

# Fiscal Performance Report for the Month of June 2000

The budget deficit for June 2000 amounted to LL315.4 billion, equivalent to 53% of total budget expenditure, whereas it amounted to 43% in May 2000. This monthly increase in the budget deficit is mainly due to the large decrease in the amount of transfers from the Directorate of Post and Telecommunications, in addition to the drop in customs revenues. On the other hand, expenditures have been steadily declining for the past three months, from LL818 billion in April to LL686 billion in May 2000 to LL596 billion in June 2000. For the first six months of 2000, total deficit (budget + treasury operations) amounted to 53% compared to 43% for the corresponding period of 1999.

## Summary of Budget Operations

To date, committed appropriations amounted to 68% of total available allocations (budget allocations plus carried-over allocations, less debt service) compared to 49% for the corresponding period of 1999. Fiscal performance has been characterized by the government's deliberate policy of accelerating budget execution in order to stimulate economic activity. As a result, during the first six months of 2000, the amount of disbursed expenditures was 38% of committed appropriations (excluding debt service) compared to 32% for the same period in 1999. However, whenever debt service is included in the calculation, this ratio would rise to 40%. In absolute amounts, budget execution in the first six months of 2000 (including debt servicing) increased by LL516 billion (equivalent to 17%) when compared to the first six months of 1999.

On the revenue side, performance was in line with the level achieved during the same period of the previous year, despite the decline in the level of customs revenues, property and income taxes. Therefore, revenue performance was mainly driven by the increase in the level of non-tax revenues by 17% over the same period of the previous year. The performance for the last quarter of 2000 is expected to change when the period for waivers of penalties for late filing expires in the end of September.

Cumulated budget deficit up to the end of June reached 46% against 37% for the same period of last year. This level of deficit is expected to decline in the last three months of the year for reasons explained above.

## Summary of Non-Budgetary Operations

Total deficit (budget + treasury operations) for the period January-June 2000 amounted to 53% of

total expenditures compared with 44% for the same period in 1999. Non-budgetary expenditures continued to rise due to two main reasons:

1. Transfers to cover EDL's ("Electricité du Liban") deficit amounting to LL150 billion for the first six months of 2000. This sum is equivalent to the entire transfers made to EDL during 1999.
2. The increase of LL103 billion in the repayment of arrears to the municipalities in the first six months of 2000 over the same period in 1999.

The increase in non-budgetary expenditures, compared with 1999, amounted to LL258 billion, thus making total expenditures (budget + treasury expenditures) increase by LL775 billion or 20% between the first six months of 2000 and the first six months of 1999.

## **Overall Financial Performance**

The fiscal outcome for the first six months of 2000 is the direct result of the developments in expenditures, as outlined above, and delays in incoming revenues. Maintaining the fiscal consolidation path will require an increase in revenues as well as expenditure containment. As previously mentioned, revenues in the last quarter of 2000 are expected to increase since the period for waivers of penalties for late filing expires in September. Moreover, finding a solution to EDL's financial difficulties has become increasingly crucial as well as reassessing the schedule for arrear repayments to municipalities. In addition, Parliament's ratification to the law on seashore property violations would also contribute to raising additional revenues.

The occasional rise in the budget deficit had no harmful effects on the economic situation and went without any negative repercussions on the balance of payments. The fiscal performance was accompanied by a decline in the rate of growth of public debt from 6% during the first six months of 1999 to 2.5% during the same period of 2000. This decline in the level of public debt was due two main reasons:

1. The Ministry of Finance's decision to abstain from accessing international capital markets until the end of June in order to use all the accumulated liquidity in account 36 since the September 1999 Eurobond issue.
2. Lebanese banks have not largely over-subscribed in treasury bills, contrary to the situation in the last quarter of 1999.

The coincident indicator of the Banque du Liban demonstrates that the economic situation has improved in May 2000 compared to May 1999. The coincident indicator increased from 182.8 in April to 190.3 in May 2000, compared with 182.4 in May 1999, representing an increase of 8 points over last year's figure.