

BUDGET PROPOSAL 2008

A BRIEF NOTE

January 21, 2008

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I. CONTEXT

The 2008 budget proposal was prepared in line with the Economic and Social Reform Program adopted by the government and presented at the Paris III Conference (January 25, 2007) which aimed at revitalizing growth, stimulating job creation, reducing poverty and decreasing public debt. Specifically, the aims of the reform program were to raise the real growth rate to a minimum of 4-5% until 2011, reduce the debt to GDP ratio from 180 percent in 2006 to 145 percent (without external assistance) in 2011, and to improve social indicators. The program also sought to gradually improve the primary balance from a deficit of nearly 1 percent of GDP in 2006 to a surplus of 8 percent of GDP in 2010.

Budget proposal 2008 was prepared with the underlying objectives of achieving a 4% rate of real growth (mainly due to privatization), enhancing revenues through new tax policy measures, and rationalizing expenditures with the aim to decrease the debt burden and achieve a balanced budget. The budget proposal for 2008 was projected based on actual revenues and expenditure performances of January – August 2007 and assumes the continued implementation of the Paris III Economic and Social Reform Program.

Underlying the projections for 2008 are the following macro economic assumptions of the Paris III medium-term framework: real growth is expected at 4% mainly deriving from the underlying assumption that privatization would take place in the second half of the year, and inflation was projected at a conservative 2%.¹

The 2008 budget proposal was sent to Parliament on November 24, 2007 through decree de-facto² implemented number 977. It was published in Official Gazette number 77 dated December 7, 2007.

Data in this brief note correspond to macro-economic data estimated at the time of the preparation of budget proposal 2008. Macro-economic data for 2007 have since been revised.

¹ The 2% inflation is a conservative estimate, however at the time of the budget preparation figures there was not yet full realization of the current inflationary pressures.

² Decree implemented de-facto refers to de-facto implementation of decrees issued by the Council of Ministers, even after the refusal of the President of the Republic to sign these decrees. 2006, 2007, and 2008 budget proposals have been approved using this method.

II. MAIN FIGURES OF THE 2008 BUDGET PROPOSAL

The main figures of the 2008 budget proposal are as follows:

A. Budget Revenues

Budget revenues (*excluding treasury revenues*) are anticipated to amount to LL 8,368 billion in the 2008 budget proposal, as compared to LL 7,675 billion as per the 2007 budget proposal. Underlying this increase of LL 693 billion, or 9 percent are the various revenue enhancing measures and revenue administration reforms planned in the Economic Reform Program presented at the Paris III conference. Including treasury, anticipated revenues are expected to amount to LL 8,810 billion in 2008 as compared to LL 8,100 billion in 2007 budget proposal. In terms of GDP³, anticipated total revenues are expected to remain constant at around 23 percent of GDP (the rise in tax receipts owing to the various tax policy measures planned for 2008 is outweighed by the drop in non tax revenues following the privatization of the telecommunication services).

B. Budget expenditures

Budget expenditures (*excluding treasury expenditures*) are expected to decrease to LL 11,475 billion in the 2008 budget proposal, from LL 11,840 billion in the 2007 budget proposal, representing a decrease of LL 365 billion, or 3 percent. As a percentage of GDP, budget expenditures will decline from 33 percent to 30 percent mainly due to an anticipated decline in interest expenditures. Anticipated total expenditures, including treasury, are also expected to decrease from 40 percent of GDP to 35 percent of GDP.

As a result, the **budget deficit** is expected to decline from 11.6 percent of GDP to 8.2 percent of GDP and the total fiscal deficit will improve from 17 percent of GDP to 12 percent of GDP. It is worth noting that Article 37 of the 2008 budget proposal stipulates that every project or proposal for laws or articles that either increase expenditures or decreases treasury revenues, must include provisions to generate the necessary resources to cover the additional expenditure (in the first case), and in the latter case to compensate for the drop in revenues, or to suggest a decrease in an equivalent amount of expenditures. Otherwise, the project or proposal for laws will not be implemented.

The **primary total balance** (*including treasury operations*) will improve from a deficit of LL 1,162 billion to a surplus of LL 147 billion.

³ Nominal GDP for 2007 and 2008 are estimated at LL 35,817 billion and LL 37,994 billion respectively, in accordance with 2004 national accounts, and estimations for real growth and inflation for the period 2005-2008.

Table 1. Comparison of 2007 and 2008 Budget Proposals

(LL billion)	2007 Budget Proposal	2008 Budget Proposal	Magnitude change over budget '07	Percentage change over budget '07
Budget Revenues	7,675	8,368	693	9%
1. Tax revenue	5,347	6,434	1,087	20%
2. Non-tax revenue	2,328	1,934	-394	-17%
Budget Expenditures	11,840	11,475	-365	-3%
1. Non-Interest	6,940	6,825	-115	-0.02%
2. Debt service bill	4,900	4,650	-250	-5%
Budget Balance	-4165	-3107	1,058	-25%
Primary Budget Balance	735	1,543	808	110%

Source: Ministry of Finance

III. MAIN CHANGES IN THE BUDGET PROPOSAL 2008 AND UNDERLYING REASONS

A. Budget revenues

Budget proposal 2008 revenue figure accounts for (i) LL 6,434 billion of tax revenues, LL 1,087 billion, or 20 percent higher tax collection when compared to the collection level of budget proposal 2007 owing to a package of tax policy reform measures aimed at enhancing revenues and enlarging the tax base, and (ii) LL 1,934 billion of non-tax revenues, representing almost LL 400 billion or 17 percent lower receipts when compared to budget proposal 2007, explained by the loss of revenues from the telecommunication sector post privatization.

A. 1. Tax revenues

Tax revenues are expected to amount to LL 6,434 billion in the 2008 budget proposal, up from LL 5,347 billion for the 2007 budget proposal, representing an increase of LL 1,087 billion. Behind this 20 percent rise in tax receipts stand the following developments:

a) Tax on income, profits, and capital gains

The **tax on income, profits, and capital gains** is expected to amount to LL 1,492 billion in the 2008 budget proposal, up from LL 1,200 billion in the 2007 budget proposal figure. This 24 percent increase is generated by nominal growth in all income tax receipts⁴, but mostly by the increase in tax on interest income rate from 5% to 7% starting the second

⁴ Please note that the impact of privatization on income tax on profits has not been factored in the projections.

quarter of 2008⁵, assuming the approval of budget proposal 2007 in which this tax rate modification is introduced.

b) **Tax on property**

The **tax on property** is projected at LL 535 billion in the 2008 budget proposal compared to LL 441 billion in the 2007 budget proposal. The additional revenues of LL 94 billion pertain mostly to two factors: (i) the Seashore Law coming into effect in QII 2008, namely the yearly rent, which was estimated at LL 45 billion, (revenues in budget proposal 2008 account for the ratification by Parliament and the implementation of the Seashore Law, a yearly rent and a lump-sum settlement amount for past years' private development of the seashore line, also scheduled for the second quarter of 2008), and (ii) the continuous enhancement in revenues owing to the update of the built property database through improved information systems, a process that started in 2007.

c) **Domestic taxes on goods and services**

Domestic taxes on goods and services are expected to amount to LL 3,579 billion, up from LL 2,942 billion in the budget proposal 2007, representing LL 637 billion additional revenues, or nearly 22 percent. The main developments are the following:

1. **Excise taxes** are expected to rise LL 1,011 billion in 2008 mostly coming from tobacco in the amount of LL 223 billion, from cars in the amount of LL 280 billion, and from gasoline in the amount of LL 501 billion. This latter accounts for uncapping domestic retail prices of gasoline as of the beginning of 2008 and setting an excise rate floor at LL 300 per liter.⁶
2. The **VAT**⁷ is projected to yield LL 2,340 billion in 2008, accounting mostly for the 2% additional VAT rate starting in QII 2008 assuming the approval of budget proposal 2007, and for the nominal growth in the economy underlying the 2008 projections.⁸

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

Taxes on international trade (custom duties) are anticipated to reach LL 540 billion in the 2008 budget proposal, based on an effective customs rate of around 4% (for non oil imports).⁹

⁵ The revenue projection for interest tax assumes dollarization at similar levels as in 2007 at 74%, with growth in deposits projected at a conservative 5%, and the average LL deposit rate and the average \$ deposit rate estimated at 7.7% and 5.5% respectively.

⁶ The projected revenue figure from gasoline further assumes an import price of LL 17,500 per 20 liters (an average import price that prevailed during the April-August 2007 period), and an import volume of 1.66 billion liters.

⁷ As per the Government economic reform program presented at Paris III, the 2007 Budget Proposal accounts for an increase in the VAT tax rate from 10% to 12% as of 1/1/2008 under Article 21. However, given the ongoing parliamentary deadlock, the tax hike has been postponed until QII 2008.

⁸ Note that the VAT revenue figure in 2008 further accounts for 2% additional VAT receipts to the treasury from the telecommunication operators above the 10% currently transferred to Municipalities. Further note that the impact of privatization on VAT has not been factored into the figures.

⁹ After a downturn in imports witnessed in the last couple of years (2005-2006) non oil imports are expected to go back to their 2004 levels as a share of GDP.

e) **Other tax revenue**

Other tax revenues are expected to amount to LL 288 billion, up from LL 271 billion for the 2007 budget proposal reflecting the expected nominal growth in the economy for 2008.

Table 2. Budget Revenues in the 2008 Budget Proposal vs. the 2007 Budget Proposal

(LL billion)	2007 Budget Proposal	2008 Budget Proposal	Change over '07	Percent change over '07
Taxes on income, profits and capital gains	1,200	1,492	292	24%
Taxes on property	441	535	94	21%
Domestic taxes on goods and services, of which	2,942	3,579	637	22%
Excises	943	1,011	68	7%
VAT	1805	2,340	535	30%
Taxes on international trade and transactions (custom duties)	493	540	47	10%
Other tax revenues	271	288	17	6%
Total Tax Revenues	5,347	6,434	1,087	20%
Income from Public Enterprises	1,843	1,311	-532	-29%
Administrative fees and charges	393	426	33	8%
Fines and confiscations	4	5	1	25%
Other non-tax revenues	88	192	104	118%
Total Non-Tax Revenues	2,328	1,934	-394	-17%
Budget Revenues	7,675	8,368	693	9%

Source: Ministry of Finance

A.2. Non-tax revenues

The 2008 budget proposal forecasts **non-tax revenues** to total LL 1,934 billion, a 17 percent reduction from the LL 2,328 billion outlined in the 2007 budget proposal.

a) **Income from public enterprises**

Income from public enterprises is expected to total LL 1,311 billion, LL 532 billion less than forecasted in the 2007 budget proposal, reflecting the loss in telecommunication revenues post-privatization in the second half of the year of the two mobile licenses and of LibanTelecom. The privatization scheme underlying these projections considers that the government will retain 10 percent of the gross revenues of the telecommunication mobile operators, and of 60 percent of LibanTelecom (the current fixed line operator to which a third mobile license is awarded). This figure assumes an LL 80 billion settlement with Casino du Liban, for past dues as agreed upon with Casino management as well as

the continued implementation of a new arrangement stipulating the government's share of the Casino's revenues increase to 40 percent.¹⁰

b) **Administrative fees and charges**

Administrative fees and charges are projected to amount to LL 426 billion, 8 percent higher than those forecasted in budget proposal 2007.

c) **Fines and confiscations**

Fines and confiscations are predicted to amount to LL 5 billion in budget proposal 2008 as compared to LL 4 billion in budget proposal 2007.

d) **Other non tax revenues**

In budget proposal 2008, **other non tax revenues** are expected to reach LL 192 billion, compared to a LL 88 billion in budget proposal 2007, accounting for the settlement amount pertaining to the Seashore Law to enter into effect as of the second quarter of the year.¹¹

**Box 1. Translation of Selected Legal Articles
Pertaining to the Main Tax Measures**

Article 27: Exempting the inheritee(s) of Lebanese military and civil persons deceased during the fighting against Fath El Islam armed forces from the inheritance tax (*as per Decree # 146 dated 12/06/1959 and its subsequent modifications*), as of May 20th, 2007 and until the publication of this Budget Law.

Article 28: Imposition of the lump-sum professional tax (*as per Article 29 of Law 173 dated 14/02/2000, and updates as per Law 326 dated 28/06/2001 and Law 392 dated 08/02/2002 and Law 583 dated 23/04/2004*) effective beginning 2009, to be phased out with the introduction and the implementation of the Global Income Tax. As a reminder, Law 173 dated February 2000 called for the imposition of a new lump-sum fee on all income tax taxpayers, namely corporations, partnerships, individuals and professionals, who undertake a commercial, an industrial activity or a liberal profession. This yearly fixed fee (varying between LL 50,000 and LL 2,000,000 depending on the taxpayers' mode of filing for income tax) is due independently from the taxpayers' financial position. Only those exempt from income tax (as per Law 144 dated 12/8/1959) are also exempt from paying this fee. The implementation of this professional tax has been postponed over the years, and is now effective beginning 2009 as per budget proposal 2008.

Article 32: Waiving 85% of the penalty amount due on mechanic fees (road-usage) for 2006 and previous years, given that the fees are settled within a 3 months period effective with the publication of the Budget 2008 Law.

¹⁰ Note that this figure does not account for an estimation of likely transfers from BDL as per Article 113 of the Code of Money and Credit.

¹¹ The overall settlement amount for past private usage of the seashore coast line was estimated at LL 134 billion and is assumed to be paid evenly over a year, starting as of the second quarter of 2008.

B. Budget Expenditures

In line with major budget reforms initiated in 2007, budget proposal 2008 adopts a top-down budgetary preparation process that is part of a broader Medium-Term Expenditure Framework. The 2008 budget circular communicated guidelines for the adoption of such a framework, and specified the following: (i) reducing to a minimum official travel expenses and revisiting travel allocations, (ii) reducing waste related to gasoline consumption and communication costs in the public sector, (iii) containing the wage bill through putting hiring freeze into effect, stipulating the need for Council of Ministers decision for any urgent hiring, and (iv) asking spending agencies to reduce by 5 percent their various expenses and to come up with proposals for potential saving areas.

As proposed in 2007, budget proposal 2008 enlarges the scope of budget coverage to include figures and financial operations for a number of institutions that were not previously incorporated, including the Higher Council for Relief (HRC), and the Council for Development and Reconstruction (CDR).

Budget expenditures in the 2008 budget proposal are expected to amount to LL 11,475 billion compared to LL 11,840 billion in the 2007 budget proposal, decreasing by LL 365 billion, or 3 percent. The composition of budget expenditure in 2008 budget proposal is as follows (total budget expenditures excluding the loans to EDL):

1. Around 36 percent of budget expenditures are attributed to [personnel costs](#) (salaries and wages, transfers for personnel cost, retirement and end of service), which is almost the same share reported in 2007.
2. 44 percent of budget expenditures are attributed to [debt service spending](#).
3. This leaves 20 percent of expenditures for capital spending and other current.

Table 3. Economic Classification of Expenditures in the 2008 Budget Proposal versus 2007 Budget Proposal

Code	(LL billion)	2007 Budget Proposal	2008 Budget Proposal	Magnitude change over budget '07	Percentage change over budget '07
11	Materials and supplies	315	350	35	11%
12	External Services	120	129	9	8%
13	Salaries and Wages	2,588	2,524	-64	-3%
14	Subsidies and Transfers	1,664	1,733	69	0%
16	Other Expenses	291	300	9	3%
17	Interest Payments and Financial	4,900	4,650	-250	-5%
18	Unallocated General Reserves	162	162	0	0
	Total current expenditures (including debt service)	10,039	9,848	-191	-0.02%
	Total current expenditures (excluding debt service)	5,139	5,198	59	0.01%
221	Acquisitions of Land	0	1	1	
222	Acquisitions of Buildings	1	4	3	
223	Acquisitions for the Construction of Roads, Ports, and Airports	7	4	-3	
224	Acquisitions for the Construction of Water and Electricity Networks	1	2	1	
225	Equipment	45	70	25	56 %
226	Construction in Progress	412	370	-42	-10 %
227	Maintenance	92	101	9	10 %
228	Other Expenditures Related to Fixed Capital Assets	44	66	22	50 %
229	Total Capital Expenditures	601	617	16	3 %
252	Loans to EDL	1,200	1,010	-190	-16 %
	Grand Total	11,840	11,475	-365	-3 %

Source: Ministry of Finance

B.1. Main expenditure items

The main expenditures in budget proposal 2008 are detailed below, in accordance with the economic classification of expenditures:

a) **Materials and supplies**

Materials and supplies are expected to increase from a level of LL 315 billion in the 2007 budget proposal to LL 350 billion in the 2008 budget proposal. A part of this budget will be used to regularize treasury advances given in previous years. In fact, the expenditures that were paid in previous years through treasury advances, for which no budget appropriations were allocated, should be settled through an appropriation in the budget. Materials and supplies are kept at a higher level primarily due to:

1. The ascending trend in fuel prices
2. A higher budget allocation for medication and medical supplies mainly due to the appreciation of the Euro and to the rise in the number of beneficiaries as a result of the additional recruits in 2006, mainly for the armed forces.

b) **External services**

External services include rents, postal services, insurance, advertisement & public relations.

Total expenditures in this item are projected at LL 129 billion, compared to LL 120 billion in the 2007 budget proposal and exhibiting an increase of LL 9 billion, or 8 percent increase.

c) **Personnel costs**

Wages and salaries and related benefits (Article 13) are assumed to decrease from LL 2,588 billion in the 2007 budget proposal to LL 2,524 billion in the 2008 budget proposal, i.e. by LL 64 billion, or 2 percent. This decrease in spending on wages, salaries, and related benefits is attributed to the higher spending in 2007 budget proposal accounting for the bonus provided to the armed forces following the 2006 July War (an additional monthly salary was provided for the armed forces as a bonus). This is no longer valid for the 2008 budget proposal. The other components of this item considered as benefits did not report a major change when compared with budget 2007 proposal.

As to total **personnel costs** which include, in addition to the wages, salaries, and related benefits, **transfers** for personnel cost and **retirement and end of service compensations**, they decreased by around LL 20 billion from LL 3,803 billion in budget proposal 2007 to LL 3,783 billion. Table 4 details the allocated spending on personnel in the 2008 budget proposal as compared to the 2007 budget proposal.

Table 4. Personnel Cost Details in the 2008 Budget Proposal versus 2007 Budget Proposal

(LL billion)	2007 Budget Proposal	2008 Budget Proposal	Magnitude of change over '06 budget	Percentage change over '06 budget
Personnel Cost	3,803	3,783	-20	-1%
1. Article 13: Wages, salaries, and related	2,588	2,524	-64	-2%
2. Transfers for personnel cost	215	219	4	0%
-Transfers to Council of the South	6	6	0	0%
-Transfers to CDR	22	22	0	0%
- Transfers to Displaced Fund	6	6	0	0%
-Transfers to Lebanese University	171	175	4	0.02%
-Transfers to the educational center of	10	10	0	0%
3. Retirement and end of service	1,000	1,040	40	4%
- Retirement wages	800	840	40	5%
- End of service indemnities	200	200	0	0%

Source: Ministry of Finance

d) **Subsidies and transfers**

Subsidies and transfers are expected to amount to LL 1,733 billion, up from LL 1,664 billion in the 2007 budget proposal, representing an increase of LL 69 billion or by 4 percent. The main changes in subsidies and transfers are as follows:

1. This item includes **retirement wages** which increased from LL 800 billion in budget 2007 proposal to LL 840 billion in budget 2008 proposal, increasing by LL 40 billion representing a 5 percent increase. However, the **end of service indemnities** are projected to be maintained at the same level as 2007, i.e. at LL 200 billion (retirement and end-of-service indemnities are included in personnel cost in table 4).
2. Around LL 4 billion increase in **transfers to Lebanese University teachers**, representing around 2 percent increase (already included in the item personnel cost in table 4).
3. Contributions to the **Higher Council for Privatization** increased by LL 10.85 billion, from LL 8.35 billion in budget proposal 2007 to LL 19.20 billion in budget proposal 2008 to accommodate for the work required for the privatization process.

e) **Other current expenditures**

Other current expenditures are expected to amount to LL 300 billion, compared to 291 LL billion in budget 2007 proposal, exhibiting an increase of LL 9 billion (3 percent).

f) **Interest payments**

A total of LL 4,650 billion was provisioned for debt servicing in 2008 budget proposal, of which LL 2,478 billion towards interest payments of domestic debt, and LL 2,172 billion for foreign debt servicing. The allocation for debt servicing in budget proposal 2007 stood at

LL 4,900 billion. However, for comparative purposes, it must be noted that beginning 2008, a new budget accounting methodology for interest payments is in place whereby Concessional loan principal payments are excluded from the 2008 debt service, unlike previous years. As of 2008, the recording of interest payments will be fully in line with the 1986 GFS methodology. Based on this methodology, budget allocation for interest payments for 2007 would be equal to LL 4,600 billion compared to LL 4,650 billion for 2008, increasing by LL 50 billion. This increase stems from higher foreign currency debt interest payments of LL 112 billion offset by a decrease of LL 62 billion on interest payments on domestic currency.

Higher interest payments on foreign currency debt pertain to a projected stock of foreign currency debt at the end of 2007¹² at US\$ 21 billion compared to US\$ 20.4 billion by the end 2006. On the other hand, lower interest payments on domestic debt are the result of a lower stock of debt by the end of 2007 compared to 2006 mainly due to the gold re-valuation transaction that took place with Banque du Liban in July 2007.

Table 5: Interest Payments in the 2008 Budget Proposal versus 2007 Budget Proposal

<i>(LL billion)</i>	<i>Allocation for Budget 2007 Including concessional loan principal</i>	<i>Allocation for Budget 2008 Excluding concessional loan principal</i>
Total Interest payments	4,900	4,650
Domestic currency Debt	2,540	2,478
Foreign currency Debt	2,360	2,172
Concessional loans - interest payments (excluding EDL)	115	180
Concessional loans – principal payments (excluding EDL and AFD PII Loan)	300	Not accounted for 1/
Eurobond and Special FX T-bills coupons	1,945	1,992

Source: DMFAS projection, Ministry of Finance calculation

1/ Based on the new methodology for accounting for interest payments in 2008, the payment of principal of C-loans are included in the debt accounts similarly to other principal repayments.

Debt service projections for 2008 were based on the assumption of an 8.03 percent weighted average interest rate on domestic currency treasury bills and notes in 2008 (with the 2008 Libor estimated at 4.61 percent), and a weighted average of 8.29 percent for interest rates on Eurobonds in 2008 compared to a 5 year UST rate of 4.25 percent.¹³ It was also assumed that the privatization proceeds would come in the second half of 2008 and that part of the Paris III loans would be disbursed.

g) **Capital expenditures**

Capital expenditure are expected to modestly increase from LL 601 billion in budget proposal 2007 to LL 617 billion in budget proposal 2008, i.e. by LL 16 billion. This level of capital spending takes into consideration the ceiling set in the medium-term fiscal framework. Capital spending in the 2008 budget proposal, as in budget proposal 2007, does not account

¹² It is worth noting that the interest payments of 2008 will be mostly affected by the stock of debt by the end of 2007 and the first half of 2008.

¹³The Libor and 5 year UST rates for 2008 are based on average forward rates published by Credit Suisse First Boston (CSFB).

for the transfers to the Council of the South and the Fund for the Displaced, as these transfers are covered by a separate law (Law # 362 dated 16/08/2001 which permits the government to issue bonds with the total amount of US\$ 500 million to settle the entitlement of the two institutions). In preparation for closing these funds by end-2009, as part of the reform program pursued by the government, transfers to these funds started taking place in 2007 through separate treasury transfers to be covered by t-bills or a Eurobond issuance.

h) **New provision**

Article 20 of the 2008 budget law makes provisions for LL 81 billion towards the expenses of the International Court set up in connection with Prime Minister Hariri's assassination. The payment appropriation is allocated over three years as follows: LL 22 billion in 2008, LL 29.5 billion in 2009, and LL 29.5 billion in 2010.

B. 2. Social Sector

Despite a policy of expenditure rationalization in the overall 2008 budget proposal, the share of the social sector has slightly improved. In fact, at LL 2,996 billion, social spending accounts for 26 percent of the 2008 budget proposal total expenditures, compared to its 25 percent share of the 2007 budget proposal.

Table 6. Main Social Expenditures: 2007 Budget Proposal versus 2008 Budget Proposal

<i>(LL billion)</i>	2007 Budget Proposal	2008 Budget Proposal	Magnitude of change over '07 budget	Percentage change over '07 budget
Health				
Hospitalization in the private sector (16.7.1)	252	258	6	2%
Purchase of Medication (11.4.1)	83	89	6	7%
Hospitalization of public sector employees (13.4.5+13.4.8)	121	126	5	4%
Maternity and sickness allowance (13.4.1)	28	34	6	21%
Other (Adm.12)	62	67	5	8%
Sub-Total	546	574	28	5%
Education				
Ministry of Education and Higher	931	883	-48	-5 %
Education allowance (13.4.6)	115	117	2	2%
Sub-Total	1,046	1,000	-46	-5%
Other Social Spending				
Ministry of Social Affairs (Adm. 24)	102	103	1	1%
Ministry of Displaced (Adm. 22)	6	6	0	0%
Transfers to employees' cooperative (13.6.1)	165	168	3	2%
Pensions (14.7)	1,000	1,040	40	4%
NSSF (Adm. 16/14.1.9)	105	105	0	0
Sub-Total	1,378	1,422	44	3%
Grand-Total	2,970	2,996	26	1%

Source: Ministry of Finance

C. Debt Articles

As in every year, 2008 budget proposal includes an article which sets the legal framework for the government's borrowing in domestic and foreign currencies.

The main points which are covered in Article 5 of 2008 budget proposal include the following:

- a) The permission for the government to issue **Treasury Bills in domestic currency**. This can take place in line with a ceiling which is governed by the actual fiscal deficit in addition to the rolled-forward budget allocations to year 2008 as well as any additional allocations. Domestic debt maturities can be long, medium, and short. As usual, Treasury Bills can be issued through decisions signed by the Minister of Finance.
- b) The permission for the government to issue **Treasury Bills / Bonds in foreign currency (Eurobonds)**. In the context of public debt refinancing, the government is permitted to issue Eurobonds within an overall ceiling of the equivalent of US\$ 2.5 billion. Borrowed funds should be used to refinance maturing foreign debt and / or to transform domestic debt to foreign currencies' debt. All Eurobonds should be repaid within a period of 30 years, counting from the starting date of their issuance. Interest rates on these Eurobonds should be set in accordance with rates prevailing on international capital markets of similarly rated bonds. In that context, the Minister of Finance issues decisions to set Eurobonds' interest rates.



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