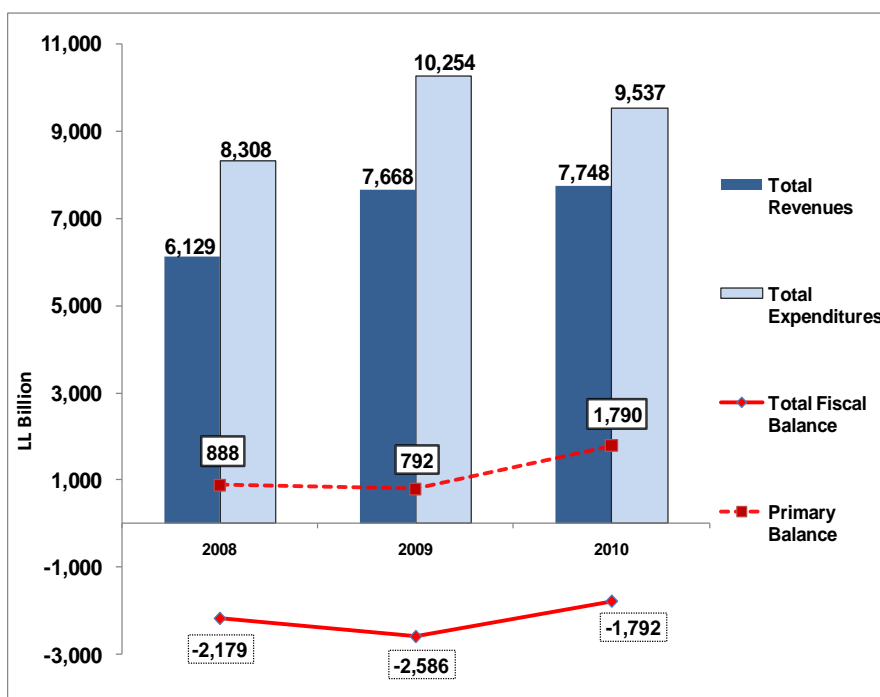


The total fiscal balance registered a deficit of LL 1,792 billion in January-July 2010 compared to a higher deficit of LL 2,586 billion in 2009. This improvement is mainly due to the LL 717 billion decrease in spending coupled with an increase of LL 80 billion in total receipts. **The primary balance** achieved an improved surplus of LL 1,790 billion when compared to the same period of 2009 (surplus of LL 792 billion).



Total revenues in January-July 2010 amounted to LL 7,748 billion, up from the 2009 level of LL 7,668 billion.

Tax revenues rose by LL 832 billion, to LL 6,344 billion. The major developments in this period are the following:

- LL 224 billion (or 80%) increase in *real estate registration fees*, primarily reflecting higher real estate values but also higher volume.
- LL 215 billion increase in *VAT receipts*, stemming from LL 117 billion increase in VAT collected on imports and LL 99 billion increase in VAT collected internally. The month of July, being a month of filing and payment by businesses, witnessed a 12% (or LL 24 billion) increase in VAT collected internally.
- LL 169 billion higher collection of *tax on income, profits and capital gains*, stemming from (1) LL 65 billion and LL 63 billion higher collection of *income tax on profits and interest income*, respectively; and (2) LL 27 billion higher collection on *income tax on capital gains and dividends*, reflecting higher distribution of dividends by commercial banks
- LL 113 billion more revenues from *taxes on international trade*. Notably, tobacco excises increased by 40% reflecting a 37% increase in tobacco imports, whereas the hike in car excises, witnessed in 2008 and 2009, came to a halt, registering a 1% drop.

Non-tax revenues maintained the same trend, except for the LL 782 billion reduction in income from *non-financial public enterprises*, due to the absence of transfers from the Telecom Budget Surplus in 2010, except for LL 331 billion received in February.

Treasury receipts increased by 5 percent to LL 433 billion.

Total expenditures in January-July 2010 decreased by LL 717 billion, down to LL 9,537 billion from LL 10,254 billion in 2009, mainly owing to less treasury spending.

Current primary expenditures increased by LL 79 billion, mainly as a net result of:

- Higher *personnel cost* by LL 79 billion, due to a rise of LL 80 billion in *end-of-service compensation* (see Box) partly counterbalanced by a LL 22 billion drop in *transfers to public institutions* (specifically CDR and the Lebanese University) to cover salaries
- Absence of transfers to *NSSF*, which amounted to LL 50 billion in the first seven months of 2009
- Rise in the purchase of *medication* by LL 24 billion

Interest payments increased by LL 191 billion, to LL 3,402 billion, mainly driven by LL 175 billion higher payments on *domestic currency treasury bills*.

Capital expenditures increased by LL 61 billion to LL 369 billion, of which 58 percent for *construction in progress* and 21 percent for *maintenance*. Spending on *maintenance* - mainly roads - increased by 95 percent to LL 77 billion. Construction - mainly roads - by the Ministry of Public Work and Transport increased by 187 percent to LL 45 billion in January-July 2010.

Other treasury expenditures decreased substantially by LL 1,060 billion, to LL 1,822 billion, due to lower transfers to:

- *EDL* by LL 578 billion¹, mainly due to lower oil prices, lower quantities of gas oil (substituted for by natural gas), absence of natural gas payments in 2010, and lower debt service on behalf of EDL by LL 25 billion.
- Absence of transfers to the *High Relief Committee*, which amounted to LL 520 billion in January-July 2009.

Gross public debt decreased by LL 529 billion from the end-December 2009 level, to LL 76,546 billion in July 2010 due to reductions in both its foreign and domestic currency components.

Local currency debt² decreased by LL 108 billion to LL 44,865 billion, due to a lower BDL domestic debt portfolio by LL 647 billion, partially counterbalanced by more (+LL 373 billion) treasury bill holdings by commercial banks.

Foreign currency debt witnessed a decrease in its stock by LL 421 billion, mainly as a result of the redemption of Eurobonds issued in the context of the Paris II Conference that have an amortized payment structure. Special T-bills in foreign currency increased by LL 34 billion due to the issuance of new contractor bonds on April 22, 2010³ and July 2010. On July 15, 2010, U.S.\$ 6.93 million 6.00 percent bonds due 2015 were issued to contractors pursuant to Law No.69 dated April 23, 2009, to settle the changes in the cost of construction materials.

JULY 2010 HIGHLIGHT

Civil Servants End-of-Service Indemnities

In January-July 2010, public sector end-of-service indemnities doubled, compared to the 2009 level and amounted to LL 158 billion. Analysis of end-of-service indemnities at the administration level indicate that, as a share of total provision of public sector end-of-service indemnities (LL 158 billion at end-July 2010), civil servants received around 15 percent and military forces received 85 percent.

Excluding military forces (statistics are not available for the military), 669 beneficiaries were granted end-of-service indemnity in January-July 2010 (a decrease by 20 percent), compared to 840 beneficiaries in the same period of 2009. However, the associated end-of-service indemnity paid out to beneficiary civil servants was higher by 10 percent - LL 22 billion in January-July 2009 versus LL 24 billion in the same period of 2010. This rise is likely due to two factors: civil servants retiring in 2010 are of higher grade levels (since indemnities are paid on the basis of the last month salary) and/or have served for a longer period.

No. of Beneficiary Civil servants

	2009	2010	Change
Beneficiaries, of which	840	669	-20%
w/ retirement salary	366	121	-67%
w/o retirement salary	474	548	16%

Source: IT department, MOF

Civil Servants End-of-Service Indemnities

LL Billion	2009	2010	Change
Total	22	24	10%
w/ retirement salary	15	14	-10%
w/o retirement salary	7	10	54%

Source: IT department, MOF

¹ For further details, kindly refer to July 2010 issue of "Transfers to EDL: A Monthly Snapshot" available on www.finance.gov.lb

² Treasury Bill auctions resumed in April 2010 following a one-month halt in March 2010.

³ Pursuant to Law # 69 dated April 23, 2009, the Lebanese Republic issued \$15,984,633.28 6.00 percent bonds due 2015.

Table 1. Summary of Fiscal Performance

(LL billion)	2009 Jul	2010 Jul	2009 Jan-Jul	2010 Jan-Jul	% Change 2010/2009
Total Budget and Treasury Receipts	1,251	1,202	7,668	7,748	1%
Total Budget and Treasury Payments, of which¹	1,488	1,612	10,254	9,537	1%
• Interest Payments	424	521	3,211	3,402	6%
• Concessional loans principal payments ²	19	31	166	180	8%
• Primary Expenditures ³	1,046	1,061	6,877	5,955	1%
Total Cash Deficit/Surplus	-237	-410	-2,586	-1,792	-31%
Primary Deficit/Surplus	205	141	792	1,790	126%

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

^{1/} The difference between the 2010 total budget and treasury payments figure and that published in the July 2010 fiscal performance is due to an advance for EDL double counted in EDL and in other as treasury advance.

^{2/} Includes only Principal repayments of concessional loans earmarked for project financing

^{3/} Primary expenditures exclude debt related payments (Interest payments and Concessional loans principal repayment)

Section 1: Revenue Outcome

Table 2. Total Revenue

(LL billion)	2009 Jul	2010 Jul	2009 Jan-Jul	2010 Jan-Jul	% Change 2010/2009
Budget Revenues, of which:	1,180	1,105	7,255	7,315	1%
<i>Tax Revenues</i>	926	1,026	5,512	6,344	15%
<i>Non-Tax Revenues</i>	255	79	1,743	972	-44%
Treasury Receipts	71	97	413	433	5%
Total Revenues	1,251	1,202	7,668	7,748	1%

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

Table 3. Tax Revenue

(LL billion)	2009 Jul	2010 Jul	2009 Jan- Jul	2010 Jan- Jul	% Change 2010/2009
Tax Revenues:	926	1,026	5,512	6,344	15%
Taxes on Income, Profits, & Capital Gains, of which:	148	168	1,388	1,557	12%
• <i>Income Tax on Profits</i>	13	6	685	751	10%
• <i>Income Tax on Wages and Salaries</i>	69	82	264	278	5%
• <i>Income Tax on Capital Gains & Dividends</i>	15	17	118	145	23%
• <i>Tax on Interest Income (5%)</i>	49	62	308	372	21%
• <i>Penalties on Income Tax</i>	2	1	12	11	-5%
Taxes on Property, of which:	67	95	401	662	65%
• <i>Built Property Tax</i>	6	9	76	109	45%
• <i>Real Estate Registration Fees</i>	52	79	280	504	80%
Domestic Taxes on Goods & Services, of which:	419	451	1,965	2,196	12%
• <i>Value Added Tax</i>	389	424	1,766	1,981	12%
• <i>Other Taxes on Goods and Services, of which:</i>	29	25	194	209	8%
- <i>Private Car Registration Fees</i>	25	23	137	141	3%
- <i>Passenger Departure Tax</i>	4	2	56	67	21%
Taxes on International Trade, of which:	248	264	1,527	1,639	7%
• <i>Customs</i>	71	73	434	468	8%
• <i>Excises, of which:</i>	177	191	1,092	1,171	7%
- <i>Gasoline Excise</i>	88	96	581	600	3%
- <i>Tobacco Excise</i>	25	33	148	206	40%
- <i>Cars Excise</i>	63	61	361	360	0%
Other Tax Revenues (namely fiscal stamp fees)	44	49	231	289	25%

Source: MOF, DGF

Table 4. Non-Tax Revenue

(LL billion)	2009 Jul	2010 Jul	2009 Jan-Jul	2010 Jan- Jul	% Change 2010/2009
Non-Tax Revenues	255	79	1,743	972	-44%
Income from Public Institutions and Government Properties, of which:	205	29	1,392	610	-56%
• Income from Non-Financial Public Enterprises, of which:	199	22	1,308	513	-61%
- Revenues from Casino Du Liban	11	12	88	84	-4%
- Revenues from Port of Beirut	0	0	62	65	5%
- Budget Surplus of National Lottery	0	10	28	31	11%
- Transfer from the Telecom Surplus	188	0	1,129	331	-71%
• Transfer from Public Financial Institution (BDL)	0	0	40	60	50%
• Property Income (namely rent of Rafic Hariri International Airport)	5	6	37	34	-8%
• Other Income from Public Institutions (interests)	1	1	7	3	-62%
Administrative Fees & Charges, of which:	39	40	286	297	4%
• Administrative Fees, of which:	33	34	234	243	4%
- Notary Fees	3	2	15	17	15%
- Passport Fees/ Public Security	13	13	68	68	0%
- Vehicle Control Fees	11	12	113	106	-6%
- Judicial Fees	2	2	11	14	23%
- Driving License Fees	2	2	13	14	12%
• Administrative Charges	1	1	13	15	9%
• Sales (Official Gazette and License Number)	0	0	2	4	119%
• Permit Fees (mostly work permit fees)	5	5	27	29	8%
• Other Administrative Fees & Charges	1	1	9	6	-30%
Penalties & Confiscations	1	1	4	4	2%
Other Non-Tax Revenues (mostly retirement deductibles)	9	9	61	61	-1%

Source: MOF, DGF

Section 2: Expenditure Outcome

Table 5. Expenditure by Economic Classification

(LL billion)	2009 Jan-Jul	2010 Jan-Jul	% Change 2010/2009
1. Current Expenditures	7,035	7,319	4%
1.a Personnel Cost, of which	2,811	2,879	2%
Salaries, Wages and Related Items (Article 13)	1,935	1,933	0%
Retirement and End of Service Compensations, of which:	688	780	13%
Retirement	610	622	2%
End of Service	78	158	103%
Transfers to Public Institutions to Cover Salaries 1/	188	166	-12%
1.b Interest Payments, of which: 2/	3,211	3,402	6%
Domestic Interest Payments	2,006	2,182	9%
Foreign Interest Payments	1,205	1,221	1%
1.c Foreign Debt Principal Repayment	166	180	8%
1.d Materials and Supplies, of which:	140	163	16%
Nutrition	35	34	-5%
Fuel Oil	6	5	-14%
Medicaments	59	83	41%
Accounting Adjustments for Treasury	20	21	5%
1.e External Services	71	67	-6%
1.f Various Transfers, of which:	334	325	-3%
NSSF	50	0	-100%
Treasury advances for diesel oil subsidy	0	61	-
Wheat Subsidy	10	0	-100%
Special Tribunal for Lebanon	12	41	237%
1.g Other Current, of which:	246	237	-3%
Hospitals	204	197	-4%
Others	40	41	3%
1.h Reserves	55	66	19%
Interest subsidy	55	66	19%
2. Capital Expenditures	309	369	20%
2.a Acquisitions of Land, Buildings, for the Construction of Roads, Ports, Airports, and Water Networks	4	1	-83%
2.b Equipment	21	25	18%
2.c Construction in Progress, of which:	210	215	2%
Displaced Fund	55	30	-45%
Council of the South	10	20	100%
CDR	114	105	-8%
Ministry of Public Work and Transport	16	45	187%
Other	13	15	12%
2.d Maintenance	39	77	95%
2.e Other Expenditures Related to Fixed Capital Assets	34	52	52%
3. Other Treasury Expenditures	2,882	1,822	-37%
Municipalities	269	274	2%
Guarantees	70	49	-29%
Deposits :	47	39	-16%
Other, of which:	835	380	-55%
VAT Refund	194	218	12%
High Relief Committee	520	0	-100%
EDL 3/	1,658	1,080	-35%
Treasury advances for water authorities	4	0	-
4. Unclassified Expenditures	2	3	95%
5. Customs Cashiers	26	24	-10%
6. Total Expenditures (Excluding CDR Foreign Financed) 4/	10,254	9,537	-7%

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

1/ For a detailed breakdown of those transfers, kindly refer to table 6.

2/ For a detailed breakdown of interest payments, kindly refer to table 7.

3/ For a detailed breakdown of transfers to EDL, kindly refer to table 8.

4/ The difference between the 2010 total expenditures and the published July 2010 fiscal performance is due to an advance for EDL double counted in EDL and in Other as treasury advance.

Table 6. Breakdown of Transfers to Public Institutions for the Coverage of Salaries

(LL billion)	2009 Jan-Jul	2010 Jan-Jul	% Change 2010/2009
Transfer to Council of the South	4	9	146%
Transfer to Council for Development and Reconstruction (CDR)	27	15	-44%
Transfer to the Displaced Fund	4	3	-25%
Transfer to the Lebanese University	146	130	-11%
Transfer to the Educational Center for Research and Development	7	9	28%

Source: MOF, DGF

Table 7. Details of Debt Service Transactions

(LL billion)	2009*** Jul	2010 Jul	2009 Jan-Jul	2010 Jan-Jul	% Change 2010/2009
Interest Payments 1/	424	521	3,211	3,402	6%
Local Currency Debt	309	394	2,006	2,182	9%
Foreign Currency Debt, of which:	115	127	1,205	1,220	1%
Eurobond Coupon Interest*	110	118	1,129	1,118	-1%
Specialbond Coupon Interest*	0	0	9	9	-2%
Concessional Loans Interest Payments	5	9	66	93	41%
Concessional Loans Principal Payments**	19	40	166	180	8%

Source: MOF, DGF

* Includes general expenses related to the transaction

** Includes 133 Billions LL Fully paid of IBRD Loans from USAID Grant during 2008

** Includes 75 Billions LL Fully paid of IBRD Loans from USAID Grant during 2009

*** Concessional Loans Interest Payments during Jan. 2009 has been changed from the PFM Jan. 2009 figure because LL 7 billion was paid for the IBRD Loan 7026 from the account of the municipality fund.

Table 8. Transfers to EDL

(LL billion)	2009 Jan-Jul	2010 Jan-Jul	% Change 2010/2009
EDL of which:	1,658	1,080	-35%
• Debt Service of which:	86	61	-30%
- C-Loans and Eurobonds, of which:	60	45	-26%
Principal repayments	51	38	-25%
Interest Payments	10	7	-29%
- BDL Guaranteed Loan payments	26	16	-38%
• Reimbursement of KPC and Sonatrach Agreements	1,572	1,020	-35%

Source: MOF, DGF

Section 3: Public Debt

Table 9. Public Debt Outstanding by Holder as of End-July 2010 (LL billion)

(LL billion)	Dec 2007	Dec 2008	Dec 2009	Jul 2010	Change Dec 09-Jul 2010	% Change Dec 09-Jul 2010
Gross Public Debt	63,350	70,916	77,075	76,546	-529	-0.69%
Local Currency Debt	31,373	39,007	44,973	44,865	-108	-0.24%
a. Central Bank (Including REPOs and Loans to EDL to Finance Fuel Purchases) ⁽¹⁾	9,052	8,781	10,334	9,687	-647	-6.26%
b. Commercial Banks	16,847	24,320	27,286	27,659	373	1.37%
c. Other Local Currency Debt (T-bills), of which:	5,474	5,906	7,353	7,519	166	2.26%
<i>Public Entities</i>	4,796	5,062	6,078	6,060	-18	-0.30%
* <i>Accrued Interest Included in Debt</i>	730	1,029	999	924	-75	-7.51%
Foreign Currency Debt ⁽²⁾	31,977	31,909	32,102	31,681	-421	-1.31%
a. Bilateral, Multilateral and Foreign Private Sector Loans	2,949	2,830	2,676	2,531	-145	-5.42%
b. Paris II Related Debt (Eurobonds and Loans) ⁽³⁾	6,063	5,456	4,819	4,448	-372	-7.71%
d. Market-Issued Eurobonds	20,780	20,925	21,736	21,826	90	0.41%
e. <i>Accrued Interest on Eurobonds</i>	410	430	460	535	75	16.30%
f. Special T-bills in Foreign Currency ⁽⁵⁾	419	419	447	481	34	7.61%
Public Sector Deposits	4,527	8,326	10,522	9,746	-776	-7.38%
Net Debt	58,823	62,590	66,553	66,800	247	0.37%
Gross Market Debt ⁽⁶⁾	39,220	46,992	51,231	51,981	750	1.46%
% of Total Debt	62%	66%	67%	68%	1%	2.09%

Source: Ministry of Finance, Banque du Liban

⁽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.

⁽²⁾ Figures for Dec 08 and Dec 09 differ from previously published data reflecting an update of disbursement figures of IBRD and IDB project loans in the Debt Management and Financial Analysis System (DMFAS).

⁽³⁾ 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.

⁽⁴⁾ Issued to Malaysia as part of its Paris III contribution, IBRD loan, UAE loan, first tranche of the French loan received in February 2008, IMF loans, first tranche EC/EU loan, and AMF loan disbursed in June 2009.

⁽⁵⁾ Special Tbs in foreign currency (expropriation and contractor bonds).

⁽⁶⁾ Gross market debt equals gross debt less the portfolios of the BDL, NSSF, bilateral and multilateral loans, Paris II and Paris III related debt.

Ministry of Finance Publications

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Public Finance Monitor Monthly Update, Nov & Dec 2009, Jan-Jun 2010

Public Finance Quarterly, QI 2010

Transfers to EDL: A Monthly Snapshot, Jan-July 2010

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Aid Coordination Monthly Newsletter, Issues 14-25

Debt and Debt Markets Quarterly, QI-QIII 2009

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