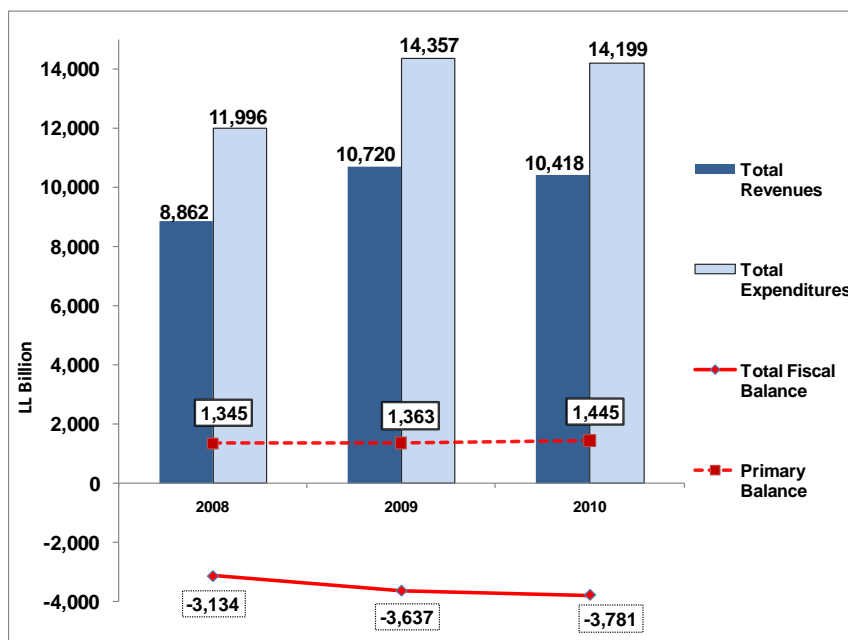


The total fiscal balance registered a deficit of LL 3,781 billion in January-October 2010 compared to a lower deficit of LL 3,637 billion in 2009, mainly due to the LL 302 billion decrease in revenues. **The primary balance** registered a better performance with a surplus of LL 1,445 billion compared to a surplus of LL 1,363 billion recorded in January-October 2009.



Total revenues in January-October 2010 amounted to LL 10,418 billion, LL 302 billion less than the 2009 level of LL 10,720 billion.

Tax revenues rose by LL 946 billion, to LL 8,638 billion owing to the following:

- LL 285 billion (or 47 percent) increase in *taxes on property*, of which LL 239 billion stems from real estate registration fees.
- LL 264 billion increase in *VAT* receipts, resulting from LL 151 billion increase in VAT collected on imports and LL 112 billion increase in VAT collected internally.
- LL 204 billion higher collection of *tax on income, profits and capital gains*, due to LL 77 billion and LL 67 billion higher collection of *interest income* and *income tax on profits*, respectively.
- LL 129 billion more revenues from *taxes on international trade*, of which LL 42 billion more custom duties and LL 88 billion more excise revenues (79 percent of which stem from tobacco excise).

Non-tax revenues were down by LL 1,275 billion caused by the LL 1,325 billion reduction in transfers from the Telecom Budget Surplus as of end-October 2010 – telecom receipts are currently deposited at the telecom account at BDL and are not transferred to the Treasury. Net of Telecom receipts, the overall revenues from government properties generated LL 27 billion additional receipts, equivalent to 8 percent higher revenues, stemming from monthly transfers from Casino du Liban and National Lottery and transfers in April 2010 from Port of Beirut, and BDL surpluses.

Treasury receipts increased by 5 percent to LL 557 billion, stemming from LL 31 billion higher revenues to the Independent Municipal Fund, and LL 58 billion higher revenues from guarantees, outweighing the absence of grants (compared to around LL 90 billion received in Jan-Oct 2009).

Total expenditures in January-October 2010 decreased by LL 158 billion down to LL 14,199 billion from LL 14,357 billion in 2009, mainly owing to less treasury spending.

Current primary expenditures increased by LL 222 billion, mainly as a result of :

- Higher *personnel cost* by LL 143 billion, due to a rise of LL 197 billion in *retirement and end-of-service compensation*
- A LL 37 billion increase in *materials and supplies*, mainly *purchase of medication* (by LL 27 billion) and *nutrition* (by LL 14 billion)

Interest payments increased by LL 187 billion to LL 4,956 billion, mainly driven by LL 239 billion higher payments on *domestic currency treasury bills*.

Capital expenditures increased by LL 141 billion to LL 564 billion, of which 61 percent for *construction in progress* and 33 percent for *maintenance*. Spending on *maintenance* - mainly roads - increased by 75 percent to LL 109 billion. Construction - mainly roads - by the Ministry of Public Work and Transport increased by 238 percent to LL 90 billion in January-October 2010.

Other treasury expenditures decreased substantially, by LL 750 billion, to LL 2,767 billion, due to:

- Absence of transfers to the *High Relief Committee*, which amounted to LL 520 billion in January-October 2009.
- Lower transfers to *EDL* by LL 418 billion¹, mainly due to 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 23 billion.

Gross public debt decreased by LL 12 billion from the end-December 2009 level to LL 77,085 billion in October 2010, due to reduction in its foreign currency component.

Local currency debt² increased by LL 441 billion to LL 45,414 billion, resulting from the LL 511 billion increase in stock by the category entitled "other" holders of TBs (of which LL 216 billion for public entities) coupled with higher (by LL 360 billion) BDL domestic debt portfolio. This increase was partially counterbalanced by a lower (by LL 430 billion) treasury bill holdings by commercial banks.

Foreign currency debt witnessed a decrease in stock by LL 453 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 88 billion partly due to the principal repayments of the first IMF EPCA loan (July and October 2010) 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.

OCTOBER 2010 HIGHLIGHT Withheld Tax on Wages and Salaries

The withheld tax on wages and salaries for the third quarter is settled and filed in October.

On a yearly basis, the withheld tax on wages and salaries collected 9 percent higher receipts by end-October 2010 compared to collection in Jan-Oct 2009, reflecting higher growth rates in the economy.

Initiated in 2003, the Deduction At Source of the Income Tax on Salaries (DASS) reform effort aimed at modernizing procedures and processes and building a comprehensive database on all public and private sectors employees, to enlarge the tax base and improve compliance. Additionally, for improving cash management, declarations were imposed on a quarterly basis, rather than on semi-annual basis, as was the case previously*.

Since then, the withheld tax on wages and salaries has been demonstrating steady improvement in collection, with collection rising by about 78 percent between 2003 and 2008, to LL 272 billion in 2008. This rise stems from higher number of registered taxpayers, enhanced compliance, and to a certain extent, economic growth, specially in 2007 and 2008.

Furthermore, Law 63 dated 31 December 2008 granted wage increases in the private and public sectors and raised the minimum wage, thus enlarging the tax base and driving collection further upward by 28 percent, to LL 349 billion at end-2009.

* For further information on the DASS reform please refer to **Reforms at MOF 2005-2008** available on www.finance.gov.lb

¹ For further details, kindly refer to October 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.

Table 1. Summary of Fiscal Performance

(LL billion)	2009 Oct	2010 Oct	2009 Jan-Oct	2010 Jan-Oct	% Change 2010/2009
Total Budget and Treasury Receipts	1,271	1,094	10,720	10,418	-3%
Total Budget and Treasury Payments, of which¹	1,557	1,788	14,357	14,199	-1%
• <i>Interest Payments</i>	588	490	4,768	4,956	4%
• <i>Concessional loans principal payments²</i>	14	26	231	271	17%
• <i>Primary Expenditures³</i>	954	1,272	9,357	8,972	-4%
Total Cash Deficit/Surplus	-285	-694	-3,637	-3,781	4%
Primary Deficit/Surplus	317	-178	1,363	1,445	6%

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

¹Kindly note that total budget and treasury payments for Jan-Sep 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)

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

Section 1: Revenue Outcome

Table 2. Total Revenue

(LL billion)	2009 Oct	2010 Oct	2009 Jan-Oct	2010 Jan-Oct	% Change 2010/2009
Budget Revenues, of which:	1,228	1,052	10,189	9,861	-3%
<i>Tax Revenues</i>	956	979	7,692	8,638	12%
<i>Non-Tax Revenues</i>	272	73	2,497	1,223	-51%
Treasury Receipts	44	43	531	557	5%
Total Revenues	1,271	1,094	10,720	10,418	-3%

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

Table 3. Tax Revenue

(LL billion)	2009 Oct	2010 Oct	2009 Jan-Oct	2010 Jan-Oct	% Change 2010/2009
Tax Revenues:	956	979	7,692	8,638	12%
Taxes on Income, Profits, & Capital Gains, of which:	145	152	1,671	1,875	12%
• <i>Income Tax on Profits</i>	7	7	707	774	9%
• <i>Income Tax on Wages and Salaries</i>	71	82	339	369	9%
• <i>Income Tax on Capital Gains & Dividends</i>	17	12	160	188	18%
• <i>Tax on Interest Income (5%)</i>	49	50	450	527	17%
• <i>Penalties on Income Tax</i>	1	1	15	16	7%
Taxes on Property, of which:	81	80	606	891	47%
• <i>Built Property Tax</i>	6	4	88	131	49%
• <i>Real Estate Registration Fees</i>	67	70	455	694	52%
Domestic Taxes on Goods & Services, of which:	444	463	2,850	3,125	10%
• <i>Value Added Tax</i>	408	432	2,543	2,807	10%
• <i>Other Taxes on Goods and Services, of which:</i>	36	31	299	310	4%
- <i>Private Car Registration Fees</i>	21	18	201	198	-2%
- <i>Passenger Departure Tax</i>	14	13	97	111	14%
Taxes on International Trade, of which:	241	235	2,232	2,361	6%
• <i>Customs</i>	68	68	635	677	7%
• <i>Excises, of which:</i>	173	167	1,596	1,684	5%
- <i>Gasoline Excise</i>	94	89	851	876	3%
- <i>Tobacco Excise</i>	28	29	223	293	32%
- <i>Cars Excise</i>	51	48	519	509	-2%
Other Tax Revenues (namely fiscal stamp fees)	45	49	333	386	16%

Source: MOF, DGF

Table 4. Non-Tax Revenue

(LL billion)	2009 Oct	2010 Oct	2009 Jan-Oct	2010 Jan-Oct	% Change 2010/2009
Non-Tax Revenues	272	73	2,497	1,223	-51%
Income from Public Institutions and Government Properties, of which:	224	22	2,007	709	-65%
• Income from Non-Financial Public Enterprises, of which:	198	20	1,889	589	-69%
- Revenues from Casino Du Liban	12	14	126	141	11%
- Revenues from Port of Beirut	0	0	62	65	5%
- Budget Surplus of National Lottery	5	5	43	49	14%
- Transfer from the Telecom Surplus	181	0	1,656	331	-80%
• Transfer from Public Financial Institution (BDL)	0	0	40	60	50%
• Property Income (namely rent of Rafic Hariri International Airport)	25	1	69	56	-18%
• Other Income from Public Institutions (interests)	0	0	9	4	-54%
Administrative Fees & Charges, of which:	40	41	400	417	4%
• Administrative Fees, of which:	33	33	330	342	4%
- Notary Fees	2	3	22	24	11%
- Passport Fees/ Public Security	9	9	98	99	1%
- Vehicle Control Fees	15	16	153	148	-3%
- Judicial Fees	2	2	15	19	25%
- Driving License Fees	3	1	20	19	-5%
• Administrative Charges	2	2	16	18	9%
• Sales (Official Gazette and License Number)	0	0	2	4	85%
• Permit Fees (mostly work permit fees)	5	5	41	43	7%
• Other Administrative Fees & Charges	1	1	11	9	-18%
Penalties & Confiscations	1	1	6	7	14%
Other Non-Tax Revenues (mostly retirement deductibles)	8	10	85	91	7%

Source: MOF, DGF

Section 2: Expenditure Outcome

Table 5. Expenditure by Economic Classification¹

(LL billion)	2009 Jan-Oct	2010 Jan-Oct	% Change 2010/2009
1. Current Expenditures	10,379	10,828	4%
1.a Personnel Cost, of which	4,073	4,216	4%
<i>Salaries, Wages and Related Items (Article 13)</i>	2,747	2,800	2%
<i>Retirement and End of Service Compensations, of which:</i>	1,066	1,164	9%
<i>Retirement</i>	880	902	2%
<i>End of Service</i>	186	262	40%
<i>Transfers to Public Institutions to Cover Salaries 2/</i>	260	252	-3%
1.b Interest Payments, of which: 3/	4,768	4,956	4%
<i>Domestic Interest Payments</i>	2,944	3,182	8%
<i>Foreign Interest Payments</i>	1,825	1,773	-3%
1.c Foreign Debt Principal Repayment	231	271	17%
1.d Materials and Supplies, of which:	204	241	18%
<i>Nutrition</i>	45	59	30%
<i>Fuel Oil</i>	8	7	-7%
<i>Medicaments</i>	89	117	31%
<i>Accounting Adjustments for Treasury</i>	32	28	-12%
1.e External Services	100	88	-12%
1.f Various Transfers, of which:	543	588	8%
<i>NSSF</i>	160	100	-38%
<i>Treasury advances for diesel oil subsidy</i>	0	61	-
<i>Wheat Subsidy</i>	10	27	174%
<i>Special Tribunal for Lebanon</i>	12	41	241%
1.g Other Current, of which:	381	373	-2%
<i>Hospitals</i>	314	291	-7%
<i>Others</i>	58	81	39%
1.h Reserves	77	94	22%
<i>Interest subsidy</i>	77	94	23%
2. Capital Expenditures	423	564	33%
2.a Acquisitions of Land, Buildings, for the Construction of Roads, Ports, Airports, and Water Networks	4	1	-78%
2.b Equipment	29	33	14%
2.c Construction in Progress, of which:	282	368	30%
<i>Displaced Fund</i>	60	75	25%
<i>Council of the South</i>	27	39	48%
<i>CDR</i>	152	139	-9%
<i>Ministry of Public Work and Transport</i>	26	90	238%
<i>Other</i>	17	24	40%
2.d Maintenance	62	109	75%
2.e Other Expenditures Related to Fixed Capital Assets	45	53	16%
3. Other Treasury Expenditures	3,517	2,767	-21%
Municipalities	422	564	34%
Guarantees	80	65	-19%
Deposits :	75	79	6%
Other, of which:	992	532	-46%
<i>VAT Refund</i>	288	321	11%
<i>High Relief Committee</i>	520	0	-100%
EDL 4/	1,944	1,526	-22%
Treasury advances for water authorities	4	0	
4. Unclassified Expenditures	2	4	87%
5. Customs Cashiers	36	37	4%
6. Total Expenditures (Excluding CDR Foreign Financed)	14,357	14,199	-1%

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

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

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

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

4/ For a detailed breakdown and an explanation regarding its classification under other treasury expenditure to EDL, kindly refer to table 8.

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

(LL billion)	2009 Jan-Oct	2010 Jan-Oct	% Change 2010/2009
Transfer to Council of the South	5	11	108%
Transfer to Council for Development and Reconstruction (CDR)	39	25	-35%
Transfer to the Displaced Fund	6	5	-25%
Transfer to the Lebanese University	198	199	0%
Transfer to the Educational Center for Research and Development	11	13	11%

Source: MOF, DGF

Table 7. Details of Debt Service Transactions

(LL billion)	2009*** Oct	2010 Oct	2009 Jan-Oct	2010 Jan-Oct	% Change 2010/2009
Interest Payments 1/	588	490	4,768	4,956	4%
Local Currency Debt	338	310	2,944	3,182	8%
Foreign Currency Debt, of which:	250	181	1,825	1,773	-3%
Eurobond Coupon Interest*	239	168	1,712	1,627	-5%
Specialbond Coupon Interest*	0	1	10	11	16%
Concessional Loans Interest Payments	10	12	103	135	31%
Concessional Loans Principal Payments**	14	26	231	271	17%

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⁽¹⁾

(LL billion)	2009 Jan-Oct	2010 Jan-Oct	% Change 2010/2009
EDL of which:	1,944	1,526	-22%
• Debt Service of which:	117	94	-19%
- C-Loans and Eurobonds, of which:	83	61	-27%
Principal repayments	70	50	-22%
Interest Payments	14	11	-22%
- BDL Guaranteed Loan payments	34	33	-1%
• Reimbursement of KPC and Sonatrach Agreements	1,827	1,431	-22%

Source: MOF, 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-Oct 2010 (LL billion)

(LL billion)	Dec 2007	Dec 2008	Dec 2009	Oct 2010	Change Dec 09 - Oct 2010	% Change Dec 09- Oct 2010
Gross Public Debt	63,350	70,937	77,097	77,085	-12	-0.02%
Local Currency Debt	31,373	39,007	44,973	45,414	441	0.98%
a. Central Bank (Including REPOs and Loans to EDL to Finance Fuel Purchases) ⁽¹⁾	9,052	8,781	10,334	10,694	360	3.48%
b. Commercial Banks	16,847	24,320	27,286	26,856	-430	-1.58%
c. Other Local Currency Debt (T-bills), of which:	5,474	5,906	7,353	7,864	511	6.95%
<i>Public Entities</i>	4,796	5,062	6,078	6,294	216	3.55%
* <i>Accrued Interest Included in Debt</i>	730	1,029	999	859	-140	-14.01%
Foreign Currency Debt ⁽²⁾	31,977	31,930	32,124	31,671	-453	-1.41%
a. Bilateral, Multilateral and Foreign Private Sector Loans	2,949	2,851	2,698	2,603	-96	-3.55%
b. Paris II Related Debt (Eurobonds and Loans) ⁽³⁾	6,063	5,456	4,819	4,361	-459	-9.51%
c. Paris III Related Debt (Eurobonds and Loans) ⁽⁴⁾	1,357	1,849	1,963	1,875	-88	-4.50%
d. Market-Issued Eurobonds	20,780	20,925	21,736	21,889	153	0.70%
e. <i>Accrued Interest on Eurobonds</i>	410	430	460	463	3	0.65%
f. Special T-bills in Foreign Currency ⁽⁵⁾	419	419	447	481	34	7.61%
Public Sector Deposits	4,527	8,326	10,522	9,442	-1,080	-10.26%
Net Debt	58,823	62,611	66,575	67,643	1,068	1.60%
Gross Market Debt ⁽⁶⁾	39,220	46,992	51,231	51,288	57	0.11%
% of Total Debt	62%	66%	67%	67%	0%	0.03%

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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