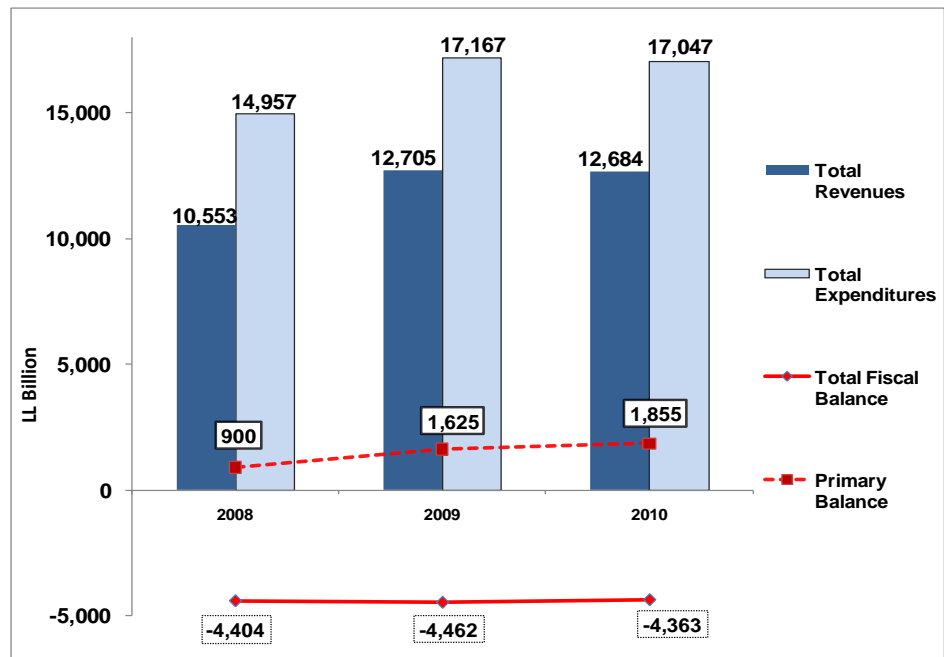


The total fiscal balance registered a deficit of LL 4,363 billion in 2010 compared to a slightly higher deficit of LL 4,462 billion in 2009.

The primary balance recorded a surplus of LL 1,855 billion compared to a lower surplus of LL 1,625 billion recorded in 2009.

Total revenues in 2010 amounted to LL 12,684 billion, down by LL 21 billion from 2009 level of LL 12,705 billion, due to a 33 percent drop in non-tax revenues which could not be compensated for by the 11 percent rise in tax revenues.



Tax revenues grew by LL 1,009 billion, to reach LL 9,976 billion, owing to a rise in receipts from almost all taxes except for *vehicle-related taxes*, namely *car excise* and *car registration fees*, which registered almost a 3 percent drop each. In detail, the rise in tax receipts stems mainly from:

- LL 304 billion increase in *VAT receipts*, equivalent to 11 percent, resulting from increases of LL 197 billion in VAT collected on imports and LL 107 billion in VAT collected internally.
- LL 279 billion (or 35 percent) increase in *taxes on property*, of which LL 227 billion stems from real estate registration fees.
- LL 211 billion higher collection of *tax on income, profits and capital gains*, due to LL 70 billion and LL 77 billion higher interest income and income tax on profits, respectively.
- LL 138 billion more revenues from *taxes on international trade*, of which LL 96 billion more excise revenues (LL70 billion of which stem from tobacco excise) and 42 billion more custom duties.

Non-tax revenues went down by LL 1,027 billion, mainly due to the steep reduction in transfers from the *Telecom Budget Surplus* as of end 2010¹. In fact, transfers from the telecom surplus to the treasury were almost halved as they dropped from LL 2,055 billion in 2009 to LL 957 billion by the end of 2010.

- Net of Telecom receipts, overall *revenues from government properties* generated LL 22 billion (6 percent) additional receipts mainly due to higher *transfers from Casino du Liban* (by LL 20 billion) and higher *transfers of BDL surpluses* (by LL 20 billion), offsetting the decrease in revenues from *other Government properties* (namely LL 17 billion less *rent from Rafic Hariri airport*).
- *Administrative Fees and Charges* collected LL 30 billion higher receipts, of which LL 5 billion higher *Mechanic fees*.

Treasury receipts decreased by LL 3 billion to LL 666 billion, mainly explained by the fact that the year 2010 witnessed no revenues from grants, whereas in 2009 "*other Treasury revenues*" accounted for LL 90 billion grants. On the other hand, the *Independent Municipal Fund*, under Treasury revenues, registered LL 30 billion higher receipts.

¹ Telecom receipts, which are currently deposited at the telecom account at BDL, were not transferred regularly to the Treasury in 2010 and therefore cannot be counted as part of total revenues due to the absence of a treasury single account.

Total expenditures in 2010 decreased by LL 120 billion down to LL 17,047 billion from LL 17,167 billion in 2009, mainly owing to less treasury spending.

Current primary expenditures increased by LL 174 billion, mainly as a result of higher *personnel* cost by LL 120 billion (due to a rise of LL 102 billion in retirement and end-of-service compensation) and *materials and supplies* by LL 38 billion (mainly purchase of medication by LL 24 billion and nutrition by LL 14 billion).

Interest payments increased by LL 109 billion to LL 5,893 billion, mainly driven by LL 99 billion higher payments on *domestic currency treasury bills*.

Capital expenditures increased by LL 141 billion to LL 691 billion, of which 78 percent for *construction in progress* and 19 percent for *maintenance*. The former - mainly roads by the Ministry of Public Works and Transport - increased by 218 percent to LL 109 billion; while the latter - also mainly roads - rose by 25 percent to LL 129 billion in 2010.

Other treasury expenditures decreased substantially, by LL 562 billion, to LL 3,384 billion, due to:

- Negligible transfers to the High Relief Committee, which amounted to LL 520 billion in 2009.
- Lower transfers to EDL by LL 461 billion², mainly due to lower quantities of gas oil (substituted for by natural gas), coupled with partial repayment of natural gas, and lower debt service (by LL 27 billion).

Gross public debt increased by LL 2,183 billion from the end-December 2009 level to reach LL 79,295 billion in December 2010, due to an increase in its local currency component.

Local currency debt³ increased by LL 3,282 billion to LL 48,255 billion by end-December 2010, resulting from a substantially higher (by LL 2,796 billion) BDL domestic debt portfolio and LL 558 billion increase in the category entitled "other" holders of TBs (of which LL 190 billion for public entities) compared to December 2009. This increase was partially counterbalanced by a lower (by LL 72 billion) treasury bill holdings by commercial banks. On December 17, 2010, the Lebanese Republic introduced a seven-year Treasury Bond to the domestic currency market by issuing a LBP 1,500 billion offering under its LBP 10 trillion Medium-Term Note Program (Series 2). The bond was issued with a coupon of 7.90 percent and is due December 18, 2017.

Foreign currency debt witnessed a decrease in stock by LL 1,099 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. In turn, Paris III related debt decreased by LL 108 billion partly due to two principal repayments of the first IMF EPCA loan (July and October 2010). Special T-bills in foreign currency decreased by LL 373 billion due to the redemption of expropriation bonds (US\$ 277.9 million, 6.00 percent bonds due December 31, 2010). This was counterbalanced by the issuance of three contractor bonds amounting to LL 46.8 billion over the course of 2010 (April 22, 2010⁴, July 15, 2010⁵, and November 30, 2010⁶).

**December 2010 Highlight:
PAYMENT OF NATURAL GAS**

In May 2009, the Lebanese Ministry of Energy and Water (MoEW) together with the Egyptian General Petroleum Corporation (EGPC) and the Egyptian Natural Gas Holding Company (EGAS) signed an agreement stipulating the provision of natural gas to Lebanon. This agreement was ratified by Law Number 108 dated 26 June 2010.

EGAS started providing Lebanon with natural gas in September 2009, to feed the Deir Amar plant in North Lebanon, where the pipeline passes through Jordan and Syria before reaching its final destination.

The arrival of natural gas is a major step within combustibles diversification. As it comes to replace the costly gas oil, it is aimed at reducing the production cost of energy. In this respect, the impact is on the cost rather than on supply of electricity.

In December 2010, the Lebanese Ministry of Finance made the first payment to EGAS – as part of the total due payments – after the Lebanese Council of Ministers issued a mandate authorizing MOF to make the associate payments.

The total value of the December 2010 payment amounted to US\$ 28 million, equivalent to LL 42.2 billion, divided into two disbursement entries of US\$ 12 million and US\$ 16 million respectively. This sum covers for part of the natural gas provided from Egypt since September 2009.

² For further details, kindly refer to December 2010 issue of "Transfers to EDL: A Monthly Snapshot" - www.finance.gov.lb

³ Treasury Bill auctions resumed in April 2010 following a one-month halt in March 2010.

⁴ Pursuant to Law No. 69 dated April 23, 2009, the Lebanese Republic issued \$15,984,633.28 6.00 percent bonds due 2015.

⁵ Pursuant to Law No. 69 dated April 23, 2009, the Lebanese Republic issued \$ 6.93 million 6.00 percent bonds due 2015.

⁶ Pursuant to Law No. 69 dated April 23, 2009, the Lebanese Republic issued \$8,098,475.15 6.00 percent bonds due 2015.

Fiscal Performance

Table 1. Summary of Fiscal Performance

(LL billion)	2009 Dec	2010 Dec	2009 Jan- Dec	2010 Jan- Dec	% Change 2010/2009
Total Budget and Treasury Receipts	1,071	1,503	12,705	12,684	-0.2%
Total Budget and Treasury Payments¹, of which	1,626	1,596	17,167	17,047	-0.7%
• Interest Payments	623	486	5,784	5,893	1.9%
• Concessional loans principal payments ²	42	23	303	324	7.1%
• Primary Expenditures ³	962	1,087	11,080	10,829	-2.3%
Total Cash Deficit/Surplus	-555	-93	-4,462	-4,363	-2.2%
Primary Deficit/Surplus	109	416	1,625	1,855	14.2%

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

^{1/}Kindly note that total budget and treasury payments for Jan-Dec 2010 differs from the Fiscal Performance figure previously released by the MOF due to a technical discrepancy.

^{2/} Includes only Principal repayments of concessional loans earmarked for project financing

^{3/} Primary expenditures exclude debt related payments (Interest payments and Concessional loans principal repayment)

Section 1: Revenue Outcome

Table 2. Total Revenues

(LL billion)	2009 Dec	2010 Dec	2009 Jan- Dec	2010 Jan- Dec	% Change 2010/2009
Budget Revenues, of which:	1,027	1,447	12,036	12,018	-0.1%
• Tax Revenues	694	708	8,967	9,976	11.2%
• Non-Tax Revenues	332	739	3,069	2,043	-33.4%
Treasury Receipts	44	56	669	666	-0.4%
Total Revenues	1,071	1,503	12,705	12,684	-0.2%

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

Table 3. Tax Revenues

(LL billion)	2009 Dec	2010 Dec	2009 Jan- Dec	2010 Jan- Dec	% Change 2010/2009
Taxes on Income, Profits, & Capital Gains, of which:	89	95	1,839	2,050	11%
• Income Tax on Profits	14	21	731	808	11%
• Income Tax on Wages and Salaries	8	6	350	378	8%
• Income Tax on Capital Gains & Dividends	13	18	179	213	19%
• Tax on Interest Income (5%)	50	45	558	628	13%
• Penalties on Income Tax	4	5	21	22	8%
Taxes on Property, of which:	126	127	809	1088	34%
• Built Property Tax	8	9	101	145	43%
• Real Estate Registration Fees	106	98	626	853	36%
Domestic Taxes on Goods & Services, of which:	220	233	3,260	3,583	10%
• Value Added Tax	185	194	2,889	3,193	11%
• Other Taxes on Goods and Services, of which:	35	38	363	382	5%
- Private Car Registration Fees	20	16	238	231	-3%
- Passenger Departure Tax	14	22	123	148	21%
Taxes on International Trade, of which:	225	217	2,664	2,802	5%
• Customs	70	68	768	810	5%
• Excises, of which:	155	150	1,896	1,992	5%
- Gasoline Excise	74	83	999	1040	4%
- Tobacco Excise	30	24	277	347	25%
- Cars Excise	50	42	614	598	-3%
Other Tax Revenues (namely fiscal stamp fees)	33	36	396	453	15%
Tax Revenues	694	708	8,967	9,976	11%

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

Table 4. Non-Tax Revenues

(LL billion)	2009 Dec	2010 Dec	2009 Jan-Dec	2010 Jan-Dec	% Change 2010/2009
Income from Public Institutions and Government Properties, of which:	257	648	2,456	1,382	-44%
• Income from Non-Financial Public Enterprises, of which:	251	647	2,327	1,255	-46%
- Revenues from Casino Du Liban	11	15	151	171	13%
- Revenues from Port of Beirut	0	0	62	65	5%
- Budget Surplus of National Lottery	14	5	57	59	3%
- Transfer from the Telecom Surplus	226	626	2,055	957	-53%
• Transfer from Public Financial Institution (BDL)	0	0	40	60	50%
• Property Income (namely rent of Rafic Hariri International Airport)	5	1	78	62	-21%
• Other Income from Public Institutions (interests)	0	1	10	5	-55%
Administrative Fees & Charges, of which:	66	73	505	535	6%
• Administrative Fees, of which:	54	59	415	437	5%
- Notary Fees	2	2	27	29	9%
- Passport Fees/ Public Security	9	9	114	116	1%
- Vehicle Control Fees	34	40	203	208	3%
- Judicial Fees	2	2	19	22	14%
- Driving License Fees	2	1	24	21	-13%
• Administrative Charges	6	7	25	29	16%
• Sales (Official Gazette and License Number)	1	1	3	5	59%
• Permit Fees (mostly work permit fees)	4	5	48	53	9%
• Other Administrative Fees & Charges	2	2	13	11	-15%
Penalties & Confiscations	1	1	7	8	14%
Other Non-Tax Revenues (mostly retirement deductibles)	8	17	100	118	17%
Non-Tax Revenues	332	739	3,069	2,043	-33%

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

Section 2: Expenditure Outcome

Table 5. Expenditure by Economic Classification

(LL billion)	2009 Jan- Dec	2010 Jan- Dec	% Change 2010/2009
1. Current Expenditures	12,617	12,922	2%
1.a Personnel Cost, <i>of which</i>	4,936	5,056	2%
• Salaries, Wages and Related Items (Article 13)	3,325	3,354	1%
• Retirement and End of Service Compensations, <i>of which:</i>	1,286	1,388	8%
- Retirement	1,055	1,086	3%
- End of Service	232	302	30%
• Transfers to Public Institutions to Cover Salaries ¹	324	314	-3%
1.b Interest Payments ² , <i>of which:</i>	5,784	5,893	2%
• Domestic Interest Payments	3,663	3,763	3%
• Foreign Interest Payments	2,121	2,131	0%
1.c Foreign Debt Principal Repayment	303	324	7%
1.d Materials and Supplies, <i>of which:</i>	238	277	16%
• Nutrition	52	66	28%
• Fuel Oil	9	8	-9%
• Medicaments	104	128	23%
• Accounting Adjustments for Treasury	39	39	-1%
1.e External Services	114	103	-9%
1.f Various Transfers, <i>of which:</i>	717	701	-2%
• NSSF	240	150	-38%
• Treasury advances for diesel oil subsidy	0	61	0%
• Wheat Subsidy	10	42	324%
• Special Tribunal for Lebanon	12	41	237%
1.g Other Current, <i>of which:</i>	428	440	3%
• Hospitals	351	338	-4%
• Others	65	102	57%
1.h Reserves	99	128	30%
• Interest subsidy	99	128	30%
2. Capital Expenditures	550	691	26%
2.a Acquisitions of Land, Buildings, for the Construction of Roads, Ports, Airports, and Water Networks	4	1	-79%
2.b Equipment	35	40	13%
2.c Construction in Progress, <i>of which:</i>	356	467	31%
• Displaced Fund	60	120	100%
• Council of the South	41	46	11%
• CDR	192	164	-15%
• Ministry of Public Work and Transport	34	109	218%
• Other	28	27	-5%
2.d Maintenance	103	129	25%
2.e Other Expenditures Related to Fixed Capital Assets	50	53	6%
3. Other Treasury Expenditures	3,947	3,384	-14%
• Municipalities	457	735	61%
• Guarantees	54	82	51%
• Deposits :	90	105	17%
• Other, <i>of which:</i>	1,083	665	-39%
- VAT Refund	326	384	18%
- High Relief Committee	520	0	-100%
• EDL ³	2,259	1,797	-20%
• Treasury advances for water authorities	4	0	
4. Unclassified Expenditures	3	4	13%
5. Customs Cashiers	50	46	-8%
6. Total Expenditures (Excluding CDR Foreign Financed) ⁴	17,167	17,047	-1%

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 and an explanation regarding its classification under other treasury expenditure to EDL, kindly refer to table 8.

4/ Kindly note that total budget and treasury payments for Jan-Dec 2010 differs from the Fiscal Performance figure previously released by the MOF due to a technical discrepancy.

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

(LL billion)	2009	2010	% Change
	Jan- Dec	Jan- Dec	2010/2009
Transfer to Council of the South	7	13	81%
Transfer to Council for Development and Reconstruction (CDR)	46	33	-29%
Transfer to the Displaced Fund	8	7	-13%
Transfer to the Lebanese University	251	248	-1%
Transfer to the Educational Center for Research and Development	12	14	15%
Total Transfers to Public Institutions	324	314	-3%

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

Table 7. Details of Debt Service Transactions

(LL billion)	2009	2010	2009	2010	% Change
	Dec	Dec	Jan- Dec	Jan- Dec	2010/2009
Interest Payments¹	623	486	5,784	5,893	2%
• Local Currency Debt	486	346	3,663	3,763	3%
• Foreign Currency Debt, of which:	137	140	2,121	2,131	0%
- Eurobond Coupon Interest ²	121	119	1,972	1,943	-1%
- Special bond Coupon Interest ²	8	14	18	27	51%
- Concessional Loans Interest Payments	8	6	131	160	23%
Concessional Loans Principal Payments^{3,4,5}	42	23	303	324	7%

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

- (1) The classification of debt service expenditures is now broken into two separate categories as follows: Interest Payments and Repayment of Principal on C-loans earmarked for project financing.
- (2) Includes general expenses related to the transaction.
- (3) Includes 133 Billions LL Fully paid of IBRD Loans from USAID Grant during 2008
- (4) Includes 75 Billions LL Fully paid of IBRD Loans from USAID Grant during 2009
- (5) Local currency debt includes the LL 78,390,000 fees on issuance of LL 1500 billion Date 17/12/2010

Table 8. Transfers to EDL¹

(LL billion)	2009	2010	% Change
	Jan- Dec	Jan- Dec	2010/2009
EDL of which:	2,259	1,797	-20%
• Debt Service of which:	127	100	-21%
- C-Loans and Eurobonds, of which:	93	67	-28%
Principal repayments	79	56	-29%
Interest Payments	15	11	-23%
- BDL Guaranteed Loan payments	34	33	-1%
• Reimbursement of purchase of Natural Gas, Fuel & Gas Oil, of which:	2,131	1,697	-20%
Natural Gas (EGAZ)	0	42	NA

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

⁽¹⁾ Prior to 2005, transfers to EDL were recorded under the line item "treasury expenditures", because they were paid through treasury advances based on decrees issued by the Council of Ministers. Starting 2005, transfers to EDL were included in the yearly budget as an allocation classified as a loan. In 2009, the said budget item was reclassified to become a subsidy to the electricity company rather than a treasury. In the fiscal performance, transfers to cover EDL's gas and fuel oil remained classified under "treasury expenditures" until August 2010 when it was reclassified under "budget expenditures". This reclassification, however, is not yet reflected in the PFM to avoid series disruption and in order to keep the figures published in the PFM throughout 2010 consistent and comparable. Starting January 2011, EDL transfers will be reclassified under "budget expenditures".

Section 3: Public Debt

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

(LL billion)	Dec 2007	Dec 2008	Dec 2009	Dec 2010	Change Dec 09 - Dec 2010	% Change Dec 09- Dec 2010
Gross Public Debt	63,364	70,941	77,112	79,295	2,183	2.8%
Local Currency Debt	31,373	39,007	44,973	48,255	3,282	7.3%
a. Central Bank (Including REPOs and Loans to EDL to Finance Fuel Purchases) ⁽¹⁾	9,052	8,781	10,334	13,130	2,796	27.1%
b. Commercial Banks	16,847	24,320	27,286	27,214	-72	-0.3%
c. Other Local Currency Debt (T-bills), of which:	5,474	5,906	7,353	7,911	558	7.6%
<i>Public Entities</i>	4,796	5,062	6,078	6,268	190	3.1%
* <i>Accrued Interest Included in Debt</i>	730	1,029	999	867	-132	-13.2%
Foreign Currency Debt ⁽²⁾	31,991	31,934	32,139	31,040	-1,099	-3.4%
a. Bilateral, Multilateral and Foreign Private Sector Loans	2,963	2,855	2,713	2,621	-92	-3.4%
b. Paris II Related Debt (Eurobonds and Loans) ⁽³⁾	6,063	5,456	4,819	4,137	-683	-14.2%
c. Paris III Related Debt (Eurobonds and Loans) ⁽⁴⁾	1,357	1,849	1,963	1,855	-108	-5.5%
d. Market-Issued Eurobonds	20,780	20,925	21,736	21,870	134	0.6%
e. <i>Accrued Interest on Eurobonds</i>	410	430	460	483	23	5.0%
f. Special T-bills in Foreign Currency ⁽⁵⁾	419	419	447	74	-373	-83.4%
Public Sector Deposits	4,527	8,326	10,522	11,419	897	8.5%
Net Debt	58,837	62,615	66,590	67,876	1,286	1.9%
Gross Market Debt ⁽⁶⁾	39,220	46,992	51,231	51,308	77	0.1%
% of Total Debt	62%	66%	67%	65%	0	-2.7%

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 05-Dec 10 may differ from previously published data due to updated information regarding bilateral and multilateral loans in the DMFAS system.

⁽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 bonds and contractor bonds issued in 2010).

⁽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.

2011

Lebanon's Citizen Budget, Feb 2011
Transfers to EDL: A Monthly Snapshot, Nov-Dec 2010
Aid Coordination Monthly Newsletter, Issues 38-39
Public Finance Monitor Monthly Update, Nov 2010
Public Finance Quarterly, QIII 2010

2010

Aid Coordination Monthly Newsletter, Issues 26-37
Debt and Debt Markets Quarterly, QIV 2009, QI, QII & QIII 2010
Electricité du Liban: A Fiscal Perspective, April 2010
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2010 Budget Proposal – A Detailed Report, Oct 2010

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Lebanon Country Profile 2009
Public Finance Monitor Monthly Update, Jan-Oct 2009
Public Finance Quarterly, QI-QIII
Public Finance Review 2008
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For further information please contact:

Ministry of Finance

UNDP Project

Tel: 961 1 981057/8

Fax: 961 1 981059

E-mail: infocenter@finance.gov.lb

Website: www.finance.gov.lb



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