

## General Overview

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Major one-off tax collections and expenditure corrections, along with a return from the deflationary environment in the previous two years contributed to alleviating government finances in the first half of 2017. As a result, the **total fiscal balance** recorded a deficit of LL 1,368 billion in the period of Jan-Jun 2017, narrowing by 53.1 percent from the same period in 2016, while the **primary surplus** widened to LL 2,457 billion from LL 747 billion (Table 1).

Revenues registered a 14 percent year-on-year increase, boosted by exceptional taxes on profits related to the Central Bank's 2016 quantitative easing policy, or financial engineering<sup>1</sup>. Expenditures decreased by 4 percent from the same period in 2016, mostly on a one-off correction in Treasury outlays<sup>2</sup> that was partially offset by higher debt service, personnel cost, and transfers to Electricité du Liban.

**Table 1: Summary of Fiscal Performance**

(LL billion)	2016 Jan-Jun	2017 Jan-Jun	% Change 2017/2016
<b>Total Budget and Treasury Receipts</b>	<b>8,045</b>	<b>9,136</b>	<b>13.6%</b>
<b>Total Budget and Treasury Payments, of which</b>	<b>10,964</b>	<b>10,504</b>	<b>-4.2%</b>
•Interest Payments	3,514	3,683	4.8%
•Concessional loans principal payment <sup>1</sup>	152	142	-6.0%
•Primary Expenditures <sup>2</sup>	7,298	6,679	-8.5%
<b>Total (Deficit)/Surplus</b>	<b>(2,919)</b>	<b>(1,368)</b>	<b>-53.1%</b>
<b>Primary (Deficit)/Surplus</b>	<b>747</b>	<b>2,457</b>	<b>229.1%</b>

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

<sup>1</sup> Includes only Principal repayments of concessional loans earmarked for project financing

<sup>2</sup> Primary expenditures exclude debt related payments (Interest payments and Concessional loans principal repayment)

## Revenues

**Total revenues** increased by 13.6 percent in the first half of 2017 to reach LL 9,136 billion, compared to LL 8,045 billion in the same period of 2016.

**Tax revenues** grew by LL 1,318 billion year-on-year, or 22.7 percent, mainly due to a significant increase of 49.6 percent in taxes on income, profits and capital gains.

**Taxes on income, profits and capital gains** were up by LL 1,021 billion year-on-year in the first half of 2017, relative to an increase of just LL 91 billion over the same period of 2016. Most importantly, income tax on profits was up by LL 934 billion as financial institutions transferred exceptional taxes on profits from the Central Bank's 2016 financial engineering.

**Property taxes** rose by 16.8 percent in the first half of 2017 relative to the same period of 2016 and compared to a weaker annual growth of 3.7 percent during the first half of 2016, as real estate registration fees increased by 19.3 percent in Jan-Jun 2017 relative to Jan-Jun 2016, outlining a 25 percent rise in the number of registered properties.

<sup>1</sup> For more information of the Central Bank's 2016 Financial Engineering, please refer to the Banque Du Liban (BDL) website under: <http://www.bdl.gov.lb/downloads/index/9/149/Guides-and-Booklets.html>

<sup>2</sup> In 2014, the Treasury collected an estimated LL 739 billion of telecom revenues on behalf of municipalities (of which LL 636 billion in arrears for the period 2010-2013). Of the total amount, LL 592 billion was transferred to municipalities in Jan-June 2016.

**Domestic taxes on goods and services** increased by LL 154 billion driven mainly by a LL 120 billion (7.6 percent) increase in the Value-added Tax, whereby private car registration fees and passenger departure tax grew by LL 9 billion and LL 19 billion, respectively.

**Taxes on international trade** increased by LL 25 billion driven by higher excises (LL 16 billion), as well as by higher customs duties (LL 9 billion). Moreover, **fiscal stamps** registered a rise of LL 11 billion or 4.7 percent over the covered period.

**Non-tax revenues** regressed by LL 148 billion to reach LL 1,561 billion in Jan-Jun 2017, mainly due to lower income from public institutions and government properties.

Moreover, **other non-tax revenues** (mostly retirement deductibles) dropped by LL 9 billion, while **administrative fees and charges** grew by LL 61 billion or 15.5 percent in Jan-Jun 2017 as a result of higher vehicle control fees (+LL 81 billion) and passport fees (+LL 3 billion), which were mostly offset by decreases in permit fees (-LL 6 billion) and administrative charges (-LL 5 billion).

**Treasury receipts** declined by LL 80 billion in the first half of 2017 to reach LL 455 billion by end-June 2017 relative to LL 535 billion by end-June 2016.

## **Expenditures**

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**Total expenditures** recorded a decrease of LL 460 billion (4.2 percent), standing at LL 10,504 billion in the first half of 2017.

**Current primary expenditures**<sup>3</sup> increased by LL 183 billion mainly as a result of higher **transfers to EDL** that grew by LL 334 billion and by increases in **personnel cost** by LL 175 billion, mainly driven by an increase in **salaries, wages and social benefits** of LL 98 billion and **retirement and end of service compensations** of LL 61 billion, which were almost counterbalanced by decreases in (i) **payments to hospitals** of LL 118 billion, (ii) **contribution to non-public sectors** of LL 73 billion and (iii) in **material and supplies** of LL 20 billion.

**Interest payments** rose by LL 169 billion to reach LL 3,683 billion in the first half of 2017, mainly driven by a LL 121 billion increase in domestic interest payments coupled with a LL 48 billion increase in foreign interest payments. **Foreign debt principal repayment** amounted to LL 142 billion in Jan-Jun 2017, down from the LL 152 billion registered in Jan-Jun 2016.

**Capital expenditures** increased by LL 62 billion in Jan-Jun 2017 to reach LL 582 billion, mainly due to a LL 97 billion increase in **construction in progress**, of which a rise of LL 121 billion in transfers to **CDR** that was counterbalanced by a drop of LL 23 billion in **other construction in progress** and a decrease of LL 10 billion in transfers to the **Ministry of Public Work and Transport**. Moreover, the increase in capital expenditures was partly offset by a LL 7 billion decrease in **other expenditures related to fixed capital assets** and a LL 29 billion decline in payments for **maintenance**.

**Treasury expenditures** witnessed a significant decrease of LL 796 billion to reach LL 448 billion in Jan-Jun 2017, mainly due to lower payments to Municipalities that regressed from LL 906 billion in Jan-Jun 2016 to LL 154 billion in Jan-Jun 2017. Moreover, VAT refund dropped by LL 28 billion to reach LL 98 billion in H1 2017.

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<sup>3</sup> Current primary expenditures represent current expenditures excluding interest payments and foreign debt principal repayment .

### Public Debt Developments

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**Gross public debt** reached LL 115,278 billion as of end-June 2017, increasing by LL 2,368 billion (2.1 percent) from end-2016, while net debt grew by 1.9 percent given that public sector deposits increased by 3.4 percent over the period.

**Local currency debt** was almost unchanged at LL 70,555 billion as of end-June 2017, compared to LL 70,528 billion as of end-2016. In detail, Local Currency Debt holdings by the Central Bank decreased by LL 784 billion, whereas Commercial Banks' holdings increased by LL 683 billion. The change in holdings by Commercial banks and the Central Bank do not reflect TB Auction results for the first half of 2017, suggesting large secondary market operations during the month of June. Local currency debt holdings by Public Entities increased by LL 130 billion to reach LL 8,848 billion at end-June 2017.

The stock of **foreign currency debt** grew by the equivalent of LL 2,341 billion to LL 44,723 billion as of end-June 2017, mostly owing to a LL 2,305 billion increase in the value of outstanding Eurobonds. Moreover, "Bilateral, multilateral and foreign private sector loans" rose by LL 379 billion, whereas Paris II and Paris III related bonds and loans decreased by LL 272 billion and LL 56 billion respectively, mainly due to amortized principal repayments.

## SECTION 1: REVENUE OUTCOME

**Table 2: Total Revenues**

(LL billion)	2016 Jan-Jun	2017 Jan-Jun	% Change 2017/2016
<b>Budget Revenues, of which</b>	<b>7,510</b>	<b>8,680</b>	<b>15.6%</b>
Tax Revenues	5,800	7,119	22.7%
Non-Tax Revenues	1,710	1,561	-8.7%
<b>Treasury Receipts</b>	<b>535</b>	<b>455</b>	<b>-14.9%</b>
<b>Total Revenues</b>	<b>8,045</b>	<b>9,136</b>	<b>13.6%</b>

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

**Table 3: Tax Revenues**

(LL billion)	2016 Jan-Jun	2017 Jan-Jun	% Change 2017/2016
<b>Tax Revenues:</b>	<b>5,800</b>	<b>7,119</b>	<b>22.7%</b>
<b>Taxes on Income, Profits, &amp; Capital Gains, of which</b>	<b>2,060</b>	<b>3,081</b>	<b>49.6%</b>
Income Tax on Profits	1,056	1,990	88.4%
Income Tax on Wages and Salaries	372	390	5.0%
Income Tax on Capital Gains & Dividends	194	218	12.7%
Tax on Interest Income (5%)	408	442	8.2%
Penalties on Income Tax	30	40	35.3%
<b>Taxes on Property, of which:</b>	<b>636</b>	<b>743</b>	<b>16.8%</b>
Built Property Tax	173	210	21.1%
Real Estate Registration Fees	374	446	19.3%
<b>Domestic Taxes on Goods &amp; Services, of which:</b>	<b>1,855</b>	<b>2,009</b>	<b>8.3%</b>
Value Added Tax	1,587	1,707	7.6%
Other Taxes on Goods and Services, of which:	183	211	15.6%
Private Car Registration Fees	115	124	7.9%
Passenger Departure Tax	67	86	29.0%
<b>Taxes on International Trade, of which:</b>	<b>1,016</b>	<b>1,041</b>	<b>2.5%</b>
Customs	348	357	2.6%
Excises, of which:	668	684	2.4%
Gasoline Excise	325	326	0.4%
Tobacco Excise	106	108	1.2%
Cars Excise	234	248	5.7%
<b>Other Tax Revenues (namely fiscal stamp fees)</b>	<b>234</b>	<b>245</b>	<b>4.7%</b>

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

**Table 4: Non-Tax Revenue**

(LL billion)	2016 Jan-Jun	2017 Jan-Jun	% Change 2017/2016
<b>Non-Tax Revenues</b>	<b>1,710</b>	<b>1,561</b>	<b>-8.7%</b>
<b>Income from Public Institutions and Government Properties, of which</b>	<b>1,194</b>	<b>998</b>	<b>-16.4%</b>
Income from Non-Financial Public Enterprises, of which:	1,059	853	-19.5%
<i>Revenues from Casino Du Liban</i>	52	59	13.0%
<i>Revenues from Port of Beirut</i>	65	143	119.6%
<i>Budget Surplus of National Lottery</i>	10	1	-90.3%
<i>Transfer from the Telecom Surplus</i>	931	649	-30.3%
Transfer from Public Financial Institution (BDL)	61	61	-0.6%
Property Income (namely rent of Rafic Hariri International Airport)	70	81	16.1%
Other Income from Public Institutions (interests)	4	3	-11.7%
<b>Administrative Fees &amp; Charges, of which:</b>	<b>393</b>	<b>454</b>	<b>15.5%</b>
Administrative Fees, of which:	314	387	23.4%
<i>Notary Fees</i>	18	18	0.6%
<i>Passport Fees/ Public Security</i>	133	136	2.2%
<i>Vehicle Control Fees</i>	107	188	75.4%
<i>Judicial Fees</i>	16	15	-4.5%
<i>Driving License Fees</i>	11	12	9.6%
Administrative Charges	22	17	-24.2%
Sales (Official Gazette and License Number)	1	2	16.3%
Permit Fees (mostly work permit fees)	47	41	-13.0%
Other Administrative Fees & Charges	9	8	-13.1%
<b>Penalties &amp; Confiscations</b>	<b>22</b>	<b>18</b>	<b>-19.8%</b>
<b>Other Non-Tax Revenues (mostly retirement deductibles)</b>	<b>101</b>	<b>92</b>	<b>-8.8%</b>

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

## SECTION 2: EXPENDITURE OUTCOME

**Table 5: Expenditure by Economic Classification**

(LL billion)	2016 Jan-Jun	2017 Jan-Jun	% Change 2017/2016
<b>1. Current Expenditures</b>	<b>8,971</b>	<b>9,314</b>	<b>3.8%</b>
1.a Personnel Cost, of which	3,628	3,803	4.8%
Salaries, Wages and Related Items	2,370	2,468	4.1%
Retirement and End of Service Compensations, of which:	1,066	1,127	5.7%
Retirement	892	935	4.8%
End of Service	174	192	10.5%
Transfers to Public Institutions to Cover Salaries	192	208	8.2%
1.b Interest Payments 1/, of which:	3,514	3,683	4.8%
Domestic Interest Payments	2,279	2,399	5.3%
Foreign Interest Payments	1,235	1,283	3.9%
1.c Accounting Adjustments 2/	43	0	-100%
1.d Foreign Debt Principal Repayment	152	142	-6.0%
1.e Materials and Supplies, of which:	189	169	-10.7%
Nutrition	39	35	-10.1%
Fuel Oil	17	17	-4.8%
Medicaments	97	84	-13.3%
1.f External Services	82	73	-10.6%
1.g Various Transfers, of which:	936	1,134	21.1%
EDL 3/	504	839	66.3%
NSSF	20	0	-100%
Higher Council of Relief	1	21	-
Contributions to non-public sectors	162	88	-45.4%
Transfers to Directorate General of Cereals and Beetroot 4/	0	15	-
1.h Other Current, of which:	342	235	-31.3%
Hospitals	278	160	-42.4%
Others(judgments & reconciliations, mission costs, other)	62	70	13.2%
1.i Interest Subsidy	85	75	-11.6%
<b>2. Capital Expenditures</b>	<b>521</b>	<b>582</b>	<b>11.9%</b>
2.a Acquisitions of Land, Buildings, for the Construction of Roads, Ports, Airports, and Water Networks	0	2	-
2.b Equipment	31	29	-5.2%
2.c Construction in Progress, of which:	336	433	29.0%
Displaced Fund	0	10	-
Council of the South	27	27	0.0%
CDR	151	272	80.2%
Ministry of Public Work and Transport	62	52	16.3%
Other of which:	91	67	-25.7%
Higher Council of Relief	2	6	175.0%
2.d Maintenance	105	76	-27.8%
2.e Other Expenditures Related to Fixed Capital Assets	49	42	-14.4%
<b>3. Budget Advances 5/</b>	<b>165</b>	<b>117</b>	<b>-29.1%</b>
<b>4. Customs Administration (exc. Salaries and Wages) 6/</b>	<b>61</b>	<b>43</b>	<b>-30.3%</b>
<b>5. Treasury Expenditures 7/</b>	<b>1,244</b>	<b>448</b>	<b>-64.0%</b>
Municipalities	906	154	-83.0%
Guarantees	37	55	48.2%
Deposits 8/	121	107	-11.4%
Other, of which:	179	132	-26.4%
VAT Refund	125	98	-22.0%
<b>6. Unclassified Expenditures</b>	<b>3</b>	<b>0</b>	<b>-100%</b>
<b>7. Total Expenditures (Excluding CDR Foreign Financed)</b>	<b>10,964</b>	<b>10,504</b>	<b>-4.2%</b>

Source: Statement of Account 36, Cashier Spending, Public Debt Department Figures, Fiscal Performance Gross Adjustment Figures

<sup>(1)</sup> For a detailed breakdown of interest payments, kindly refer to table 6.

<sup>(2)</sup> It is worth noting that amounts of LL41.4 billion in coupons and 1.9 billion in discounted interest payments due on 31/12/2015 were recorded in the accounting system on 2/1/2016.

<sup>(3)</sup> For a detailed breakdown of transfers to EDL, kindly refer to table 7. EDL has been reclassified to various transfers from "other treasury expenditures", following the reclassification of the 2009 Budget Proposal and in line with the Fiscal Performance.

<sup>(4)</sup> Transfers to Directorate General of Cereals and Beetroot include both administrative expenses and payments for wheat subsidy.

<sup>(5)</sup> Budget Advances were previously classified under "other". Given their growth, and in line with the Ministry of Finance's efforts to ensure transparency, they will be published in a separate line. They will be regularized at a later stage, and it is only after their regularization that they can be classified according to their economic nature in the budget system.

<sup>(6)</sup> Customs administrations include payments - excluding salaries and wages - made to customs and paid from customs cashiers. They can only be classified after Customs submit the supporting documents to the Directorate General of Finance.

<sup>(7)</sup> Starting December 2011, the Treasury expenditures section in the monthly, quarterly and yearly reports and its corresponding figures differ from the eponym section appearing in the Fiscal performance reports published by the Ministry of Finance because of the reclassification affecting certain payments from guarantees and treasury advances accounts which are manually reclassified in their budgetary economic classification articles.

<sup>(8)</sup> Deposit payments are payments made by the treasury to public administrations, institutions, municipalities, funds, from revenues it has collected on their behalf.

**Table 6: Details of Debt Service Transactions<sup>1</sup>**

(LL billion)	2016 Jan-Jun	2017 Jan-Jun	% Change 2017/2016
<b>Interest Payments</b>	<b>3,514</b>	<b>3,683</b>	<b>4.8%</b>
Local Currency Debt	2,279	2,399	5.3%
Foreign Currency Debt, of which:	1,235	1,283	3.9%
Eurobond Coupon Interest*	1,189	1,237	4.0%
Special bond Coupon Interest*	2	1	(12.3%)
Concessional Loans Interest Payments	45	45	0.7%
<b>Foreign Debt Principal Repayment</b>	<b>152</b>	<b>142</b>	<b>(6.0%)</b>

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

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

\* Includes general expenses related to the transaction

**Table 7: Transfers to EDL**

(LL billion)	2016 Jan-Jun	2017 Jan-Jun	% Change 2017/2016
<b>EDL, of which:</b>	<b>504</b>	<b>839</b>	<b>66.3%</b>
Debt Service	10	8	(23.5%)
Reimbursement for purchase of Natural Gas, Fuel & Gas Oil	494	831	68.2%

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



## SECTION 3: PUBLIC DEBT

**Table 8: Public Debt Outstanding by Holder as of End-June 2017**

(LL billion)	Dec-15	Dec-16	Jun-17	% Change Jun 17- Dec 16
<b>Gross Public Debt</b>	<b>106,031</b>	<b>112,910</b>	<b>115,278</b>	<b>2.1%</b>
<b>Local Currency Debt</b>	<b>65,195</b>	<b>70,528</b>	<b>70,555</b>	<b>0.04%</b>
* Accrued Interest Included in Debt	997	1,098	1,061	-3.4%
a. Central Bank (Including REPOs)	24,308	30,150	29,366	-2.6%
b. Commercial Banks	29,878	29,581	30,264	2.3%
c. Other Local Currency Debt (T-bills), of which:	11,009	10,797	10,925	1.2%
Public Entities	8,461	8,718	8,848	1.5%
Contractor bonds 1/	180	139	80	-42.4%
<b>Foreign Currency Debt 2/</b>	<b>40,836</b>	<b>42,382</b>	<b>44,723</b>	<b>5.5%</b>
a. Bilateral, Multilateral and Foreign Private Sector Loans	2,479	2,506	2,885	15.1%
b. Paris II Related Debt (Eurobonds and Loans) 3/	1,182	631	360	-43.0%
c. Paris III Related Debt (Eurobonds and Loans) 4/	810	660	605	-8.4%
d. Market-Issued Eurobonds	35,846	38,063	40,368	6.1%
e. Accrued Interest on Eurobonds	435	458	468	2.2%
f. Special T-bills in Foreign Currency 5/	68	63	37	-41.3%
<b>Public Sector Deposits</b>	<b>13,227</b>	<b>14,268</b>	<b>14,752</b>	<b>3.4%</b>
<b>Net Debt 6/</b>	<b>92,804</b>	<b>98,642</b>	<b>100,526</b>	<b>1.9%</b>
<b>Gross Market Debt 7/</b>	<b>68,799</b>	<b>70,303</b>	<b>73,294</b>	<b>4.3%</b>
<b>% of Total Debt</b>	<b>65%</b>	<b>62%</b>	<b>64%</b>	<b>2.1%</b>

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

(1) Contractor bonds issued in LBP. Contractor bonds issued in USD are listed under "Special T-bills in foreign currency".

(2) Figures for Dec 15- Dec 16 may differ from previously published data due to updated information regarding bilateral and multilateral loans in the DMFAS system.

(3) 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.

(4) Eurobonds Issued to Malaysia as part of its Paris III contribution, IBRD loan, UAE loan, first and second tranches of the French loan received in February 2008.

(5) Special Tbs in foreign currency (expropriation and contractor bonds).

(6) Net Debt is obtained by subtracting Public Sector Deposits from Gross Public Debt.

(7) Gross market debt equals gross debt less the portfolios of the BDL, NSSF, bilateral and multilateral loans, Paris II and Paris III related debt.





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