

PUBLIC FINANCE REVIEW 2008

MINISTRY OF FINANCE YEARLY REPORT



REPUBLIC OF LEBANON
MINISTRY OF FINANCE



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Public Finance Review 2008

Ministry of Finance Yearly Report

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Public Finance Highlights

☒ General Fiscal Developments

The fiscal deficit in 2008 totalled LL 4,404 billion, 15 percent larger than the deficit recorded in 2007. The primary surplus dropped by about 18 percent, from LL 1,102 billion in January-December 2007 to LL 900 billion in January-December 2008. (Section 1).

☒ Revenues

At LL 10,553 billion in 2008, revenues were higher than those collected in 2007 by 21 percent, mainly as a result of 29 percent higher tax revenues. (Section 2).

☒ Expenditures

Public expenditures, at LL 14,957 billion in 2008, increased by about 19 percent compared to 2007. Higher current expenditures by 10 percent and higher treasury expenditures by 62 percent contributed to this result and offset the 8 percent drop in capital expenditures. (Section 3).

☒ Public Debt Developments

By the end of December 2008, the stock of debt totalled LL 70,888 billion, registering an increase of 12 percent

from the end December 2007 level. Net debt stood at LL 62,562 billion at the end of 2008, an increase of 6 percent against the end 2007 level. (Section 4).

☒ External Trade

The deficit in the trade balance stood at US\$ 12,658 million in 2008, 41 percent higher than the trade deficit in 2007 at US\$ 8,999 million. This was mainly due to a 37 percent increase in imports to US\$ 16,137 million which offset the 24 percent higher exports at US\$ 3,478 million (Section 5).

☒ VAT Developments

The amount of VAT declared from internal activities rose by 20 percent, with both wholesale and retail trade being the highest contributors. In addition, the VAT declared at customs increased by 39 percent from the import of merchandise, mainly driven by imports of mineral fuels and oils. (Section 6).

Section I: Fiscal Overview

Table 1: Summary of Fiscal Performance

(LL billion)	2006 Jan-Dec	2007 Jan-Dec	2008 Jan-Dec	Change 2008/2007
Total Budget and Treasury Receipts	7,316	8,749	10,553	20.6%
Total Budget and Treasury Payments, of which	11,883	12,587	14,957	18.8%
• Interest Payments	4,338	4,695	4,957	5.6%
• Concessional Loans Principal Payments 1/	223	246	347	41.3%
• Primary Expenditures 2/	7,322	7,647	9,652	26.2%
Total Deficit/Surplus	-4,564	-3,838	-4,404	14.8%
Primary Deficit/Surplus	-7	1,102	900	-18.3%

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).

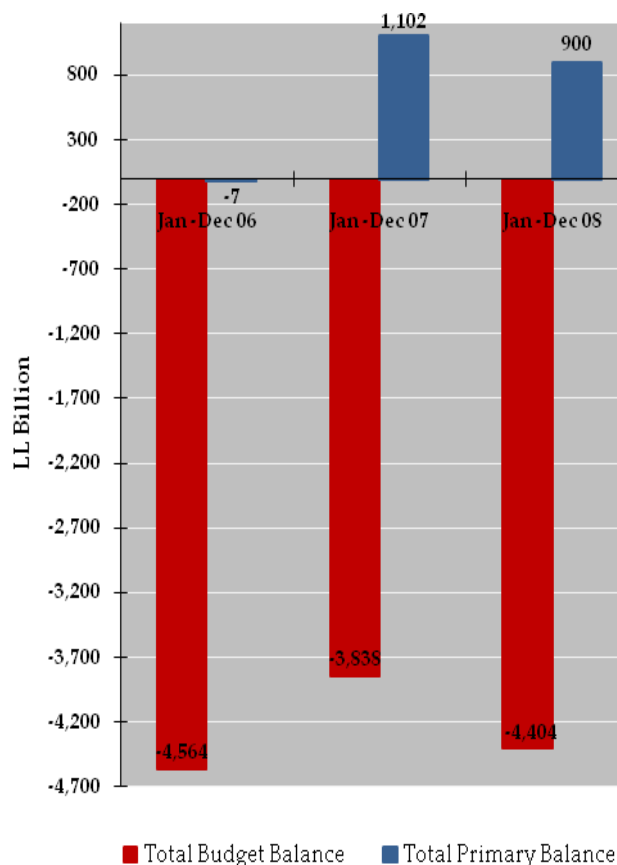
The **fiscal deficit** stood at LL 4,404 billion in the year 2008, a 15 percent increase from the LL 3,838 billion deficit in 2007, as shown in Table 1 above. This result stemmed from higher **total payments of LL 2,370 billion** compared to incremental **total receipts of LL 1,804 billion** in this period.

The fiscal deficit as a share of GDP however slightly decreased from -10.2 percent in 2007 to -10 percent in 2008¹, explained by higher growth in the economy in 2008².

Table 1 also shows that the **primary surplus** of LL 900 billion dropped by 18 percent in 2008 from the level of LL 1,102 billion achieved in 2007, as the increase in revenues (in the magnitude of LL 1,804 billion) fell short of the rise in primary expenditures (equivalent to LL 2,005 billion).

The primary surplus to GDP decreased from 2.9 percent in 2007 to 2 percent in 2008.

**Figure 1: Fiscal and Primary Balances
January – December, 2006 -2008**



¹ GDP was LL 37,758 billion in 2007, as per National Account Statistics published in February 2009; it is estimated at LL 44,245 billion in 2008.

² Nominal growth in 2008 was estimated at 17.2 percent (of which 8.5 percent real growth), as compared to 11.6 percent in 2007 (of which 7.5 percent real growth) according to the National Accounts of 2007 published in February 2009.

Section II: Revenue Outcome

Total revenues were LL 10,553 billion in 2008 (24 percent of GDP) compared to LL 8,749 billion in 2007 (23 percent of GDP), as shown in Table 2 below. .

Table 2: Total Revenues

(LL billion)	2007 December	2008 December	2007 Jan-Dec	2008 Jan-Dec	Change 2008/2007
Budget Revenues, of which:	649	907	8,094	9,795	21.0%
• Tax Revenues	410	591	5,583	7,182	28.7%
• Non-Tax Revenues	238	316	2,511	2,613	4.1%
Treasury Receipts	68	149	655	758	15.6%
Total Revenues	717	1,056	8,749	10,553	20.6%

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

Tax Revenues

The notable result of total revenues is due to the annual increase of 29 percent in tax revenues in 2008 (Table 3). Tax revenues increased from LL 5,583 billion or 14.8 percent of GDP in 2007 to LL 7,182 billion or 16.2 percent of GDP in 2008. This performance is largely explained by an estimated 17 percent nominal growth of GDP in 2008 (8.5 percent real growth and 8 percent GDP deflator). In fact, the main drivers behind the increase in tax collection in 2008 were the boom in the real estate market, the hike in imports, and the general buoyancy of domestic consumption. No major tax policies were adopted in 2008, except for lowering the tariff on food products³, as per Decree 1443 dated May 24, 2008, as a response to the sharp increases in basic commodity prices and in order to alleviate the burden on low-income groups.

Table 3: Tax Revenues

(LL billion)	2007 December	2008 December	2007 Jan-Dec	2008 Jan-Dec	Change 2008/2007
Taxes on Income, Profits, & Capital Gains, of which:	80	67	1,308	1,564	19.6%
• Income Tax on Profits	32	18	501	616	22.8%
• Income Tax on Wages and Salaries	8	18	219	273	24.7%
• Income Tax on Capital Gains & Dividends	6	6	140	170	21.6%
• Tax on Interest Income (5%)	32	32	437	485	11.0%
• Penalties on Income Tax	2	5	10	20	93.9%
Taxes on Property, of which:	65	97	532	786	47.6%
• Built Property Tax	9	15	103	130	25.8%
• Real Estate Registration Fees	51	73	380	580	52.5%
Domestic Taxes on Goods & Services, of which:	154	197	2,224	2,895	30.1%
• Value Added Tax	136	161	2,003	2,584	29.0%
• Other Taxes on Goods and Services, of which:	18	36	215	305	41.6%
- Private Car Registration Fees	11	18	130	197	50.9%
- Passenger Departure Tax	7	17	84	107	27.7%
Taxes on International Trade, of which:	93	206	1,247	1,588	27.3%
• Customs	46	60	561	686	22.3%
• Excises, of which:	46	146	686	902	31.4%
- Petroleum Tax	0	67	185	112	-39.2%
- Tobacco Tax	16	23	211	246	16.5%
- Tax on Cars	30	55	286	539	88.5%
Other Tax Revenues (namely fiscal stamp fees)	19	24	271	350	28.9%
Total Tax Revenues	410	591	5,583	7,182	28.7%

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

³ Decree 1443 lowered tariff on meat, poultry, dairy products, oil, rice, sugar and some other basic food items to 0% for most items.

Table 3 above shows that [taxes on income profits and capital gains](#) collected LL 1,564 billion in 2008, 20 percent higher than the level achieved in 2007.

The [income tax on profits](#) made in 2007 collected in 2008 amounted to LL 616 billion compared to LL 501 billion tax on profits made in 2006 collected in 2007 (Table 3). The higher growth witnessed in 2007 compared to that of 2006 is largely behind this 23 percent increase in income tax on profits.

The distribution of the income tax on profit, declared and filed in 2007 and 2008, by economic activity (Table 4) provides insights on the structure of the Lebanese economy and the weight of the different activities; specifically, it points to the most performing sectors in 2006 and 2007, respectively.

Table 4: Income Tax on Profits by Economic Activity (top ten sectors)

Rank	(LL million)	Tax due on Profits of Year 2006	Share	Tax due on Profits of Year 2007	Share	Change
1	Financial Intermediaries	96,176	29%	114,012	28%	18.5%
2	Real Estate Activities	39,138	12%	48,728	12%	24.5%
3	Wholesale Trade of Household Appliances	10,486	3%	12,309	3%	17.4%
4	Sales of Vehicles	6,692	2%	11,564	3%	72.8%
5	Telecommunications	9,596	3%	11,083	3%	15.5%
6	Manufacturing of Cement and like products	10,915	3%	10,967	3%	0.5%
7	Wholesale Trade of Food Products & Tobacco	7,028	2%	10,717	3%	52.5%
8	Wholesale Trade of Fuel products and derivatives	9,452	3%	10,494	3%	11.0%
9	Business Consultancy	11,537	4%	9,685	2%	-16.1%
10	Manufacturing of Fertilizers and like products	4,387	1%	7,973	2%	81.7%
	Other	120,633	37%	153,694	38%	27.4%
Total Declared Tax Amounts		326,040	100%	401,226	100%	23.1%

Source: MOF SIGTAS Database Income Tax on Profits Declarations

NB: Income tax on profits realized in 2006 and 2007 is declared and settled in 2007 and 2008, respectively

Income tax figures in this table are self-assessed declared amounts, which differ from the income tax cash amounts of the Fiscal Performance, which represent self-assessed tax amounts plus additional impositions pertaining to the current profit year as well as to other profit years.

Around 40 percent of the profit tax is generated by two sectors only, finance and real estate. The financial sector is the number-one contributor to the income tax on profit; it witnessed 18.5 percent rise in the amount of the tax on profits realised in 2007, accounting for 28 percent of the total declared tax amount. Real estate activities come second in terms of income tax generation, accounting for a 12 percent share of the aggregate tax amount. This sector witnessed 24.5 percent rise in the amount of tax declared in 2008, suggesting higher profits in 2007, reflecting the increased volume of property sales evidenced by 35 percent increase in property registration fees in 2007, all of which confirm the buoyant activity in the real estate market in the last couple of years. The income tax on profits statistics suggests that car sales was among those activities that witnessed increased profitability in 2007 with 73 percent higher amount of tax declared, resulting in increased share of this sector from 2 percent of total income tax on profits of 2006 to 3 percent of the tax on profits of 2007, which corresponds to the performance of all car sales indicators in 2007⁴. Wholesale trade activity (namely, wholesale trade of household appliances, food products and tobacco, and fuel products and derivatives) is another significant contributor to income tax on profits, which generated 9 percent of total tax. Another noteworthy development is the 82 percent increase in the amount of profit tax declared by the fertilisers industry, the rank of which (in terms of contribution to income tax on profit) improved from 13th position to 10th position.

The [withheld tax on wages and salaries](#) demonstrated steady improvement in collection since the start of the Deduction At Source of the Income Tax on Salaries (DASS)⁵ reform effort in 2003, which

⁴ For more details on car imports and car registration fees, refer to "Public Finance Review 2007".

⁵ For details on this reform initiative, refer to "Reforms @ MOF, 2005-2007 and Beyond", (2007) on www.finance.gov.lb.

enlarged the tax base and improved compliance. In fact, the amount of tax collected on wages and salaries in 2008 is 88 percent higher than the amount of tax collected in 2003⁶; partly explained by nominal growth and partly by the improvement of tax procedures and processes.

The **5% tax on interest income** collected LL 489 billion in 2008, 11 percent increase on 2007 (Table 5), whereas the tax base, namely private sector deposits, grew by 15.6 percent yearly. The reason for lesser growth in tax proceeds, compared to the higher growth in the tax base, may be year-on-year drop in the average deposit rates on the Lebanese Pound and on the US Dollar, by 18 bps and 136 bps respectively (average commercial bank rates on LL deposits dropped from 7.4 percent in December 2007 to 7.22 percent in December 2008, and average rates on USD deposits decreased from 4.69 percent in December 2007 to 3.33 percent in December 2008). It is also worth noting that the de-dollarization of deposits, a trend witnessed since January 2008 and continued throughout the year (as indicated by a drop in the dollarization rate from a peak of 77.34 percent in December 2007 to 69.57 percent by the end of December 2008, representing a 7.76 percentage points decline), was behind the change in the currency composition of the 5% interest tax proceeds in favour of the Lebanese Pound: 51 percent of proceeds in 2007 were collected in LL compared to 56 percent in 2008 (whereas the share of the tax collected in foreign currency declined from 49 percent in 2007 to 44 percent in 2008).

Table 5: Tax on Interest Income

(LL billion)	2007	2008
By Institution/Instrument	439	489
• Commercial Banks	281	285
• BDL	156	201
• Tax on US\$ Treasury Bills	2	2
By Currency	439	489
• Lebanese Pounds	222	276
• Foreign Currencies (US\$, Euro)	216	213

Source: MOF - Treasury Department

Please note that figures in this table are obtained from tax declaration forms, which may differ from cash figures presented in the fiscal performance (Table 3).

Taxes on Property witnessed major developments in 2008, namely 52 percent rise in **property registration fees**. In fact, the rising trend in real estate registration fees accelerated in the fourth quarter of 2007 and reached a peak in the third quarter of 2008, after which it slightly decelerated in the fourth quarter of 2008 as a consequence of the international financial crisis. On a yearly basis, revenues from property registration fees rose from an average of 0.8 percent of GDP in 2006 to 1 percent of GDP in 2007 and 1.3 percent of GDP in 2008. Cadastre statistics reveal that the number of registered properties rose from 227,559 properties registered in 2006, to 246,791 properties in 2007, and to 267,358 properties in 2008 (Table 6), i.e. a steady growth of 8.5 percent in 2007 and 8.3 percent in 2008.

However, the 52 percent rise in receipts in 2008 is to a large extent attributed to higher property values, and only to lesser extent to higher sales volume. In fact, Cadastre statistics show 42.5 percent rise in the average value per property in 2008, compared to 23.5 percent rise in property values in 2007 (Table 6). It is worth viewing this development in light of inflation rates, which were nearly double in 2008 compared to one year earlier: the CPI (period average) was calculated at 10.8 percent in 2008 compared to 4.1 percent in 2007.

⁶ Law 63, which increased the minimum wage and the salary scale in the public sector, was ratified in December 2008 and, hence, the 2008 wages and salaries tax collection was not yet impacted by a higher wage base.

Table 6: Property Registration Statistics from Cadastre

	2006	2007	2008	Change 2008/2007
Number of Processed Transactions	127,016	154,158	167,504	8.7%
Number of Properties registered in Cadastre	227,559	246,791	267,358	8.3%
Declared Aggregate Properties Value in Sales Contracts (LL billion)	4,727	6,329	9,770	54.4%
Declared Average Value per Property (LL million)	20.77	25.65	36.54	42.5%
Total Fees collected from Sales Transactions	251	344	525	52.6%

Source: MOF-Cadastre, please note that these are declaration statistics (based on sales contracts) that may differ from collection figures as published in the Fiscal Performance.

Domestic taxes on goods and services totalled LL 2,895 billion in 2008, of which LL 2,584 billion from **VAT**, equivalent to 5.8 percent of GDP compared to 5.3 percent of GDP in 2007 (and an average of 5 percent of GDP in previous years). Of this amount, LL 1,910 billion were collected at import, compared to LL 1,451 billion in 2007, i.e. 32 percent rise in receipts, which reflects the 37 percent rise in imports⁷. Domestically, VAT collected LL 674 billion in 2008 compared to LL 552 billion in 2007, i.e. 22 percent rise in receipts owing to growth in economic activity.

Another development worth mentioning is the 51 percent rise in **car registration fees** in 2008, which indicates buoyancy in car sales. In fact, the high demand for cars in 2008 is evidenced by 89 percent surge in imports of vehicles, which further translates into a rise in collection of excise duties on cars (see below paragraph on Taxes on International Trade). This may be explained by more encouraging terms for consumers due to aggressive marketing by car dealers on one hand, and more relaxed terms for car loans by commercial banks or other consumer loan providers, on the other.

Finally, although to lesser extent, the **passenger departure tax** contributed to improving the overall performance of domestic taxes on goods and services in 2008 with 28 percent rise in collection, suggesting a higher flow of passengers at the Rafic Hariri International Airport, evidenced by 31 percent rise in the number of tourist arrivals in 2008 (cumulatively, 1,332,551 tourists visited Lebanon in 2008, compared to 1,017,072 in 2007).

Taxes collected from international trade (Table 3) totalled LL 1,588 billion in 2008, or 3.6 percent of GDP, compared to LL 1,247 billion in 2007, equivalent to 3.3 percent of GDP. This rise in receipts is mainly explained by a surge in imports in general, particularly import of cars.

Under this heading, **tariff revenues** totalled LL 686 billion in 2008, 22 percent higher than collection in 2007, equivalent to 0.1 percentage point additional share of GDP (from 1.5 percent of GDP in 2007 to 1.6 percent of GDP in 2008). This is explained by the 31 percent rise in non-fuel imports⁸.

Imports, as per Table 7 below, totalled LL 24,327 billion in 2008, 55 percent of GDP, compared to LL 17,811 in 2007, 47 percent of GDP⁹. Of total imports in 2008, 25 percent are **fuel imports** worth LL 6,146 billion, compared to LL 3,942 billion in 2007 (equivalent to 22 percent of 2007 imports). The 56 percent rise in fuel imports is largely due to the 36 percent increase in international oil prices (the average price per barrel increased from US\$ 71 in 2007 to US\$ 97 in 2008).

Non-fuel imports totalled LL 18,180 billion in 2008, compared to LL 13,869 billion in 2007, representing 31 percent rise in receipts (Table 7); however, this category's share of total imports dropped from 78 percent in 2007 to 75 percent in 2008. It is worth noting that historically the share of

⁷ For details on performance of VAT in terms of import distribution and internal economic activity, refer to Section 6, "VAT Developments".

⁸ Note that all types of fuel are subject to very low customs duties.

⁹ For a historical perspective, note that the year 2004 witnessed a peak in imports at 44% of GDP; so, import performance in 2007 and particularly in 2008 is largely out of trend.

non-fuel imports was above 80 percent of total imports (86 percent in 2002 and 84 percent in 2003, followed by a drop to 79 percent in 2004). With the declining share of non-fuel imports as opposed to fuel imports, the effective customs rate decreased steadily from 6 percent and 4 percent in 2002 and 2003, respectively, to 3 percent in 2007 and 2.8 percent in 2008; the reason being that fuel imports are subject to low customs duties as compared to other products.

Table 7: Import Statistics

(LL billion)	2002	2003	2004	2005	2006	2007	2008
Total Imports	9,716	10,806	14,167	14,080	14,167	17,811	24,327
• Fuel Imports (fuel derivatives classified under HS 27)	1,397	1,690	2,988	3,243	3,540	3,942	6,146
• Non-Fuel Imports	8,318	9,116	11,180	10,837	10,628	13,869	18,180
Revenues from Custom Duties	596	475	530	481	461	561	686
<i>Effective customs rate</i>	6.13%	4.40%	3.74%	3.42%	3.25%	3.15%	2.82%
Composition of Total Imports							
• Share of Fuel Imports	14%	16%	21%	23%	25%	22%	25%
• Share of Non Fuel Imports	86%	84%	79%	77%	75%	78%	75%
Share of GDP							
Total Imports	34.4%	36.2%	43.8%	42.7%	41.9%	47.2%	55.0%
Fuel Imports (all fuel derivatives classified under HS 27)	5.0%	5.7%	9.2%	9.8%	10.5%	10.4%	13.9%
Non-Fuel Imports	29.5%	30.5%	34.5%	32.9%	31.4%	36.7%	41.1%

Source: MOF-General Directorate of Customs declaration forms

Please note that figures from import declarations may differ slightly from published figures in the Fiscal Performance report.

As per Table 3, **total excises** (collected at import) were LL 902 billion¹⁰ in 2008 (2 percent of GDP), 31 percent higher than the total amount of excises collected in 2007 (which stood at 1.8 percent of GDP). This performance came despite a 39 percent drop in excises on car gasoline, which was more than compensated for by 88 percent rise in excise revenues from cars and to a lesser extent by 16 percent rise in excise revenues from tobacco.

(i) Excises on gasoline collected LL 112 billion in 2008, of which LL 5 billion collected in the first quarter of 2008, zero collection in the second and third quarters of the year, and the remaining LL 107 billion collected in the fourth quarter of 2008. During this last quarter, international oil prices sunk due to the international financial crisis, and thus import prices of gasoline dropped to reach LL 15,000 per 20 litres (after a peak at an average of LL 25,000 per 20 litres throughout the second and the third quarters of 2008). Given the capped retail price regime, this drop in international oil prices allowed the excise rate margin to widen to an average of LL 5,000 per 20 litres in the fourth quarter of 2008 (after being zero for over seven months during the year). As such, retail prices decreased back to LL 24,000 per 20 litres on average (after a peak at LL 30,000 per 20 litres throughout the second and the third quarters of 2008¹¹).

In fact, by fixing the domestic retail price of car gasoline at pump stations, the average annual effective excise rate per litre of imported gasoline sharply decreased to LL 58 per litre in 2008¹², from an average level of LL 484 per litre prior to the implementation of the capping regime in May 2004. In other words, by preventing a pass-through of international prices to the domestic market, and hence by

¹⁰ Excises are collected on gasoline, tobacco, cars and on alcoholic and non-alcoholic beverages. Most of it is collected at import, except for a small amount (equivalent to around LL 3 billion in 2008) that is collected internally on alcoholic beverages.

¹¹ At the peak of the international oil price hike in July 2008, domestic prices reached LL 34,000 per 20 litres.

¹² With increasing international oil prices since 2004 and under the capping regime implemented starting May 2004, the annual average effective excise rate on gasoline decreased to LL 217 per litre in 2005, LL 140 per litre in 2006, and LL 100 per litre in 2007.

preserving the purchasing power of Lebanese consumers in the face of rising oil prices, the Treasury was bearing most of the cost increase, which resulted in a loss of about LL 800 billion in 2008¹³. In this respect, gasoline excises' share of GDP dropped from almost 2 percent of GDP in 2004 to 0.25 percent share of GDP in 2008.

From a volume perspective, Table 8 below shows that 2008 witnessed about 5 percent rise in imports of gasoline (from 1.83 billion liters to 1.92 billion liters), which may be explained by higher growth in the economy, particularly higher car sales, which led to a higher number of cars in circulation, as depicted by the increase in car imports and the increase in other car sales indicators (notably car registration fees).

Table 8: Gasoline Import Statistics

	2004	2005	2006	2007	2008
Imports (LL billion)	770	1,051	1,183	1,497	1,982
Volume (billion Liters)	1.665	1.666	1.624	1.830	1.916
Collected excises (LL billion)	642	362	228	183	111
Average effective Price at imports (LL/liter)	462	631	728	818	1,034
Average effective excise rate (LL/liter)	386	217	140	100	58

Source: MOF-General Directorate of Customs declaration forms

Please note that figures from import declarations may differ slightly from published figures in the Fiscal Performance Report.

(ii) The most striking development in revenue collection in 2008 is the 88 percent rise in receipts from excises on cars. With LL 539 billion collected in 2008, revenues from car excises accounted for 1.22 percent of GDP, compared to 0.76 percent of GDP in 2007. The rise in receipts is explained by the 93 percent increase in the number of vehicles imported: a total of 100,333 cars were imported in 2008, nearly double the number of cars imported in 2007; however, the average price per car slightly decreased from LL 20.9 million in 2007 to LL 20.4 million in 2008, slightly affecting the average effective excise rate from LL 26.5 percent in 2007 to 26.2 percent in 2008 (Table 9).

Table 9: Cars Import Statistics

	2004	2005	2006	2007	2008
Imports (LL billion)	909	847	810	1,085	2,049
Number of Cars	45,969	41,986	39,852	52,014	100,333
Collected Excises (LL billion)	241	231	216	287	536
Average price per car (LL million)	19.8	20.2	20.3	20.9	20.4
Average effective excise rate (%)	26.5%	27.3%	26.7%	26.5%	26.2%

Source: MOF-General Directorate of Customs declaration forms

Please note that figures from import declarations may differ slightly from published figures in the Fiscal Performance Report.

(iii) Excises on tobacco collected LL 246 billion in 2008, compared to LL 211 billion in 2007, representing 16 percent increase (Table 3), preserving the same share of GDP as in 2007 (0.56 percent of GDP), in line with the historical trend. This comes in parallel with 24 percent rise in tobacco imports, which stems from 44 percent rise in volume (10,937 tons of tobacco were imported in 2008 compared to 7,607 tons in 2007 as per Table 10 below), as the average price of tobacco imports decreased from LL 26,160 per kg to LL 22,584 per kg, resulting in decrease of the effective excise rate from 103.5 percent in 2007 to 100 percent in 2008.

¹³ The calculated figure does not take into account elasticity considerations.

Table 10: Tobacco Import Statistics

	2004	2005	2006	2007	2008
Imports (LL billion)	198	185	159	199	247
Net weight (in tons)	9,204	7,258	5,971	7,607	10,937
Collected Excises (LL billion)	198	190	165	206	247
Average import price (LL per Kg)	21,512	25,489	26,629	26,160	22,584
Average effective excise rate (LL per Kg)	21,512	26,178	27,634	27,080	22,584
Average effective excise rate (%)	100.0%	102.7%	103.8%	103.5%	100.0%

Source: MOF-General Directorate of Customs declaration forms

Please note that figures from import declarations may differ slightly from published figures in the Fiscal Performance Report.

Another indicator of the buoyant economic activity in 2008 is the 29 percent higher collection of [fiscal stamps](#) (Table 3). In fact, with LL 350 billion collected in 2008 compared to LL 271 billion in 2007, fiscal stamps' collection suggests higher volume of transactions in the economy.

Non-Tax Revenues

Non-Tax revenues in 2008, as shown in the Table 11 below, were 4 percent above the collection level in 2007, increasing by less than nominal growth. In fact, non-tax revenue's share of GDP dropped from 6.6 percent in 2007 to 5.9 percent in 2008.

Table 11: Non-Tax Revenues

(LL billion)	2007 December	2008 December	2007 Jan-Dec	2008 Jan-Dec	Change 2008/2007
Income from Public Institutions and Government Properties	189	247	2,003	2,028	1.3%
• Income from Non-Financial Public Enterprises, of which:	187	243	1,842	1,931	4.9%
- Revenues from Casino Du Liban	7	10	64	142	121.2%
- Revenues from Port of Beirut	40	0	70	0	-99.8%
- Budget Surplus of National Lottery	0	7	47	54	14.9%
- Transfer from the Telecom Surplus	140	226	1,660	1,734	4.5%
• Income from Financial Public Enterprises (BdL)	0	0	113	41	-63.7%
• Property Income (rent of Rafic Hariri International Airport)	2	4	42	48	13.7%
• Other Income from Public Institutions (interests)	1	1	6	8	39.6%
Administrative Fees & Charges, of which:	41	62	422	484	14.6%
• Administrative Fees, of which:	33	56	336	398	18.5%
- Notary Fees	2	2	20	23	14.6%
- Passport Fees/ Public Security	7	8	112	117	3.8%
- Vehicle Control Fees	18	37	146	189	29.0%
- Judicial Fees	2	2	18	21	13.6%
- Driving License Fees	1	2	16	20	25.2%
• Administrative Charges	3	2	24	22	-9.8%
• Sales (Official Gazette and License Number)	1	1	3	3	12.0%
• Permit Fees (mostly work permit fees)	4	3	47	51	7.7%
• Other Administrative Fees and Charges	1	0	11	9	-19.3%
Penalties and Confiscations	1	1	6	7	15.5%
Other Non-Tax Revenues (mostly retirement deductibles)	7	7	80	94	17.1%
Total Non-Tax Revenues	238	316	2,511	2,613	4.1%

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

The rise in non-tax revenues is explained by the performance of the [entrepreneurial and property income](#) and more specifically by the decrease in transfers from Telecom from 4.4 percent of GDP in 2007 to 3.9 percent of GDP in 2008. The transfers from the [Budget Surplus of the Telecom](#) were LL 1,734 billion in 2008, higher by 4.5 percent from the transfer level in 2007, i.e. below nominal growth level.

[Transfer from the Casino Du Liban](#) totalled LL 142 billion in 2008, of which LL 42 billion were received in March 2008 representing the first instalment of the LL 83 billion settlement amount agreed upon with the Casino Management¹⁴. The remaining LL 100 billion collected in 2008 represent 56 percent rise in receipts compared to 2007, owing to the full implementation of the 40 percent revenue-sharing¹⁵ arrangement with the Casino Management in lieu of the 30 percent prevailing prior to 2007, the more comprehensive revenue-sharing base (refer to footnote # 15 on settlement arrangement with Casino), and the buoyant tourism reflected in 31 percent rise in the number of tourists in 2008. Other property income, including transfers from the [National Lottery](#), transfers from [Beirut International Airport](#) and [Interest Income](#), was cumulatively LL 15 billion above the revenue level in 2007.

All in all, the rise in income from Casino du Liban, National Lottery, Telecom and Interest income over-compensated for the reduced [Surplus transfer from Banque du Liban](#)¹⁶ (LL 113 billion received in 2007 compared to LL 41 billion received in 2008) and the absence of [Transfer from Port of Beirut](#) in 2008¹⁷.

[Administrative fees and charges](#) collected a total of LL 484 billion in 2008, equivalent to 1.1 percent of GDP, in line with previous years' collection trend. The most remarkable development within this revenue category is the 29 percent rise in receipts from [vehicle control fees](#) in 2008, which may be attributed to a higher number of cars in circulation as evidenced by car sales activity indicators of the previous year (namely, the 31 percent rise in car imports and 19 percent rise in car registration fees in 2007).

[Other Non-Tax Revenues](#) collected LL 94 billion in 2008, of which LL 85 billion are Retirement Deductibles, compared to LL 77 billion in 2007, 10 percent higher receipts which may be explained by new recruits or higher wage scale (as per Law 63 dated December 31, 2008 which raised the minimum wage and granted a wage increase in the public sector). Non-tax revenues further account for LL 8 billion settlement for construction infringement in 2008 compared to LL 3 billion in 2007.

Treasury Receipts

[Treasury receipts](#) were LL 758 billion in 2008, including LL 200 billion worth of grants received from Paris III donors; namely LL 165 billion from USA used to redeem IBRD loans, LL 32 billion from the European Community, and LL 3 billion from Iraq (for Iraqi refugees in Lebanon)¹⁸. Treasury Revenues further include LL 207 billion of revenues for the Independent Municipality Fund in 2008 compared to LL 156 billion in 2007. In addition, Treasury Revenues account for LL 73 billion of refund from the wheat subsidy scheme that was granted in 2008 as a response to the hike in wheat prices.

¹⁴ 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 instalments starting 2008

¹⁵ 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 in the year 2007.

¹⁶ As per Article 113 of the Code of Money and Credit, the Treasury has 80% revenue-sharing right in BDL surplus..

¹⁷ On cash basis, profit transfer from Port of Beirut in the amount of LL 62 billion was received early in January 2009.

¹⁸ In 2007, grants in the amount of LL 188 billion were received, of which LL 151 billion from Saudi Arabia for budget support and around LL 36 billion from USA to redeem IBRD loans.

Section III: Expenditure Outcome

Total Expenditures (budget and treasury) for 2008 reached LL 14,957 billion, 18.8 percent higher than expenditures in 2007, as Table 12 below shows.

Table 12: Expenditure Summary

(LL billion)	2006 Jan-Dec	2007 Jan-Dec	2008 Jan-Dec	Change 2008/2007
Interest Payments	4,338	4,695	4,957	5.6%
Concessional Loans Principal Payments 1/	223	246	347	41.3%
Total Primary Expenditures 2/	7,322	7,647	9,652	26.2%
Total Budget and Treasury Payments	11,883	12,587	14,957	18.8%

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

1/ Includes only principal repayments of concessional loans earmarked for project financing.

2/ Primary expenditures exclude debt-related payments (Interest payments and Concessional loans principal repayment).

According to economic classification, the LL 1,347 billion increase in total expenditures was due to the following two components:

- a. An increase in **treasury expenditures** by LL 1,438 billion, of which (i) LL 951 billion constituted higher spending to cover the deficit of the loss-making electricity company, EDL, (ii) LL 221 billion represented more transfers to municipalities, (iii) LL 106 billion stood for larger VAT refund, (iv) LL 29 billion corresponded to higher diesel oil subsidy, and (v) LL 19 billion to more locally financed payments to the High Relief Committee.
- b. An increase in **current expenditures** by LL 978 billion, of which LL 389 billion were due to higher personnel costs, LL 263 billion to a larger interest bill, LL 101 billion to increased concessional loan principal repayments, LL 75 billion to higher spending on material and supplies, LL 27 billion to an increased external services bill and LL 123 billion to higher 'other current expenditures' (mainly hospitalization in the private sector, which was up by LL 113 billion). These increases offset the LL 120 billion decrease in transfers to NSSF.

Total Primary Expenditures amounted to LL 9,652 billion in 2008 compared to LL 7,647 billion registered in 2007, i.e. an increase of 26.2 percent.

Table 13: Expenditures by Economic Classification

(LL billion)	2006 Jan-Dec	2007 Jan-Dec	2008 Jan-Dec	Change 2008/2007
1. Current Expenditures	8,931	9,661	10,639	10.1%
1.a Personnel Cost, of which	3,307	3,583	3,970	10.8%
• Salaries, Wages and Related Items (Article 13)	2,188	2,473	2,676	8.2%
• Retirement and End of Service Compensations, of which:	927	889	1,087	22.3%
- Retirement	744	778	893	14.7%
- End of Service	182	111	195	75.3%
• Transfers to Public Institutions to Cover Salaries 1/	192	221	206	-6.5%
1.b Interest Payments, of which: 2/	4,338	4,695	4,957	5.6%
• Domestic Interest Payments	2,371	2,515	2,847	13.2%
• Foreign Interest Payments	1,967	2,179	2,110	-3.2%
1.c Foreign Debt Principal Repayment	223	246	347	41.3%
1.d Materials and Supplies, of which:	140	198	273	37.6%
• Nutrition	20	25	52	110.6%
• Fuel Oil	15	28	37	30.3%
• Medicaments	61	68	94	38.0%
• Accounting Adjustments for Treasury	18	52	57	8.5%
1.e External Services	87	84	106	26.2%
1.f Various Transfers, of which:	498	563	568	0.9%
• National Social Security Fund	200	220	100	-54.5%
• Treasury Advance for Wheat Subsidy	0	32	142	349.3%
1.g Other Current, of which:	258	209	332	58.8%
• Hospitals	223	172	289	68.3%
• Others	35	34	40	17.7%
1.h Reserves	80	83	85	2.7%
• Interest subsidy	80	83	85	2.7%
2. Capital Expenditures	551	558	514	-8.0%
2.a Acquisitions of Land, Buildings, for the Construction of Roads, Ports, Airports, and Water Networks	12	18	7	-60.3%
2.b Equipment	25	41	33	-21.1%
2.c Construction in Progress, of which:	435	416	366	-12.0%
• Fund for the Displaced	70	76	49	-35.8%
• Council of the South	35	40	40	0.0%
• CDR	239	214	210	-1.7%
• Ministry of Public Work and Transport	52	39	33	-14.3%
• Other	40	47	33	-29.1%
2.d Maintenance	48	48	72	50.4%
2.e Other Expenditures Related to Fixed Capital Assets	32	35	36	2.1%
3. Other Treasury Expenditures	2,368	2,319	3,757	62.0%
3.a Municipalities	405	305	527	72.4%
3.b Guarantees	98	59	57	-2.0%
3.c Deposits, of which:	56	79	82	3.6%
• National Social Security Fund		10	1	
3.d Other, of which:	387	377	612	62.5%
• VAT Refund	137	200	306	52.8%
• High Relief Committee	98	29	47	66.6%
3.e EDL 3/	1,370	1,479	2,430	64.3%
3.f Treasury Advances for Diesel Oil Subsidy	52	20	49	143.4%
4. Unclassified Expenditures	1	5	4	-16.8%
5. Customs Cashiers	32	43	43	-1.0%
Total Expenditures (Excluding CDR Foreign Finance)	11,883	12,587	14,957	18.8%

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

1/ For a detailed breakdown of those transfers, refer to table 14.

2/ For a detailed breakdown of interests payments, refer to table 15.

3/ For a detailed breakdown of transfers to EDL, refer to table 17.

Current primary expenditures

Current primary expenditures¹⁹ amounted to LL 5,335 billion in 2008, which is LL 613 billion or 13.0 percent higher than in 2007 when current primary expenditures registered LL 4,720 billion.

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

Personnel costs²⁰ amounted to LL 3,970 billion, LL 386 billion (10.8 percent) higher than the LL 3,583 billion level of 2007, mainly resulting from:

- a) Increase in *wages, salaries and related benefits* (Article 13) by LL 203 billion, from LL 2,473 billion to LL 2,676 billion, which was instigated by the government policy to increase monthly salary and wages in the public administration by LL 200,000 and set the minimum monthly wage at LL 500,000 (for additional details on the salary and wage increase policy see Box 1).
- b) Increase in *retirement and end-of-service indemnities* by LL 198 billion, from LL 889 billion in 2007 to LL 1,087 billion in 2008, of which LL 84 billion were due to higher end-of-service indemnities and LL 115 billion were due to increase in retirement payments. The higher payment of end-of-service indemnities was due to the army resuming the issuance of end-of-service requests from December 2007 onward after a temporary halt following the Nahr el-Bared events that lasted for seven months (May 2007-November 2007). Higher retirement payment is due to the government policy of increasing monthly retirement pay by LL 150,000 to compensate retirees for the higher cost of living (for additional details on the salary and wage increase policy see Box 1).

On the other hand, within Personnel Cost, *transfers to public institutions* to cover salaries witnessed a drop of LL 15 billion from LL 221 billion to LL 206 billion. Transfers to the Council for Development and Reconstruction decreased by LL 17 billion or 45 percent, as shown in Table 14, whereas there was an increase of transfers to the Council of the South and the Lebanese University by LL 2 billion²¹ and LL 1 billion, respectively.

Table 14: Breakdown of Transfers to Public Institutions (Salaries)

(LL billion)	2006 Jan-Dec	2007 Jan-Dec	2008 Jan-Dec	Change 2008/2007
Transfer to Council of the South	5	6	7	31.0%
Transfer to the Council for Development and Reconstruction	18	38	21	-44.8%
Transfer to Fund for the Displaced	5	6	6	0.0%
Transfer to the Lebanese University	152	161	162	0.6%
Transfer to Educational Centre for Research and Development	13	10	10	0.0%
Total Transfers to Public Institutions	192	221	206	-6.5%

Source: Ministry of Finance

¹⁹ Current primary expenditures is current expenditures excluding interest payments and foreign debt principal repayment.

²⁰ This includes salaries, wages and related benefits (article 13), transfers, retirement and end-of-service.

²¹ The actual rise is LL 1.7 billion, although the table shows an increase of LL 1 billion (from LL 6 billion in 2007 to LL 7 billion in 2008). This is the result of rounding figures for purposes of simplification.

Box 1: Salary and Wage Increase Policy in Public Administrations

In order to mitigate the impact of inflation on households, the former government decided on May 5, 2008 per Decision 161:

- To increase the minimum wage in the public sector to LL 500,000 per month,
- To give a flat increase of LL 200,000 per month to all public sector employees (including the employees of State-Owned Enterprises, Municipalities and the Régie Libanaise des Tabacs et Tombacs),
- To give a flat increase of LL 100,000 per month to all retirees of the public sector,
- To increase the hourly wage for primary and secondary school teachers in the public sector by LL 3,000, for technical school teachers by LL 4,000 and for university teachers by LL 6,000.

However, the May 2008 events prevented the implementation of these measures. The new Government which was formed on 11 July 2008 resumed discussions on the issue. The new Government confirmed the decision (Decision 79 dated 9 September 2008) to increase the minimum wage in the public sector to LL 500,000 per month and to give a flat monthly LL 200,000 increase to all public sector employees. It also decided to extend both decisions to private sector employees and set the flat increase for public sector retirees to LL 150,000 per month (instead of LL 100,000 as decided previously). The new Government also decided to increase the transport allowance in both the private and public sectors to LL 8,000 per day (instead of LL 6,000), an increase of LL 2,000 per day. The decision to increase the minimum wage and salaries and wages across the spectrum by LL 200,000 was also made retroactive and was to start from 1 May 2008.

In the absence of a law that allowed the opening of new budget allocations to cover for the additional costs resulting from the LL 200,000 increase in the public sector, the Council of Ministers agreed to grant a treasury advance that would allow the Ministry of Finance to pay starting from November 1, 2008 the decided monthly increase and the dues resulting from the decision to make the increase retroactive. Decree #706 dated 15 November 2008 granted the Ministry of Finance a treasury advance of LL 350 billion to pay the increases due on salaries and wages and retirement pays.

Parliament approved the policy to increase the salary and wage in the public sector by adopting Law 63 on 31/12/2008. Law 63 increased the minimum wage in public administrations, municipalities, state owned enterprises not subject the Labour Act of 1967, the Régie Libanaise des Tabacs et Tombacs and the Lebanese University to LL 500,000 per month or 66 percent increase. Parliament also confirmed the flat LL 200,000 increase that was granted across the salary scale of the public sector and updated the relevant salary and wage schedules accordingly. It should be noted here that the schedules were also revised to grant public sector employees 5 percent increase on the value of their echelons.

Parliament also decided to revise the monthly pay for retirees, and increase it further to reach LL 170,000 (instead of the previously decided LL 150,000). The increase was made retroactive starting from 1 May 2008. Parliament also approved the payment of the retroactive amounts due to public sector workers for the years 1996-1998 following the salary and wage increase of 1999 (as per Laws 716, 717 and 718 dated 5/11/1998) in equal settlements over a period of three years (2009-2011).

The policy to increase the transportation allowance in the public sector was legislated by decree. Decree #538 dated 14 October 2008 set the transportation allowance in the public sector at LL 8,000 for each day of effective attendance starting 1 November 2008. It was previously set by Decree #5860 dated 10/7/2007 at LL 6,000 per day and used to be calculated as 2 percent of the applicable minimum wage prior to that (Law 266 dated 23/10/1993).

The policy to increase the basic specialized allocations of the Republic's Mufti and other senior religious figures of the Sunni, Shiite, Druze and Alaouite communities by a flat LL 200,000 per month starting retroactively from May 1, 2008 was legislated by Decree #502 dated 14 October 2008.

Box 2: Salary and Wage Increase Policy in the Private Sector

The policy to increase the minimum wage to LL 500,000 in the private sector was legislated by decree. Decree #500 dated 14 October 2008 set the minimum wage in the private sector, starting 1 May 2008, to LL 500,000 per month and increased by LL 200,000 per month the salaries and wages earned by private sector employees as of 30 April 2008. The Decree allowed the private sector to deduct from the LL 200,000 increase, any increase it had provided in the past three years as an adjustment for higher cost of living provided the increase was fully inclusive, was not automatic and was not motivated by performance. The increase is applicable to all employers subject to the Labour Law dated 23/9/1946. It was previously set at

- LL 300,000 per month by Decree #8733 dated 8/7/1996 starting 1/1/1996,
- LL 250,000 per month by Decree #6263 dated 18/1/2005 starting 1/1/1995,
- LL 200,000 per month by Decree #4631 10/1/1994 starting 1/1/1994 and,
- LL 180,000 per month by Decree #2658 dated 15/9/1992 starting 1/1/1992.

The policy to set the daily transportation allowance for private sector workers at LL 8,000 for each day of effective attendance was legislated by Decree #501 dated 14 October 2008 starting 1 November 2008. The allowance was previously set at LL 6,000 per day of effective attendance as per Decree #7724 dated 5/4/2002 starting 1/1/2002. As this decree was effective for only one year (2002), several extensions were subsequently decided as follows: Decree #9903 dated 4/4/2003, Decree #14196 dated 22/02/2005 and Decree #766 dated 3/1/2008.

Interest payments amounted to LL 4,957 billion in 2008, an increase of LL 262 billion compared to 2007 as shown in Table 15. The increase pertains to higher interest payments on domestic currency debt.

The rise in interest payments on local currency debt is the result of higher payments of coupons on long-term T-bills. As of end-2007, the stock of long-term bonds increased by 27 percent when compared to the stock of end-2006. In addition, the weighted average cost of the stock of long-term debt reached 9.23 percent compared to 8.93 percent, reflecting a 71 percent increase in the stock of 60-month T-bills²² and a 34 percent increase in the stock of 36-month T-bills.

The interest payments on short-term T-bills (3-month, 6-month and 12-month) decreased by LL 123 billion, due to the decrease in the stock of this type of bills by almost 67 percent.

Interest payments on foreign currency debt decreased by LL 69 billion in 2008 compared to 2007. In fact, the 13 percent increase in *interest payments on concessional loans* (to reach LL 144 billion) – reflecting a higher stock of bilateral and multilateral loans after the disbursement of the Paris III funds in 2007²³ – was offset by an overall decrease in *Eurobond coupon payments*, which resulted from the following factors:

- a- Following the exchange and new cash transactions conducted during the months of April and May 2008, Eurobond coupon payments witnessed a net decrease effect of LL 35 billion²⁴.
- b- Eurobond coupon payments during the fourth quarter of 2008 decreased by: (i) LL 48 billion because of the redemption in October 2007 of the USD 400 million October 2007 Eurobond, and (ii) LL 12 billion due to a lower coupon payment of the floating rate November 2009 Eurobond.

On the other hand, the valuation of the Euro increased some Eurobond coupon payments in Euro, which finally resulted in a total decrease of LL 89 billion, to reach LL 1,950 billion by the end of 2008.

²² 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.

²³ Please refer to the "International Conference for Support to Lebanon- Paris III (6th progress report)": www.finance.gov.lb

²⁴ The net decrease effect includes the cash premium and the accrued interest paid on all exchanged bonds and the remaining interest payment that matured in August 2008 compared to the coupon payment of these bonds during 2007.

Concessional Loans Principal Payments amounted to LL 347 billion in 2008, increasing by LL 101 billion compared to 2007, due to the early settlement of three World Bank loans paid by the USAID grant for budget support²⁵.

Table 15: Details of Debt Service Transactions

(LL billion)	2006 Jan-Dec	2007 Jan-Dec	2008 Jan-Dec	Change 2008/2007
A- Interest Payments 1/	4,338	4,695	4,957	5.6%
A.1 Local Currency Debt	2,371	2,515	2,847	13.2%
• Discount Interest	434	255	132	-48.2%
• Coupon	1,937	2,260	2,716	20.2%
A.2 Foreign Currency Debt, of which:	1,967	2,179	2,110	-3.2%
• Eurobond Coupon Interest*	1,838	2,039	1,950	-4.4%
• Special Bond Coupon Interest*	13	13	16	28.0%
• Concessional Loans Interest Payments	116	127	144	13.1%
B- Concessional Loans Principal Payments	223	246	347	41.3%

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

1/ Please note that the classification of debt service expenditures is now broken down into two separate categories as follows: Interest payments (as per GFS classification) and repayment of principal on concessional loans earmarked for project financing.

*Includes general expenses related to the transaction

Materials and supplies increased from LL 198 billion in 2007 to LL 273 billion in 2008, representing an increase of 37.6 percent. This change was the result of increases in the following items:

- Food expenses increased by LL 27 billion from LL 25 billion in 2007 to LL 52 billion in 2008, of which LL 26 billion was due to an increase in the army's food bills from LL 20 billion in 2007 to LL 46 billion in 2008 and LL 2 billion to the Internal Security Forces' food bills from LL 2 billion in 2007 to LL 4 billion in 2008.
- Fuel oil expenses increased by LL 9 billion from LL 28 billion to LL 37 billion, of which LL 7 billion was due to an increase in the Internal Security Forces' fuel bills from LL 23 billion in 2007 to LL 30 billion in 2008 and LL 2 billion to the army's fuel bills from LL 3 billion in 2007 to LL 4 billion in 2008.
- Medication expenditures increased by 38.0 percent, from LL 68 billion in 2007 to LL 94 billion in 2008, of which LL 12 billion resulted from higher spending by the Ministry of Public Health from LL 48 billion in 2007 to LL 60 billion in 2008, LL 9 billion by the army from LL 11 billion in 2007 to LL 20 billion in 2008 and LL 5 billion by the Internal Security Forces from LL 6 billion in 2007 to LL 11 billion in 2008.

The increase in food and fuel expenditures was driven by the increase in international food and energy prices. Euro appreciation and higher consumption drove the spending on medication.

External Services (rent, postal, insurance, advertisement and public relations) amounted to LL 106 billion, up by LL 22 billion from the 2007 level. This was mainly due to increases in:

- rental payments, by LL 11 billion from LL 54 billion in 2007 to LL 65 billion in 2008,
- LL 3 billion in publications, from LL 8 billion in 2007 to LL 11 billion in 2008 and,
- LL 2 billion in remuneration for consultancy services, from LL 9 billion in 2007 to LL 11 billion in 2008.

²⁵ Refer to the "International Conference for Support to Lebanon- Paris III (6th progress report)": www.finance.gov.lb

Various Transfers witnessed a slight increase of LL 5 billion, from LL 563 billion in 2007 to LL 568 billion in 2008. However, significant variations in the sub-components making up this economic category were observed.

Components of various transfers witnessing noticeable decreases were:

- a) Transfers to the NSSF, where payments totalled LL 220 billion in 2007 compared to LL 100 billion payments made in 2008 because contrary to 2007, no payments for past dues were made in 2008;
- b) Transfers to school funds to cover the cost of registration fees for students decreased by LL 12 billion reaching LL 1 billion in 2008 compared to LL 13 billion in 2007;
- c) Transfers to public hospitals decreased by LL 7 billion amounting to LL 111 billion in 2008 as opposed to LL 18 billion in 2007,
- d) Transfers to Railway Authority decreased by LL 4 billion from LL 16 billion in 2007 to LL 12 billion in 2008 and,
- e) Transfers to Higher Council for Privatization decreased by LL 2.5 billion from LL 5 billion in 2007 to LL 2.5 billion in 2008.

Other components of various transfers witnessed noticeable increases, namely:

- a) LL 142 billion *treasury advances for wheat subsidy* to the General Directorate of Cereals and Sugar Beet in 2008 compared to only LL 32 billion 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 LL 1,500 per 1.12 Kg; the wheat subsidy policy ended on 15 November 2008 as per Council of Minister Decision #71 dated 8/11/2008 (for details on the wheat subsidy policy, see Box 3).
- b) Transfers to cover part of the expenses of the Special Tribunal for Lebanon²⁶ totalled LL 18 billion as per Decree #1015 dated 21 November 2007, increasing by LL 11 billion compared to 2007 when they reached LL 7.5 billion as per Decree #737 dated 19/9/2007,
- c) Transfers from the budget to the High Relief Committee reached LL 2.3 billion in 2008 versus none in 2007,
- d) Transfers to pay primary schools contractual teachers totalled LL 29 billion in 2008 versus LL 14 billion in 2007,
- e) Transfers to NGOs, mainly by the Ministry of Social Affairs and the Ministry of Education and Higher Education, increased by LL 23 billion and totalled LL 135 billion in 2008 against LL 112 billion in 2007; there is no pattern in payments made to NGOs and,
- f) Transfers to National Centre for Scientific Research increased by LL 3 billion from LL 5 billion in 2007 to LL 8 billion in 2008.
- g) Transfers to the Council of Ministers²⁷ were LL 4 billion higher totalling LL 14 billion in 2008 compared to LL 10 billion in 2007

Other Current Expenditures showed an increase of LL 123 billion compared to same-period figures in 2007, mainly attributed to increased payments to cover hospitalization in the private sector, by LL 117 billion. This increase is mainly explained by the slowing down of payments in 2007 as a result of the

²⁶ The Special Tribunal for Lebanon is the international tribunal for the assassination of Prime Minister Rafic Hariri.

²⁷ Transfers exclude High Relief Committee, National Council for Scientific Research and Higher Council for Privatization.

delay in the bill auditing carried by the Ministry of Health and the catch-up effect that followed in 2008. Of the LL 252 billion allocated in the 2007 budget law proposal for hospitalization in the private sector, only 57 percent (or LL 144 billion) were paid in 2007 and 60 percent of the remaining 2007 allocations (or LL 65 billion) were paid in 2008. Meanwhile, of the LL 258 billion allocated in the 2008 budget law proposal for hospitalization in the private sector, 88 percent (or LL 227 billion) were paid in 2008.

Box 3: The Wheat Subsidy Policy

The policy to subsidize wheat in order to cap the price of bread at LL 1,500 per pack (1 pack = 1.12 kg) was initiated by the Government in July 2007, following Council of Ministers Decision 68 dated 28/7/2007 to stabilize the price of the bread pack in a context of increasing prices of wheat and diesel oil in international markets. For the price of a bread pack to remain at LL 1,500, the price of flour should not have exceeded LL 480,000 per ton, which required wheat CIF price of US\$ 210 per ton whereas it had reached US\$310 per ton by the end of July 2008.

The consumer subsidy scheme for bread was based on two components:

a) The first component of the policy was executed during the early stage of the subsidy scheme as a temporary solution until the Ministry of Economy and Trade was able to import wheat. It was based on the provision of treasury advances to the Directorate General of Cereals and Beetroot (DGCB), in order to directly subsidize the price of wheat for the mills until the end of the year 2007. The government first set the subsidy at US\$ 50 per ton of wheat between August and October 2007 and then increased it to US\$ 75 per ton of wheat for the November-December 2007 period after CIF price of wheat reached US\$ 365 per ton at the end of October 2008 (Council of Ministers' Decision 50 dated 10/11/2007). This component was executed as per the following decrees:

- Decree 649 dated 22/08/2007 provided a treasury advance of LL 12.0 billion to cover the cost of subsidizing imported wheat for milling and bread making at US\$ 50 per ton,
- Decree 926 dated 07/02/2008 provided a treasury advance of LL 2.3 billion to cover the additional cost of subsidizing imported wheat for milling and bread making,

Under this component, a total of LL 14.3 billion was paid as treasury advance to the DGCB to cover the cost of directly subsidizing the price of wheat for the mills until the end of the year 2007 and LL0.7 billion of the LL 14.3 advanced were repaid to the Treasury, bringing the real cost of the subsidy under this component to LL 13.5 billion. No official figures on the quantity of wheat subsidized under this program were available at the time of publication.

b) The second component was based on the provision of treasury advances to the DGCB to purchase imported wheat for milling and Arabic bread making. The imported wheat was then to be sold to the mills at a subsidized price. The revenues from the wheat sales plus the unutilized credit from the treasury advances were to be paid to the Treasury after deduction of the operational costs incurred by the DGCB in the subsidy process. This component was executed as per the following decrees:

- Decree 589 dated 31/07/2007 provided a treasury advance of LL 25.0 billion to purchase 50,000 tons of wheat with a fluctuation margin of 5 percent,
- Decree 749 dated 03/01/2008 provided a treasury advance of LL 33.2 billion to purchase 50,000 tons of wheat with a fluctuation margin of 5 percent,
- Decree 893 dated 07/02/2008 provided a treasury advance of LL 3.0 billion to cover the price differentials of the purchase of 50,000 tons of wheat as per decree 749,
- Decree 832 dated 18/01/2008 provided a treasury advance of LL 34.0 billion to purchase 50,000 tons of wheat (where this amount can fluctuate within a margin of 15 percent),
- Decree 1136 dated 07/03/2008 provided a treasury advance of LL 80.0 billion with a fluctuation margin of 5 percent.

A total of LL 160.8 billion were paid as treasury advance to the DGCB to purchase wheat under this component of the policy and 241,745.95 tons of wheat were imported by the DGCB for LL 156.6 billion or a price of LL 647,641 per ton. The wheat was then sold by the DGCB to the mills for a total amount of LL76.9 billion or a price of LL 318,052 per ton. The DGCB repaid to the Treasury a total of LL 81.0 billion (excluding any settlement from budget allocations), of which LL 4.2 billion were the unused portion of the treasury advances provided and LL 76.7 billion were collected from the sale of wheat to the mills net of LL 0.2 billion of incurred costs related to the subsidy scheme. The real cost of the subsidy under this component therefore, amounted to LL 79.9 billion or LL 330,334 per ton of wheat.

In conclusion, it is a total of LL 175.1 billion that has been paid by the Treasury to the DGCB as treasury advance for wheat subsidy between August 2007 and September 2008, a total of LL 81.7 billion was repaid to the Treasury (excluding any settlement from budget allocations) and the total real cost of the wheat subsidy amounted to LL93.4 billion.

The wheat subsidy policy ended on 15 November 2008 as per Decision 71 dated 8/11/2008.

Source: Directorate General of Cereals and Beetroot, Ministry of Economy and Trade
Directorate General of Finance, Ministry of Finance

Capital Expenditures

Capital expenditures for 2008 totalled LL 514 billion, decreasing from LL 558 billion collected in 2007 by about LL 45 billion or 8 percent. This decrease is the outcome of:

- a. An LL 11 billion or 60.3 percent decrease in acquisitions of land and buildings for the construction of roads, ports, airports, and water networks as acquisitions totalled LL 7 billion in 2008 and LL18 billion in 2007.
- b. A LL 9 billion or 21.1 percent decrease in equipment expenditures, which amounted to LL 33 billion in 2008 compared to LL 41 billion in 2007. This was due to lower equipment spending at the Ministry of Agriculture, Ministry of Public Health and the Presidency of Council of Ministers by LL 3 billion each.
- c. A LL 50 billion or 12.0 percent decrease in construction in progress, which reached LL 366 billion compared to LL 416 billion in 2007. The decrease in construction in progress is due to lower transfers to:
 - i. The Fund for the Displaced, by LL 27 billion or 35.8 percent. Of the LL 76 billion paid to the Fund for the Displaced in 2007, LL 6.2 billion were from 2006 budget allocations, LL 60 billion were pursuant to Decree #292 (dated 27/4/2007) and LL 10 billion were pursuant to Decree #999 (dated 24/11/2007). The LL 49 billion transferred to the Fund for the Displaced in 2008 was pursuant to Decree #999. Treasury advances to the Fund for the Displaced from Decrees #292 and #999 to be settled from the US\$ 300 million granted to the Fund by Law 362 (dated 16/8/2001) to complete the procedures for the return of the displaced.²⁸
 - ii. The Council of Development and Reconstruction (CDR), by LL 4 billion or 1.7 percent. This is explained by the reclassification of CDR's maintenance expenditures for the Lebanese University's Hadath campus from construction in progress/CDR category to the maintenance category starting January 2008. In 2008²⁹, LL 16 billion of CDR's maintenance expenditures for the Lebanese University's Hadath campus were classified as maintenance, whereas, in 2007, LL 13 billion³⁰ were classified under construction in progress by CDR.
 - iii. The Ministry of Public Work and Transport, by LL6 billion or 14.3 percent
 - iv. Other government agencies by LL 14 billion or 29.1 percent because of lower construction spending by the Ministry of Energy and Water, which witnessed LL 14 billion drop and the Internal Security Forces, which registered LL 2 billion decline.

The magnitude of the decreases above allowed for offsetting the impact of the increases in the following components of capital expenditures:

²⁸ Decree 292 also granted LL 40 billion treasury advance to the Council of the South, which was paid in 2007. The Council of the South was granted an additional LL 40 billion by Decree 999, which was paid in 2008. Treasury advances to the Council of the South from Decrees #292 and #999 are to be settled from the US\$ 200 million granted to the Council by Law 362 (dated 16/8/2001) to complete its assigned role and duties.

²⁹ Spending in 2008 was made following Decree #938 (dated 19/11/2007) that provided a treasury advance of LL 16 billion to CDR for this purpose.

³⁰ This payment was made following Decree #18004 (dated 16/11/2006) that provided a treasury advance of LL 15 billion to CDR for this purpose.

- a. A LL 24 billion or 50.4 percent increase in maintenance expenditures from LL 48 billion in 2007 to LL 72 billion in 2008. Of this increase,
 - i. LL 16 billion is due to the classification of the Lebanese University Hadath Campus' maintenance expenditures under the maintenance category starting January 2008.
 - ii. LL 3 billion is due to Decree #168 (dated 4/7/2008), which granted a treasury advance of LL 3.039 billion to the Council of Development and Reconstruction for the rehabilitation of the Lebanese Embassy in London.
- b. A LL 1 billion or 2.4 percent increase in other expenditures related to fixed capital assets from LL 35 billion to LL36 billion. Payments to IDAL (Export Plus program) remained constant at LL 30 billion in 2008 compared to 2007.

Treasury Expenditures

Treasury expenditures increased significantly, by LL 1,438 billion, in 2008 when compared to the same period of 2007. This item witnessed major increases in many of its components, detailed as follows:

- a) Municipalities' payments increased by LL 221 billion (Table 16), mainly as a result of:
 - i. A LL 196 billion increase in payments of revenue share that accrues to municipalities from their revenue-sharing rights from government taxes and fees among others. This increase occurred because 2008 witnessed an LL 87 billion payment pursuant to Decree #425 (dated 28/12/2007) to settle the third and fourth part of the 2005 revenue share and a LL 199 billion payment pursuant to Decree #614 (dated 27/10/2008) to settle the full 2006 revenue share while in 2007 only LL 87 billion were paid to settle the first and second part of the 2005 revenue share and,
 - ii. A LL 34 billion increase in payments for solid waste management. This was due to a LL 53 billion payment made following Decree #190 dated 5/09/08 in order to cover the costs resulting from the revision of the tariffs for the burial and treatment of solid waste by one of the major solid waste management companies.

These increases far exceeded the LL 8 billion decrease in payments made from the Independent Municipal Fund that are related to the IBRD "First Municipal Infrastructure Project". This decrease was the result of USAID³¹ paying LL 8 billion (the first payment that is due in January 2008) out of the total LL 15 billion due in 2008.

Table 16: Breakdown of Municipalities' Treasury Expenditures Account

(LL billion)	2006 Jan-Dec	2007 Jan-Dec	2008 Jan-Dec	Change 2008/2007
Distribution of Revenues Accruing to Municipalities	208	91	287	216%
Payments for Solid Waste Management	179	197	231	17%
Payments related to the First Municipality Infrastructure Project	16	15	7	-52%
Other Payments	2	2	2	-25%
Total Municipalities' Treasury Expenditures	405	305	527	73%

Source: DGF, MOF

³¹ USAID used its grant of US\$ 125 million to Lebanon in order to pay the said LL 8 billion.

b) **Other expenditures** include the following:

- i. Increase in payments of VAT refund by LL 106 billion. This resulted from the LL 75 billion payment made in March and April 2008 to cover 2007 dues.
 - ii. Other tax refunds increased by LL 8 billion from LL 19 billion in 2007 to LL 27 billion in 2008.
 - iii. Treasury advances to the High Relief Committee increased by LL 19 billion from LL 29 billion in 2007 to LL 47 billion in 2008. Of the LL 29 billion transferred in 2007, LL 6.2 billion were transfers from the donation account for the July 2006 war, LL 10 billion were paid pursuant to Decree #17578 (dated 2/7/2006) to cover food needs in the context of the July 2006 war and LL 12.5 billion were paid pursuant to Decree #616 (dated 08/08/2007), which granted LL 20 billion to cover execution of work and various needs. Of the LL 47 billion paid in 2008, LL 20 billion were paid pursuant to Decree #844 (dated 18/1/2008) to cover expenses related to the Quarantina, Baabda and Chevrolet events, LL 10 billion were paid pursuant to Decree #420 (dated 29/7/2008) to cover expenses related to the Tripoli events, LL 10 billion were paid pursuant to Decree #1044 (dated 24/11/2007) to cover expenses related to Nahr el Bared events and LL 7.5 billion were paid out of the remaining amount granted by Decree #616.
 - iv. Decree #990 (dated 24/11/2007) granted a treasury advance of LL 36.18 billion to the Rafic Hariri International Airport to finance the purchase of safety and security equipment. Payments amounting to LL 35 billion were made to this effect in 2008 (none in 2007);
 - v. Decree #884 (dated 3/11/2007) granted a treasury advance of LL 6 billion to the Rafic Hariri University Hospital and Decree #214 (dated 10/9/2008) granted a treasury advance of LL 8 billion. Payments totalling LL 14 billion were therefore made to this governmental hospital in 2008 versus LL 5 billion in 2007 pursuant to Decree #515 (dated 4/7/2007).
 - vi. Budget advances increased by LL 49 billion from LL 78 billion in 2007 to LL 126 billion in 2008. Of the LL 78 billion paid in 2007 and of the LL 126 billion paid in 2008, LL 41 billion and LL 73 billion³² were settled from Article 11 (material and supplies), respectively.
- c) Treasury advances for **diesel oil subsidy** increased by LL 29 billion. 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. Decree #930 (dated 7/2/2008) granted a treasury advance of LL 35 billion for the period covering 15/11/2006-29/02/2008 to subsidize diesel oil by an amount not to exceed LL 3,000 per tank (1 tank is equivalent to 20 litres). The subsidy was to stop if the diesel oil price reached LL 12,000 per tank. A total of LL 30 billion was paid in December 2008 to subsidize 211,430,475 litres of diesel oil consumed in winter 2007/08 at the weighted average cost of LL 2,837.15 per tank.

³² This is the amount reclassified as per the publication date of the report.

- d) Increase in transfers to, or on behalf of, [Electricite du Liban \(EDL\)](#) by LL 951 billion. Transfers to EDL reached LL 2,430 billion in 2008, compared to LL 1,479 billion 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 1,161 billion. In 2008, Treasury payments to KPC reached LL 398 billion compared to LL 216 billion in 2007, and those to Sonatrach reached LL 1,877 billion in 2008 compared to LL 898 billion in 2007. This increase in payments can be explained along two dimensions. First, EDL's gas oil consumption increased from 888,919 metric tons³³ paid in 2007 to 1,018,880 metric tons paid in 2008, and fuel oil consumption rose from 841,473 metric tons paid in 2007 to 1,114,684 metric tons paid in 2008. Second, the notable rise in international oil prices, especially in the third quarter of 2008, contributed to the increase of KPC and Sonatrach transfers. The increase in Treasury payments to KPC and Sonatrach for fuel and gas oil purchases was offset to a limited extent 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 142 billion. For details on Treasury transfers to EDL in the past years, see Box 4 below.

Table 17: Transfers to EDL

(LL billion)	2006 Jan-Dec	2007 Jan-Dec	2008 Jan-Dec	Change 2008/2007
EDL, of which:	1,370	1,479	2,430	64.3%
a- Debt Service, of which:	233	297	155	-47.8%
• C-Loans and Eurobonds, of which:	228	272	115	-57.7%
- Principal Repayments	180	235	94	-60.0%
- Interest Payments	48	37	22	-40.5%
• BDL-Guaranteed Loan Payments	5	25	40	60.0%
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	903	1,114	2,275	104.2%
d- Repayment of Oil Supplier Arrears	217	0	0	NA

Source: Ministry of Finance (MOF),

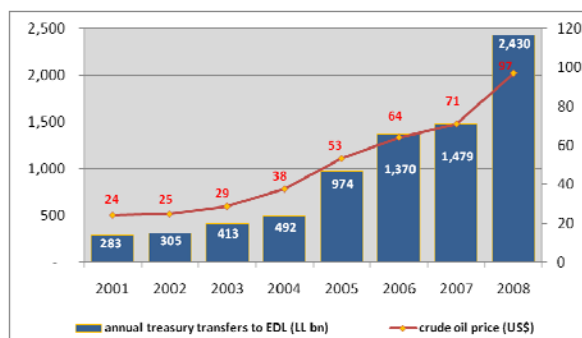
Directorate General of Finance (DGF)

³³ 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.

Box 4: Treasury Transfers to EDL (2001-2008)

Treasury transfers to Electricité du Liban (EDL):

- Include debt service payments (principal and interest) in relation to debt contracted directly by EDL and guaranteed by the Treasury; and, contracted by the Treasury for the benefit of EDL..
- Include payments against fuel oil and gas oil purchases that since end-2005 have been made in accordance with bilateral contracts between the Ministry of Energy and Water, and Algeria's Sonatrach and Kuwait Petroleum Corporation. These purchases are guaranteed by the Treasury.
- Increased considerably over the last eight years. Part of this increase was due to increasing fuel oil and gas oil payments, mainly as a result of the global surge in oil prices. The adjacent graph depicts these trends.

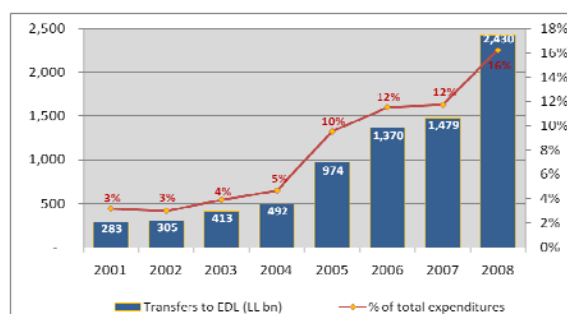


Operating losses exacerbated EDL's deficit. Although EDL's tariff structure was set in 1996 to cover a crude oil price of US\$ 25/barrel, Treasury transfers to EDL in 2001 and 2002, when the crude oil price averaged US\$ 23, were LL 283 billion and LL 305 billion, respectively. In 2006, 2007 and 2008, Treasury transfers to EDL were greater than its total oil bill. The following table illustrates the components of the EDL deficit in the last three years.

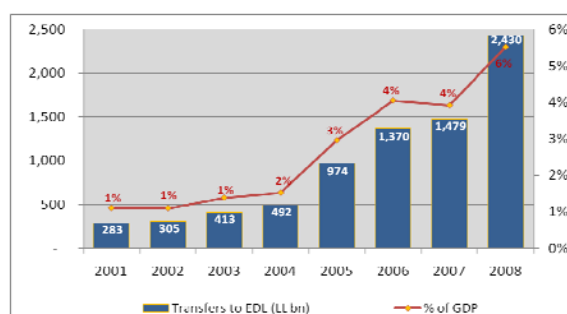
Breakdown of EDL Deficit in 2006, 2007 and 2008

(LL billion)	2006	2007	2008
EDL Oil Bill (EDL Oil Expenditures)	1,133	1,280	2,390
• EDL Oil Bill Contribution	229	166	114
• MOF Oil Bill Contribution	904	1,114	2,275
Total Treasury Transfers to EDL (EDL Deficit)	1,370	1,479	2,430

In 2006 and 2007, Treasury transfers to EDL constituted 12 percent of total public expenditures; however, this ratio rose to 16 percent in 2008, due to the surge in oil prices. The adjacent graph illustrates the burden of transfers to EDL on the Treasury over the 2001-2008 period. The 2007 transfer amounted to 30 percent of the value of debt service payments; it further rose in 2008 significantly to reach 46 percent.



EDL has constituted a sizeable burden on the Lebanese economy. In 2007, Treasury transfers to EDL represented 4 percent of the Gross Domestic Product (GDP), and in 2008 the figure rose to 6 percent. The adjacent graph depicts the proportion of transfers to EDL in Lebanon's GDP in the 2001-2008 period.



Social Services

Spending on [social services](#) covers the basic social services of:

- Health
- Education
- Pension and end-of-service indemnity
- Transfers to the National Social Security Fund (NSSF)
- Other areas of intervention classified as social assistance

Preliminary³⁴ social spending reached LL 3,070 billion at the end of 2008, constituting about 21 percent of total spending. Preliminary 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. Preliminary spending on education represented 31 percent of preliminary 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 subsidies to private schools. Pension and end-of-service payments and transfers to civil servants cooperatives constituted 35 percent and 6 percent of preliminary total social spending, respectively.

The year 2008 witnessed a higher level of preliminary spending on social services relative to 2007, by LL 261 billion or equivalent to an increase of 9 percent. This increase was mainly a result of:

- a) Higher preliminary spending on health, by LL 188 billion or 43 percent as a result of higher private hospital bills for public sector employees by LL 44 billion or 42 percent, higher private hospitalization bills for citizens taken in charge by the Ministry of Public Health by LL 117 billion or 68 percent and higher purchase of medication by LL 24 billion or 34 percent,
- b) End-of-service and pension expenditures showed LL 198 billion increase in 2008, from LL 889 billion to LL 1,087 billion³⁵,
- c) Higher transfers to non-profit organizations sponsored by the Ministry of Social Affairs increased by LL 11 billion or 20 percent in 2008 compared to 2007 and,
- d) Transfers to the Civil Servants Cooperative increased by LL 14 billion in 2008 or 8 percent compared to 2007.

³⁴ Figures for 2008 are preliminary because starting 1 November 2008 and in the absence of a law that would allow the opening of additional allocations in the budget to cover the payment of salaries and wages following the Council of Ministers' decision (Decision #79 dated 9/9/2008) to increase the monthly salary and wage increase, salary and wage payments made to the Ministry of Education and Higher Learning, Ministry of Social Affairs and Ministry of Displaced as well as the social allowances paid to civil servants all had to be made from LL 350 billion treasury advance that was granted to the Ministry of Finance by Decree 706 (dated 15 November 2008). Payments made from the treasury advance granted by Decree 706 cannot be broken down by recipient Ministries and economic classification until they are settled from budget allocations.

³⁵ Refer to section on "personnel costs" under "Current Primary Expenditures" for more details on retirement and end-of-service indemnities

These increases offset the lower preliminary spending on education and NSSF:

Preliminary spending on education decreased by LL 26 billion or 3 percent, stemming from LL 29 billion or 3 percent decrease in the salary and wage bill of the Directorate General of Education and LL 3 billion or 3 percent increase in education allowance.

Transfers to NSSF for 2008 reached LL 100 billion as part of the State's contribution to NSSF for 2008, which represented LL 130 billion (or 57 percent) decrease compared to LL 230 billion paid to NSSF in 2007. Of the latter amount in 2007, LL 100 billion were the State's contribution to NSSF for 2007 (paid in 2007); another LL 120 billion were paid as State's contribution to NSSF for previous years (paid in 2007); and the remaining LL 10 billion were contributions of public employees covered by NSSF (where this sum was collected by the State for NSSF).

Table 18: Main Social Expenditures (Preliminary Figures)

(LL billion)	2006	2007	2008	Change 2008/2007
Health	455	437	625	43%
• Hospitalization in the Private Sector	223	172	289	68%
• Purchase of Medication	64	70	94	34%
• Hospitalization of Public Sector Employees in Private Sector	71	105	150	42%
• Maternity and Sickness Allowance	33	36	42	19%
• Other	66	54	49	-8%
Education	960	976	950	-3%
• Ministry of Education and Higher Learning, of which:	854	864	835	-3%
- Wages and Salaries of the General Directorate of Education	478	506	452	-11%
- Wages and Salaries of the General Directorate of Higher Learning	1	1	1	-23%
- Wages and Salaries of the General Directorate of Technical Education	71	70	73	4%
- Contributions in the Salaries of the Lebanese University	152	161	162	1%
- Contributions to Non Profitable Organizations (Private Schools)	45	38	50	32%
- Construction under Execution (Construction and Restoration of Schools)	29	28	8	-71%
• Education Allowance in Private Sector	106	112	116	3%
Other Social Spending	1,385	1,396	1,495	7%
• Marriage Allowance	3	3	4	36%
• Birth Allowance	3	2	4	74%
• Death Allowance	4	3	3	-2%
• Other Social Spending Allowance	8	8	13	74%
• Participation in several Pension Funds	21	24	24	1%
• Ministry of Social Affairs, of which:	65	59	68	15%
- Transfers to Non-Profit Organizations	65	57	68	20%
• Ministry of Displaced	5	5	4	-28%
• Transfers to Civil Servants Cooperative	135	173	188	8%
• End-of-Service and Pensions	942	889	1,087	22%
• National Social Security Fund	200	230	100	-57%
Total Social Expenditures	2,801	2,809	3,070	9%

Source: MOF, DGF

Section IV: Public Debt Developments

Financing requirements

Total net financing requirements were largely financed through treasury bill issuances. The net increase in the stock of bilateral loans is explained by the disbursement of the first tranche of the Paris III French loan in February 2008 amounting to € 150 million. Multilateral loans increased by LL 71 billion as a result of the disbursement of the EPCA II Loan on November 20, 2008. Throughout 2008, the oversubscription trend in the LL treasury bill auctions allowed the treasury to increase liquidity in the treasury accounts to a level of LL 3,238 billion.

Table 19: Financing Table for Jan-Dec 2008

(LL billion)	2008 Jan-Dec
Overall Balance from the Financing Side³⁶	-4,105
Total Net Financing	4,105
• LL Treasury Bills 2/	7,395
• Eurobonds 1/	-260
• Bilateral Loans 1/	170
• Multilateral Loans 1/	71
• Private Sector loans 1/	-34
• Change in Treasury Accounts (-/increase +/decrease)	-3,238

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".

³⁶ 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.

Public Debt

Gross public debt by the end of 2008 registered LL 70,888 billion (US\$ 47.0 billion), an increase of 11.9 percent compared to the stock of debt end-2007. The increase was due to higher debt in national currency of LL 7,634 billion compared to a decrease in foreign currency debt equal to LL 96 billion in the same period.

Net public debt stood at LL 62,562 billion (US\$ 41.5 billion) by the end of 2008, higher than the end-2007 figure by 6.4 percent.

Table 20: Public Debt Outstanding as of End-December 2008

(LL billion)	Dec-05	Dec-06	Dec-07	Dec-08	Value Change Dec 07 -Dec 08	Change Dec 07- Dec 08
Gross Public Debt	57,985	60,851	63,350	70,888	7,538	11.9%
Net Debt	52,395	56,407	58,823	62,562	3,739	6.4%
Gross Market Debt ⁽¹⁾	34,721	38,670	39,216	46,992	7,777	19.8%

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.

The **weighted average cost of total foreign debt** stood at 6.71 percent end-2008 compared to 6.47 percent and the average implied interest rate was 6.77 percent versus 6.91 percent over the same period. The weighted average cost of Eurobonds as of end 2008 was 7.24 percent compared to 7.12 percent end-2007 and that of contracted loans was 3.84 percent end-2008.

The **weighted average cost of outstanding domestic debt** stood at 9.21 percent as of end-2008. The weighted average cost of 3-month Treasury bills was 5.18 percent, 6-month Treasury bills 7.18 percent, and 7.73 percent for the 12-month Treasury bills. For longer term notes, the weighted average cost was 7.52 percent for 24-month notes, 9.26 percent for 36-month notes, and 10.30 percent and 11.15 percent for the 48 month and 60-month instruments, respectively.

Local Currency Debt

By the end of December 2008, the stock debt denominated in local currency increased by 24 percent compared to the end-December 2007 amount, reaching LL 39,007 billion, as per Table 21 below.

By holder, the higher stock of local currency debt was largely led by commercial banks whose holdings of domestic debt increased by 44 percent to LL 24,320 billion by end-2008 compared to their holdings end-2007. This increase was almost exclusively due to commercial banks' higher holdings of treasury bills, their stock of which was LL 7,438 billion greater over this period. The higher share of commercial bank financing as a share of domestic debt is reflected in Figure 2 below.

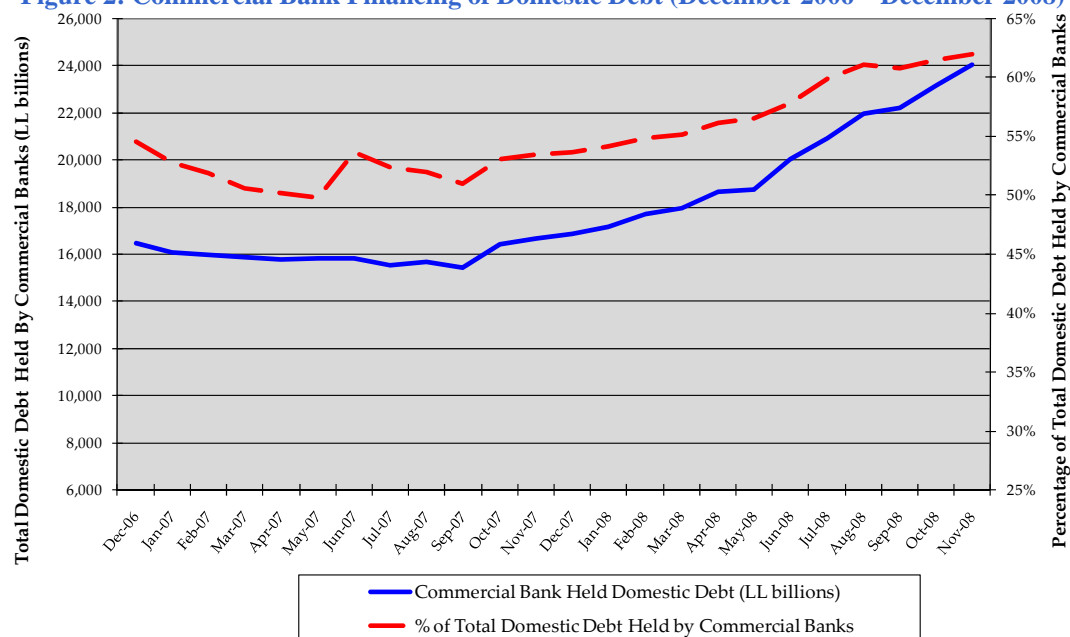
The stock of treasury bills by public entities increased by LL 266 billion between end-2007 and end-2008 to LL 5,062 billion.

The Central Bank reduced its holdings of domestic debt by LL 271 billion in 2008 to reach LL 8,781 billion. Eighty-four percent of this reduction is attributed to a lower stock of BdL's treasury bill portfolio, which ended 2008 at a level of LL 8,419 billion.

In the fourth quarter of 2008, commercial banks subscribed to 84 percent of treasury bills and notes in comparison to 37 percent in the first quarter, 81 percent in the second quarter and 84 percent in the third quarter of 2008. Public institutions were the second highest subscribers in the fourth quarter of 2008 with 10 percent of subscriptions, followed by the Central Bank that subscribed to 3 percent of accepted offers.

On a cumulative basis, commercial banks were the dominant subscribers in 2008 having subscribed to 70 percent of total treasury bills and notes for the year. This was followed by subscriptions by the Central Bank and public institutions recording 19 percent and 9 percent shares of total subscriptions, respectively.

Figure 2: Commercial Bank Financing of Domestic Debt (December 2006 – December 2008)



By instrument, higher stocks of long-term bonds were behind the increase in domestic currency debt. At LL 7,733 billion at the end of 2008, long-term bonds were 27 percent higher than end-2007 in contrast to short-term bills whose stock decreased by LL 91 billion over this period.

In the fourth quarter of 2008, 36-month notes continued to be the most demanded instrument in each of the first three quarters in 2008 and accounted for 86 percent of subscribed instruments in the first quarter, 80 percent in the second quarter, 84 percent in third quarter and 61 percent in the fourth quarter of 2008. The share of subscribed 36-month notes in the fourth quarter of 2008 was less than each of the previous quarters as larger demand was witnessed on 6-month treasury bills. The latter were the second most demanded instrument in the fourth quarter of 2008 at 23 percent of total subscriptions, followed by 12-month treasury bills with 7 percent of subscriptions and 3-month treasury bills with 6.5 percent in the last quarter.

Cumulatively for 2008, special interest was most noted on 36-month notes, which accounted for 78 percent of all subscriptions in view of the yield offered (between 9.00 percent and 9.32 percent over the course of 2008). The second most demanded instrument were 6-month treasury bills at 11 percent of subscriptions, followed by 24-month notes at 5 percent.

Table 21: Domestic Currency Debt by Holder and Instrument as of end-December 2008

Stocks (end of period)	Dec-05	Dec-06	Dec-07	Dec-08	Value Change Dec 07 - Dec 08	Change Dec 07- Dec 08
Local Currency Debt	29,141	30,204	31,373	39,007	7,634	24.3%
A. By Holder						
1. Central Bank (including REPOs and Loans to EDL to finance fuel purchases) ⁽¹⁾	11,686	9,588	9,052	8,781	-271	-3.0%
2. Commercial Banks	14,130	16,487	16,847	24,320	7,473	44.4%
3. Other Local Debt (T-Bills)	3,325	4,129	5,474	5,906	432	7.9%
o/w Public entities	2,446	3,313	4,796	5,062	266	5.6%
*Accrued interest included in debt	517	685	754	1,001	247	32.8%
B. By Instrument						
1. Long-Term Bonds	23,384	26,862	28,617	36,350	7,733	27.0%
1.1 60 months bonds	1,772	2,172	3,699	3,049	-650	-17.6%
1.2 54 months bonds	616	616	616	0	-616	-100.0%
1.3 48 months bonds	633	633	633	633	0	0.0%
1.4 36 months bonds	14,520	21,093	21,051	29,650	8,599	40.9%
1.5 30 months bonds	3,033	0	0	0	0	
1.6 24 months bonds	2,385	1,751	1,927	2,052	125	6.5%
1.7 Coupon interest	425	597	691	966	275	39.8%
2. Short-Term Bills*	5,246	2,839	2,288	2,197	-91	-4.0%
2.1 12 months bills	3,023	1,579	529	676	147	27.8%
2.2 06 months bills	2,067	1,117	1,750	1,234	-516	-29.5%
2.3 03 months bills	156	143	9	287	278	3088.9%
* Accrued interest included	92	88	63	35	-28	-44.4%
3. Other Local Debt	511	503	468	460	-8	-1.7%
3.1 Central Bank Loans	453	445	405	362	-43	-10.6%
3.2 Commercial Banks Loans	58	58	63	98	35	55.6%

Source: Ministry of Finance, Banque du Liban

⁽¹⁾BDL extended loans to EDL of US\$ 300 million to purchase fuel oil. These loans are listed as Public debt as they are government guaranteed.

In 2008, **primary market interest rates** decreased on all five regularly-auctioned instruments, as shown in Table 22. The reductions in yields were gradual and began in the second week of June 2008 with the most pronounced effect on the 36-month instrument yield which, at 9.00 percent by end-2008, was 32 bps lower than at the beginning of the year. The yield on 24-month notes decreased by 24 bps over this period to 8.26 percent, followed by 17 bps lower yield on 12-month bills to 7.58 percent. The gradual reduction in yields on the primary market reflected an upsurge in demand for government paper.

Table 22: Evolution of Primary Market Treasury Bills Yields

Maturity	Dec. 31, 2005	Dec. 31, 2006	Dec. 31, 2007	Dec. 31, 2008
3-month	5.22 percent	5.22 percent	5.22 percent	5.10 percent
6-month	7.24 percent	7.24 percent	7.24 percent	7.10 percent
12-month	7.75 percent	7.75 percent	7.75 percent	7.58 percent
24-month	8.50 percent	8.50 percent	8.50 percent	8.26 percent
36-month	9.34 percent	9.32 percent	9.32 percent	9.00 percent

Source: Ministry of Finance

As of June 26 and until the end of 2008, the five standard instruments started to be auctioned every week, with the 3-month, 6-month and 12-month T-bills auctioned every Monday, and the 24-month and 36-month notes auctioned every Tuesday to respond to market appetite. Previously, the 3 and 6-month treasury bills were issued on alternate Mondays, and the 24 and 36-month notes issued on the other every second Monday. The 12-month instrument was auctioned on every other Saturday.

The **average time-to-maturity of domestic currency** treasury bills and notes as of December 31st 2008 was 1.69 years compared to 1.53 years as of 31st December 2007. The average maturity of issued LL instruments was 35.8 months end-2008 compared to 36.6 months end-2007, reflecting the redemption of 54-month notes and some of the 60-month note portfolio, and demand on 36-month notes.

Foreign Currency Debt

Foreign currency debt registered LL 31,881 billion end-2008, decreasing by 0.30 percent compared to the end-2007 stock, as shown in Table 23. The stock of foreign currency debt decreased by LL 90.5 billion over 2008 due to exchange rate valuations, including the Euro depreciation from 1.468 EUR/USD end-2007 to 1.4174 EUR/USD end-2008.

The slight decrease in foreign debt over the course of 2008 was mainly driven by a lower Eurobond portfolio of LL 282 billion, offsetting a LL 186 billion increase in loans. The **loans** portfolio was higher due to the receipt of two loans from the International Monetary Fund (in accordance with the Emergency Post-Conflict Assistance agreements I and II) worth USD 77 million and USD 37 million, respectively, and the first tranche of a €375 million loan for debt reduction as part of the French Paris III pledge worth €150 million from the *Agence Française de Développement* since end-2007.

Table 23: Foreign Currency Debt by Holder and Instrument as of end-December 2008

(LL billion)	Dec-05	Dec-06	Dec-07	Dec-08	Value Change	Change Dec 07- Dec 08
Foreign Currency Debt⁽¹⁾	28,844	30,647	31,977	31,881	-96	-0.30%
4. Eurobonds	24,743	26,441	27,099	26,817	-282	-1.0%
Of which, Paris II at preferential rates ⁽²⁾	5,608	5,608	5,156	4,708	-448	-8.7%
Of which, Paris III at preferential rates ⁽³⁾	0	0	754	754	0	0.0%
* Accrued Interest on Eurobonds	406	434	410	430	20	4.9%
5. Loans	3,682	3,787	4,459	4,645	186	4.2%
5.1 Paris II loans	893	932	907	748	-159	-17.5%
5.2 Paris III loans ⁽⁴⁾	0	0	603	1,095	492	81.7%
5.3 Bilateral loans (non-Paris II and III)	703	714	759	745	-14	-1.8%
5.4 Multilateral loans (non-Paris II and III)	1,928	2,026	2,104	2,002	-102	-4.8%
5.5 Foreign Private Sector Loans	158	115	86	54	-32	-37.2%
6. Other Debt	419	419	419	419	0	0.0%
6.1 Special T-bills in Foreign Currency ⁽⁵⁾	419	419	419	419	0	0.0%

Source: Ministry of Finance, Banque du Liban

⁽¹⁾ Figures for Dec 05 - Dec 08 may differ from previously published data due to updated information regarding bilateral and multilateral loans in the Debt Management and Financial Analysis System (DMFAS)

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

⁽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 loans.

⁽⁵⁾ Special T-bills in Foreign currency (expropriation bonds)

By end-2008, the **Eurobond** portfolio stood at LL 26,817 billion, 1.04 percent lower than the stock of Eurobonds end-2007. In 2008, Eurobonds redeemed stood at US\$ 2.43 billion (Table 24). This included the redemption of amortized principal payments on four Eurobonds issued in the context of Paris II, which are redeemable in twenty equal semi-annual payments starting in year 6 (2008).

Table 24: Net issuance of Eurobonds in 2008

(US\$)	2008
Eurobonds issued	2,256,612,000
Eurobonds redeemed	2,429,751,100
Net issuance	-173,139,100

Source: Ministry of Finance

During the course of 2008, the Republic of Lebanon undertook three refinancing transactions, issuing US\$ 2.26 billion (Table 24, details of which are in Table 25 below):

- 1) On March 12, 2008, the Lebanese Republic issued US\$ 875 million Eurobond due in 2013 at a coupon rate of 9.125 percent. The issue was used to rollover the March 2008 US\$ 869 million outstanding bond.

- 2) In May 2008, the Lebanese Republic issued US\$ 881.612 million 9 percent coupon Eurobond due 2014 at a yield of 9.000 percent. The issue was a result of: (i) the successful completion of a voluntary debt exchange offer for the 7.000 percent notes due May 2008, 7.375 percent notes due June 2008 and 10.125 percent notes due August 2008, which settled on May 2nd, 2008. The aggregate participation rate for the offer was 58.53 percent; and (ii) the issuance of new notes worth US\$ 150 million, which settled on May 12th, 2008. The proceeds of the transactions were used for refinancing purposes.
- 3) On August 6th 2008, the Lebanese Republic issued a US\$ 500 million 8.50 percent coupon Eurobond due 2015 at a yield of 8.625 percent.

Table 25: Terms and conditions of Eurobonds issued in 2008

Issued size	Currency	Coupon rate	Yield	Issue date	Maturity date
875,000,000	USD	9.125%	9.250%	12-Mar-08	12-Mar-13
881,612,000	USD	9.000%	9.000%	2-May-08	2-May-14
500,000,000	USD	8.500%	8.625%	6-Aug-08	6-Aug-15

Source: Ministry of Finance

The **average time-to-maturity of Eurobonds** was 4.66 years as of December 31, 2008, lower than the average time to maturity of the Eurobond portfolio as of December 31, 2007 at 4.95 years.³⁷

Secondary market yields on Eurobonds in the fourth quarter of 2008 increased by an average of 120 bps³⁸. The secondary market yields over this period are indicative only in view of very tight liquidity in all emerging market secondary trading markets for bonds due to market volatility caused by the global financial crisis. The impact of the crisis was relatively limited on the performance of Lebanese Eurobonds in the fourth quarter of 2008 as by early January 2009, bid yields had decreased to almost pre-financial crisis levels for most bonds.

Table 26: Performance of Lebanese Eurobond Secondary Market

Lebanese Issues	Bid Yield (%)				
	2-Oct-08	16-Oct-08	28-Oct-08	13-Nov-08	23-Dec-08
EURO					
LEB 7.250 09	7.05	10.83	10.75	9.22	10.81
LEB 5.875 12	9.14	9.92	13.92	9.82	9.55
US Dollars					
LEB 10.250 09	8.12	10.24	10.23	10.22	8.84
LEB FRN 09	9.70	12.70	12.95	10.57	8.66
LEB 7.000 09	7.89	9.81	12.89	9.50	9.22
LEB 7.125 10	7.88	9.50	13.82	9.63	9.39
LEB 7.875 11	8.30	9.20	13.58	9.60	9.72
LEB 4.000 17 Av Life	10.59	12.16	13.65	10.22	10.39
LEB 7.750 12	8.36	9.64	13.17	9.67	9.72
LEB 9.125 13	8.57	9.69	13.80	10.44	10.62
LEB 8.625 13	8.69	9.78	14.72	10.44	10.33
LEB 7.375 14	8.89	9.90	12.54	10.59	10.37
LEB 9.000 14	8.80	9.74	12.89	10.73	10.23
LEB 10.000 15	8.63	9.42	9.42	10.65	6.77
LEB 8.500 15	8.89	9.72	11.77	10.62	10.42
LEB 8.500 16	8.87	9.67	11.62	10.63	10.99
LEB 11.625 16	8.95	9.63	13.80	10.64	11.62
LEB 8.250 21	9.13	9.72	16.19	11.46	10.39

Source: Credit Suisse

³⁷ Takes into consideration amortization of four Eurobonds issued in the context of the Paris II Conference.

³⁸ Calculated from October 2, 2008 to 23 December, 2008 as per data in Table 26.

Section V: External Trade

Balance of trade

The **trade balance** for 2008 was in deficit of US\$ 12,658 million, 41 percent higher than the deficit of US\$ 8,999 million in 2007. This performance was mainly due to the 37 percent increase in imports at US\$ 16,137 million, which offset the 24 percent increase in exports at US\$ 3,478 million.

Imports registered US\$ 16,137 million in 2008 compared to a total of US\$ 11,815 million in 2007. This spike in imports was mainly driven by an increase in imports of mineral fuels and oils of US\$ 1,462 million. From a trading partner perspective, imports from USA were the highest value at US\$ 1,850 million as well as the biggest value increase in 2008 with US\$ 710 million higher imports than in 2007.

Export growth was led by exports of fertilizers, which increased by US\$ 132 million in 2008 compared to 2007, and pearls, precious stones and metals, which were higher by US\$ 87 million. Geographically, the United Arab Emirates stood for the top share of exports at 10 percent, equivalent to US\$ 346 million, a figure that is US\$ 102 million higher than in 2007. This expansion, from a trading partner perspective, came second after Iraq, which witnessed the biggest value change at US\$ 121 million in 2008.

Table 27: External Trade

(US\$ million)	2007	2008	Value Change	Change 2008/2007
Exports	2,816	3,478	662	23.5%
Imports	11,815	16,137	4,321	36.6%
Trade Balance	- 8,999	- 12,658	- 3,659	40.7%

Source: Ministry of Finance, Directorate General of Customs

On a **regional trade** level, imports from Arab countries increased by 24 percent in 2008 to reach US\$ 2,165 million and those from the European Union rose by 30 percent in 2007 to US\$ 5,887 million. For the same time period, exports to Arab countries increased by 24 percent to US\$ 1,636 million, and exports to the European Union increased by 15 percent to US\$ 532 million..

The balance of trade from a **volume** perspective resulted in 7.7 percent wider trade deficit, amounting to a net weight of 8,983 thousand tons in 2008 compared to a net weight of 8,344 thousand tons in 2007. The volume of imports increased by 7 percent to a net weight of 12,506 thousand tons in 2008. Total exports were 5 percent higher totalling a net weight of 3,523 thousand tons in 2008 compared to a net weight of 3,363 thousand tons in 2007.

Imports – Product Distribution

Table 28: Import Distribution by Product (US\$ million)

Rank	Product	2008	Share	2007	Share	Value Change	Change 2008/2007
1	Mineral fuels and oils	4,077	25.3%	2,615	22.1%	1,462	55.9%
2	Vehicles other than railway	1,687	10.5%	958	8.1%	729	76.1%
3	Reactors, boilers, machinery and mechanical appliances	942	5.8%	845	7.2%	97	11.5%
4	Natural or cultured pearl, precious or semi-precious stones...	852	5.3%	483	4.1%	369	76.4%
5	Iron and steel	793	4.9%	526	4.5%	267	50.7%
	Other	7,786	48.2%	6,388	54.1	1,397	21.9%
Total Imports		16,137	100.0%	11,815	100.0%	4,321	36.6%

Source: MOF, DGC

Mineral fuels and oils topped the list of imported products in 2008 at US\$ 4,077 million, 56 percent higher than in 2007 (US\$ 2,615 million). The increase in the import value of mineral products is attributed to:

- a- US\$ 322 million increase in the imports of car gasoline, which reached US\$ 1,314 million in 2008 compared to US\$ 993 million in 2007. This 32 percent increase is due to:
 - 26 percent increase in the average price of car gasoline from 818 LL/liter in 2007 to 1,034 LL/liter in 2008
 - 5 percent increase in the quantity of imported car gasoline in 2008 at 1,916 million liters, from US\$ 1,830 million liters in 2007
- b- Imports of gas oil and fuel oil (mainly used by EDL, the Ministry of Energy and Water and private companies) rose significantly in 2008 in terms of value to register 83 percent and 61 percent higher than in 2007, as shown in the table below.
 - Gas oil imports totalled US\$ 1,681 million in 2008, up from US\$ 921 million in 2007. The US\$ 760 million increase in imports is attributed to 30 percent higher quantity of gas oil imported, from 1,562 million liters in 2007 to 2,022 million liters in 2008. This volume increase was coupled with 41 percent hike in the price of gas oil from 889 LL/liters in 2007 to 1,253 LL/liter in 2008.
 - Imports of fuel oil reached US\$ 706 million in 2008, higher than imports in 2007 by US\$ 267 million. Higher imports of fuel oil are explained by 71 percent hike in fuel oil prices from 574 LL/liter in 2007 to 981 LL/liter in 2008. This rise offset the 6 percent drop in quantity imported.

Table 29: Breakdown of Mineral Product Imports

	2007	2008	Value Change	Change 2008/2007
Import value details (US\$ million)				
Car gasoline	993	1,314	321	32.3%
Gas oil	921	1,681	760	82.5%
Fuel oil	439	706	267	60.8%
Import quantity details (millions of liters)				
Car gasoline	1,830	1,916	86	4.7%
Gas oil	1,562	2,022	461	29.5%
Fuel oil	1,154	1,085	68-	-5.9%
Import price details (LL/liter)				
Car gasoline	818	1,034	216	26.4%
Gas oil	889	1,253	364	40.9%
Fuel oil	574	981	407	71.0%

Source: MOF, DGC

Vehicles other than railway ranked second to reach US\$ 1,687 million in 2008 compared to US\$ 958 million in 2007. The US\$ 729 million increase was mainly a consequence of the significant rise in imports of cars by US\$ 640 million, reflecting a higher number of cars from 52,014 in 2007 to 100,333 in 2008.

Imports of **reactors, boilers, machinery and mechanical appliances** rose by US\$ 97 million, due to the rise of many related categories, such as metal-rolling mills (239 percent), and machining centres, unit construction machines and multi-station transfer machines for metal working (294 percent).

Natural or cultured pearl came fourth in terms of share of total imports in 2008 with US\$ 852 million compared to US\$ 483 million in 2007. The 76 percent increase was induced by significantly higher imports of silver (309 percent) and gold (93 percent).

The 51 percent increase in imports of **iron and steel** to US\$ 793 million in 2008 from US\$ 526 million in 2007 is a result of the rise of imports of various products.

Exports – Product Distribution

Table 30: Export Distribution by Product (US\$ million)

Rank	Product	2008	Share	2007	Share	Value Change	Change 2008/2007
1	Natural or cultured pearls, precious or semi-precious stones...	574	16.5%	488	17.3%	87	17.7%
2	Electrical machinery and equipment	289	8.3%	235	8.4%	53	22.7%
3	Reactors, boilers, machinery and mechanical appliances	247	7.1%	224	8.0%	23	10.1%
4	Iron and steel	215	6.2%	183	6.5%	33	17.8%
5	Fertilisers	215	6.2%	83	3.0%	132	158.3%
	Other	1,937	55.7%	1,602	56.9%	335	20.9%
Total Exports		3,478	100.0%	2,816	100.0%	662	23.5%

Source: MOF, DGC

Lebanon's top exported products in 2008 were **natural or cultured pearl** at US\$ 574 million, an 18 percent increase compared to 2007 at US\$ 488 million, although its share of total exports fell from 17.3 percent in 2007 to 16.5 percent in 2008. The US\$ 87 million higher exports was mainly due to a (1) US\$ 49 million increase in exports of diamonds, and (2) US\$ 29 million increase in exports of articles of jewellery and parts thereof, of precious metal or of metal clad with precious metal.

Higher by US\$ 53 million or 23 percent, exports of **electrical machinery and equipment** totalled US\$ 289 million in 2008 compared to US\$ 235 million in 2007. The increase was due to higher exports of (1) electric generating sets and rotary converters by US\$ 34 million, and (2) insulated wires, cables and other electric conductors by US\$ 15 million. These two major rises offset the 35 percent drop in exports of electric motors and generators.

Exports of **reactors, boilers, machinery and mechanical appliances** rose by US\$ 23 million, mainly due to the rise of refrigerators and freezers by US\$ 16 million.

The 18 percent increase in exports of **iron and steel** to US\$ 215 million in 2008 from US\$ 183 million in 2007 is a result of the rise of imports of various products.

Imports – Country Distribution

Table 31: Import Distribution by Country (in US\$ million)

Rank	Country	2008	Share	2007	Share	Value Change	Change 2008/2007
1	USA	1,850	11.5%	1,139	9.6%	710	62.3%
2	China	1,391	8.6%	1,018	8.6%	373	36.7%
3	France	1,335	8.3%	883	7.5%	452	51.1%
4	Italy	1,109	6.9%	1,059	9.0%	50	4.7%
5	Germany	1,027	6.4%	750	6.3%	277	37.0%
6	Turkey	699	4.3%	405	3.4%	293	72.4%
7	Japan	620	3.8%	395	3.3%	225	57.1%
8	Switzerland	616	3.8%	348	2.9%	268	77.0%
9	Russia	504	3.1%	352	3.0%	151	42.9%
10	Kuwait	489	3.0%	270	2.3%	219	81.1%
	Other	6,499	40.3%	5,196	44.0%	1,303	25.1%
Total Imports		16,137	100.0%	11,815	100.0%	4,321	36.6%

Source: MOF, DGC

The highest value of imports to Lebanon in 2008 was from the **United States** at US\$ 1,850 million, 62 percent higher than in 2007, which stood at US\$ 1,139 million. The top five products imported from the United States in 2008, making up about 80 percent of total imports from USA, were: (1) mineral fuels and oils worth US\$ 971 million (127 percent higher than 2007 at US\$ 427 million); (2) vehicles (other than railway) at US\$ 279 million (79 percent higher than in 2007 at US\$ 155 million); (3) reactors, boilers, machinery and mechanical appliances of US\$ 98 million (13 percent lower than 2007 at US\$ 112 million); (4) cereals at US\$ 75 million (12 percent more than in 2007 at US\$ 67 million); and (5) electrical machinery and equipment at US\$ 51 million (60 percent higher than 2007 at US\$ 32 million).

Lebanon's second largest trading partner in terms of imports in 2008 was **China**. At US\$ 1,391 million, imports from China rose by 37 percent (or US\$ 373 million) compared to 2007. This rise was mainly due to (1) US\$ 71 million increase in imports of iron and steel, (2) US\$ 67 million increase in imports of reactors, boilers, machinery and mechanical appliances, and (3) US\$ 46 million increase in imports of electrical machinery and equipment.

Imports from **France** rose by 51 percent in 2008 to reach US\$ 1,335 million (US\$ 883 in 2007). In value terms, this US\$ 452 million increase is mainly due to higher imports of mineral fuels and oils of 107 percent (or US\$ 373 million) to reach US\$ 722 million. In volume terms (to set aside the effect of the Euro's appreciation), total imports from France increased by 51 percent to a net weight of 897 thousand tons, of which minerals and oil imports reached a net weight of 780 thousand tons.

Imports from **Italy** which were 5 percent higher in 2008 at US\$ 1,109 million compared to US\$ 1,059 million in 2007 increased mainly due to (1) US\$ 13 million (or 40 percent) higher imports of articles of apparel and clothing accessories, (2) US\$ 21 million (or 24 percent) higher imports of reactors, boilers, machinery and mechanical appliances and (3) US\$ 8 million (or 22 percent) higher electrical machinery and equipment and parts thereof. It is worth mentioning that imports of mineral fuels and oils from Italy dropped by 16 percent to reach US\$ 378 million in 2008, down from US\$ 450 million in 2007.

At US\$ 1,027 million in 2008, imports from **Germany** increased by US\$ 277 million from US\$ 750 million in 2007. This increase was mainly due to higher imports of vehicles totalling US\$ 522 million in 2008, as compared to US\$ 298 million in 2007. This was induced not only by the appreciation of the Euro, but also by the rise in volume of 73 percent. At US\$ 8 million higher than 2007, imports of plastics and articles thereof exhibited the second largest percentage change in imports from Germany with total imports totalling US\$ 30 million in 2008. The rise in total imports from Germany was mainly due to the appreciation of the Euro, as in terms of volume, imports from Germany witnessed a

decrease of 17 percent to a net weight of 183 thousand tons in 2008 from 221 thousand tons in 2007. This decline in volume was mainly due to a net weight drop in imports of mineral fuels and oils by 96 percent to net weight of 3 thousand tons.

Exports – Country Distribution

Table 32: Export Distribution by Country (in US\$ million)

Rank	Country	2008	Share	2007	Share	Value Change	Change 2008/2007
1	UAE	346	10.0%	244	8.7%	102	42.0%
2	Switzerland	329	9.5%	308	10.9%	21	6.8%
3	Iraq	269	7.7%	148	5.2%	121	82.3%
4	Syria	224	6.4%	210	7.5%	14	6.5%
5	KSA	209	6.0%	187	6.7%	22	11.5%
6	Turkey	207	5.9%	110	3.9%	97	88.8%
7	Egypt	127	3.7%	114	4.0%	13	11.9%
8	Jordan	119	3.4%	99	3.5%	20	19.9%
9	Iran	101	2.9%	39	1.4%	62	158.2%
10	Kuwait	96	2.8%	106	3.8%	(11)	-9.9%
	Other	1,452	41.7%	1,252	44.4%	200	16.0%
Total Exports		3,478	100.0%	2,816	100.0%	662	23.5%

Source: MOF, DGC

The **United Arab Emirates** was Lebanon's top export recipient, absorbing US\$ 346 million of Lebanese exports. This represents a 42 percent rise in the value of exports to United Arab Emirates as compared with 2007 at US\$ 244 million, mainly due to US\$ 65 million higher exports of natural or cultured pearls, precious or semi-precious stones. This is the top product export to United Arab Emirates, amounting to US\$ 173 million by end-2008.

Switzerland received US\$ 329 million worth of Lebanese exports in 2008 compared to US\$ 308 million in 2007. The US\$ 21 million increase is mainly due to higher exports of natural or cultured pearls, precious or semi-precious stones which increased by US\$ 20 million over this period to reach US\$ 324 million.

Exports to **Iraq** totalled US\$ 269 million in 2008, an increase of 82 percent compared 2007 at US\$ 148 million. The US\$ 121 million increase in exports to Iraq was led by a US\$ 29 million increase in exports of salt, sulphur, earths and stones; a US\$ 27 million increase in reactors, boilers, machinery and mechanical appliances; as well as a US\$ 24 million increase in electrical machinery and equipment.

Exports to **Syria** increased by about 7 percent in 2008 to US\$ 224 million compared to US\$ 210 million in 2007. The US\$ 14 million higher exports are mainly explained by higher exports of (1) US\$ 6 million of preparations of vegetables, fruits and nuts to US\$ 12 million in 2008, and (2) US\$ 6 million of electrical machinery and equipment to US\$ 10 million. These two increases compensated for the decreases in sugars and confectionery, paper and paperboard, and essential oils of 13 percent, 5 percent and 5 percent respectively.

Lebanon's exports to the **Kingdom of Saudi Arabia** increased by 12 percent from US\$ 187 million in 2007 to US\$ 209 million 2008. The US\$ 22 million rise was mainly attributed to higher exports of furniture, bedding and mattresses by US\$ 5 million, as well as articles of stone, plaster and cement by US\$ 3 million. On the other hand, several items witnessed a drop such as plastics and articles thereof (11 percent lower) and articles of apparel and clothing accessories (15 percent lower).

Section VI: VAT Developments

Please note that most of the VAT figures in this section are extracted from declarations/claims processed. As such, these figures depend on the number of processed declarations at a given date (in this case the figures are as of March 31, 2008). Given that the process of entering data in the system is ongoing, figures may be subject to change in the future as more declarations/claims are processed.

Three sources of Value Added Tax (VAT) statistics are reported: VAT collected from internal economic activity, VAT from imports collected at customs, and VAT declarations. Tax revenues from VAT are outlined in the following section broken-down by economic activity³⁹.

VAT: Internal Activities

In 2008, declared VAT from **internal activities** totalled LL 655 billion⁴⁰, an increase of 20 percent from 2007, as shown in Table 33. With the exception of “manufacture of other non-metallic mineral products”, all the top VAT generating activities witnessed growth in 2008.

Table 33: VAT Revenues from Internal Operations (10 Largest Contributing Activities)

(LL billion)	Economic Activity (ISIC Nomenclature)	2007	Share	Previous Rank*	2008	Share	Change 2008/2007
Rank	VAT from internal activity, of which	544	100%	-	655	100%	20.3%
1	Wholesale trade and commission trade, except of motor vehicles and motorcycles	112	21%	1	126	19%	12.5%
2	Retail trade, except of motor vehicles and motorcycles; repair of personal and household goods	75	14%	2	104	16%	39.0%
3	Other business activities	65	12%	3	75	11%	16.2%
4	Hotels and restaurants	44	8%	4	67	10%	52.4%
5	Construction	37	7%	5	39	6%	4.8%
6	Sale, maintenance and repair of motor vehicles and motorcycles; retail sale of automotive fuel	23	4%	6	26	4%	11.8%
7	Real estate activities	19	3%	7	25	4%	31.2%
8	Manufacture of food products and beverages	18	3%	8	24	4%	29.9%
9	Post and telecommunications	16	3%	10	17	3%	10.2%
10	Manufacture of other non-metallic mineral products	17	3%	9	16	2%	-4.1%
	Other	118	22%		135	21%	14.4%

Source: MOF, VAT Directorate, VAT Declaration Forms

(Please note that VAT figures in this table represent declared amounts whereas VAT figures in the Revenue section are cash collected amounts.

Note that VAT declaration amounts may vary depending on the number of processed declarations at a given date.

Wholesale trade activity maintained its rank as the highest VAT generating internal activity in 2008, at LL 126 billion, up by 13 percent from 2007 (LL 112 billion). The VAT from wholesale trade accounts for 19 percent of VAT collection from internal activities in 2008, down from 21 percent in 2007. Wholesale trade became the highest generating VAT activity in 2006.

³⁹ Taxpayers' economic activities are classified along the Ministry of Finance's Business Activity Code, which adopts the ISIC nomenclature.

⁴⁰ The amounts of VAT declared (extracted from declaration forms) differ from VAT amounts actually collected on a cash-basis (Fiscal Performance figures).

Retail trade, the second highest VAT generating activity in 2008, produced LL 104 billion, up by 39 percent from the level of 2007. This increase comes after the year 2007 experienced a slowdown in retail activity. As a result of this increase, VAT from retail trade activity represented 16 percent of total VAT from internal activities compared to 14 percent in 2007.

VAT from **Other business activities**, which accounted for 11 percent of VAT from internal activities, increased by 16 percent to LL 75 billion. This category includes architectural and engineering activities (which account for 26 percent of the sub-total and increased by 10 percent), advertising (increased by 32 percent), and business and legal consulting.

Hotels and restaurants generated LL 67 billion in VAT, 52 percent higher than LL 44 billion in 2007. The increase reflected a combination of higher prices and significantly higher number of tourists (31 percent increase) in 2008 compared to 2007.

VAT from **construction activities, which contributed** 6 percent of the total VAT from internal activities, increased by 5 percent only to LL 39 billion in 2008.

The **sale of cars, maintenance and repair of vehicles** increased by 12 percent to LL 26 billion in 2008. The rank and share of VAT from the sales for cars, maintenance and repair of vehicles did not change from 2007 at 4 percent.

VAT from **real estate activities** increased significantly, by 31 percent, to reach LL 25 billion in 2008, an increase similar to that of 2007. This category only reflects VAT collected on commercial rent as the sale of real estate is VAT exempt. However, the increase is consistent with the increased real estate activities, which resulted in higher revenues as detailed in "Section II: Revenue Outcome".

VAT generated by the **manufacture of food products and beverages**, namely the manufacture of malt liquors and malt, sweet confectioneries, and bakery products, increased by 30 percent in 2008 to reach LL 24 billion. This category maintained its rank and increased its share to 4 percent of VAT from internal activities.

The VAT from **post and telecommunications**⁴¹ sector increased to LL 17 billion, or by 10 percent from the 2007 level.

The **Manufacture of other non-metallic mineral products** activity contributed LL 16 billion to total VAT from internal activities, decreasing by 4 percent from LL 17 billion in 2007. This decrease might be an adjustment as the manufacturing of concrete, cement and plaster and their derivatives (which are included in this category) had increased significantly over the past two years. The decrease in the share of VAT from this activity resulted in lower ranking of this activity from the ninth place to the tenth place.

VAT: Collected at Customs

As shown in Table 34, VAT revenues collected at customs increased by 39 percent in 2008 to reach LL 1,993 billion. This rise is in line with the 37 percent increase in imports, mainly due to an increase in imports of mineral fuels and oil⁴²

⁴¹ Note that the VAT contribution figure from Post & Telecommunication here is understated as it does not capture all the VAT raised from the telecommunication sector. As per the VAT law, a large share of VAT on telecom is directly transferred to municipalities, and hence is not captured in these figures.

⁴² For further details on trade performance, please refer to Section V

Table 34: VAT Revenue Collected At Customs (Five Largest Contributing Items)

(LL billion)	2007	Share	2008	Share	Change 2008/2007
VAT Customs Collection 1/, of which	1,438	100%	1,993	100%	38.6%
Mineral fuels and oils	400	28%	611	31%	52.8%
Vehicles other than railway	178	12%	316	16%	77.5%
Reactors, boilers, other machinery	108	8%	133	7%	23.1%
Iron and steel	81	6%	123	6%	51.9%
Electrical machinery	85	6%	107	5%	25.9%
Others	587	41%	703	35%	19.8%

Source: Directorate General of customs (DGC), Import Declarations, by HS chapter;

1/ VAT collected at Customs in this table may differ from the amount previously mentioned in the Revenue Section as this data is obtained from the Customs Administration Declaration forms whereas VAT in the fiscal performance is on a cash basis amount

In general, VAT revenue collected at customs reflects the top 5 imports, except for electrical machinery, which is not in the top five imports and natural and cultured pearls that is in the top imports but does not generate commensurate VAT.

Mineral fuels and oils, representing the largest share of VAT collected at customs (31 percent), increased by 53 percent in 2008 compared to the level of 2007. This result is consistent with the 56 percent rise in the value of mineral fuels and oils imported. The hike accounts for 38 percent of the total increase in VAT from imports, by far the largest in absolute value.

VAT from **Vehicles other than railway** (such as tractors, their parts and accessories) increased by 78 percent to LL 316 billion, also in line with the 76 percent increase in imports. The category contributed 16 percent to total VAT from imports, up from 12 percent in 2007.

The third product category contributing to VAT revenues collected at customs was **reactors and boilers**, mainly machinery and mechanical appliances; it generated LL 133 billion, an increase of 23 percent from its 2007 level. Its share of the total VAT collected at imports decreased to 7 percent from 8 percent in 2007.

VAT from imports of **iron and steel** continued to rise in 2008 increasing by 52 percent (58 percent in 2007) to reach LL 123 billion in 2008 compared to LL 81 billion in 2007. The improved ranking at number four was in line with the increased total imports of iron and steel, which went up by 51 percent in 2008. The share of VAT from iron and steel of total VAT at import was stable at 6 percent.

Electrical machinery, ranking fifth in VAT at imports, also increased by 26 percent to LL 107 billion in 2008; the performance was in line with the 29 percent increase in imports of electrical machinery. This category's share of total VAT decreased to 5 percent contribution, down from 6 percent in 2007.

VAT: Declaration Statistics

Since the introduction of the VAT in 2002 and due to the subsequent lowering of the original threshold of LL 500 million in 2002 decreasing annually to reach LL 150 million in 2005⁴³, VAT declaration continued to increase and reached 90,269 in 2008 compared to 83,904 in 2007.

⁴³ The mandatory registration threshold lowered to LL 150 million of annual turnover has been effective as of January 1st 2005. The voluntary registration threshold was cancelled effective 1/1/2004, granting businesses and individuals the right to register in the VAT regardless of the level of their annual turnover.

Table 35: Statistics from VAT Declaration Forms

(LL billion – except for first item)	2006	2007	2008	Change 2007/2006	Change 2008/2007
Number of Declarations Received	78,123	83,904	90,269	7.40%	7.6%
Amount of VAT Declared	543	568	688	4.50%	21.2%
Total Amount of VAT Claimed for Refund	253	258	363	2.11%	40.6%
• Diplomats and international organizations 1/	7	15	38	111.07%	145.5%
• Exempted sectors 2/	38	51	43	36.51%	-16.0%
• Exporters 3/	67	94	131	40.25%	38.8%
• Semi-annual and annual refund claims 4/	141	97	151	-31.02%	55.6%
VAT Tourist Refund	9	11	17	13.95%	62.8%

Source: MOF, VAT Directorate, VAT Declaration Forms as of March 30, 2008

VAT revenue figures in this table are based on quarterly VAT declaration forms, whereas the VAT revenue figures previously mentioned in the Revenue Section represent cash collections.

1/ Includes United Nations.

2/ Under Article 59 of VAT Law and its amendment in 2004, exempted sectors are granted 100% refund, of VAT input incurred..

3/ Exports are zero-rated

4/ By virtue of VAT Law and its amendment in 2004, VAT creditors/carry forwarders can refund their VAT twice each year.

The total amount of VAT filed and declared increased by 7.6 percent in 2008 and reached LL 688 billion (LL 568 billion in 2007). The average declaration decreased slightly to LL 7.62 million in 2008 from LL 7.76 million in 2007. This is consistent with the higher number of declarations by small and medium firms.

The **VAT tourist refund** increased by 63 percent in 2008 and reached LL 17 billion. This increase is consistent with the rise in number of tourists in 2008 and the higher prices, reflected in the high inflation rate that reached 5.5 percent (end-period) according to the Central Administration for Statistics data. As was the case in 2007, the third quarter of 2008 witnessed the largest refund consistent with the pattern of tourism, which is at its highest in the summer.

The total amount of **VAT claimed for refund (excluding tourist refund)**⁴⁴ increased significantly in 2008 reaching LL 363 billion, up by 41 percent.

Diplomats and international organizations claimed for LL 38 billion worth of refunds in 2008, compared to LL 15 billion in 2007, increasing by 146 percent. The increase in refund claimed by diplomats and international organization was the result of 134 percent increase of the amount per claim, LL 86 million in 2008 compared LL 37 million in 2007. The number of claims went up to 437 from 417.

Refund amounts claimed by **exempt sectors**⁴⁵ decreased by 16 percent in 2008 to LL 43 billion from LL 51 billion in 2007, due to the decrease of 8 percent in the number of refund claims presented by exempt sectors in 2008 (1,569 claims) and a decrease in the average claim to LL 28 million per claim in 2008 compared to LL 30 million in 2007.

VAT refund claims of **exporters**⁴⁶ totalled LL 131 billion, an increase of 39 percent compared to the result of 2007 (LL 94 billion). This rise is in line with the increase in exports of 24 percent. In 2008, exporters presented 1,831 refund claims, 4 percent less than in 2007; however, the average amount per claim presented by exporters increased to LL 71.5 million in 2008 compared to LL 49 million in 2007.

⁴⁴ Tourist refund operations are effected by an international company "Global Refund" and not by the Treasury. Thus, tourist refund figures are accounted for separately.

⁴⁵ Article 59 of VAT Law 379 grants exempt activities, namely exempt industries, such as agro-food, pharmaceutical, agricultural chemicals, printing and publishing, and exempt services, such as education and medical services, the right to refund the VAT incurred in order not to add burden on their operating costs.

⁴⁶ As is consistent with a destination-based VAT, the Lebanese VAT Law zero-rate exports.

Refund claims from VAT creditors/carry forwarders registered LL 151 billion in 2008, an increase of 56 percent from LL 97 billion in 2007. The semi-annual refund claims rose by 91 percent to LL 90 billion, up from LL 47 billion in 2007. This increase comes after an exceptionally low semi-annual refund claim in 2007. Annual refund claims increased by 22 percent to LL 60 billion, up from LL 50 billion in 2007. The amount of VAT credit carried forward increased by 40 percent to LL 597 billion in 2008 (LL 426 billion in 2007), which reflected both 10 percent higher number of taxpayers (9,578) and higher VAT credit per tax payer, which increased to LL 62 million in 2008 from LL 49 million in 2007.

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