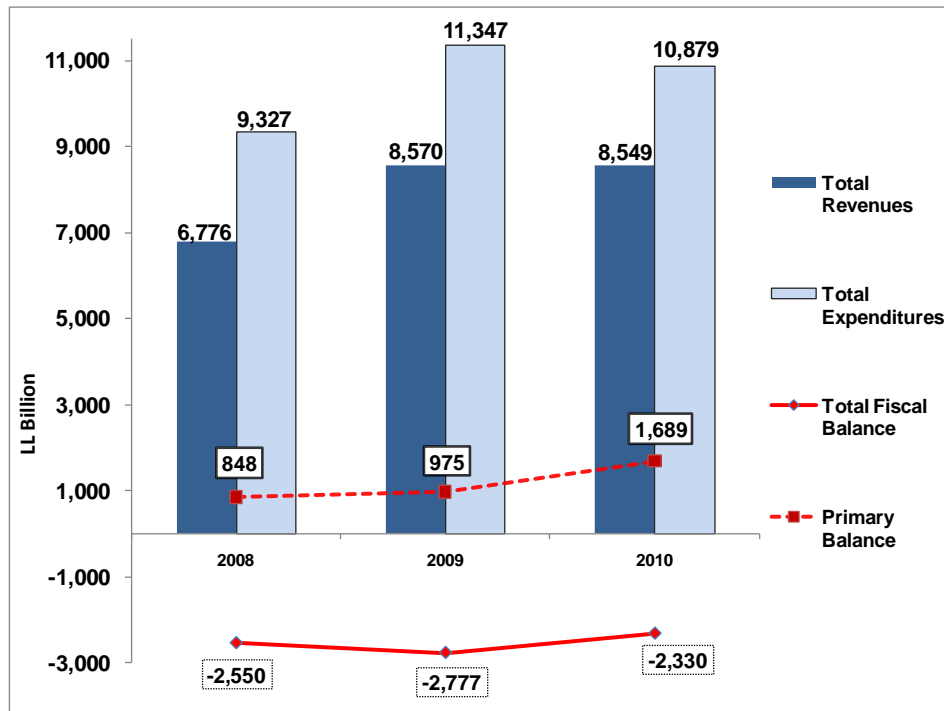


The total fiscal balance registered a deficit of LL 2,330 billion in January-August 2010 compared to a higher deficit of LL 2,777 billion in 2009. This considerable improvement is mainly due to the LL 468 billion decrease in spending. **The primary balance** also registered a better performance with a surplus of LL 1,689 billion compared to a surplus of LL 975 billion recorded in January-August 2009.



Total revenues in January-August 2010 amounted to LL 8,549 billion, slightly less than the 2009 level of LL 8,570 billion.

Tax revenues rose by LL 883 billion, to LL 7,014 billion. The major developments in this period are the following:

- LL 234 billion (or 70 percent) increase in *real estate registration fees*, primarily reflecting higher real estate values and also higher volume.
- LL 226 billion increase in *VAT receipts*, stemming from LL 125 billion increase in VAT collected on imports and LL 102 billion increase in VAT collected internally.
- LL 192 billion higher collection of *tax on income, profits and capital gains*, stemming from LL 73 billion and LL 67 billion higher collection of *interest income* and *income tax on profits*, respectively.
- LL 120 billion more revenues from *taxes on international trade*. Notably, tobacco excises increased by 40 percent reflecting an equivalent increase in tobacco imports.

Non-tax revenues maintained their trend, except for the LL 965 billion reduction in income from non-financial public enterprises due to the absence of transfers from the Telecom Budget Surplus in 2010, except for LL 331 billion received in February.

Treasury receipts increased by 5 percent to LL 476 billion.

Total expenditures in January-August 2010 decreased by LL 468 billion down to LL 10,879 billion from LL 11,347 billion in 2009, mainly owing to less treasury spending.

Current primary expenditures increased by LL 238 billion, mainly due to:

- Higher *personnel cost* by LL 154 billion, due to a rise of LL 100 billion in *end-of-service compensation*
- A LL 100 billion transfer to *NSSF*

Interest payments increased by LL 244 billion to LL 3,821 billion, mainly driven by LL 228 billion higher payments on *domestic currency treasury bills*.

Capital expenditures increased by LL 119 billion to LL 462 billion, of which 52 percent for *construction in progress* and 33 percent for *maintenance*. Spending on *maintenance* - mainly roads - increased by 82 percent to LL 87 billion. Construction - mainly roads - by the Ministry of Public Work and Transport increased by 301 percent to LL 70 billion in January-August 2010.

Other treasury expenditures decreased substantially, by LL 1,092 billion, to LL 1,936 billion, due to:

- Lower transfers to *EDL* by LL 587 billion¹, mainly due to lower oil prices, lower quantities of gas oil (substituted for by natural gas), absence of natural gas payments so far in 2010, and lower debt service on behalf of *EDL* by LL 42 billion.
- Absence of transfers to the *High Relief Committee*, which amounted to LL 520 billion in January-August 2009.

Gross public debt decreased by LL 1,369 billion from the end-December 2009 level to LL 75,650 billion in August 2010, due to reduction in both its foreign and domestic currency components.

Local currency debt² decreased by LL 966 billion to LL 44,007 billion, due to a lower *BDL* domestic debt portfolio by LL 1,675 billion, partially counterbalanced by more (LL 486 billion) treasury bill holdings by commercial banks.

Foreign currency debt witnessed a decrease in stock by LL 459 billion, mainly as a result of the redemption of Eurobonds issued in the context of the Paris II Conference that have an amortized payment structure. Special T-bills in foreign currency increased by LL 34 billion due to the issuance of new contractor bonds on April 22, 2010³ and July 15, 2010⁴.

AUGUST 2010 HIGHLIGHT Spending on Medication

Spending on medication amounted to LL 95 billion in January-August 2010, thus registering a 16 percent increase from 2009 and more than doubling when compared to 2008 (LL 46 billion). This increase in 2010 versus 2009 is due to higher spending by the Ministry of Health (by LL 22 billion) counterbalanced by LL 12 billion lower spending by the Army. The actual spending on medication follows the trend and reasoning which applied to the budget proposals.

This hike in spending on medication is partly explained by the increased number of patients applying for medicament aid as explained by the Ministry of Public Health in its 2009 and 2010 budget proposals, especially patients suffering from chronic diseases. Additionally, medication prices increased in 2009, especially those imported from the euro-zone, considering that more than half of Lebanon's medicaments are imported from the euro-zone.

Medicament Expenses by Administration

(LL Billion)	Jan-Aug 2009	Jan-Aug 2010
Ministry of Health	52	74
Ministry of Agriculture	-	-
Ministry of Social Affairs	-	1
Army	21	9
Internal Security Forces	6	9
General Security	1	1
State Security	1	1
Total	82	95

Source: DGF, MOF

¹ For further details, kindly refer to August 2010 issue of "*Transfers to EDL: A Monthly Snapshot*" available on www.finance.gov.lb

² Treasury Bill auctions resumed in April 2010 following a one-month halt in March 2010.

³ Pursuant to Law # 69 dated April 23, 2009, the Lebanese Republic issued \$15,984,633.28 6.00 percent bonds due 2015.

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

Table 1. Summary of Fiscal Performance

(LL billion)	2009 Aug	2010 Aug	2009 Jan-Aug	2010 Jan-Aug	% Change 2010/2009
Total Budget and Treasury Receipts	902	801	8,570	8,549	0%
Total Budget and Treasury Payments, of which	1,093	1,341	11,347	10,879	-4%
• <i>Interest Payments</i>	366	418	3,577	3,821	7%
• <i>Concessional loans principal payments¹</i>	8	18	175	198	13%
• <i>Primary Expenditures²</i>	718	905	7,595	6,860	-10%
Total Cash Deficit/Surplus	-191	-541	-2,777	-2,330	-16%
Primary Deficit/Surplus	183	-104	975	1,689	73%

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)

Section 1: Revenue Outcome

Table 2. Total Revenue

(LL billion)	2009 Aug	2010 Aug	2009 Jan-Aug	2010 Jan-Aug	% Change 2010/2009
Budget Revenues, of which:	863	758	8,119	8,073	-1%
<i>Tax Revenues</i>	619	684	6,131	7,014	14%
<i>Non-Tax Revenues</i>	244	74	1,988	1,060	-47%
Treasury Receipts	38	42	451	476	5%
Total Revenues	902	801	8,570	8,549	0%

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

Table 3. Tax Revenue

(LL billion)	2009 Aug	2010 Aug	2009 Jan-Aug	2010 Jan-Aug	% Change 2010/2009
Tax Revenues:	619	684	6,131	7,014	14%
Taxes on Income, Profits, & Capital Gains, of which:	77	100	1,465	1,657	13%
• <i>Income Tax on Profits</i>	6	8	691	759	10%
• <i>Income Tax on Wages and Salaries</i>	2	6	266	284	7%
• <i>Income Tax on Capital Gains & Dividends</i>	18	26	136	170	26%
• <i>Tax on Interest Income (5%)</i>	50	59	358	431	20%
• <i>Penalties on Income Tax</i>	0	1	12	13	0%
Taxes on Property, of which:	63	81	464	743	60%
• <i>Built Property Tax</i>	3	9	78	119	52%
• <i>Real Estate Registration Fees</i>	56	65	336	570	70%
Domestic Taxes on Goods & Services, of which:	215	229	2,180	2,425	11%
• <i>Value Added Tax</i>	185	196	1,951	2,177	12%
• <i>Other Taxes on Goods and Services, of which:</i>	28	32	222	241	9%
- <i>Private Car Registration Fees</i>	21	22	158	162	3%
- <i>Passenger Departure Tax</i>	7	10	63	77	22%
Taxes on International Trade, of which:	237	244	1,763	1,883	7%
• <i>Customs</i>	67	73	501	541	8%
• <i>Excises, of which:</i>	170	171	1,262	1,342	6%
- <i>Gasoline Excise</i>	96	93	677	694	3%
- <i>Tobacco Excise</i>	19	26	167	233	40%
- <i>Cars Excise</i>	54	50	415	411	-1%
Other Tax Revenues (namely fiscal stamp fees)	28	31	259	305	18%

Source: MOF, DGF

Table 4. Non-Tax Revenue

(LL billion)	2009 Aug	2010 Aug	2009 Jan-Aug	2010 Jan- Aug	% Change 2010/2009
Non-Tax Revenues	244	74	1,988	1,060	-47%
Income from Public Institutions and Government Properties, of which:	201	22	1,593	645	-59%
• Income from Non-Financial Public Enterprises, <i>of which:</i>	200	15	1,507	542	-64%
- <i>Revenues from Casino Du Liban</i>	14	15	101	113	11%
- <i>Revenues from Port of Beirut</i>	0	0	62	65	5%
- <i>Budget Surplus of National Lottery</i>	5	0	33	31	-6%
- <i>Transfer from the Telecom Surplus</i>	181	0	1,310	331	-75%
• Transfer from Public Financial Institution (BDL)	0	0	40	60	50%
• Property Income (namely rent of Rafic Hariri International Airport)	1	6	38	40	6%
• Other Income from Public Institutions (interests)	0	0	8	3	-58%
Administrative Fees & Charges, of which:	35	41	321	339	6%
• Administrative Fees, <i>of which:</i>	29	35	263	278	6%
- <i>Notary Fees</i>	2	3	17	20	14%
- <i>Passport Fees/ Public Security</i>	11	11	79	79	0%
- <i>Vehicle Control Fees</i>	10	14	124	120	-3%
- <i>Judicial Fees</i>	1	2	12	16	29%
- <i>Driving License Fees</i>	2	2	15	17	12%
• Administrative Charges	1	1	14	15	8%
• Sales (Official Gazette and License Number)	0	0	2	4	106%
• Permit Fees (mostly work permit fees)	5	5	32	34	7%
• Other Administrative Fees & Charges	1	1	10	8	-24%
Penalties & Confiscations	1	1	5	5	5%
Other Non-Tax Revenues (mostly retirement deductibles)	8	10	69	71	3%

Source: MOF, DGF

Section 2: Expenditure Outcome

Table 5. Expenditure by Economic Classification

(LL billion)	2009 Jan-Aug	2010 Jan-Aug	% Change 2010/2009
1. Current Expenditures	7,944	8,449	6%
1.a Personnel Cost, of which	3,193	3,347	5%
<i>Salaries, Wages and Related Items (Article 13)</i>	2,182	2,232	2%
<i>Retirement and End of Service Compensations, of which:</i>	796	914	15%
<i>Retirement</i>	696	714	3%
<i>End of Service</i>	100	200	99%
<i>Transfers to Public Institutions to Cover Salaries 1/</i>	215	200	-7%
1.b Interest Payments, of which: 2/	3,577	3,821	7%
<i>Domestic Interest Payments</i>	2,319	2,547	10%
<i>Foreign Interest Payments</i>	1,258	1,274	1%
1.c Foreign Debt Principal Repayment	175	198	13%
1.d Materials and Supplies, of which:	178	186	4%
<i>Nutrition</i>	41	38	-6%
<i>Fuel Oil</i>	7	5	-19%
<i>Medicaments</i>	82	95	16%
<i>Accounting Adjustments for Treasury</i>	24	24	2%
1.e External Services	81	76	-6%
1.f Various Transfers, of which:	378	479	27%
<i>NSSF</i>	50	100	100%
<i>Treasury advances for diesel oil subsidy</i>	0	61	-
<i>Wheat Subsidy</i>	10	0	-100%
<i>Special Tribunal for Lebanon</i>	12	41	237%
1.g Other Current, of which:	296	265	-10%
<i>Hospitals</i>	239	206	-14%
<i>Others</i>	50	60	20%
1.h Reserves	67	78	16%
<i>Interest subsidy</i>	67	78	16%
2. Capital Expenditures	343	462	35%
2.a Acquisitions of Land, Buildings, for the Construction of Roads, Ports, Airports, and Water Networks	4	1	-82%
2.b Equipment	24	28	17%
2.c Construction in Progress, of which:	233	294	26%
<i>Displaced Fund</i>	60	75	25%
<i>Council of the South</i>	10	20	100%
<i>CDR</i>	129	110	-15%
<i>Ministry of Public Work and Transport</i>	17	70	301%
<i>Other</i>	14	18	30%
2.d Maintenance	48	87	82%
2.e Other Expenditures Related to Fixed Capital Assets	34	52	51%
3. Other Treasury Expenditures	3,028	1,936	-36%
Municipalities	299	289	-3%
Guarantees	71	54	-24%
Deposits :	67	43	-36%
Other, of which:	875	424	-52%
<i>VAT Refund</i>	216	244	13%
<i>High Relief Committee</i>	520	0	-100%
EDL 3/	1,713	1,126	-34%
Treasury advances for water authorities	4	0	-
4. Unclassified Expenditures	2	3	98%
5. Customs Cashiers	30	29	-5%
6. Total Expenditures (Excluding CDR Foreign Financed)	11,347	10,879	-4%

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

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

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

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

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

(LL billion)	2009	2010	% Change
	Jan-Aug	Jan-Aug	2010/2009
Transfer to Council of the South	5	9	98%
Transfer to Council for Development and Reconstruction (CDR)	38	15	-60%
Transfer to the Displaced Fund	5	5	0%
Transfer to the Lebanese University	159	161	1%
Transfer to the Educational Center for Research and Development	9	11	14%

Source: MOF, DGF

Table 7. Details of Debt Service Transactions

(LL billion)	2009***	2010	2009	2010	% Change
	Aug	Aug	Jan-Aug	Jan-Aug	2010/2009
Interest Payments 1/	366	418	3,577	3,821	7%
Local Currency Debt	313	365	2,319	2,547	10%
Foreign Currency Debt, of which:	53	53	1,258	1,274	1%
Eurobond Coupon Interest*	32	32	1,161	1,150	-1%
Specialbond Coupon Interest*	0	0	10	9	-1%
Concessional Loans Interest Payments	21	21	87	115	31%
Concessional Loans Principal Payments**	8	18	175	198	13%

Source: MOF, DGF

* Includes general expenses related to the transaction

** Includes 133 Billions LL Fully paid of IBRD Loans from USAID Grant during 2008

** Includes 75 Billions LL Fully paid of IBRD Loans from USAID Grant during 2009

*** Concessional Loans Interest Payments during Jan. 2009 has been changed from the PFM Jan. 2009 figure because LL 7 billion was paid for the IBRD Loan 7026 from the account of the municipality fund.

Table 8. Transfers to EDL

(LL billion)	2009	2010	% Change
	Jan-Aug	Jan-Aug	2010/2009
EDL of which:	1,713	1,126	-34%
• Debt Service of which:	107	65	-39%
- C-Loans and Eurobonds, of which:	81	49	-39%
Principal repayments	67	41	-39%
Interest Payments	13	8	-42%
- BDL Guaranteed Loan payments	26	16	-38%
• Reimbursement of KPC and Sonatrach Agreements	1,606	1,061	-34%

Source: MOF, DGF

Section 3: Public Debt

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

(LL billion)	Dec 2007	Dec 2008	Dec 2009	Aug 2010	Change Dec 09 -Aug 2010	% Change Dec 09- Aug 2010
Gross Public Debt	63,350	70,916	77,075	75,650	-1,425	-1.85%
Local Currency Debt	31,373	39,007	44,973	44,007	-966	-2.15%
a. Central Bank (Including REPOs and Loans to EDL to Finance Fuel Purchases) ⁽¹⁾	9,052	8,781	10,334	8,659	-1,675	-16.21%
b. Commercial Banks	16,847	24,320	27,286	27,772	486	1.78%
c. Other Local Currency Debt (T-bills), of which:	5,474	5,906	7,353	7,576	223	3.03%
<i>Public Entities</i>	4,796	5,062	6,078	6,085	7	0.12%
* <i>Accrued Interest Included in Debt</i>	730	1,029	999	884	-115	-11.51%
Foreign Currency Debt ⁽²⁾	31,977	31,909	32,102	31,643	-459	-1.43%
a. Bilateral, Multilateral and Foreign Private Sector Loans	2,949	2,830	2,676	2,507	-170	-6.35%
b. Paris II Related Debt (Eurobonds and Loans) ⁽³⁾	6,063	5,456	4,819	4,375	-445	-9.23%
c. Paris III Related Debt (Eurobonds and Loans) ⁽⁴⁾	1,357	1,849	1,963	1,862	-101	-5.16%
d. Market-Issued Eurobonds	20,780	20,925	21,736	21,797	61	0.28%
e. <i>Accrued Interest on Eurobonds</i>	410	430	460	622	162	35.22%
f. Special T-bills in Foreign Currency ⁽⁵⁾	419	419	447	481	34	7.61%
Public Sector Deposits	4,527	8,326	10,522	8,509	-2,013	-19.13%
Net Debt	58,823	62,590	66,553	67,141	588	0.88%
Gross Market Debt ⁽⁶⁾	39,220	46,992	51,231	52,184	953	1.86%
% of Total Debt	62%	66%	67%	69%	2%	3.70%

Source: Ministry of Finance, Banque du Liban

⁽¹⁾ The BDL has extended loans to EDL for the equivalent amount of US\$ 300 million to purchase fuel oil. These loans are listed as public debt as they are government guaranteed.

⁽²⁾ Figures for Dec 08 and Dec 09 differ from previously published data reflecting an update of disbursement figures of IBRD and IDB project loans in the Debt Management and Financial Analysis System (DMFAS).

⁽³⁾ Paris II related debt (Eurobonds and Loans) including a Eurobond originally issued at USD 1,870 billion to BDL in the context of the Paris II conference.

⁽⁴⁾ Issued to Malaysia as part of its Paris III contribution, IBRD loan, UAE loan, first tranche of the French loan received in February 2008, IMF loans, first tranche EC/EU loan, and AMF loan disbursed in June 2009.

⁽⁵⁾ Special Tbs in foreign currency (expropriation and contractor bonds).

⁽⁶⁾ Gross market debt equals gross debt less the portfolios of the BDL, NSSF, bilateral and multilateral loans, Paris II and Paris III related debt.

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Public Finance Monitor Monthly Update, Nov & Dec 2009, Jan-Jul 2010
Public Finance Quarterly, QI 2010
Transfers to EDL: A Monthly Snapshot, Jan-August 2010
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