

PUBLIC FINANCE QUARTERLY REPORT

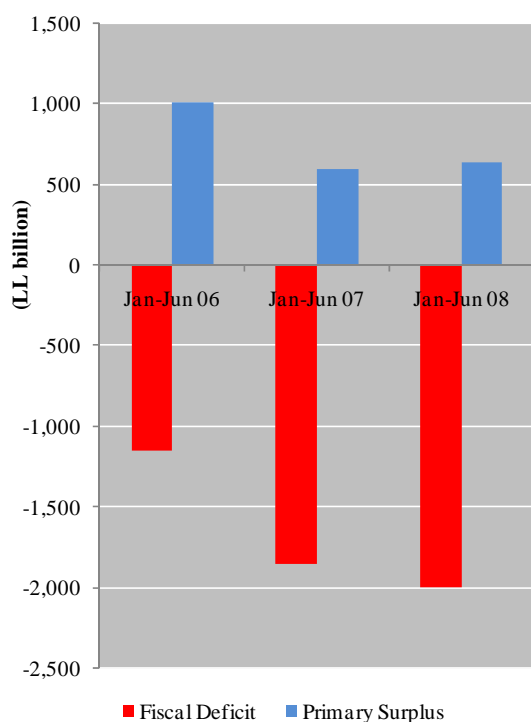
Ministry of Finance

QII 2008

☒ General Fiscal Developments

The fiscal deficit during the first half (H1) of 2008 totaled LL 1,991 billion, 8 percent larger than the deficit recorded for the same period in 2007. However, primary surplus improved by 8 percent, from LL 600 billion in H1 2007 to LL 646 billion in H1 2008. (section 1).

**Fiscal and Primary Balance
January – June 2006 -2008**



☒ Revenues

At LL 5,200 billion in H1 2008, revenues were higher than those collected in H1 2007 by 15.6 percent as a result of 19 percent higher tax revenues and 8 percent higher non-tax revenues. (section 2).

☒ Expenditures

Public expenditures, at LL 7,191 billion in H1 2008, increased by 13.3 percent compared to H1 2007. Higher current expenditures by 6 percent and treasury expenditures by 47 percent contributed to this result. (section 3).

☒ Public Debt Developments

As of end-June 2008 the stock of debt totaled LL 67,090 billion, registering an increase of 5.83 percent from the end-December 2007 level. Net debt stood at LL 60,909 billion by the end of the first half of 2008, rising by 3.5 percent against 2007. (section 4).

Contents

Fiscal overview.....	Page 2
Revenue outcome.....	Page 3
Expenditure outcome.....	Page 9
Public Debt Developments.....	Page 20

Section I: Fiscal Overview

Table 1. Summary of Fiscal Performance

(LL billion)	2006 Jan-June	2007 Jan-June	2008 Jan-June	%Change 2008/2007
Total Budget and Treasury Receipts	4,082	4,498	5,200	15.6%
Total Budget and Treasury Payments, <i>of which</i>	5,232	6,346	7,191	13.3%
• Interest Payments	2,081	2,358	2,432	3.1%
• Concessional loans principal payments 1/	78	90	206	128.9%
• Primary Expenditures 2/	3,072	3,898	4,554	16.8%
Total Cash Deficit/Surplus	-1,150	-1,848	-1,991	7.7%
Primary Deficit/Surplus	1,010	600	646	7.7%

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).

The first half of 2008 saw a **fiscal deficit** of LL 1,991 billion, a 7.7 percent increase from the LL 1,848 billion deficit posted in the first half of 2007. This result stemmed from higher **total payments** of LL 845 billion compared to incremental **total receipts** of LL 702 billion over this period.

The **primary surplus** posted a 7.7 percent improvement in the first six months of 2008 at LL 646 billion compared to LL 600 billion in the same period of 2007.

Section II: Revenue Outcome

Total collection in the first half (H1) of 2008 showed significant strength with an approximate 16 percent growth in total revenues when compared to the revenues in H1 2007. This is equivalent to LL 702 billion of additional tax revenues (in the amount of LL 553 billion), non tax revenues (in the amount of LL 95 billion) and Treasury receipts (in the amount of 55 LL billion).

Table 2. Total Revenues

(LL billion)	2006 Jan-June	2007 Jan-June	2008 Jan-June	%Change 2008/2007
Budget Revenues, of which:	3,896	4,117	4,764	15.7%
• Tax Revenues	2,901	2,901	3,454	19.1%
• Non-Tax Revenues	995	1,216	1,310	7.7%
Treasury Receipts	187	381	436	14.4%
Total Revenues	4,082	4,498	5,200	15.6%

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

Tax revenues amounted to LL 3,454 billion for HI 2008 representing 19 percent higher revenues than in HI 2007. In fact the first half of 2008 experienced buoyancy in collection in nearly all tax types. The detailed performance of the various taxes is as follows:

Income tax on profits and capital gains collected LL 1,025 billion for HI 2008, 21 percent more revenues than in HI 2007. Of that amount LL 558 billion are income taxes on profits filed and paid mostly in June 2008¹. This 31 percent rise in income tax receipts suggests higher corporate profits in 2007 than in 2006 (profits in 2006 and 2007 are filed and declared in 2007 and 2008 respectively). Furthermore, all the recent efforts of the tax administration for simplification of processes and better services to taxpayers²; namely 24/7 Call Center information services, electronic services (declarations available on line), tax filing and payment through Liban Post, have contributed to enhance voluntary compliance, and hence boost income tax receipts. The reform effort of the tax administration has further permitted the expansion of the withheld tax on wages and salaries tax base through the build up of a comprehensive database on wage earners, a process that started at the beginning of 2003³ and was completed in April 2008. As of end June 2008, 477,925 private and public sector employees, and 25,536 private and public sector employers are registered in the tax administration database.⁴ This has permitted a 100 percent rise in the average aggregate quarterly declaration amount (from an average of LL 30 billion of aggregate receipts per declaration quarter in 2003 to an average of LL 61 billion for the two quarterly declaration filing dates of 2008⁵).

The **5 percent interest tax** has collected LL 222 billion of which around 65 percent transferred to the Treasury by commercial banks and 35 percent by the BDL. The composition of the 5 percent interest tax proceeds by currency for HI 2008 shows a similar distribution pattern as in HI 2007 with 52 percent of the receipts in Lebanese Pounds, against 48 percent in foreign currency, whereas one would have expected higher share of proceeds from LBP given the decline in the

¹ Due to the precarious security situation in May 2008, the Ministry of Finance issued Decision # 456 dated May 22 which granted an extension of the deadline for Corporate income tax filing from end of May till June 30th 2008.

² The Ministry of Finance won the 2007 UN Award for its achievements in the improvement of taxpayers' services.

³ For further information please refer to the Deduction At Source on Wages and Salaries (DASS) reform in the report "Reforms at the Ministry of Finance: 2005 – 2008 and Beyond, June 2008" on the Ministry's website.

⁴ Please refer to "International Conference For support To Lebanon-PIII, Sixth Progress Report", available on the Ministry's web-site.

⁵ The withheld tax on wages and salaries is filed and paid in January, April, July and October of each year.

dollarization rate to 74.63 percent as of June 2008 compared to 75.88 percent as of June 2007. On the other hand the growth in deposits (14 percent growth June 07-June 08) has counterbalanced the decline in average deposit rates in LBP (25 bps as of June 2008) and in USD (136 bps as of June 2008), resulting in an overall 2 percent rise in proceeds in HI 2008 compared to the collected amount in HI 2007.

Taxes on property collected LL 327 billion in total for HI 2008, compared to LL 240 billion in HI 2007, equivalent to a 36 percent increase, stemming from a 63 percent hike in **real estate registration fees**, which accounted for roughly 72 percent of total property taxes (compared to a 60 percent share in HI 2007). The first half of the year witnessed a (i) 5.5 percent increase in the number of registered real estate entities; 126,777 units registered in HI 2008 compared to 120,186 units registered in HI 2007; but most importantly a (ii) 79 percent rise in the aggregate property values declared in sales contracts in HI 2008, meaning that the value per property declared in sales contracts rose by 72 percent from an average of LL 18 million in HI 2007 to an average of LL 31 million in HI 2008

Total domestic taxes on goods and services collected LL 1,312 billion for HI 2008, or 24 percent above the collection level in HI 2007, mainly attributed to LL 1,186 billion of **VAT** receipts in HI 2008. Of this amount, LL 885 billion were collected at Customs from the import of merchandise, (compared to LL 684 in HI 2007), and LL 301 billion collected for internal business activity (compared to LL 271 in HI 2007). The 29 percent rise in import VAT in HI 2008 is in line with the 34 percent growth in imports as revealed by the Jan-June 2008 trade data. The effective VAT rate at imports has been constant at around 8 percent, suggesting no major changes in import patterns.

On the other hand, the overall 20 percent rise in the VAT collected from internal business activity in HI 2008 when compared to the VAT collected from internal business activity in HI 2007⁶ stems from a 19 percent rise in QIV 2007 VAT receipts filed and paid in January 2008⁷; and a 21 percent increase the QI 2008 VAT receipts filed and paid in April 2008, suggesting higher economic activity and therefore nominal growth for 2008. It is worth noting that VAT refund totaled LL 149 in HI 2008 compared to LL 87 in HI 2007, registering a similar percentage increase.

Other taxes on goods and services, namely **private car registration fees**, collected nearly LL 83 billion by end of HI 2008, witnessing a 43 percent rise in receipts when compared to collection level of HI 2007, a result in line with the 77 percent increase in the number of cars imported as revealed by the first half of the year trade statistics (*please refer to the paragraph on car excises*).

Revenues generated from **international trade (custom duties and excises)** totaled LL 636 billion for HI 2008, of which LL 309 billion are custom duties and LL 327 billion are excises.

Custom duties in HI 2008 registered 16 percent higher revenues than in the equivalent period in 2007, explained by a 25 percent rise in non fuel imports in Jan-June 2008, compared to non fuel imports in Jan-June 2007. The increase in custom duties is not commensurate with the 66 percent growth in fuel imports, which is largely nominal.⁸ As such, with the fuel inflation at imports, the effective customs rate has been reduced from 3.2 percent in Jan-June 2007 to 2.8 percent in Jan-June 2008 (it averaged 4 percent in the years 2004 and before).

⁶ After adjusting to an amount equivalent to LL 20 billion pertain to QII 2006 but settled in February & March 2007 as per Decision number 826 dated September 14, 2006.

⁷ Please refer to the Ministry of Finance Public Finance Quarterly Report - QI 08 for further explanation behind the performance of the January 08 VAT collection.

⁸ Custom duties on fuel products have low effective rates, they are levied either on an ad-valorem basis of 0 percent or 5 percent, or mostly as a specific duty (LL per liter of imports), therefore revenues from custom duties on fuel products remain somehow unaffected by nominal increases.

Excise revenues in HI 2008 collected approximately 9 percent lower receipts than in HI 2007, mainly on account of lower *fuel excises*. In fact, besides LL 5 billion received in the month of February 2008, zero revenues from the fuel excise were collected during the remaining months of 2008⁹, compared to LL 140 billion received in HI 2007. However, despite the rise in effective prices at imports (LL 1,084 per liter on average for the period Jan-June 2008 compared to LL 761 per liter on average for the period Jan-June 2007), the quantity of gasoline imported has increased by 4 percent (0.904 billion liters of imports in Jan-June 2008 compared to 0.867 billion in Jan-June 2007).

The loss in fuel excise revenues in HI 2008 was to a certain extent compensated by 12 percent and 79 percent increase in revenues from excises on tobacco and on cars respectively.

The *tobacco excise tax* collected LL 112 billion in HI 2008 compared to LL 100 billion in HI 2007, explained by a 20 percent rise in tobacco imports in Jan-June 2008 (the increase in imports is attributed to nearly 27 percent more tons of imports). The striking development on the car import front that was witnessed in the first quarter of the year is persisting throughout the whole first half of the year with a 82 percent rise in car imports in Jan-June 2008 compared to car imports in Jan-June 2007; mainly attributed to a 77 percent increase in the number of cars imported (20,642 cars imported in Jan-June 2007 compared to 36,445 cars imported in Jan-June 2008), and a 3 percent increase in the average price per car at customs (LL 20.9 million in Jan-June 2007 compared to LL 21.6 million in Jan-June 2008). The credit facilities to consumers, banks and car dealers are offering, may have been behind this spur in demand. Car import developments have then induced around LL 92 billion of additional revenues from *car excise* in HI 2008 compared to the revenues generated in HI 2007.

Table 3. Trade balance

(US\$ million)	2006 Jan-June	2007 Jan-June	2008 Jan-June	%Change 2008/2007
Imports	5,056	5,468	7,314	34%
• <i>Fuel (HS 27)</i>	1,218	1,135	1,879	66%
• <i>Non Fuel</i>	3,838	4,333	5,435	25%
Exports	1,303	1,312	1,746	33%
Trade Balance	-3,754	-4,156	-5,568	34%

Source: MOF, DGC

Fiscal stamps revenues are usually a good indicator of the activity trend in the economy; as such the 18 percent rise in receipts (LL 154 billion in HI 2008 compared to LL 131 billion in HI 2007) also hints at a pick-up in business activity (transactions and sales). This is evidenced by the increase in the volume of real estate sales contracts processed in HI 2008 for the settlement of the registration fees at the property tax department on the one hand (*please refer to property tax section*), and as may be suggested by the buoyancy in the coincident indicator; in fact the coincident indicator for the first 6 months of 2007 averaged 179.3 compared to an average of 195.0 for the first six months of 2008.

⁹The landed cost of gasoline has by far exceeded the LL 950 per liter at which the excise rate turns zero under the capping regime which was installed in May 2004; this has happened during the month of May 2007, then again starting November 2007 up till today (except for the month of February 08).

Table 4. Tax Revenue

(LL billion)	2006 Jan-June	2007 Jan-June	2008 Jan-June	%Change 2008/2007
Tax Revenues	2,901	2,901	3,454	19.1%
Taxes on Income, Profits, & Capital Gains, of which:	788	848	1,025	20.9%
• Income Tax on Profits	409	427	558	30.7%
• Income Tax on Wages and Salaries	106	112	140	25.0%
• Income Tax on Capital Gains & Dividends	68	86	98	14.0%
• Tax on Interest Income (5%)	195	217	222	2.3%
• Penalties on Income Tax	9	5	6	20.0%
Taxes on Property, of which:	399	240	327	36.3%
• Built Property Tax	63	70	65	-7.1%
• Real Estate Registration Fees	156	144	234	62.5%
Domestic Taxes on Goods & Services, of which:	997	1,058	1,312	24.0%
• Value Added Tax	888	955	1,186	24.2%
• Other Taxes on Goods and Services, of which:	100	99	123	24.2%
- Private Car Registration Fees	65	58	83	43.1%
- Passenger Departure Tax	35	40	39	-2.5%
Taxes on International Trade, of which:	569	624	636	1.9%
• Customs	254	265	309	16.6%
• Excises, of which:	316	359	327	-8.9%
• Petroleum Tax	90	140	5	-96.4%
• Tobacco Tax	93	100	112	12.0%
• Tax on Cars	130	116	208	79.3%
Other Tax Revenues (namely fiscal stamp fees)	148	131	154	17.6%

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

Non Tax revenues cumulated at 1,310 billion by end of June 2008; 8 percent above receipts in HI 2007, the bulk of the increase originating from higher entrepreneurial income.

In fact, receipts from **Public Institutions and Government Properties** totaled LL 1,035 billion for the first half of 2008 compared to LL 972 billion in the first half of 2007; 84 percent of which are **surplus transfers from the budget surplus of the Telecom**: indeed, the Treasury received LL 868 billion from the telecom in HI 2008 compared to LL 750 billion in HI 2007¹⁰.

The major development in revenues from public institutions and government properties in 2008 pertains to the transfers from the **Casino du Liban**, which totaled LL 93 billion by the end of June 2008. Besides a settlement amount of LL 42 billion received in March 2008¹¹, the transfers from Casino du Liban in HI 2008 were 82 percent higher than transfers in HI 2007 owing to: (i) the full

¹⁰ Note that in April 2007 an amount of LL 139 billion was netted out from the prospected transfer to the Treasury for the payment of an arbitration settlement to France Telecom a previous mobile operator for early termination of the BOT contract. Therefore, on a gross basis the Budget surplus of the telecom was equivalent to LL 889 billion in HI 2007 of which LL 750 billion transferred to the Treasury and LL 139 billion paid in settlement of the arbitration dispute.

¹¹ An amount of LL 42 billion representing the first installment payment in settlement of past years litigation was received in March 2008. In fact, 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. As such, the new amendment to the contract which was signed in February 2008 stipulated 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 4 yearly installments starting 2008.

fledged implementation of the 40 percent revenue sharing¹² arrangement with Casino Management in lieu of the 30 percent prevailing prior to 2007, (ii) the more encompassing revenue sharing base (please refer to footnote 11), and (iii) most probably more visitors to Casino facilities.

The rise in receipts from the Telecom and from the Casino over compensated for the loss in receipts from the **Budget surplus of the National Lottery** (LL 23 billion less transfers in HI 2008 because of administrative reasons¹³) and from the reduced **transfer from the Central Bank** as per Article 113 of the code of Money and Credit (LL 113 billion were received in HI 2007 pertaining to the 80 percent Treasury's share of BDL net profit compared to LL 41 billion received in HI 2008).

Total **Administrative Fees and Charges** collected LL 219 billion in HI 2008, LL 17 billion higher receipts than in HI 2008 (equivalent to 8 percent), mainly due to LL 4 billion more fees from Public Security, LL 7 billion more mechanic fees and LL 3 billion more permit fees.

It is also worth noting that "**other non tax revenues**" have registered 42 percent higher receipts in HI 2008, owing to 23 percent higher retirement deductibles and LL 7 billion of settlements for construction infringements (compared to nearly LL 700 million only in HI 2007).

Treasury receipts were LL 436 billion by end of June 2008, representing 14 percent higher receipts than in HI 2007. Of that amount (i) approximately LL 165 billion are grants received from the US government in the context of the PIII Conference (whereas Treasury receipts in HI 2007 accounted for LL 151 billion of grants received from the Kingdom of Saudi Arabia in April 2007), (ii) LL 90 billion are revenues for the Independent Municipal Fund, compared to LL 74 billion in HI 2007; and (iii) LL 57 billion are guarantees of which approximately LL 20 billion are guarantees from the Directorate of Cereals and Sugar Beet and LL 11 billion are guarantees received from the "Palais de Justice".

Treasury receipts further account for an accounting adjustment entry of LL 22.1 billion to regularize treasury advance payments in HI 2008 (compared to LL 21 billion in HI 2007).

¹² The Paris III economic reform program, presented in January 25th in Paris, stipulated the move to a new phase of the prevailing arrangement between the Government of Lebanon and the management of Casino du Liban as part of the Government broad policy to optimize revenues from owned properties. As such the revenue sharing arrangement was increased from 30 percent of revenues to 40 percent of revenues starting the year 2007.

¹³ An unfilled vacancy in the administration (due to the retirement of the auditor in charge) is delaying the National Lottery surplus transfers to the treasury.

Table 5. Non-Tax Revenue

(LL billion)	2006 Jan-June	2007 Jan-June	2008 Jan-June	% Change 2008/2007
Non-Tax Revenues	995	1,216	1,310	7.7%
Income from Public Institutions and Government Properties, of which:	697	972	1,035	6.5%
• Income from Non-Financial Public Enterprises, of which:	677	836	966	15.6%
- Revenues from Casino Du Liban	21	28	93	232.1%
- Revenues from Port of Beirut	0	30	0	-100.0%
- Budget Surplus of National Lottery	40	28	5	-82.1%
- Transfer from the Telecom Surplus	616	750	868	15.7%
• Property Income (namely rent of Rafic Hariri International Airport)	15	21	24	14.3%
• Other Income from Public Institutions (interests)	3	3	3	0.0%
Administrative Fees & Charges, of which:	247	202	219	8.4%
• Administrative Fees, of which:	196	161	177	9.9%
- Notary Fees	10	10	11	10.0%
- Passport Fees/ Public Security	59	52	57	9.6%
- Vehicle Control Fees	94	70	77	10.0%
- Judicial Fees	11	9	11	22.2%
- Driving License Fees	13	8	8	0.0%
• Administrative Charges	32	22	11	-50.0%
• Sales (Official Gazette and License Number)	2	1	2	100.0%
• Permit Fees (mostly work permit fees)	32	22	25	13.6%
• Other Administrative Fees & Charges	8	6	4	-33.3%
Penalties & Confiscations	3	3	3	0.0%
Other Non-Tax Revenues (mostly retirement deductibles)	48	38	54	42.1%

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

Section III: Expenditure Outcome

Table 6: Summary of Expenditure Items

(LL billion)	2006 Jan-June	2007 Jan-June	2008 Jan-June	%Change 2008/2007
Total Budget and Treasury Payments, of which	5,232	6,346	7,191	13.3%
• <i>Interest Payments</i>	2,081	2,358	2,432	3.1%
• <i>Concessional Loans Principal Payments 1/</i>	78.4	90	206	129.1%
• <i>Total Primary Expenditures 2/</i>	3,072	3,898	4,554	16.8%

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).

Total Expenditures (budget and treasury) for the first half of 2008 reached LL 7,191 billion, 13 percent higher than expenditures in the same period of 2007. From an economic classification perspective, the LL 845 billion rise was due to:

- An increase in **treasury expenditures** by LL 550 billion of which (i) LL 341 billion constituted higher spending to cover the growing deficit of the loss-making electricity company, EDL, (ii) LL 95 billion represented more transfers to municipalities, (iii) LL 62 billion stood for a larger VAT refund, and (iv) LL 19 billion corresponded to a higher diesel oil subsidy. These four items offset the LL 20 billion lower deposits;
- An increase in **current expenditures** by LL 303 billion of which LL 117 billion were due to higher personnel costs, LL 116 billion to more concessional loan's principal repayments, LL 75 billion to a larger interest bill and LL 44 billion to higher 'other current expenditures' (mainly hospitalization in the private sector which was up by LL 50 billion) which offset the LL 71 billion decrease in 'various transfers' mainly explained by LL 220 billion lower transfers to NSSF.

Total Primary Expenditures amounted to LL 4,554 billion in the first half of 2008 compared to LL 3,898 billion registered during the same period of 2007, 16.8 percent higher.

Table 7: Expenditures by Economic Classification
(LL billion)

	2006 Jan-June	2007 Jan-June	2008 Jan-June	% Change 2008/2007
1. Current expenditures	4,299	4,890	5,193	6.2%
1.a Personnel cost, of which:	1,607	1,788	1,905	6.6%
• Salaries, wages and related items (Article 13) 1/	1,056	1,232	1,268	2.9%
• Retirement and end of service compensations, of which:	446	451	537	19.1%
- Retirement	364	386	409	5.8%
- End of Service	81	64	128	98.6%
• Transfers to public institutions to cover salaries 2/	106	105	100	-4.4%
1.b Interest payments, of which: 3/	2,081	2,358	2,432	3.2%
• Domestic Interest Payments	1,107	1,299	1,334	2.7%
• Foreign Interest Payments	974	1,058	1,097	3.7%
1.c Foreign Debt Principal Repayment	78	90	206	129.3%
1.d Materials and Supplies, of which:	71	99	113	13.8%
• Nutrition	10	12	25	106.1%
• Fuel Oil	6	17	19	6.7%
• Medicaments	35	24	33	40.7%
• Accounting Adjustments for Treasury	5	27	21	-21.8%
1.e External Services	53	49	56	13.6%
1.f Various Transfers, of which:	247	362	291	-19.6%
• National Social Security Fund	100	220	0	-100.0%
• Treasury Advances for Wheat Subsidy	0	0	116	N/A
1.g Other Current, of which:	123	103	147	42.1%
• Hospitals	105	80	130	63.3%
• Others	17	21	15	-27.6%
1.h Reserves, of which:	38	41	44	6.6%
• Interest Subsidy	38	41	44	6.6%
2. Capital Expenditures	336	271	265	-2.4%
2.a Acquisitions of Land, Buildings, for the Construction of Roads, Ports, Airports, and Water Networks	11	13	2	-85.1%
2.b Equipment	12	24	17	-29.9%
2.c Construction in Progress, of which:	254	182	188	3.2%
• Displaced Fund	55	21	20	-7.9%
• Council of the South	20	20	10	-50.0%
• CDR	150	107	120	12.5%
• Ministry of Public Work and Transport	13	19	18	-5.0%
• Other	16	16	22	38.3%
2.d Maintenance	30	30	35	14.6%
2.e Other Expenditures Related to Fixed Capital Assets	29	22	23	5.7%

Table 7: (continued)

(LL billion)	2006 Jan-Jun	2007 Jan-Jun	2008 Jan-Jun	% Change 2008/2007
3. Other Treasury Expenditures	582	1,164	1,714	47.3%
Municipalities	163	101	196	93.5%
Guarantees	60	21	25	18.3%
Deposits, of which:	27	47	26	-43.5%
• Treasury Advances for National Social Security Fund	0	10	0	-100%
Other, of which:	130	148	260	76.0%
• VAT refund	69	87	149	70.6%
• Higher Council of Relief	0	6	9	48.4%
EDL 4/	151	847	1,188	40.2%
Treasury Advances for Diesel Oil Subsidy	52	0	19	N/A
4. Unclassified Expenditures	1	2	2	4.2%
5. Customs Cashiers	15	19	18	-6.0%
6. Total Expenditures (excluding CDR foreign financed)	5,232	6,346	7,191	13.3%

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

1/ For a detailed breakdown of salaries, wages, and related items, otherwise referred to as Article 13 in the Lebanese Budgets, please refer to Box 1.

2/ For a detailed breakdown of those transfers, kindly refer to table 8.

3/ For a detailed breakdown of interest payments, kindly refer to table 9.

4/ For a detailed breakdown of transfers to EDL, kindly refer to table 10.

Current primary expenditures amounted to LL 2,556 billion in H1 2008, LL 113 billion or 4.6 percent higher than H1 2007 when current primary expenditures registered LL 2,442 billion.

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

Personnel costs¹⁴ amounted to LL 1,905 billion, LL 117 billion (6.6 percent) higher than the LL 1,788 billion level of H1 2007, mainly resulting from:

- a) Increase in **wages, salaries and related benefits (Article 13)** by LL 36 billion from LL 1,232 billion to LL 1,268 billion, due to:
 - i. higher total allowances by LL 52 billion, from LL 163 billion to LL 214 billion, mainly due to higher payment of hospitalization by LL 33.6 billion, schooling by LL 9.5 billion and social expenditure allowances by LL 4.8 billion
 - ii. higher "other salary related items" by LL 18 billion, from LL 175 billion to LL 193 billion, mainly due to higher payment to the civil servants cooperative by LL 20 billion.

(For more information on wages and salaries, kindly refer to box 1.)
- b) Increase in **retirement and end-of service indemnities** by LL 86 billion, from LL 451 billion in 2007 to LL 537 billion in 2008, of which LL 64 billion were due to higher end of service indemnities and LL 23 billion were due to increase in retirement payments. The higher payment of end of service indemnities was due to the army resuming the issuance of end-of-service requests from December 2007 onward after a temporary halt following the Nahr el-Bared events that lasted for seven months (May 2007-November 2007).

¹⁴ This includes salaries, wages and related benefits (article 13), transfers, retirement and end-of-service.

Within personnel cost, **transfers to public institutions to cover salaries** witnessed a drop of LL 5 billion from LL 105 billion to LL 100 billion. Transfers to the Lebanese University and CDR decreased by LL 4 billion each. These drops were partly compensated by increases of transfers to the Displaced Fund and the Council of the South by LL 1 billion and LL 2 billion respectively.

Table 8. Breakdown of Transfers to Public Institutions (Salaries)

(LL billion)	Jan-June 2006	Jan-June 2007	Jan-June 2008	% Change 2008/2007
Transfer to Council of the South	2	3	5	88.3%
Transfer to the Council for Development and Reconstruction	14	18	15	-20.0%
Transfer to Displaced Fund	3	3	4	16.7%
Transfer to the Lebanese University	80	76	72	-4.9%
Transfer to Educational Center for Research and Development	8	5	5	0.0%
Total	106	105	100	-4.4%

Source: Ministry of Finance

Box 1. Salaries and Wages in H1 2008

Salaries and wages cover the salaries and wages of all employees (such as full-time and part-time employees, consultants, advisors, workers earning a lump-sum amount), compensations (such as family, overtime, transportation), allowances (including sickness and maternity, marriage, birth, death, hospitalization, schools, social spending, treatment in medical centers), bonuses, contributions to mutual funds .

In H1 2008, salaries and wages increased by LL 36 billion from LL 1,232 billion to LL 1,268 billion. This item is composed of four main components: Army, Security Forces, Education and Civil personnel.

1. Salaries and wages of the army decreased from LL 472 billion in H1 2007 to LL 451 billion in H1 2008. This item made up more than one-third of the total wage and salary bill in H1 2008.

- i) Basic salaries of the army amounted to LL 326 billion in H1 2008 against LL 362 billion in H1 2007. This decrease reflects the exceptional bonus salary of LL 36 billion paid in February 2007 to the army.
- ii) Allowances to the army increased from LL 88 billion to LL 105 billion, due to higher 1) hospital allowances by LL 10 billion and 2) school allowances by LL 7 billion.

2. Salaries and wages of security forces (including *Internal Security Forces (ISF), General Security and State Security forces*) increased from LL 274 billion in H1 2007 to LL 298 billion in H1 2008, of which LL 244 billion were wages and salaries of ISF. This item made up slightly less than one-fourth of the total wage and salary bill for H1 2008.

- i. Basic salaries of security forces *totaled LL 177 billion in H1 2008 and LL 189 billion in H1 2007*. This decrease was due to Security forces receiving an exceptional bonus salary of LL 14 billion in February 2007 which was reflected in higher total basic salaries in H1 2007 against the same period during 2008.
- ii. Allowances to the security forces increased from LL 74 billion in H1 2007 to LL 109 billion in H1 2008. This was mostly attributed to 1) a LL 32 billion increase of Internal Security Forces allowances of which LL 22 billion were paid for hospitalization, LL 6 billion as maternity and sickness allowances, LL 2 billion as schooling and LL 1.4 billion for treatment at medical centers and 2) a LL 3 billion increase of allowance of which LL 1.8 billion were paid for hospitalization and LL 1.4 billion for maternity and sickness allowances.

3. Salaries of education personnel increased from LL 251 billion in H1 2007 to LL 267 billion in H1 2008, mainly due to increase in basic salaries by LL 15 billion stemming from a LL 17 billion increase in payments made to contractual teachers. No allowances were paid to education personnel in H1 of 2007 and 2008.

4. Salaries of civil personnel increased from LL 228 billion in H1 2007 to LL 241 billion, a LL 13 billion increase, that was due to a LL 23 billion increase in other salaries related items of which LL 20 billion were due to higher payments made to civil servants cooperative that was partly offset by a LL 10 billion decrease in basic salaries of which LL 6.4 billion was due to a decrease in the basic salaries paid to permanent employees (mainly LL 6 billion for the Ministry of Foreign Affairs for salary and wages of overseas missions).

Box 1. Salaries and Wages in H1 2008 (Continued)

(LL billion)

	Basic salaries		Allowances 1/		Contribution in Mutual Funds and Cooperatives		Other 2/		Total	
	2007 Jan- June	2008 Jan- June	2007 Jan- June	2008 Jan- June	2007 Jan- June	2008 Jan- June	2007 Jan- June	2008 Jan- June	2007 Jan- June	2008 Jan- June
Military Personnel	550	503	162	213			34	34	746	750
Army	362	326	88	105			22	21	472	451
Internal Security forces	151	143	61	92			10	10	222	244
General Security forces	28	26	9	12			2	2	39	40
State Security forces	9	9	4	4			1	1	14	14
Education Personnel	226	241	0	0			25	26	251	267
Civil Personnel, of which	112	107	1	1	82	102	33	31	228	241
<i>Civil Servants Cooperative</i>					70	90			70	90
Customs salaries									7	10
Total	888	851	163	214	82	102	92	90	1,232	1,268

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

1/ Includes allowances for maternity and sickness, marriage, birth, death, hospitalization, schooling, social expenses and treatment at medical centers.

2/ Includes family, overtime, transport and miscellaneous indemnities.

Interest payments amounted to LL 2,432 billion in Jan-June 2008 rising by LL 74 billion from the same period of 2007. The increase reflects higher interest payments by LL 39 billion on foreign currency debt and by LL 35 billion on domestic currency debt.

The rise in **interest payments on local currency debt** is the result of higher payments of coupons on long term Treasury bills by LL 35 billion. The stock of long term bonds with interest payments maturing during the first half of 2008 increased by 7 percent when comparing to the same period of last year. In addition, the weighted average cost of the stock of long term debt reached 9.20 percent compared to 8.94 percent reflecting a 70 percent higher stock of 60 months treasury bills following the transactions which took place during October and November 2007, which swapped LL 1,533 billion worth of BDL held certificates of deposit against 60 months treasury bills at 11.5 percent.

The interest payments on short-term treasury bills declined by LL 29 billion, reflecting the 53 percent decrease in the stock of this type of bills, most notably those in the 3 and 12 months the categories.

Interest payments on foreign currency debt increased by LL 39 billion in the first half of 2008 compared to the first half of 2007. Eurobond coupon payments account for LL 30 billion of the increase resulting from:

- An increase of LL 12 billion due to the valuation of the Euro currency.
- A net effect of LL 19 billion¹⁵ of accrued interest and cash premium payments following the exchange and new cash transactions conducted during the months of April and May 2008.

The remaining increase of LL 14 billion is due to higher interest payments on concessional loans due to the increase in the stock of bilateral and multilateral loans after the reception of the Paris III funds during the year 2007¹⁶.

Concessional Loans Principal payments amounted to LL 206 billion for the period January- June 2008 increasing by LL 116 billion from January-June 2007, due to the early settlement of three World Bank loans paid by the USAID grant money for budgetary support.¹⁷

Table 9: Details of Debt Service Transactions

(LL billion)	2006 Jan-June	2007 Jan-June	2008 Jan-June	% Change QII 07 - QII 08
Interest Payments 1/	2,081	2,358	2,432	3.1%
• Local Currency Debt	1,107	1,299	1,334	2.7%
- Discount interest	197	114	85	-25.5%
- Coupon	910	1185	1249	5.4%
• Foreign Currency Debt, of which:	974	1,058	1,097	3.7%
- Eurobond Coupon Interest*	916	991	1,021	3.0%
- Special bond Coupon Interest*	13	13	7	-46.2%
- Concessional Loans Interest Payments	46	55	69	25.5%
Concessional Loans Principal Payments	78	90	206	129.3%

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

*Includes general expenses related to the transaction

¹⁵ The net effect includes the cash premium paid on all exchanged bonds and the accrued interest on the august 08 bond which were not accounted for in the first half of 2007.

¹⁶ Please refer to the "International conference for support to Lebanon- Paris III (Sixth progress report)". Website address: www.finance.gov.lb

¹⁷ Please refer to the "International conference for support to Lebanon- Paris III (Fifth progress report)". Website address: www.finance.gov.lb

Materials and supplies increased from LL 99 billion in H1 2007 to LL 113 billion in H1 2008, resulting from rises in the following items: i) food expenses from LL 12 billion to LL 25 billion in 2008 of which LL 22.2 billion were paid to the army, ii) medicine from LL 24 billion to LL 33 billion, of which LL 28.7 billion were spent by the Ministry of Public Health and LL 2.8 billion by state security forces and iii) fuel oil from LL 17 billion to LL 19 billion. It should be noted that the increase in the aforementioned items is driven by the increase in food and oil prices on one hand and the appreciation of the Euro (medicines) on another hand.

External Services (rent, postal, insurance, advertisement and public relations) amounted to LL 56 billion, up by LL 7 billion from their H1 2007 level. This increase was due among other things to a LL 3.9 billion increase in rental payments.

Various Transfers declined significantly by LL 71 billion from LL 362 billion in H1 2007 to LL 291 billion in H1 2008, mainly explained by:

- a) LL 220 billion lower **transfers to the NSSF** where payments totaled LL 220 billion in 2007 against no payments made in H1 2008;
- b) LL 12.7 billion lower transfers to **school funds** to cover the cost of registration fees for students in H1 2007;
- c) LL 1.9 billion lower transfers to **public hospitals** and LL 3 billion lower transfers to the **Council of Ministers**.

Against this decrease, other components of the various transfers witnessed significant rises namely:

- a) LL 116 billion **treasury advances for wheat subsidy** to the General Directorate of Cereals and Sugar Beet in H1 2008 against none during the same period to cover the cost of wheat imports that are then resold to the mills at a subsidized price allowing the capping of bread price at LL1,500 per 1.12 Kg.;
- b) Transfers to cover part of the expenses of the **international tribunal** for the assassination of Prime Minister Rafic Hariri totaled LL 18.4 billion as per decree #1015 dated 21/11/2007;
- c) Transfers to pay primary schools contractual teachers totaled LL 15.7 billion in H1 2008 versus none in H1 2007 and;
- d) Transfers to **Non-Governmental Organizations** by the Ministry of Social Affairs and the Ministry of Education and Higher Education increased by LL 17.1 billion as LL 65.2 billion were paid in H1 2008 against LL 48.1 billion made in H1 2007; there is no pattern in payments made to NGOs.

Other Current Expenditures reported an increase of LL 44 billion when compared to the figures of 2007, mainly attributed to increase in the payments to cover hospitalization in the private sector by LL 50 billion against a minor LL 6 billion decline in other components. This increase resulted from the lump sum payment in February 2008 of LL 41.3 billion worth of hospital bills that were due for 2007 but were not sent to the Ministry of Finance because of a delay in the bill auditing activities carried by the Ministry of Health.

Capital expenditures for H1 2008 totaled LL 265 billion remaining almost at the same level of LL 271 billion registered in H1 2007.

Treasury expenditures increased significantly by LL 550 billion in H1 2008 when compared to the same period of 2007. This item witnessed major hikes in many of its components. This is detailed as follows:

- a) Increase in transfers to, or on behalf of, **EDL** by LL 341 billion; Transfers to EDL reached LL 1,188 billion during H1 2008, compared to LL 847 billion for the same period in 2007. This increase can be explained by the increase in Treasury payments to Kuwait Petroleum Corporation (KPC) and Algeria's Sonatrach for fuel and gas oil purchases by LL 554 billion. During H1 2008, Treasury payments to KPC reached 191 billion LL compared to 77 billion LL in H1 2007. Treasury payments to Sonatrach reached 923 billion LL in H1 2008 compared to 483 billion LL in H1 2007. This increase in payments can be partially explained by the increase in the gas oil consumption of EDL from 480,500 metric tons¹⁸ in H1 2007 to 558,751 metric tons in H1 2008, and the increase in its fuel oil consumption from 356,500 metric tons to 684,218 metric tons over the same period. The increase in Treasury payments to KPC and Sonatrach for fuel and gas oil purchases was offset by a decrease in the repayment of loans for fuel oil and gas oil purchase by LL 67 billion, and a decrease in debt service by LL 147 billion;
- b) Transfers to **municipalities** increased by LL 95 billion as decree #425 dated 28/12/2007 stipulated the payments of the third and fourth part of the 2005 revenues that accrues to municipalities. The payments of these revenues reached LL 86 billion in H1 2008;
- c) Increase in payments of **VAT refund** by LL 62 billion. This resulted from the LL 75 billion payment made in March and April 2008 to cover 2007 dues;
- d) Decree #990 (dated 24/11/2007) granted a **treasury advance for the maintenance of the Rafic Hariri International Airport**. A LL 28 billion payment was made to this effect in H1 2008 against none in H1 2007;
- e) Treasury advances for **diesel oil subsidy** increased by LL 19 billion. This amount was paid during H1 2008 while no payments were made in H1 2007. Decrees #84 (dated 25/02/2007) and #270 (dated 11/04/2007) provisioned a subsidy for diesel oil of LL 39 billion for the period covering 15/11/2006-28/02/2007. Of these, LL 20 billion were paid in December 2007 and the remaining LL 19 billion were paid in January 2008;
- f) Decree #884 (dated 12/1/2008) granted a **treasury advance to the Rafic Hariri University Hospital**. Two payments totaling LL 6 billion were made to this governmental hospital in H1 2008 versus none in H1 2007.

Table 10: Transfers to EDL

(LL billion)	2006 Jan-June	2007 Jan-June	2008 Jan-June	% Change
EDL, of which:	167	847	1,188	40.3%
Debt Service, of which:	112	220	73	-66.8%
• C-Loans and Eurobonds, of which:	96	210	48	-77.1%
- Principal Repayments	68	188	39	-79.3%
- Interest Payments	28	22	9	-59.1%
• BDL Guaranteed Loan Payments	0	10	25	150.0%
Repayment of Loans for Fuel Oil and Gas Oil Purchase (Principal and Interest)	17	67	0	-100.0%
Reimbursement of KPC and Sonatrach Agreements	38	560	1,114	98.9%

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

¹⁸ The quantities of gas oil and fuel oil consumed by EDL are as per the Letters of Credit for these purchases, which are co-signed by the Ministry of Finance.

Table 11: Main Social Expenditures
(LL billion)

	Jan – June 2007	Jan – June 2008	% Change
HEALTH			
Hospitalization in the Private Sector	80	130	63%
Purchase of Medication	24	33	37%
Hospitalization of Public Sector Employees in Private Sector	54	89	64%
Maternity and Sickness Allowance	24	23	-2%
Other	28	29	4%
Sub-Total	210	305	45%
EDUCATION			
Ministry of Education and Higher Learning, <i>of which</i> :	384	403	5%
- <i>Wages and Salaries of the General Directorate of Education</i>	239	244	2%
- <i>Wages and Salaries of the General Directorate of Higher Learning</i>	0	0	-34%
- <i>Wages and Salaries of the General Directorate of Technical Education</i>	11	23	104%
- <i>Contributions in the Salaries of the Lebanese University</i>	76	72	-5%
- <i>Contributions to Non Profitable Organizations (Private Schools)</i>	17	24	44%
- <i>Construction under Execution (Construction and Restoration of Schools)</i>	7	6	-13%
Education Allowance in Private Sector	77	86	13%
Sub-Total	461	490	6%
OTHER SOCIAL SPENDING			
Marriage Allowance	1	2	133%
Birth Allowance	1	3	311%
Death Allowance	1	1	-18%
Other Social Spending Allowance	5	10	100%
Participation in Several Pension Funds	6	13	127%
Ministry of Social Affairs, <i>of which</i> :	23	35	52%
<i>Transfers to Non Profitable Organizations</i>	22	34	55%
Ministry of Displaced	2	3	14%
Transfers to Employees' Cooperative	70	90	100%
End of Service and Pensions	451	537	19%
National Social Security Fund	230	0	-100%
Sub-Total	790	692	-12%
Grand-Total	1,461	1,487	2%

Source: MOF, DGF

Spending on social services covers the basic social services of a) education, b) health, c) pension and end-of-service indemnity, d) transfers to the National Social Security Fund (NSSF) and e) other areas of interventions classified as social assistance. The period January-June 2008 reported a higher level of spending on social services relative to the same period of 2007, by LL 26 billion, or 2 percent. This increase was majorly a result of increase in health spending by LL 95 billion and increase in education spending by LL 29 billion. Against those increases, lower spending on National Social Security Fund was recorded during this period by around LL 230 billion, of which LL 220 billion are the State's contribution to NSSF and LL 10 billion are contributions of public employees covered by NSSF. This rise of 100 percent is mainly attributed to increase in hospitalization in the private sector. Furthermore, end of service and pensions witnessed an LL 86 billion increase during the period January-June 2008 from LL 451 billion to LL 537 billion (see page 11 for details).

In total, social spending constituted 21 percent of total spending. Of those, spending on education represented 33 percent of social spending, covering mainly the Ministry of Education and Higher Education, including the contribution to the salaries of the Lebanese University's personnel. Pension and end of service constituted 36 percent and spending on health 21 percent.

Section IV: Public Debt Developments

Financing requirements

Total net financing requirements were largely financed through treasury bills issuances and to a lower extent through additional disbursements of loans. The increase in the stock of bilateral loans is explained by the disbursement of the first tranche of the Paris III French loan in February 2008 amounting to € 150 million. The overall increase of multilateral loans is due to the reflection of EPCA I loan in the Treasury accounts. The oversubscription trend witnessed in the LL Treasury Bills auction in the first quarter of 2008 continued during the second quarter of 2008 with surpluses reflected in the build up of treasury accounts. The overall stock of treasury accounts increased by LL 1,243 billion during the period January-June 2008.

Table 12: Financing table for Jan-June 2008

(LL billion)	2008
	Jan-Jun
Overall balance from the financing side¹⁹	-2,127
Total Net Financing	2,127
LL treasury bills ^{2/}	3,220
Eurobonds 1/	-145
Bilateral Loans 1/	242
Multilateral Loans 1/	70
Private sector loans 1/	-18
Change in treasury accounts (-/increase +/decrease)	-1,243

Source: Ministry of Finance (MOF), Directorate General of Finance (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".

¹⁹ 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 1 (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.

Gross Public debt as of end-June 2008 amounted to 67,060 billion (US\$ 44.5 billion), a 5.83 percent increase compared to gross public debt end-December 2007. The increase in gross public debt was due to a LL 3,299 billion increase in domestic currency debt and a LL 397 billion increase in foreign currency debt.

By end-June 2008, **net public debt stood at** LL 60,909 billion (US\$ 40.4 billion), registering an increase of LL 2,072 billion over the end-December 2007 level.

Table 13: Public Debt Outstanding as of end-June 2008

(LL billion)	Dec-05	Dec-06	Dec-07	Jun-08	% Change Dec 07- Jun 08
Gross Public debt	57,985	60,851	63,364	67,060	5.83%
Net debt	52,395	56,407	58,837	60,909	3.52%
Gross Market debt ⁽¹⁾	34,721	38,670	39,221	42,635	8.71%

Source: Ministry of Finance, Banque du Liban

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

Local currency debt increased by 10.52 percent in the first half of 2008 to stand at LL 34,672 billion by end-June 2008.

By holder, commercial banks saw their domestic currency debt holdings increase the most with 19.04 percent higher holdings by end-June 2008 compared to end-December 2007. This was led by a 19.11 percent increase in their T-bill portfolio and mainly due to subscriptions to the 36-month bonds.

The Central Bank's stock of local currency debt increased by LL 2 billion in the first half of 2008 as a result of a LL 31 billion higher stock of treasury bills, and LL 29 billion less loans to public entities.

As a percentage of total subscriptions of treasury bills and notes in the second quarter of 2008, commercial banks subscribed to 81 percent, followed by public institutions at 16 percent, with the BDL at 1 percent. Cumulatively for the first half of 2008, commercial banks subscribed to 55 percent of total subscriptions in H1 2008, with 33 percent subscribed by the BDL and 10 percent by public institutions.

By instrument, the domestic currency debt stock mainly increased due to higher holdings of long term bonds by LL 4,336 billion by the end of the first half of 2008, in contrast to a LL 1,009 billion reduction in the stock of short term bills in the same period.

As in QI 2008, 36-month notes continued to be the most demanded security increasing by LL 4,576 billion since end-December 2007. Subscriptions of 36 month notes accounted for 80 percent of subscriptions in QII 2008, or 83 percent of subscriptions for the first half of 2008. This was followed by subscriptions of 24 month notes at 11 percent of QII 2008 subscriptions (or 6 percent for H1 2008), followed by the 6 month treasury bill category at 7 percent of subscriptions in QII 2008 (9 percent for H1 2008).

Table 14: Domestic Currency Debt by Holder and Instrument as of end-June 2008

(LL billion)	Dec-05	Dec-06	Dec-07	Jun-08	% Change Dec 07- Jun 08
Local currency debt	29,141	30,204	31,373	34,672	10.52%
A. By Holder					
1. Central Bank (including REPOs and Loans to EDL to finance fuel purchases) ⁽¹⁾	11,686	9,588	9,052	9,054	0.02%
2. Commercial Banks	14,130	16,487	16,847	20,055	19.04%
3. Other Local Currency Debt (T-bills)	3,325	4,129	5,474	5,563	1.63%
<i>o/w Public entities</i>	<i>2,446</i>	<i>3,313</i>	<i>4,796</i>	<i>4,773</i>	<i>-0.48%</i>
*Accrued interest included in debt	517	685	754	861	14.19%
B. By Instrument					
1. Long term bonds	23,384	26,862	28,617	32,953	15.15%
1.1 60 months bonds	1,772	2,172	3,699	3,699	0.00%
1.2 54 months bonds	616	616	616	0	-100.00%
1.3 48months bonds	633	633	633	633	0.00%
1.4 36 months bonds	14,520	21,093	21,051	25,627	21.74%
1.5 30 months bonds	3,033	0	0	0	-
1.6 24 months bonds	2,385	1,751	1,927	2,167	12.45%
1.7 Coupon interest	425	597	691	827	19.68%
2. Short term bills *	5,246	2,839	2,288	1,279	-44.10%
2.1 12 months bills	3,023	1,579	529	416	-21.36%
2.2 06 months bills	2,067	1,117	1,750	856	-51.09%
2.3 03 months bills	156	143	9	7	-22.22%
* Accrued interest included	92	88	63	34	-46.03%
3. Other local debt	511	503	468	440	-5.98%
3.1 Central Bank Loans	453	445	405	376	-7.16%
3.2 Commercial Banks Loans	58	58	63	64	1.59%

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.

Table 15. Evolution of Primary Market Treasury Bills Yields

Maturity	Dec. 31, 2005	Dec. 31, 2006	Dec. 31, 2007	Jun. 30, 2008
3-month	5.22 percent	5.22 percent	5.22 percent	5.22 percent
6-month	7.24 percent	7.24 percent	7.24 percent	7.22 percent
12-month	7.75 percent	7.75 percent	7.75 percent	7.75 percent
24-month	8.50 percent	8.50 percent	8.50 percent	8.46 percent
36-month	9.34 percent	9.32 percent	9.32 percent	9.26 percent

Source: Ministry of Finance

Primary market interest rates were stable and equal to the December 2007 rates until the second week of June when a gradual decrease in rates was first witnessed. By the end of June 2008, the most pronounced decreased was the rate on 36 month notes which decreased by 6 bps, followed by a reduction in rates on 24-month notes by 4 bps. The gradual reduction in interest rates is a reflection of the increased demand for Treasury Bills, and notably the 36 month notes.

As of June 26th, the five standard instruments started to be auctioned every week, with the 3-month, 6-month and 12-month T-bills auctioned every Monday, and the 24-month and 36-month notes auctioned every Tuesday to respond to market appetite. Previously, the 3 and 6 month treasury bills were issued on alternate Mondays, with the 24 and 36 month notes issued on the other alternative Mondays, and the 12 month instrument was auctioned on alternate Saturdays.

Table 16: Foreign Currency Debt by Holder and Instrument as of end-June 2008

(LL billion)	Dec-05	Dec-06	Dec-07	Jun-08	Change Year-to-date	% Change Year-to-date
Foreign currency debt⁽¹⁾	28,844	30,647	31,991	32,388	397	1.24%
4. Eurobonds	24,743	26,441	27,099	27,006	-93	-0.34%
Of which, Paris II at preferential rates ⁽²⁾	5,608	5,608	5,156	4,966	-190	-3.68%
Of which, Paris III at preferential rates ⁽³⁾	0	0	754	754	0	0.00%
* Accrued Interest on Eurobonds	406	434	410	370	-40	-9.76%
5. Loans	3,682	3,787	4,473	4,963	490	10.95%
5.1 Paris II loans	893	932	907	904	-3	-0.33%
5.2 Paris III loans ⁽⁴⁾	0	0	603	1,076	473	78.45%
5.3 Bilateral loans (non-Paris II and III)	703	714	763	770	7	0.92%
5.4 Multilateral loans (non-Paris II and III)	1,928	2,026	2,113	2,141	28	1.32%
5.5 Foreign Private Sector Loans	158	115	87	72	-15	-17.24%
6. Other debt	419	419	419	419	0	0.00%
6.1 Special Tbls in Foreign currency ⁽⁵⁾	419	419	419	419	0	0.00%

Source: Ministry of Finance, Banque du Liban

Notes:

⁽¹⁾ Figures for Dec 05 - Dec 07 may differ from previously published data due to updated information regarding bilateral and multilateral loans in DMFAS

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

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

By end-June 2008, **foreign currency debt** totaled the equivalent of LL 32,388 billion, a 1.27 percent increase from the end-year level of 2007. Of this increase, LL 284 is due to exchange rate fluctuations since end-December 2007, of which LL 128 billion is due to valuation changes of multilateral, bilateral (excluding Paris II AFD loan) and foreign sector loans.

The Eurobond portfolio stood at LL 27,006 billion by end-June 2008, reflecting a LL 93 billion reduced stock of Eurobonds compared to end-year 2007. The decrease reflects a reduced stock of Eurobonds issued in the context of the Paris II conference. In contrast, valuation changes accounted for a LL 92 billion increase in the Eurobond portfolio.

In QII 2008, the Lebanese Republic issued a 6-year Eurobond with a coupon rate of 9.00 percent with a value of US\$ 881.612 million. The issue was a result of a voluntary debt exchange offer for the 7.000 percent notes due May 2008, 7.375 percent notes due June 2008, and 10.125 percent notes due August 2008, which settled on May 2nd, 2008. The aggregate participation rate for the offer was 58.53 percent; and ii) the issuance of new notes worth US\$ 150 million which settled on May 12th, 2008. The proceeds of the transactions were used for refinancing purposes.

Table 17. Eurobond Price Performance

<i>Lebanese Issues</i>	<i>Bid Yield (%)</i>								
	<i>14-Apr-08</i>	<i>29-Apr-08</i>	<i>7-May-08</i>	<i>16-May-08</i>	<i>22-May-08</i>	<i>29-May-08</i>	<i>4-Jun-08</i>	<i>12-Jun-08</i>	<i>27-Jun-08</i>
<i>EURO</i>									
LEB 7.250 09	9.76	7.5	7.51	7.52	7.24	7.23	7.22	7.21	7.19
LEB 5.875 12	9.1	9.64	9.65	9.89	9.38	9.31	9.24	9.25	9.46
<i>US Dollars</i>									
LEB 7.375 08	6.79	8.1	8.33	8.83	7.14	7.14	7.13	7.12	N/A
LEB 10.125 08	7.2	7.03	6.68	6.35	7.21	7	6.65	6.19	N/A
LEB 10.250 09	7.03	7.7	7.65	8.47	7.57	7.44	7.31	7.37	7.27
LEB FRN 09	8.1	8.54	8.52	8.64	7.74	7.94	7.59	7.97	7.71
LEB 7.000 09	8.31	8.17	8.19	8.47	7.7	7.53	7.44	7.72	7.74
LEB 7.125 10	8.29	8.16	8.17	8.65	8.35	8.2	7.9	8.07	8.09
LEB 7.875 11	8.62	8.54	8.54	8.65	8.26	8.16	8.07	8.16	8.17
LEB 4.000 17 Av									
Life	9.77	9.38	9.41	9.61	9.46	9.31	9.05	9.07	8.82
LEB 7.750 12	8.65	8.66	8.66	8.81	8.45	8.38	8.31	8.39	8.39
LEB 9.125 13	8.9	8.81	8.73	9.12	8.75	8.47	8.31	8.31	8.21
LEB 8.625 13	8.93	8.73	8.81	9.12	8.6	8.56	8.44	8.44	8.34
LEB 7.375 14	9.02	8.91	8.92	9.28	8.93	8.79	8.7	8.71	8.48
LEB 9.000 14		8.836	8.86	9.16	8.72	8.67	8.48	8.47	8.44
LIEB 10.000 15	9.12	9.11	9.11	9.11	8.98	8.94	8.86	8.86	8.85
LEB 8.500 16	9.14	9.04	9.00	9.19	9	8.77	8.77	8.68	8.68
LEB 11.625 16	9.17	9.13	9.12	9.28	9.11	9.07	8.78	8.77	8.76
LEB 8.250 21	9.25	9.18	9.18	9.33	9.12	8.87	8.84	8.84	8.77

Source: Credit Suisse

Secondary market yields on US\$ denominated Eurobonds decreased by an average of 51 basis points over the 2nd quarter of 2008.²⁰

²⁰ Calculated from April 14th 2008 to Jun 27th (excluding the following bonds due to data unavailability for either of the end periods: LEB 7.375 08, LEB 10.125 08 and LEB 9.000 14).



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