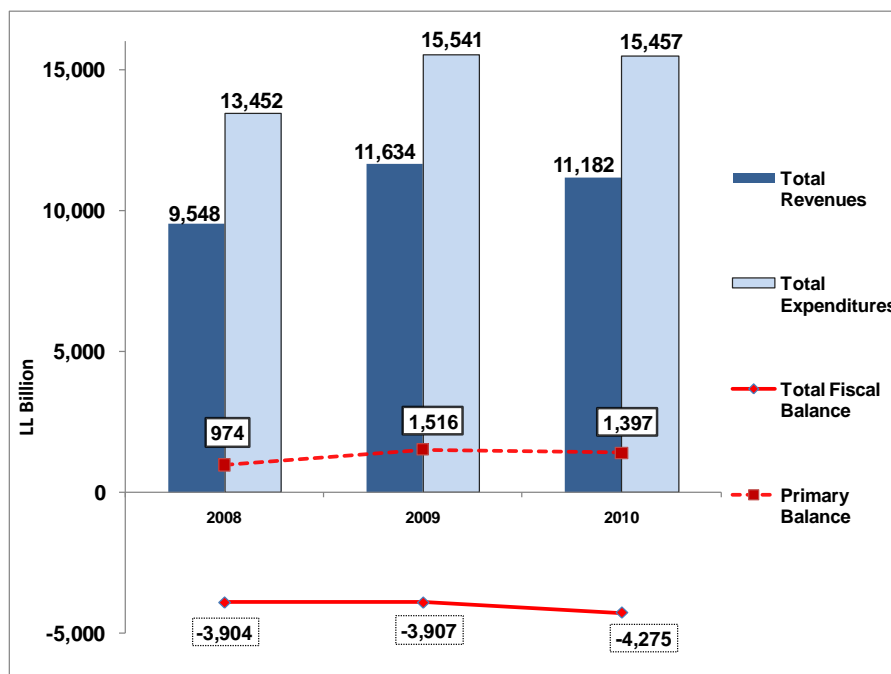


The total fiscal balance registered a deficit of LL 4,275 billion in January-November 2010 compared to a lower deficit of LL 3,907 billion in 2009, mainly due to the LL 453 billion decrease in revenues. **The primary balance** recorded a surplus of LL 1,397 billion compared to a higher surplus of LL 1,516 billion recorded in January-November 2009.



Total revenues in January-November 2010 amounted to LL 11,182 billion, down by LL 453 billion from the 2009 level of LL 11,634 billion.

Tax revenues rose by LL 995 billion, to LL 9,268 billion owing to the following:

- LL 295 billion increase in VAT receipts, resulting from LL 184 billion increase in VAT collected on imports and LL 111 billion increase in VAT collected internally.
- LL 279 billion (or 41 percent) increase in *taxes on property*, of which LL 234 billion stems from real estate registration fees.
- LL 204 billion higher collection of *tax on income, profits and capital gains*, due to LL 75 billion and LL 70 billion higher collection of *interest income* and *income tax on profits*, respectively.
- LL 146 billion more revenues from *taxes on international trade*, of which LL 101 billion more excise revenues (75 percent of which stem from tobacco excise) and 44 billion more custom duties.

Non-tax revenues were down by LL 1,433 billion caused by the LL 1,498 billion reduction in transfers from the Telecom Budget Surplus as of end-November 2010 – telecom receipts which are currently deposited at the telecom account at BDL, are not transferred to the Treasury and therefore cannot be counted as part of total revenues due to the absence of a treasury single account. Net of Telecom receipts, the overall revenues from government properties generated LL 32 billion additional receipts, equivalent to 9 percent, stemming from higher transfers from Casino du Liban (LL 15 billion) and National Lottery (LL 11 billion) and higher transfers in April 2010 from Port of Beirut and BDL surpluses by LL 3 billion and LL 20 billion, respectively.

Treasury receipts decreased by 2 percent to LL 610 billion, stemming from LL 111 billion lower revenues from “other treasury receipts” which may be explained by the fact that grants were

absent in 2010 compared to around LL 90 billion received in January-November 2009 . At the same time, revenues from guarantees increased by LL 54 billion coupled with LL 31 billion higher revenues from the Independent Municipal Fund.

Total expenditures in January-November 2010 decreased by LL 84 billion down to LL 15,457 billion from LL 15,541 billion in 2009, mainly owing to less treasury spending.

Current primary expenditures increased by LL 171 billion, mainly as a result of :

- Higher *personnel cost* by LL 121 billion, due to a rise of LL 86 billion in *retirement and end-of-service compensation*
- A LL 38 billion increase in *materials and supplies*, mainly *purchase of medication* (by LL 24 billion) and *nutrition* (by LL 15 billion)

Interest payments increased by LL 210 billion to LL 5,371 billion, mainly driven by LL 239 billion higher payments on *domestic currency treasury bills*.

Capital expenditures increased by LL 200 billion to LL 651 billion, of which 76 percent for *construction in progress* and 19 percent for *maintenance*. Spending on *maintenance* - mainly roads - increased by 50 percent to LL 116 billion. Construction - mainly roads - by the Ministry of Public Work and Transport increased by 240 percent to LL 100 billion in January-November 2010.

Other treasury expenditures decreased substantially, by LL 708 billion, to LL 3,020 billion, due to:

- Negligible transfers to the *High Relief Committee*, which amounted to LL 520 billion in January-November 2009 compared to LL 2 billion in 2010.
- Lower transfers to *EDL* by LL 459 billion¹, mainly due to lower quantities of gas oil (substituted for by natural gas), absence of natural gas payments so far in 2010, and lower debt service on behalf of EDL by LL 23 billion.

Gross public debt increased by LL 956 billion from the end-December 2009 level to LL 78,053 billion in November 2010, due to an increase in its local currency component.

Local currency debt² increased by LL 1,580 billion to LL 46,553 billion, resulting from a substantially higher (by 1,569) BDL domestic debt portfolio and LL 468 billion increase in the category entitled "other" holders of TBs (of which LL 216 billion for public entities). This increase was partially counterbalanced by a lower (by LL 457 billion) treasury bill holdings by commercial banks.

Foreign currency debt witnessed a decrease in stock by LL 624 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. In turn, Paris III related debt decreased by LL 102 billion partly due to two principal repayments of the first IMF EPCA loan (July and October 2010). Special T-bills in foreign currency increased by LL 46 billion due to the issuance of new contractor bonds on April 22, 2010³, July 15, 2010⁴, and November 30, 2010⁵.

NOVEMBER 2010 HIGHLIGHT Dual-Tranche Eurobond Transaction

On November 12th, 2010, the Lebanese Republic issued a US\$ 725 million dual-tranche offering with international orders accounting for 26 percent of subscriptions on the aggregate amount. The transaction resulted in the lowest market-yields ever issued by the Republic of Lebanon on fixed rate bonds with a weighted coupon average of 5.44 percent and an average time to maturity of 9.21 years. The transaction was more than three times oversubscribed.

The first series consisted of a US\$ 500 million 5.15 percent coupon Eurobond due November 2018 with international accounts subscribing to 30 percent of the issue. The second series was a US\$ 225 million 6.10 percent coupon Eurobond due October 2022 with international orders accounting for 16 percent of subscriptions.

The proceeds of the issue were utilized mainly to refinance Eurobond redemption amounting to US\$ 710 million in November 2010.

¹ For further details, kindly refer to November 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 No. 69 dated April 23, 2009, the Lebanese Republic issued \$15,984,633.28 6.00 percent bonds due 2015.

⁴ Pursuant to Law No. 69 dated April 23, 2009, the Lebanese Republic issued \$ 6.93 million 6.00 percent bonds due 2015.

⁵ Pursuant to Law No. 69 dated April 23, 2009, the Lebanese Republic issued \$8,098,475.15 6.00 percent bonds due 2015.

Table 1. Summary of Fiscal Performance

(LL billion)	2009 Nov	2010 Nov	2009 Jan-Nov	2010 Jan-Nov	% Change 2010/2009
Total Budget and Treasury Receipts	914	764	11,634	11,182	-4%
Total Budget and Treasury Payments, of which	1,184	1,258	15,541	15,457	-1%
• <i>Interest Payments</i>	393	415	5,161	5,371	4%
• <i>Concessional loans principal payments¹</i>	30	30	261	302	15%
• <i>Primary Expenditures²</i>	761	812	10,118	9,785	-3%
Total Cash Deficit/Surplus	-270	-494	-3,907	-4,275	9%
Primary Deficit/Surplus	153	-48	1,516	1,397	-8%

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

^{1/} Includes only Principal repayments of concessional loans earmarked for project financing

^{2/} Primary expenditures exclude debt related payments (Interest payments and Concessional loans principal repayment)

Section 1: Revenue Outcome

Table 2. Total Revenue

(LL billion)	2009 Nov	2010 Nov	2009 Jan-Nov	2010 Jan-Nov	% Change 2010/2009
Budget Revenues, of which:	821	711	11,010	10,572	-4%
Tax Revenues	581	630	8,273	9,268	12%
Non-Tax Revenues	240	81	2,737	1,304	-52%
Treasury Receipts	94	53	625	610	-2%
Total Revenues	914	764	11,634	11,182	-4%

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

Table 3. Tax Revenue

(LL billion)	2009 Nov	2010 Nov	2009 Jan-Nov	2010 Jan-Nov	% Change 2010/2009
Tax Revenues:	581	630	8,273	9,268	12%
Taxes on Income, Profits, & Capital Gains, of which:	79	80	1,750	1,955	12%
• Income Tax on Profits	10	13	717	787	10%
• Income Tax on Wages and Salaries	3	3	342	372	9%
• Income Tax on Capital Gains & Dividends	6	7	166	195	18%
• Tax on Interest Income (5%)	58	56	508	583	15%
• Penalties on Income Tax	2	1	16	17	5%
Taxes on Property, of which:	76	70	682	961	41%
• Built Property Tax	5	5	93	135	46%
• Real Estate Registration Fees	65	60	520	754	45%
Domestic Taxes on Goods & Services, of which:	190	226	3,039	3,351	10%
• Value Added Tax	161	192	2,704	2,999	11%
• Other Taxes on Goods and Services, of which:	29	34	328	344	5%
- Private Car Registration Fees	17	18	218	215	-1%
- Passenger Departure Tax	12	16	109	127	17%
Taxes on International Trade, of which:	207	223	2,439	2,584	6%
• Customs	62	65	698	742	6%
• Excises, of which:	145	158	1,741	1,842	6%
- Gasoline Excise	75	81	925	957	3%
- Tobacco Excise	25	31	247	324	31%
- Cars Excise	45	46	564	555	-2%
Other Tax Revenues (namely fiscal stamp fees)	29	31	362	417	15%

Source: MOF, DGF

Table 4. Non-Tax Revenue

(LL billion)	2009 Nov	2010 Nov	2009 Jan-Nov	2010 Jan-Nov	% Change 2010/2009
Non-Tax Revenues	240	81	2,737	1,304	-52%
Income from Public Institutions and Government Properties, of which:	193	25	2,199	734	-67%
• Income from Non-Financial Public Enterprises, of which:	187	20	2,076	608	-71%
- Revenues from Casino Du Liban	14	15	140	155	11%
- Revenues from Port of Beirut	0	0	62	65	5%
- Budget Surplus of National Lottery	0	5	43	54	26%
- Transfer from the Telecom Surplus	173	0	1,829	331	-82%
• Transfer from Public Financial Institution (BDL)	0	0	40	60	50%
• Property Income (namely rent of Rafic Hariri International Airport)	4	5	73	61	-16%
• Other Income from Public Institutions (interests)	1	0	10	4	-58%
Administrative Fees & Charges, of which:	39	46	439	463	5%
• Administrative Fees, of which:	31	36	361	378	5%
- Notary Fees	2	2	24	27	10%
- Passport Fees/ Public Security	7	8	105	107	2%
- Vehicle Control Fees	16	20	169	168	0%
- Judicial Fees	2	1	17	21	19%
- Driving License Fees	2	1	21	20	-8%
• Administrative Charges	3	4	19	22	17%
• Sales (Official Gazette and License Number)	0	0	3	5	77%
• Permit Fees (mostly work permit fees)	4	5	45	48	8%
• Other Administrative Fees & Charges	1	1	12	10	-18%
Penalties & Confiscations	1	1	7	7	11%
Other Non-Tax Revenues (mostly retirement deductibles)	7	10	92	100	9%

Source: MOF, DGF

Section 2: Expenditure Outcome

Table 5. Expenditure by Economic Classification

(LL billion)	2009 Jan-Nov	2010 Jan-Nov	% Change 2010/2009
1. Current Expenditures	11,318	11,739	4%
1.a Personnel Cost, of which	4,460	4,581	3%
Salaries, Wages and Related Items (Article 13)	2,991	3,037	2%
Retirement and End of Service Compensations, of which:	1,186	1,272	7%
Retirement	967	994	3%
End of Service	219	278	27%
Transfers to Public Institutions to Cover Salaries 1/	283	272	-4%
1.b Interest Payments, of which: 2/	5,161	5,371	4%
Domestic Interest Payments	3,177	3,416	8%
Foreign Interest Payments	1,984	1,955	-1%
1.c Foreign Debt Principal Repayment	261	302	16%
1.d Materials and Supplies, of which:	221	259	17%
Nutrition	48	63	31%
Fuel Oil	8	8	-6%
Medicaments	97	121	25%
Accounting Adjustments for Treasury	36	35	-4%
1.e External Services	105	94	-10%
1.f Various Transfers, of which:	603	607	1%
NSSF	160	100	-38%
Treasury advances for diesel oil subsidy	0	61	-
Wheat Subsidy	10	42	324%
Special Tribunal for Lebanon	12	41	241%
1.g Other Current, of which:	411	416	1%
Hospitals	339	328	-3%
Others	61	87	41%
1.h Reserves	95	109	15%
Interest subsidy	95	109	15%
2. Capital Expenditures	451	651	44%
2.a Acquisitions of Land, Buildings, for the Construction of Roads, Ports, Airports, and Water Networks	4	1	-80%
2.b Equipment	31	37	19%
2.c Construction in Progress, of which:	292	444	52%
Displaced Fund	60	120	100%
Council of the South	27	46	74%
CDR	152	153	0%
Ministry of Public Work and Transport	29	100	240%
Other	22	24	9%
2.d Maintenance	77	116	50%
2.e Other Expenditures Related to Fixed Capital Assets	46	53	15%
3. Other Treasury Expenditures	3,728	3,020	-19%
Municipalities	452	590	30%
Guarantees	82	72	-12%
Deposits :	77	84	9%
Other, of which:	1,055	676	-36%
VAT Refund	324	381	18%
High Relief Committee	520	0	-100%
EDL 3/	2,057	1,598	-22%
Treasury advances for water authorities	4	0	-
4. Unclassified Expenditures	3	4	33%
5. Customs Cashiers	42	43	2%
6. Total Expenditures (Excluding CDR Foreign Financed)	15,541	15,457	-1%

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 and an explanation regarding its classification under other treasury expenditure to EDL, kindly refer to table 8.

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

(LL billion)	2009 Jan-Nov	2010 Jan-Nov	% Change 2010/2009
Transfer to Council of the South	5	12	122%
Transfer to Council for Development and Reconstruction (CDR)	41	27	-34%
Transfer to the Displaced Fund	6	5	-25%
Transfer to the Lebanese University	220	216	-2%
Transfer to the Educational Center for Research and Development	11	13	14%

Source: MOF, DGF

Table 7. Details of Debt Service Transactions

(LL billion)	2009*** Nov	2010 Nov	2009 Jan-Nov	2010 Jan-Nov	% Change 2010/2009
Interest Payments 1/	393	452	5,161	5,407	5%
Local Currency Debt	234	234	3,177	3,416	8%
Foreign Currency Debt, of which:	159	218	1,984	1,991	0%
Eurobond Coupon Interest*	139	197	1,851	1,824	-1%
Specialbond Coupon Interest*	0	2	10	13	31%
Concessional Loans Interest Payments	20	19	123	154	25%
Concessional Loans Principal Payments**	30	30	261	302	15%

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⁽¹⁾

(LL billion)	2009 Jan-Nov	2010 Jan-Nov	% Change 2010/2009
EDL of which:	2,057	1,598	-22%
• Debt Service of which:	119	96	-19%
- C-Loans and Eurobonds, of which:	85	62	-26%
Principal repayments	71	52	-22%
Interest Payments	14	11	-22%
- BDL Guaranteed Loan payments	34	33	-1%
• Reimbursement of KPC and Sonatrach Agreements	1,938	1,502	-23%

Source: MOF, DGF

⁽¹⁾ Prior to 2005, transfers to EDL were recorded under the line item "treasury expenditures", because they were paid through treasury advances based on decrees issued by the Council of Ministers. Starting 2005, transfers to EDL were included in the yearly budget as an allocation classified as a loan. In 2009, the said budget item was reclassified to become a subsidy to the electricity company rather than a treasury. In the fiscal performance, transfers to cover EDL's gas and fuel oil remained classified under "treasury expenditures" until August 2010 when it was reclassified under "budget expenditures". This reclassification, however, is not yet reflected in the PFM to avoid series disruption and in order to keep the figures published in the PFM throughout 2010 consistent and comparable. Starting January 2011, EDL transfers will be reclassified under "budget expenditures".

Section 3: Public Debt

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

(LL billion)	Dec 2007	Dec 2008	Dec 2009	Nov 2010	Change Dec 09 - Nov 2010	% Change Dec 09- Nov 2010
Gross Public Debt	63,350	70,937	77,097	78,053	956	1%
Local Currency Debt	31,373	39,007	44,973	46,553	1,580	4%
a. Central Bank (Including REPOs and Loans to EDL to Finance Fuel Purchases) ⁽¹⁾	9,052	8,781	10,334	11,903	1,569	15%
b. Commercial Banks	16,847	24,320	27,286	26,829	-457	-2%
c. Other Local Currency Debt (T-bills), of which:	5,474	5,906	7,353	7,821	468	6%
<i>Public Entities</i>	4,796	5,062	6,078	6,294	216	4%
* <i>Accrued Interest Included in Debt</i>	730	1,029	999	915	-84	-8%
Foreign Currency Debt ⁽²⁾	31,977	31,930	32,124	31,500	-624	-2%
a. Bilateral, Multilateral and Foreign Private Sector Loans	2,949	2,851	2,698	2,547	-152	-6%
b. Paris II Related Debt (Eurobonds and Loans) ⁽³⁾	6,063	5,456	4,819	4,319	-501	-10%
c. Paris III Related Debt (Eurobonds and Loans) ⁽⁴⁾	1,357	1,849	1,963	1,849	-114	-6%
d. Market-Issued Eurobonds	20,780	20,925	21,736	21,862	126	1%
e. <i>Accrued Interest on Eurobonds</i>	410	430	460	431	-29	-6%
f. Special T-bills in Foreign Currency ⁽⁵⁾	419	419	447	493	46	10%
Public Sector Deposits	4,527	8,326	10,522	10,331	-191	-2%
Net Debt	58,823	62,611	66,575	67,722	1,147	2%
Gross Market Debt ⁽⁶⁾	39,220	46,992	51,231	51,166	-65	0%
% of Total Debt	62%	66%	67%	66%	0	-1%

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.

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

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