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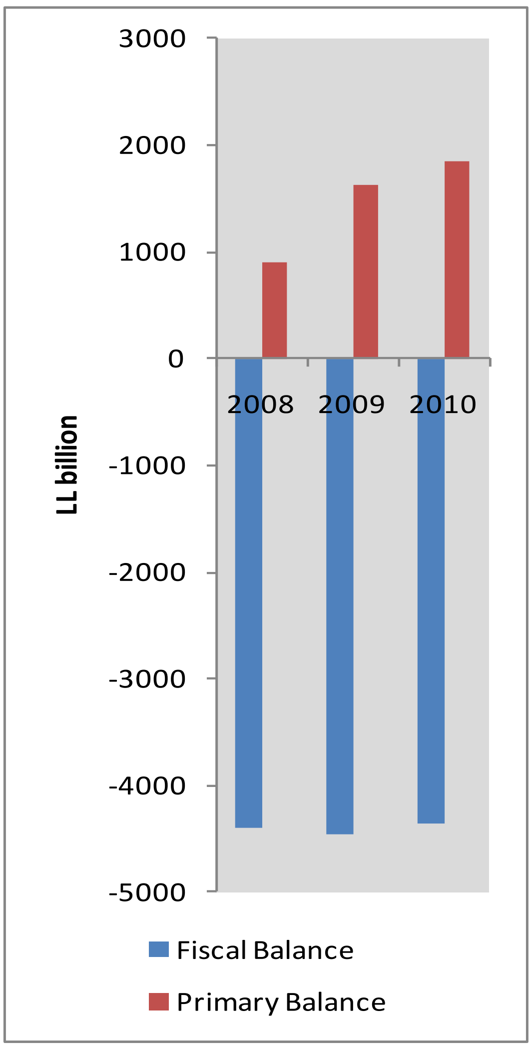
Public Finance Highlights

General Fiscal Developments

The fiscal balance contracted by 2 percent in 2010, amounting to LL 4,363 billion from a higher deficit of 4,462 billion in 2009. Accordingly, in terms of GDP, the total fiscal deficit declined by 1 percentage point to 7.5 percent in 2010 from 8.5 percent in 2009. In parallel, the primary surplus expanded by 14 percent to 1,855 billion (equivalent to 3.2 percent of GDP) in 2010 versus LL 1,625 billion (equivalent to 3 percent of GDP) in 2009.

Figure 1: Fiscal and Primary Balance 2008 -2010



Revenues

Total revenues slowed down by 0.2 percent in 2010, amounting to LL 12,684 billion down from LL 12,705 billion in 2009. Correspondingly, total revenues receded in terms of GDP from 24.1 percent in 2009 to 21.9 in 2010. Despite the 11 percent improvement in tax revenues, this slight drop in total revenues is mainly explained by a 33 percent decline in non-tax revenues - largely on account of the much lower telecom transfer in 2010.

Expenditures

Total expenditures declined by a modest 0.7 percent in 2010, reaching LL 17,047 billion from LL 17,167 billion in 2009. This is mainly the result of lower transfers to the High Relief Committee and to Electricité du Liban. As a percentage of GDP, they declined substantially, from 32.6 percent in 2009 to 29.4 percent in 2010.

Public Debt Developments

The stock of gross public debt rose by 2.8 percent, totalling LL 79,295 billion in 2010 compared to LL 77,112 billion in 2009. Nonetheless, in line with its progressive decline from its all-time high of 179 percent recorded in 2006, the debt-to-GDP ratio fell by 9 percentage points, reaching 137 percent in 2010, its lowest level since 1999, compared to 146 percent in 2009. In parallel, the stock of net public debt inched higher by 1.8 percent, to LL 67,876 billion from LL 66,550 billion in 2009.

Section I: Fiscal Overview

The **total fiscal balance** registered a deficit of LL 4,363 billion (7.5 percent of GDP[1]) in 2010, down by 2 percent from its level during the equivalent period of 2009 at LL 4,462 billion (8.5 percent of GDP). This is mainly due to a 0.7 percent fall in total payments that more than counteracted for the 0.2 percent decline in total receipts.

The **primary surplus** improved by 14 percent, up to LL 1,855 billion (3.2 percent of GDP) in 2010 from LL 1,625 billion (3 percent of GDP) a year earlier, on account of a 2 percent drop in primary expenditures (expenditures excluding debt-related payments).

Table 1: Summary of Fiscal Performance

(LL billion)	2008 Jan-Dec	2009 Jan-Dec	2010 Jan-Dec	% Change 2010/2009
Total Budget and Treasury Receipts	**10,553**	**12,705**	**12,684**	**-0.2%**
Total Budget and Treasury Payments, *of which*	**14,957**	**17,167**	**17,047**	**-0.7%**
• Interest Payments	4,957	5,784	5,893	1.9%
• Concessional Loans Principal Payments (1)	347	303	324	7.1%
• Primary Expenditures (2)	9,652	11,080	10,829	-2.3%
Total Deficit/Surplus	**-4,404**	**-4,462**	**-4,363**	**-2.2%**
Primary Deficit/Surplus	**900**	**1,625**	**1,855**	**14.2%**

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

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

(2) Primary expenditures exclude debt related payments (Interest payments and Concessional loans principal

[1] Note that GDP for 2009, at LL 52,650 billion, is as per the Presidency of the Council of Ministers - Republic of Lebanon: Lebanon's Economic Accounts 2009 (revised figures). GDP for 2010, at LL 58,000 billion, is as per the latest available estimates in March 2011.

Section II: Revenue Outcome

Total revenues reached LL 12,684 billion in 2010, lower by 0.2 percent than the LL 12,705 billion achieved in 2009. In terms of GDP, total public revenues amounted to 21.9 percent in 2010, lower by 2.2 percentage points compared to their 2009 level, at 24.1 percent.

The slight decline in total revenues is due to the combined effect of the 33 percent fall in **non-tax revenues** owing to the steep reduction in transfers from the Telecom Budget Surplus to the Treasury account at BDL and the 0.4 percent drop in **Treasury receipts.** These declines more than counteracted for the 11 percent growth exhibited by **tax revenues**. Consequently, the share of tax revenues out of total revenues increased by 8 percentage points to reach 79 percent in 2010 - against 71 percent in 2009, while that of non-tax revenues fell by 8 percentage points to 16 percent. As for Treasury receipts, their share out of total revenues remained relatively stable at 5 percent.

Table 2: Total Revenues

(LL billion)	2009 Jan-Dec	2010 Jan-Dec	Change 2010/2009
Budget Revenues, *of which:*	**12,036**	**12,018**	**-0.1%**
• *Tax Revenues*	*8,967*	*9,976*	*11.2%*
• *Non-Tax Revenues*	*3,069*	*2,043*	*-33.4%*
Treasury Receipts	**669**	**666**	**-0.4%**
Total Revenues	**12,705**	**12,684**	**-0.2%**

Source: MOF, DGF

Tax Revenues

Tax revenues grew by LL 1,009 billion in 2010, equivalent to 11 percent, accumulating to LL 9,976 billion compared to LL 8,967 billion in 2009. Their share out of GDP slightly increased from 17 percent in 2009 to 17.2 percent in 2010, as they grew at a higher pace than the estimated gross domestic product. Although in absolute terms tax revenues did register a growth, this performance reflects a slowdown when looked at from a relative perspective, namely when compared to previous years. In fact, tax revenues grew by 24.9 percent and 28.7 percent in 2009 and 2008 respectively. This deceleration is explained mainly by the combined effect of the following factors:

(i) A slowdown in economic activity

The estimated nominal growth in 2010 reached 10.2 percent compared to 16.7 percent in 2009 (8.5 percent real growth and 7 percent GDP deflator) and 19.6 percent in 2008 (9.2 percent real growth and 9.5 percent GDP deflator) [2]. This deceleration was reflected by a slower growth in all main economic indicators (number of tourists, car imports, real estate sales, etc.).

[2] As per the Presidency of the Council of Ministers - Republic of Lebanon: Lebanon's Economic Accounts 2008 and 2009 (revised figures).

(ii) A deceleration in the growth of private sector deposits

These rose by 12 percent year-on-year in 2010 against 23 percent in 2009 and 16 percent in 2008.

(iii) Two major policy decisions contributed to the high growth of tax revenues in 2009

The decision of the Council of Ministers[3] to uncap the retail price of gasoline at pump stations and fix the excise rate level triggered a substantive growth in the collections of the excise on gasoline. Besides, the increase in the minimum wage and in public sector wages[4] translated into an upswing in the collections of the withheld taxes on wages and salaries in 2009.

The rise in tax revenues in 2010 was mainly driven by the Value Added Tax (VAT), taxes on property and excises. VAT and excises contributed to 30 percent and 10 percent respectively of the rise in tax revenues, mirroring the buoyancy in local demand and/or the accelerating inflation[5]. As for taxes on properties, they contributed to 28 percent of the growth in tax revenues owing to the expansion in the real estate sector over the first three quarters of the year.

The disaggregated tax performance in 2010 is detailed in Table 3 below.

Table 3: Tax Revenues

(LL billion)	2009 Jan-Dec	2010 Jan-Dec	Change 2010/2009
Taxes on Income, Profits, & Capital Gains, *of which*:	**1,839**	**2,050**	**11%**
• *Income Tax on Profits*	*731*	*808*	*11%*
• *Income Tax on Wages and Salaries*	*350*	*378*	*8%*
• *Income Tax on Capital Gains & Dividends*	*179*	*213*	*19%*
• *Tax on Interest Income (5%)*	*558*	*628*	*13%*
• *Penalties on Income Tax*	*21*	*22*	*8%*
Taxes on Property, *of which:*	**809**	**1,088**	**34%**
• *Built Property Tax*	*101*	*145*	*43%*
• *Real Estate Registration Fees*	*626*	*853*	*36%*
Domestic Taxes on Goods & Services, *of which:*	**3,260**	**3,583**	**10%**
• *Value Added Tax*	*2,889*	*3,193*	*11%*
• *Other Taxes on Goods and Services, of which:*	*363*	*382*	*5%*
- *Private Car Registration Fees*	*238*	*231*	*-3%*
- *Passenger Departure Tax*	*123*	*148*	*21%*
Taxes on International Trade, *of which:*	**2,664**	**2,802**	**5%**
• *Customs*	*768*	*810*	*5%*
• *Excises, of which:*	*1,896*	*1,992*	*5%*
- *Petroleum Tax*	*999*	*1,040*	*4%*
- *Tobacco Tax*	*277*	*347*	*25%*
- *Tax on Cars*	*614*	*598*	*-3%*
Other Tax Revenues (namely fiscal stamp fees)	**396**	**453**	**15%**
Total Tax Revenues	**8,967**	**9,976**	**11%**

Source: MOF, DGF

[3] Council of Ministers' decision number 9 dated January 23rd, 2009.
[4] Provided by Law number 63 dated December 31st, 2008.
[5] According to the figures published by the Central Administration for Statistics, inflation was at 4 percent in 2010 compared to 1.2 percent in 2009.

Taxes on income profits and capital gains collected LL 2,050 billion in 2010, higher by 11 percent than the amount of LL 1,839 billion collected in 2009, stabilizing at 3.5 percent of GDP. This LL 211 billion rise is explained by increases in all five components of this line item.

First, the proceeds of the **income tax on profits** accumulated to LL 808 billion, higher by 11 percent than the amount achieved in 2009, which stood at LL 731 billion. Behind the 77 billion increase stands a relatively high real growth in 2009, at 8.5 percent, as the collections of the income tax in a given year usually pertain to the profits realized during the previous year. Higher profits for major corporations triggered a rise in the dividends distributed to their shareholders. Consequently, the proceeds of the **income tax on capital gains and dividends** were boosted by LL 34 billion (equivalent to 19 percent) to reach LL 213 billion in 2010 compared to LL 179 billion in 2009.

Following an outstanding 28 percent growth in 2009 due to the policy decision to increase the minimum wage, as well as the salaries in the public sector, the collections of the **withheld tax on wages and salaries** rose by 8 percent in 2010, to reach LL 378 billion. The LL 28 billion growth probably arises from the natural expansion of the tax base due to the creation of new jobs in the economy and/or to the natural evolution of salaries in the public and private sectors.

Moreover, the **5 percent tax on interest income** yielded LL 628 billion in 2010, representing a 13 percent increase from the LL 558 billion collected in 2009. The LL 70 billion rise is primarily explained by a 12 percent expansion in the bank deposits of (resident and non-resident) private sector which accumulated to LL 161,610 billion by the end-December 2010, up from LL 144,367 billion a year earlier.

The drop in the dollarization rate of deposits also contributed to the rise in fiscal revenues as deposits in domestic currency earn higher interest than those in US dollar, and hence higher taxes become due. In fact, the dollarization rate of deposits reached 63.24 percent in December 2010, down by 122 basis points (bps) from the rate of 64.46 percent recorded by end-December 2009. However, it is noteworthy that the de-dollarization trend of deposits which started in December 2007 apparently came to a halt in QIV 2010 where it steadily increased over the last three months of the year, rising by 67 bps between September and December 2010.

The decline in the deposit dollarization rate is reflected in the composition of interest tax receipts by currency. In fact, the share of tax receipts collected in Lebanese Pounds rose to 69 percent in 2010 compared to 65 percent in 2009. Correspondingly, the share of tax receipts collected in foreign currencies receded to 31 percent in 2010 from 35 percent a year earlier.

The combined effect of the expansion in the tax base and the de-dollarization of deposits more than counterbalanced the negative effect of the continuous drop in the average rates on deposits on tax collections. The weighted average rate on deposits in LL declined by 107 bps in 2010, down to 5.68 percent by the end-December 2010 compared to 6.75 percent by the end-December 2009. Similarly, the weighted average rate on deposits in U.S dollar fell by 25 bps, to 2.8 percent by the end of 2010 against 3.05 percent a year earlier.

Further, the breakdown of interest tax receipts by institution/instrument shows that in line with the trend observed during the last few years, the contribution from commercial banks (interest earned on deposits) have continued to drop, while that of BDL (interest earned on CDs and T-bills) has increased. In terms of figures, the share of interest tax receipts earned on CDs and T-bills transferred to the Treasury by BDL reached 46 percent in 2010, up from 41 percent in 2008 and 43 percent in 2009. Conversely, the share of interest tax receipts earned on deposits transferred to the Treasury by commercial banks fell from 58 percent in 2008 to 57 percent in 2009 and further down to 54 percent in 2010. This rise may be explained by a higher stock of outstanding T-bills and CDs, and higher interest earned on these two instruments as compared to interest earned on deposit accounts.

Table 4: Tax on Interest Income

(LL billion)	2008	2009	2010
By Institution/Instrument			
Commercial Banks	285	317	338
BDL	201	242	285
Tax on US$ Treasury Bills	2	2	2
By Currency			
Lebanese Pounds	276	365	434
Foreign Currencies (US$, Euro)	213	196	191
Total collection	**489**	**560**	**625**

Source: MOF- Treasury Department - Please note that figures in this table are obtained from tax declaration forms, which may differ from cash figures presented in the fiscal performance and the Tax Revenues table above (Table 3).

On another level, in line with the upward trajectory exhibited since the fourth quarter of 2007, collections of **taxes on property** rose substantially in 2010, mirroring the buoyancy in the real estate market. As such, they increased by 34 percent (or LL 279 billion) year-on-year, totaling LL 1,088 billion. This is equivalent to 1.9 percent of GDP in 2010, as compared to 1.5 percent of GDP in 2009, where taxes on property reached LL 809 billion. However, considering QIV 2010 alone shows that taxes on property yielded LL 277 billion, which is 2 percent lower than the same period of 2009 where it registered LL 283 billion. Behind this latest decline stands a slowdown in the real estate activity during the last quarter of 2010, as confirmed by the Cadastre statistics presented below.

In details, the total collection of the **real estate registration fees** accumulated to LL 853 billion in 2010, representing a LL 227 billion (or 36 percent) increase from their 2009 level. In QIV 2010, the proceeds from these fees declined by 4 percent year-on-year, totaling LL 277 billion in October-December 2010 compared to LL 238 billion during the same period of 2009.

In line with the fiscal results, Cadastre statistics reflect a substantive growth in real estate activity in 2010 compared to 2009, with a significant moderation in the trend towards the end of the year. In fact, the number of properties registered in Cadastre in 2010 rose by 7 percent (to 292,196 properties) with a total value of LL 14,289 billion, which is 36 percent higher than the aggregate declared value of property sales in 2009. Consequently, the average declared value per property rose by 31 percent to LL 48.9 billion, mirroring the rapid growth registered in property prices. Resulting from the substantive growth in both the volume and value of property sales, property registration fees collected in 2010 rose by 37 percent as shown in Table 5 below.

During the fourth quarter of 2010, the number of sold properties receded by 5 percent year-on year to 76,011 units. As for the declared value of property sales, it fell by 6 percent, down to LL 3,794 billion. These results reflect a slowdown in the real estate activity, probably on account of the heightened political tensions both on a local and regional level, as well as of a relative saturation in the market, mainly in the upscale segment.

Table 5: Property Registration Statistics from Cadastre

	2007	2008	2009	2010	Change 2010/2009
Number of Properties registered in Cadastre	246,791	267,358	273,417	292,196	*7%*
Declared Aggregate Properties Value in Sales Contracts (LL billion)	6,329	9,770	10,484	14,289	*40%*
Declared Average Value per Property (LL million)	25.65	36.54	38.34	48.90	*31%*
Total Fees collected from Sales Transactions	**344**	**525**	**563**	**771**	***37%***

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

As for of the recurrent **built property tax,** its proceeds increased by 43 percent to LL 145 billion, explained by the issuance of the 2006 and 2007 rental income tax dues in April and June 2010 for Mount Lebanon and Beirut respectively following a two-year suspension of schedule issuance (whereby the tax dues on rental income of 2004 and 2005 were issued in mid-2008) [6].

On another front, the proceeds of **domestic taxes on goods and services** rose by 10 percent in 2010, accumulating to LL 3,583 billion. This LL 323 billion rise was primarily driven by the growth in the collections of the VAT. In terms of GDP, domestic taxes on goods and services maintained a stable share at 6.2 percent in both 2010 and 2009.

In line with the 10.2 percent nominal growth rate recorded in 2010, receipts from the **Value Added Tax** rose by 11 percent, from LL 2,889 billion in 2009 to LL 3,193 billion in 2010. This is explained by a simultaneous rise in the receipts of VAT generated from internal activity and VAT collected at import, mirroring the buoyancy in the domestic consumption of goods and services in 2010.

- At the level of domestic business activity, the corresponding VAT collection reached LL 934 billion, 13 percent higher than the LL 827 billion registered in 2009. The two figures are equivalent to 29 percent of total VAT collections during 2009 and 2010 respectively.
- At the level of VAT collected at import, these reached LL 2,259 billion, compared to LL 2,061 billion in 2009, thus registering a rise of about 10 percent. The two figures are equivalent to 71 percent of total VAT collections during 2009 and 2010 respectively.

The 11 percent rise in VAT actually echoes the 11 percent increase in the nominal value of imports which accumulated to LL 27,081 billion (46.7 percent of GDP) in 2010 compared to LL 24,485 billion (46.5 percent of GDP) in 2009. The LL 2,596 billion increase in the total value of imports was driven by the increase in both fuel and non-fuel imports. On one hand, **fuel imports** rose by 14 percent to LL 5,537 billion, explained by a price effect pertaining to the recovery in oil prices, where in terms of volume, they receded by 8 percent. As such, crude oil prices averaged at

[6] For details, kindly refer to the QII 2010 Public Finance Report and to the June 2010 PFM.

$ 79.5 in 2010, compared to $ 61.5 in 2009. On the other hand, **non-fuel imports** increased by 10 percent, reaching LL 21,544 billion, primarily resulting from a quantity effect, given that in terms of volume, they rose by 15 percent.

The composition of imports shifted towards a higher share of fuel imports. In fact, the latter accounted for 20.4 percent of total imports in 2010, compared to a lower share of 19.9 percent in 2009. As a result, the effective customs rate declined by 14 bps, down to 3 percent in 2010 against 3.14 percent in 2009 as shown in the table below. This drop is rooted in the fact that all categories of fuel imports are subject to low or zero tariff whereas non-fuel imports are subject to higher custom duties.

Table 6: Import Statistics

(LL billion)	2008 Jan-Dec	2009 Jan-Dec	2010 Jan-Dec	% Change 2010/2009
Revenues from Custom Duties	686	768	810	5%
Revenues from VAT at Import	1,910	2,061	2,259	10%
Total Imports, *of which*	24,327	24,485	27,081	11%
• *Fuel Imports (fuel derivatives classified under HS 27)*	*6,146*	*4,872*	*5,537*	*14%*
	25.3%	*19.9%*	*20.4%*	*3%*
• *Non-Fuel Imports*	18,180	19,613	21,544	10%
	74.7%	*80.1%*	*79.6%*	*-1%*
Effective customs rate	***2.82%***	***3.14%***	***3%***	***-4%***
Effective VAT rate	***7.9%***	***8.4%***	***8.3%***	***-1%***

Source :MOF, DGF

The collections from the **passenger departure tax**, another component of domestic taxes on goods and services, surged by 21 percent to reach LL 148 billion in 2010, compared to LL 123 billion in 2009. This LL 25 billion increase tracks the 12 percent rise in the number of departing passengers at the Rafiq Hariri International Airport in 2010.

The proceeds of **car registration fees** did not follow the upward development witnessed by the other components, where it inched down by 3 percent, to reach LL 231 billion after registering LL 238 billion in 2009. This decline reflects a slowdown in car imports and sales following two years of outstanding growth (*for details kindly refer to Table 9 below*).

Taxes collected from international trade yielded LL 2,802 billion in 2010, compared to LL 2,664 billion in 2009, representing an 5 percent increase. This LL 138 billion surge was driven by the growth in the proceeds of both customs and excises. However, in terms of GDP, the collections of taxes collected from international trade declined from 5 percent in 2009 to 4.8 percent in 2010.

Customs revenues tracked the 10 percent rise in non-fuel imports, and increased by 5 percent, totaling LL 810 billion in 2010. In terms of GDP, customs collections accounted for 1.4 percent in 2010, in line with their historical average of 1.5 percent.

As for **excises** collected at import[7], they yielded LL 1,992 billion (3.4 percent of GDP) in 2010, 5 percent higher than the amount collected in 2009 (3.6 percent of GDP). This LL 96 billion rise was

[7] Excises are collected on gasoline, tobacco, cars and on alcoholic and non-alcoholic beverages. Most of it is collected at import, except for a small amount that is collected internally on alcoholic beverages.

fuelled by an increase in the collections of excises on gasoline and tobacco, which counteracted for the slight decline in the proceeds of excises on cars.

- Excises on gasoline collected LL 1,040 billion in 2010, equivalent to 1.8 percent of GDP, representing a 4 percent rise from the amount yielded in 2009 of LL 999 billion (1.9 percent of GDP). This LL 41 billion increase tracks the 7 percent rise in the volume of gasoline imports. In fact, following the policy decision to uncap domestic prices of car gasoline and to fix the excise rate at an average level of LL 470 per litre (independently of international oil price fluctuations), the proceeds of the excises on gasoline became solely function of the volume of imports. The rise in the volume of gasoline imports was probably triggered by a higher domestic demand due to the upswing in the number of cars in circulation within the country as evidenced by the surge in car imports in 2007-2009. In parallel, the total value of gasoline imports hiked by 28 percent, totaling LL 1,874 billion. Consequently, the average price at import surged by 24 percent, up to LL 856 per litre, mirroring the 29 percent increase in the average oil prices. This rise in the average price reflects the increase in the domestic prices of gasoline where the price of 95 octane averaged around LL 32,502 per 20 litres, 15 percent higher than the average of LL 28,312 recorded in 2009. Lastly, the average effective excise rate per litre remained nearly constant at LL 472.

Table 7: Gasoline Import Statistics

	2005	2006	2007	2008	2009	2010
Imports (LL billion)	1,051	1,183	1,497	1,982	1,459	1,874
Volume (billion Liters)	1.666	1.624	1.830	1.916	2.119	2.188
Collected excises (LL billion)	362	228	183	111	1,002	1,033
Average effective Price at import (LL/litre)	*631*	*728*	*818*	*1,034*	*689*	*856*
Average effective excise rate (LL/litre)	*217*	*140*	*100*	*58*	*473*	*472*

Source: MOF-General Directorate of Customs declaration forms

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

- The collections of excises on tobacco rose by 25 percent from LL 277 billion (0.5 percent of GDP) in 2009 to LL 347 billion (0.6 percent of GDP) in 2010. The nominal value of tobacco imports recorded a parallel movement, rising by 24 percent to reach LL 344 billion, with total volume increasing by 14 percent to 13,276 tons. This notable growth could be explained by the increase in local demand due to the increase in the number of tourists[8], coupled with tighter border control that contributed to reducing smuggling. It is noteworthy that the average price at import rose by 9 percent to LL 25,911 per kilogram while the average effective excise rate receded by 80 bps to 100.6 percent in 2010.

[8] The number of tourists reached an all-time-high level of 2,167,989 in 2010.

Table 8 Tobacco Import Statistics

	2005	2006	2007	2008	2009	2010
Imports (LL billion)	185	159	199	247	277	344
Net weight (in tons)	7,258	5,971	7,607	10,937	11,606	13,276
Collected Excises (LL billion)	190	165	206	247	281	346
Average import price (LL per Kg)	*25,489*	*26,629*	*26,160*	*22,584*	*23,867*	*25,911*
Average effective excise rate (LL per Kg)	*26,178*	*27,634*	*27,080*	*22,584*	*24,212*	*26,062*
Average effective excise rate (%)	*102.7%*	*103.8%*	*103.5%*	*100.0%*	*101.4%*	*100.6%*

Source: MOF-General Directorate of Customs declaration forms

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

- Concerning car excises, their proceeds accumulated to LL 598 billion (1 percent of GDP), down by 3 percent compared to the amount collected in 2009, at LL 614 billion (1.2 percent of GDP). This drop mirrors the performance of car imports, which declined for the first time since 2006. In fact, car imports reached LL 2,151 billion in 2010, a figure that is 2.4 percent lower than 2009. Similarly, the number of imported cars declined by 7.4 percent to 100,354, close to its 2008 level. The combined drop in the value and volume of imported cars reflects a possible saturation in the local car market following two years of rapid growth in 2008 and 2009. Lastly, the average price per car climbed by 5 percent to LL 21.4 billion, pointing out to a probable recovery in international car prices following a drop in the wake of the global crisis, while the average effective excise rate remained almost constant at 27.6 percent.

Table 9: Cars Import Statistics

	2005	2006	2007	2008	2009	2010
Imports (LL billion)	847	810	1,085	2,049	2,204	2,151
Number of Cars	41,986	39,852	52,014	100,333	108,739	100,354
Collected Excises (LL billion)	231	216	287	536	610	593
Average price per car (LL million)	*20.2*	*20.3*	*20.9*	*20.4*	*20.3*	*21.4*
Average effective excise rate (%)	*27.3%*	*26.7%*	*26.5%*	*26.2%*	*27.7%*	*27.6%*

Source: MOF-General Directorate of Customs declaration forms
Note that figures from import declarations may differ slightly from published figures in the Fiscal Performance

Finally regarding tax revenues, **fiscal stamps** collected LL 453 billion (0.8 percent of GDP) in 2010 compared to LL 396 billion (0.7 percent of GDP) in 2009. This growth indicates that a higher volume of transactions is taking place in the economy (all types of sales transactions, administrative transactions, real estate transactions, etc.)., pointing out to a strong economic activity in 2010.

Non-Tax Revenues

Non-Tax revenues fell by 33 percent in 2010, down to LL 2,043 billion from LL 3,069 billion in 2009. In terms of GDP, these revenues accounted for a share of 3.5 percent, compared to a higher level of 5.8 percent in 2009. This drop in both absolute and relative terms is primarily explained by a 44 percent decline in income from public institutions and government properties, owing to the steep reduction in transfers from the Telecom Budget Surplus to the Treasury account at BDL. The 6 percent rise in administrative fees and charges partially counteracted for this drop.

Table 10: Non-Tax Revenues

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

Source: MOF, DGF

Income from Public Institutions and Government Properties accumulated to LL 1,382 billion in 2010 (equivalent to 2.4 percent GDP), which is nearly half the amount recorded in 2009 (4.7 percent of GDP). Behind this notable drop stands a 53 percent fall in **transfers from the Telecom Surplus**, which dropped by LL 1,098 billion. The LL 957 billion level in 2010 represents two transfers made in February and December, of LL 331 billion and LL 626 billion respectively [9]. In 2009, on the other hand, regular monthly transfers were made to cumulate to LL 2,055 billion. In terms of GDP, these transfers amounted to 1.7 percent in 2010, nearly one third the historical average of 4.4 percent of GDP.

Entrepreneurial income net of transfers from telecom improved by about 6 percent, reaching LL 425 billion (0.7 percent of GDP) in 2010 compared to LL 401 billion (0.8 percent of GDP) in 2009. This LL 24 billion rise is mainly attributed to a LL 20 billion rise in income from each of the Casino du Liban and Banque du Liban

[9] 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.

of the dispute settlement between Casino management and the Government[10]). This in fact mirrors the prosperity of the tourism activity as evidenced by the 17 percent rise in the number of tourists in 2010. Transfers from BDL[11] pertaining to the surplus generated by 2009 activities increased by 50 percent to LL 60 billion. Lastly, income from Port of Beirut and National Lottery rose by 5 percent and 3 percent respectively to LL 65 billion and LL 59 billion.

The rise in the above-mentioned items was partly offset by a 21 percent lower receipts (rent) from the Rafiq Hariri International Airport and a 55 percent decline in the line item "other income from public institutions".

Administrative fees and charges amounted to LL 535 billion in 2010, equivalent to 0.9 of GDP, representing a 6 percent increase from the LL 505 billion, equivalent to 0.9 percent of GDP collected in 2009. This LL 30 billion rise is primarily explained by (i) 3 percent higher vehicle control fees due to the larger number of cars in circulation, (ii) a 9 percent upswing in permit fees and (iii) a 16 percent rise in administrative charges.

Treasury Receipts

Treasury receipts dropped by 0.4 percent to 666 billion, compared to LL 669 billion in 2009. This LL 3 billion drop is primarily explained by the fact that no grants were received in 2010, while LL 90 billion were received in 2009. The revenues of the Independent Municipal Fund accounted for 40 percent of all Treasury receipts, accumulating to LL 269 billion, 13 percent higher than the LL 239 billion registered in 2009. This amount reflects the growth in the tax revenues of the central government, as the Independent Municipal Fund receives a share from several taxes collected by the government (namely custom duties, property taxes, income taxes, etc.).

. As such, income from the Casino increased by 13 percent, reaching LL 171 billion in 2010 (including the LL 14 billion due representing the third instalment

[10] The agreement signed in February 2008, which settled past years dispute between the Government and Casino du Liban Management over the scope of the Treasury revenue sharing right, stipulated a settlement amount of LL 83 billion to be installed over four years, as follows: LL 42 billion paid in 2008 and LL 14 billion/year between 2009 and 2011.

[11] As per Article 113 of the Code of Money and Credit, the Treasury has 80 percent revenue-sharing right in BDL surplus.

Section III: Expenditure Outcome

Total expenditures (budget and treasury) summed up to LL 17,047 billion (29.4 percent of GDP) in 2010, down by 0.7 percent from their end-2009 level at LL 17,167 billion (32.6 percent of GDP). In parallel, **total primary expenditures** fell by 2.3 percent, reaching LL 10,829 billion in 2010 from a higher level of LL 11,080 billion in 2009 as per Table 11 below.

Table 11: Expenditure Summary

(LL billion)	2008 Jan-Dec	2009 Jan-Dec	2010 Jan-Dec	%Change 2010/2009
Interest Payments	4,957	5,784	5,893	1.9%
Concessional Loans Principal Payments [1]	347	303	324	7.1%
Total Primary Expenditures [2]	9,652	11,080	10,829	-2.3%
Total Budget and Treasury Payments	**14,957**	**17,167**	**17,047**	**-0.7%**

Source: MOF, DGF

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

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

The LL 120 billion decline in total expenditures was mainly driven by a LL 563 billion drop in the line item "Other treasury expenditures" explained by lower payments to EDL by LL 462 billion and to HRC by LL 520 billion. This was in part offset by:

a) A LL 319 billion rise in **current expenditures** mainly due to a LL 126 billion increase in the personnel cost and a LL 109 billion augmentation in interest payments

b) A LL 141 billion increase in **capital spending** primarily driven by an LL 111 billion rise in the construction in progress payments and a LL 26 billion expansion in the maintenance bill.

Table 12 describes the evolution of main expenditure items in 2010.

Table 12: Expenditures by Economic Classification

(LL billion)	2008	2009	2010	Change
1. Current Expenditures	**10,687**	**12,617**	**12,937**	**3%**
1.a Personnel Cost, *of which*	3,970	4,936	5,062	3%
• *Salaries, Wages and Related Items (Article 13)*	*2,676*	*3,325*	*3,354*	*1%*
• *Retirement and End of Service Compensations, of which:*	*1,087*	*1,286*	*1,388*	*8%*
- *Retirement*	*893*	*1,055*	*1,086*	*3%*
- *End of Service*	*195*	*232*	*302*	*30%*
• *Transfers to Public Institutions to Cover Salaries* [1]	*206*	*324*	*320*	*-1%*
1.b Interest Payments, *of which:* [2]	4,957	5,784	5,893	2%
• *Domestic Interest Payments*	*2,847*	*3,663*	*3,763*	*3%*
• *Foreign Interest Payments*	*2,110*	*2,121*	*2,131*	*0%*
1.c Foreign Debt Principal Repayment	347	303	324	7%
1.d Materials and Supplies, *of which:*	273	238	277	16%
• *Nutrition*	*52*	*52*	*66*	*28%*
• *Fuel Oil*	*37*	*9*	*8*	*-9%*
• *Medicaments*	*94*	*104*	*128*	*23%*
• *Accounting Adjustments for Treasury*	*57*	*39*	*39*	*-1%*
1.e External Services	106	114	103	-9%
1.f Various Transfers, *of which:*	617	717	710	-1%
• *National Social Security Fund*	*100*	*240*	*150*	*-38%*
• *Treasury advances for diesel oil subsidy*	*49*	*0*	*61*	-
• *Wheat Subsidy*	*142*	*10*	*42*	*324%*
• *Special Tribunal for Lebanon*	*18*	*12*	*41*	*237%*
1.g Other Current, *of which:*	*332*	*428*	*440*	3%
• *Hospitals*	*289*	*351*	*338*	*-4%*
• *Others*	40	65	*102*	*57%*
1.h Reserves	*85*	*99*	128	30%
• *Interest subsidy*	*85*	*99*	*128*	*30%*
2. Capital Expenditures	**514**	**550**	**691**	**26%**
2.a Acquisitions of Land, Buildings, for the Construction of Roads, Ports,	7	4	1	-79%
2.b Equipment	33	35	40	13%
2.c Construction in Progress, *of which:*	*366*	*356*	*467*	31%
• *Displaced Fund*	*49*	*60*	*120*	*100%*
• *Council of the South*	*40*	*41*	*46*	*11%*
• *CDR*	*210*	*192*	*164*	*-15%*
• *Ministry of Public Work and Transport*	*33*	*34*	*109*	*218%*
• *Other*	*33*	*28*	*27*	*-5%*
2.d Maintenance	*72*	103	129	25%
2.e Other Expenditures Related to Fixed Capital Assets	*36*	50	53	6%
3. Other Treasury Expenditures	**3,708**	**3,947**	**3,369**	**-15%**
3.a Municipalities	527	457	735	61%
3.b Guarantees	57	54	82	51%
3.c Deposits	82	90	105	17%
3.d Other, *of which:*	*612*	*1,083*	*650*	*-40%*
• *VAT Refund*	*306*	*326*	*384*	18%
• *High Relief Committee*	*47*	*520*	*0*	*-100%*
3.e EDL [3]	*2,430*	*2,259*	*1,797*	*-20%*
3.f Treasury Advances for Water Authorities	0	4	0	-100%
4. Unclassified Expenditures	**4**	**3**	**4**	**13%**
5. Customs Cashiers	***43***	**50**	**46**	**-8%**
Total Expenditures (Excluding CDR Foreign Financed	**14,957**	**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, refer to Table 14.

2/ For a detailed breakdown of interests payments, refer to Table 21.

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

Current primary expenditures

Current primary expenditures[12] rose by 3 percent or LL 189 billion in 2010, amounting to LL 6,719 billion in 2010 versus LL 6,531 billion in 2009.

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

Personnel costs[13] reached LL 5,062 billion in 2010, compared to LL 4,936 billion in 2009. This 3 percent growth compares to a much higher rise of 24 percent that was recorded in 2009 due to the government's policy to increase monthly salary and wages in the public administration by LL 200,000, set the minimum monthly wage at LL 500,000[14] and begin to pay the 1996-1998 wage retroactive[15].

The LL 126 billion rise recorded in 2010 was primarily the outcome of:

a) A LL 29 billion increase in *wages, salaries and related benefits* (Article 13) which amounted to LL 3,354 billion in 2010 compared to LL 3,325 billion in 2009. This is mainly attributed to a LL 51 billion rise in "other" payments mainly on account of higher transfers to the Civil Servants' Cooperative by LL 41 billion, as shown in Table 13 below. Payments of allowances also rose by LL 24 billion *(for details, kindly refer to the Social Spending section below)* while indemnities were higher by LL 7 billion. Conversely, basic salary payments receded by LL 53 billion.

Table 13. Breakdown of Article 13: Salaries, Wages and Related Items

(LL billion)	Basic Salaries[1]		Indemnities		Allowances		Other [2]		Total [3]	
	2009	2010	2009	2010	2009	2010	2009	2010	2009	2010
Military Personnel	**1,646**	**1,513**	**70**	**72**	**315**	**339**	**2**	**2**	**2,033**	**1,926**
Army	1,086	1,016	46	47	188	207	0	1	1,320	1,271
Internal Security Forces	453	396	19	20	101	105	0	0	574	521
General Security Forces	81	77	3	3	19	20	1	1	104	101
State Security Forces	26	24	2	2	7	7	0	0	35	32
Education Personnel	**621**	**647**	**62**	**65**	**0**	**0**	**1**	**1**	**684**	**713**
Civil Personnel, *of which:*	**297**	**345**	**60**	**62**	**3**	**4**	**212**	**262**	**573**	**673**
Civil Servants' Cooperative	*0*	*0*	-	-	-	-	*178*	*219*	*178*	*219*
Customs Salaries	**35**	**41**	-	-	-	-	-	-	**35**	**41**
Total	**2,599**	**2,546**	**192**	**199**	**319**	**343**	**215**	**266**	**3,325**	**3,354**

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

1/ Includes payments made by treasury advances and from the guarantees account which are mainly assumed to be for basic salaries

2/Mainly Includes Bonuses and Contributions of the State to the Various Mutual Funds

3/Includes Article 13 payments to Customs that were reclassified from the guarantee account and very minor unclassified adjustments with economic classification of rounding magnitude

b) A LL 102 billion increase in *retirement and end-of-service indemnities* which accumulated to LL 1,388 billion in 2010 compared to LL 1,286 billion in 2009. This 8 percent growth compares to a much higher increase of 18 percent in 2009 and 22 percent in 2008. In

[12] Current primary expenditures is current expenditures excluding interest payments and foreign debt principal repayment.

[13] This includes salaries, wages and related benefits (article 13), transfers to public institutions for payment of salaries and wages, retirement monthly wage and end-of-service.

[14] For additional details on the salary and wage increase policy, refer to the Public Finance Review 2008.

[15] For additional details on the 1996-1998 wage retroactive payments in the public sector, kindly refer to the Public Finance Review 2009.

details, retirement payments inched up by LL 31 billion equivalent to 3 percent, reaching LL 1,086 billion in 2010 from a lower level of LL 1,055 billion in 2009. End-of-service compensations surged by 30 percent to LL 302 billion in 2010 against LL 232 billion a year earlier. This increase is due to LL 70 billion higher payments to military personnel which amounted to LL 265 billion (88 percent of total compensation payments) in 2010 compared to LL 195 billion (84 percent of total compensation payments) in 2009. This 36 percent surge could be explained either by a higher number of beneficiaries[16] or by the fact that retirees during the period under consideration are of higher grade levels[17] and/or have served for a longer period. Lastly, end-of-service compensations to civil servants remained stable at LL 37 billion corresponding to 1,379 beneficiaries in 2010, slight up from 1,376 beneficiaries in 2009.

Further within personnel cost, *transfers to public institutions to cover salaries* declined by 1 percent to LL 320 billion in 2010 from LL 324 billion in 2009. Behind this LL 10 billion decline primarily stands a LL 13 billion drop in payments to the Council for Development and Reconstruction (CDR) which was due to one-off transfers that are not related to salaries but that were classified under article 14 (transfers) and that can be enumerated as follows (i) LL 10.5 billion in 2009 for the payment of expropriation indemnities for the reconstruction of the Nahr el Bared Camp[18], (ii) LL 4.062 billion to cover income taxes and customs duties paid by Ansaldo and Siemens on the Beddaoui and Zahrani projects[19] and (iii) LL 2 billion for the reconstruction of Mar Youhanna Monastery and settlement of a treasury advance made by CDR to the High Relief Committee. The drop in payments to CDR was in part offset by a LL 6 billion equivalent to 81 percent increase in transfers to the Council of the South which accumulated to LL 13 billion in 2010 compared to LL 7 billion in 2009, explained by the timing of payments.

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

(LL billion)	2008 Jan-Dec	2009 Jan-Dec	2010 Jan-Dec	%Change 2010/2009
Transfer to Council of the South	7	7	13	81%
Transfer to the Council for Development and Reconstruction	21	46	33	-29%
Transfer to Fund for the Displaced	6	8	7	-13%
Transfer to the Lebanese University	162	251	254	1%
Transfer to Educational Centre for Research and Development	10	12	14	15%
Total Transfers to Public Institutions	**206**	**324**	**320**	**-1%**

Source: MOF

Materials and supplies rose by 16 percent, accumulating to LL 277 billion in 2010 from a lower level of LL 238 billion in 2009. Excluding accounting adjustments for treasury, this LL 39 billion rise was the result of:

16 No statistics are available regarding the number of military retirees.

17 Indemnities are paid on the basis of the last month salary.

18 This was paid from the $ 7 million grant provided by the Sultanate of Oman which was integrated to the CDR transfer budget in the 2009 Budget Law Proposal as per Decree 1625 dated March 25th, 2009.

19 As per Decree 2374 dated June 20th, 2009.

a) A LL 24 billion (equivalent to 23 percent) rise in medicament purchases which reached LL 128 billion in 2010 compared to LL 104 billion in 2009. Of this increase, LL 18 billion was due to higher spending by the Ministry of Public Health, LL 3 billion by the Army and LL 3 billion by the Internal Security Forces (ISF). Given that the Eurozone is Lebanon's main supplier of medicaments[20], the depreciation of the Euro in 2010 indicates that the rise in spending on medication is probably explained by a higher volume of purchases.

b) A LL 14 billion (equivalent to 28 percent) rise in food expenses that was mainly absorbed by the Army. The increase in the nutrition bill is probably explained by the upswing in food prices, as Food and Agriculture Organization's (FAO) food price index augmented by 18 percent in 2010. Food expenditures have been steadily rising over the last five years, exhibiting a 32.5 percent average growth in 2006-2010 and were multiplied by three between 2005 and 2010.

c) A LL 3 billion augmentation in other administrative supply spending primarily owing to higher purchases by Lebanese diplomatic delegations overseas

External Services (rent, postal, insurance, advertisement and public relations) fell by 9 percent to LL 103 billion in 2010 from LL 114 billion in 2009. This LL 11 billion decline primarily stems from a LL 10 billion decline in rental payments that was in part offset by higher remuneration for consultancy services by LL 4 billion.

Various Transfers declined by 1 percent, reaching LL 710 billion in 2010 compared to LL 717 billion in 2009. This LL 7 billion decline mainly attributed to decreases in some transfers such as those for NSSF, NGOs, and public hospitals which offset the increases in the subsidies for diesel oil and wheat as well as the rises in the transfers to the Special Tribunal for Lebanon and Investment Development Authority of Lebanon. Some of the details can be found below:

a) Lower payments to the National Social Security Fund (NSSF) by LL 90 billion; In fact, transfers to the NSSF[21] declined by 38 percent to LL 150 billion of which LL 100 billion were paid from the budget within the limits of the allocation included in the 2005 Budget Law and LL 50 billion were paid from the LL 50 billion treasury advance provided[22] to cover the deficit of the optional branch of the NSSF as they exceeded the LL 100 billion limit set by the 2005 Budget Law. In comparison, of the LL 240 billion paid to NSSF in 2009, LL 100 billion were from the budget and LL 140 billion were from the treasury advance provided[23] to cover: i) LL 60 billion additional allocation for the State's annual contribution to the NSSF, and ii) - LL 80 billion to settle past dues.

[20] In 2010, Lebanon's imports of pharmaceutical products for the Eurozone amounted to $ 423 million equivalent to 49 percent of the country's total imports of pharmaceutical products.

[21] For further details on transfers to NSSF, check the QIII 2009 Public Finance Quarterly Report.

[22] As per Decree number 5014 dated September 7th, 2010.

[23] As per Decree 2228 dated June 11th, 2009.

Table 15: Transfers to the NSSF

(LL billion)	2008 Budget Proposal	2009 Budget Proposal	2010 Budget Proposal	% Change 2010-2009
Total Allocation, *of which:*	**100**	**240**	**350**	**140%**
• *Annual state contributions*	*100*	*160*	*220*	*0%*
• *Past dues*	*0*	*80*	*80*	*0%*
• *Covering the deficit of the optional*	*0*	*0*	*50*	*NA*
Actual Transfers, *of which:*	**100**	**240**	**150**	**140%**
• *NSSF budget allocation*	*100*	*100*	*100*	*0%*
• *Treasury advance by decree**	*0*	*140*	*50*	*NA*

Source: Budget Proposals 2008 and 2009, MOF

b) A LL 26 billion drop in transfers to NGOs mainly by the Ministry of Social Affairs and the Ministry of Education and Higher Education; These transfers amounted to LL 147 billion in 2010, compared to a higher level of LL 173 billion in 2009.

c) A LL 7 billion decrease in transfers to public hospitals to cover their operational cost which fell to LL 6 billion in 2010 from LL 13 billion in 2009;

d) A LL 6 billion decline in contributions to private parties which reached LL 11 billion in 2010 compared to LL 17 billion in 2009;

e) A LL 5 billion decrease in transfers to the Volunteer Military Housing Unit which reached LL 5 billion in 2009 compared to nil in 2010;

f) A LL 4 billion decrease in membership fees in international organizations which amounted to LL 14 billion in 2010 compared to LL 18 billion in 2009; This drop is mainly due to lower transfers to the Ministry of Foreign Affairs, the Middle East Technical Assistance Centre (METAC) and the Ministry of Public Health by LL 1 billion each.

The drop in the above-mentioned transfers was in part counterbalanced by the rise in the following items:

a) Transfers to cover the diesel oil (mazout) subsidy totaled LL 61 billion[24] in 2010 compared to nil in 2009.

b) Wheat subsidy transfers accumulated to LL 42 billion in 2010, representing a LL 32 billion rise from the LL 10 billion recorded in 2009.

c) Transfers to the Special Tribunal for Lebanon rose by LL 29 billion, amounting to LL 41 billion[25] in 2010 compared to LL 12 billion[26] in 2009.

d) Transfers to the Investment Development Authority of Lebanon (IDAL) increased by LL 12 billion, totalling LL 16 billion in 2010 compared to LL 4 billion in 2009.

e) Transfers to the High Relief Committee (HRC) classified among various transfers rose by 5.1 billion, amounting to LL 6.7 billion[27] in 2010 compared to LL 2.6 billion[28] in

[24] Of which LL 60 billion were paid from the treasury advance provided by Decree 2986 dated January 4th, 2010. Should you require further information on how the LL61 billion was disbursed, kindly refer to Public Finance Quarterly Reports for QI 2010 and QII 2010.

[25] That were paid from the treasury advance provided by Decree 3346 dated February 23rd, 2010.

[26] As per Decree 1015 dated November 24th,2007 and Decree 1372 dated February 17th, 2009.

2009. These are payments made to HRC from budgeted reserves and are classified as budgeted transfers whereas payments to the Committee for the July 2006 war and other conflicts were made outside the budget framework through treasury advances.

f) Transfers to the Lebanese National High Conservatory of Music increased by LL 4.5 billion, amounting to LL 15.5 billion in 2010 compared to LL 11 billion in 2009.

g) Transfers to the Office of the Minister of State for Administrative Reform (OMSAR) rose by LL 4 billion, totalling LL 7 billion in 2010 versus LL 3 billion in 2009. This is explained by higher transfers to the UNDP project at OMSAR and for IT related expenses. Transfers to the National Employment Office inched higher by LL 3 billion to LL 4.5 billion in 2010 against LL 1.5 billion in 2009.

Other Current Expenditures increased by LL 12 billion equivalent to 3 percent, up to LL 440 billion in 2010 from LL 428 billion in 2009. In details, under this line item, payments to hospitals to cover the cost of hospitalization of uninsured citizens in the private sector receded by LL 13 billion to LL 338 billion in 2010 compared to LL 351 billion in 2009. This is due to the payment in 2009 of LL 38.4 billion through treasury advances.

As for "other" current expenditures, they increased by LL 37 billion to LL 102 billion in 2010 from LL 65 billion in 2009 explained by:

a) A LL 9 billion rise in electoral spending that rose from LL 13 billion[29] in 2009 to LL 22 billion[30] in 2010;
b) A LL 7 billion increase in the secret expenditures by the Army and Security Forces;
c) A LL 4 billion increase in reconciliation payments to hospitals which totalled LL 4 billion[31] in 2010 compared to nil in 2009.

[27] Of which (i) LL 1.58 billion were allocated by Decree 1296 dated April 2nd,2009 and Decree 1946 dated May 13th, 2009 which provided respectively a grant to the Palestinian people and funding for the vacating of real estate related to the Tripoli Cultural Heritage Project (ii) LL 3.6 billion were allocated by Decree 3858 dated April 16th, 2010 which provided indemnities to the families of the victims of the Ethiopian airplane crash on January 25th,2010 (iii) and LL 1.5 billion were allocated by Decree 4574 dated August 7th, 2010 which aimed at covering the cost supported by the Rafic Hariri Hospital due to Ethiopian airplane crash.

[28] Following Decree 15738 dated November 14th, 2005 for the vacating of the Yammoune Lake.

[29] That were spent from the treasury advance provided by Decree 1466 dated March 6th, 2009 to cover the cost of the 2009 Parliamentary elections.

[30] Of which LL 21.9 billion were spent from the treasury advance provided by Decree 3215 dated February 8th, 2010 to cover the cost of the 2010 municipal elections. Further, 153 million were spent in 2010 from the treasury advance provided by Decree 1466 dated March 6th, 2009 to cover the cost the 2009 Parliamentary elections. .

[31] Paid from the treasury advance granted by Decree 4946 dated September 4th, 2010.

Capital Expenditures

Capital expenditures exhibited a LL 141 billion increase equivalent to a 26 percent rise, totaling LL 691 billion in 2010 up from LL 550 billion in 2009.

Equipment spending increased by 13 percent to LL 40 billion in 2010 from a lower level of LL 35 billion in 2009. This LL 5 billion rise is primarily due to higher equipment purchases by the Ministry of Defense by LL 6 billion.

Construction in progress spending increased by 31 percent to LL 467 billion in 2010 from LL 356 billion in 2009. This LL 111 billion increase was the combined outcome of:

a) A LL 75 billion rise equivalent to 218 percent hike in allocations to the Ministry of Public Works and Transport which rose from LL 34 billion in 2009 to LL 109 billion in 2010; Of this LL 75 billion increase:
    i. LL 65 billion were higher spending on road construction of which LL 52 billion under the Ministry's Program Law for the construction of roads;
    ii. LL 6 billion were higher payments for the construction of buildings of which LL 3 billion under the Ministry's Program Law for the construction of Tripoli's *Palais de Justice;*
    iii. LL 2 billion were higher spending under the Ministry's Program Law for land development.
b) A LL 60 billion equivalent to 100 percent upswing in payments to the Displaced Fund which totalled LL 120 billion[32] in 2010 from LL 60 billion[33] in 2009
c) A LL 5 billion equivalent to 11 percent increase in payments to the Council of the South which totalled LL 46[34] billion in 2010 compared to LL 41[35] billion in 2009
d) A LL 28 billion equivalent to 15 percent drop in payments to the Council of Development and Reconstruction (CDR) which amounted to LL 164 billion in 2010 compared to LL 192 billion in 2009; Behind this decline stand the following changes as shown in Table 16 below:
    i. Payments for projects conducted by the CDR on behalf of ministries declined by LL 30 billion from LL 71 billion in 2009 to LL 41 billion in 2010. This is mainly due to the fact that payments to the CDR for the

[32] Of which LL 30 billion were from the LL 30 billion allocated to the Fund in the 2009 Budget and carried over. The remaining LL 90 billion were by treasury advance as per decree 4722 dated July 31st, 2010 based on the 2010 budget proposal. These LL 90 billion are to be offset from the amounts allocated to the Displaced Fund by Law 362/2001.
[33] The LL 60 billion paid to the Displaced Fund in 2009 were by treasury advance as per decree 1167 dated January 5th, 2009, based on the authorization granted by law 362/2001.
[34] Of which LL 20 billion are from the LL 51.3 billion allocated to the Council of the South in the 2009 Budget and carried over. The remaining LL 26 billion were paid from the 2010 Budget.
[35] Of which LL 31 billion were paid from the 2009 Budget Proposal and LL 10 billion were from the treasury advance provided by Decree No. 1167 dated January 5th, 2009, based on the authorization granted by Law 362/2001

construction of roads declined by LL 29 billion from LL 53 billion[36] in 2009 to LL 24 billion[37] in 2010.

ii. Counterpart funding for foreign financed projects receded by LL 26 billion from LL 87 billion in 2009 to LL 61 billion in 2010.

iii. Payments for the maintenance of the Rafic Hariri International Airport declined by LL 4 billion from LL 27 billion in 2009 to LL 23 billion in 2010.

iv. Arbitrage payments to Hoctief totalled LL 33 billion in 2010 compared to nil in 2009, offsetting in part the drop in the above-mentioned items.

Table 16: Payments to CDR for construction in progress

(LL billion)	2009	2010
CDR Budget Payments, *of which:*	**116**	**123**
• *Counterpart funding for foreign financed projects*	87	61
• *Maintenance of Rafic Hariri International Airport*	27	23
• *Maintenance of Grand Serail*	2	3
• *Arbitrage payments to Hoctief (Airport)*	0	33
• *Other Payments from CDR Budget (1)*	0	3
Projects Executed on behalf of Line Ministries *of which*	**71**	**41**
• *Roads*	53	24
• *Buildings*	18	17
Other	**6**	**1**
Total Payments to CDR for Construction In Progress	**192**	**164**

Source: MOF

(1) *Payment made as per Decree 5385 dated April 21st, 2004 opening a LL 150 billion allocation in the 2000 Budget of CDR and which could not be classified by the time of publication.*

Maintenance payments increased by 25 percent from LL 129 billion in 2010 to LL 103 billion in 2009. This LL 26 billion rise is mainly attributed to a LL 27 billion increase in payments to the Ministry of Public Works and Transport which totaled LL 91 billion in 2010 compared to LL 63 billion in 2009. This rise was in part offset by a LL 3 billion decline in payments to the CDR for the maintenance of the Lebanese University Campus in Hadath which amounted to LL 15 billion[38] in 2010 down form LL 18 billion[39] in 2009.

Other expenditures related to fixed capital rose by LL 3 billion from LL 50 billion in 2009 to LL 53 billion in 2010. This is mainly explained by LL 5 billion higher transfers to the Investment Development Authority of Lebanon (IDAL) to cover for its Export Plus Program. These transfers amounted to LL 49 billion in 2010 versus LL 44 billion in 2009[40].

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[36] Which were paid from the Budget system as per Program Law 246/93

[37] Of which LL 4 billion were paid from the Budget system as per Program Law 246/93. The remaining LL 20 billion were paid from Decree 4623 dated July 17th, 2010 and are to be regularized r from the allocation provided by Program Law 246/93 in the National Budget .

[38] Of which (i) 1 billion was paid from the allocation provided by Decree 938 dated November 11th, 2007, (ii) 1 billion was paid from the allocation provided by Decree 374 dated September 29th, 2008 and (iii) 13 billion were paid from the allocation provided by Decree 3325 dated February 17th, 2010. These payments are to be settled from Program Law 11-112.

[39] Of which (i) 1 billion was paid from the allocation provided by Decree 938 dated November 11th, 2007 and (ii) 17 billion were paid from the allocation provided by Decree 374 dated September 29th, 2008 .

[40] It should be noticed that a LL 0.252 payment was also made for the study of the electricity 700 MW project by treasury advance from Decree 4945 dated September 4th, 2010.

Treasury Expenditures

Treasury expenditures declined by 15 percent, reaching LL 3,369 billion in 2010 compared to LL 3,947 billion in 2010. This LL 577 billion decrease is due to the drop in payments to both Electricité du Liban (EDL) and to the High Relief Committee that were in part counterbalanced by an increase in payments to municipalities, guarantees, Value Added Tax (VAT) refunds and deposits.

First, High Relief Committee amounted to LL 520 billion[41] in 2009 compared to LL 0.3 billion[42] in 2010, representing a 100 percent decrease.

Transfers to EDL[43] decreased by 20 percent to LL 1,797 billion in 2010 from a higher level of LL 2,259 billion in 2009. This LL 462 billion decline is explained by:

a) A LL 434 billion equivalent to 20 percent decline in reimbursements to EDL's oil suppliers due to a 28 percent drop in the volume of consumed gas oil. These payments are not reflective of the actual cost of the energy bill in 2010, considering that the lower quantities of gas oil have been substituted with natural gas, which started flowing from Egypt to the Deir Amar power plant towards end of 2009. The total natural gas bill amounted to LL 81 billion in 2010. However, considering that the Lebanese Council of Ministers issued in December 2010 a mandate authorizing MOF to make the associate payments, the 2010 payments to EGAS amounted to LL 42 billion, of which LL 16 billion covered for the flow of natural gas in Q4 of 2009 and LL 26 billion covered for part of the 2010 natural gas bill.

b) A LL 27 billion equivalent to 21 percent drop in debt service payments

Table 17: Transfers to EDL

(LL billion)	2008 Jan-Dec	2009 Jan-Dec	2010 Jan-Dec	%Change 2010/2009
EDL, *of which:*	**2,430**	**2,259**	**1,797**	**-20%**
a- Debt Service, *of which:*	**155**	**127**	**100**	**-21%**
• C-Loans and Eurobonds, *of which:*	115	93	67	-28%
- *Principal Repayments*	*94*	*79*	*56*	*-29%*
- *Interest Payments*	*22*	*15*	*11*	*-23%*
• BDL-Guaranteed Loan Payments	40	34	33	-1%
b- Reimbursement of KPC and Sonatrach Agreements	**2,275**	**2,131**	**1,697**	**-20%**

Source: MOF, DGF

[41] Of which (i) 200 billion pertain to Decree 1168 (dated January 5th, 2009), which provided the LL 200 billion treasury advance to continue indemnity payments to the owners of damaged housing units in the villages and the Southern Suburbs, on one hand, and relief payments related to the July 2006 War, on the other (ii) LL 300 billion were paid following Decree 1971 (dated May 16th, 2009), which provided the LL 300 billion treasury advance to cover the HRC deficit and pay for housing indemnities (iii) LL 15 billion paid as per Decree 1670 (dated April 7th, 2009) for compensations related to Tripoli incidents which occurred in 2009 and (iv) LL 5 billion were paid as per Decree 2431 (dated June 26th, 2009) to compensate Lebanese citizens who suffered damage to their properties during the Nahr El Bared Events.

[42] As per Decree 1929 dated November 5th, 2009. This payment will be regularized from the LL 275 billion allocation provided to the HRC by the 2010 Budget proposal.

[43] For further details, check December 2010 issue of *"Transfers to EDL: A Monthly Snapshot"* available on www.finance.gov.lb.

Payments to municipalities surged by LL 278 billion equivalent to 61 percent, amounting to LL 735 billion in 2010 compared to LL 457 billion in 2009, as shown in Table 18 below. This increase is driven by a 143 percent or LL 275 billion rise in the payment of revenues accruing to municipalities. The reason behind this increase is due to the fact that two decrees were issued during the year 2010: the decree which allocated revenues for the year 2008 and the one that allocated revenues for 2009. These payments totaled LL 518 billion in 2010[44] , of which LL 275 billion on account of 2009 revenues and LL 213 billion on account of 2008 revenues. In 2009, one decree was issued for the allocation of 2007 revenues which accounted for LL 197 billion out of LL 213 billion[45] of the total transfers.

Table 18: Payments to Municipalities

(LL billion)	2008 Jan-Dec	2009 Jan-Dec	2010 Jan-Dec	%Change 2010/2009
Distribution of Revenues Accruing to Municipalities	287	213	518	143%
Payments for Solid Waste Management	231	232	213	-8%
Payments to the "First Municipality Infrastructure Project"	7	8	1	-94%
Other Payments	2	5	3	-43%
Total Payments to Municipalities	**527**	**457**	**735**	**61%**

Source: MOF, DGF

Lastly, an increase was registered in the three following items:

a) Guarantees payments rose by 51 percent to LL 82 billion in 2010 against LL 54 billion in 2009 primarily partly owing to the cost of maintenance and equipment of the Parliament *(for details, kindly refer to Box 1) ;*

Box 1: Maintenance and Equipment of the Parliament

Law number 123 dated July 23rd, 2010 allocated LL 20 billion in the 2010 Budget proposal to the Parliament's maintenance and equipment. This allocation is to be funded through the issuance of domestic currency Treasury Bills. The Law also authorized the spending of the allocated amounted through an urgent budget advance following the issuance of a decision by the Parliament's speaker. This one-year budget advance was authorized by the speaker's decision number 1180 dated July 29th, 2010. In 2010, payments worth LL 11 billion were conducted from this budget advance. These payments were classified as guarantees and will be reclassified to "capital expenditures", whether maintenance or equipment, once certified invoices are sent to MoF.

b) VAT refund payments increased by 18 percent to LL 384 billion in 2010 from LL 326 billion in 2009, reflecting among other things the buoyancy in the tourism activity;

[44] Of which (i) LL 275 billion were paid as per Decree 5177 dated October 8th, 2010 which allocated the 2009 revenues of the Independent Municipal Fund (ii) LL 213 billion were paid as per Decree 4608 dated July 13th, 2010 which allocated the 2008 revenues (iii) LL 16 billion were paid as per Decree 2339 dated June 19th, 2009 which allocated the 2007 revenues and (iv) LL 12 billion were paid as per Decree 614 dated December 16th, 2008 which allocated the 2006 revenues.

[45] Of which (i) LL 197 billion were paid as per Decree 2339 dated June 19th, 2009 which allocated the 2007 revenues of the Independent Municipal Fund and (ii) LL 16 billion were mainly paid to municipalities as per Decree 614 dated December 16th, 2008 which allocated the 2006 revenues.

c) Deposits augmented by 17 percent, accumulating to LL 105 billion in 2010 compared to LL 90 billion in 2009 *(for details, kindly refer to Box 2)*.

Box 2: The Increase in Deposit Payments in 2010

Table 19: Deposit Payments

(LL billion)	2009 Jan-Dec	2010 Jan-Dec	%Change 2010/2009
Deposit Payments, *of which:*	**90**	**105**	**17%**
• *Public Housing Corporation*	*2*	*12*	*433%*
• *Civil Defence Directorate*	*24*	*26*	*5%*
• *Ministry of Social Affairs*	*9*	*10*	*9%*
• *Civil Servants' Cooperatives*	*27*	*28*	*4%*
• *Bar Association of Beirut*	*14*	*16*	*19%*

Source: MOF, DGF

The Public Accounting Law[1] (PAL) stipulated that public administrations, municipalities, public institutions and all public entities must open accounts with the Department of Treasury at the Ministry of Finance as the PAL used to disallow the opening of accounts at commercial banks or independent accounts at the Central Bank. In addition to the deposit accounts opened for various public administrations (Civil Defense, Ministry of Social Affairs, Directorate General for Technical and Vocational Education), municipalities accounts (which are classified and analyzed separately in the economic classification table) and public institutions (Lebanese Standards Institutions, Public Housing Corporation), other public entities such as independent funds (NSSF, Civil Servants Cooperative, Customs Cooperative, Independent Fund for the Directorate General of Technical and Vocational Education) and mutual funds (these could be mutual funds for health insurance schemes of Judges, Aid Judges, Security Forces, the Lebanese University or mutual funds serving other purposes such as subscriptions for the Internal Security Force magazine or Military Clubs) have also deposit accounts. It should be noted that non-public entities such as the Bar Association of Beirut and Tripoli as well as the Retirement Fund for the Lawyers of Beirut have also deposit accounts at the Treasury.

One of the main sources of deposits on these accounts are revenues collected by MoF on behalf of many of these entities prior to their disbursements following the issuance of payment orders by accountholders. For example, the 3 percent deducted from civil servants' salaries as their contribution to the financing of the Civil Servants' Cooperatives is deposited in the Civil Servants' Cooperative Account and then paid to the Cooperative by the Ministry of Finance.

Deposit payments amounted to LL 105 billion in 2010, representing a 17 percent rise from their 2009 level, at LL 90 billion. This LL 15 billion rise is mainly attributed to a LL 10 billion rise in deposit payments to the Public Housing Corporation account. Deposit payments to each of the Civil Defense Directorate and Bar Association of Beirut also rose by LL 2 billion each.

(1) Article 243 and Article 244 of the Public Accounting Law as amended by Law number 55/66 dated September 3rd, 1966.

Social Services

Social expenditures cover the basic social services of: health, education, pension and end-of-service indemnity, transfers to the National Social Security Fund (NSSF), and other areas of intervention classified as social assistance.

The social bill augmented by 5 percent year-on-year, amounting to LL 3,890 billion in 2010 versus LL 3,707 billion in 2009. In details, health expenditures accounted for 19 percent of social spending in 2010, up from a lower share of 18 percent in 2009. These outlays primarily cover hospitalization in the private sector, purchases of medication, and maternity and sickness allowance for public sector employees. Further, nearly one third of social outlays were on education services compared to 32 percent in 2009. Education spending mainly covers the Ministry of Education and Higher Education salary and wage bill, the contribution to the salaries of the Lebanese University's personnel, education allowance for public sector employees and contributions to non-profit organizations also known as subisidies to private schools. Moreover, end-of-service compensations and pension payments captured a stake of 36 percent of social spending in 2010 compared to 35 percent in 2009 while transfers to the Civil Servants' Cooperation accounted for a share of 6 percent in 2010 up from 5 percent in 2009.

The LL 183 billion upswing in social spending is primarily explained by the combined effect of the following:

a) Pension and end-of-service indeminities rose by LL 102 billion, amounting to LL 1,388 billion from LL 1,286 billion in 2009 (*for details kindly refer to the "Current primary expenditures" section)*.

b) Payments of wages and salaries for the General Directorate of Education rose by LL 75 billion to LL 610 billion from LL 535 billion in 2009.

c) Transfers to the Civil Servants' Cooperative increased by LL 41 billion from LL 178 billion in 2009 to LL 219 billion in 2010. This follows the increase in budget allocation following the decision of the Cooperative to improve the coverage of chronic diseaseas and cap the contribution.

d) Purchases of medicaments increased by LL 24 billion, amounting to LL 128 billion in 2010 compared to LL 104 billion in 2009 *(for details kindly refer to the "Current primary expenditures" section)*.

e) Transfers to the NSSF receded by LL 90 billion from LL 240 billion in 2009 to LL 150 billion in 2010 *(for details kindly refer to the "Current primary expenditures" section)*.

f) Transfers to non-profit organizations by the Ministry of Social Affairs declined by LL 22 billion to LL 78 billion in 2010 down from LL 100 billion in 2009.

g) Payments for the hospitalization of uninsured citizens in the private sector decreased by LL 13 billion from LL 351 billion in 2009 to LL 338 billion in 2010 *(for details kindly refer to the "Current primary expenditures" section)*.

Table 20: Main Social Expenditures

(LL billion)	2008	2009	2010	%Change 2010/2009
Health	**625**	**678**	**721**	**6%**
• Hospitalization in the Private Sector	289	351	338	-4%
• Purchase of Medication	94	104	128	23%
• Hospitalization of Public Sector Employees in Private Sector	150	117	130	11%
• Maternity and Sickness Allowance	42	41	40	-2%
• Other	49	64	84	30%
Education	**950**	**1,170**	**1,272**	**9%**
• Ministry of Education and Higher Education, *of which*:	835	1,033	1,118	8%
- *Wages and Salaries of the General Directorate of Education*	*452*	*535*	*610*	*14%*
- *Wages and Salaries of the General Directorate of Higher Education*	*1*	*1*	*1*	*13%*
- *Wages and Salaries of the General Directorate of Technical Education*	*73*	*98*	*105*	*7%*
- *Contributions in the Salaries of the Lebanese University*	*162*	*251*	*254*	*1%*
- *Contributions to Non Profitable Organizations (Private Schools)*	*50*	*45*	*45*	*-1%*
- *Construction under Execution (Construction and Restoration of Schools)*	*8*	*5*	*9*	*68%*
• Education Allowance in Private Sector	116	138	154	12%
Other Social Spending	**1,495**	**1,858**	**1,897**	**2%**
• Marriage Allowance	4	4	5	8%
• Birth Allowance	4	4	3	-15%
• Death Allowance	3	5	4	-15%
• Other Social Spending Allowance	13	10	7	-26%
• Participation in several Pension Funds	24	23	30	29%
• Ministry of Social Affairs, *of which*:	68	102	84	-18%
- *Transfers to Non-Profit Organizations*	*68*	*100*	*78*	*-22%*
• Ministry of Displaced	4	6	7	8%
• Transfers to Civil Servants Cooperative	188	178	219	23%
• End-of-Service and Pensions	1,087	1,286	1,388	8%
• National Social Security Fund	100	240	150	-38%
Unclassified allowances	**-**	**0**	**1**	**54%**
Total Social Expenditures	**3,070**	**3,706**	**3,890**	**5%**

Source: MOF, DGF

Box 3. Transfers to the Lebanese University 2009-2010

1. Budget allocations in 2009 and 2010

A. In the 2010 Budget Proposal LL234 billion were allocated to the Lebanese University, divided into three parts:

a) Lebanese University's mutual fund: LL 23.5 billion
b) Educational College of the Lebanese University for the training and preparation of 409 teachers in secondary public schools: LL 9.5 billion (Decree 2542/2009),
c) Financial contribution to the Lebanese University for the coverage of salary and wages and other operating expenses: LL 205 billion .

During 2010, an additional LL 31 billion were transferred from the budget reserves to the budget of the Lebanese University. This was performed through ministerial decisions for the payment of the 1996-1998 retroactive.

B. In the 2009 Budget Proposal, LL 226 billion were allocated to the Lebanese University divided into three parts:

a) Lebanese University's mutual fund: LL 22 billion
b) Educational College of the Lebanese University for the training and preparation of 920 teachers for secondary public schools: LL 13.8 billion (Decree 700/2008),
c) Financial contribution to the Lebanese University for the coverage of salary and wages and other operating expenses: LL 190 billion.

During 2009, an additional LL 28.5 billion was transferred from the budget reserves to the budget of the Lebanese University. Of this amount, LL 24 billion was for the payment of the 1996-1998 retroactive (through ministerial decisions) and LL 4.5 billion was for covering the increase granted to contractual instructors' per hour of teaching (Decree 1812 dated 27-04-09).

2. Actual transfers in 2009 and 2010

Actual transfers to the Lebanese University in 2010 reached LL 254 billion compared to LL 251 billion in 2009. This LL 3 billion increase was the combined outcome of the following:

a) Payments of retroactive salaries totalled LL 45 billion in 2010 (second, third and fourth payments) versus LL 19 billion in 2009 (first payment).
b) In 2010, LL 10 billion were paid to the Educational College -versus LL 17 billion in 2009 for the reasons explained above.
c) In 2010, LL 10 billion were paid as reconciliation contracts to the contractual teachers versus LL 5 billion of reconciliation contracts for sport trainers in 2009.
d) LL 3 billion for settlement of dues to technical personnel were disbursed in 2010 versus LL 3 billion in 2009 for the dues settlement of secondary teachers who were transferred to the Lebanese University in 2009.
e) LL 163 billion were paid in 2010 for salaries and wages and other operating expenses compared to LL 167 billion in 2009.
f) Some payments made in 2009 were absent in 2010. These include payments to the Baabda governmental hospitals for training medical students (LL 5 billion), rent (LL 3 billion for rental contracts) and faculty research (LL 2 billion).

It should be finally noticed that LL 23 billion were paid as transfers to the Lebanese University Mutual Fund in both years.

Interest Payments

Interest payments amounted to LL 5,893 billion in 2010 (equivalent to 10.16 percent of GDP), representing a 2 percent increase compared to the LL 5,784 billion (10.99 percent of GDP) paid in 2009. This rise reflects the LL 100 billion increase in interest payments on local currency debt as interest payments on foreign currency debt inched up by less than LL 10 billion.

Interest payments on local currency debt accumulated to LL 3,763 billion, 3 percent higher than their level in 2009. This increase accounts for the rise in coupon payments, which compensated the substantial drop in discounted interest payments.

In detail, coupon payments on 2,3 and 5-year bonds amounted to LL 3,549 billion, reflecting a 6 percent rise from their level in 2009. This is primarily explained by the rise in the volume of long term T-bills bearing coupons and maturing in 2010 that was in part offset by a fall in their weighted average cost. In fact, the stock of outstanding long-term TBs by the end of 2009 was 12 percent higher than its level a year earlier. The weighted average cost declined by 46 bps, down to 8.86 percent in 2010 compared to 9.32 percent in 2009, mirroring the 114 bps average drop in the primary market interest rates on long-term TBs in 2009. The decline in primary market interest rates translated into a shift in the cost composition of the portfolio of long-term TBs with coupon maturing in 2010 towards a higher share of instruments with interest rates not exceeding 9 percent. As such, the share of long-term TBs with less than 7.5 percent interest rates increased from 0.3 percent in 2009 (reflecting only 2-year bonds) to 12 percent in 2010 (with maturities ranging from 2 to 5-year bonds). The share of long-term TBs with interest rates ranging between 7.5 and 9 percent rose from 12 percent in 2009 to 27 percent in 2010. Conversely, the share of long-term instruments with interest rates exceeding 9 percent fell from 87 percent in 2009 to 61 percent in 2010.

On the other hand, discount interest payments, which are bullet interest payment paid at maturity for 3, 6 and 12-month T-bills receded by 30 percent year-on-year, down to LL 213 billion in 2010 compared to LL 304 billion in 2009. This is mainly explained by the payment on December 12th, 2009 of LL 171 billion of compounded interest on an exceptional 3-Year Discounted T-Bills issued in December 2006 to the National Security Fund and the Fund Guarantee for an amount of LL 559 billion. Without this payment, discount interest payments would have been higher by 60 percent on account of a 36 percent rise in the volume of short-term TBs coming to maturity in 2010 compared to 2009.

Interest payments on foreign currency debt increased by 0.5 percent and amounted to LL 2,131 billion in 2010 compared to LL 2,121 billion in 2009. Behind this rise is primarily a 23 percent increase in interest payments on concessional loans, which accumulated to LL 160 billion in 2010, up by LL 29 billion from their 2009 level, at LL 131 billion. This is mainly due to LL 37 billion payments on ten Islamic Development Bank (IDB) Project loans with interest payments maturing starting from June 2010[46]. As for coupon payments on special bonds, they increased by 51 percent, reaching LL 27 billion in 2010 compared to LL 18 billion in 2009.

The increase in the above-mentioned items was offset by a slight decline in Eurobond coupon payments, which inched down by 1 percent, reaching LL 1,943 billion from the higher level of LL 1,972 billion in 2009. This LL 29 billion drop reveals the remaining impact of the voluntary exchange transaction that was settled on March 19th, 2009 [47].

Concessional Loans Principal Payments augmented by 7 percent to LL 324 billion in 2010 from LL 303 billion in 2009. This rise was recorded despite the prepayment of World bank Loans worth of LL 75 billion in June 2009 with the proceeds of USAID grant for budget support[48]. It is explained by the disbursement starting from June 2010 of LL 66 billion as deferred principal payments on twelve IDB loans and to the payment of LL 14 billion in July 2010 and LL 15 billion in October 2010 as principal repayments of the IMF EPCA I loan.

Table 21: Details of Debt Service Transactions

(LL billion)	2008 Jan-Dec	2009 Jan-Dec	2010 Jan-Dec	%Change 2010/ 2009
Interest Payments (1)	**4,957**	**5,784**	**5,893**	**2%**
Local Currency Debt	**2,847**	**3,663**	**3,763**	**3%**
· *Discount interest*	*132*	*304*	*213*	*-30%*
· *Coupon*	*2,716*	*3,359*	*3,549*	*6%*
Foreign Currency Debt, of which:	**2,110**	**2,121**	**2,131**	**0%**
· *Eurobond Coupon Interest(2)*	*1,950*	*1,972*	*1,943*	*-1%*
· *Special Bond Coupon Interest(2)*	*16*	*18*	*27*	*51%*
· *Concessional Loans Interest*	*144*	*131*	*160*	*23%*
Concessional Project Loans Principal Payments (1)	**347**	**303**	**324**	**7%**

Source: MOF, DGF

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

(2) Includes general expenses related to the transaction

[46] For details, kindly refer to the QII 2010 Public Finance Quarterly Report.

[47] For details, kindly refer to the QI 2009 Public Finance Quarterly Report.

[48] Please refer to the "International Conference for Support to Lebanon- Paris III (10th progress report)": www.finance.gov.lb.

Section IV: Public Debt Developments

Financing Requirements

Total net financing requirements reached LL 4,267 billion in 2010, slightly higher than the LL 4,238 billion recorded in 2009.

The issuance of Treasury Bills denominated in domestic currency was the main source of financing in 2010. In fact, the net issuance of LL TBs amounted to LL 3,515 billion, equivalent to 82 percent of the net financing needs in 2010. This amount compares to a higher level of LL 6,060 billion in 2009. The drop in the net issuance of TBs reflects the halt in the weekly auction in March 2010 as well as the aggregate deficit in the weekly auctions over the first nine months of the year. Treasury accounts were the second source of financing as their cumulative balance retreated by LL 1,655 billion in 2010 versus an increase of LL 1,928 billion in 2009.

Further, the net financing from all foreign currency debt instruments resulted in a cumulative negative balance of LL 903 billion, of which:

- LL 340 billion is due to the deficit in the net issuance of Eurobonds which mirrors the LL 3,241 billion ($ 2.15 billion) principal repayments in 2010 that was in part offset by the $ 1.2 billion Eurobond issue that took place in March 2010 and the $ 725 million issue that took place in November 2010 *(for details, kindly refer to Box 5).*
- LL 373 billion is due to the redemption of expropriation bonds worth $ 277.9 million, that was in part counterbalanced by the issuance of three contractor bonds amounting to LL 46.8 billion over the course of 2010 *(for details kindly refer to the Foreign Currency Debt section)*

Table 22: Financing for January-December 2010 versus January-December 2009

(LL billion)	2009 Jan-Dec	2010 Jan-Dec
Overall balance from the financing side[49]	**-4,238**	**-4,267**
Total Net in Financing	**4,238**	**4,267**
• LL Treasury bills (2)	6,060	3,515
• Eurobonds (1)	283	-340
• Special T-bills in Foreign currencies	28	-373
• Bilateral Loans (1)	-150	-114
• Multilateral Loans (1)	1	-74
• Private sector loans (1)	-27	-2
• Change in treasury accounts (-/increase +/decrease)	-1,928	1,655

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

(1) The net variation of foreign currency debt excludes foreign exchange variations as well as accrued interest

(2) The net variation of treasury bills excludes accrued interest

Note: Positive numbers indicate a net increase and negative numbers indicates a net decrease except for line item "change in accounts".

[49] The overall balance from the financing side is calculated as the negative sum of total net financing items. It differs from the overall balance of Section 1 (based on a check-issued basis) because it measures cash going in and cash going out. It also includes CDR operations related to project financing loans and is affected by the cash sources and requirements of all debt operations.

Public Debt

Gross public debt rose by 2.84 percent year-on-year, amounting to LL 79,301 billion ($ 52.6 billion) by the end of 2010 compared to LL 77,112 billion ($ 51.15 billion) by the end-2009. This LL 2,189 billion rise is mainly attributed to a LL 3,282 billion increase in the stock of local currency debt that was in part offset by a LL 1,093 billion decline in the stock of foreign currency debt. However, in terms of GDP, the stock of debt declined substantially, amounting to 137 percent by December 2010, 9 percentage points lower than their level by the end of 2009, at 146 percent. This drop is in line with the downward trend registered since 2006, when the debt-to-GDP ratio registered an all time high of 179 percent.

Regarding the **net public debt,** it amounted to LL 67,882 billion in 2010, representing a 1.94 percent rise over the end-2009 level. This increase is due to the above-mentioned rise in the stock of gross public debt that counteracted for the negative effective on net public debt of the 9 percent rise in public sector deposits in 2010. Lastly, the **gross market debt** inched higher by 0.15 percent, amounting to LL 51,308 billion by the end of 2010.

Table 23: Public Debt Outstanding as of end-December 2010

(LL billion)	Dec-06	Dec-07	Dec-08	Dec-09	Dec-10	Change Dec 10- Dec 09	% Change Dec 10-Dec 09
Gross Public Debt[1]	60,857	63,364	70,941	77,112	79,301	2,189	2.84%
Net Debt	56,413	58,837	62,615	66,590	67,882	1,292	1.94%
Gross Market Debt[2]	38,670	39,220	46,992	51,231	51,308	77	0.15%

Source: MOF, BDL

[1] Figures for Dec 05 – Dec 09 may differ from previously published data due to updated information regarding bilateral and multilateral loans in the Debt Management and Financial Analysis System (DMFAS)

[2] Gross market debt equals gross debt less the portfolios of the BDL, NSSF, bilateral and multilateral loans, Paris II and Paris III related debt.

The **weighted average cost of total foreign debt** rose by 5 bps to 6.86 percent end-2010 compared to 6.81percent end-2009. While the weighted average cost of Eurobonds retreated by 4 bps to 7.31 percent in 2010 against 7.35 percent in 2009, the weighted average cost of contracted loans stood at 3.95 percent, higher by 35 bps compared to its level of 3.60 percent end-2009.

The **weighted average cost of outstanding domestic debt** declined by 97 bps to 7.77 percent as of end-2010 versus 8.74 percent end-2009. This drop reflects the fall in primary market interest rates throughout 2010. In details, regarding short term instruments, the weighted average cost was 3.93 percent (4.69 percent in 2009) for 3-month Treasury bills, 4.52 percent (6.12 percent in 2009) for 6-month TBs and 4.99 percent (6.69 percent in 2009) for 12-month TBs. For long term instruments, the weighted average cost was 6.57 percent (7.70 percent in 2009) for 2-year bonds, 8.18 percent (8.92 percent in 2009) for 3-year bonds, 8.27 percent (9.97 percent in 2009) for 5-year bonds and 7.9 percent for 7-year bonds.

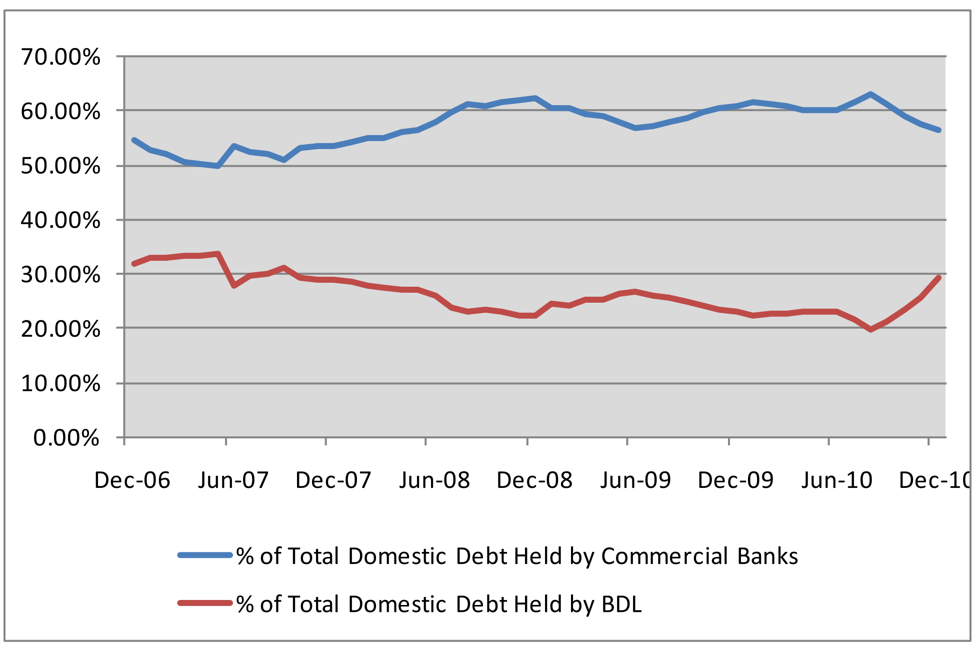
Local Currency Debt

The stock of local currency debt rose by 7.3 percent year-on-year, amounting to LL 48,255 billion by the end of December 2010 compared to LL 44,973 billion a year earlier, as shown in Table 24 below.

By holder, the most notable development was the slight drop in the stock of local currency debt held by commercial banks for the first time since 2003 coupled with a substantial increase of holdings by BDL and public institutions. In terms of figures, the stock of public debt in Lebanese pound held by commercial bank fell by 0.26 percent to LL 27,214 billion (56.4 percent of the total outstanding stock of domestic currency debt) in 2010, down from LL 27,286 billion (60.7 percent of the total stock of domestic currency debt) in 2009, due to a LL 44 billion decline in their TB holdings. Conversely, Banque du Liban increased its holdings by 27.06 percent to LL 13,130 billion (27.2 percent of the total outstanding stock of domestic currency debt) in 2010 from LL 10,334 billion (23 percent of the total outstanding stock of domestic currency debt) in 2009. This LL 2,796 billion rise was the result of a LL 2,869 billion increase in TB holdings by BDL. As for public entities, they enhanced their stock of TBs by LL 190 billion, to LL 6,268 billion (12.99 percent of the total stock of domestic currency debt) in 2010 compared to LL 6,078 billion (13.51 percent of the total stock of domestic currency debt) in 2009.

Holdings by commercial bank and BDL as a share of total domestic debt are reflected in Figure 2 below.

Figure 2: Commercial Banks' and BDL's Holdings of Domestic Debt (December 2006 – December 2010)



Source: MOF, BDL

These developments reflect the weak participation in weekly TB auctions by commercial banks starting from September 2010 coupled with an increasing demand from the Central Bank. In fact, commercial banks were the largest subscribers of TBs during the first half of 2010 where they accounted for 65 percent of subscriptions[50] in QI 2010 and 52 percent in QII 2010. They were the second largest subscribers in QII 2010 with a share of 37 percent before dropping to the third position with 9 percent of subscriptions only in QIV 2010. In parallel, BDL was the fourth largest subscriber in QI 2010 with less than 10 percent of accepted offers, behind public at banks (13 percent) and public institutions (10 percent). It ranked second with 19 percent of subscriptions in QII 2010, followed by public institutions with 17 percent. Later, the Central Bank became the largest subscriber in QIII 2010 with 38 percent of accepted offers while public institutions ranked third with 17 percent. Finally, over QIV 2010, BDL ranked first again with 81 percent, compared to 7 percent for public institutions which ranked third, behind commercial banks.

On a cumulative basis, Banque du Liban ranked first with 44 percent of total subscriptions. Commercial banks followed with 35 percent of subscriptions in 2010 against a share of 12 percent for public institutions, the third largest subscribers. In comparison, in 2009, commercial banks were the largest subscribers as they captured a stake of 63 percent of subscriptions whereas public institutions and BDL accounted for 20 percent and 11 percent of accepted offers respectively.

By instrument, the stock of long term bonds rose by 7.25 percent equivalent to 2,963 billion, contributing to more than 90 percent of the increase in the total outstanding stock of local currency debt. In comparison, the stock of short term instruments augmented by 11.24 percent equivalent to LL 409 billion.

In the long term category, the largest rise was registered by the stock of five-year bonds which increased by 2,274 billion (45.15 percent), amounting to LL 7,310 billion in 2010, compared to a lower stock of LL 5,036 billion in 2009. This rise reflects the introduction of 5YR bonds in the weekly TB auctions as of the week of July 20th, 2009. The stock of 2YR bonds followed with an increase of LL 409 billion (13.68 percent) to LL 3,398 billion in 2010 against LL 2,989 billion in 2009. Conversely, the highest drop among all instruments was recorded by the stock of 3YR bonds which tumbled by LL 1,126 billion (3.53 percent), to LL 30,782 billion down from a higher stock of LL 31,908 billion.

Within the short term category, the stock of 6MN rose by LL 601 billion (39.8 percent), reaching LL 2,111 billion in 2010, up from LL 1,510 billion in 2009. However, the stocks of 12 and 3MN Treasury Bills both declined, dropping by LL 104 billion (5.02 percent) and LL 77 billion (50.66 percent) respectively.

It is noteworthy that the Lebanese Republic introduced in 2010 a 7YR tenor in domestic currency under its Medium Term Note Program (for details, kindly refer to Box 4).

These results reflect the predominance of long term instruments in the weekly TB auctions. On a quarterly basis, 2YR, 3YR and 5YR bonds accounted for 72 percent of subscriptions in QI 2010 and QII 2010 and 74 percent in QIII 2010. Correspondingly, the share of short term TBs was 28 percent

[50] Subscriptions refers to the actual amount of Treasury Bills bought by the investor not the amount bid for.

of subscriptions in QI 2010 and QII 2010 and 26 percent in QIII 2010. However, QIV 2010 witnessed a substantial drop in the share of long term instruments which fell to 56 percent while that of short term tenors rose to 44 percent. This is mainly due to the strong appetite exhibited by BDL, the largest subscriber in October-December 2010, for short term tenors in contrast with its usual preference for long term instruments.

On a cumulative basis, long term bonds accounted for 66 percent of subscriptions against 33 percent for short term instruments. In details, dhree-year bonds captured the highest share of accepted offers in 2010, at 40 percent down from 51 percent in 2009. Five-year bonds ranked second with a share of 19 percent against a lower share of 11 percent in 2009, followed by 6MN TBs (17 percent in 2010 against 11 percent in 2009), 12MN Treasury Bills (11 percent in each of 2010 and 2009) and 2YR bonds (8 percent in 2010 compared to 10 percent in 2009). Three-month bills captured the lowest share, at 4 percent versus 7 percent in 2009.

The composition of the stock of public debt in domestic currency shifted towards a slightly higher share of short term instruments. As such, the stock of short term TBs accounted for 8.61 percent of the public debt in domestic currency in 2010 versus a lower share of 8.3 percent in 2009 while the stock of long term tenors captured a stake of 90.78 percent in 2010, down from 90.81 percent in 2009. The breakdown of the domestic debt portfolio by instrument shows that despite the drop of their total stock in 2010, three-year bonds still accounted for the bulk of the stock of domestic currency debt with a share of 63.79 percent in 2010, down from 70.95 percent in 2009. Five and two-year bonds followed, capturing a stake of 15.15 percent (11.2 percent in 2009) and 7.04 percent (6.65 percent in 2009) respectively.

Table 24: Domestic Currency Debt by Holder and Instrument as of end-December 2010

Stocks (end of period)	Dec-06	Dec-07	Dec-08	Dec-09	Dec-10	Change Dec 09 - Dec 10	% Change Dec 09-Dec 10
Local currency debt	**30,204**	**31,373**	**39,007**	**44,973**	**48,255**	**3,282**	**7.30%**
A. By Holder							
1. Central Bank (including REPOs and [1])	9,588	9,052	8,781	10,334	13,130	2,796	27.06%
2. Commercial Banks	16,487	16,847	24,320	27,286	27,214	-72	-0.26%
3. Other local debt (T-bills)	4,129	5,474	5,906	7,353	7,911	558	7.59%
o/w Public entities	*3,313*	*4,796*	*5,062*	*6,078*	*6,268*	*190*	*3.13%*
**Accrued interest included in debt*	*685*	*730*	*1,029*	*999*	*867*	*-132*	*-13.21%*
B. By Instrument							
1. Long term bonds	26,862	28,617	36,350	40,842	43,805	2,963	7.25%
1.1 7 Years bonds	0	0	0	0	1,500	1,500	N/A
1.2 5 Years bonds	2,172	3,699	3,049	5,036	7,310	2,274	45.15%
1.3 4.5 Years bonds	616	616	0	0	0	0	0
1.4 4 Years bonds	633	633	633	0	0	0	0
1.5 3 Years bonds	21,093	21,051	29,650	31,908	30,782	-1,126	-3.53%
1.6 2.5 Years bonds	0	0	0	0	0	0	0
1.7 2 Years bonds	1,751	1,927	2,052	2,989	3,398	409	13.68%
1.8 Coupon interest	597	691	966	909	815	-94	-10.34%
2. Short term bills*	2,839	2,288	2,197	3,735	4,155	420	11.24%
2.1 12 months bills	1,579	529	676	2,073	1,969	-104	-5.02%
2.2 06 months bills	1,117	1,750	1,234	1,510	2,111	601	39.80%
2.3 03 months bills	143	9	287	152	75	-77	-50.66%
** Accrued interest included*	88	39	63	90	52	-38	-42.22%
3. Other local debt	503	468	460	396	295	-101	-25.51%
3.1 Central Bank Loans	445	405	362	291	218	-73-	-25.09%
3.2 Commercial Banks Loans	58	63	98	105	77	-28	-26.67%

Source: MOF, BDL

[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.

Box 4: 1,500 Billion 7-Year TB Issuance in December 2010

On December 17th, 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 with an oversubscribed deal that included international investor participation. The bonds are listed on the Beirut Stock Exchange.

This is the second series issued under the LBP MTN Program. The first series was issued in March 2006 with the introduction of a five-year Treasury Bond with an issuance of LBP 400 billion at a coupon rate of 9.375 percent. The issuance of both series is in line with the objectives of the Ministry of Finance to:

- Lengthen the average time to maturity of Lebanon's existing portfolio of LL denominated debt
- Create a yield curve in LL through the creation of a market for medium term notes
- Promote the development of a liquid and active LL debt market

The proceeds of the seven-year issue were utilized for refinancing operations. This LBP transaction performed on international capital markets is the third successfully undertaken by the Lebanese Republic

in 2010 following two issues in USD. On March 9th, 2010, the Republic issued a ten-year $ 1.2 billion Eurobond at par with a coupon of 6.375 percent; on November 12th, 2010, the Republic issued a US$ 725 million dual-tranche Eurobond offering consisting of a US$ 500 million November 2018 5.15 percent coupon and a US$ 225 million 6.10 percent coupon Eurobond due October 2022 (for details, kindly refer to Box 5).
It is noteworthy that the November 2010 LL 1.5 trillion 7-year issue won the "European Landmark Deal of the Year" Award in the MTN-i 2010 European & Global Awards while the March 2010 $ 1.2billion issuance Was declared EMEA Finance's Best sovereign bond in the Middle East.

Primary market interest rates continued to decline over the first half of 2010, in line with the downwards trend observed since the second week of June 2008. In July 2010, interest rates stabilized and -except for those on 3MN bills and 2YR bonds- slightly increased over HII 2010. Nevertheless, all in all, when comparing their levels in December 2009 and December 2010, interest rates fell by an average of 107 bps year-on-year. The highest declined was recorded by interest rates on 5YR bonds which declined by 156 basis points. Six-month bills followed with a drop of 120 bps against a decrease of 116 bps for 3YR bonds, 98 bps for 2YR bonds, 92 bps for 12MN bills and 62 bps for 3MN TBs. The drop in interest rates on all tenors reflects the improved conditions that have prevailed on the markets during the last couple of years.

Table 25: Evolution of Primary Market Treasury Bill Yields (percent)

Maturity	Dec. 31st, 2006	Dec. 31st, 2007	Dec. 31st, 2008**	Dec. 31st, 2009	Dec. 31st, 2010
3-month	5.22 percent	5.22 percent	5.10 percent	4.55 percent	3.93 percent
6-month	7.24 percent	7.24 percent	7.11 percent	5.72 percent	4.52 percent
12-month	7.75 percent	7.75 percent	7.57 percent	5.73 percent	4.81 percent
24-month	8.50 percent	8.50 percent	8.22 percent	6.32 percent	5.34 percent
36-month	9.32 percent	9.32 percent	8.98 percent	7.10 percent	5.94 percent
60-month*	N/A	N/A	N/A	7.74 percent	6.18 percent

Source: MOF

** 60-month Treasury notes were issued as part of the Treasury Bill Auction Process as of the week of July 20 2009 (value date 23 July 2009).*

*** Reflects rate of the auction the week of December 29t, 2008, value date January 1st, 2009.*

The **average time-to-maturity of domestic currency** treasury bills and bonds rose to 1.70 years by the end of December 2010 against 1.60 years a year earlier. Reflecting the issuance of 7YR bonds and substantive growth in the outstanding stocks of 2 and 5YR bonds, the average maturity of issued LL instruments increased to 37.93 months from a lower level of 35.6 months by the end of 2009.

Foreign Currency Debt

The stock of **foreign currency debt** fell by 3.40 percent in 2010 amounting to LL 31,046 billion compared to a higher stock of LL 32,139 billion in 2009, as shown in Table 26 below. This LL 1,093 billion decline was driven by a fall in the outstanding stocks of Eurobonds, loans and special

Treasury Bills in foreign currency. It is noteworthy that of this decline, LL 176 billion is due to exchange rate valuations, including the Euro depreciation from 1.4329 EUR/USD end-2009 to 1.3250 EUR/USD end-2010.

Table 26: Foreign Currency Debt by Holder and Instrument as of end-December 2009

(in LL billion)	Dec-06	Dec-07	Dec-08	Dec-09	Dec-10	Change Dec 10 - Dec 09	% Change Dec 10-Dec 09
B. Foreign currency debt[1]	**30,653**	**31,991**	**31,934**	**32,139**	**31,046**	**-1,093**	**-3.40%**
4. Eurobonds	**26,441**	**27,099**	**26,817**	**27,142**	**26,738**	**-404**	**-1.49%**
Of which, Paris II at preferential rates [2]	5,608	5,156	4,708	4,192	3,677	-516	-12.30%
Of which, Paris III at preferential rates[3]	0	754	754	754	709	-45	-6.03%
** Accrued Interest on Eurobonds*	*434*	*410*	*430*	*460*	*483*	*23*	*5.00%*
5. Loans	**3,793**	**4,473**	**4,698**	**4,550**	**4,234**	**-316**	**-6.95%**
5.1 Paris II loans	932	907	748	627	460	-167	-26.63%
5.2 Paris III loans[4]	0	603	1,095	1,210	1,147	-63	-5.21
5.3 Bilateral loans (non-Paris II and III)	714	759	731	716	726	10	1.41%
5.4 Multilateral loans (non-Paris II and III)	2,032	2,118	2,069	1,971	1,877	-94	-4.75%
5.5 Foreign Private Sector Loans	115	86	54	27	24	-3	-11.11%
6. Other debt	**419**	**419**	**419**	**447**	**74**	**-373**	**-83.45%**
6.1 Special Tbs in Foreign currency[5]	419	419	419	447	74	-373	-83.45%

Source: MOF, BDL

[1] Figures for Dec 06 – Dec1 0 may differ from previously published data due to updated information regarding bilateral and multilateral loans in the Debt Management and Financial Analysis System (DMFAS)

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

[3] Issued to Malaysia as part of its Paris III contribution.

[4] IBRD loan, UAE loan, 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)

First, the stock of outstanding loans retreated by 6.95 percent to LL 4,234 billion compared to LL 4,550 billion in 2009. Excluding fluctuations that are due to exchange rate variations This LL 316 billion is due to the following:

(a) The stock of Paris II loans declined by LL 167 billion due to two principal repayments of the *Agence Française de Développement (AFD)* Paris II loan that amounted to € 30 million each and took place in February and August 2010.

(b) The stock of multilateral loans fell by LL 94 billion primarily due to the principal repayments of (i) LL 98 billion to the Islamic Development Bank, (ii) LL 49 billion to the European Investment Bank, (iii) LL 35 billion to the Arab Fund for Economic and Social Development and (iv) LL 23 billion to the International Bank for Development and Reconstruction (IBRD). The impact of these principal repayments on the outstanding stock of non-Paris II and Paris III multilateral loans was mitigated by the disbursement of:

i. LL 74 billion from four loans granted by the European Investment Bank

ii. LL 49 billion from eleven loans granted by the Arab Fund for Economic and Social Development

iii. LL 35 billion from five loans granted by the IBRD

iv. LL 16 billion from seven loans granted by the Islamic Development Bank

v. LL 3 billion from three loans granted by the Organization of Petroleum Exporting Countries (OPEC)

(c) The stock of outstanding Paris III loans receded by LL 63 billion due to the redemption of the equivalent of SDR 12.7 million of the EPCA-I loan.

(d) The outstanding stock of foreign private sector loans decreased by LL 3 billion.

The magnitude of the drop in the above-mentioned items was in part offset by a LL 10 billion rise in the outstanding stock of bilateral loans. This increase was recorded despite several principal repayments, of which LL 20 billion to the Kuwait Fund for Arab Economic Development, LL 14 billion to the Saudi Fund for Development, LL 12 billion to the Japan Bank for International Cooperation, LL 3.5 billion to the *Agence Française de Développement* and LL 2.5 billion to the Abu Dhabi Fund for Development. It was mainly the outcome of the disbursement of:

(a) LL 41 billion from six loans granted by the Kuwait Fund for Arab Economic Development

(b) LL 21 billion from eight loans granted by the Saudi Fund for Development

(c) LL 16 billion from a loan granted by Japan's Overseas Economic Cooperation Fund

(d) LL 10 billion from four loans granted by AFD

(e) LL 8 billion from three loans granted by the Abu Dhabi Fund

Other foreign currency debt fell by 83.45 percent to LL 74 billion, down from a higher stock of LL 447 billion in 2009. This was the outcome of to the redemption of expropriation bonds (US$ 277.9 million, 6.00 percent bonds due December 31, 2010) that was in part counterbalanced by the issuance of three contractor bonds amounting to LL 46.8 billion over the course of 2010 (April 22nd, 2010, July 15th, 2010, and November 30th, 2010).

At LL 26,738 billion, the **Eurobonds** portfolio contracted by 1.49 percent from its end-2009 level, at LL 27,142 billion. Total redemptions in 2010 amounted to $ 2.15 billion, compared to $ 2.69 billion in 2009. Of this amount, $ 355.8 are principal repayments for preferential-rate Eurobonds issued in the context of Paris II and $ 30 million are principal repayments for preferential-rate Eurobonds issued in the context of Paris III[51]. As for total issuances, they amounted to $ 1.925 billion, as the Lebanese Republic tapped the markets twice, on March 9th, 2010 (for details, kindly refer to the QI 2010 Public Finance Quarterly Report) and on November 12th, 2010 (for details, kindly refer to Box 5 below).

[51] Eurobonds issued in the context of Paris II and III have an amortized redemption schedule.

Table 27: Net issuance of Eurobonds in 2010

($)	2010
Eurobonds issued	1,925,000,000
Eurobonds redeemed	2,165,751,100
Net issuance	**-240,751,000**

Source: MOF

Box 5: The dual-tranche Eurobond transaction in November 2010

On November 12th, 2010, the Lebanese Republic issued a US$ 725 million dual-tranche offering with international orders accounting for 26 percent of subscriptions on the aggregate amount. The transaction resulted in the lowest market yields ever issued by the Republic of Lebanon on fixed rate bonds with a weighted coupon average of 5.44 percent and an average time to maturity of 9.21 years. The transaction was more than three times oversubscribed.

The first series consisted of a US$ 500 million 5.15 percent coupon Eurobond due November 2018 (Series 56) with international accounts subscribing to 30 percent of the issue. The second series was a US$ 225 million 6.10 percent coupon Eurobond due October 2022 (Series 57) with international orders accounting for 16 percent of subscriptions.

The proceeds of the issue were utilized for refinancing operations.

Table 28: Terms and Conditions of Eurobonds issued in 2010

Issue Date	Amount issued	Currency	Coupon	Issuance	Maturity Date
March 9th, 2010	1,200	$	6.375	6.375	March 9th, 2020
November 12th, 2010	500	$	5.150	5.150	November 12th, 2018
November 12th, 2010	225	$	6.100	6.100	October 4th,2022

Source: MOF

The **average time-to-maturity of Eurobonds** was 4.84 years as of December 31st, 2010, up from a lower average of 4.69 years a year earlier. This can be explained by the issuance of long tenors by the Republic.

Finally, **secondary market yields** on Lebanese Eurobonds retreated by an average of 70 bps.

Table 29: Lebanon Secondary Market Yields

Lebanese Issues	Bid Yield (%)					
	17-Oct 2010	25-Oct 2010	1-Nov 2010	25-Nov 2010	17-Dec 2010	31-Dec 2010
EURO						
LEB 5.875 12	3.55	3.53	3.50	4.12	4.25	4.20
US Dollars						
LEB 7.875 11	1.99	2.45	2.30	1.99	3.23	3.78
LEB 4.000 17 Av Life	4.45	4.37	4.33	4.41	4.50	4.91
LEB 7.500 12	3.29	3.15	3.01	2.96	3.75	3.85
LEB 7.750 12	3.32	3.27	4.32	3.48	3.78	3.92
LEB 9.125 13	3.62	3.58	3.54	3.60	4.01	4.02
LEB 8.625 13	3.75	3.62	3.59	3.66	4.05	4.07
LEB 7.375 14	4.25	4.24	4.15	4.24	4.30	4.35
LEB 9.000 14	4.19	4.13	4.04	4.17	4.32	4.38
LEB 5.875 15	4.82	4.81	4.78	4.89	4.78	4.80
LIEB 10.000 15	4.77	4.75	4.65	4.66	4.89	4.89
LEB 8.500 15	4.79	4.74	4.68	4.77	4.84	4.86
LEB 8.500 16	5.04	4.98	4.90	4.98	5.16	5.06
LEB 11.625 16	5.32	5.23	5.24	5.22	5.73	5.58
LEB 9.000 17	5.24	5.21	5.06	5.15	5.37	5.32
LEB 5.15 18	-	-	-	5.31	5.38	5.47
LEB 6.375 20	5.88	5.90	5.81	5.81	6.375	6.00
LEB 8.250 21	6.14	6.11	5.97	6.11	6.28	6.32
LEB 6.1 22	-	-	-	6.19	6.28	6.28
LEB 7.000 24	6.59	6.56	6.51	6.56	6.83	6.66

Source: Credit Suisse

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