



REPUBLIC OF LEBANON  
MINISTRY OF FINANCE

# **Sixth Donor Meeting Implementation of the Economic and Social Reform Program**

Grand Sérail, 18 March 2009



1	Current situation
2	Progress on reform: implementation and institutional setup
3	International assistance: Paris III pledges mobilization
4	Outlook

## Government policies resulted in a good performance in 2008

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- In November 2008, Lebanon entered into a second Emergency Post Conflict Assistance (EPCA) agreement with the International Monetary Fund (IMF).
- A mission visited Beirut February 19 -March 5, 2009 to hold discussions for the 2009 Article IV consultations and to review performance under EPCA.

The mission's findings include:

- "The Lebanese economy has shown a remarkable strength in the face of the unfolding global financial crisis.
- Performance under EPCA has been broadly favorable, although there have been slippages in structural policies
- Going forward, the Lebanese economy and financial system are faced with three key risks:
  - The global recession and slowdown in the Gulf
  - Government financing may be more difficult than anticipated
  - Lebanon remains exposed to political and security shocks "

# The Second Emergency Post Conflict Assistance (EPCA) aims at building on the achievements of the first EPCA

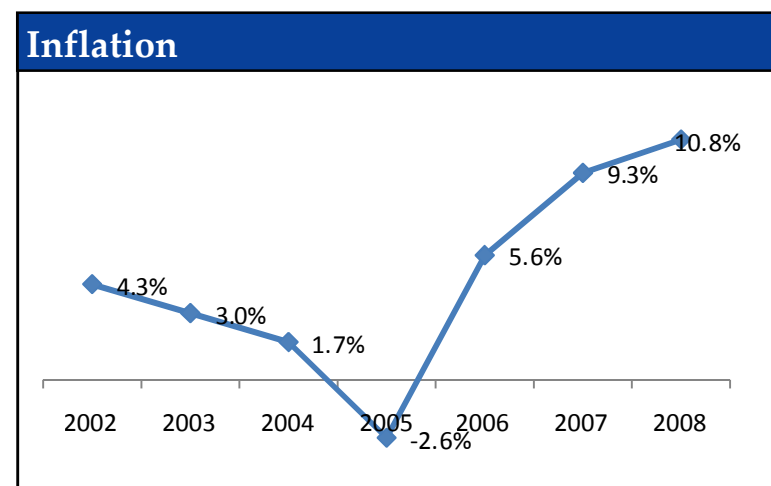
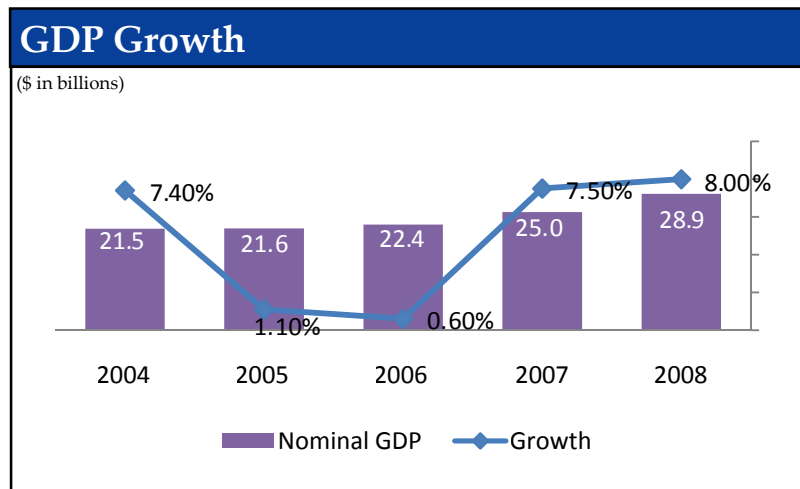
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- EPCA II is based on the Government's commitment to the Paris III Economic and Social Reform program:
  - Stimulating growth
  - Ensuring that the debt/GDP ratio continues on a downward trend through fiscal consolidation
  - Addressing social issues related to the hike in food prices on the poor
  - Maintaining the stable monetary policy
  - Addressing issues in the power sector and the National Social Security Fund



# The economy has continued to demonstrate resilience

- Lebanon registered 8 percent real growth rate in 2008 reflecting strong resilience in the wake of the global financial crisis. Growth is expected to slow down in 2009 to about 3 to 4 percent.
- Inflation is estimated to have averaged 10.8 percent in 2008 with the expectation of lower prices in 2009 to result in 3.6 percent inflation.

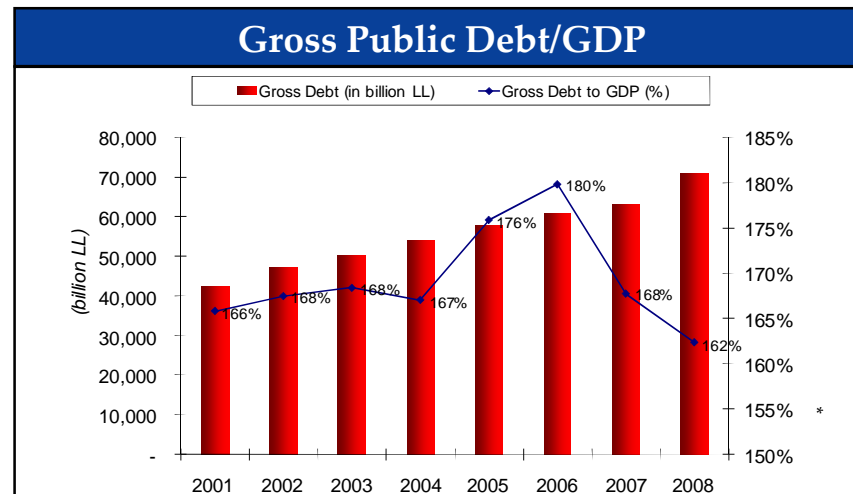
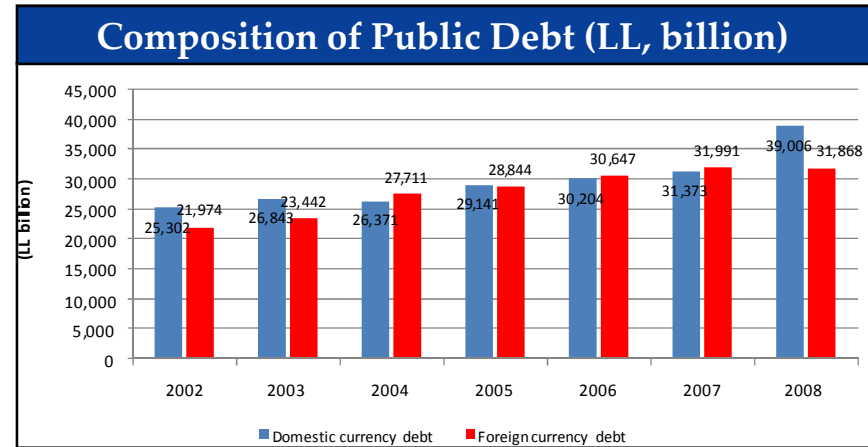
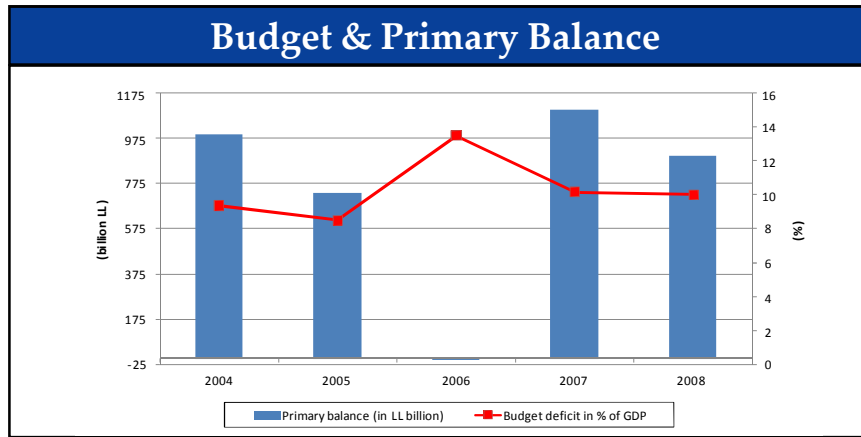


## Growth was translated into higher revenues, which were outpaced by higher expenditures, leading to lower primary surplus compared to 2007

<i>(LL billion)</i>	2007	2008	% Change
Total revenues	8,749	10,553	21.0%
Primary expenditures	7,647	9,652	26.2%
Primary deficit/surplus	1,102	900	-18.3
Interest payments & concessional loan principal payments	4,695	4,957	5.6%
Total deficit/surplus	-3,838	-4,404	14.7%

Source: MOF

# Government policies have put public debt on a more sustainable path through decreasing debt to GDP ratio

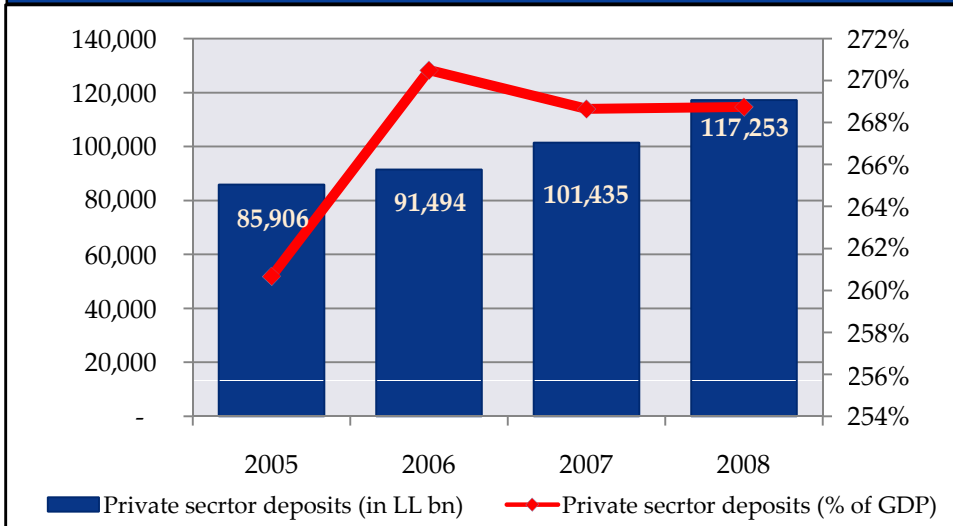


\*2008 GDP estimated at \$28.9 billion

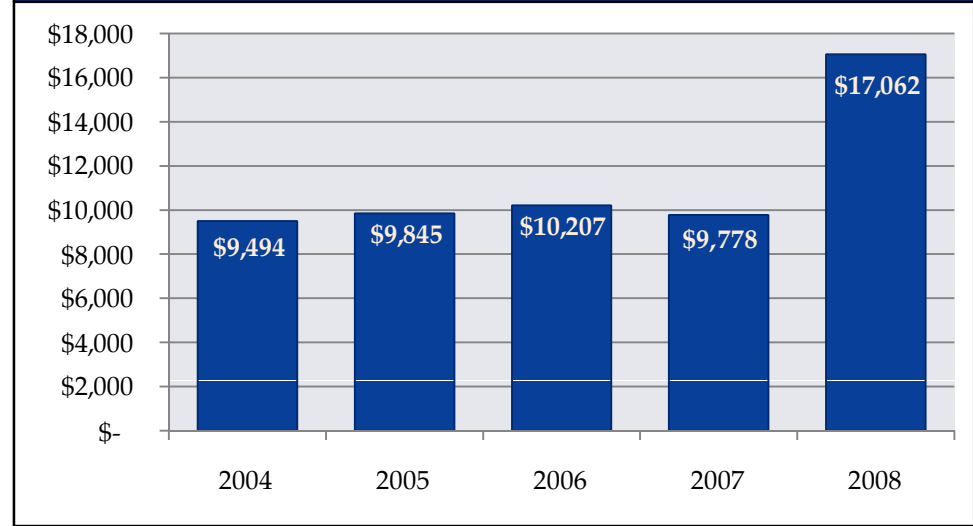


# Deposits and BdL foreign reserves continued to show healthy increases

## Deposits-to-GDP



## BdL Foreign Reserves (US\$, million)

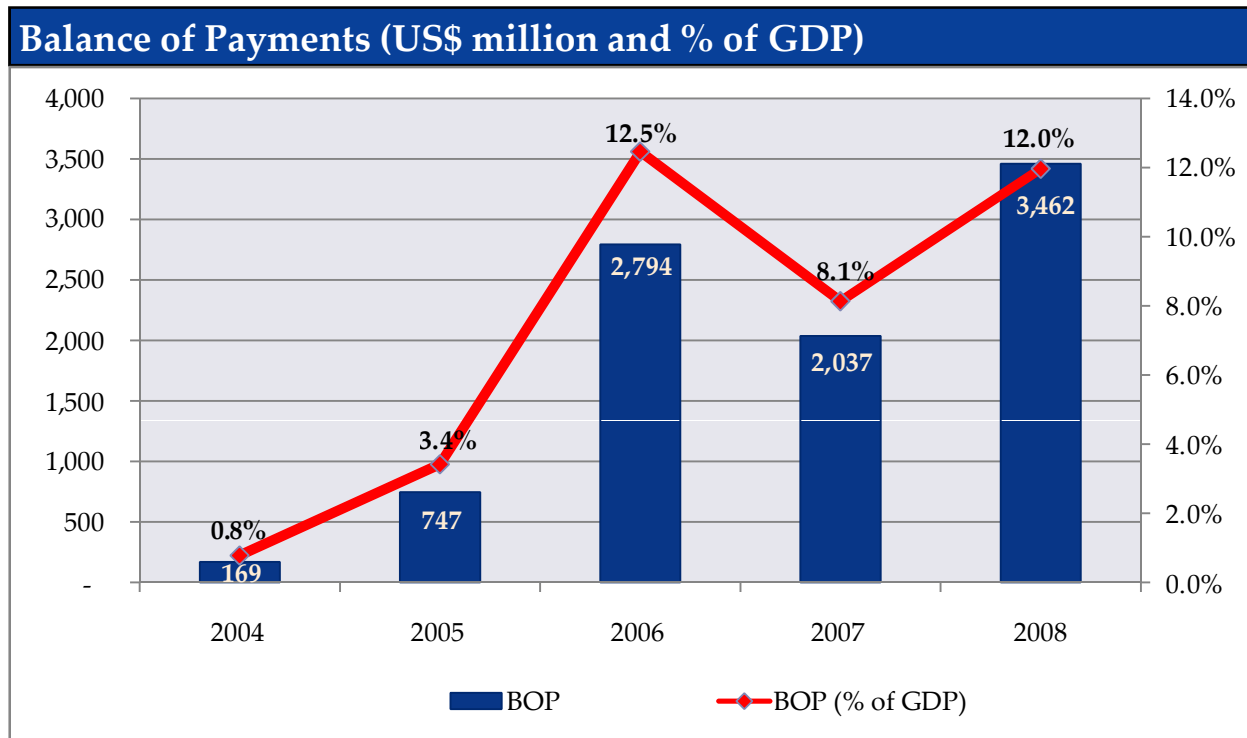


## Remittance Inflows

- Remittance inflows contribute to the increase in banking deposits, which allows banks to keep financing the budget deficit and roll over Lebanon's maturing debt
- Lebanon ranked 8<sup>th</sup> among the top ten remittance recipients in 2006 at 22.8% of GDP
- Remittances reached about USD 5.5 billion in 2007, equivalent to about USD 1,600 per capita.
- Financial crisis may have an adverse impact on remittances



## The balance of payments stayed positive

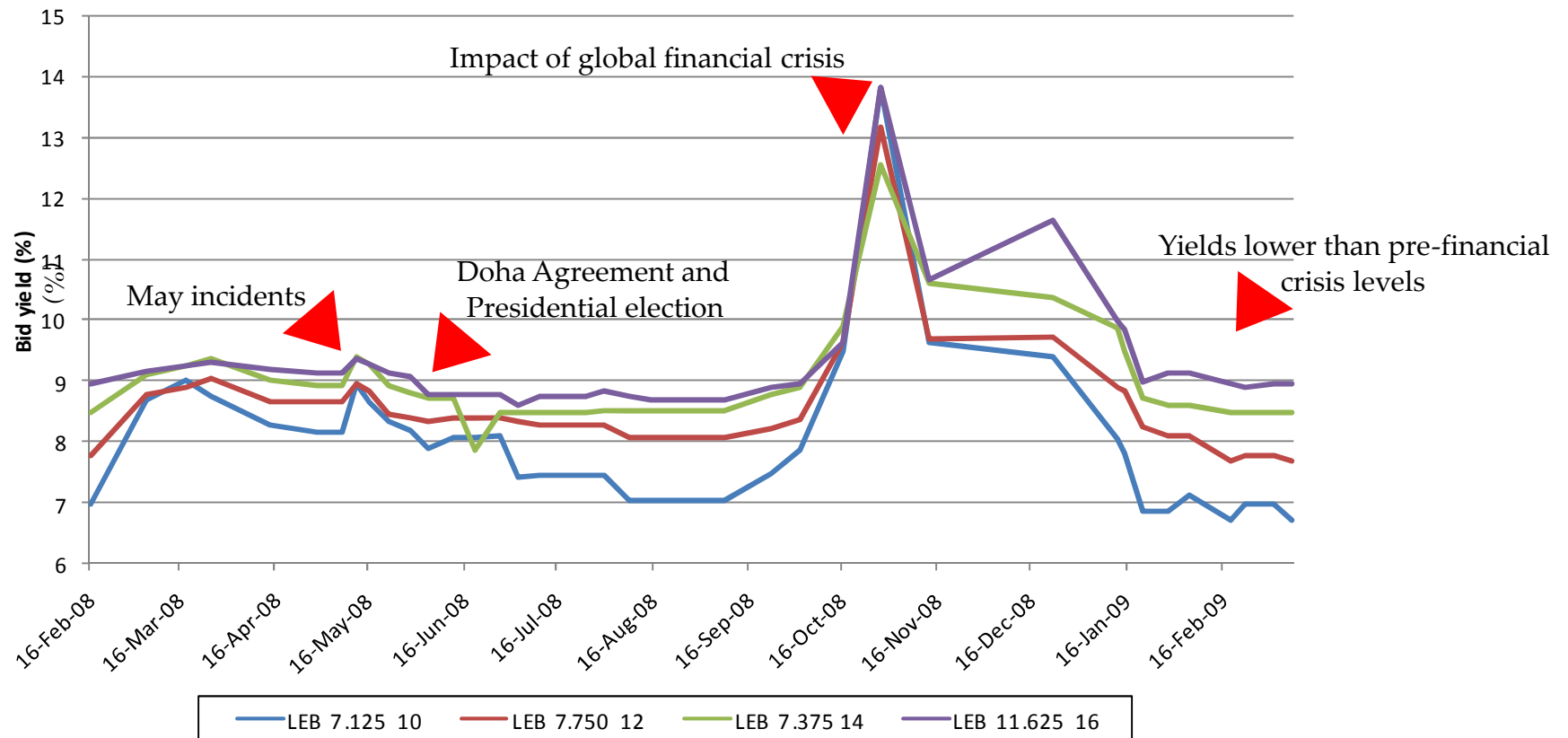


	2004	2005	2006	2007	2008
Trade Balance (US\$ million)	-7,650	-7,460	-7,115	-8,999	-12,658
Balance of Payments* (US\$ million)	169	747	2,794	2,037	3,462

\*measured as net change in foreign assets

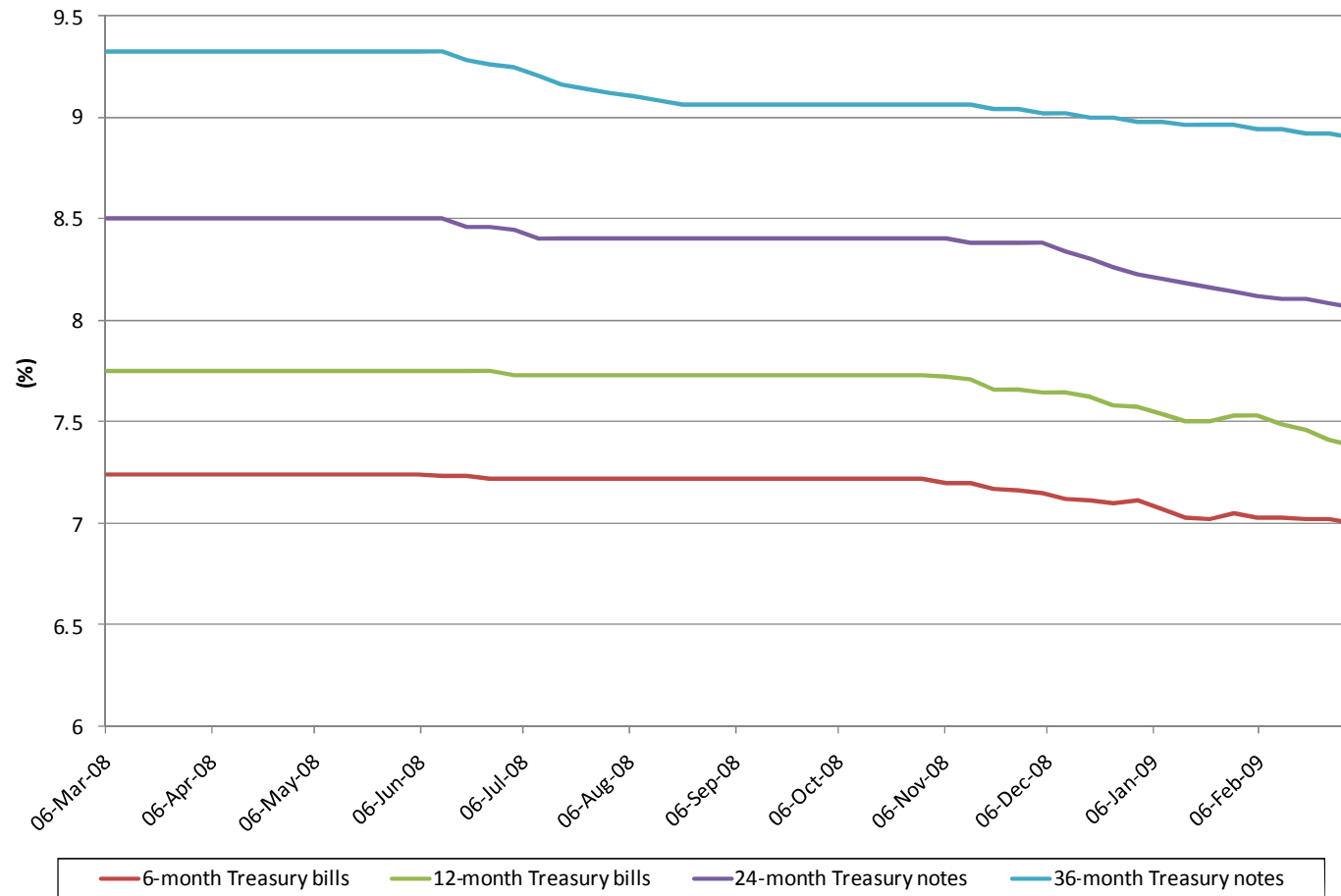
# Lebanon's USD sovereign bond yields have weathered the financial crisis

**Secondary Market Yields  
March 08 – March 09**



# Primary interest rates on LL Treasury bills and notes have been gradually decreasing since June 2008

Primary Market Yields  
March 2008 – March 2009\*



Source: Ministry of Finance

\* Up to March 5, 2009



## Gross financing needs for 2009\*

- As of end 2008, financing needs were USD 14.8 billion
  - 31 percent in foreign currency
  - 69 percent in domestic currency
- The recent exchange raised USD 2.3 billion



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## The Republic successfully completed a voluntary debt exchange offer on March 13, 2009

Issuer	The Republic of Lebanon
Format	Reg S
Credit ratings	B3/B-/B-
Listing	Luxembourg and Beirut Stock Exchange
Use of proceeds	Refinancing purposes
Joint Lead Managers	Byblos Bank, Credit Libanais and Credit Suisse

### Exchanged notes

Original notes	Amount outstanding prior to exchange offer	Percentage exchanged
US\$ 7.50% due Aug. 09	\$ 351,591,000	75.0%
US\$ 10.25% due Oct. 09	\$635,500,000	76.4%
US\$ FRN due Nov. 09	\$625,000,000	93.6%
US\$ 7.00% due Dec. 09	\$425,000,000	75.6%
€ 7.25% due May 09	€ 225,000,000	93.8%

**Aggregate participation rate = 82.8%**

### New notes

New notes	Yield	Amount issued via exchange	Amount of new notes issued	Total notes issued
US\$ due Mar. 2012	7.50%	\$424,261,000	\$175,739,000	\$600,000,000
US\$ due Mar. 2017	9.00%	\$1,231,063,000	\$268,937,000	\$1,500,000,000
€ 5.875% due April 2012	7.75%	€ 211,097,000	0	€ 211,097,000

**Aggregate new issues of \$2,100,000,000 and € 211,097,000**



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## Economic Reforms

### Highlights

- 2009 budget prepared on the basis of the 2009 budget circular that included a medium term expenditure framework, a global expenditure ceiling and soft ceilings for line ministries.
- The Council of Ministers approved the establishment of a Cash Management Department under the Treasury Directorate.
- The Ministry of Economy and Trade continued to put in place measures to streamline business registration and to increase awareness on intellectual property.
- The Trade Remedies Investigative Body (TRIB ), which will play a central role in the implementation of the trade reform agenda, was created as the Implementation Decree for the Law of Protection of National Production entered into force.
- The Public Procurement Administration draft law was endorsed by CoM.
- Approval by the Council of Ministers to uncap the price of gasoline and fix the excise rate (23 January 2009)
- The Ministry of Finance submitted the Global Income Tax to the Council of Ministers
- A procurement manual and model bidding documents were prepared



## Social Reforms

### Highlights

- Ministry of Social Affairs launched the pilot proxy means testing of poverty targeting mechanism.
- MEHE completed the Leadership Development Program under which trainers and trainees' guides, training modules, and practicum projects were completed and 420 school projects were implemented.
- The National Social Security Fund completed automating all their regional branches (32 branches).
- Audited NSSF accounts for the years 2003 through 2005 was initiated (expected by end 2009).
- Approval in principle by the Council of Ministers of the universal hospitalization coverage



# Infrastructure and Privatization Reforms

## Highlights

- A final draft of the electricity generation master plan and the feasibility study for increasing hydro-electric production were completed.
- The audit of the 2003 EDL financial statements was completed.
- In the telecom sector, the Ministry of Telecommunications negotiated the two management contracts for the mobile licenses. The TRA worked with the Ministry of Telecommunications in the preparation of the new management agreement and, more precisely, its role in monitoring of the Quality of Service indicators and monitoring of the market for mobile services.
- The Council of Development and Reconstruction took a number of steps to strengthen its implementation capacity, and will start reinforcing its human resource base by the start of 2009.



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## 71 percent of the Paris III pledges were signed in agreements, of which 58 percent were received by end 2008

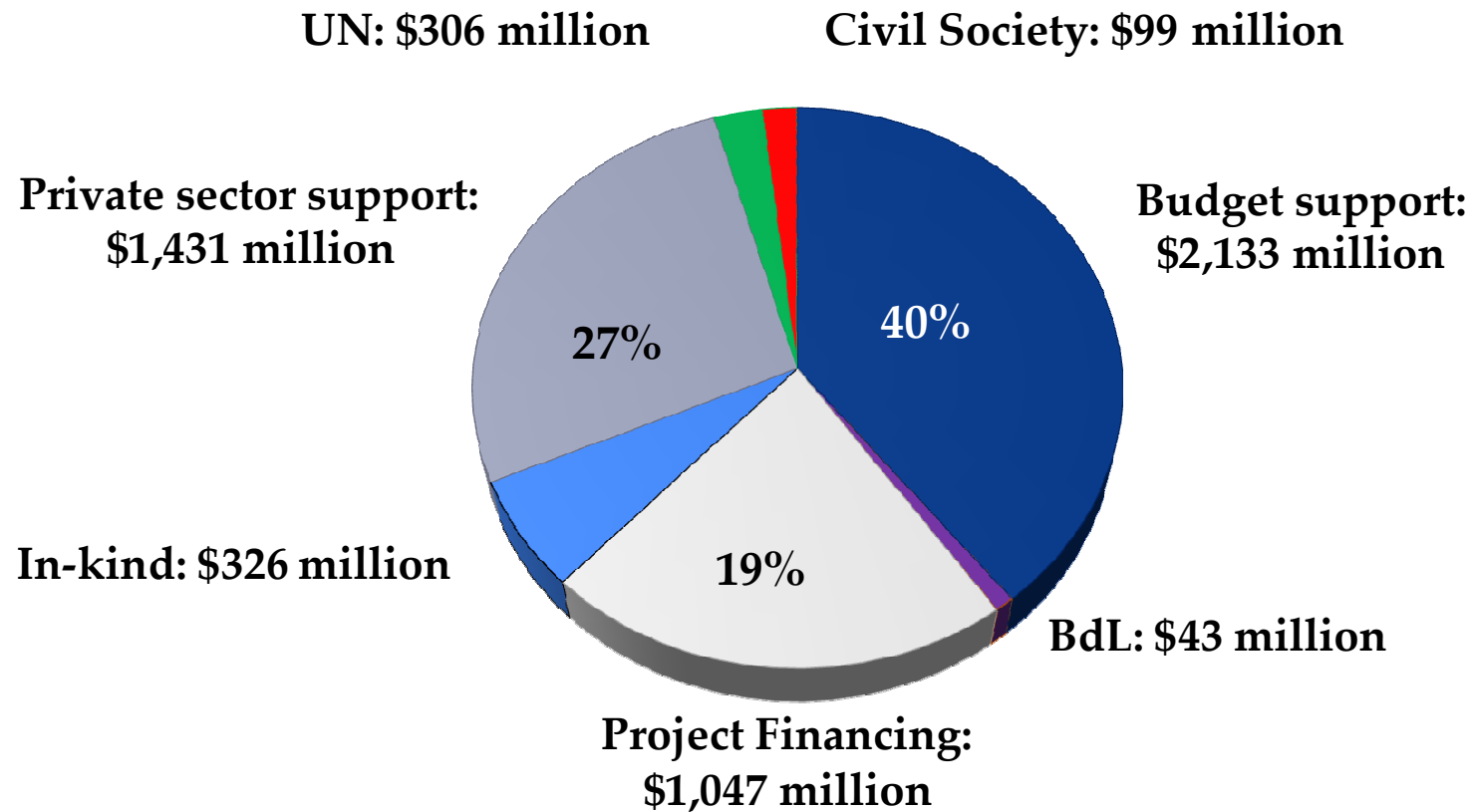
### Updated status of pledges by type of support (Millions of US\$)

	Pledged	Signed	Received
Budget support*	1,737	2,133	1,491
Banque du Liban	43	43	43
Project support	3,491	1,047	97
In kind	362	326	301
Private sector support	1,463	1,431	785
Support through the UN	324	306	306
Support through civil society organizations	99	99	99
Total	7,520	5,384	3,122

\* Includes additional agreements above pledges

# Budget support represents the largest portion of signed agreements

## Agreements Signed by December 2008 - \$5,384 million





## Main development on resource mobilization – budget support

### Budget Support:

- Budget support agreements reached \$2,133 by end 2008.
- Signed agreements exceeded pledges due to the signature of the debt transaction agreement with Malaysia in 2007 and a second EPCA with the IMF in 2008.
- In 2008, agreements were signed with France, Arab Monetary Fund (Q4) and European Commission (Q4) and the IMF (Q4).
- Only \$200 million pledged by the World Bank remain to be signed into agreement.
- Disbursements equaling \$490 million are linked to reform implementation:
  - \$75 million from the US linked to the telecom sector
  - \$70 million from the World Bank for reforms related to the social and power sector
  - €125 million second tranche from France related to telecom sector
  - €100 million third tranche from France related to reform of the power sector
  - €40 million second tranche from the EU related to reforms in the telecom sector, admin and social reforms.



## Main development on resource mobilization

### Project support:

- Project support agreements signed reached \$1,047 million by end 2008.
- With the resumption of Parliament activities, additional loan agreements were ratified (three with the Arab Fund for Economic and Social Development pledged in Paris III).
- The Urban Transportation Development Project was extended and expanded with an additional \$70 million loan from the World Bank (Jan 09).



## Main developments on resource mobilization - Continued

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### Private sector

- Agreements for private sector support totaled \$1,431 million compared to \$1,463 pledged as several donors (United States, Arab Monetary Fund and the World Bank Group) extended loans beyond their Paris II pledges, in response to increased demand for funds by the private sector.
- Disbursements to the private sector exceeded \$785 million.

### In-kind and support through UN and CSOs:

- In-kind support progressed with 90 percent of the pledges signed into agreements and 83 percent fulfilled.
- Support through the UN system and civil society organizations has been fulfilled.



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# Outlook

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- Political attention is focused on parliamentary elections to be held on 7 June 2009
- Short-term preoccupations: the global recession, large financing needs, political and security shocks
- Major government undertakings:
  - Safeguard macroeconomic stability and the credibility of debt reduction strategy already achieved
  - Accelerate and enhance growth and job creating policies
  - Continue with the strengthening of the social safety nets



## Reform Implementation – Short-term agenda

- Revision of the process of appointing high-level public officials
- Continue with the piloting of the proxy-means testing and the coordination between Ministry of Social Affairs and Ministry of Health to eliminate duplication in service provision
- Present to the Council of Ministers the education sector strategy
- Approval of the Global Income Tax draft law by the Council of Ministers
- Ratification of the 2009 budget law
- Submission to Parliament of all draft laws (11) pertaining to the business and regulatory environment and the draft law for a one-stop-shop business registration at “Liban Post”
- Launching the broadband licensing (expected to take place during Q1 2009)
- Finalize the telecommunications regulatory framework in areas related to accounting separation, infrastructure sharing, unbundling local loop, etc.
- Set a comprehensive reform strategy for the power sector.
- Further strengthen the implementation capacity of the Council for Development and Reconstruction



## Resource Mobilization – Short-term agenda

- For budget support, the focus will be on fulfilling the reforms required to release the disbursements of signed agreements
- Seek additional budget support
- For project support, the focus will be on
  - i. reaching agreement on new loans already pledged in Paris III in particular in the water and power sectors,
  - ii. expediting the implementation and disbursement of ratified loans, and
  - iii. ensuring the ratification of existing loans



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