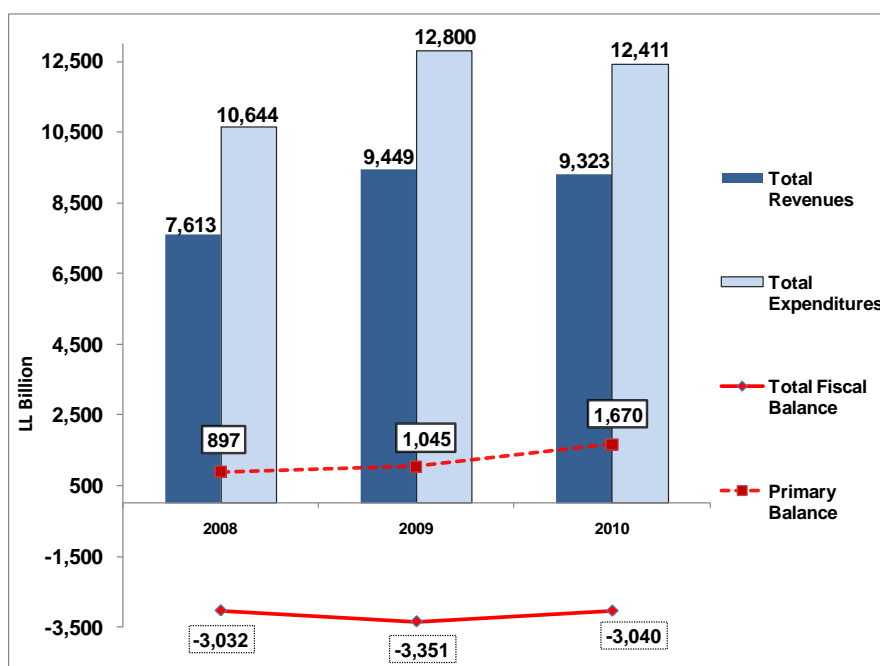


The total fiscal balance registered a deficit of LL 3,040 billion in January-September 2010 compared to a higher deficit of LL 3,351 billion in 2009. This considerable improvement is mainly due to the LL 389 billion decrease in spending. **The primary balance** also registered a better performance with a surplus of LL 1,670 billion compared to a surplus of LL 1,045 billion recorded in January-September 2009.



Total revenues in January-September 2010 amounted to LL 9,323 billion, LL 126 billion less than the 2009 level of LL 9,449 billion.

Tax revenues rose by LL 923 billion, to LL 7,659 billion. The major developments in this period are the following:

- LL 239 billion increase in VAT receipts, stemming from LL 136 billion increase in VAT collected on imports and LL 103 billion increase in VAT collected internally.
- LL 236 billion (or 61 percent) increase in *real estate registration fees*, primarily reflecting higher real estate values and also higher volume.
- LL 197 billion higher collection of *tax on income, profits and capital gains*, stemming from LL 76 billion and LL 68 billion higher collection of *interest income* and *income tax on profits*, respectively.
- LL 136 billion more revenues from *taxes on international trade*, of which LL 42 billion more custom duties and LL 94 billion more excise revenues (74% of which stem from tobacco excise).

Non-tax revenues were down by LL 1,075 billion caused by the LL 1,144 billion reduction in transfers from the Telecom Budget Surplus as of end September 2010. Net of Telecom receipts, the overall revenues from government properties generated LL 50 billion additional receipts, equivalent to 16 percent higher revenues, stemming from nearly all entrepreneurial items, namely Casino, National Lottery, rent of Airport and surplus transfer from BDL.

Treasury receipts increased by 5 percent to LL 514 billion.

Total expenditures in January-September 2010 decreased by LL 389 billion down to LL 12,411 billion from LL 12,800 billion in 2009, mainly owing to less treasury spending.

Current primary expenditures increased by LL 176 billion, mainly due to:

- Higher *personnel cost* by LL 141 billion, due to a rise of LL 100 billion in *end-of-service compensation*
- A LL 100 billion transfer to *NSSF*

Interest payments increased by LL 285 billion to LL 4,465 billion, mainly driven by LL 268 billion higher payments on *domestic currency treasury bills*.

Capital expenditures increased by LL 110 billion to LL 505 billion, of which 53 percent for *construction in progress* and 40 percent for *maintenance*. Spending on *maintenance* - mainly roads - increased by 79 percent to LL 98 billion. Construction - mainly roads - by the Ministry of Public Work and Transport increased by 312 percent to LL 83 billion in January-September 2010.

Other treasury expenditures decreased substantially, by LL 990 billion, to LL 2,203 billion, due to:

- Lower transfers to *EDL* by LL 493 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 32 billion.
- Absence of transfers to the *High Relief Committee*, which amounted to LL 520 billion in January-September 2009.

Gross public debt decreased by LL 433 billion from the end-December 2009 level to LL 76,664 billion in September 2010, due to reduction in its foreign currency component.

Local currency debt² increased by LL 55 billion to LL 45,028 billion, resulting from the LL 408 billion increase in stock by “other” holders of TBs coupled with higher (by LL 351 billion) treasury bill holdings by commercial banks. This increase was partially counterbalanced by a lower (by LL 704 billion) BDL domestic debt portfolio.

Foreign currency debt witnessed a decrease in stock by LL 488 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 15, 2010⁴.

SEPTEMBER 2010 HIGHLIGHT

Tax on Capital Gains and Dividends

Revenues generated from the 10 percent tax on capital gains and dividends increased by 23 percent in January-September 2010, compared to the same period of 2009, thus generating LL 176 billion by end-September 2010.

Since 2003, this tax generated, on average, 9 percent of total revenues from taxes on income, profits and capital gains. In nominal terms, it maintained an increasing trend that reflected higher commercial banks’ profits across this period, which subsequently translated into a substantial increase in the return on capital and shareholders’ equity. As a matter of fact, net profits of Alpha Banks’ hiked up by 19.3 percent in 2009 compared to 2008, thus amounting to LL 1,944 billion (*The Alpha Group Report*, Bankdata Financial Services).

¹ For further details, kindly refer to September 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.

⁴ Pursuant to Law #69 dated April 23, 2009, the Lebanese Republic issued \$ 6.93 million 6.00 percent bonds due 2015.

Table 1. Summary of Fiscal Performance

(LL billion)	2009 Sep	2010 Sep	2009 Jan-Sep	2010 Jan-Sep	% Change 2010/2009
Total Budget and Treasury Receipts	879	774	9,449	9,323	-1%
Total Budget and Treasury Payments, of which¹	1,453	1,485	12,800	12,411	-3%
• <i>Interest Payments</i>	603	645	4,180	4,465	7%
• <i>Concessional loans principal payments²</i>	42	47	217	245	13%
• <i>Primary Expenditures³</i>	809	793	8,403	7,701	-8%
Total Cash Deficit/Surplus	-574	-711	-3,351	-3,040	-9%
Primary Deficit/Surplus	70	-19	1,045	1,670	60%

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

^{1/}Kindly note that total budget and treasury payments for Jan-Sep 2010 differs from the Fiscal Performance figure previously released by the MOF due to a technical discrepancy.

^{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 Sep	2010 Sep	2009 Jan-Sep	2010 Jan-Sep	% Change 2010/2009
Budget Revenues, of which:	843	736	8,962	8,809	-2%
Tax Revenues	605	646	6,736	7,659	14%
Non-Tax Revenues	238	90	2,225	1,150	-48%
Treasury Receipts	36	38	487	514	5%
Total Revenues	879	774	9,449	9,323	-1%

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

Table 3. Tax Revenue

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

Source: MOF, DGF

Table 4. Non-Tax Revenue

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

Source: MOF, DGF

Section 2: Expenditure Outcome

Table 5. Expenditure by Economic Classification¹

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

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

1/ Kindly note that total budget and treasury payments for Jan-Sep 2010 differs from the Fiscal Performance figure previously released by the MOF due to a technical discrepancy.

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

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

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

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

(LL billion)	2009 Jan-Sep	2010 Jan-Sep	% Change 2010/2009
Transfer to Council of the South	5	10	93%
Transfer to Council for Development and Reconstruction (CDR)	38	22	-41%
Transfer to the Displaced Fund	6	5	-25%
Transfer to the Lebanese University	177	176	-1%
Transfer to the Educational Center for Research and Development	10	12	12%

Source: MOF, DGF

Table 7. Details of Debt Service Transactions

(LL billion)	2009*** Sep	2010 Sep	2009 Jan-Sep	2010 Jan-Sep	% Change 2010/2009
Interest Payments 1/	603	645	4,180	4,465	7%
Local Currency Debt	286	326	2,605	2,873	10%
Foreign Currency Debt, of which:	317	319	1,575	1,592	1%
Eurobond Coupon Interest*	312	310	1,473	1,459	-1%
Specialbond Coupon Interest*	0	1	10	11	10%
Concessional Loans Interest Payments	5	8	92	123	33%
Concessional Loans Principal Payments**	42	47	217	245	13%

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-Sep	2010 Jan-Sep	% Change 2010/2009
EDL of which:	1,743	1,250	-28%
• Debt Service of which:	108	76	-30%
- C-Loans and Eurobonds, of which:	82	60	-27%
Principal repayments	69	49	-28%
Interest Payments	14	11	-22%
- BDL Guaranteed Loan payments	26	16	-38%
• Reimbursement of KPC and Sonatrach Agreements	1,635	1,174	-28%

Source: MOF, DGF

Section 3: Public Debt

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

(LL billion)	Dec 2007	Dec 2008	Dec 2009	Sep 2010	Change Dec 09 - Sep 2010	% Change Dec 09- Sep 2010
Gross Public Debt	63,350	70,937	77,097	76,664	-433	-0.56%
Local Currency Debt	31,373	39,007	44,973	45,028	55	0.12%
a. Central Bank (Including REPOs and Loans to EDL to Finance Fuel Purchases) ⁽¹⁾	9,052	8,781	10,334	9,630	-704	-6.81%
b. Commercial Banks	16,847	24,320	27,286	27,637	351	1.29%
c. Other Local Currency Debt (T-bills), of which:	5,474	5,906	7,353	7,761	408	5.55%
<i>Public Entities</i>	4,796	5,062	6,078	6,210	132	2.17%
* <i>Accrued Interest Included in Debt</i>	730	1,029	999	853	-146	-14.61%
Foreign Currency Debt ⁽²⁾	31,977	31,930	32,124	31,636	-488	-1.52%
a. Bilateral, Multilateral and Foreign Private Sector Loans	2,949	2,851	2,698	2,576	-122	-4.53%
b. Paris II Related Debt (Eurobonds and Loans) ⁽³⁾	6,063	5,456	4,819	4,355	-465	-9.64%
c. Paris III Related Debt (Eurobonds and Loans) ⁽⁴⁾	1,357	1,849	1,963	1,880	-83	-4.23%
d. Market-Issued Eurobonds	20,780	20,925	21,736	21,875	139	0.64%
e. <i>Accrued Interest on Eurobonds</i>	410	430	460	469	9	1.96%
f. Special T-bills in Foreign Currency ⁽⁵⁾	419	419	447	481	34	7.61%
Public Sector Deposits	4,527	8,326	10,522	9,364	-1,158	-11.01%
Net Debt	58,823	62,611	66,575	67,300	725	1.09%
Gross Market Debt ⁽⁶⁾	39,220	46,992	51,231	52,039	808	1.58%
% of Total Debt	62%	66%	67%	68%	2%	3.01%

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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