

# Fiscal Performance Report for the Month of May 2000

Fiscal performance in May 2000 was characterized by a significant reduction in the budget deficit, which fell from 57.8% in April 2000 and 46.5% in March 2000 to 43.1%. At the same time, the combined deficit for budget and treasury operations in May 2000 declined also, falling from about 56% in each of April and March to 46.2%. At this level, the deficit still exceeded its level in May 1999, a period during which disbursements were restrained by the delay in approving the budget for 1999. It should be pointed out that the budget for 1999 was not approved until July 1999 while the budget for 2000 was approved in February 2000. This earlier approval of the budget for the year 2000 expedited the disbursement of capital expenditures. In addition, capital spending this year has been boosted by expenditures out of the previous year's appropriations, which could not be effected in 1999 due to the relatively short period between approval of the budget and the end of the year.

The improved fiscal performance in May 2000 contributed to a reduction in the cumulative deficit for the first five months of the year. Thus, the combined deficit for budget and treasury operations declined from 53.3% during the first four months of 2000 to 51.8% during the first five months of the year. At the same time, the budget deficit declined from 45.1% through the end of April to 44.7% through the end of May. While the proportion of the deficit remains high, the main factors contributing to these levels are, as noted in the fiscal reports for previous months, the continuing speed up in disbursing expenditure allocations from the current year's budget, and added burdens this year of having to finance the operating deficits of EDL (Electricité du Liban). Unlike the situation in 1999, the Ministry of Finance in the current year has had to service debts of EDL as well as financing fuel oil purchases by EDL. It is also worth noting that payments of government arrears to the municipalities also contributed to the increase in treasury outlays for the month.

Notwithstanding the increased cost of servicing public debt, the budget outcome for the first five months of 2000 resulted in a primary surplus (budget revenues less expenditures excluding debt service) equivalent to 12% of total expenditures.

## **Budget Revenue Performance:**

Highlights of revenue performance through May 2000 were:

1. Notwithstanding the decline in tax revenues, total budget revenues increased by 4.6% during the first five months of 2000, compared with the same period for the previous year. At the same time,

combined budget and treasury revenues increased by 5.2%. It should be noted in this context that budget revenues for the first five months of 1999 were lower than revenues in the corresponding period of 1998 by 2.3%, while combined budget and treasury revenues were 6% lower. The declining of 1999 stands in contrast to the increases realized this year.

2. Customs revenues were LL 172 billion in May 2000 compared to the monthly range of LL 134 billion-LL 139 billion realized between February and April 2000.

Revenues are expected to rise in the remaining months of the year, especially during the last three months, while the rate of spending out of the 2000 budget appropriations is expected to fall, with expenditures returning to a more normal level within authorized appropriations. Likewise, the rate of expenditure out of remaining 1999 capital expenditure appropriations (reflected in treasury operations) is expected to fall.

### **Overall Financing Results:**

The rate of growth of public debt has declined steadily in the first five months of the year compared with performance in corresponding period of 1999. This reflected the drawdown of the treasury deposits with the central bank, that had been accumulated in the last quarter of 1999 and in the first quarter of the current year. This buildup of deposits resulted from the delay in using the proceeds of the September 1999 Eurobond issue to retire part of the domestic debt, and, in part, responded to strong demand by Lebanese commercial banks for Treasury bills. Another reason behind the large increase in the public debt during 1999 was the settlement of the accumulated arrears owed by the public sector to the private sector through the issuance of treasury bills.

The reduction in the combined budget and treasury operations deficit together with the drawdown of government deposits contributed to a decline in the level of domestic debt by LL 223 billion between the end of April and the end of May. Thus, domestic debt during the first five months of 2000 increased by only 1.9%, from LL 25.4 billion at the end of December 1999 to LL 25.9 billion at the of May. External debt, on the other hand, decreased from LL 8,350 billion at the end of 1999 to LL 8,209 billion at the end of May, a period during which the Ministry of Finance avoided issuing new external debt, in anticipation of using the accumulated balances in the government account with the central bank. Reflecting these developments, total debt (domestic + external) increased by LL 347 billion only, a rate of increase equivalent to 1% of total debt. A proper evaluation of fiscal developments must take into account that the growth of the public debt in the current year has been held to 1% in comparison with the 4.9% growth in the corresponding period in 1999. This favorable development is a positive element taking into consideration the seasonally high levels of both budget and combined budget and treasury deficits.