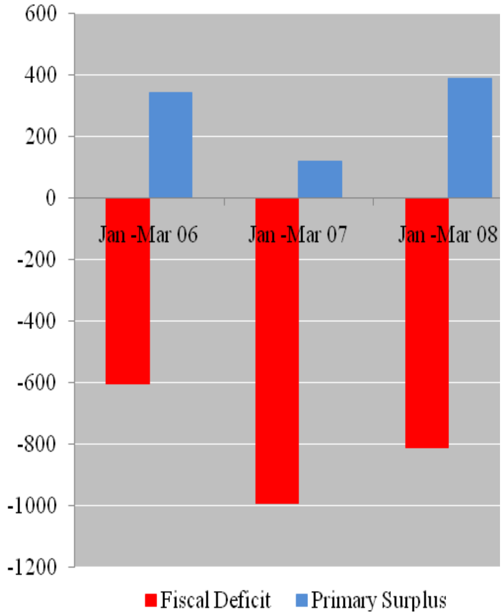
REPUBLIC OF LEBANON
MINISTRY OF FINANCE

PUBLIC FINANCE QUARTERLY REPORT
Ministry of Finance
QI 2008

- **General Fiscal Developments:** The fiscal deficit during the period January to March 2008 totaled LL 812 billion, improving by 18 percent compared to the deficit for the same period in 2007. Meanwhile, the primary balance scored a surplus of LL 390 billion, LL 270 billion higher than the primary surplus for Q1 2007. (section 1).

Fiscal and Primary Balance
January – March 2006 -2008



- **Revenues:** Tax and non-tax revenues improved by 11 percent and 6 percent respectively and treasury revenues were higher by 135 percent. This led to a 17 percent increase in total revenues, which amounted to LL 2,477 billion in Q1 2008. (section 2).

- **Expenditures:** Totaling LL 3,289 billion in Q1 2008, public expenditures increased by 6 percent compared to Q1 2007. Current expenditures decreased by LL 74 billion while treasury expenditures rose by LL 251 billion over the same period. (section 3).

- **Public Debt Developments**: As of March 31, 2008 the stock of debt totaled LL 65,102 billion, registering an increase of LL 2.74 percent or the end-December 2007 level. Net debt was LL 59,951 billion at the end of Q1 2008. (section 4).

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Section I: Fiscal Overview

Table 1. Summary of Fiscal Performance

(LL billion)	2006 Jan -Mar	2007 Jan -Mar	2008 Jan -Mar	% Change Q1 07 - Q1 08
Total Budget and Treasury Receipts	1,933	2,122	2,477	16.7%
Total Budget and Treasury Payments, of which	2,538	3,115	3,289	5.6%
Debt Service	910	1,068	1,092	2.2%
Concessional loans principal payments 1/	36	45	109	144.2%
Non-Interest Expenditures 2/	1,593	2,002	2,088	4.3%
Total Cash Deficit/Surplus	**-605**	**-993**	**-812**	-18.2%
Primary Deficit/Surplus	**341**	**120**	**390**	**224.2%**

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 total **fiscal balance** in the first quarter of 2008 registered a deficit of LL 812 billion, an 18 percent improvement compared to the LL 993 billion deficit for the same period in 2007. This improvement is largely due to higher **total receipts** of LL 355 billion, offsetting increased **total payments** of LL 174 billion.

The **primary surplus** also improved, considerably increasing from LL 120 billion in the period January to March 2007 to LL 390 billion for the same period in 2008.

Section II: Revenue Outcome

The strength in the revenue collection that was witnessed in 2007 persisted throughout the first quarter of 2008, as evidenced by the 17 percent rise in **total revenues** by the end of March 2008, when compared to the collection level of the first quarter of 2007.

This rise in total revenues is attributed to 11 percent and 6 percent higher tax and non tax receipts respectively, as well as to a 135 percent rise in Treasury receipts due to Paris III grants received in QI 2008.

Table 2. Total Revenues

(LL billion)	2006 Jan-Mar	2007 Jan-Mar	2008 Jan-Mar	% Change Q1 07 – Q1 08
Budget Revenues, of *which:*	**1,826**	**1,996**	**2,181**	**9%**
Tax Revenues	*1,219*	*1,354*	*1,504*	*11%*
Non-Tax Revenues	*607*	*642*	*678*	*6%*
Treasury Receipts	**108**	**126**	**296**	**135%**
Total Revenues	**1,933**	**2,122**	**2,477**	**17%**

Source: MOF, DGF

Tax revenues collected LL 1,504 billion for the first three months of 2008, 11 percent above the collection level of the first quarter in 2007. This rise in tax receipts stems from nearly all tax types. The disaggregated tax performances in QI 08 are as follows:

Income tax on profits and capital gains collected LL 310 billion in total, of which LL 108 billion from income tax on profits, and LL 75 billion from the withheld tax on wages and salaries. These two income tax components have witnessed a substantial rise in receipts, with 36 percent and 18 percent higher revenues respectively.

On the **5% interest tax** front, 53 percent of the proceeds (which totaled LL 107 billion for QI 08) were in foreign currency (largely US$ and some Euro), compared to 48 percent in QI 07. The distribution of the 5% interest tax proceeds by currency reflects the development in the currency composition of the deposit base. In fact, the dollarization rate averaged 77% in QI 08, slightly higher than the average 76% witnessed during the same period in 2007. The distribution of the interest tax proceeds by institution in QI 08 maintained a similar pattern than in QI 07 with 72 percent of the proceeds collected from the commercial banks, and 28 percent transferred from the Banque du Liban.

The three components of **Taxes on property** collected LL 161 billion**,** 64 percent of which are proceeds from **real estate registration fees.** In fact, the buoyancy in the collection of real estate registration fees witnessed in 2006 and 2007 has continued in QI 08 with a 62 percent rise in receipts. The rise in real estate registration fees is attributed to both, a larger volume of sales transactions and higher real estate values[1].

[1] Statistics from the Cadastre reveal that the total stock of real estate properties registered at the Cadastre Directorate by the end of QI 2007 was 56,905 properties, rising to 60,547 properties by the end of QI 08. Most importantly, the total declared aggregate value of sold properties in QI 08 is 84 percent higher than the total declared aggregate value of sold properties in QI 07 (LL 1,593 billion and LL 865 billion as declared in sales contracts in QI 08 and QI 07 respectively).

With LL 659 billion collected in QI 08 **Domestic taxes on goods and services** registered a 20 percent rise in receipts which is mostly explained by 20 percent higher VAT revenues. In fact, **VAT** raised LL 601 billion of which LL 432 billion collected at customs (compared to LL 341 billion in QI 07) and LL 169 billion collected from internal business activity (compared LL 158 billion in QI 07)[2].
The 27 percent increase in import VAT reflects the 30 percent rise in imports witnessed during the first three months of 2008[3].

The VAT collected internally for the first quarter of the year is mostly the January filed and paid amount of the fourth quarter of the previous year. As such, the collected amount in January 2008 pertaining to the fourth quarter of 2007 is 19 percent higher than the amount collected in January 2007 pertaining to the fourth quarter of 2006. This outcome is in line with the activity levels prevailing in QIV 06 at the outset of the July War and in the midst of the large demonstrations in downtown Beirut, and in QIV 07, when the economy witnessed a rebound (as may be suggested by the estimated overall real growth rates of 0% and 4% for the years 2006 and 2007 respectively).[4]

Further on the domestic tax on goods and services front, **private car registration fees** cumulated at LL 35 billion by the end of the first quarter of the year, 34 percent higher than the amount collected in the equivalent period in 2007. This result is commensurate with car excise revenues and car imports statistics, of the first quarter of 2008 (*please refer to the paragraph on excises*).

On the international trade front, **custom duties** amounted to LL 149 billion for January-March 2008, compared to LL 131 billion for January-March 2007. Behind this 14 percent rise in receipts stands a 30 percent rise in imports. However, the magnitude of the increase in custom duties is not commensurate with that of the increase in imports (as is the case with the VAT) because the rise in imports is mainly attributed to the 70 percent increase in fuel imports which are, in general, subject to low effective custom duties[5]:.

Excises collected in QI 08 amounted to LL 153 billion, 29 percent below the collection level of Jan-March 2007. In fact the 47 percent increase in excise revenues from cars and tobacco could not compensate for the substantial 96 percent loss in revenues from the gasoline excise.

> The **gasoline excise** raised LL 5 billion in QI 08 compared to LL 113 billion in QI 07. By the end of March 2008, the average effective price of car gasoline at imports was LL 964 per liter compared to LL 660 per liter for the first three months of 2007. This hike in gasoline prices at imports, in the context of the capping regime, pulled the average effective excise rate down from an average of LL 267 per liter in QI 07 to an average of LL 11 per

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[2] *Of this amount, LL 20 billion pertain to QII 2006 but settled in February & March 2007as per Decision number 826 dated September 14, 2006*
[3] The VAT follows similar growth patterns as nominal imports (given no major changes in the domestic consumption patterns or in the basket of exempted imports); and the prevailing effective VAT rate at imports is 8%.
[4] *Source BDL and IMF Article IV*
[5] Custom duties on fuel products are either ad-valorem rates (0% or 5%), or mostly specific duties (LL per liter of imports), the collection of which remains unaffected by nominal increases (the sharp rise in fuel imports is largely attributed to a hike in international oil prices)

liter in QI 08. In terms of volume, 441 million liters were imported in QI 08, 7 percent more than the total amount of liters imported in the equivalent period in 2007.

The **tobacco excise tax** collected LL 55 billion, 16 percent above the collection level of the first three months of 2007. This rise in receipts is attributed to a 30 percent increase in the net weight of imported tobacco (1,684 tons imported in QI 07 and 2,196 tons imported in QI 08). The most striking development though remains on the **car excise** front. Continuing with the rising trend witnessed throughout 2007, the import of cars in QI 08 was 76 percent higher than the imports in QI 07. This is explained by: (i) 73 percent rise in the number of cars imported (9,308 car in QI 07 and 16,123 car in QI 08), and (ii) 2 percent rise in the average price per car at imports (LL 20,815 million per car in QI 07 and LL 21,165 million per car in QI 08).

Table 3. Trade balance

(US$ million)	2006 Jan-Mar	2007 Jan-Mar	2008 Jan-Mar	% Change Q1 07 – Q1 08
Imports	**2,349**	**2,701**	**3,498**	***30%***
Fuel (HS 27)	*564*	*563*	*956*	*70%*
Non Fuel	*1,785*	*2,138*	*2,542*	*19%*
Exports	**518**	**622**	**875**	***41%***
Trade Balance	**-1,831**	**-2,079**	**-2,623**	***26%***

Source: MOF, DGC

With LL 72 billion collected in QI 08, revenues from **fiscal stamps** are 11 percent higher than revenues collected in QI 07. This rise in collection is explained by a larger volume of transactions taking place in the economy, as evidenced by the larger volume of real estate sales contracts for example (*please refer to property tax section*), and as may be suggested by the buoyancy in the coincident indicator[6] of the months of February and March 2008, which were around 10 percent higher than in the equivalent months of 2007 (175.7 and 194.0 for February 07 and 08 respectively, and 185.5 and 198.4 in March 07 and 08 respectively).

[6] *The coincident indicator is published on a monthly basis by the Banque Du Liban.*

Table 4. Tax Revenues

(LL billion)	2006 Jan-Mar	2007 Jan-Mar	2008 Jan-Mar	% Change Q1 07 – Q1 08
Tax Revenues:	**1,219**	**1,354**	**1,504**	**11%**
Taxes on Income, Profits, & Capital Gains:	**251**	**273**	**310**	**14%**
Income Tax on Profits	78	*79*	*108*	*36%*
Income Tax on Wages and Salaries	59	*64*	*75*	*18%*
Income Tax on Capital Gains & Dividends	24	*29*	*17*	*-40%*
Tax on Interest Income (5%)	85	*98*	*107*	*9%*
Other of which Penalties on Income Tax	4	*3*	*3*	*6%*
Taxes on Property, *of which:*	**119**	***125***	***161***	**28%**
Built Property Tax	36	*50*	*46*	-9%
Real Estate Registration Fees	72	*63*	*103*	62%
Domestic Taxes on Goods & Services, *of which:*	**481**	***547***	***659***	**20%**
Value Added Tax	425	*499*	*601*	*20%*
Other Taxes on Goods and Services, of which:	48	*45*	*55*	*22%*
Private Car Registration Fees	29	*26*	*35*	*34%*
Passenger Departure Tax	19	*19*	*20*	*7%*
Taxes on International Trade, *of which:*	**294**	***344***	***302***	**-12%**
Customs	*114*	*131*	*149*	14%
Excises, of which:	*180*	*213*	*153*	-29%
Petroleum Tax	73	*113*	*5*	-96%
Tobacco Tax	45	*47*	*55*	16%
Tax on Cars	60	*52*	*91*	77%
Other Tax Revenues (namely fiscal stamp fees)	**74**	***64***	***72***	**11%**

Source: MOF, DGF

Non Tax revenues for the first three months of 2008 cumulated at LL 678 billion. This 6 percent rise in receipts is mainly explained by 4 percent higher transfers from **Public Institutions and Government Properties**, which amounted to LL 545 billion for QI 08.

The major developments on revenues from public institutions and government properties for the first quarter of 2008 are the following:

Casino du Liban transferred LL 70 billion, of which LL 42 billion representing the first installment payment of a settlement amount. 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 share from Casino revenues. As such, the new amendment to the contract signed in February 2008 stipulates that the Treasury is entitled to a share of revenues from all the gambling machines (unlike previously where some gambling machines were out of the Treasury's revenue base), and an amount of LL 83 billion was agreed upon in settlement of past years' dues, to be paid in 4 yearly installments. Besides, revenues from Casino (excluding the settlement amount) were 115 percent higher in QI 08, compared to the LL 13 billion collected in QI 07, reflecting the full fledged implementation (which started in 2007) of the new agreement with the Casino management, granting the Treasury 40% revenue share (in lieu of 30%) in accordance with the Paris III economic reform program.

The transfer from the **Budget Surplus of the Telecom** totaled LL 462 billion for the first three months of 2008, 36 percent above the transfer level of Jan-March 2007, compensating for the absence of transfers from the **Banque du Liban**, the **National Lottery**, and the **Port of Beirut**.

Table 5. Non-Tax Revenues

(LL billion)	2006 Jan-Mar	2007 Jan-Mar	2008 Jan-Mar	% Change Q1 07 – Q1 08
Non-Tax Revenues	**607**	**642**	**678**	**6%**
Income from Public Institutions and Government Properties	**469**	**524**	**545**	**4%**
Income from Non-Financial Public Enterprises, *of which*:	458	400	532	33%
Revenues from Casino Du Liban	*8*	*13*	*70*	*460%*
Revenues from Port of Beirut	*0*	*30*	*0*	*-99%*
Budget Surplus of National Lottery	*15*	*18*	*0*	*-100%*
Transfer from the Telecom Surplus	*434*	*339*	*462*	*36%*
Income from Financial Public Enterprises (BDL)	0	113	0	-100%
Property Income (rent of Rafic Hariri International Airport)	10	10	11	12%
Other Income from Public Institutions (interests)	1	1	2	26%
Administrative Fees & Charges, *of which*:	**111**	***98***	***107***	**10%**
Administrative Fees, *of which*:	91	*76*	*86*	13%
Notary Fees	*5*	*5*	*5*	*13%*
Passport Fees/ Public Security	*29*	*22*	*27*	*21%*
Vehicle Control Fees	*43*	*36*	*39*	*9%*
Judicial Fees	*6*	*4*	*5*	*9%*
Driving License Fees	*4*	*5*	*4*	*-20%*
Administrative Charges	6	8	8	-7%
Sales (Official Gazette and License Number)	1	1	1	0%
Permit Fees (mostly work permit fees)	12	10	11	3%
Other Administrative Fees & Charges	1	2	2	-12%
Penalties & Confiscations	**1**	**1**	**1**	**-5%**
Other Non-Tax Revenues (mostly retirement deductibles)	**25**	**19**	**25**	**30%**

Source: MOF, DGF

The collection of **Administrative Fees and Charges in** QI 08 is in line with past years trends; however it is worth noting that the Treasury has collected around LL 7 billion in QI 08 pertaining to the settlement of construction infringements (compared to nearly LL 500 million in QI 07). This may be explained by the ongoing amnesty on due penalties and is behind the 30 percent rise in receipts of "**other non tax revenues**".

Treasury receipts were LL 296 billion by end of March 2008, accounting for approximately LL 155 billion of grants received in January- March 2008, pertaining to the US pledges in Paris III[7]... Treasury receipts further include LL 53 billion for the Independent Municipal Fund, an exceptional guarantee in the amount of LL 11 billion received from the "Palais de Justice" and an accounting adjustment entry of LL 8 billion to regularize treasury advance payments in Jan- March 2008 (compared to LL 21 billion in the Jan-March 2007).

[7] *As part of the US pledge to Lebanon in Paris III for $250 million in budget support, a grant agreement was signed between the Ministry of Finance and USAID on 31 August 2007 (and amended on 17 December 2007). USAID pays on behalf of Lebanon to cover Lebanon's debt and debt service to the World Bank As such, LL 148 billion; LL 3.75 billion and LL 2.88 billion were paid by USAID to redeem debt and settle debt service payments in January, February and March 2008.*

Section III: Expenditure Outcome

Table 6: Summary of Expenditure Items

(LL billion)	2006 Jan-Mar	2007 Jan-Mar	2008 Jan-Mar	% Change Q1 07- Q1 08
Total Budget and Treasury Payments, *of which*	**2,538**	**3,115**	**3,289**	**5.6%**
Interest payments	*910*	*1,068*	*1,092*	2.2%
Concessional loans principal payments 1/	*36*	*45*	*109*	142.2%
Non-Interest Expenditures 2/	*1,593*	*2,002*	*2,088*	4.3%

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 quarter of 2008 reached LL 3,289 billion, 6 percent higher than expenditures in the same period of 2007. From an economic classification perspective, the LL 174 billion rise was due to:

a) An increase in **treasury expenditures** by LL 251 billion of which (i) LL 162 billion constituted higher spending to cover the growing deficit of the loss-making electricity company, EDL, (ii) LL 67 billion represented more transfers to municipalities, (iii) LL 25 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 23 billion lower deposits;

b) A decrease in **current expenditures** by LL 74 billion of which LL 32 billion were due to lower personnel costs and LL 166 billion were the result of the smaller size in 'various transfers' mainly explained by lower transfers to NSSF, which offset the increases in the following items: (i) interest payments by LL 24 billion, (ii) concessional loan's principal repayments by LL 65 billion, (iii) 'other current expenditures' mainly to hospitalization in the private sector by LL 30 billion, (iv) transfers to the General Directorate of Cereals and Sugar Beet to the payment of wheat subsidy by LL 43 billion and (v) materials and supplies by LL 7 billion.

Total Primary Expenditures (Non-Interest Expenditures) amounted to LL 2,088 billion in the first quarter of 2008 compared to LL 2,002 billion registered during the same period of 2007, 4.3 percent higher.

Table 7: Expenditures by Economic Classification

(LL billion)	2006 Jan-Mar	2007 Jan-Mar	2008 Jan-Mar	% Change Q1 07-Q1 08
1. Current expenditures	**2,027**	**2,453**	**2,379**	**-3.0%**
1.a Personnel cost, *of which*	775	914	882	-3.5%
Salaries, wages, and related items (Article 13) 1/	519	642	574	-10.6%
Retirement and end of service compensations, of which	207	232	264	13.8%
Retirement salary	*180*	*193*	*204*	*5.7%*
End of Service compensations	*27*	*38*	*60*	*57.9%*
Transfers to public institutions to cover salaries 2/	*49*	*40*	44	10.0%
1.b Interest payments, *of which* 3/	910	1,068	1,092	2.2%
Domestic interest payments	*534*	*640*	*711*	*11.1%*
Foreign interest payments	*411*	*428*	*382*	*-10.7%*
1.c Foreign debt principal repayment	*36*	45	109	142.2%
1.d Materials and supplies, *of which*	*25*	47	54	14.9%
Nutrition	4	*4*	*18*	*350.0%*
Fuel oil	4	*10*	*9*	*-10.0%*
Medicaments	7	*5*	*10*	*100.0%*
Accounting adjustments for treasury	4	*21*	*8*	*-61.9%*
1.e External services	22	24	20	-16.7%
1.f Various transfers, *of which*	158	293	127	-56.7%
National Social Security Fund (NSSF)	*100*	*220*	*0*	*-100.0%*
Wheat subsidy	*0*	*0*	*43*	
1.g Other current expenditures, *of which*	82	42	72	71.4%
Hospitals	*72*	*29*	*63*	*117.2%*
Others	*9*	*13*	*8*	*-38.5%*
1.h Budgetary reserves	19	20	22	10.0%
terest subsidy	*19*	*20*	*22*	*10.0%*
2. Capital expenditures	**190**	**137**	**136**	**-0.7%**
2.a Acquisitions of land, buildings, for the construction of roads, ports, airports, and water networks	6	3	1	-66.7%
2.b Equipment	5	10	11	10.0%
2.c Construction in progress, *of which*	*131*	*86*	*90*	*4.7%*
Displaced Fund	*35*	*6*	*0*	*-100.0%*
Council of the South	*0*	*0*	*10*	
Council for Development and Reconstruction (CDR)	*74*	*53*	*53*	*0.0%*
Ministry of Public Works and Transport	*11*	*15*	*12*	*-20.0%*
Other	*11*	*12*	*15*	*25.0%*
2.d Maintenance	*22*	*27*	21	-22.2%
2.e Other expenditures related to fixed capital assets	*25*	*11*	13	18.2%

3. Other treasury expenditures	**313**	**513**	**764**	**48.9%**
Municipalities	101	52	118	126.9%
Guarantees	35	11	13	18.2%
Deposits	10	35	12	-65.7%
EDL 4/	66	353	515	45.9%
Treasury advances to cover diesel oil subsidy	50	0	19	
Other, *of which*	52	62	86	38.7%
VAT refund	*25*	*28*	*53*	*89.3%*
Higher Council of Relief	*0*	*6*	*7*	*16.7%*
4. Unclassified expenditures	**1**	**0**	**1**	
5. Customs cashiers	**7**	**12**	**9**	**-25.0%**
6. Total expenditures (excluding CDR foreign financed)	**2,538**	**3,115**	**3,289**	**5.6%**

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 1,178 billion in Q1, 2008, LL 162 billion or 12 percent lower than Q1 2007 when current primary expenditures registered LL 1,340 billion.
Details of the main components of current primary expenditures are recorded below.

Personnel costs[8] amounted to LL 882 billion, LL 32 billion (3.5 percent) lower than the LL 914 billion level of Q1, 2007, mainly resulting from:

a) Decrease in **wages, salaries and related benefits (Article 13)** by LL 69 billion from LL 642 billion to LL 574 billion, due to:

i. Lower basic salaries by LL 39 billion from LL 458 billion to LL 419 billion mainly due to the LL 50 billion bonus salary paid to the military personnel[9] in the first quarter of 2007 against none in the same period of 2008; this decrease offset the increase in basic salaries of education and civil personnel by LL 13 billion and;

ii. Less total allowances by LL 37 billion, from LL 119 billion to LL 82 billion, mainly due to the lack of payment of school allowances in Q1 2008 against LL 48 billion paid during the same quarter of 2007; this decrease offset the LL 10 billion increase in hospitalization registered throughout this period;

This decrease was party offset by:

a. LL 5 billion increase in other items related to salaries and wages and;
b. LL 3 billion increase in salaries paid to customs which were reclassified to be included as of March 2007 under Article 13 instead of falling under guarantees.

(For more information on wages and salaries, refer to box 1.)

[8] This includes salaries, wages and related benefits (article 13), transfers and end-of-service.
[9] As per Council of the Ministers' decision dated 4/1/2007

b) Increase in **transfers to public institutions to cover salaries** by LL 4 billion from LL 40 billion to LL 44 billion of which i) LL 6 billion were due to increase in transfers to the Lebanese University, from LL 28 billion in 2007 to LL 34 billion and ii) LL 4 billion resulted from a decrease in transfers to CDR.

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

(LL billion)	**2006** Jan-Mar	**2007** Jan-Mar	**2008** Jan-Mar	**% Change Q1 07-Q1 08**
Transfer to the Council of the South	2	1	3	200.0%
Transfer to the Council for Development and Reconstruction (CDR)	7	8	3	-62.5%
Transfer to the Displaced Fund	2	2	1	-50.0%
Transfer to the Lebanese University	36	28	34	21.4%
Transfer to the Educational Center for Research and Development	3	2	3	50.0%
Total	**49**	**40**	**44**	**10.0%**

Source: Ministry of Finance

c) Increase in **retirement and end-of service indemnities** by LL 32 billion, from LL 232 billion in 2007 to LL 264 billion in 2008, of which LL 21 billion were due to higher end of service indemnities and LL 11 billion were due to increase in retirement payments. It should be noted that there is no patterned trend for retirement and end-of-service indemnity as they depend highly on several factors that affect their trend. For instance, employees have the right to choose to have their benefits as lump-sum without having any pension pay; in this case end-of-service will increase more than the increase in retirement amount.

Box 1. Salaries and Wages in Q1 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 Q1 2008, salaries and wages decreased by LL 69 billion from LL 642 billion to LL 574 billion. The share of salaries and wages as a percentage of total expenditures decreased from 20.6 percent in Q1 2007 to 17.4 percent in Q1 2008.

1. Salaries and wages of the army decreased from LL 264 billion in Q1,2007 to LL 205 billion in Q1, 2008, a LL 60 billion decline. The salaries of the army made up more than one-third of the total wage and salary bill in Q1, 2008.

i) Basic salaries *(excluding bonus salary)* of the army remained almost the same, LL 161 billion in Q1, 2008 against LL 160 billion in Q1, 2007. The average monthly salary bill in the first quarters of 2007 and 2008 was LL 53 billion against LL 46 billion in 2005 and 2006 prior to the hiring of 15,000 army troops in the last quarter of 2006.

ii) The army received a bonus salary of LL 36 billion, paid in February 2007. This was reflected in higher total basis salaries in Q1, 2007 compared to the same period of 2008.

iii) Allowances to the army decreased from LL 58 billion to LL 33 billion, mainly due to lower school allowances by LL 24 billion and maternity and sickness allowances by LL 8 billion.

2. Salaries and wages of security forces *(including Internal Security Forces (ISF), General Security and State Security forces)* decreased from LL 172 billion in Q1, 2007 to LL 143 billion in Q1, 2008, of which LL 24 billion were wages and salaries of ISF. The salaries of security forces made up one fourth of the total wage and salary bill for Q1, 2008.

i. Basic salaries of security forces *(excluding bonus salary) totaled LL 89 billion in Q1, 2008 and LL 92 billion in Q1, 2007.*The increase in the number of troops from 11,500 in 2005 to 24,000 in 2007, was reflected in the increase in average monthly salaries paid to the internal security forces: while the monthly average was LL 16 billion in 2005, it increased to LL 20 billion in 2006 and further to LL 30 billion in 2007 and Q1, 2008 (including salaries of contractual security forces).

ii. Security forces received a bonus salary of LL 14 billion paid in February 2007 which was reflected in higher total basic salaries in Q1, 2007 against the same period during 2008.

iii. Allowances to the security forces decreased from LL 60 billion in Q1, 2007 to LL 48 billion in Q1, 2008. This was-mostly attributed to a decrease in school allowances by LL 23 billion which offset the increase in hospitalization by LL 10 billion.

3. Salaries of education personnel increased from LL 124 billion in Q1,2007 to LL 129 billion in Q1,2008, mainly due to increase in basic salaries by LL 7 billion of which LL 2.6 billion were due to increase in permanent employees' salaries and LL 4.3 billion to contractual teachers. No allowances were paid to education personnel in Q1 of 2007 and 2008.

4. Salaries of civil personnel increased from LL 81 billion in Q1, 2007 to LL 93 billion, a LL 12 billion increase, of which LL 6 billion were due to increase in basic salaries and LL 6 billion in other salaries related items. Transfers to the Civil Servants Cooperatives remained at LL 20 billion in Q1, 2007 and 2008.
Transfers to mutual funds increased by LL 2.5 billion from LL 4.1 billion in Q1, 2007 to LL 6.6 billion in Q1, 2008.

Box 1. Salaries and Wages in Q1 2008 (Continued)

Breakdown of Salaries, Wages and Related Benefits (Article 13)

(LL billion)	2006 Jan-March	2007 Jan-March	2008 Jan-March	% Change Q1 07- Q1 08
Military personnel, *of which*	**307**	**436**	**348**	**-20.2%**
-Army	184	264	205	-22.3%
-Internal Security forces	96	144	120	-16.7%
-General Security forces	19	20	17	-15.0%
-State Security forces	7	8	6	-25.0%
Education personnel	**130**	**124**	**129**	**4.0%**
Civil personnel	**82**	**81**	**93**	**14.8%**
Customs salaries	**0**	**2**	**5**	**150.0%**
Total	**519**	**642**	**574**	**-10.6%**

Source: Ministry of Finance

Breakdown of Major Items underlying changes in Salaries, Wages and Related Items (Article 13)

(LL billion)	Basic salaries		Allowances		Other		Total	
	2007 Jan-Mar	2008 Jan-Mar	2007 Jan-Mar	2008 Jan-Mar	2007 Jan-Mar	2008 Jan-Mar	2007 Jan-Mar	2008 Jan-Mar
Military personnel	**302**	**250**	**119**	**82**	**15**	**16**	**436**	**348**
Army	196	161	58	33	10	11	264	205
Internal Security forces	84	71	55	44	5	5	144	120
General Security forces	16	13	3	3	1	1	20	17
State Security forces	5	5	3	1	0	0	8	6
Education personnel	**109**	**116**	**0**	**0**	**15**	**13**	**124**	**129**
Civil personnel	**47**	**53**	**0**	**0**	**34**	**40**	**81**	**93**
Customs salaries			**0**	**0**	**2**	**5**	**2**	**5**
Total	**458**	**419**	**119**	**82**	**65**	**73**	**642**	**574**

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

)

Interest payments amounted to LL 1,092 billion in QI 2008 rising by LL 24 billion from QI 2007. The increase reflects higher interest payments on domestic currency debt by LL 71 billion partly offset by a decrease of LL 46 billion of interest payments on foreign currency debt.

The rise in **interest payments on local currency debt** is the result of higher payments of coupon on long term Treasury bills by LL 77 billion. The stock of long term bonds with interest payments maturing during the first quarter of 2008 increased by 6 percent when comparing to the same period of last year. In addition, the weighted average cost of the stock of long term debt increased from 8.8 % compared to 8.6% due to a higher outstanding stock of 36 months instruments.

The interest payments on short term T-bills declined by LL 6 billion reflecting the trend of decrease in the stock of short term treasury bills since the year 2006.

Interest payments on foreign currency debt declined by LL 46 billion or 10.7 percent during the first quarter of 2008 compared to the first quarter of 2007. The decline is attributable to lower coupon bond maturing in the first quarter of 2008 following the redemption of the February 2007 Eurobond.

Concessionnal Loans Principal payments amounted to LL 109 billion for the period January-March 2008 increasing by LL 64 billion from January-march 2007, due to the early settlement of three World Bank loans paid by the USAID grant money for budgetary support.[10]

Table 9: Details of Interest Payment Transactions

(LL billion)	2006 Jan-March	2007 Jan-March	2008 Jan-March	% Change Q1 07 - Q1 08
Total Interest Payments	**910**	**1,068**	**1,092**	**2.2%**
Local Currency Debt	534	640	711	11.1%
Discount interest	*131*	*65*	*59*	-9.2%
Coupon	*403*	*575*	*652*	13.4%
Foreign Currency Debt, of which:	376	428	382	-10.7%
*Eurobond Coupon Interest**	*344*	*391*	*342*	-12.5%
*Special bond Coupon Interest**				
Concessional Loans Interest Payments	*31*	*37*	*39*	5.4%
Concessional Loans Principal Payments	**36**	**45**	**109**	**142.2%**

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

Materials and supplies increased from LL 47 billion in 2007 to LL 54 billion in 2008, resulting from rises in the following items: i) food expenses by LL 14 billion, from LL 4 billion to LL 18 billion in 2008 of which LL 17.5 billion were paid to the army and ii medicine from LL 5 billion to LL 10 billion, of which LL 7.5 billion were spent by the Ministry of Public Health and LL 1.5 billion by state security forces. It should be noted that the increase in the aforementioned items is driven by the increase in food prices on one hand and the appreciation of the Euro (medicines) on another hand.

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

External Services (rent, postal, insurance, advertisement and public relations) amounted to LL 20 billion, down by LL 4 billion from their Q1-2007 level.

Various Transfers declined significantly from LL 293 billion in Q1, 2007, down to LL 127 billion in Q1, 2008, a decrease of LL 166 billion or 57 percent, 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 Q1 2008; it should be noted that of the LL 220 billion paid in Q1, 2007, LL 120 billion were on account of 2006 Budget expenditures as per decisions: # 771/1 dated 2/6/2005 and # 259/1 dated 30/11/2006.
b) LL 13 billion lower transfers to **school funds** to cover the cost of registration fees for students in Q1, 2007, LL 2 billion lower
c) LL 2 billion lower transfers to **public hospitals** and LL 2.4 billion lower transfers to the **Council of Ministers**

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

a) LL 43 billion higher transfers to the General Directorate of Cereals and Sugar Beet due to the payment of the **wheat subsidy,** driven by the high international wheat prices which more than doubled in the second half of 2007, and continued to escalate and which necessitated the intervention of the Government.
b) Transfers to cover part of the expenses of the **international tribunal**_ for the assassination of the Prime Minister Rafic Hariri totaled LL 18.4 billion as per decree # 1015 dated 21/11/2007;
c) Increase in transfers to **Non-Governmental Organizations** by LL 19 billion as LL 29 billion were paid in Q1, 2008 against LL 10 billion made in Q1, 2007; there is no pattern in payments made to NGOs.

Other Current Expenditures reported an increase of LL 30 billion when compared to the figures of 2007, mainly attributed to increase in the payments to cover hospitalization in the private sector by LL 34 billion against a minor LL 5 billion decline in other components. This increase was mostly related to a delay in auditing hospital bills by the Ministry of Health in Q1, 2007 and sending them for disbursement by the Ministry of Finance, which started in May 2007. It should be noted that in Q1, 2006, other current expenditures totaled LL 82 billion of which LL 72 billion were in payments to cover hospitalization.

Capital expenditures for Q1, 2008 totaled LL 136 billion remaining almost at the same level of LL 137 billion registered in Q1, 2007.

Treasury expenditures increased significantly by LL 251 billion in Q1, 2008 when compared to the same period of 2007. This item witnessed major hikes in some of its components which offset the decrease in the rest of its components. This is detailed as follows:

a) Increase in transfers to, or on behalf of, **EDL** by LL 163 billion; Transfers to EDL reached LL 515 billion during Q1, 2008, compared to LL 353 billion for the same period in 2007. This increase can be explained by the following: (a) An increase in payments to Kuwait Petroleum Corporation and Algeria's Sonatrach for fuel and gas oil purchases by LL 233 billion; (b) A decrease in repayment of loans for fuel oil and gas oil purchase by LL 67 billion; (c) A decrease in debt service by LL 3 billion.
b) Transfers to **municipalities** increased by LL 66 billion as decree # 425 dated 28/12/2007 stipulated the payments of the third part of 2005 revenues.
c) Treasury advances for **diesel oil subsidy** increased by LL 19 billion as LL 19 billion were paid during Q1, 2008 against none made in Q1, 2007. Decrees # 84 (dated 25/02/2007) and # 270 (dated 11/04/2007) provision a subsidy for gas oil of LL 39 billion for the period

covering 15/11/2006-28/02/2007. Of those, LL 20 billion were paid in December 2007 and the remaining LL 19 billion were paid in January 2008.

d) Increase in payments of **VAT refund** by LL 25 billion.
e) Decrease in **deposits** by LL 23 billion.

Table 10: Transfers to EDL

(LL billion)	2006 Jan-Mar	2007 Jan-Mar	2008 Jan-Mar	% Change Q1 07 - Q1 08
EDL *of which:*	**66**	**353**	**515**	46.1%
Debt Service *of which:*	**49**	**42**	**39**	-7.8%
C-Loans and Eurobonds, *of which:*	49	40	39	-3.0%
Principal repayments	35	31	31	1.4%
Interest Payments	14	9	8	-17.6%
BDL Guaranteed Loan payments		2		-100.0%
Repayment of loans for fuel oil and gas oil purchase (principal and interest)	**17**	**67**	0	-100.0%
Reimbursement of KPC and Sonatrach agreements		**243**	**476**	95.8%
Repayment of oil suppliers arrears				

Source: MOF, DGF

Table 11: Main Social Expenditures

((LL billion)	2006 Jan-Mar	2007 Jan-Mar	2008 Jan-Mar	% Change Q1 07-Q1 08
Health	**136**	**116**	**157**	**35%**
Hospitalization in the private sector	72	29	63	115%
Purchase of medication	8	6	11	88%
Hospitalization of public sector employees in private sector	28	46	57	24%
Maternity and sickness allowance	14	19	13	-34%
Other	14	16	13	-17%
Education	**223**	**221**	**183**	**-17%**
Ministry of Education and Higher Learning, *of which*	193	173	183	6%
Wages and salaries of the General Directorate of Education	*119*	*118*	*117*	-1%
Wages and salaries of the General Directorate of Higher Learning	*0*	*0*	*0*	-39%
Wages and salaries of the General Directorate of Technical Education	*11*	*5*	*12*	144%
Contributions in the salaries of the Lebanese University	*36*	*28*	*34*	22%
Contributions to non profitable organizations (private schools)	*1*	*0*	*7*	3476%
Construction under execution (construction and restoration of schools)	*4*	*2*	*5*	87%
Education allowance in private sector	30	48	0	-100%
Other social spending	**339**	**497**	**322**	**-35%**
Marriage allowance	3	1	2	209%
Birth allowance	2	*0*	*2*	452%
Death allowance	2	1	1	-29%
Other social spending allowance	3	3	6	98%
Participation in several pension funds	5	4	7	60%
Ministry of Social Affairs, *of which*	5	5	20	291%
Transfers to non profitable organizations	*4*	*5*	*20*	325%
Ministry of Displaced	2	1	1	-34%
Transfers to employees' cooperative	10	20	20	100%
End of service and pensions	207	232	264	14%
National Social Security Fund	100	230	0	-100%
Total main social expenditures	**698**	**834**	**662**	**-21%**

Source: MOF, DGF

Spending on social services covers the basic social services of a) education, b) health, c) pension and end-of-service indemnity and d) transfers to the National Social Security Fund (NSSF) and e) other areas of intervensions classified as social assistance. The period January-March 2008 reported a lower level of spending on social services relative to the same period of 2007, by LL 173 billion, or 21 percent. This decrease was majorly a result of decrease in transfers to the NSSF by LL 230 billion and decrease in education allowance to the private sector by LL 48 billion. Against those increases, higher spending on health was recorded during this period by around LL 41 billion or 35 percent, mainly attributed to increase in hospitalization in the private sector. Furthermore, end of service and pensions witnessed a LL 32 billion increase during the period January-March 2008 from LL 232 billion to LL 264 billion.

In total, social spending constitued 20 percent of total spending. Of those, spending on education represented 28 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 40 percent and spending on health 24 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 bilateral loans. The latter is explained by the disbursement of the first tranche amounting to € 150 million in February 2008 of the Paris III French loan. The decrease in the multilateral loans reflects the early repayment of three World Bank loans with USAID Paris III grant money. During the first quarter of 2008, surpluses from mainly LL debt issuance were reflected in the build up of treasury accounts which increased by LL 512 billion during the period January-March 2008.

Table 12: Financing table for the First Quarter of 2008

(LL billion)	**2008 Jan-March**
Overall balance from the financing side[11]	**-824**
Total Net Financing	**824**
LL treasury bills2/	1,188
Eurobonds 1/	10
Bilateral Loans 1/	245
Multilateral Loans 1/	-91
Private sector loans 1/	-15
Change in treasury accounts (-/increase +/decrease)	-512

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"

[11] 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-March 2008 amounted to LL 65,102 billion (US$ 43.18 billion), a 2.74 percent increase compared to gross public debt end-December 2007. The increase in gross public debt was due to a LL 1,173 billion increase in domestic currency debt and a LL 565 billion increase in foreign currency debt.

By end-March 2008, **net public debt stood at** LL 59,951 billion (US$ 39.77 billion), registering an increase of LL 1,114 billion over the end-December 2007 level.

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

(LL billion)	Dec-05	Dec-06	Dec-07	Mar-08	% Change Dec 07- March 08
Gross Public debt	57,985	60,851	63,364	65,102	2.74%
Net debt	52,395	56,407	58,837	59,951	1.89%
Gross Market debt(1)	34,721	38,670	39,221	40,576	3.45%

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.

At LL 32,546 billion end-March 2008, **local currency debt** increased by 3.74 percent over the end-December 2007 amount.

By holder, this increase was led by higher holdings by commercial banks which saw their domestic currency debt holdings 6.57 percent higher. This was mainly due to larger T-bill portfolio of 6.55 percent in this period, mainly through oversubscription in the treasury bill auctions, with a preference for the 36 month instrument.

The second largest increase in T-bill portfolio was attributed to public entities whose holdings of treasury bills increased in the first quarter of 2008 by LL 104 billion.

Domestic currency debt held by the Central Bank decreased by LL 66 billion from December 2007 to March 2008, due to lower treasury bill holdings by the same amount.

By instrument, the increase in domestic currency debt was the result of higher holdings of long term bonds by LL 1,877 billion compared to holdings of short term bills which decreased by LL 711 billion in the period December 2007 to March 2008 as investors opted for longer term and higher yielding instruments.

Out of the long term instruments, the most attractive to investors was the 36-month bond. In fact, subscriptions of 36-month maturities accounted for 86 percent of total subscriptions. In fact, the stock of 36-month bonds increased to 77.3 percent of long term bonds by end-March 2008 compared to 74.9 percent of long term bonds end-December 2007.

The LL 616 billion stock of 54-month bonds, which was exclusively held by the Central Bank, matured in March 2008. No further 54-month bond stocks remains.

Out of the short term maturities, the 6-month instrument was the most common maturity, accounting for 10 percent of t-bill auction subscriptions.

Subscriptions of 12 month t-bills each accounted for 2 percent of subscriptions. Although the 3 month instrument was the least subscribed out of auctioned instruments, the stock of 3-month bills increased to LL 19 billion by end-March 2008.

Table14: Domestic Currency Debt by Holder and Instrument as of end-March 2008

(LL billion)	Dec-05	Dec-06	Dec-07	Mar-08	% Change Dec 07-March 08
Local currency debt	**29,141**	**30,204**	**31,373**	**32,546**	3.74%
A. By Holder					
1. Central Bank (including REPOs and Loans to EDL to finance fuel purchases)(1)	11,686	9,588	9,052	8,986	-0.73%
2. Commercial Banks	14,130	16,487	16,847	17,954	6.57%
3. Other Local Currency Debt (T-bills)	3,325	4,129	5,474	5,606	2.41%
o/w Public entities	*2,446*	*3,313*	*4,796*	*4,900*	2.17%
**Accrued interest included in debt*	*517*	*685*	*754*	*732*	-2.92%
B. By Instrument					
1. Long term bonds	23,384	26,862	28,617	30,494	6.56%
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	23,557	11.90%
1.5 30 months bonds	3,033	0	0	0	
1.6 24 months bonds	2,385	1,751	1,927	1,907	-1.04%
1.7 Coupon interest	425	597	691	698	1.01%
2. Short term bills *	5,246	2,839	2,288	1,577	-31.08%
2.1 12 months bills	3,023	1,579	529	391	-26.09%
2.2 06 months bills	2,067	1,117	1,750	1,167	-33.31%
2.3 03 months bills	156	143	9	19	111.11%
* *Accrued interest included*	*92*	*88*	*63*	*34*	*-46.03%*
3. Other local debt	511	503	468	475	1.50%
3.1 Central Bank Loans	453	445	405	405	0.00%
3.2 Commercial Banks Loans	58	58	63	70	11.11%

Source: Ministry of Finance, Banque du Liban

Notes:

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	Mar. 31, 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	7.24 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	8.50 percent
36-month	9.34 percent	9.32 percent	9.32 percent	9.32 percent

Source: Ministry of Finance

Primary market interest rates as at end-March 2008 remained stable compared to the December 2007 levels and ranged between 5.22 percent for the 3-month Treasury bills to 9.32 percent for the 36-month treasury bills.

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

(LL billion)	Dec-05	Dec-06	Dec-07	Mar-08	% Change Dec 07-Mar 08
Foreign currency debt(1)	**28,844**	**30,647**	**31,991**	**32,556**	**1.77%**
4. Eurobonds	**24,743**	**26,441**	**27,099**	**27,331**	**0.86%**
Of which, Paris II at preferential rates(2)	5,608	5,608	5,156	5,156	0.00%
Of which, Paris III at preferential rates(3)	0	0	754	754	0.00%
** Accrued Interest on Eurobonds*	*406*	*434*	*410*	*538*	*31.22%*
5. Loans	**3,682**	**3,787**	**4,473**	**4,806**	**7.44%**
5.1 Paris II loans	893	932	907	906	-0.11%
5.2 Paris III loans(4)	0	0	603	961	59.30%
5.3 Bilateral loans (non-Paris II and III)	703	714	763	779	2.16%
5.4 Multilateral loans (non-Paris II and III)	1,928	2,026	2,113	2,085	-1.32%
5.5 Foreign Private Sector Loans	158	115	87	75	-13.79%
6. Other debt	**419**	**419**	**419**	**419**	**0.00%**
6.1 Special Tbls in Foreign currency(5)	419	419	419	419	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 and first tranche of the French loan received in February 2008

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

By end-March 2008, **foreign currency debt** amounted to LL 32,556 billion, increasing by 1.77%, of LL 565 billion, over the end-December 2007 level. Of this increase, LL 289 billion is due to changes in exchange rates compared to those end-December 2007, with LL 130 billion of this amount due to valuation change of multilateral, bilateral (excluding Paris II AFD loan) and foreign sector loans.

The largest increase in foreign currency debt was due to higher loans of LL 333 billion which stemmed from the disbursement of a Paris III loan. In the first quarter of 2008, Paris III loans increased by 59.30 percent due to the receipt of € 150 million from Agence Francaise de development. This amount is the first of three tranches of a € 375 million loan agreement for debt reduction which was signed on February 21, 2008 as part of the French Paris III pledge.

The Eurobond portfolio increased by LL 232 billion in the period January to March 2008. Of this increase, LL 94 billion is due valuation changes due to the Euro's appreciation. In order to finance the outstanding US$ 869 million March 2008 bond, the Lebanese Republic issued a US$ 875 million Eurobond on March 12, 2008. The new bond has a 5-year maturity at a coupon rate of 9.125 percent.

Table 17. Eurobond Price Performance

	Bid-Yield					
Lebanese Issues	**8-Jan-08**	**22-Jan-08**	**5-Feb-08**	**19-Feb-08**	**5-Mar-08**	**26-Mar-08**
Euro						
LEB 7.250 09	NA	NA	NA	8.069	9.43	9.85
LEB 5.875 12	NA	8.03	8.04	7.756	8.86	9.13
US Dollars						
LEB 7.375 08	9.69	9.89	9.98	9.13	8.44	9.33
LEB 10.125 08	8.27	8.15	8.09	8.47	8.66	8.6
LEB 10.250 09	8.5	8.46	8.44	8.65	8.64	8.65
LEB FRN 09	7.71	7.27	7.33	6.98	7.55	7.36
LEB 7.000 09	9.02	8.6	8.62	8.72	8.74	8.82
LEB 7.125 10	8.68	8.5	8.51	8.75	8.69	8.76
LEB 7.875 11	8.74	8.57	8.58	8.67	8.77	8.84
LEB 4.000 17 Av Life	9.21	9.09	NA	9.382	9.4	9.83
LEB 7.750 12	8.68	8.61	8.62	8.763	8.77	9.03
LEB 9.125 13 (1)						9.06
LEB 8.625 13	8.86	8.74	8.74	8.86	8.92	9.11
LEB 7.375 14	8.82	8.75	8.75	8.76	9.1	9.35
LIEB 10.000 15	9.04	8.9	8.90	8.942	9.01	9.22
LEB 8.500 16	8.99	8.9	8.90	8.99	9.13	9.34
LEB 11.625 16	9.1	8.97	8.97	9.08	9.16	9.31
LEB 8.250 21	9.14	8.97	8.97	9.1	9.09	9.39

Source: Credit Suisse

(1) Issued March 12, 2008

Secondary market yields on US$ denominated Eurobonds increased by an average of 16 basis points over the 1st quarter of 2008. [12]

[12] Calculated from January 8th to March 26th 2008 (excluding LEB 9.125 13).

REPUBLIC OF LEBANON
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