



REPUBLIC OF LEBANON  
MINISTRY OF FINANCE

# **Budget Proposal 2009**

**– A Detailed Report –**

**August 2009**

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This report aims at presenting the rationale behind Budget Proposal 2009 and explaining the resulting figures of both revenues and expenditures.

The report starts with a general overview that highlights the objectives underlying the preparation of Budget Proposal 2009 and as well the general macroeconomic context. It also presents the major aggregate figures of the budget, at the level of Budget Revenues, Budget Expenditures and resulting balances.

The second and third sections address Budget Revenues and Budget Expenditures, respectively, shedding light on the major policy measures and explaining the main components.

A fourth section is dedicated to the Debt Articles with a view to detailing Article 5 of Budget Proposal 2009 in order to give details of the legal framework for the government's borrowing.

The report is finally supported by two annexes that detail expenditures on the social sector and on defence and security personnel.

## I. CONTEXT AND MAIN FIGURES

**Budget Proposal 2009** aims to continue the implementation of the government's economic program, and to avoid placing additional burden on low-income categories. The main **objectives** can be summarised as follows:

- (i) To achieve a solid rate of real growth
- (ii) To maintain expenditures under control without negatively affecting security and the social situation
- (iii) To maintain the debt-to-GDP ratio at a stable level

Due to sharp increases in international commodity prices in 2008, two major policy measures were included in Budget Proposal 2009. The first pertains to increasing wages and salaries<sup>1</sup> with a retroactive effect to May 2008. The second entails enacting Laws 716, 717, and 718 (dated 5/11/2008), which call for the retroactive implementation of the then new minimum wage to the years 1996, 1997, and 1998.

It is worth mentioning that Budget Proposal 2009 was prepared on the basis of the international financial crisis and the resulting notable rise in oil prices. The **macroeconomic context** underlying the projections for the budget proposal is based on prudence in the aftermath of the financial crisis<sup>2</sup>, as follows:

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<sup>1</sup> This measure was undertaken in order to compensate public sector employees for increased cost of living. It states a higher monthly minimum wage as well as lump sum increases to monthly salaries and wages, retirement incomes, and daily transportation allowances.

<sup>2</sup> Underlying the Budget Proposal 2009 figures are GDP estimates for 2008 and 2009 at LL 43,350 billion and LL 46,883 billion, respectively. These two figures are based on National Accounts 2005 (released in September 2007) and growth and inflation estimates for the years 2006-2009. In February 2009, the National Accounts for 2006 and 2007 were published (with a revision for the year 2005 figure), and growth and inflation estimates for 2008 and 2009 were changed. In this respect, GDP estimates for 2008 and 2009 became LL 44,245 billion and LL 47,855 billion respectively. However, this Report considers the former GDP figures, i.e. those stated in National Accounts 2005 publication, as these underlie Budget 2009 projections.

- (i) Growth: the economy is expected to grow at a conservative 3% real growth in 2009<sup>3</sup> (coming down from an estimated 6% for 2008 at the time of preparation of the Budget 2009)<sup>4</sup>
- (ii) Private sector deposits: projected to grow at 10% in 2009 (further down from 15.6% growth in 2008)
- (iii) Inflation: the GDP deflator is projected at 5% for 2009<sup>5</sup>, (down from an estimated 10% for 2008 at the time of the preparation of the Budget 2009)<sup>6</sup>

Budget Proposal 2009 was approved by Cabinet on June 12, 2009 and sent to Parliament on June 20, 2009 through decree number 2364.

In terms of figures, **Budget Revenues** (excluding treasury revenues) are anticipated to amount to LL 11,389 billion, compared to LL 8,368 billion in Budget Proposal 2008. **Budget Expenditures** (excluding treasury expenditures) are expected to increase to LL 16,304 billion in Budget Proposal 2009, from LL 11,475 billion in 2008, representing a rise of 42%.

The **Budget Deficit** resulting from the stated revenue and expenditure figures is LL 4,915 billion in 2009, compared to LL 3,107 billion in 2008. However, the primary budget is expected to register a surplus of LL 1,125 billion. In terms of ratio to GDP<sup>7</sup>, the deficit will reach 10.5%, and the primary surplus 2.4%.

**Table 1: Comparison of 2008 and 2009 Budget Proposals**

<i>(LL billion)</i>	2008 Budget Proposal	2009 Budget Proposal	Magnitude change 2009/2008	Percentage change 2009/2008
<b>Budget Revenues</b>	<b>8,368</b>	<b>11,389</b>	<b>3,021</b>	<b>36%</b>
• Tax revenue	6,434	8,239	1,805	28%
• Non-tax revenue <sup>(1)</sup>	1,934	3,150	1,216	63%
<b>Budget Expenditures</b>	<b>11,475</b>	<b>16,304</b>	<b>4,829</b>	<b>42%</b>
• Primary Expenditures	6,825	9,863	3,038	45%
• Interest Payments	4,650	6,040	1,390	30%
• Principal repayment for foreign currency loans	na	401	na	na
<b>Budget Balance</b>	<b>-3,107</b>	<b>-4,915</b>	<b>-1,808</b>	<b>58%</b>
<b>Primary Budget Balance</b> <sup>(2)</sup>	<b>1,543</b>	<b>1,125</b>	<b>-418</b>	<b>-27%</b>

<sup>(1)</sup> Non-tax revenues in Budget 2009 include LL 151 billion grants; whereas grants in 2006-2008 are recorded under Treasury revenues.

<sup>(2)</sup> Primary budget balance excludes interest payments and principal repayment for foreign currency loans

<sup>3</sup> Given the economic performance of the first quarter of 2009, the real growth estimate was later revised upward to 4% with a potential upside provided an active tourism season during the summer.

<sup>4</sup> Real growth estimate for 2008 was later revised to 8.5%.

<sup>5</sup> The inflation rate for 2009 was later revised downward to 4%.

<sup>6</sup> GDP deflator for 2008 was later revised to 8%, following the sharp drop in international commodity prices.

<sup>7</sup> This ratio is based on 2009 GDP figure of LL 46,883 billion.

## II. BUDGET REVENUES IN BUDGET PROPOSAL 2009 AND UNDERLYING RATIONALE

Budget Proposal 2009 revenue figures amount to LL 11,389 billion and were projected based on the basis of the first ten months revenue performance of 2008. Underlying this revenue estimate are five policy measures, the first four of which were proposed to finance the increase in the wage bill and the related compensations, following the ratification of Law 63 in January 2009, which granted public sector employees a wage increase of LL 200,000, and also raised the minimum wage. These policy measures are the following:

1. Increase in **tax on interest** income rate from 5% to 7% starting at the beginning of 2009, and/or amending the modalities by which financial institutions and other companies file on the real basis of the income tax on profit, file for the 5% interest tax by abolishing the right to deduct the interest tax due from the profit tax amount.
2. **Increase in capital gains' tax** on assets' revaluation: Decree 282 Article 45 dated 1993 granted companies an exceptional one-time revaluation of all types of assets on their books, and are currently subject to a 1.5% tax which is suggested to be raised to 2% on the realised capital gains. The quantification of this measure is an approximation (estimated at LL 100 billion) as it is difficult to accurately assess its impact given that it is on a voluntary basis.
3. **Settlement of the Seashore violations law** which comprises two components - penalties and rent - is expected to come into effect in 2009, specifically the yearly rent component, which is estimated at LL 30 billion<sup>8</sup>.
4. Abolishing **Article 59 of the VAT Law** which refunds VAT incurred to exempted businesses. This is an expenditure saving measure.
5. Most importantly, the sharp drop in international oil prices in the fourth quarter of 2008, allowed the restoration of the gasoline excise tax, without causing an increase in domestic retail prices. As such, the government took the decision to **fix the excise rate** at the level prevailing in January 2009<sup>9</sup> and to allow domestic prices to move with international oil prices. The final Budget 2009 draft was hence revised in January 2009 to account for this major tax policy development, which would ensure a stable and substantial stream of revenues to the Treasury.

The main revenue aggregates of the Budget Proposal 2009 are the following:

- (i) **LL 8,239 billion of tax revenues**, or 18% of GDP compared to an average of 15% over the last 4 years, mainly explained by the new tax policy measures, as described above.
- (ii) **LL 3,150 billion of non-tax revenues** (including LL 151 billion of grants for Budgetary support pertaining to PIII pledges), or 6.4% of GDP (net of grants), of which 4.5% of GDP of transfers from the Telecom Budget Surplus, in line with historical trends and due to the temporary holding of the privatization process.

<sup>8</sup> The figure was revised from the LL 45 billion previously estimated in Paris III International Conference Document.

<sup>9</sup> The excise rates was fixed at LL 467.5 and LL 473 per litre for the 98 octane and 95 octane respectively, as per Council of Ministers decision # 9 dated January 23, 2009

## II.1 Tax revenues

### *a. Tax on income, profits and capital gains*

Taxes on income, profits, and capital gains are expected to collect LL 1,894 billion in Budget Proposal 2009, 4.3% of GDP (compared to 3.5% of GDP on average over the last 4 years) based on the assumption of an 8% nominal growth in 2008, 10% private sector deposit growth with a dollarization rate of deposits of 71% and average deposit rates of 7.3% and 3.5% on LL and USD deposits respectively. In addition projected receipts from incomes taxes on profits and capital gains account for the yield from the following policy measures:

- The yield from the additional 2 percentage point tax rate on interest income was estimated at around 0.4% of GDP on an annual basis (given unchanged underlying assumptions). Considering that the measure is effective around midyear, an amount equivalent to LL 100 billion was projected from the higher tax rate.
- The 2% fee on capital gains realised from the re-evaluation of company's assets was projected to yield around LL 100 billion<sup>10</sup>.

Revenues from the withheld tax on wages and salaries were underestimated in Budget Proposal 2009 as they did not consider the overall expansion of the tax base stemming from the general wage increase pertinent to Law 63. The figure accounts for the nearly 17% increase in public sector wages (equivalent to the LL 200,000 increase over the average wage in the public sector), but does not account for higher tax receipts from the increase in the minimum wage in the private sector due to difficulty in its quantification.

### *b. Tax on property*

Tax on property is projected at LL 702 billion in Budget Proposal 2009. It accounts for LL 30 billion additional receipts in the recurrent tax owing to the expected ratification of the Seashore Law (namely the yearly rent component). Property registration fees for 2009 are projected at 1% of GDP, in line with historical averages but below the 2008 level at 1.3% of GDP, based on the assumption of slower growth in the real estate market in 2009 following the international financial crisis and the world economic slowdown.

### *c. Domestic taxes on goods and services*

Domestic taxes on goods and services are expected to collect LL 4,561 billion by year end, or 10% of GDP, compared to 9% of GDP in 2008. The expected developments on this front can be detailed as follows:

- **Excise taxes** are projected to collect 1,479 billion in 2009, 57% of which are gasoline excises. In fact, the most significant policy development underlying Budget 2009 revenues is the uncapping of the gasoline retail price and fixing the excise rate at an average of LL 470 per

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<sup>10</sup> The yield from the 2% capital gain fee was estimated based on historical receipts from asset re-evaluation done in previous years. Given that this is a voluntary measure, it was difficult to assess its revenue impact with more precision.

litre as per Council of Minister's Decision # 9 dated January 23<sup>rd</sup> 2009; thus securing the Treasury a consistent stream of revenues, independently from international oil price movements. This measure is projected to yield LL 850 billion, given a volume of imports consistent with past years' trends, equivalent to 1.8% of GDP, up from 0.2% of GDP in 2008 (a year that witnessed a peak in international oil prices). Excises on *cars* were projected at LL 361 billion in Budget Proposal 2009 or 0.77% of GDP, in line with the historical collection level, but down from 1.2% of GDP collected in 2008. In fact, year 2008 witnessed a burst in car imports, which was assumed exceptional, and hence the demand for cars in 2009 was projected to resume at the same pace as in normal years<sup>11</sup>. Excises on *tobacco* are projected to collect LL 260 billion in Budget Proposal 2009, at constant share of GDP (i.e. 0.55%) as per historical trends.

- The VAT is projected to yield LL 2,758 billion in Budget Proposal 2009, growing with projected nominal growth for 2009 and hence keeping at constant share of GDP as in 2008 at around 5.9%.

#### *d. Taxes on international trade (custom duties)*

In Budget Proposal 2009, imports are assumed at 48% of GDP, similar to total imports in 2007 (imports peaked at 55% of GDP in 2008, which was considered an exceptional performance). Based on a 3.2% effective customs rate (in line with the effective customs rate prevailing in 2007), custom duties are then anticipated to reach LL 714 billion in Budget Proposal 2009, assuming a constant share of GDP at about 1.5%, similar to that in 2008.

#### *e. Other tax revenues*

Other tax revenues (mainly fiscal stamps), which are projected to reflect the expected growth in the economy for 2009, amount to LL 368 billion in Budget Proposal 2009, equivalent to 0.8% of GDP. This latter figure is in line with past years' collection.

## **II.2 Non-tax revenues**

The Budget Proposal 2009 forecasts non-tax revenues to total LL 3,000 billion (net of grants)<sup>12</sup>, equivalent to 6.4% of GDP compared to 6% of GDP in 2008. The development behind non-tax revenues is mainly explained by the performance of entrepreneurial and property income, the major contributor to non-tax revenues.

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<sup>11</sup> At the time of the preparation of Budget Proposal 2009, the economic prospects were dim following the break of the international financial crisis and the projected world economic slowdown. As such, total imports were assumed to decrease from the exceptional performance of 2008, a year that recorded an estimated 8% real growth. In particular, car imports, which also witnessed exceptional growth in 2008, are expected to recede in 2009.

<sup>12</sup> Grants are usually recorded under Treasury revenues in the Fiscal Performance.

### ***a. Income from public enterprises***

**Income from public enterprises** is expected to total LL 2,407 billion in 2009, of which LL 2,095 billion of transfers from the Budget surplus of the telecom, equivalent to 4.5% of GDP, a figure that is in line with historical trend (note however that Telecom transfers in 2008 approximated 4% of GDP). Following the start of the international financial crisis, Budget Proposal 2009 was revised to account for the full transfer from the budget surplus of the telecommunication, as opposed to forgone revenues had privatization been incorporated in the assumptions.

**Casino du Liban's** second-year instalment of LL 14 billion<sup>13</sup> is factored into 2009 projections at LL 125 billion (compared to a first instalment amount of LL 42 billion received in March 2008). Other property income projected for 2009 are mainly LL 43 billion, LL 52 billion, and LL 50 billion from BDL surpluses, National Lottery and International Airport respectively.

### ***b. Administrative fees and charges***

Administrative fees and charges are projected to amount to LL 474 billion in Budget proposal 2009, at around 1% of GDP, compared to 1.1% of GDP in 2008. This variation is explained by lower expected real growth in the economy for 2009.

### ***c. Fines and confiscations***

**Fines and confiscations** are predicted to amount to LL 6 billion in Budget Proposal 2009 in line with past years' collection.

### ***d. Other non-tax revenues***

In Budget Proposal 2009, **other non-tax revenues** are expected to reach LL 112 billion, of which LL 102 billion of retirement deductibles. An amount of LL 151 billion of grants pertaining to Paris III pledges are expected in 2009 and recorded under "other non-tax revenues".

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<sup>13</sup> In February 2008, an agreement was reached between the Government of Lebanon and Casino du Liban Management, whereby the Treasury is entitled to a share of revenues from all gambling machines. An amount equivalent to LL 83 billion was agreed upon in settlement of past years' disputes, to be paid in four yearly instalments starting 2008.



**Table 2: Comparison of revenues as per 2008 and 2009 Budget Proposals**

<i>(LL billion)</i>	2008 Budget Proposal	2009 Budget Proposal	Magnitude change 2009/2008	Percentage change 2009/2008
<b>Total Tax Revenues</b>	<b>6,434</b>	<b>8,239</b>	<b>1,805</b>	<b>28%</b>
• Taxes on income, profits and capital gains	1,492	1,894	402	27%
• Taxes on property	535	702	167	31%
• Domestic taxes on goods and services, <i>of which</i>	3,579	4,561	982	27%
<i>Excise</i>	1,011	1,479	468	46%
<i>VAT</i>	2,340	2,758	418	18%
• Taxes on international trade & transactions (custom duties)	540	714	174	32%
• Other tax revenues	288	368	80	28%
<b>Total Non-Tax Revenues</b>	<b>1,934</b>	<b>3,150</b>	<b>1,216</b>	<b>63%</b>
• Income from Public Enterprises	1,311	2,407	1,096	84%
• Administrative fees and charges	426	474	48	11%
• Fines and confiscations	5	6	1	20%
• Other non-tax revenues*	192	263	71	37%
<b>Budget Revenues</b>	<b>8,368</b>	<b>11,389</b>	<b>3,021</b>	<b>36%</b>

\*Please note that "other non-tax revenues" in Budget Proposal 2009 account for LL 151 billion of grants pertaining to PIII pledges, whereas "other non tax revenues" in Budget 2008 does not account for grants.

It is further important to note that given the substantial changes in domestic politics, and in the world economic outlook, the overall macroeconomic environment prevailing between July 2007 and November 2008 (the timing for the formulation of Budget 2008 and Budget 2009) has changed significantly; macroeconomic assumptions underlying Budget 2008 figures are different from those at the time of the preparation of Budget Proposal 2009 (expected 2008 year-end revenue performance being the base year for projecting 2009 revenues). Besides, four tax policy reform measures were planned for in Budget 2008 (uncapping car gasoline beginning 2008; as well as 12% VAT, 7% interest tax and seashore law two components effective as of H2 2008), together with privatisation. In fact, non-tax revenues in Budget 2008 assume privatisation of both fixed and mobile telephony in the second half of 2008. Therefore, comparing revenue figures of Budget Proposal 2009 to those of Budget 2008, is sometimes misleading because of the changed macroeconomic and policy context.

### **III. BUDGET EXPENDITURES IN BUDGET PROPOSAL 2009 AND UNDERLYING RATIONALE**

Budget expenditures for 2009 are based (a) on end-of-year projection of 2008 which is a function of the January-July 2008 fiscal results and (b) on the set of macroeconomic assumptions stated earlier.

In line with the Ministry's effort to reform the national budget process and make its coverage more comprehensive, Budget Proposal 2009 includes allocations for a category of payments that used to be made in the past outside the budget framework following governmental decrees or laws voted by Parliament. These include an allocation for diesel oil subsidy<sup>14</sup>, and an allocation for the payment of previous years' NSSF dues<sup>15</sup>.

The allocations in Budget Proposal 2009 also take into account the following policy measures adopted to compensate public sector employees for increased cost of living:

- (i) Monthly minimum wage in the public sector fixed at LL 500,000 - or a 66% increase - as per Article 1, Law 63 dated 31/12/2008,
- (ii) Monthly salary and wage increase by LL 200,000 in the public sector as per Article 3, Law 63 dated 31/12/2008,
- (iii) Monthly retirement pay increase by LL 170,000 in the public sector as per Article 4, Law 63 dated 31/12/2008,
- (iv) Salary and wage scale in the public sector is re-evaluated by 5% for each grade attained as per Article 2, Law 63 dated 31/12/2008 and the annexed schedules and,
- (v) Daily transportation allowance in the public sector increased by LL 2,000 up to LL 8,000 as per Decree 538 dated 14/11/2008 and.

Budget Proposal 2009 also contained an allocation to start covering the provisions of Laws 716, 717, and 718 dated 5/11/2008, which were not previously executed and which called for the retroactive implementation of the LL 300,000 - then new minimum wage per month - to the years 1996, 1997, and 1998. At the time, the then new minimum wage of LL 300,000 was only applied starting 1999. These three Laws also revise the salary and wage scale upwards starting January 1, 1999. The total cost of this retroactive measure amounts to LL 1,200 billion over a period of three years, starting with the 2009 budget.

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<sup>14</sup> Diesel oil subsidies were paid through treasury advances – further explanation is provided in the text.

<sup>15</sup> Law number 753 dated 2006 sets the framework for the payment of NSSF dues over a period of ten years. These dues started to be paid in 2005 mainly through the use of carried forward allocations. Budget Proposal 2009 included an allocation for these past dues.

**Table 3: Economic Classification of Expenditures as per 2008 and 2009 Budget Proposals**

Code	(LL billion)	2008 Budget Proposal	2009 Budget Proposal	Magnitude change 2009/2008	Percentage change 2009/2008
<b>Total Current Expenditures</b> (Including Interest Payments & Excluding Transfers to EDL)		<b>9,848</b>	<b>13,196</b>	<b>3,348</b>	<b>34.0%</b>
<b>Total Current Expenditures</b> (Excluding Interest Payments & Excluding Transfers to EDL)		<b>5,198</b>	<b>7,156</b>	<b>1,958</b>	<b>37.7%</b>
11	Materials and supplies	350	409	59	16.9%
12	External Services	129	140	11	8.3%
13	Salaries and Wages	2,524	3,765	1,241	49.2%
14	Subsidies and Transfers (excluding transfers to EDL)	1,733	2,279	546	31.5%
16	Other Current Expenditures	300	396	96	32.2%
17	Interest Payments and Financial Charges	4,650	6,040	1,390	29.9%
18	Unallocated General Reserves	162	166	4	2.8%
<b>Total Capital Expenditures</b>		<b>618</b>	<b>846</b>	<b>228</b>	<b>37.0%</b>
221	Acquisitions of Land	1	0	-1	-88.9%
222	Acquisitions of Buildings	4	1	-3	-85.7%
223	Acquisitions for the Construction of Roads, Ports, and Airports	4	4	0	6.7%
224 & 225	Acquisitions for the Construction of Water and Electricity Networks	2	1	-2	-76.4%
226	Equipment	70	94	24	34.9%
227	Construction in Progress	370	486	116	31.5%
228	Maintenance	101	144	43	42.6%
229	Other Expenditures Related to Fixed Capital Assets	66	116	50	75.6%
<b>Other Expenditures</b>					
14-1-9	Transfers to EDL	1,010	1,861	851	84.3%
372	Principal Repayment of Loans	-	401	NA	NA
<b>Total Expenditures</b>		<b>11,475</b>	<b>16,304</b>	<b>4,829</b>	<b>42.1%</b>

Source: Ministry of Finance

The main expenditure items in Budget Proposal 2009 are detailed below, in accordance with the economic classification of expenditures.

### III.1 Materials and supplies

Materials and supplies are expected to increase from LL 350 billion in Budget Proposal 2008 to LL 409 billion in Budget Proposal 2009, representing a rise of 17%. Of the LL 59 billion increase, LL 26 billion are allocated to fuel purchases for defense and security forces, LL 7 billion to food for the Lebanese Army and LL 20 billion are for the purchase of medicaments.

### III.2 External services

External services include rents, postal services, insurance, advertisement, public relations and consulting fees. Total expenditures under this item are projected at LL 140 billion, compared to LL 129 billion in Budget Proposal 2008, thus exhibiting an increase of 8%. Of the LL 11 billion increase, LL 3.6 billion were due to increased allocation for the Ministry of Foreign Affairs for the rent of the ESCWA building for 15 months.

### III.3 Personnel costs

Wages and salaries and related benefits<sup>16</sup> are assumed to increase from LL 2,524 billion in Budget Proposal 2008 to LL 3,765 billion in Budget Proposal 2009, i.e. by LL 1,241 billion, or 49%. This increase in spending on wages, salaries, and related benefits is mainly attributed to the following factors:

- (i) LL 334 billion increase in Article 13 budget allocations to cover the costs resulting from the increase of the minimum wage in the public sector by 66% and the LL 200,000 monthly raise for public sector employees (including armed forces) that started as of September 2008, with retroactive effect since May 2008,
- (ii) LL 400 billion increase to cover the cost of the first retroactive payments<sup>17</sup> for the years 1996, 1997 and 1998 that are due to public sector employees and retirees who are entitled to benefit from the provisions of Laws 716, 717 and 718 dated 5/11/2008 (kindly refer to the "Budget Expenditures in Budget Proposal 2009 and Underlying Rationale" section for more information about Laws 716, 717 and 718),
- (iii) LL 245 billion increase<sup>18</sup> to cover the increase in allowances linked to the salary and wage scale and the increase in the daily transportation allowance from LL 6,000 to LL 8,000,
- (iv) LL 120 billion increase to cover the cost of the re-evaluation of the salary and wage seniority grade scale in the public sector by 5%<sup>19</sup>,
- (v) LL 15 billion increase to cover the cost of the revision of the monthly retirement cost of living adjustment, which was increased to LL 170,000 per month by Parliament (Law 63 dated

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<sup>16</sup> Article 13 in the Budget

<sup>17</sup> Total cost of the retroactive payment is estimated at LL 1,200 billion and is to be paid over 2009-2011 by opening a LL 400 billion allocation in the National Budget for each year starting 2009. The LL 400 billion are classified economically under Article 13 but have not been distributed to the different public administrations and appear as a lump sum allocation under the budget reserve category in the administrative classification.

<sup>18</sup> The LL 245 billion are classified economically under Article 13 but have not been distributed to the different public administrations and appear as a lump sum allocation under the budget reserve category in the administrative classification.

<sup>19</sup> The re-evaluation of the seniority grade scale in the public sector is better understood through an illustrative example: a second category public servant is promoted from Grade 1 to Grade 2. Prior to the re-evaluation, his monthly salary would have increased by the value of grade 2 which was set at LL60,000 per month. Following the 5% re-evaluation decided by Law 63, the increase will be now worth LL63,000 per month.

31/12/2008) after initially being set at LL 150,000 by the Government (Decision 79 dated 9/9/2008)<sup>20</sup>,

- (vi) LL 83 billion increase in related benefits, of which LL 65 billion are due to increases in allowances and LL 20 billion to increases in the participation of the government to several pension funds (these are detailed in Annex I on social expenditures).

Personnel cost transfers to public institutions<sup>21</sup> increased by LL 53 billion, or 24%, as a result of a LL 51 billion increase in transfers to the Lebanese University and a LL 4 billion increase in the budget allocation of the Council for the South.

Retirement wages and end-of-service compensation<sup>22</sup> are assumed to increase from LL 1,040 billion in Budget Proposal 2008 to LL 1,300 billion in Budget Proposal 2009, i.e. by 25%. Of this LL 260 billion increase, LL 210 billion are allocated as increase in retirement wages and can mainly be explained by the monthly retirement pay increase of LL 150,000 granted by the Government (later increased to LL 170,000 by Parliament as explained above).

Therefore, total **personnel costs** which include, in addition to the wages, salaries, and related benefits, transfers for personnel cost and retirement and end-of-service compensations, rose by LL 1,554 billion from LL 3,783 billion in Budget Proposal 2008 to LL 5,337 billion. The table below details the allocated spending on personnel in Budget Proposal 2009 as compared to Budget Proposal 2008.

**Table 4: Personnel Cost Details as per 2008 and 2009 Budget Proposals**

<i>(LL billion)</i>	<b>2008 Budget Proposal</b>	<b>2009 Budget Proposal</b>	<b>Magnitude change 2009/2008</b>	<b>Percentage change 2009/2008</b>
<b>1. Article 13: Wages, salaries, and related benefits</b>	<b>2,524</b>	<b>3,765</b>	<b>1,241</b>	<b>49.2%</b>
<b>2. Article 14: Transfers for personnel cost</b>	<b>219</b>	<b>272</b>	<b>53</b>	<b>24.2%</b>
• Transfers to Council of the South	6	10	4	70.0%
• Transfers to CDR	22	20	-2	-9.1%
• Transfers to Displaced Fund	6	6	0	0.0%
• Transfers to Lebanese University	175	226	51	29.0%
• Transfers to the educational center of R&D	10	10	0	0.0%
<b>3. Article 14: Retirement and end of service indemnities</b>	<b>1,040</b>	<b>1,300</b>	<b>260</b>	<b>25.0%</b>
• Retirement wages	840	1,050	210	25.0%
• End of service indemnities	200	250	50	25.0%
<b>Personnel Cost</b>	<b>3,783</b>	<b>5,337</b>	<b>1,554</b>	<b>41.1%</b>

Source: Ministry of Finance

<sup>20</sup> All the additional increases brought by Law 63 following the Parliamentary Committee revisions were lump summed together under Article 13 as economic classification and Budget Reserve as administrative classification

<sup>21</sup> Article 14-1-3 and Article 14-1-5/6/7/8 in the budget

<sup>22</sup> Article 14-7-1 and Article 14-7-2 in the budget

### III.4 Subsidies and transfers (excluding transfers to EDL)

Subsidies and transfers (excluding transfers to EDL) are expected to amount to LL 2,279 billion, up from LL 1,733 billion in Budget Proposal 2008, representing an increase of LL 546 billion, equivalent to about 32%. If retirement and end-of-service indemnities are set aside, as these have been already explained in the personnel cost section, the main changes in subsidies and transfers are as follows:

- (i) Around LL 51 billion increase in allocation for the Directorate General for Higher Education as transfers to the Lebanese University, representing a rise of around 29%. Of this increase:
  - a. LL 13.8 billion is due to an additional contribution to the Educational College at the Lebanese University to cover the cost of training the 920 secondary education teachers appointed by Decree 700 dated 15 November 2008,
  - b. LL 6.8 billion is additional contribution to the Lebanese University Cooperative Fund following the Council of Ministers' decision to appoint 686 part-time teachers as full-timers and,
  - c. the remaining is mainly due to the increase in monthly salary and wage and retirement pay decided by Government and enacted by Parliament,
- (ii) LL 22 billion increase in allocations to the Directorate General of Education as contributions to school funds which reached LL 58 billion in Budget Proposal 2009 compared to LL 36 billion in 2008. This increase is due to a LL 28 billion allocation to provide public-sector primary and intermediate students a daily allowance of LL 750 and LL 1,000 per effective day of attendance, following Council of Ministers' decision 161 dated 5/5/2008,
- (iii) LL 39 billion increase in the transfers to the Ministry of Economy and Trade, mainly explained by the LL 52.5 billion contribution to the Directorate General of Cereals of Beetroot, of which LL 45 billion is to settle part of the treasury advances provided to the Directorate General between August 2007 and November 2008 to subsidize the price of wheat and cap the price of bread at LL 1,500 per 1.15 Kg and LL 7.5 billion as contribution to its budget,
- (iv) LL 140 billion increase in the allocations to the Ministry of Labour as transfers to the National Social Security Fund, which reached LL 240 billion in Budget Proposal 2009 compared to LL 100 billion in 2008. Of the total increase of LL 140 billion, LL 60 billion represent a rise in the State contribution to the NSSF maternity and sickness fund for 2009 that is required by the NSSF Law. The remaining LL 80 billion are due to the settlement of past dues and that are to be settled over 10 years in agreement with NSSF<sup>23</sup>,
- (v) LL 30 billion allocation to the Ministry of Energy and Water for the potential subsidy of gas oil for heating in winter<sup>24</sup>

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<sup>23</sup> NSSF dues have been paid by the Ministry of Finance in previous years but these amounts were not allocated in the national budget.

<sup>24</sup> Diesel oil has been subsidized in previous year through treasury advances but these amounts were not allocated in the national budget.

### III.5 Other current expenditures

Other current expenditures are expected to amount to LL 396 billion, compared to LL 300 billion in Budget Proposal 2008, exhibiting an increase of 32% due to:

- (i) A LL 21.95 billion increase in allocations to the Ministry of Interior and Municipalities for the organization of elections,
- (ii) A LL 19.5 billion increase for the Ministry of Finance to cover the rents of real estate utilized by the United Nations Interim Force in Lebanon (UNIFIL) in the South until 2009, and
- (iii) A LL 49 billion increase in allocation for hospitalization in the private sector which amounts to LL 305 billion in Budget Proposal 2009 compared to LL 256 billion in 2008

### III.6 Interest payments

A total of LL 6,040 billion was provisioned for interest payments in Budget Proposal 2009, of which LL 3,650 billion (equivalent to 60%) for interest payments of domestic debt, and LL 2,390 billion for interest payments on foreign-currency debt. The allocation for interest payments in budget proposal 2008 stood at LL 4,650 billion, which is about 30% lower than the figure of the 2009. This increase is mainly attributed to higher domestic currency debt interest payments of LL 1,172, equivalent to a rise of about 47%. Foreign currency interest payments also rose by 10%. The reasons for the considerable rise in domestic currency portion of interest payments are mainly a special NSSF three-year discount bond that will mature in 2009 and the additional subscriptions to the 36-months treasury bills.

**Table 5: Interest Payments as per 2008 and 2009 Budget Proposals**

<i>(LL billion)</i>	<b>2008 Budget Proposal</b>	<b>2009 Budget Proposal</b>	<b>Magnitude change 2009/2008</b>	<b>Percentage change 2009/2008</b>
<b>Total Interest payments</b>	<b>4,650</b>	<b>6,040</b>	<b>1,390</b>	<b>29.9%</b>
• Domestic currency Debt	2,478	3,650	1,172	47.2%
• Foreign currency Debt	2,172	2,390	218	10.0%

The projected total interest payments of LL 6,040 billion takes into consideration the following assumptions<sup>25</sup>:

- (i) LL 5,352 billion of already committed borrowing till end of October 2008
- (ii) LL 688 billion worth of new borrowings expected in 2009
- (iii) Projected stock of gross debt at LL 71,047 billion at the end of 2008
- (iv) 8.9% weighted average interest rate on new borrowing in LL treasury bills and notes in 2009 due to increased subscriptions in the 36-months T-bills.
- (v) Weighted average interest rate on projected new Eurobonds issuances in line with latest secondary market levels.

<sup>25</sup> It should be noted that the interest payment calculation takes into consideration an expected cash-basis primary balance of LL 76 billion, which is different from the primary balance listed in Table 2



### III.7 Capital expenditures

Capital expenditure are expected to increase from LL 618 billion in Budget Proposal 2008 to LL 846 billion in Budget Proposal 2009, i.e. by LL 228 billion or 37%. This increase is analyzed as follows:

- (i) Allocations for equipment in Budget Proposal 2009 increased by LL 24 billion (35%) to reach LL 94 billion. This increase is explained by four main reasons:
  - a. LL 5.8 billion in allocations to Parliament, mainly for furniture and office equipment,
  - b. LL 8.6 billion for Internal Security Forces, mainly for specialized equipment and transportation equipment,
  - c. LL 2.9 billion for the Ministry of Finance, mainly for information technology equipment and,
  - d. LL 6 billion for the Lebanese Army for specialized equipment
- (ii) Allocation for construction in progress in Budget Proposal 2009 amounted to LL 486 billion, a LL 116 billion (32%) increase compared to the LL 370 billion allocated in 2008. This is explained by the following factors:
  - a. Contrary to Budget Proposal 2008, capital spending in Budget Proposal 2009 accounts for the transfers to the Council for the South and the Displaced Fund, amounting to LL 51.3 billion and LL30 billion respectively,
  - b. Allocations to the Council of Development and Reconstruction increased by LL 12.75 billion, thus reaching LL 164.35 billion, due to the inclusion of a LL 12.75 billion allocation for the rehabilitation and enlargement of the Tyre-Naqoura road,
  - c. Allocations for the Ministry of Public Works and Transports witnessed the following increases: (i) An additional LL 2.3 billion to the Directorate General of Roads and Construction for the completion of the Marjeyoun-Hasbaya road, (ii) an extra LL 23.7 billion was also allocated for the Ministry's roads law project, of which LL 16.7 billion are for Saida and Baalback's highways and LL 7 billion for the cleaning of the wastewater network and (iii) LL 6 billion allocation for the Rashaya-Hasbaya road law project
  - d. Allocations for the Ministry of Youth and Sports increased by LL 14.7 billion, to reach LL 16.7 billion as a result of a LL 15.7 billion contribution to CDR to complete the works for the Baalback stadium and,
  - e. Allocations for the Ministry of Interior and Municipalities increased by LL 11 billion, to LL 23 billion, following a LL 15 billion contribution to the CDR to enlarge and operate the Saida dump.



- (iii) Allocations in Budget Proposal 2009 for maintenance increased by LL 43 billion (43%) to LL 144 billion. This was the outcome of the following:
- a. A LL 21 billion increase in the budget allocation of the Directorate General of Roads and Construction/Ministry of Public Works and Transport that reached LL 81.7 billion compared to LL 61 billion in 2008 as a result of (a) a LL 4 billion increase in allocations for governmental buildings maintenance, b) a LL 10 billion increase for major roads maintenance, c) LL 2 billion increase for secondary roads maintenance, and d) a LL 5 billion increase for other roads maintenance,
  - b. A LL 18 billion allocation for the Ministry of Education and Higher Education as a contribution to CDR for the operation and maintenance of the Lebanese University Campus in Hadath.
- (iv) Allocations in Budget Proposal 2009 for other expenditures related to fixed capital assets amounted to LL 116 billion, thus increasing by LL 50 billion or 76% compared to the LL 66 billion in 2008. This was due to a LL 78 billion allocation to the Ministry of Justice, as a contribution to the expenses of the Special Tribunal for Lebanon<sup>26</sup>, compared to LL 22 billion in 2008. The impact of the increase in the allocation of the Special Tribunal for Lebanon was partly offset by the LL 6 billion decrease in the allocation to the Presidency of the Council of Ministers for its contribution to the Investment Development Authority of Lebanon, which reached LL 28 billion in 2009 following the gradual phasing out of the Export Plus program.

### III.8 Transfers to EDL

Transfers to EDL are projected at LL 1,861 billion in Budget Proposal 2009, representing a significant rise of 84.3% compared to Budget Proposal 2008 (LL 1,010 billion). These payments are based on the expected consumption of fuel oil and gas oil in the last six months of 2008 and the first six months of 2009, which is paid in 2009 as per the lagged payment terms of the gas oil and fuel oil purchase contracts (payments are made after six or nine months of purchase).

Following are the assumptions on which the 2009 transfer figure was based:

- Crude oil price of US\$ 50 per barrel<sup>27</sup> and conversion factor of 9.3602 for gas oil and 4.8096 for fuel oil<sup>28</sup>
- Gas oil consumption of 1,178,000 metric tons (of which EDL consumed 587,000 metric tons between July and November 2008) from July 2008 to June 2009.
- Fuel oil consumption of 1,075,000 metric tons (of which EDL consumed 409,000 metric tons between July and November 2008) from July 2008 to June 2009

<sup>26</sup> Contribution to the Special Tribunal for Lebanon has been classified under other expenditures related to fixed capital assets in the "various expenditures on studies, consultancies and monitoring" sub-section.

<sup>27</sup> Based on International Monetary Fund data

<sup>28</sup> Based on World Bank report on Public Spending on Electricity Sector (January 9, 2008)

- Surcharge of 3% to oil purchases, where value is price multiplied by quantity
- Transfer of LL 107 billion to cover repayment of EDL loans (principal and interest) guaranteed by the government
- Savings of LL 73 billion from natural gas importation from Egypt starting April 2009
- Savings of LL 50 billion due to reducing illegal connections
- Operating expenses of LL 862 billion, including wages & salaries, electricity purchase and miscellaneous payments

### III.9 Principal repayment of loans

The principal repayment of external loans is expected to reach LL 401 billion in 2009 to cover projects adopted by the Council for Development and Reconstruction (CDR) and other administrations.

**Table 6: Interest Payments as per 2008 and 2009 Budget Proposals**

<i>(LL billion)</i>	<b>Budget Proposal 2009</b>
<b>Total principal repayment</b>	<b>401</b>
• International organisations	263
• Foreign governments	99
• Financial non-governmental institutions	39

## IV. DEBT ARTICLES

As in previous years, Budget Proposal 2009 includes an article which sets the legal framework for the government's borrowing in domestic and foreign currencies. Article 5 of Budget Proposal 2009 includes:

First, the authorization to the government to issue Treasury Bills in domestic currency. This can take place under a ceiling governed by the actual fiscal deficit, in addition to the rolled-forward budget allocations to the year 2009, as well as any additional allocations. Domestic debt maturities can be long, medium, and short. Treasury Bills can be issued through decisions taken by the Minister of Finance.

Second, the authorization for the government to issue Treasury Notes in foreign currencies (Eurobonds) within a ceiling of USD 4 billion.

Third, the amendment of Law 476<sup>29</sup>, to:

- Authorize the Lebanese government, in the context of restructuring the public debt and reducing its cost, to borrow in foreign currencies for a minimum period of three years up to USD 11 billion instead of USD 7 billion or its equivalent, provided certain conditions are met.
- Extend the maximum allowed maturity for such instruments from fifteen years to thirty years starting from the date of the first operation.
- Issue at interest rates lower than the current interest rates paid by the Treasury on previous debt issues, as of the date of the borrowing instead of as of the date of the Law (i.e. December 12, 2002).

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<sup>29</sup> According to Law 476, the Lebanese government was authorized, in the context of restructuring the public debt and reducing its cost, to borrow in foreign currencies for a minimum period of three years up to USD 7 billion or its equivalent; provided that:

1. the interest rates be lower than the current interest rates paid by the Treasury on previous debt issues as of the date of this law, i.e. December 12, 2002.
2. the proceeds or the borrowings, hereby authorized, be solely and completely applied to the replacement or the refinancing of existing debts in various local and foreign currencies.
3. the total value of such direct loans, issued Notes, deposits or agreements with Islamic banks be settled within a period not exceeding fifteen years from the starting date of these operations.

Law 476 provides also for the possibility of having the loans and/or the issued Notes and/or the deposits guaranteed by the governments and the central banks of friendly countries, provided that the conditions of such guarantees be determined by a decision of the Minister of Finance.

## V. ANNEX I: SOCIAL SECTOR EXPENDITURES

Social sector expenditures witnessed a rise in terms of magnitude (24%), however a drop in terms of their share out of total expenditures. At LL 3,753 billion, social spending accounts for 23% of Budget Proposal 2009 total expenditures, compared to LL 3,039 billion (26% share) in Budget Proposal 2008.

The table below illustrates the changes that took place at social level between Budget Proposals 2008 and 2009.

**Table 7: Main social expenditures as per 2008 and 2009 Budget Proposals**

<i>(LL billion)</i>	<b>2008 Budget Proposal</b>	<b>2009 Budget Proposal</b>	<b>Magnitude change 2009/2008</b>	<b>Percentage change 2009/2008</b>
<b>Health</b>	<b>574</b>	<b>689</b>	<b>115</b>	<b>20%</b>
• Hospitalization in the Private Sector	258	307	49	19%
• Purchase of Medication	89	109	20	22%
• Hospitalization of Public Sector Employees	126	168	42	34%
• Maternity and Sickness Allowance	34	39	5	14%
• Other	67	66	-1	-1%
<b>Education</b>	<b>1,000</b>	<b>1,176</b>	<b>175</b>	<b>18%</b>
• Ministry of Education and Higher Education	883	1,041	158	18%
• Education Allowance	117	135	18	15%
<b>Other Social Spending</b>	<b>1,464</b>	<b>1,888</b>	<b>424</b>	<b>29%</b>
• Marriage Allowance	4	4	0	4%
• Birth Allowance	4	4	0	0%
• Death Allowance	5	5	0	0%
• Other Social Spending Allowance	5	5	0	1%
• Participation in Several Pension Funds	24	25	1	2%
• Ministry of Social Affairs	103	107	4	4%
• Ministry of Displaced	6	6	0	0%
• Transfers to Employees' Cooperative	168	187	19	11%
• Retirement and End of Service Compensations	1,040	1,300	260	25%
• National Social Security Fund (NSSF)	105	245	140	134%
<b>Total Social Expenditures</b>	<b>3,039</b>	<b>3,753</b>	<b>715</b>	<b>24%</b>

*Ministry of Finance*

The LL 715 billion or 24% increase in total social spending is due to the 20%, 18% and 30% rise in health, education, and other social spending respectively.

## V.1 Health sector expenditures

Spending in the health sector in Budget Proposal 2009 amounted to 689 billion, thus increasing by LL 115 billion over the LL 574 billion in Budget Proposal 2008. This increase was due to:

- (i) A LL 49 billion increase in hospitalization in the private sector which reached LL 307 billion in Budget Proposal 2009, compared to LL 258 billion in Budget Proposal 2008. The main reason behind this climb is a LL 40 billion allocation increase for the Ministry of Public Health, following the Council of Ministers' decision to amend hospitalization tariffs in order to unify them across the various health mutual funds subsidized by the National budget,
- (ii) A LL 20 billion increase in purchase of medication which reached LL 109 billion in Budget Proposal 2009, compared to LL 89 billion in 2008. The main reasons behind this ascend are a budget boost of (a) LL 13.5 billion for the Ministry of Public Health's medicament budget allocation, and (b) LL 5 billion for defense and security forces' medicament expenses.
- (iii) A LL 42 billion increase in hospitalization of public sector employees<sup>30</sup>, which reached LL 168 billion in Budget Proposal 2009, compared to LL 126 billion in 2008. This rise is mainly due to hospitalization tariff harmonization across insuring health funds as decided by the Council of Ministers.
- (iv) A LL 5 billion increase in maternity and sickness Allowance, which reached LL 39 billion in Budget Proposal 2009, compared to LL 34 billion in Budget Proposal 2008, mainly explained by rises for defense and security forces.

## V.2 Education sector expenditures

In the education sector, spending totalled LL 1,176 billion in the 2009 Budget Proposal, compared to 1,000 billion in 2008. This increase of LL 175 billion is attributed to two factors:

- (i) A LL 158 billion increase in the budget of the Ministry of Education and Higher Education. About half of this increase (LL 74 billion) was due to increases in the salary and wage allocations of the various Directorate Generals under the Ministry, following the monthly LL 200,000 increase granted by Law 63 dated 31/12/2008. This LL 74 billion increase in salary and wages can be detailed as follows:
  - a. LL 1.4 billion increase in the salary and wages of the permanent employees of the Ministry's administration,
  - b. LL 42 billion increase in the salary and wages of primary and intermediate public schools permanent teachers,
  - c. LL 15 billion increase in the salary and wages of secondary public schools permanent teachers,

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<sup>30</sup> This category does not include the hospitalization of civil personnel within the public sector who are covered by the Employees' Cooperative. It consists therefore, of hospital and physiotherapy allowances for defense and security personnel within the public sector.

- d. LL 2 billion increase in the salary and wages for secondary public schools teachers on a contractual basis,
- e. LL 3 billion increase in the salary and wages for technical and vocational schools permanent teachers and,
- f. LL 10 billion increase in the salary and wages for technical and vocational schools teachers on a contractual basis of which LL 5 billion were allocated to settle fees due for 2007-2008 to teachers hired and paid "per hour"

The remaining increase in the allocation of the Ministry of Education and Higher Education, at LL 84 billion, was mainly due to:

- a. LL 51 billion increase in transfers to the Lebanese University (please refer to section on Subsidies and Transfers for detailed analysis of transfers to the Lebanese University),
  - b. LL 22 billion increase in allocations to the Directorate General of Education as contributions to school funds (please refer to section on Transfers and Subsidies for detailed analysis),
  - c. LL 5 billion increase in allocations to the Ministry of Education and Higher Education as a contribution to CDR for the construction of Lebanese University Buildings (Article 227-2-2),
  - d. Around LL 2 billion increase in equipment allocation for vocational schools (Article 226-1-1) and,
  - g. LL 1 billion increase in the allocation for primary and intermediate schools maintenance (Article 228-2-2).
- (ii) A LL 18 billion increase in Education Allowance which reached LL 135 billion in Budget Proposal 2009, compared to LL 117 billion in 2008. The main reasons behind this rise are:
- a. An increase of LL 15.2 billion for the Lebanese Army, of which LL 14.2 billion resulted from a rise in the number of students eligible for the allowance following the duty resumption of military servicemen called back from retirement to help the Lebanese Army face the security challenges since the Nahr El-Bared events in 2007,
  - b. LL 2 billion increase for the Internal Security Forces ,
  - c. LL 0.2 billion increase for the General Security Forces, and
  - d. LL 0.3 billion raise for Customs

### V.3 Other social spending

The expenditures of other social spending reached LL.1,888 billion in 2009 increasing by LL 424 billion compared to 1,464 billion in Budget Proposal 2008. This 29% increase is due to the following four factors:

- (i) LL 4 billion increase in allocations to Ministry of Social Affairs, due to a LL 2 billion increase in the Ministry's budget allocation for medicament (Article 11-4-1), and LL 2 billion increase in transfers to non-profitable organizations providing social care (Article 14-2-1),
- (ii) LL 19 billion increase in Transfers to Employees' Cooperative, which reached LL 187 billion in 2009, compared to LL 168 billion in 2008, due to (a) LL 12 billion rise following the Council of Ministers' decision to amend hospitalization tariffs in order to unify them across various health mutual funds subsidized by the National budget, and (b) a LL 5 billion increase to finance chronic disease medicaments,
- (iii) LL 260 billion increase in retirement and end-of-service compensations (please refer to section on Personnel Cost for detailed analysis of this increase) and,
- (iv) LL 140 billion increase in NSSF which reached LL 245 billion in the 2009 Budget Proposal compared to LL 105 billion in the 2008 Budget Proposal. For more details see section on Subsidies and Transfers, page 21.

## VI. ANNEX II: DEFENCE AND SECURITY

Following the July-August 2006 War, the Nahr El-Bared events in 2007 and the various security incidents that have occurred since 2005, budget allocations for defence and security purposes have been increased in Budget Proposal 2009 for the five bodies in charge of Lebanon's defence, security and border protection, which are the Lebanese Army, the Internal Security Forces, the General Security Forces, the State Security Forces and Customs.

**Table 8: Security & Defence expenditures as per 2008 and 2009 Budget Proposals**

<i>(LL billion)</i>	2008 budget proposal	2009 budget proposal
Lebanese Army	1,136	1,358
ISF	504	641
GSF	91	114
SSF	32	37
Customs	40	52
<b>Total</b>	<b>1,803</b>	<b>2,202</b>

### VI.1 Lebanese Army

The Lebanese Army's budget allocation in Budget Proposal 2009 reached LL 1,358 billion, thus increasing by LL 222 billion or 20%, of which LL 216 billion were due to increases in current expenditures allocations and LL 7 billion resulted from increase in capital expenditures' allocations.

The increase in current expenditures resulted from:

- LL 25 billion increase in materials and supplies (mainly food, fuel and medicaments),
- LL 142 billion increase in salaries and wages following the LL 200,000 increase in monthly wage as per Law 63 dated 31/12/2008,
- LL 46 billion increase in social allowances
- LL 1 billion increase in other current expenditures (mainly secret expenses)

The increase in capital expenditures was mainly due to a LL 6 billion increase in specialized and various technical equipment and around a LL 1 billion increase for acquisition of lands for road construction.

**Table 9: Lebanese Army expenditures as per 2008 and 2009 Budget Proposals**

<i>(LL billion)</i>	2008 budget proposal	2009 budget proposal
Current spending	1,081	1,296
Capital spending	54	61
<b>Total</b>	<b>1,136</b>	<b>1,358</b>



## VI.2 Internal Security Forces

The Internal Security Forces' budget allocation in Budget Proposal 2009 reached LL 641 billion increasing by LL 137 billion (27%) due to LL 129 billion increases in current expenditures and LL 8 billion increase in capital expenditures.

The increase in current expenditures resulted from:

- LL 13 billion increase in materials and supplies (mainly fuel and medicaments),
- LL 115 billion increase in salaries and wages of which LL 39 billion were allocated to allow the recruitment of 3,000 trained elements and the remaining is due to the LL 200,000 monthly wage increase as per Law 63 dated 31/12/2008
- LL 11 billion were also added to the social allowances' allocations

The increase in capital expenditures was mainly due to a LL 5 billion increase in specialized and various technical equipment, a LL 2 billion increase in transportation equipment and around a LL 1 billion increase for information technology equipment.

**Table 10: Internal Security Forces expenditures as per 2008 and 2009 Budget Proposals**

<i>(LL billion)</i>	2008 budget proposal	2009 budget proposal
Current spending	471	599
Capital spending	33	42
<b>Total</b>	<b>504</b>	<b>641</b>

## VI.3 General Security Forces

The General Security Forces' budget allocation in Budget Proposal 2009 reached LL 114 billion increasing by LL 23 billion (25%). Of the LL 23 billion increase, LL 22 billion were due to increases in current expenditures allocations' and around LL 1 billion from capital expenditures.

The increase in current expenditures resulted from:

- LL 2 billion increase in materials and supplies (mainly food, fuel and medicaments)
- LL 16 billion increase in salaries and wages, of which LL 6 billion are for the recruitment of an additional 500 trained elements and the remaining is mainly due to the LL 200,000 monthly wage increase as per Law 63 dated 31/12/2008
- LL 5 billion increase in social allowances' allocations

It should be noted that the reduction in the allocations for external services was limited to less than a billion in order to help the GSF issue 250,000 Lebanese passports.

The increase in capital expenditures was mainly allocated to IT equipment and administrative buildings maintenance.

**Table 11: General Security Forces expenditures as per 2008 and 2009 Budget Proposals**

<i>(LL billion)</i>	2008 budget proposal	2009 budget proposal
Current spending	88	110
Capital spending	3	4
<b>Total</b>	<b>91</b>	<b>114</b>

## VI.4 State Security Forces

The State Security Forces' budget allocation in Budget Proposal 2009 reached LL 37 billion, increasing by LL 5 billion (25%), due to increases in current expenditures allocations as capital expenditures' allocations remained stable.

The increase in current expenditures resulted from:

- LL 1 billion increase in materials and supplies (mainly fuel and medicaments)
- LL 3 billion increase in salaries and wages due to the LL 200,000 monthly wage increase as per Law 63 dated 31/12/2008
- LL 1 billion increase in social allowances' allocations

**Table 12: State Security Forces expenditures as per 2008 and 2009 Budget Proposals**

<i>(LL billion)</i>	2008 budget proposal	2009 budget proposal
Current spending	32	37
Capital spending	0	0
<b>Total</b>	<b>32</b>	<b>37</b>

## VI.5 Customs

The Customs' budget allocation in Budget Proposal 2009 reached LL 52 billion, increasing by LL 12 billion (30%), due to LL 11 billion increases in current expenditures and around a LL 1 billion increase in capital expenditures.

The increase in current expenditures resulted from:

- LL 10 billion increase in salaries and wages, of which LL 2 billion are for the recruitment of an additional 170 trained elements and the remaining is mainly due to the LL 200,000 monthly wage increase as per Law 63 dated 31/12/2008
- LL 2 billion increase in social allowances' allocations

The increase in capital expenditures was mainly allocated to information technology equipment and IT equipment maintenance.

**Table 13: Customs expenditures as per 2008 and 2009 Budget Proposals**

<i>(LL billion)</i>	2008 budget proposal	2009 budget proposal
Current spending	39	51
Capital spending	1	1
<b>Total</b>	<b>40</b>	<b>52</b>