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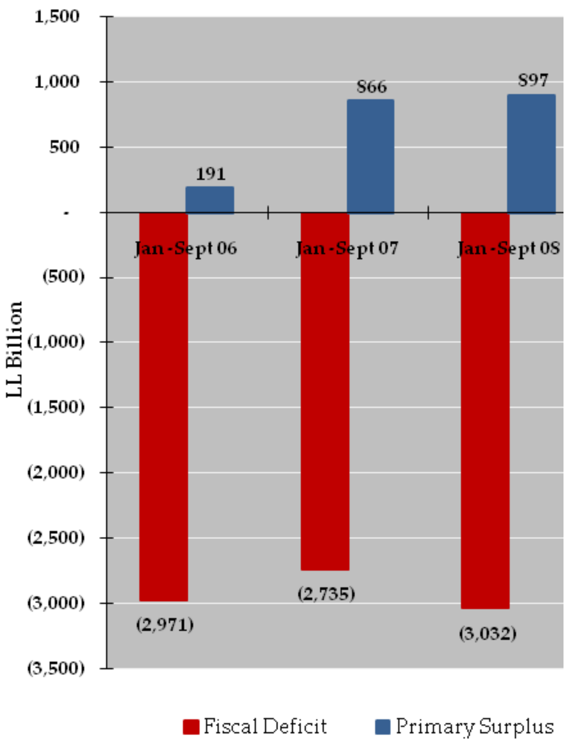
General Fiscal Developments

The fiscal deficit in the first nine months of 2008 totalled LL 3,032 billion, 11 percent larger than the deficit recorded for the same period in 2007. However, the primary surplus improved by about 4 percent, from LL 866 billion in January-September 2007 to LL 897 billion in January-September 2008. (Section 1).

Fiscal and Primary Balance
January – September 2006 -2008



Revenues

At LL 7,613 billion in January-September 2008, revenues were higher than those collected in the same period of 2007 by 16 percent, mainly as a result of 24 percent higher tax revenues. (Section 2).

Expenditures

Public expenditures, at LL 10,645 billion during the first nine months of 2008, increased by 14.5 percent compared to January-September 2007. Higher current expenditures by 8 percent and higher treasury expenditures by 46 percent contributed to this result. (Section 3).

Public Debt Developments

As of end-September 2008, the stock of debt totalled LL 68,811 billion, registering an increase of 8.6 percent from the end-December 2007 level. Net debt stood at LL 61,600 billion at the end of the first nine months of 2008, an increase of 4.7 percent against the end-2007 level. (Section 4).

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Section I: Fiscal Overview

Table 1: Summary of Fiscal Performance

(LL billion)	2006 Jan-Sep	2007 Jan-Sep	2008 Jan-Sep	% Change 2008/2007
Total Budget and Treasury Receipts	**5,408**	**6,563**	**7,613**	**16.0%**
Total Budget and Treasury Payments, *of which*	**8,380**	**9,298**	**10,645**	**14.5%**
• *Interest Payments*	*3,018*	*3,432*	*3,648*	*6.3%*
• *Concessional Loans Principal Payments 1/*	*144*	*168*	*282*	*67.6%*
• *Primary Expenditures 2/*	*5,217*	*5,697*	*6,715*	*17.9%*
Total Deficit/Surplus	**-2,971**	**-2,735**	**-3,032**	**10.9%**
Primary Deficit/Surplus	**191**	**866**	**897**	**3.7%**

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 nine months of 2008 saw a **fiscal deficit** of LL 3,032 billion, a 10.9 percent increase from the LL 2,735 billion deficit posted during the same period of 2007. This result stemmed from higher total payments of LL 1,347 billion compared to incremental total receipts of LL 1,050 billion in this period.

The **primary surplus** registered a 3.7 percent improvement in the first nine months of 2008, at LL 897 billion, compared to LL 866 billion in the same period of 2007.

Section II: Revenue Outcome

Total revenues for the first three quarters of 2008 cumulated at **LL 7,613 billion**, 16 percent higher than the LL 6,563 billion collected during the first three quarters of 2007; stemming mainly from taxes.

Table 2: Total Revenues

(LL billion)	2007 September	2008 September	2007 Jan-Sep	2008 Jan-Sep	% Change
Budget Revenues, *of which:*	**526**	**804**	**6,037**	**7,034**	**16.5%**
• *Tax Revenues*	*357*	*483*	*4,165*	*5,179*	*24.3%*
• *Non-Tax Revenues*	*168*	*321*	*1,872*	*1,855*	*-0.9%*
Treasury Receipts	**56**	**32**	**526**	**579**	**10.0%**
Total Revenues	**582**	**836**	**6,563**	**7,613**	**16.0%**

Source: Ministry of Finance (MOF), Directorate General of Finance (DGF)
NB: Tax and non-tax revenues for Jan-Sep 2008 differ slightly from previously published data due to a misclassification of National Lottery receipts into income taxes

Within the LL 7,034 billion budget revenues collected by end-September 2008**,** **tax revenues** registered a 24 percent rise, suggesting high nominal growth for 2008 (especially that no new tax measures were implemented throughout this period), continuation of the reform process that entails improving and simplifying the filing and payment processes (through increased automation and improved information systems), and enhancement of taxpayers' services (through e-filing, payment in banks, and filing through the post). These factors resulted in further enlargement of the tax base and a further increase in tax compliance. In addition, the amnesty on penalties that has been granted to taxpayers throughout the last couple of years also contributed to the improvement of taxpayers' compliance and therefore a rise in collection.

In fact, the LL 1,014 billion of additional tax revenues in the first three quarters of 2008 stem mainly from income taxes on profits, real estate registration fees, car import taxation and VAT, as shown in the table below.

Table 3: Tax Revenues

(LL billion)	2007 September	2008 September	2007 Jan-Sep	2008 Jan-Sep	% Change
Taxes on Income, Profits, & Capital Gains, *of which*:	**52**	**51**	**1,055**	**1,266**	**20%**
• *Income Tax on Profits*	*13*	*7*	*453*	*567*	*25.2%*
• *Income Tax on Wages and Salaries*	*3*	*4*	*162*	*201*	*23.7%*
• *Income Tax on Capital Gains & Dividends*	*5*	*5*	*119*	*133*	*12.3%*
• *Tax on Interest Income (5%)*	*29*	*35*	*313*	*354*	*13.3%*
• *Penalties on Income Tax*	*2*	*1*	*7*	*10*	*33.6%*
Taxes on Property, *of which:*	**39**	**69**	**357**	**555**	**55.3%**
• *Built Property Tax*	*8*	*7*	*86*	*89*	*3.6%*
• *Real Estate Registration Fees*	*28*	*59*	*233*	*410*	*76.1%*
Domestic Taxes on Goods & Services, *of which:*	**147**	**197**	**1,614**	**2,071**	**28.4%**
• *Value Added Tax*	*124*	*168*	*1,453*	*1,861*	*28.1%*
• *Other Taxes on Goods and Services, of which:*	*23*	*28*	*155*	*204*	*31.1%*
- *Private Car Registration Fees*	*11*	*18*	*95*	*140*	*47.2%*
- *Passenger Departure Tax*	*11*	*10*	*60*	*63*	*5.7%*
Taxes on International Trade, *of which:*	**101**	**140**	**938**	**1,038**	**10.7%**
• *Customs*	*45*	*62*	*409*	*495*	*21.1%*
• *Excises, of which:*	*56*	*77*	*529*	*543*	*2.6%*
- *Petroleum Tax*	*14*	*0*	*172*	*5*	*-97.0%*
- *Tobacco Tax*	*15*	*19*	*158*	*175*	*11.3%*
- *Tax on Cars*	*26*	*58*	*197*	*359*	*82.6%*
Other Tax Revenues (namely fiscal stamp fees)	**18**	**27**	**201**	**248**	**23.6%**
Total Tax Revenues	**357**	**483**	**4,165**	**5,179**	**24%**

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

The bulk of the LL 211 billion of additional receipts from **taxes on income, profits and capital gains**, which collected a total of LL 1,266 billion in January-September 2008, stems from the income tax on profits component, which collected LL 567 billion by end-September 2008, LL 114 billion above the collection level of January-September 2007, noting that these are tax dues on profits realized in 2007.

The second largest component of taxes on income, after the profit tax, is the tax on interest income (5%), which collected LL 354 billion by the end-September 2008, 13 percent higher collection than the receipts in the first three quarters of 2007. This mirrors the 14.4 percent higher M5 (broad money) in January-September 2008 compared to the M5 level of January-September 2007. From a currency perspective, the rise in receipts is explained by the 21 percent increase in tax collected on interest earnings on Lebanese Pounds, compared to 6 percent higher receipts on foreign currencies. This reflects the de-dollarization trend witnessed throughout the first three quarters of 2008 with a 4.5 percentage points drop in the dollarization rate, which stood at 71.97 percent at the end of September 2008. From a distribution by institution perspective, the amount of the tax transferred by BDL due to interest earned on T-bills was, as shown in the following table, around 34 percent higher than that of the first three quarters of 2007.

Table 4: Tax on interest income

(LL million)	2007 Jan-Sep	2008 Jan-Sep
By Institution/instrument	**313,768**	**357,436**
• *Commercial* banks	208,853	217,363
• *BDL*	103,746	138,903
• Tax on US$ Treasury Bills	1,169	1,170
By Currency	**313,768**	**357,436**
• *Lebanese Pounds*	159,025	192,898
• *Foreign currencies (US$, Euro)*	154,743	164,538

Source: MOF- Treasury Department

The most striking development with respect to **taxes on property** in the first three quarters of 2008 was the 76 percent rise in property registration fees, which reached LL 410 billion by the end of September 2008. This result reflects the enhanced activity in the real estate market witnessed recently in the country. In fact, after the July 2006 war, revenues from real estate declined until approximately mid-2007, when the trend was reversed and a persistent increase has been registered since. The rise in property registration fees in January-September 2008 compared to the equivalent period in 2007 is explained, first and foremost, by a hike in real estate values (68 percent rise in the average value of a property) and, second, by a higher volume of sales transactions (8 percent rise in the number of registered properties). These figures are illustrated in the table below.

Table 5: Property Registration Statistics

	2007 Jan-Sep	2008 Jan-Sep	% Change
Number of Transactions	111,152	120,175	8.12%
Number of Properties registered in Cadastre	179,161	193,768	8.15%
Declared Aggregate Values in Sales Contracts (LL million)	3,739,248	6,784,203	81.43%
Average Value per Property (LL million)	20.87	35.01	67.76%

Source: MOF-Cadastre

Total revenues from **domestic taxes on goods and services** totalled LL 2,071 billion by the end of September 2008, a rise of 28 percent, explained by LL 408 billion additional VAT revenues. In fact, VAT collected LL 1,861 billion during the first nine months of 2008, of which LL 1,401 billion VAT collected from the imports of merchandise and LL 460 billion from domestic business activity. Import VAT collection registered a 33 percent increase in January-September 2008, which is explained by 39 percent increase in imports during this period compared to 2007[1], and VAT collected from internal business activity registered 15 percent yearly growth[2], which hints at a substantial nominal growth in the economy.

Other taxes on goods and services collected LL 204 billion in January-September 2008, 31 percent higher receipts than the collection in January-September 2007, largely attributed to a 47 percent rise in *private car registration fees*. In fact, the year 2008 witnessed an exceptional growth in the car market as evidenced by the import statistics. *Passenger departure tax* (the third largest component of domestic taxes on goods and services after the VAT and the car registration fees) collected LL 63 billion, a rise of 6 percent, on account of around 18 percent higher flow of passengers at the Beirut International Airport. The enhanced airport activity is explained by the 28 percent increase in the number of tourists, totalling 983,585 in the first nine months of 2008, compared to 766,680 in January-September 2007.

Taxes on international trade (custom duties and excises) generated LL 1,038 billion by end-September 2008, a figure that is 11 percent higher than that of the first nine months of 2007. This increase is explained by the following two factors:

1- Customs duties for January-September 2008 collected LL 495 billion, a 21 percent increase in receipts compared to customs duties collected during the same period of 2007. It is noted that this rise was achieved despite a drop in the effective customs rate, which stood at 2.8 percent for January-September 2008 (3.7 percent for non-fuel imports), compared to 3.2 percent in January-September 2007 (4 percent for non-fuel imports). This performance may be explained by (i) the fact that the increase in imports stems mainly from products with low or no tariffs, and/or by (ii) the fact that in May 2008, following the hike in international commodity prices and as a response to the inflationary pressures, the Government of Lebanon reduced tariff rates on basic food items as per Decree 1443 dated May 24th 2008, in order to alleviate the burden on poor households. The increase in customs receipts was the result of a 39 percent increase in imports[3].

   In fact, total imports for January-September 2008 were LL 17,855 billion, of which LL 4,554 billion of minerals and fuel derivatives, compared to imports of LL 12,820 billion for the same period of 2007, of which LL 2,718 billion of minerals and fuel derivatives. In other words, the rise in total imports is largely attributed to the rise in oil imports. On the other hand, non-oil imports totalled LL 13,301 billion by end-September 2008, compared to LL 10,102 billion worth of non-oil imports in January-September 2007, which is equivalent to a 32 percent increase.

   The most notable developments concerning import distribution by product, throughout the first three quarters of the year, are the following:

   (i) imports of *mineral fuels and oils* increased by 68 percent, with the share of imports rising from 21.2 percent to 25.5 percent, explained to a large extent by the hike in international oil prices

[1] The rise in import VAT is lower than the rise in imports, because of the exemption of some goods. Specifically, around 6 percent of the increase in total imports in January-September 2008 pertains to exempted goods, namely cereals and pharmaceutical products (please refer to Table 6 on Imports).

[2] If we adjust the amount of VAT collected internally in January-September 2007 and net out the LL 20 billion pertaining to the year 2006, as per Decision number 826 dated September 14, 2006 which postponed the declaration deadline for the second quarter of 2006 and granted taxpayers the possibility of settling their tax obligations in four installments of which 2 installments in 2007 (February, March), then the actual year-on-year growth in 2008 becomes 21 percent.

[3] The rise in customs duties may not be commensurate with the increase in imports because tariffs are not always levied on ad-valorem basis, some products are subject to specific duties (LL rate per volume), and part of the increase in imports is nominal (namely for fuel imports and import of cereals).

(ii) the most striking development is the 71 percent increase in *imports of vehicles* (the share of imports rising from 7.8 percent to 9.6 percent); this is somehow explained by the credit facilities offered by banks and car dealers

(iii) imports of *iron and steel* rose by 75 percent, improving the share from 4.6 percent of imports to 5.8 percent of imports; this may be explained by the increased activity in the construction sector witnessed recently

(iv) the import of *cereals* increased by 81 percent, raising the share from 1.6 percent of imports to 2.1 percent of imports, largely explained by the hike in international commodity prices

Table 6: Import Distribution by Products (US$ millions)

Product		2008 Jan-Sep	% Share	2007 Jan-Sep	% Share	% Change
1.	Mineral fuels and oils	3,021	25.5%	1,803	21.2%	67.5%
2.	Vehicles other than railway	1,138	9.6%	667	7.8%	70.6%
3.	Reactors, boilers, machinery & mechanical appliances	695	5.9%	616	7.2%	12.9%
4.	Iron and steel	682	5.8%	389	4.6%	75.3%
5.	Natural or cultured pearl	548	4.6%	382	4.5%	43.5%
6.	Pharmaceutical products	545	4.6%	464	5.5%	17.5%
7.	Electrical machinery & equipment	513	4.3%	405	4.8%	26.7%
8.	Plastics and articles thereof	378	3.2%	282	3.3%	33.9%
9.	Articles of apparel and clothing	257	2.2%	207	2.4%	23.8%
10.	Cereals	248	2.1%	137	1.6%	80.9%
11.	Other	3,821	32.3%	3,153	37.1%	21.2%
Total Imports		**11,844**	**100.0%**	**8,504**	**100.0%**	**39.3%**

Source: MOF, DGC

2- Excise revenues for January-September 2008 totalled LL 543 billion, only 3 percent higher than the collection in January-September 2007 at LL 529 billion. This is explained by a 97 percent drop in gasoline excise revenues (equivalent to LL 167 billion), which were largely compensated for by the 83 percent rise in revenues from excises on cars (equivalent to LL 162 billion), and by the 11 percent rise in revenues from excise on tobacco (equivalent to LL 17 billion).

(i) *Imports of car gasoline* totalled LL 1,600 billion by the end of September 2008 compared to LL 1,074 billion by the end of September 2007, explained by (a) 43 percent rise in the effective import price, LL 1,143 per liter on average in January-September 2008 compared to LL 787 per liter on average in January-September 2007; and (b) 2.6 percent rise in volume, 1.4 billion liters of car gasoline imported in January-September 2008 compared to 1.364 billion liters in January-September 2007. It is worth noting that the average effective excise rate was around LL 120 per liter in January-September 2007 compared to LL 0 per liter for most of January-September 2008 (except for LL 5 billion collected by the Treasury in the month of February).

(ii) *Car imports* totalled LL 1,375 billion by end-September 2008, compared to LL 742 billion by end-September 2007, which reflects the 89 percent hike in the number of imported cars (67,508 cars imported in QIII 2008 compared to 35,697 in QIII 2007). Therefore, the volume increase explains the surge in revenues from car excise and car registration fees. On the other hand, the average import price per car dropped from an average of LL 20.8 million per car in January-September 2007 to LL 20.4 million per car in January-September 2008, which induced the average effective excise rate to decline from 26.4 percent in January-September 2007 to 26.1 percent in January-September 2008[4].

(iii) Tobacco imports totalled LL 173 billion in January-September 2008 compared to LL 147 in January-September 2007, equivalent to a rise of about 18 percent, to explain the 11 percent increase in tobacco excise revenues. This increase in imports results from 36 percent higher net tons of tobacco imported. On the other hand, the average price per kilogram of tobacco dropped by 11 percent, reducing the average effective excise rate from approximately 108 percent in January-September 2007 to 101 percent in January-September 2008. Therefore, the rise in excise revenues is a volume effect.

Other tax revenues, namely fiscal stamp duties, collected LL 248 billion during January-September 2008, 24 percent higher than those of the same period of 2007. This increase is explained by the increased economic activity and the higher volume of transactions, most of which are subject to stamp fees.

Non-tax revenues were LL 1,855 billion by end-September 2008, nearly 1 percent below the LL 1,872 billion level collected by end-September 2007. This setback in collection was caused by a drop in income from public institutions and government properties, namely LL 30 billion lower transfer from the budget surplus of the Telecom, LL 72 billion lower transfer from the BDL net profit[5], and an absence of transfer from the Port Authority. These outweighed the 171 percent increase in Casino receipts, as shown in the following table.

Table 7: Non-Tax Revenue

(LL billion)	2007 September	2008 September	2007 Jan-Sep	2008 Jan-Sep	% Change
Income from Public Institutions and Government Properties, *of which*:	**129**	**277**	**1,503**	**1,447**	**-3.7%**
• Income from Non-Financial Public Enterprises, *of which*:	127	275	1,357	1,336	-1.5%
- *Revenues from Casino Du Liban*	*7*	*11*	*45*	*123*	*171.2%*
- *Revenues from Port of Beirut*	*0*	*0*	*30*	*0*	*-99.6%*
- *Budget Surplus of National Lottery*	*4*	*0*	*44*	*37*	*-15.9%*
- *Transfer from the Telecom Surplus*	*115*	*263*	*1,237*	*1,207*	*-2.4%*
• Income from Financial Public Enterprises	0	0	113	41	-63.9%
• Property Income (namely rent of Rafic Hariri International Airport)	2	2	29	32	9.9%
• Other Income from Public Institutions (interests)	1	0	4	7	54.0%
Administrative Fees & Charges, *of which:*	**30**	**36**	**305**	**331**	**8.4%**
• Administrative Fees, *of which*:	25	31	245	270	10.2%
- *Notary Fees*	*2*	*2*	*15*	*17*	*13.4%*
- *Passport Fees/ Public Security*	*9*	*9*	*88*	*91*	*4.3%*
- *Vehicle Control Fees*	*10*	*13*	*100*	*113*	*12.9%*
- *Judicial Fees*	*1*	*2*	*14*	*16*	*13.7%*
- *Driving License Fees*	*1*	*2*	*12*	*14*	*11.4%*
• Administrative Charges	1	0	13	13	-0.9%
• Sales (Official Gazette and License Number)	0	0	2	2	12.1%
• Permit Fees (mostly work permit fees)	4	4	36	39	9.3%
• Other Administrative Fees and Charges	1	1	9	6	-32.0%
Penalties and Confiscations	**0**	**1**	**4**	**4**	**6.1%**
Other Non-Tax Revenues (mostly retirement deductibles)	**9**	**7**	**60**	**73**	**22.0%**
Non-Tax Revenues	**168**	**321**	**1,872**	**1,855**	**-0.9%**

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

[4] The excise on cars has the following structure: a flat fee of LL 4.5 million per car, and an ad-valorem rate of 15 percent or 45 percent depending on used versus new car, and depending on car value below or above LL 20 million.
[5] This is as per the Article 113 of the Code of Money and Credit.

Casino receipts totaled LL 123 billion by end-September 2008, of which LL 42 billion were received in March 2008 representing the first installment of the LL 83 billion settlement amount agreed upon with the Casino Management[6]. The remaining LL 81 billion collected by end-September 2008 represent an 80 percent rise in receipts compared to receipts in January-September 2007, owing to the full fledged implementation of the 40 percent revenue sharing[7] arrangement with Casino Management in lieu of the 30 percent prevailing prior to 2007, the more encompassing revenue sharing base (please refer to footnote 6), and the increased tourism reflected in the 28 percent rise in the number of tourists by September 2008.

Administrative fees and charges collected a total of LL 331 billion by end-September 2008, 8 percent higher collection, owing to 13 percent rise in *vehicle control fees*, which cumulated to LL 113 billion by the end of September 2008.

Other Non-Tax Revenues (which are mostly Retirement Deductibles) reached LL 73 billion by the end of September 2008, representing a rise of 22 percent compared to the same period in 2007, which may be attributed to either new recruits or higher wages and salaries (as per Law #63).

Treasury Revenues for the period ending September 2008 totaled LL 579 billion, compared to LL 526 billion by end-September 2007. Of total Treasury receipts in January-September 2008, around LL 168 billion were grants received from Paris III Donors (LL 165 billion of which from USA used to redeem IBRD loans, and LL 3 billion from Iraq allocated to Iraqi refugees) compared to LL 152 billion grants (of which LL 151 billion from Saudi Arabia for budget support) received in January-September 2007. It is worth noting that under "other Treasury revenues" an amount equal to LL 53 billion were refunds from the wheat subsidy scheme.

[6] 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. The new amendment to the contract, which was signed in February 2008, stipulates 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 four yearly installments starting 2008.

[7] The Paris III economic reform program, presented on January 25th 2007 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.

Section III: Expenditure Outcome

Table 8: Summary of Expenditure Items

(LL billion)	2006 Jan-Sep	2007 Jan-Sep	2008 Jan-Sep	% Change 2008/2007
Interest Payments	3,018	3,432	3,647	6.3%
Concessional Loans Principal Payments 1/	144	168	282	67.6%
Total Primary Expenditures 2/	5,214	5,697	6,715	17.9%
Total Budget and Treasury Payments	**8,377**	**9,298**	**10,645**	**14.5%**

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 nine months of 2008 reached LL 10,645 billion, 14.5 percent higher than expenditures in the same period of 2007. According to economic classification, the LL 1,347 billion increase was due to:

a) An increase in **treasury expenditures** by LL 781 billion, of which (i) LL 551 billion constituted higher spending to cover the escalating deficit of the loss-making electricity company EDL, (ii) LL 93 billion represented more transfers to municipalities, (iii) LL 56 billion stood for larger VAT refund, and (iv) LL 19 billion corresponded to higher diesel oil subsidy. These four items offset the decreases in deposits (LL 10 billion) and in transfers to High Relief Committee (LL 7 billion);

b) An increase in **current expenditures** by LL 591 billion, of which LL 181 billion were due to higher personnel costs, LL 215 billion to a larger interest bill, LL 114 billion to increased concessional loan principal repayments, and LL 90 billion to higher 'other current expenditures' (mainly hospitalization in the private sector, which was up by LL 88 billion). These increases offset the LL 25 billion decrease in 'various transfers', mainly explained by LL 180 billion lower transfers to NSSF.

Total Primary Expenditures amounted to LL 6,715 billion in the first nine months of 2008 compared to LL 5,697 billion registered in the same period of 2007, i.e. an increase of 17.9 percent.

Table 9: Expenditures by Economic Classification

(LL billion)	2006 Jan-Sep	2007 Jan-Sep	2008 Jan-Sep	% Change 2008/2007
1. Current expenditures	**6,284**	**7,182**	**7,773**	**8.2%**
1.a Personnel cost, *of which:*	2,378	2,678	2,859	6.8%
• *Salaries, wages and related items (Article 13) 1/*	*1,545*	*1,849*	*1,916*	*3.6%*
• *Retirement and end of service compensations, of which:*	*686*	*668*	*796*	*19.2%*
- *Retirement*	*553*	*582*	*626*	*7.7%*
- *End of Service*	*133*	*87*	*170*	*96.5%*
• *Transfers to public institutions to cover salaries 2/*	*148*	*161*	*147*	*-8.6%*
1.b Interest payments, *of which: 3/*	3,018	3,432	3,647	6.3%
• *Domestic Interest Payments*	*1,656*	*1,965*	*2,123*	*8.1%*
• *Foreign Interest Payments*	*1,362*	*1,467*	*1,524*	*3.9%*
1.c Foreign Debt Principal Repayment	144	168	282	67.6%
1.d Materials and Supplies, of which:	87	163	165	1.3%
• *Nutrition*	*12*	*21*	*33*	*56.4%*
• *Fuel Oil*	*11*	*24*	*31*	*26.8%*
• *Medicaments*	*42*	*56*	*48*	*-14.3%*
• *Accounting Adjustments for Treasury*	*6*	*36*	*31*	*-12.4%*
1.e External Services	64	71	85	20.0%
1.f Various Transfers, *of which:*	350	458	433	-5.5%
• *National Social Security Fund*	*150*	*220*	*40*	*-81.8%*
• *Treasury Advances for Wheat Subsidy*	*0*	*13*	*142*	*100.0%*
1.g Other Current, *of which:*	182	152	242	59.2%
• *Hospitals*	*159*	*122*	*210*	*72.1%*
• *Others*	*23*	*27*	*30*	*10.9%*
1.h Reserves, *of which:*	59	61	61	-0.3%
• *Interest Subsidy*	*59*	*61*	*61*	*-0.3%*
2. Capital Expenditures	**387**	**401**	**378**	**-5.7%**
2.a Acquisitions of Land, Buildings, for the Construction of Roads, Ports, Airports, and Water Networks	11	16	7	-59.3%
2.b Equipment	15	32	26	-20.6%
2.c Construction in Progress, *of/which:*	298	291	258	-11.2%
• *Displaced Fund*	*55*	*41*	*30*	*-28.4%*
• *Council of the South*	*30*	*30*	*20*	*-33.3%*
• *CDR*	*177*	*164*	*159*	*-3.1%*
• *Ministry of Public Work and Transport*	*17*	*30*	*24*	*-17.5%*
• *Other*	*19*	*26*	*26*	*-3.0%*
2.d Maintenance	34	38	52	37.5%
2.e Other Expenditures Related to Fixed Capital Assets	29	23	35	51.2%
3. Other Treasury Expenditures	**1,682**	**1,681**	**2,462**	**46.4%**
3.a Municipalities	337	194	287	47.7%
3.b Guarantees	81	37	44	17.2%
3.c Deposits, *of which:*	35	66	57	-14.5%
• *National Social Security Fund*	*0*	*10*	*0*	*-100%*
3.d Other, *of which:*	283	244	366	49.7%
• *VAT refund*	*86*	*132*	*188*	*42.4%*
• *High Relief Council*	*98*	*16*	*9*	*-42.5%*
3.e EDL 4/	895	1,139	1,690	48.4%
3.f Treasury Advances for Diesel Oil Subsidy	52	0	19	100.0%
4. Unclassified Expenditures	**1**	**4**	**2**	**-45.4%**
5. Customs Cashiers	**22**	**30**	**29**	**-0.6%**
Total Expenditures (excluding CDR foreign financing)	**8,377**	**9,298**	**10,645**	**14.5%**

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, refer to table 10.
3/ For a detailed breakdown of interest payments, refer to table 11.
4/ For a detailed breakdown of transfers to EDL, refer to table 12.

Current primary expenditures[8] amounted to LL 3,844 billion in January-September 2008, which is LL 262 billion or 7.3 percent higher than in January-September 2007 when current primary expenditures registered LL 3,582 billion.

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

Personnel costs[9] amounted to LL 2,859 billion, LL 181 billion (6.8 percent) higher than the LL 2,678 billion level of January-September 2007, mainly resulting from:

a) Increase in *wages, salaries and related benefits* (Article 13) by LL 67 billion, from LL 1,849 billion to LL 1,916 billion, due to:

   i. higher total allowances by LL 78 billion, from LL 208 billion to LL 287 billion, as a result of higher payment for hospitalization by LL 51.5 billion, schooling by LL 15.3 billion and social expenditure allowances by LL 5.4 billion

   ii. higher "other salary related items" by LL 6 billion, from LL 175 billion to LL 193 billion, mainly due to higher payment to the Civil Servants Cooperative of LL 20 billion

   The increase of these two items offsets the LL 21 billion drop in basic salaries, which was mainly caused by a decrease in military personnel remuneration. (For more information on wages and salaries, please refer to Box 1).

b) Increase in *retirement and end-of-service indemnities* by LL 128 billion, from LL 668 billion in 2007 to LL 796 billion in 2008, of which LL 83 billion were due to higher end-of-service indemnities and LL 44 billion 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).

Within personnel cost, *transfers to public institutions* to cover salaries witnessed a drop of LL 14 billion from LL 161 billion to LL 147 billion. Transfers to the Lebanese University and CDR decreased by LL 4 billion and LL 10 billion respectively, as shown in the following table. The transfers to Fund for the Displaced also decreased, by LL 1 billion, whereas there was an increase of transfers to the Council of the South by LL 1 billion.

Table 10: Breakdown of Transfers to Public Institutions (Salaries)

(LL billion)	2006 Jan-Sep	2007 Jan-Sep	2008 Jan-Sep	% Change 2008/2007
Transfer to Council of the South	4	4	5	34.5%
Transfer to the Council for Development and Reconstruction	18	27	17	-38.3%
Transfer to Displaced Fund	4	5	4	-22.2%
Transfer to the Lebanese University	113	119	115	-3.2%
Transfer to Educational Center for Research and Development	10	7	7	0.0%
Total	**148**	**161**	**147**	**-8.6%**

Source: Ministry of Finance

[8] Current primary expenditures is current expenditures excluding interest payments and foreign debt principal repayment.
[9] This includes salaries, wages and related benefits (article 13), transfers, retirement and end-of-service.

Box 1. Salaries and Wages in QIII 2008

In QIII 2008, salaries and wages increased by LL 67 billion, from LL 1,849 billion to LL 1,916 billion. This item is composed of four main components: Army, Security Forces, Education and Civil Personnel.

1. Salaries and wages of the army increased from LL 682 billion in QIII 2007 to **LL 689 billion** in QIII 2008. This item represented more than one third of the total wage and salary bill in QIII 2008.

i) Basic salaries of the army amounted to LL 509 billion in QIII 2008 compared to LL 531 billion in QIII 2007. This decrease reflects the exceptional bonus salary of LL 36 billion paid to the army in February 2007. The decrease was partly offset by the LL 14 billion impact (this figure is an estimate) of the LL 200,000 raise in basic salaries approved by the Council of Ministers and paid as an advance to the army pending the issuance of the law .

ii) Allowances to the army increased from LL 119 billion to LL 148 billion, due to higher hospital allowances ,by LL 18 billion, and higher school allowances, by LL 10 billion.

2. Salaries and wages of security forces *(including Internal Security Forces (ISF), General Security and State Security Forces)* increased from LL 379 billion in QIII 2007 to **LL 429 billion** in QIII 2008, of which LL 351 billion were wages and salaries of ISF. This item made up slightly less than one-fourth of the total wage and salary bill for QIII 2008.

i. Basic salaries of security forces totalled LL 274 billion in QIII 2008, remaining at the QIII 2007 level. This stability was mainly due to the LL 10 billion impact (this figure is an estimate) of the raise in basic salaries to the Internal Security Forces, which offset the exceptional bonus salary of LL 14 billion paid in February 2007 to the security forces. The LL 10 billion estimated increase in basic salaries for the Internal Security forces resulted from the payment in September of the LL 200,000 raise in basic salaries approved by the Council of Ministers and paid as an advance pending the issuance of the law and the payment an additional LL 200,000 as retroactive since the salary and wage increase became effective on May 1, 2008 but payments started in September 2008. Internal Security Forces were the first to receive this retroactive payment in September 2008.

ii. Allowances to the security forces increased from LL 87 billion in QIII 2007 to LL 137 billion in QIII 2008. This was mostly attributed to: a LL 45 billion increase of allowances to the Internal Security Forces, of which LL 32 billion were paid for hospitalization, LL 11 billion as schooling, LL 5 billion as maternity and sickness allowances, and LL 2 billion for treatment at medical centres; and, a LL 4 billion increase of allowance to the General Security Forces and State Security Forces, of which LL 2 billion were paid for hospitalization and LL 2 billion for maternity and sickness allowances.

3. Salaries of education personnel decreased from LL 416 billion in QIII 2007 to **LL 409 billion** in QIII 2008, mainly due to a decrease in salaries, by LL 7 billion, due to LL 2 billion decrease in payments made to contractual teachers and LL 4 billion decrease in indemnities (mainly family and transportation). No allowances were paid to education personnel in QIII of 2007 and 2008.

4. Salaries of civil personnel increased from LL 360 billion in QIII 2007 to **LL 373 billion**, a LL 13 billion increase resulting from a LL 14 billion increase in payments made to Civil Servants Cooperative and a LL 3 billion increase in basic salaries, from LL 166 billion in QIII 2007 to LL 169 billion in QIII 2008, and decrease of LL 3 billion in Other (indemnities). The increase in basic salaries is due to the LL 3.8 billion impact (this figure is an estimate) of the LL 200,000 raise in basic salaries approved by the Council of Ministers and paid as an advance to the civil personnel until the law is issued.

Box 1. Salaries and Wages in QIII 2008

(LL billion)	Basic Salaries		Allowances 1/		Contribution in Mutual Funds and Cooperatives		Other 2/		Total	
	2007 Jan-Sep	2008 Jan-Sep	2007 Jan-Sep	2008 Jan-Sep	2007 Jan-Sep	2008 Jan-Sep	2007 Jan-Sep	2008 Jan-Sep	2007 Jan-Sep	2008 Jan-Sep
Military Personnel	**805**	**783**	**206**	**285**			**50**	**50**	**1,061**	**1,117**
• Army	531	509	119	148			32	32	682	689
• Internal Security Forces	219	221	72	117			13	13	305	351
• General Security Forces	41	40	11	14			3	3	55	57
• State Security Forces	14	13	5	5			2	2	20	20
Education Personnel	**378**	**376**	**0**	**0**			**37**	**33**	**416**	**409**
Civil Personnel, *of which*	**166**	**169**	**2**	**2**	**148**	**162**	**44**	**41**	**360**	**373**
• *Civil Servants Cooperative*					*130*	*144*				
Customs salaries									**12**	**15**
Total	**1,349**	**1,328**	**208**	**287**	**148**	**162**	**132**	**123**	**1,849**	**1,916**

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 centres
2/ Includes family allowance, overtime, transport and miscellaneous indemnities

Interest payments amounted to LL 3,647 billion in January-September 2008, an increase of LL 215 billion compared to the same period in 2007. The increase reflects higher interest payments by LL 158 billion on domestic currency debt and by LL 57 billion on foreign currency debt.

The rise in *interest payments on local currency debt* is the result of higher payments of coupons on long-term T-bills, by LL 240 billion. The stock of long-term bonds with interest payments maturing during January-September 2008 was higher by 11 percent compared to the same period of last year. In addition, the weighted average cost of the stock of long-term debt reached 9.17 percent compared to 8.84 percent, reflecting a 70 percent increase of the stock of 60-months T-bills[10] and a higher stock of outstanding 36-month T-bills .

The interest payments on short-term T-bills declined by LL 81 billion, due to the decrease in the stock of this type of bills by around 64 percent, most notably those in the 3-months and 12-months categories.

Interest payments on foreign currency debt increased by LL 57 billion in January-September 2008 compared to January-September 2007. The increase is mainly explained by LL 53 billion increase in Eurobond coupon payments:

- An increase of LL 12 billion due to the valuation of the Euro currency.
- A net decrease effect of LL 8 billion[11], following the exchange and new cash transactions conducted during April and May 2008.
- The settlement of LL 49 billion, representing the coupon payment of the US$ 650 Million October 2009 Eurobond paid on a cash basis on September 29, 2008.

The increase of LL 9 billion in interest payments on concessional loans is due to the increase in the stock of bilateral and multilateral loans after the disbursement of the Paris III funds during 2007[12].

Concessional Loans Principal Payments amounted to LL 282 billion for the period January-September 2008, increasing by LL 114 billion compared to January-September 2007, due to the early settlement of three World Bank loans paid by the USAID grant for budget support.[13]

Table 11: Details of Debt Service Transactions

(LL billion)	2006 Jan-Sep	2007 Jan-Sep	2008 Jan-Sep	% Change QIII 2007 - QIII 2008
Local Currency Debt	**1,656**	**1,965**	**2,123**	**8.1%**
• *Discount interest*	*260*	*194*	*113*	*-41.9%*
• *Coupon*	*1,396*	*1,771*	*2,011*	*13.5%*
Foreign Currency Debt, of which:	**1,362**	**1,467**	**1,524**	**3.9%**
• *Eurobond Coupon Interest**	*1,263*	*1,357*	*1,410*	*3.9%*
• *Special Bond Coupon Interest**	*13*	*13*	*8*	*-39.8%*
• *Concessional Loans Interest Payments*	*86*	*98*	*107*	*9.4%*
Interest Payments 1/	**3,018**	**3,432**	**3,647**	**6.3%**
Concessional Loans Principal Payments	**144**	**168**	**282**	**67.6%**

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

[10] Following the transactions, which took place in October and November 2007 and which swapped LL 1,533 billion worth of BDL-held certificates of deposit against 60 months treasury bills at 11.5 percent

[11] The net saving effect includes the cash premium and the accrued interest paid on all exchanged bonds and the remaining interest payment that matured on August 2008 compared to the coupon payment of these bonds during the period of January-September 2007.

[12] Please refer to the "International Conference for Support to Lebanon- Paris III (6^{th} progress report)": www.finance.gov.lb

[13] Please refer to the "International Conference for Support to Lebanon- Paris III (5^{th} progress report)": www.finance.gov.lb

Materials and supplies increased from LL 163 billion in the first nine months of 2007 to LL 165 billion in the same period of 2008, representing an increase of 1.3 percent. This change was the result of increases in the following items: food expenses from LL 21 billion to LL 33 billion, of which LL 27.5 billion were paid to the army; and, fuel oil from LL 24 billion to LL 31 billion. Medication expenditures, conversely, decreased by 14.3 percent, from LL 56 billion in 2007 to LL 48 billion in 2008, of which LL 38.9 billion were spent by the Ministry of Public Health and LL 6.1 billion by the Internal Security Forces. The increase in food and fuel expenditures was driven by the increase in international food and energy prices.

External Services (rent, postal, insurance, advertisement and public relations) amounted to LL 85 billion, up by LL 14 billion from the January-September 2007 level. This was mainly due to an increase of LL 9.5 billion in rental payments, LL 1.6 billion in publications and LL 1.5 billion in remuneration for consultancy services.

Various Transfers declined significantly by LL 25 billion from LL 458 billion in January-September 2007 to LL 433 billion in January-September 2008, mainly explained by:

a) LL 180 billion lower *transfers to the NSSF,* where payments totalled LL 220 billion in 2007 compared to LL 40 billion payments made in January-September 2008;

b) LL 13.5 billion lower transfers to school funds to cover the cost of registration fees for students; and,

c) LL 0.5 billion lower transfers to public hospitals and LL 3 billion lower transfers to the Council of Ministers.

Against the above decrease, other components of various transfers witnessed significant increases, namely:

a) LL 142 billion *treasury advances for wheat subsidy* to the General Directorate of Cereals and Sugar Beet in January-September 2008 compared to only LL 13 billion in the same period in 2007 to cover the cost of wheat imports that were then resold to the mills at a subsidized price allowing the capping of the 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 totalled LL 18.4 billion as per decree #1015 dated 21 November 2007;

c) Transfers to pay primary schools contractual teachers totalled LL 15.7 billion in QIII 2008 versus none in QIII 2007; and,

d) Transfers to NGOs, mainly by the Ministry of Social Affairs and the Ministry of Education and Higher Education, increased by LL 20.6 billion and totalled LL 105.8 billion in QIII 2008 against LL 85.2 billion in QIII 2007; there is no pattern in payments made to NGOs.

Other Current Expenditures showed an increase of LL 90 billion compared to same-period figures in 2007, mainly attributed to increased payments to cover hospitalization in the private sector, by LL 88 billion. This increase resulted from the lump sum payment in February 2008 of LL 41.3 billion of hospitalization bills due for 2007 but not sent to the Ministry of Finance because of a delay in the bill auditing carried by the Ministry of Health. Of the LL 41.3 billion, LL 25.8 billion were paid to hospitals and LL 15.5 billion were paid to doctors.

Capital expenditures for January-September 2008 totalled LL 378 billion, decreasing from the 2007 level by about 6 percent.

Treasury expenditures increased significantly by LL 781 billion in January-September 2008 when compared to the same period of 2007. This item witnessed major hikes in many of its components, detailed as follows:

a) Increase in transfers to, or on behalf of, Electricite du Liban (EDL) by LL 551 billion. Transfers to EDL reached LL 1,690 billion during the first nine months of 2008, compared to LL 1,139 billion for the same period in 2007. The increased transfers 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 765 billion. In the first nine months of 2008, Treasury payments to KPC reached LL 191 billion compared to LL 115 billion in the first nine months of 2007, and those to Sonatrach reached LL 1,371 billion in the first nine months of 2008 compared to LL 681 billion in the first nine months of 2007. The increase in payments can be partially explained by EDL's increased gas oil consumption from 600,500 metric tons[14] paid in QIII 2007 to 729,751 metric tons paid in QIII 2008, and the increase in its fuel oil consumption from 710,500 metric tons paid QIII 2007 to 899,684 metric tons paid over the same period of 2008. 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;

Table 12: Transfers to EDL

(LL billion)	2006 Jan-Sep	2007 Jan-Sep	2008 Jan-Sep	% Change 2008/2007
EDL, *of which:*	**895**	**1,139**	**1,690**	**48.6%**
a- Debt Service, *of which:*	**219**[15]	**275**	**128**	**-53.1%**
• C-Loans and Eurobonds, *of which:*	219	266	103	-60.8%
- *Principal Repayments*	*175*	*230*	*83*	*-63.8%*
- *Interest Payments*	*44*	*36*	*20*	*-41.7%*
• BDL-Guaranteed Loan Payments	0	10	25	150.0%
b- Repayment of Loans for Fuel Oil and Gas Oil Purchase (Principal & Interest)	**17**	**67**	**0**	**-100.0%**
c- Reimbursement of KPC and Sonatrach Agreements	**474**	**797**	**1,562**	**96.0%**
d- Repayment of Oil Supplier Arrears	**185**	**0**	**0**	**0%**

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

b) Transfers to municipalities increased by LL 93 billion mainly as a result of the LL 43 billion paid in February 2008 and the LL 44 billion paid in May 2008 pursuant to Decree #425 (dated 28/12/2007) to settle the third and fourth part of the 2005 revenue share that accrues to municipalities from their revenues sharing rights from government taxes and fees among others.

[14] The quantities of gas oil and fuel oil consumed by EDL are as per Letters of Credit for these purchases, which are co-signed by the Ministry of Finance. Payments for these purchases are made six to nine months after the quantities are received and consumed.

[15] The Debt Service figure for January-June 2006 was misreported in the Ministry of Finance *Public Finance Quarterly Report for QII 2008* at 112 billion LL instead of 96 billion LL, as the Repayment of Loans for Fuel Oil and Gas Oil Purchase (Principal and Interest) for January-June 2006 was included in the Debt Service figure for January-June 2006. However, this did not affect the total Transfer to EDL figure for January-June 2006, nor other figures in the Transfers to EDL table.

c) Increase in payments of VAT refund by LL 56 billion. This resulted from the payments made in March and April 2008 to settle LL 75 billion worth of VAT refunds that accrued from 2007;

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 QIII 2008 (none in QIII 2007);

e) Treasury advances for diesel oil subsidy increased by LL 19 billion. This amount was paid in the first half of 2008 while no payments were made in the corresponding period in 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 the latter amount, 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 totalling LL 6 billion were made to this governmental hospital in QIII 2008 versus none in QIII 2007.

g) Budget advances increased by LL 26 billion in January-September 2008.

Spending on **social services** covers the basic social services of:

a) Health

b) Education

c) Pension and end-of-service indemnity

d) Transfers to the National Social Security Fund (NSSF)

e) Other areas of interventions classified as social assistance

Social spending reached LL 2,269 billion at the end of QIII, constituting about 21 percent of total spending. Spending on health represented 20 percent of total social spending and included mainly hospitalization in the private sector, purchase of medication and maternity and sickness allowance for public sector employees. Spending on education represented 33 percent of social spending, and covered mainly the Ministry of Education and Higher Education salary and wage bill, the contribution to the salaries of the Lebanese University's personnel, education allowance for public sector employees and contributions to non-profit organizations also known as subisidies to private schools . Pension and end-of-service and transfers to civil servants cooperatives constituted 35 percent and 6 percent of total social spending respectively.

The period January-September 2008 indicated a higher level of spending on social services relative to the same period of 2007, by LL 168 billion or equivalent to an increase of 8 percent. This increase was mainly a result of:

a) Higher spending on health, by LL 130 billion or 41 percent as a result of higher private hospital bills for public sector employees by LL53 billion or 79 percent and higher private hospitalization bills for citizens taken in charge by the Ministry of Public Health by LL85 billion or 68 percent,

b) Higher spending on education, by LL 58 billion or 8 percent stemming from a LL 41 billion or 13 percent increase in the salary and wage bill of the Directorate General of Education and LL15 billion or 16 percent increase in education allowance,

c) End-of-service and pensions expenditures showed an LL 128 billion increase during the period January-September 2008, from LL 668 billion to LL 796 billion (see page 11 for details) higher transfers to non profitable organizations by LL19 billion or 49 percent which offset lower spending on NSSF was recorded during the same period, by around LL 190 billion and,

d) Higher transfers to non-profit organizations sponsored by the Ministry of Social Affairs increased by LL19 billion or 49 percent in the QIII 2008 compared to QIII 2007.

These increases offset the lower spending on NSSF:

Transfers to NSSF for January-September 2008 reached LL 40 billion which were transferred as part of the State's contribution to NSSF for 2008. This marked a LL 190 billion or 83 percent decreased compared to the LL230 billion paid to NSSF in the first nine months of 2007 of which LL 100 billion were the State's contribution to NSSF for 2007, LL 120 billion were paid as State's contribution to NSSF from budget allocations carried over from previous years and LL 10 billion were contributions of public employees covered by NSSF.

Table 13: Main Social Expenditures

(LL billion)	2007 Jan-Sep	2008 Jan-Sep	% Change
Health	**319**	**449**	**41%**
• Hospitalization in the Private Sector	125	210	68%
• Purchase of Medication	56	48	-14%
• Hospitalization of Public Sector Employees in Private Sector	67	120	79%
• Maternity and Sickness Allowance	31	31	1%
• Other	40	39	-2%
Education	**682**	**740**	**8%**
• Ministry of Education and Higher Learning, *of which*:	583	625	7%
- *Wages and Salaries of the General Directorate of Education*	*320*	*360*	*13%*
- *Wages and Salaries of the General Directorate of Higher Learning*	*1*	*0*	*-16%*
- *Wages and Salaries of the General Directorate of Technical Education*	*53*	*48*	*-9%*
- *Contributions in the Salaries of the Lebanese University*	*119*	*115*	*-3%*
- *Contributions to Non Profitable Organizations (Private Schools)*	*33*	*36*	*11%*
- *Construction under Execution (Construction and Restoration of Schools)*	*15*	*8*	*-47%*
• Education Allowance in Private Sector	99	115	16%
Other Social Spending	**1,100**	**1,081**	**-2%**
• Marriage Allowance	2	2	54%
• Birth Allowance	*2*	*4*	112%
• Death Allowance	2	2	45%
• Other Social Spending Allowance	6	11	92%
• Participation in several Pension Funds	18	18	4%
• Ministry of Social Affairs, *of which:*	40	59	47%
- *Transfers to Non-Profit Organizations*	*39*	*58*	49%
• Ministry of Displaced	3	4	10%
• Transfers to Civil Servants Cooperative	130	144	11%
• End-of-Service and Pensions	668	796	19%
• National Social Security Fund	230	40	-83%
Total	**2,101**	**2,269**	**8%**

Source: MOF, DGF

Section IV: Public Debt Developments

Financing requirements

Total net financing requirements were largely financed through LL Treasury Bills issuances. Additionnal financing through foreign currency loans was limited to an increase in the stock of bilateral loans mainly due to the disbursement of the first tranche of the Paris III French loan in February 2008 amounting to € 150 million and to a much lesser extent from multilateral loans. The oversubscription trend witnessed in the LL Treasury Bills auction in the first half of 2008 continued during the third quarter of 2008 with surpluses reflected in the build up of treasury accounts. The overall stock of treasury accounts increased by LL 2,421 billion during the period January-September 2008.

Table 14: Financing table for Jan-September 2008

(LL billion)	2008 Jan-Sep
Overall balance from the financing side[16]	**-2,837**
Total Net Financing	**2,837**
LL Treasury Bills2/	5,098
Eurobonds 1/	-45
Bilateral Loans 1/	167
Multilateral Loans 1/	69
Private Sector Loans 1/	-31
Change in Treasury Accounts (-/increase +/decrease)	-2,421

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".

[16] 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.

By the end of the third quarter of 2008, **gross public debt** totaled LL 68,811 billion (US$ 45.6 billion), 8.6 percent higher than at end-December 2007. This increase mainly stemmed from a rise in LL-denominated debt of LL 5,182 billion during this period, compared to a LL 265 billion increase in foreign currency debt.

Net public debt stood at LL 61,600 billion (US$ 40.9 billion), registering an increase of LL 2,763 billion over the end-December 2007 level.

Table 15: Public Debt Outstanding as of end-September 2008

(LL billion)	2005 December	2006 December	2007 December	2008 September	% Change Dec 07-Sep 08
Gross Public Debt	57,985	60,851	63,364	68,811	8.6%
Net Debt	52,395	56,407	58,837	61,600	4.7%
Gross Market Debt(1)	34,721	38,670	39,221	45,052	14.9%

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.

By the end of September 2008, local currency debt had increased to LL 36,555 billion, by 16.52 percent compared to December 2007:

- **By holder**, commercial banks led the increase in domestic currency debt holdings. At LL 22,211 billion by end-September 2008, commercial banks' domestic currency debt portfolios spiked by 31.84 percent compared to end-December 2007 levels. Almost all of this increase was due to commercial banks' holdings of treasury bills, which increased by LL 5,347 billion over this period.

  The stock of local currency debt held by the Central Bank decreased by LL 482 billion in the first three quarters of 2008 to LL 8,570 billion, mainly due to LL 453 billion lower stock of Treasury Bills and LL 29 billion less loans to public entities as compared to end-December 2007 levels.

  In QIII 2008, commercial banks subscribed to 84 percent of treasury bills and notes, followed by public institutions and the Central Bank, each subscribing to 7 percent of total. On a cumulative basis for the year and as a percentage of total subscriptions for January-September 2008, commercial banks subscribed to 66 percent of treasury bills and notes issued, followed by the Central Bank 23 percent, and public institutions at near 9 percent.

- **By instrument**, the stock of domestic currency debt increased due to higher holdings of long-term bonds by LL 6,423 billion at the end of September 2008, in contrast to LL 1,229 billion reduction in the stock of short-term bills in the same period as compared with stocks as of end-December 2007.

  As in the first two quarters of 2008, the most demanded instrument at the end of QIII was 36-months notes, which increased by LL 7,464 billion since end-December 2007. Subscriptions of 36-months notes accounted for 84 percent of subscriptions in QIII 2008, the same share in the first three quarters of 2008. The balance of subscriptions was for 24-months notes at 7 percent of QIII 2008 subscriptions (or 6 percent for the period January to September 2008), followed by the 12-months Treasury Bill category at 5 percent of subscriptions in QIII 2008 (3 percent of subscriptions for January-September 2008). This performance reflects a slight change in demand from investors in QIII as, on a cumulative basis, 6-months T-bills were the second highest subscribed instrument at 7 percent of total subscriptions in the period January to September 2008.

Table 16: Domestic Currency Debt by Holder and Instrument as of end-September 2008

Stocks (end of period)	2005 December	2006 December	2007 December	2008 September	% Change Dec 07- Sep 08
Local currency debt	**29,141**	**30,204**	**31,373**	**36,555**	**16.52%**
A. By Holder					
1. Central Bank (including REPOs and Loans to EDL to finance fuel purchases)(1)	**11,686**	**9,588**	**9,052**	**8,570**	**-5.32%**
2. Commercial Banks	**14,130**	**16,487**	**16,847**	**22,211**	**31.84%**
3. Other local debt (T-bills)	**3,325**	**4,129**	**5,474**	**5,774**	**5.48%**
o/w Public entities	*2,446*	*3,313*	*4,796*	*4,913*	*2.44%*
**Accrued interest included in debt*	*517*	*685*	*754*	*850*	*12.73%*
B. By Instrument					
1. Long-term bonds	**23,384**	**26,862**	**28,617**	**35,040**	**22.44%**
• *60 months bonds*	*1,772*	*2,172*	*3,699*	*3,049*	*-17.57%*
• *54 months bonds*	*616*	*616*	*616*	*0*	*-100.00%*
• *48months bonds*	*633*	*633*	*633*	*633*	*0.00%*
• *36 months bonds*	*14,520*	*21,093*	*21,051*	*28,515*	*35.46%*
• *30 months bonds*	*3,033*	*0*	*0*	*0*	
• *24 months bonds*	*2,385*	*1,751*	*1,927*	*2,018*	*4.72%*
• *Coupon interest*	*425*	*597*	*691*	*825*	*19.39%*
2. Short-term bills*	**5,246**	**2,839**	**2,288**	**1,059**	**-53.72%**
• *12 months bills*	*3,023*	*1,579*	*529*	*587*	*10.96%*
• *06 months bills*	*2,067*	*1,117*	*1,750*	*469*	*-73.20%*
• *03 months bills*	*156*	*143*	*9*	*3*	*-66.67%*
** Accrued interest included*	*92*	*88*	*63*	*25*	*-60.32%*
3. Other local debt	**511**	**503**	**468**	**456**	**-2.56%**
• *Central Bank Loans*	*453*	*445*	*405*	*376*	*-7.16%*
• *Commercial Banks Loans*	*58*	*58*	*63*	*80*	*26.98%*

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.

Primary market interest rates continued to decrease gradually in the third quarter of 2008, following a trend that started in the second week of June 2008, when a gradual decrease in rates was first witnessed. In QIII, the decrease of the rate on the 36-months notes was 20 bps to 9.06 percent, followed the decrease of the rate on 24-months notes by 6 bps to 8.40 percent. The gradual reduction in interest rates reflects a pronounced increase in demand for T-Bills and notes, notably the 36-month notes.

Table 17: Evolution of Primary Market Treasury Bills Yields

Maturity	Dec. 31, 2005	Dec. 31, 2006	Dec. 31, 2007	Sep. 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	7.73 percent
24-month	8.50 percent	8.50 percent	8.50 percent	8.40 percent
36-month	9.34 percent	9.32 percent	9.32 percent	9.06 percent

Source: Ministry of Finance

Foreign currency debt stood at LL 32,256 billion by the end of September 2008, 0.83 percent higher than 2007 year-end level. The stock of foreign currency debt decreased by LL 42 billion due to exchange rate valuations due to the depreciation of the Euro from a rate of 1.468 EUR/US$ at the end of 2007 to 1.435 EUR/US$ at the end of September 2008.

Table 18: Foreign Currency Debt by Holder and Instrument as of end-September 2008

(LL billion)	Dec-05	Dec-06	Dec-07	Sep-08	% Change Year-to-date
Foreign currency debt[1]	**28,844**	**30,647**	**31,991**	**32,256**	**0.83%**
4. Eurobonds	**24,743**	**26,441**	**27,099**	**27,172**	**0.27%**
Of which, Paris II at preferential rates[2]	*5,608*	*5,608*	*5,156*	*3,964*	*-23.12%*
Of which, Paris III at preferential rates[3]	*0*	*0*	*754*	*754*	*0.00%*
** Accrued Interest on Eurobonds*	*406*	*434*	*410*	*555*	*35.37%*
5. Loans	**3,682**	**3,787**	**4,473**	**4,665**	**4.29%**
• *Paris II loans*	*893*	*932*	*907*	*757*	*-16.53%*
• *Paris III loans(4)*	*0*	*0*	*603*	*1044*	*73.06%*
• *Bilateral loans (non-Paris II and III)*	*703*	*714*	*763*	*735*	*-3.60%*
• *Multilateral loans (non-Paris II and III)*	*1,928*	*2,026*	*2,113*	*2,073*	*-1.90%*
• *Foreign Private Sector Loans*	*158*	*115*	*87*	*56*	*-35.63%*
6. Other debt	**419**	**419**	**419**	**419**	**0.00%**
• *Special T-bills in foreign currency[5]*	*419*	*419*	*419*	*419*	*0.00%*

Source: Ministry of Finance, Banque du Liban
[1] Figures for Dec 05 - Dec 07 may differ from previously published data due to updated information regarding bilateral and multilateral loans in the Debt Management Financial and Analysis System [DMFAS]
[2] Paris II-related debt (Eurobonds and Loans), including Eurobond of US$ 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 and first tranche of the French loan received in February 2008, and IMF loan
[5] Special T-bills in foreign currency (expropriation bonds)

The modest increase in foreign currency debt between December 2007 and September 2008 is mainly due to an increase in outstanding loans of LL 192 billion. This increase in outstanding currency loans was led by the receipt from the *Agence Française de Développement* of the first tranche of a €375 million loan for debt reduction worth €150 million as part of the French Paris III pledge.

The Eurobond portfolio recorded a marginal increase to LL 27,172 billion by end-September 2008, an amount of LL 73 billion higher compared to end-December 2007. The three refinancing transactions undertaken by the Republic of Lebanon in the first nine months of 2008 (two Eurobond issuances and an exchange) offset the LL 1,192 billion reduction in the Eurobond portfolio due to lower stocks of Eurobonds issued in the context of the Paris II conference. This reduction reflects the redemption of amortized principal payments on the Eurobonds issued in the context of Paris II, which are redeemable in twenty equal semi-annual payments starting in year 6 (2008).

In QIII 2008, a US$ 500 million Eurobond was issued by the Lebanese Republic with a coupon rate of 8.50 percent, seven-year maturity, and yield of 8.625 percent. The bond, which was issued on August 6, 2008, was more than double oversubscribed.

Table 19: Eurobond Price Performance

Lebanese Issues	Bid Yield (%)									
	2008 3-Jul	2008 10-Jul	2008 17-Jul	2008 25-Jul	2008 31-Jul	2008 8-Aug	2008 15-Aug	2008 26-Aug	2008 8-Sep	2008 23-Sep
EURO										
LEB 7.250 09	7.18	7.79	7.847	7.8	7.8	7.8	7.12	7.11	7.09	7.07
LEB 5.875 12	9.47	9.48	9.502	9.52	8.56	8.56	8.59	8.6	8.63	8.93
US Dollars										
LEB 10.250 09	7.23	7.2	7.149	7.1	7.06	6.893	6.84	6.77	6.67	6.55
LEB FRN 09	7.71	7.16	6.981	7.19	7.009	7.009	6.94	6.86	7.2	7.3
LEB 7.000 09	7.75	7.37	7.38	7.38	7.38	6.989	6.99	6.99	6.99	7.2
LEB 7.125 10	7.44	7.45	7.45	7.46	7.46	7.035	7.03	7.04	7.03	7.49
LEB 7.875 11	8.07	8.07	8.07	8.07	8.07	7.867	7.87	7.87	7.87	8.08
LEB 4.000 17 Av Life	8.83	8.97	8.99	9.25	9.26	9.26	9.31	9.42	9.46	10.36
LEB 7.750 12	8.32	8.25	8.255	8.26	8.26	8.041	8.04	8.04	8.05	8.2
LEB 9.125 13	8.2	8.2	8.2	8.19	8.3	8.19	8.19	8.22	8.21	8.37
LEB 8.625 13	8.31	8.31	8.31	8.3	8.19	8.302	8.3	8.3	8.3	8.55
LEB 7.375 14	8.48	8.48	8.491	8.49	8.5	8.501	8.5	8.51	8.51	8.76
LEB 9.000 14	8.49	8.44	8.44	8.44	8.46	8.435	8.43	8.46	8.46	8.68
LEB 10.000 15	8.44	8.82	8.82	8.8	8.79	8.642	8.64	8.64	8.64	8.63
LEB 8.500 15	N/A	N/A	N/A	N/A	N/A	8.548	8.547	8.547	8.57	8.77
LEB 8.500 16	8.83	8.59	8.59	8.59	8.75	8.637	8.64	8.59	8.59	8.78
LEB 11.625 16	8.59	8.75	8.75	8.74	8.84	8.733	8.69	8.68	8.67	8.87
LEB 8.250 21	8.76	8.71	8.71	8.73	8.88	8.845	8.85	8.85	8.85	9.06

Source: Credit Suisse

Secondary market yields on Eurobonds decreased by an average of 5 basis points over the third quarter of 2008.[17]

[17] Calculated from July 3, 2008 to 23 September, 2008 (excluding the LEB 8.500 15 bond which was issued in August 2008).

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