of the law. The decree added the following clarifications:

- The duration of imprisonment was to be certified using documents issued by the following authorities: the Lebanese Red Cross, the International Red Cross, the Ministry of Interior and Municipalities, and the Ministry of National Defense.
- Disabled prisoners were defined as holders of a disability card issued by the Ministry of Social Affairs who could provide a certificate that their disability resulted from imprisonment, from the Lebanese Red Cross, the International Red Cross, the Ministry of Interior and Municipalities and the Ministry of National Defense.

The decree also stated that the applications for indemnities and retirement wages should be addressed by the Ministry of Finance for the Retirement Committee to review and decide on each case according to its procedures and to Law 364/2001 and Decree 7879/2002.

Although many applications were submitted to the Ministry of Finance and were actually paid throughout the years, a number of cases remained pending for the following reasons:

- Late submission of applications (780 cases),
Submission of applications to the committee representing prisoners rather than to the Ministry of Finance (527 cases),

(continued)

- Incomplete applications that did not meet the legal requirements (400 cases) and,
- Incomplete applications that did not meet the legal requirements (400 cases) and, Beneficiaries for whom payment orders had been issued but who had not collected them (132 cases).

Moreover, the disabled prisoners file was also pending as more than twenty five applications were submitted for benefits under the disability clause and, given the difficulty for the institutions mentioned above to provide any certificate establishing the causality between impairment and captivity, the Retirement Committee was unable to select among the applicants qualified for a monthly retirement wage. The Ministry of Finance had therefore requested the advice of the Permanent Medical Committee at the Ministry of Public Health. The Committee, however, had declared itself non competent to make decisions concerning this issue as there was no legal basis for such an involvement.

To remedy to this situation, the Ministry of Finance:

- Took the necessary measures to officially register late applications,
- Coordinated with the Liberated Prisoners' Committee to ensure that all the files submitted to them were transferred to the Ministry of Finance,
- Reviewed all problematic applications, informed the applicants who submitted incomplete applications about the additional documents required and finalized them,
- Revalidated uncollected payment orders, disseminated the names of the beneficiaries and made particular efforts to reach them.

A new ministerial decision (Minister Decision 79/1 dated February 12th, 2009) was also issued allowing those who have not applied to submit their requests to do so. The Ministry also committed to the finalization of all the pending files by April 2009 in a public statement by the Minister released to the press on February 12th, 2009.

The finalization took effectively place through the following five Ministerial decisions that finalized a total of 670 previously pending cases for a total of LL2.17 billion:

- Decision 77/1 dated February 12th, 2009,
- Decision 78/1 dated February 12th, 2009,
- Decision 120/1 dated February 26th, 2009,
- Decision 407/1 dated April 2nd, 2009 and,
- Decision 408/1 dated April 2nd, 2009.

On the disability prisoners' front, the Ministry of Finance sent to the Permanent Medical Committee at the Ministry of Public Health the list of prisoners suffering from disability (32 cases) as well as the list of prisoners who had martyred during their imprisonment (7 cases) for the Committee to review and select the twenty-five cases that should qualify from the provisions of Law 364/2001 (Letter of the Minister 337/S1 dated February 12th, 2009) according to the severity of the disability.

Materials and supplies decreased from LL 273 billion in 2008 to LL 238 billion in 2009, representing a 13 percent drop. Excluding accounting adjustments for treasury, the LL 18 billion decrease was the result of changes in the following items:

- a) Fuel oil expenses decreased by LL 28 billion, reflecting lower oil bill of internal security forces and army by LL 25 billion and LL 3 billion respectively. The lower oil bill is largely due to decreasing international energy prices.
- b) Medication expenditures increased by 10.7 percent in 2009/2008, thus continuing its increasing trend - it had risen by 38.0 percent in 2008/2007. In nominal terms, the rise was equivalent to LL 10 billion from LL 94 billion in 2008 to LL 104 billion in 2009, of which LL 7 billion resulted from higher spending by the Ministry of Public Health, LL 4 billion by the army, whereas medication

expenditures by the Internal Security Forces fell down by LL 1 billion. Considering the depreciation of the Euro in 2009, increased spending on medication was the main reason for the increased expenditure on medication.

- c) Food expenses maintained its 2008 level of LL 52 billion.

External Services (rent, postal, insurance, advertisement and public relations) amounted to LL 117 billion, up by LL 7 billion from the 2008 level. This was mainly due to increases in rental payments by LL 3 billion, LL 3 billion in publications, and LL 1 billion in remuneration for consultancy services.

Various Transfers witnessed a notable increase of LL 149 billion, from LL 568 billion in 2008 to LL 717 billion in 2009. Components of various transfers witnessing noticeable increases were:

- a) Transfers to the NSSF¹², where payments increased by LL 140 billion in 2009, from LL 100 billion in 2008 up to LL 240 billion in 2009. In the absence of Budget Laws for 2006, 2007, 2008 and 2009, the Government could not transfer to the NSSF an amount exceeding the allocation in the 2005 Budget Law, i.e. LL 100 billion. Therefore and in order to enable the Government to transfer the LL 240 billion as per 2009 Budget Proposal, the Government issued Decree 2228 dated 11 June 2009 stipulating the provision of a treasury advance of LL 140 billion to the Ministry of Labor the necessary to cover: i) LL 60 billion additional allocation for the State's annual contribution to the NSSF, and ii) - LL 80 billion to settle past dues.

Table 15: Transfers to the NSSF

LL billion	2008 Budget Proposal	2009 Budget Proposal	% Change 2009-2008
Total Allocation, of which:	100	240	140%
• Annual state contributions	100	160	60%
• Past dues	0	80	NA
Actual Transfers in QIII, of which:	100	240	140%
• NSSF budget allocation	100	100	0%
• Treasury advance by decree*	0	140	NA

Source: Budgetary Proposals 2008 and 2009, MOF

- b) Transfers to NGOs, mainly by the Ministry of Social Affairs and the Ministry of Education and Higher Education increased by LL 51 billion and totalled LL 218 billion in 2009 against LL 168 billion in 2008. The bulk of this increase, LL 45 billion, has been allocated to NGOs operating under the Ministry of Social Affairs (MoSA). Hence, in 2009, LL 147 billion has been allocated to fund projects in partnership with NGOs engaged in social welfare provision (71 percent), social development centers and their branches (10 percent), and social and health projects with civil society (7 percent). A significant rise of LL 15 billion in the budgetary allocation to the Social Development Centers reflects MoSA's policy to enhance the role of these centers as an instrument of integrated local development. Council of Ministers Decision No. 25 dated April 30th, 2009 and Decision No. 3 dated February 5th, 2009 stipulated the mechanism of expenditure on social and health projects with NGOs.
- c) Transfers for primary schools' contractual teachers increased by LL 16 billion, to LL 45 billion in 2009. Of this increase, LL3.4 billion is due to increase in transfers for primary schools' contractual teachers following the Joint Ministerial decision issued by the Minister of Education and Higher

¹² For further details on transfers to NSSF, check Public Finance Quarterly Report – QIII 2009, Box 1, p. 15

Education and Minister of Finance following Law 63 dated December 31st, 2008 which required that increases granted for contractors with the Ministry of Education and Higher Education are determined by separate ministerial decisions. The remaining increase was due to an increase of LL12 billion as a financial contribution to the schools funds which among other things are used to exempt students from school fees. Decision 330¹³ dated March 14th, 2009 therefore increased the per hour rate of primary and intermediary public school teachers.

Box 4: Subsidies for Wheat and Beetroot Farmers in 2009

In 2005, the Council of Ministers decided to phase-out the subsidies provided to wheat and beetroot farmers over a period of three years starting 2006. The subsidy was to be reduced by a third each year, and concurrently, the Ministry of Economy and Trade was requested to suggest a mechanism allowing the direct provision of the subsidy to farmers (Decision 42 dated October 13th, 2005). The execution of the decision was, however, suspended for wheat as wheat farmers found themselves unable to sell the 2006 harvest, amounting to 65,389 tons of wheat. In 2007, international prices started to increase and part of the production was sold in domestic and external markets, and only 8,345 tons of wheat had to be subsidized. The harvest of 2008 required no subsidy as international market prices were high enough, and farmers were able to sell their whole production for that year.

In 2009, the phase-out policy was formally reversed following the adoption of the Decision 102 dated March 26th, 2009 by the Council of Ministers which allowed, on exceptional basis for the 2009 wheat season, the purchase of the total production at a subsidized price of LL 475,000 per ton compared to an international market price of LL250,000 per ton. Subsidy was to be provided to farmers based on the surface area cultivated rather than the quantity of wheat produced, i.e. according to the region where they operate wheat farmers are allowed to claim a certain quantity of wheat per *donum* of land. For example, in Zahle and Western Beqa'a, farmers can claim up to 0.5 ton of wheat per *donum*, whereas in Northern Lebanon, farmers can claim up to 0.4 ton per *donum*. Otherwise, the mechanism might be open to distortion and some farmers may be able to sell to the government for subsidized price imported wheat they pretended to have produced but have actually purchased at market price.

This decision was followed by the issuance of Decree 2018 dated May 22nd, 2009 which granted a treasury advance of LL10 billion to the Directorate General of Wheat and Beetroot in order to contribute to the implementation of the subsidy decision for up to 75,000 tons of wheat expected to be produced. However, because of unfavorable conditions, the season only produced 36,688 tons, which were purchased by the Directorate General of Beetroot and subsidized at LL 475,000 per ton or a total of LL17.4 billion. The quantity were later resold for around LL267,000 per ton in the market or a total of LL9.8 billion. The actual subsidy paid by the Treasury amounted therefore to LL7.6 billion. This excludes the costs incurred by the Directorate General of Wheat and Beetroot in the process.

Contrary to wheat, the decision to phase out beetroot subsidy was maintained. This subsidy was gradually reduced from LL466,000 for each *donum* of land cultivated in 2005, to LL311,000 per *donum* in 2006 and LL155,000 per *donum* in 2007. Each farmer could only claim up to 50 *donum* of cultivated land (Council of Ministers Decision 29 dated March 16th, 2009). This led to a reduction of the surface area cultivated from 6,572 *donum* in 2005 to 800 *donum* in 2007 and nil in 2008.

However, despite the successful phase-out of beetroot subsidy, a LL0.3 billion payment was made to beetroot farmers in 2009, as per Decree 2333 dated June 19th, 2009, which provided LL300 million to the Directorate General of Wheat and Beetroot to cover the settlement of subsidies owed to beetroot farmers for the season of 2006. This amount was paid to a small number of farmers who claimed that the beetroot they had produced failed to be surveyed by the Lebanese Army during the 2006 land survey.

¹³ Decision 330 dated March 14th, 2009 entered into force starting January 1st, 2009.

Other components of various transfers witnessed noticeable decreases, namely:

- a) LL 10 billion *treasury advances for wheat subsidy* to the General Directorate of Cereals and Sugar Beet in 2008 compared to LL 142 billion in 2008 (see Box 4).
- b) Transfers to cover part of the expenses of the Special Tribunal for Lebanon¹⁴ decreased by LL 6 billion.
- c) **Other Current Expenditures** showed an increase of LL 96 billion compared to 2009, mainly attributed to increased payments to cover hospitalization in the private sector, by LL 62 billion.

Capital Expenditures

Capital expenditures for 2009 totalled LL 550 billion, increasing from LL 514 billion collected in 2008 by about LL 36 billion or 7 percent. This increase is the combined outcome of:

- a. A LL 31 billion increase in maintenance, from LL 71 billion in 2008 to LL 103 billion in 2009, of which LL 29 billion is an increase in maintenance expenditure by the Ministry of Public Works and Transportation, from LL 37 billion in 2008 up to LL 66 billion in 2009, and by the Lebanese University from LL 16 billion in 2008 up to LL 21 billion in 2009.
- b. A LL 14 billion or 40.5 percent increase in other expenditures related to fixed capital assets from LL 36 billion to LL 50 billion. This is mainly due to Transfers to the Investment Development Authority of Lebanon (IDAL) by LL 14 billion from LL 30 billion in 2008 to LL 44 billion in 2009 to cover for IDAL's Export Plus Program (see Box 5).
- c. A LL 10 billion decrease in construction in progress, which reached LL 356 billion compared to LL 366 billion in 2008. The decrease in construction in progress is due to the following changes:
 - i. Transfers to the Fund for the Displaced increased by LL 11 billion or 22.7 percent
 - ii. Transfers to the Council of Development and Reconstruction (CDR), decreased by LL 18 billion or 8.6 percent.
 - iii. Other government agencies by LL 5 billion or 15.8 percent, such as the Ministry of youth and sports, the Ministry of Energy and Water and the Ministry of Defence.

¹⁴ The Special Tribunal for Lebanon is the international tribunal for the assassination of Prime Minister Rafic Hariri.

**Box 5: Illustrating the Impact of Carried Forward Allocations:
The Case of the Export Plus Program**

On April 5th, 2006, the Council of Ministers decided to phase out the Export Plus program managed by the Investment Development Authority of Lebanon (IDAL) as per Decree 6041 dated August 14th, 2001. The Council of Ministers decided on a gradual decrease of the subsidy level by 20 percent every year over a period starting on April 1st 2006 and ending on March 31st, 2011. During this transitory period, a committee headed by the Prime Minister and including the Minister of Economy and Trade and the Minister of Finance has been charged of reforming and developing a new strategy for the Export Plus program (Council of Ministers Decision No. 51 dated May 4th, 2006). The new strategy should privilege improvement of product quality compatible with the rules and regulations of the World Trade Organization (Council of Ministers Decision No. 1 dated April 5th, 2006) and facilitate its marketing. Hence, the approach focused on technical assistance provision to producers rather than subsidy per se.

This change in policy led to a gradual reduction of the budgets allocated to IDAL for subsidizing agricultural exports under the program starting from 2006 Budget Proposal and onwards as illustrated in the table below:

(in LL billion)	2006	2007	2008	2009
Export Plus Allocation for IDAL	70*	40	34	28

Source: Budget Proposals for 2006-2009

* From the LL70 billion allocated in 2006, LL20 billion were for the regularization of treasury advances so the net allocation is LL50 billion in 2006.

Against this changing policy, one would have expected a decline in transfers to IDAL starting from 2007 and onwards. However, this was not case. Transfers to IDAL remained constant at LL30 billion throughout 2006-2008 and jumped to LL44 billion in 2009. The LL14 billion augmentation observed in 2009 is explained by the following:

- Of the LL44 billion paid to IDAL in 2009, LL24 billion were payments of allocations carried forward from the 2008 budget proposal to 2009 and LL20 billion were from allocations budgeted prior to 2008, that were carried forward to 2008 and for which payment orders were issued in 2008 but were only paid in 2009. No payments from the amounts allocated in the 2009 budget proposal were made in 2009 and the LL28 billion allocated has been carried forward to 2010.
- Of the LL30 billion paid to IDAL in 2008, LL10 billion was a payment from the 2008 budget allocation, LL 10 billion was a payment of an allocation carried forward from the 2007 budget proposal to 2008 and LL10 billion was a payment from an allocation in the Budget 2007 proposal, for which a payment order was issued in 2007 but was actually paid in 2008.

Treasury Expenditures

Treasury expenditures increased by LL 189 billion, in 2009 when compared to the same period of 2008, detailed as follows:

- a) High Relief Committee payments increased significantly by LL 473 billion, from LL 47 billion in 2008 to LL 520 billion in 2009, of which:
 - i. LL 200 billion pertain to Decree 1168 (dated 5 January 2009), which provided the LL 200 billion treasury advance to continue indemnity payments to the owners of damaged housing

units in the villages and the Southern Suburbs, on one hand, and relief payments related to the July 2006 War, on the other

ii. LL 300 billion paid following Decree 1971 (dated 16 May 2009), which provided the LL 300 billion treasury advance to cover the HRC deficit and pay for housing indemnities

iii. LL 15 billion paid as per Decree 1670 (dated 7 April 2009) for compensations related to Tripoli incidents which occurred in 2009

iv. 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.

- b) **Transfers to EDL** decreased by LL 172 billion due to lower oil bill payments of LL 144 billion and a decrease in debt services by LL 28 billion. The former decrease in oil bill payments is rooted in both price and quantity effects. The 2009 payments pertain to consumption registered between mid-2008 and mid-2009, whereby oil prices prevailing during this period averaged at a considerably lower level than those between mid-2007 and mid-2008. At the quantity level, the consumed gas oil, for which the 2009 payments to the oil suppliers were made, registered an increase of 26 percent over the previous year's level, whereas fuel oil paid in 2009 dropped slightly by 1 percent compared to 2008.¹⁵

Table 16: Transfers to EDL

(LL billion)	2007 Jan-Dec	2008 Jan-Dec	2009 Jan-Dec	Change 2009/2008
EDL, of which:	1,479	2,430	2,259	-172
a- Debt Service, of which:	365	155	127	-28
• C-Loans and Eurobonds, of which:	272	115	93	-22
- Principal Repayments	235	94	79	-15
- Interest Payments	37	22	15	-7
• BDL-Guaranteed Loan Payments	92	40	34	-6
b- Reimbursement of KPC and Sonatrach Agreements	1,114	2,430	2,259	-172

Source: MOF, DGF

- c) **Municipalities'** payments decreased by LL 70 billion (Table 16), mainly as a result of a LL74 billion decrease in the distribution of revenues accruing to municipalities which reached LL213 billion in 2009 compared to LL287 billion in 2008. Of the LL213 billion paid in 2009, LL197 billion were paid to municipalities as per Decree 2339 dated 19/6/2009 which allocated the 2007 revenues and LL16 billion were mainly paid to municipalities to undertake development projects as per Decree 614 dated 16/12/2008 which allocated the 2006 revenues. Of the LL287 billion paid in 2008, LL87 billion were paid to municipalities as per Decree 425 dated 28/12/2007 which allocated the 2005 revenues and LL199 billion were paid to municipalities as per Decree 614 dated 16/12/2008 which allocated the 2006 revenues.

¹⁵ For further details, check December 2009 issue of "Transfers to EDL: A Monthly Snapshot" available on www.finance.gov.lb.

Table 17: Breakdown of Municipalities' Treasury Expenditures Account

(LL billion)	2007 Jan-Dec	2008 Jan-Dec	2009 Jan-Dec	Change 2009/2008
Distribution of Revenues Accruing to Municipalities	91	287	213	-74
Payments for Solid Waste Management	197	231	232	1
Payments related to the First Municipality Infrastructure Project	15	7	8	0
Other Payments	2	2	5	3
Total Municipalities' Treasury Expenditures	305	527	457	-70

Source: MOF, DGF

- d) Zero payments to the [Diesel Subsidy Bill](#), since no treasury advances were granted to subsidize diesel oil. Previous decrees pertaining to diesel subsidy in 2007 and 2008 stipulated that the subsidy was to be halted if the diesel oil price reached LL 12,000 per tank.
- e) Other changes include the following:
- i. Increase in VAT refund by LL 20 billion to cover for dues in 2008.
 - ii. A treasury advance of LL 4 billion to the Water Authorities in 2009.

Social Services

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.

Social spending reached LL 3,706 billion at the end of 2009, constituting about 22 percent of total spending. Spending on health represented 18 percent of total social spending and included mainly hospitalization in the private sector, purchase of medication, and maternity and sickness allowance for public sector employees. Spending on education represented 32 percent of total social spending, and covered mainly the Ministry of Education and Higher Education salary and wage bill, the contribution to the salaries of the Lebanese University's personnel, education allowance for public sector employees and contributions to non-profit organizations also known as subsidies to private schools (see Box.6). Pension and end-of-service payments and transfers to civil servants cooperatives constituted 35 percent and 5 percent of total social spending, respectively.

The year 2009 witnessed a higher level of spending on social services relative to 2008, by LL 636 billion or equivalent to an increase of 21 percent. This increase was mainly a result of:

- Higher preliminary spending on health by LL 220 billion or 23 percent increased, primarily as a result of increases in wages and salaries, cummulatively, by LL 197 billion.
- Higher spending on health, by LL 52 billion, as a result of higher private hospitalization bills for citizens taken in charge by the Ministry of Public Health by LL 61 billion. In parallel, hospitalization of public sector employees in private sector decreased by LL 33 billion, from the 2008 level of LL 150 billion.
- End-of-service and pension expenditures showed LL 199 billion increase in 2009, from LL 1,087 billion to LL 1,286 billion.
- Higher transfers to non-profit organizations sponsored by the Ministry of Social Affairs increased by LL 32 billion or 47 percent in 2009 compared to 2008 and,
- Transfers to NSSF went up by LL 140 billion in 2009, from LL 100 billion in 2008.

Table 18: Main Social Expenditures (Preliminary Figures)

(LL billion)	2007	2008	2009	Change 2009/2008
Health	437	625	677	8.4%
• Hospitalization in the Private Sector	172	289	351	21.3%
• Purchase of Medication	70	94	104	10.5%
• Hospitalization of Public Sector Employees in Private Sector	105	150	117	-21.8%
• Maternity and Sickness Allowance	36	42	41	-3.7%
• Other	54	49	64	30.3%
Education	976	950	1,170	23.1%
• Ministry of Education and Higher Learning, of which:	864	835	1,033	23.7%
- Wages and Salaries of the General Directorate of Education	506	452	535	18.2%
- Wages and Salaries of the General Directorate of Higher Learning	1	1	1	32.4%
- Wages and Salaries of the General Directorate of Technical Education	70	73	98	35.3%
- Contributions in the Salaries of the Lebanese University	161	162	251	54.9%
- Contributions to Non Profitable Organizations (Private Schools)	38	50	45	-9.7%
- Construction under Execution (Construction and Restoration of Schools)	28	8	5	-35.8%
• Education Allowance in Private Sector	112	116	138	19.0%
Other Social Spending	1,396	1,495	1,858	24.3%
• Marriage Allowance	3	4	4	21.9%
• Birth Allowance	2	4	3.65	-10.3%
• Death Allowance	3	3	5	55.0%

• Other Social Spending Allowance	8	13	10	-26.9%
• Participation in several Pension Funds	24	24	23	-2.7%
• Ministry of Social Affairs, of which:	59	68	102	50.1%
- Transfers to Non-Profit Organizations	57	68	100	47.3%
• Ministry of Displaced	5	4	6	67.5%
• Transfers to Civil Servants Cooperative	173	188	178	-5.1%
• End-of-Service and Pensions	889	1,087	1,286	18.3%
• National Social Security Fund	230	100	240	140.0%
Total Social Expenditures	2,809	3,070	3,706	20.7%

Source: MOF, DGF

Box 6: Transfers to the Lebanese University 2008-2009

In the 2008 Budget Proposal, LL175.2 billion was allocated to the Lebanese University, of which LL15 billion was transferred to the Lebanese University's mutual fund and LL 160 billion as a financial contribution to cover salaries and wages. In the 2009 Budget Proposal, LL225.8 billion was allocated to the Lebanese University, of which LL22 billion was transferred to the Lebanese University's mutual fund, LL13.824 billion to the Educational College of the Lebanese University for the training of 920 teachers for secondary public schools as per Decree 700/2008, and LL 190 billion as a financial contribution to the Lebanese University to cover salaries and wages. During 2009, an additional LL28.5 billion was transferred from the budget reserves to the Lebanese University budget. Of this amount, LL24 billion was transferred by ministerial decisions for the 1996-1998 retroactive payments, and LL LL4.5 billion was transferred as per Decree 1812 dated April 27th, 2009 to cover the increase granted to contractual instructors' per hour of teaching by the joint ministerial decision (Decision 1905 dated December 24th, 2009), which was issued by the Ministers of Education and Higher Education and Finance and implemented retroactively starting January 1st, 2009.

Actual transfers to the Lebanese University in 2009 reached LL251 billion compared to LL162 billion in 2008 or a LL89 billion increase. Of this amount, LL6 billion to the Lebanese University Mutual Fund, which amounted to LL23 billion in 2009 compared to LL17 billion in 2008. In addition, newly stipulated transfers were made, of which:

- LL16.824 billion to the Educational College
- LL19 billion to cover for retroactive payments
- LL5 billion to the Baabda Governmental Hospital for the training of medical students
- LL5 billion as contractual reconciliation for physical education trainers at the Lebanese University
- LL3 billion for the settlement of dues for secondary teachers who were transferred to the Lebanese University
- LL3 billion to cover rental contracts and other official bills
- LL 2 billion to cover research expenses by faculty and other urgent spending

The remaining increase (LL29 billion) can be attributed to the impact of Law 63 dated December 31st, 2008 which granted a LL200,000 monthly increase set the minimum wage at LL500,000 for all public sector employees including the Lebanese University and Decision 1905 dated December 24th, 2009 which granted the following increases to Lebanese University contractors:

- LL6,000 increase per hour of teaching for contractors of first, second and third rank,
- LL6,000 increase per hour of teaching for contractors of the Beaux Arts Institute,
- LL12,000 increase per conference by contractors and,
- LL3,000 increase per hour of teaching for the employees of the Legal Information Center.

Interest Payments

Interest payments amounted to LL 5,784 billion for the year 2009, reflecting an increase of LL 827 billion compared to last year. The increase is largely due to higher interest payments on local currency debt by LL 816 billion while interest payments on foreign currency debt rose by a small amount LL11 billion.

The rise in *interest payments on local currency debt* is a result of increases in the payments of both discounted interest as well as coupon. The discounted interest which is a bullet interest payment paid at maturity for short term T-bills, 3 -6 and 12 months, is higher by LL 173 billion compared to last year. This is explained by the payment of LL 171 billion on December 12 2009 of compounded interest on an exceptional 3-Year Discounted T-Bills issued in December 2006 to the National Security Fund and the Fund Guarantee for an amount of LL 559 billion and falling due on 12 December 2009.

Higher coupon payments were the result of both an increase in the volume and in the weighted average cost of Long term T-bills bearing coupons maturing during the year 2009. The volume of these Long term T-bills increased by 27 percent thus reflecting higher level of cash in the Treasury accounts by almost 2.5 times than those prevailing in 2007. Their weighted average cost is calculated at 9.35 percent compared to 9.29 percent for Long term T-bills portfolio bearing coupon maturing in 2008. Despite the decrease in the primary market rates starting the second half of 2008 the increase is due to the redemption of LL 1,266 of T-bills in the 54-month and 60-month categories at a coupon rate of 4 percent.

Interest payments on *foreign currency debt* reached LL 2,121 billion in 2009 higher by LL 11 billion compared to 2008. The increase is mainly a result of higher Eurobond coupon payments by LL 22 billion as a result of a slight increase in the weighted average cost of the Eurobonds portfolio with coupon maturing in 2009 by 0.12 percent. The weighted average cost of Eurobonds with coupon payments maturing in 2008 is equivalent to 7.12 percent against 7.24 percent for coupon maturing in 2009 because of the decrease in the stock of low coupon amortized Eurobonds issued in the context of Paris II. In addition, concentration of coupon maturities during the month of September increased to account for the new Eurobonds issued during the month of March 2009.

Concessional Loans Principal Payments amounted to LL 302 billion in 2009 decreasing by LL 45 billion when compared to 2008 mainly as a result of the prepayment of World Bank loans worth of LL 132 billion in 2008 against LL 75 billion in June 2009, both with the proceeds of USAID grant for budget support¹⁶.

Table 19: Details of Debt Service Transactions

(LL billion)	2007 Jan-Dec	2008 Jan-Dec	2009 Jan-Dec	Change 2009/ 2008
Interest Payments 1/	4,694	4,957	5,784	827
Local Currency Debt	2,515	2,847	3,663	816
• <i>Discount interest</i>	255	132	304	173
• <i>Coupon</i>	2,260	2,716	3,359	643
Foreign Currency Debt, of which:	2,179	2,110	2,121	11
• <i>Eurobond Coupon Interest*</i>	2,039	1,950	1,972	22
• <i>Special Bond Coupon Interest*</i>	13	16	18	2
• <i>Concessional Loans Interest</i>	127	144	131	-13
Concessional Project Loans Principal Payments ⁽¹⁾	246	347	302	-45

Source: MOF, 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

¹⁶ Kindly refer to the "International Conference for Support to Lebanon- Paris III (10th progress report)": www.finance.gov.lb

Section IV: Public Debt Developments

Total net financing requirements for January-December 2009 reached LL 4,238 billion, compared to LL 4,105 billion in 2008 increasing by LL 133 billion.

The end year 2009 was characterized by a net increase of LL 6,060 billion of T-bills issuances in domestic currency which mainly contributed to the financing of the overall cash deficit as well as to the increase in the level of Treasury deposits by LL 1,928 billion.

The net increase in the foreign currency financing flows were the result of net increase in the stock of Eurobond by LL 283 billion and in the stock of special T-bills in US dollars by LL 28 billion. Eurobond issuances amounted to USD 2.6 billion and Euro 211 million including last Eurobond transaction that took place on December 3rd 2009 with the issuances of the USD 250 MN Jan-2015 and USD 250 MN Dec-2024. Eurobond issuances were used to roll-over around USD 2.7 billion of Eurobond maturities. Issuances of Special T-bills in USD were limited to the USD 18.5 million issued in March, 25 2009 for the settlement of expropriations.

Similarly, net financing requirements during the year 2008, were mainly financed by issuances of T-bills in domestic currency. Moreover, Commercial Banks' oversubscription in the LL Treasury-Bill weekly auctions contributed to the building up of cash in the treasury accounts increasing it by LL 3,238 billion.

Table 20: Financing for January-December 2009 versus January-December 2008

(LL billion)	2008 Jan-Dec	2009 Jan-Dec
Overall balance from the financing side¹⁷	-4,105	-4,238
Total Net in Financing	4,105	4,238
• LL treasury bills ⁽²⁾	7,395	6,060
• Eurobonds ⁽¹⁾	-260	283
• Special T-bills in US dollars	-	28
• Bilateral Loans ⁽¹⁾	170	-150
• Multilateral Loans ⁽¹⁾	71	1
• Private sector loans ⁽¹⁾	-34	-27
• Change in treasury accounts (-/increase +/decrease)	-3,238	-1,928

Source: MOF, 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".

¹⁷ 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 I (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

By the end of 2009 **gross public debt** stood at LL 77,019 billion (US\$ 51.09 billion) higher than the end-2008 stock of debt by 8.65 percent. This rise was largely due to a higher stock of domestic currency debt by LL 5,966 billion in addition to a LL 165 billion increase in foreign currency debt over the same period.

Net public debt registered LL 66,497 billion (US\$ 44.11 billion) by the end of 2009, a 6.29 percent increase over the end-2008 level.

Table 21: Public Debt Outstanding as of end-December 2009

(LL billion)	Dec-05	Dec-06	Dec-07	Dec-08	Dec-09	Change Dec 08 - Dec 09	% Change Dec 08-Dec 09
Gross Public Debt ⁽¹⁾	57,985	60,851	63,350	70,888	77,019	6,131	8.65%
Net Debt	52,395	56,407	58,823	62,562	66,497	3,935	6.29%
Gross Market Debt ⁽²⁾	34,721	38,670	39,216	46,992	51,231	4,239	9.02%

Source: MOF, BDL

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

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

The **weighted average cost of total foreign debt** stood at 6.81 percent end-2009 compared to 6.71 percent end-2008 and the average implied interest rate was 6.68 percent versus 6.69 percent over the same period. The weighted average cost of Eurobonds as of end 2009 was 7.35 percent compared to 7.24 percent end-2008. The weighted average cost of contracted loans was 3.60 percent, a reduction from its average of 3.84 percent end-2008.

The **weighted average cost of outstanding domestic debt** stood at 8.74 percent as of end-2009, decreasing from 9.20 percent end-2008 capturing the primary market rate decline across instruments. The weighted average cost of 3-month Treasury bills was 4.69 percent (5.18 percent in 2008), 6-month Treasury bills 6.12 percent (7.18 percent end-2008), and 6.69 percent (7.72 percent end-2008) for the 12-month Treasury bills. For longer term notes, the weighted average cost was 7.70 percent (7.52 percent end-2008) for 24-month notes, 8.92 percent (9.26 percent end-2008) for 36-month notes, and 9.97 percent (11.15 percent end-2008) for the 60-month Treasury Notes.

Local Currency Debt

In 2009, the stock of domestic currency debt increased by 15.3 percent compared to the end-December 2008 amount, to stand at LL 44,973 billion, as per Table 21 below.

By holder, it was commercial banks that saw the largest increase in the stock of local currency debt with a 12.2 percent rise in their portfolio to reach LL 27,286 billion by end-2009 compared to their end-2008 stock. This increase was almost exclusively due to commercial banks' higher holdings of treasury bills, the stock of which was LL 2,959 billion greater over this period. The share of commercial bank financing as a share of domestic debt is reflected in Figure 2 below.

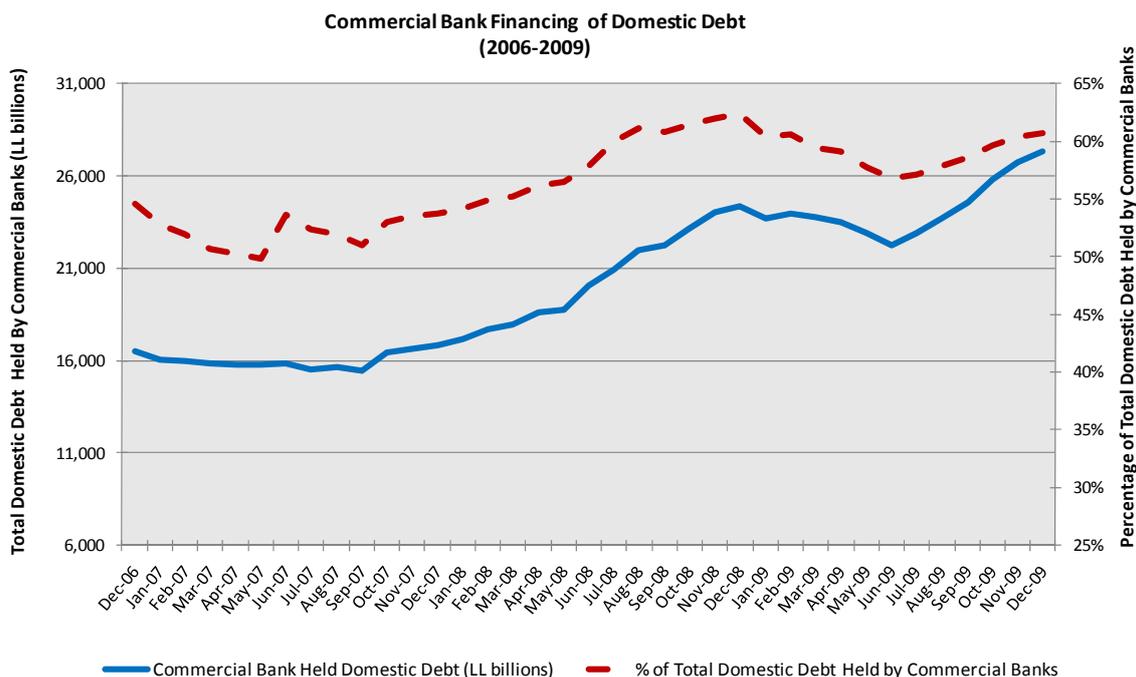
The second largest increase in the domestic currency debt by holder was undertaken by the Central Bank which had a higher stock of LL 1,553 billion. This was led by a LL 1,624 billion increase in their Treasury Bill portfolio to LL 10,043 billion.

Public entities increased their stock of Treasury Bills by LL 1,016 billion to LL 6,078 billion between end-2008 and end-2009. In percentage terms, the largest increase in stock over 2009 was witnessed by the public whose portfolio of TBs increased by 55 percent (or LL 404 billion) to reach LL 1,145 billion end-2009.

Commercial banks were the largest subscribers of TBs in QIV 2009 accounting for 64 percent of subscriptions.¹⁸ This compares to 67 percent in Q1, 49 percent in QII and 67 percent in QIII. The second largest subscribers in QIV 2009 were public institutions with 21 percent of subscriptions that quarter compared to 16 percent in QI, 19 percent in QII and 24 percent in QIII. The Central Bank was third with 7 percent of subscriptions in QIV 2009 closely following by public at banks with 6 percent.

The same pattern is reflected on a cumulative basis with commercial banks being the dominant subscribers in 2009 having subscribed to 63 percent of total treasury bills and notes for the year. This was followed by subscriptions by public institutions with 20 percent of subscriptions, BDL with 11 percent, and public at banks with 4 percent shares of total subscriptions.

Figure 2: Commercial Bank Financing of Domestic Debt (December 2006 – December 2009)



By instrument, the increase in domestic currency debt was due to both a higher stock of long-term bonds valuing LL 4,492 billion and a LL 1,583 billion increased stock of short term bills comparing end-2008 and end-2009 levels. Overall, the 36MN Treasury Notes stock increased the most (by LL 2,258 billion), followed by 60 MN Treasury Notes (a LL 1,987 billion increase) and 12MN Treasury bills by LL 1,538 billion.

¹⁸ Subscriptions refers to the actual amount of Treasury Bills bought by the investor not the amount bid for.

As of the week of 20 July 2009 (value date 23 July 2009), the Lebanese Republic introduced a 60-month Treasury Note in the Treasury Bill Auctions. This policy took place amidst favourable market conditions consisting of high LL liquidity, demand for long term paper, and reduced yield level. This was also in line with the Republic's strategy to increase the maturity profile of the local currency debt portfolio and create a yield curve in LBP through the creation of a market for medium-term notes. Since, large investor appetite was witnessed on the 60MN notes which were subscribed by LL 1,987 billion by end-2009 (almost 11 percent of total subscriptions for 2009 and 19 percent of subscriptions since 60-month notes were introduced). The notes were issued at a yield of 9.00 percent which gradually declined reaching a yield of 7.74 percent by end-2009. Prior to this, the MOF had issued, for the first time, a 5-year bond in Lebanese Pounds as a new benchmark instrument in March 2006 as part of a Medium Term Note Program (MTN).

On a quarterly basis, 36 MN Treasury Notes were the most subscribed each quarter with the following pattern: 48 percent of subscriptions in Q1, 74 percent in QII, 49 percent in QIII and 43 percent in QIV 2009. The share of subscribed 36-month notes in the fourth quarter of 2009 was less than each of the previous quarters given demand on 60MN Treasury Notes which witnessed almost 20 percent of subscription in QIV, followed by 6MN TBs with 12 percent of subscriptions. Demand for the other instruments varied per quarter. Other than in QI when 3MN TBs were second demanded after 36MN Treasury Notes with 16 percent of subscriptions that quarter, demand was less positive on the instrument resulting in a LL 135 billion reduction in its stock by end-2009.

Cumulatively in 2009, increases in the stock of debt reflected subscription patterns: 36MN acquired the highest share of subscriptions at 51% of total subscriptions, followed by 6MN (11.2%) and 12MN (10.7%) instruments. High demand was witnessed on 60-month Treasury Notes, which although auctioned for part of the year (since July 20, 2009), accounted for 10.6% of subscriptions on a cumulative level in 2009.

Table 22: Domestic Currency Debt by Holder and Instrument as of end-December 2009

Stocks (end of period)	Dec-05	Dec-06	Dec-07	Dec-08	Dec-09	Change Dec 08 - Dec 09	% Change Dec 08- Dec 09
Local currency debt	29,141	30,204	31,373	39,007	44,973	5,966	15.29%
A. By Holder							
1. Central Bank (including REPOs and Loans to EDL to finance fuel purchases) ⁽¹⁾	11,686	9,588	9,052	8,781	10,334	1,553	17.69%
2. Commercial Banks	14,130	16,487	16,847	24,320	27,286	2,966	12.20%
3. Other local debt (T-bills) <i>o/w Public entities</i>	3,325 2,446	4,129 3,313	5,474 4,796	5,906 5,062	7,353 6,078	1,447 1,016	24.50% 20.07%
*Accrued interest included in debt	517	685	730	1,029	999	-30	-2.92%
B. By Instrument							
1. Long term bonds	23,384	26,862	28,617	36,350	40,842	4,492	12.36%
1.1 60 months bonds	1,772	2,172	3,699	3,049	5,036	1,987	65.17%
1.2 54 months bonds	616	616	616	0	0	0	-
1.3 48 months bonds	633	633	633	633	0	-633	-100.00%
1.4 36 months bonds	14,520	21,093	21,051	29,650	31,908	2,258	7.62%
1.5 30 months bonds	3,033	0	0	0	0	0	-
1.6 24 months bonds	2,385	1,751	1,927	2,052	2,989	937	45.66%
1.7 Coupon interest	425	597	691	966	909	-57	-5.90%
2. Short term bills*	5,246	2,839	2,288	2,197	3,735	1,538	70.00%
2.1 12 months bills	3,023	1,579	529	676	2,073	1,397	206.66%
2.2 06 months bills	2,067	1,117	1,750	1,234	1,510	276	22.37%
2.3 03 months bills	156	143	9	287	152	-135	-47.04%
* Accrued interest included	92	88	39	63	90	27	42.86%
3. Other local debt	511	503	468	460	396	-64	-13.91%

3.1	Central Bank Loans	453	445	405	362	291	-71	-19.61%
3.2	Commercial Banks Loans	58	58	63	98	105	7	0

Source: MOF, BDL

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

Primary market interest rates continued to gradually decrease as per the declining trend that began in the second week of June 2008. The most pronounced yield decrease was on 24MN notes which dropped by 194 basis points from the beginning of 2009, followed by a 190 bps drop in rates on 36MN TBs. The reduction in yields reflected a rise in demand for Treasury Bills and Notes such that 38 percent of bid offers were rejected.

Table 23: Evolution of Primary Market Treasury Bill Yields (percent)

Maturity	Dec. 31, 2005	Dec. 31, 2006	Dec. 31, 2007	Dec. 31, 2008**	Dec. 31, 2009
3-month	5.22 percent	5.22 percent	5.22 percent	5.10 percent	4.55 percent
6-month	7.24 percent	7.24 percent	7.24 percent	7.11 percent	5.72 percent
12-month	7.75 percent	7.75 percent	7.75 percent	7.57 percent	5.73 percent
24-month	8.50 percent	8.50 percent	8.50 percent	8.22 percent	6.32 percent
36-month	9.34 percent	9.32 percent	9.32 percent	8.98 percent	7.10 percent
60-month*	N/A	N/A	N/A	N/A	7.74 percent

Source: MOF

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

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

As of the week of July 16th, 2009, the auction schedule was modified from weekly auctions of the 3 MN, 6 MN, 12 MN, 24 MN, and 36 MN instruments undertaken since June 26, 2008 to the following combination of issuances on a weekly basis: 3 MN, 6 MN, and 60 MN instruments one week, and 12 MN, 24 MN, 36 MN instruments the following week. Prior to June 26, 2008, the auctions had offered short term maturities one week (3MN and 6MN) and longer term maturities on the alternate week (12MN, 24MN, 36MN).

The **average time-to-maturity of domestic currency** treasury bills and notes decreased from as of December 31st 2009 was 1.60 years compared to 1.69 years as of 31st December 2008. The average maturity of issued LL instruments was 35.6 months end-2009 compared to 35.8 months end-2008, mainly reflecting demand on 36-month notes with the redemption of remaining 48MN Treasury Notes in 2009 worth LL 633 billion.

Foreign Currency Debt

By the end of 2009, **foreign currency debt** totalled LL 32,046 billion, a 0.58 percent increase compared to the end-2008 level as shown in Table 23. The small increase in foreign currency debt in 2009 was mainly led by a higher Eurobond portfolio of LL 325 billion offsetting the LL 188 billion reduced stock of loans. The stock of foreign currency debt increased by a slight LL 0.5 billion over 2009 due to exchange rate valuations, including the Euro appreciation from 1.4174 EUR/USD end-2007 to 1.43287 EUR/USD end-2009.

Table 24: Foreign Currency Debt by Holder and Instrument as of end-December 2009

(in LL billion)	Dec-05	Dec-06	Dec-07	Dec-08	Dec-09	Change	% Change Year-to-date
B. Foreign currency debt⁽¹⁾	28,844	30,647	31,977	31,881	32,046	165	0.52%
4. Eurobonds	24,743	26,441	27,099	26,817	27,142	325	1.21%
Of which, Paris II at preferential rates ⁽²⁾	5,608	5,608	5,156	4,708	4,192	-516	-10.95%
Of which, Paris III at preferential rates ⁽³⁾	0	0	754	754	754	0	0
* Accrued Interest on Eurobonds	406	434	410	430	460	30	6.98%
5. Loans	3,682	3,787	4,459	4,645	4,457	-188	-4.05%
5.1 Paris II loans	893	932	907	748	627	-121	-16.18%
5.2 Paris III loans ⁽⁴⁾	0	0	603	1,095	1,210	114	10.42%
5.3 Bilateral loans (non-Paris II and III)	703	714	759	745	716	-29	-3.95%
5.4 Multilateral loans (non-Paris II and III)	1,928	2,026	2,104	2,002	1,878	-125	-6.23%
5.5 Foreign Private Sector Loans	158	115	86	54	27	-27	-50.00%
6. Other debt	419	419	419	419	447	28	6.68%
6.1 Special Tbls in Foreign currency ⁽⁵⁾	419	419	419	419	447	28	6.68%

Source: MOF, BDL

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

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

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

⁽⁴⁾ IBRD loan, UAE loan, first tranche of the French loan received in February 2008, IMF loans, first tranche EC/EU loan, and AMF loan disbursed in June 2009.

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

By end-2009, the Eurobonds portfolio totalled LL 27,142 billion, a 1.21 percent increase of the end-2008 level. In 2009 Eurobonds redeemed stood at US\$ 2.69 billion compared to an issued amount of US\$ 2.88 billion (refer to Table 24).

Table 25: Net issuance of Eurobonds in 2009

(US\$)	2009
Eurobonds issued	2,875,080,046
Eurobonds redeemed	2,686,874,678
Net issuance	188,205,367

Source: MOF

The Lebanese Republic tapped the market twice in 2009 with an exchange offer in March 2009 and a new issue in December 2009. Such activity made up for the LL 516 billion reduction in the Paris II Eurobonds issued at preferential rates. This reflects the redemption of amortized principal payments which are redeemable in twenty equal semi-annual payments starting in 2008 for the four Eurobonds issued in the context of Paris II. The refinancing transactions in 2009 consisted of (kindly refer to Table 25 for details):

- 1) On March 19th, 2009 the Lebanese Republic settled its voluntary debt exchange offer. The aggregate participation rate for the exchange offer was 82.8 percent. Five bonds maturing in 2009 were submitted for exchange into longer dated notes. The issuance of USD 444.7 million of new cash in conjunction with the Eurobond voluntary exchange transaction resulted in new issues of \$2,100,000,000 and €211,097,000.
- 2) On December 3rd, 2009, the Lebanese Republic issued a USD 500 million dual-tranche offering. The first series (Series 53) consisted of a USD 250 million 5.875 percent coupon Eurobond due January 2015. The second (Series 54) was a USD 250 million 7.000 percent coupon Eurobond due December 2024. Both series were issued at record-low market rates for the Republic and attracted international investor demand of 27 percent on the aggregate issue.

Table 26: Terms and Conditions of Eurobonds issued in 2009

Issue Date	Amount issued	Currency	Coupon Rate	Issuance Yield	Issue Date	Maturity Date
March 2009 Exchange	600,000,000	USD	7.500	7.500	19-Mar-09	19-Mar-2012
March 2009 Exchange	211,097,000	EUR	5.875	7.750	19-Mar-09	12-Apr-2012
March 2009 Exchange	1,500,000,000	USD	9.000	9.000	19-Mar-09	20-Mar-2017
December-09	250,000,000	USD	5.875	5.875	3-Dec-09	15-Jan-2015
December-09	250,000,000	USD	7.000	7.000	3-Dec-09	03-Dec-2024

Source: MOF

The **average time-to-maturity of Eurobonds** was 4.69 years as of December 31, 2009, almost in line with the average time to maturity of the Eurobond portfolio as of December 31, 2008 which was 4.66 years.¹⁹ This can be explained by both the principal redemption of the four Eurobonds issued in the context of Paris II which have an amortized redemption schedule, and the issuance of long tenors by the Republic.

By the end of 2009, the **loans** portfolio stood at LL 4,457 billion, a 4.05 percent reduction from its level end-2008. The LL 125 million decrease in multilateral loans is mainly explained by the redemption of the equivalent amount of US\$ 50 million of Lebanon debt to the World Bank which was received as a grant from USAID, on behalf of the United States. The LL 121 billion lower stock of Paris II loans is due to redemption of two tranches of € 30 million in relation to the loan *Agence Française de Développement* extended as part of the Paris II Donor Conference. Such activity offset the increase in the stock of Paris III loans of LL 114 billion mainly a resultant of the disbursement in June 2009 of two loans negotiated in the context of the Paris III conference: the Arab Monetary Fund disbursed US\$ 32 million and the European Commission disbursed €25 million as part of the first tranche of the Macro-Financial Assistance.

At LL 447 billion, **other foreign currency debt** was higher by LL 28 billion by end-December 2009 compared to end-2008 as on March 25, 2009 the Lebanese Republic issued 6.00 percent US\$ 18.5 billion Treasury Bonds due 2014 for the settlement of expropriations

¹⁹ Takes into consideration amortization of four Eurobonds issued in the context of the Paris II Conference and two Eurobonds issued in the context of the Paris III Conference.

Secondary market yields on Eurobonds in the fourth quarter of 2009 increased by an average of 69 bps²⁰.

Table 27: Lebanon Secondary Market Yields

Lebanese Issues	Bid Yield (%)							
	5-Oct 2009	13-Oct 2009	5-Nov 2009	13-Nov 2009	25-Nov 2009	7-Dec 2009	22-Dec 2009	31-Dec 2009
<u>EURO</u>								
LEB 5.875 12	5.42	5.42	4.96	4.73	4.72	4.71	4.68	4.67
<u>US Dollars</u>								
LEB 7.125 10	2.77	2.53	1.60	1.25	0.41	3.85	3.01	2.47
LEB 7.875 11	4.47	4.11	4.04	3.83	3.98	4.01	3.87	3.81
LEB 4.000 17 Av Life	7.12	6.74	6.47	6.48	6.59	6.36	6.24	6.11
LEB 7.500 12	5.19	4.85	4.61	4.54	4.49	4.57	4.34	4.31
LEB 7.750 12	5.40	5.02	4.78	4.72	4.63	4.61	4.41	4.39
LEB 9.125 13	5.55	5.23	5.09	4.91	5.02	5.23	4.98	4.96
LEB 8.625 13	5.59	5.33	5.13	5.01	5.12	5.28	5.09	5.07
LEB 7.375 14	6.09	5.78	5.63	5.56	5.55	5.73	5.61	5.61
LEB 9.000 14	6.20	5.95	5.70	5.66	5.63	5.80	5.65	5.63
LEB 5.875 15	N/A	N/A	N/A	N/A	N/A	5.76	5.70	5.70
LIEB 10.000 15	7.02	6.75	6.47	6.46	6.44	6.44	6.10	6.03
LEB 8.500 15	6.81	6.51	6.31	6.26	6.27	6.11	5.90	5.89
LEB 8.500 16	6.91	6.62	6.42	6.39	6.40	6.23	6.05	6.05
LEB 11.625 16	7.10	6.88	6.72	6.67	6.73	6.59	6.50	6.49
LEB 9.000 17	6.87	6.74	6.49	6.44	6.55	6.43	6.35	6.35
LEB 8.250 21	7.34	7.21	6.96	6.90	6.96	6.93	6.89	6.89
LEB 7.000 24	N/A	N/A	N/A	N/A	N/A	7.03	7.00	7.00

Source: Credit Suisse

²⁰ Calculated from October 5, 2009 to 31 December, 2009 as per data in Table 26 excluding the Eurobonds issued in December 2009.



For further information please contact:

Ministry of Finance

UNDP Project

Tel: 961 1 981057/8

Fax: 961 1 981059

Email: infocenter@finance.gov.lb

Website: www.finance.gov.lb

For further information please contact

Ministry of Finance

UNDP Project

T +961 1 981 057/8

F +961 1 981 059

infocenter@finance.gov.lb

www.finance.gov.lb