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## General Overview

The overall budget deficit widened significantly in the first quarter of 2018 as an increase in public sector wages following the 2017 salary scale adjustment along with higher capital spending and transfers to municipalities boosted government expenditures by one-third from Q1 2017, while revenues increased by only 1 percent as the buoying effect of revenue measures<sup>1</sup> enacted in 2017 was curbed by a drop in non-tax revenues.

The **total fiscal balance** recorded a deficit of LL 2,746 billion in Jan-Mar 2018, compared to a deficit of LL 1,079 billion in the same period of 2017, while the **primary balance** shifted to a deficit of LL 1,079 billion from a surplus of LL 471 billion in Jan-Mar 2017. The **Gross Public Debt** stock grew by 2.9 percent in the first three months of 2018 when compared to the debt level reached at end-2017.

**Table 1: Summary of Fiscal Performance**

(LL billion)	Jan-Mar 2017	Jan-Mar 2018	% Change 2018/2017
<b>Total Budget and Treasury Receipts</b>	<b>4,031</b>	<b>4,072</b>	<b>1.0%</b>
<b>Total Budget and Treasury Payments, of which</b>	<b>5,110</b>	<b>6,818</b>	<b>33.4%</b>
•Interest Payments	1,504	1,620	7.7%
•Concessional loans principal payment <sup>1</sup>	46	47	2.2%
•Primary Expenditures <sup>2</sup>	3,560	5,151	44.7%
<b>Total (Deficit)/Surplus</b>	<b>-1,079</b>	<b>-2,746</b>	<b>154.5%</b>
<b>Primary (Deficit)/Surplus</b>	<b>471</b>	<b>-1,079</b>	<b>-</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 41 billion (1.0 percent) from the previous year to hit LL 4,072 billion in the first quarter of 2018. The sharp fall in non-tax revenues was partially counterbalanced by the increase in tax revenues over the covered period.

**Tax revenues** rose by LL 213 billion (7.6 percent) to reach LL 2,998 billion, with significant increases in the 'Taxes on income, profits, and capital gains' and 'Domestic Taxes on Goods & Services' components. In fact, taxes on income, profits, and capital gains rose by LL 168 billion (23.1 percent) to reach LL 895 billion in the first three months of 2018, mainly driven by **taxes on interest income** that grew by LL 145 billion in the covered quarter. In addition, **income tax on wages and salaries** rose by LL 34 billion year-on-year to reach LL 242 billion during Jan-Mar 2018. On the other hand, **real estate registration fees** dropped by LL 37 billion (15.5 percent) in the first quarter, with the sale of properties dropping by 17 percent accompanied by a fall of 15 percent in the number of registered square meters. **Domestic taxes on goods and services** witnessed a significant rise of LL 74 billion (7.4 percent) to reach LL 1,074 billion over the covered

<sup>1</sup> New revenue measures were introduced by Law # 64 dated 20 October 2017, published in the official Gazette on 26 October 2017. For more details on Law #64, please refer to Box#1 in the 2017 Public Finance Annual Review on the MoF website: <https://www.finance.gov.lb>.

period, primarily due to an increase of LL 88 billion (10.2 percent) in **value added tax**. Furthermore, **taxes on international trade** dropped by LL 10 billion (1.9 percent) to reach LL 492 billion in Jan-Mar 2018, mainly driven by the decrease of LL 31 billion (9.3 percent) in **excise taxes**. In detail, tobacco exices fell by LL 31 billion (49.8 percent) as the value of tobacco-imported products decreased by LL 33 billion (46.4 percent) from the previous year. However, customs grew by LL 21 billion (12.3 percent) to reach LL 191 billion in Jan-March 2018.

**Non-tax revenues** regressed significantly by LL 445 billion year-on-year (43.2 percent) to reach LL 583 billion in Jan-Mar 2018. This was initiated by the sharp drop of LL 466 billion (66.8 percent) in **income from public institutions and government properties** as a result of a timing discrepancy **transfers from the Telecom surplus**, and by a drop of LL 27 billion in **property income**. In addition, **vehicle control fees** fell by LL 29 billion (20.3 percent) year-on-year to reach LL 115 billion in the first quarter of 2018.

**Treasury receipts** witnessed high growth of LL 273 billion year-on-year over the first quarter of the year, reaching LL 490 billion relative to LL 217 billion in the same period of 2017.

### **Expenditures**

**Total expenditures** increased in the first quarter to reach LL 6,818 billion due to the higher spending in all sub-components, mainly in current and treasury expenditures.

**Current primary expenditures<sup>2</sup>** grew by LL 889 billion (31.1 percent) annually to reach LL 3,744 billion in Jan-Mar 2018, driven by significant increases in **salaries, wages and social benefits** and in **retirement and end of service compensations** by LL 332 billion and LL 210 billion, respectively. In parallel, other increases include (i) **transfers to hospitals** that expanded by LL 79 billion (52.7 percent) to reach LL 228 billion, (ii) **contributions to non-public sectors** that rose by LL 24 billion (45.8 percent) to reach LL 76 billion, as well as (iii) **Transfers to EDL** that accelerated by LL 112 billion (26.6 percent) to LL 532 billion in Jan-Mar 2018. However, these increases were slightly counterbalanced by a LL 35 billion (41.9 percent) drop in **medicaments** to reach LL 48 billion in the covered period.

**Interest payments** rose from LL 1,504 billion Jan-Mar 2017 to LL 1,620 billion in Jan-Mar 2018, mainly as interest payments on domestic debt increased by LL 65 billion (5.6 percent) year-over-year. Also, the increase was initiated by the significant growth in **foreign interest payment** that expanded by LL 50 billion (14.7 percent) to reach LL 393 billion in the first three months of 2018.

**Capital expenditures** grew by LL 292 billion (81.5 percent) to reach LL 651 billion in Jan-Mar 2018, driven by a major rise of LL 223 billion (97.4 percent) in **construction in progress** expenses, associated with a LL 44 billion (64.0 percent) increase in **maintenance costs** to hit LL 113 billion. However, expenditures related to **CDR** have significantly dropped by LL 63 billion (53.9 percent) year-on-year in the first quarter of the year.

**Treasury expenditures** edged up by 377 billion year-on-year to reach LL 626 billion in Jan-Mar 2018 compared to LL 250 billion in the same period of 2017. This growth was mainly due to a LL 451 billion increase in transfers to **municipalities** that amounted to LL 524 billion during the first quarter of the year. On the other hand, **deposits** decreased by LL 67 billion annually to reach LL 17 billion in Jan-Mar 2018 and **guarantees** regressed by LL 17 billion year-on-year to LL 19 billion in the first quarter.

<sup>2</sup> Current primary expenditures represent current expenditures excluding interest payment and debt service.

## Public Debt

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**Gross public debt** increased by LL 3,525 billion (2.9 percent) from end-2017 to reach LL 123,423 billion at the end of March 2018. Net debt grew by LL 2,889 billion (2.8 percent) to LL 107,128 billion, as public sector deposits increased by LL 636 billion to LL 16,295 billion at end-March 2018.

**Local currency debt** reached LL 77,300 billion at the end of March 2018, higher by LL 3,223 billion (4.4 percent) from end-December 2017, mainly as a result of a LL 4,967 billion increase in the central bank's debt holdings in the covered period. On the other hand, local currency debt holdings by Commercial Banks fell by LL 1,848 billion (6.7 percent) to reach LL 25,908 billion at end-March. In parallel, insignificant changes were recorded in other local currency debt holdings, with TBs held by Public Entities increasing by LL 97 billion (1.1 percent) to LL 9,038 billion at the end of March.

The stock of **foreign currency debt** grew by LL 302 billion (0.7 percent) to reach LL 46,123 billion at end-March 2018, mostly as a result of higher interest accrued on Eurobonds. Paris II related debt and Special T-bills in foreign currency declined by LL 71 billion and by LL 27 billion (81.8 percent), respectively owing to amortized principal repayments.

## SECTION 1: REVENUE OUTCOME

**Table 2: Total Revenues**

(LL billion)	2017 Jan-Mar	2018 Jan-Mar	% Change 2018/2017
<b>Budget Revenues, of which</b>	<b>3,814</b>	<b>3,582</b>	<b>-6.1%</b>
Tax Revenues	2,786	2,998	7.6%
Non-Tax Revenues	1,028	583	-43.2%
<b>Treasury Receipts</b>	<b>217</b>	<b>490</b>	<b>-</b>
<b>Total Revenues</b>	<b>4,031</b>	<b>4,072</b>	<b>1.0%</b>

Source: MOF, DGF

**Table 3: Tax Revenues**

(LL billion)	2017 Jan-Mar	2018 Jan-Mar	% Change 2018/2017
<b>Tax Revenues:</b>	<b>2,786</b>	<b>2,998</b>	<b>7.6%</b>
<b>Taxes on Income, Profits, &amp; Capital Gains, of which</b>	<b>727</b>	<b>895</b>	<b>23.1%</b>
Income Tax on Profits	216	213	-1.5%
Income Tax on Wages and Salaries	208	242	16.3%
Income Tax on Capital Gains & Dividends	53	53	0.4%
Tax on Interest Income (7%)	221	367	65.6%
Penalties on Income Tax	28	20	-28.8%
<b>Taxes on Property, of which:</b>	<b>431</b>	<b>383</b>	<b>-11.2%</b>
Built Property Tax	156	153	-1.6%
Real Estate Registration Fees	237	200	-15.5%
<b>Domestic Taxes on Goods &amp; Services, of which:</b>	<b>1,000</b>	<b>1,074</b>	<b>7.4%</b>
Value Added Tax	868	957	10.2%
Other Taxes on Goods and Services, of which:	102	106	4.2%
Private Car Registration Fees	59	67	13.1%
Passenger Departure Tax	42	38	-8.8%
<b>Taxes on International Trade, of which:</b>	<b>501</b>	<b>492</b>	<b>-1.9%</b>
Customs	170	191	12.3%
Excises, of which:	331	300	-9.3%
Gasoline Excise	157	164	4.2%
Tobacco Excise	62	31	-49.8%
Cars Excise	111	102	-7.5%
<b>Other Tax Revenues (namely fiscal stamp fees)</b>	<b>127</b>	<b>155</b>	<b>22.5%</b>

Source: MOF, DGF

**Table 4: Non-Tax Revenue**

(LL billion)	2017 Jan-Mar	2018 Jan-Mar	% Change 2018/2017
<b>Non-Tax Revenues</b>	<b>1,028</b>	<b>583</b>	<b>-43.2%</b>
<b>Income from Public Institutions and Government Properties, of which</b>	<b>697</b>	<b>231</b>	<b>-66.8%</b>
Income from Non-Financial Public Enterprises, of which:	581	144	-75.3%
<i>Revenues from Casino Du Liban</i>	31	34	9.1%
<i>Revenues from Port of Beirut</i>	0	0	-
<i>Budget Surplus of National Lottery</i>	1	1	20.4%
<i>Transfer from the Telecom Surplus</i>	549	108	-80.2%
Transfer from Public Financial Institution (BDL)	61	60	-0.4%
Property Income (namely rent of Rafic Hariri International Airport)	53	26	-51.2%
Other Income from Public Institutions (interests)	2	1	-51.7%
<b>Administrative Fees &amp; Charges, of which:</b>	<b>280</b>	<b>277</b>	<b>-1.1%</b>
Administrative Fees, of which:	242	224	-7.3%
Notary Fees	9	18	103.8%
Passport Fees/ Public Security	66	69	5.2%
Vehicle Control Fees	144	115	-20.3%
Judicial Fees	7	7	-10.3%
Driving License Fees	6	6	-0.8%
Administrative Charges	13	13	1.8%
Sales (Official Gazette and License Number)	1	1	-6.4%
Permit Fees (mostly work permit fees)	21	26	25.1%
Other Administrative Fees & Charges	4	14	-
<b>Penalties &amp; Confiscations</b>	<b>9</b>	<b>9</b>	<b>1.2%</b>
<b>Other Non-Tax Revenues (mostly retirement deductibles)</b>	<b>42</b>	<b>66</b>	<b>58.0%</b>

Source: MOF, DGF

## SECTION 2: EXPENDITURE OUTCOME

**Table 5: Expenditure by Economic Classification**

(LL billion)	2017 Jan-Mar	2018 Jan-Mar	% Change 2018/2017
<b>1. Current Expenditures</b>	<b>4,405</b>	<b>5,411</b>	<b>22.8%</b>
1.a Personnel Cost, of which	1,841	2,385	29.5%
Salaries, Wages and Related Items	1,224	1,555	27.1%
Retirement and End of Service Compensations, of which:	514	723	40.8%
Retirement	464	541	16.6%
End of Service	50	182	-
Transfers to Public Institutions to Cover Salaries	104	106	2.1%
1.b Interest Payments 1/, of which:	1,504	1,620	7.7%
Domestic Interest Payments	1,161	1,226	5.6%
Foreign Interest Payments	343	393	14.7%
1.c Accounting Adjustments	0	0	-
1.d Foreign Debt Principal Repayment	46	47	2.2%
1.e Materials and Supplies, of which:	143	125	-12.7%
Nutrition	24	24	-0.3%
Fuel Oil	13	13	-6.7%
Medicaments	83	48	-41.9%
1.f External Services	39	87	-
1.g Various Transfers, of which:	606	818	35.1%
EDL 2/	420	532	26.6%
NSSF	0	0	-
Higher Council of Relief	1	0	-
Contributions to non-public sectors	52	76	45.8%
Transfers to Directorate General of Cereals and Beetroot 3/	15	17	12.2%
1.h Other Current, of which:	192	310	61.6%
Hospitals	149	228	52.7%
Others (judgments & reconciliations, mission costs, other)	40	78	97.7%
1.i Interest Subsidy	34	19	-44.2%
<b>2. Capital Expenditures</b>	<b>359</b>	<b>651</b>	<b>81.5%</b>
2.a Acquisitions of Land, Buildings, for the Construction of Roads, Ports, Airports, and Water Networks	0	30	-
2.b Equipment	21	30	39.3%
2.c Construction in Progress, of which:	229	451	97.4%
Displaced Fund	0	10	-
Council of the South	0	6	-
CDR	116	54	-53.9%
Ministry of Public Work and Transport	50	47	-4.7%
Other of which:	58	80	37.9%
Higher Council of Relief	6	11	92.7%
2.d Maintenance	69	113	64.0%
2.e Other Expenditures Related to Fixed Capital Assets	40	27	-31.0%
<b>3. Budget Advances 4/</b>	<b>71</b>	<b>91</b>	<b>28.1%</b>
<b>4. Customs Administration (exc. Salaries and Wages) 5/</b>	<b>25</b>	<b>38</b>	<b>52.3%</b>
<b>5. Treasury Expenditures 6/</b>	<b>250</b>	<b>626</b>	<b>-</b>
Municipalities	73	524	-
Guarantees	36	19	-47.7%
Deposits 7/	84	17	-79.5%
Other, of which:	56	66	17.7%
VAT Refund	47	58	24.5%
<b>6. Unclassified Expenditures</b>	<b>0</b>	<b>0</b>	<b>-</b>
<b>7. Total Expenditures (Excluding CDR Foreign Financed)</b>	<b>5,110</b>	<b>6,818</b>	<b>33.4%</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> 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>(3)</sup> Transfers to Directorate General of Cereals and Beetroot include both administrative expenses and payments for wheat subsidy.

<sup>(4)</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>(5)</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>(6)</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>(7)</sup> Deposit payments are payments made by the treasury to public administrations, institutions, municipalities, and funds, from revenues it has collected on their behalf.

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

(LL billion)	2017 Jan-Mar	2018 Jan-Mar	% Change 2018/2017
<b>Interest Payments</b>	<b>1,504</b>	<b>1,620</b>	<b>7.7%</b>
Local Currency Debt	1,161	1,226	5.6%
Foreign Currency Debt, of which:	343	393	14.7%
Eurobond Coupon Interest*	327	375	14.7%
Special bond Coupon Interest*	1	1	-48.2%
Concessional Loans Interest Payments	15	18	18.7%

Source: MOF, 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)	2017 Jan-Mar	2018 Jan-Mar	% Change 2018/2017
<b>EDL of which:</b>	<b>420</b>	<b>532</b>	<b>26.6%</b>
Debt Service	7	6	-16.7%
Reimbursement for purchase of Natural Gas, Fuel & Gas Oil	413	507	22.7%
Transfer Electricity Syria	-	19	-

Source: MOF, DGF

<sup>(1)</sup> Prior to 2005, transfers to EDL were recorded under the line item "treasury expenditures", because they were paid through treasury advances based on decrees issued by the Council of Ministers. Starting 2005, transfers to EDL were included in the yearly budget as an allocation classified as a loan. In 2009, the said budget item was reclassified to become a subsidy to the electricity company rather than a treasury. In the fiscal performance, transfers to cover EDL's gas and fuel oil costs remained classified under "treasury expenditures" until August 2010 when it was reclassified under "budget expenditures". This reclassification, however, was not reflected in the 2010 PFM issues to avoid a disruption in the series and in order to keep the figures published in the PFM throughout 2010 consistent and comparable. Since January 2011, EDL transfers have been reclassified under "budget expenditures".



## SECTION 3: PUBLIC DEBT

**Table 8: Public Debt Outstanding by Holder as of End-March 2018**

(LL billion)	Dec-16	Dec-17	Mar-18	% Change Mar 18 – Dec 17
<b>Gross Public Debt</b>	<b>112,910</b>	<b>119,898</b>	<b>123,423</b>	<b>2.9%</b>
<b>Local Currency Debt</b>	<b>70,528</b>	<b>74,077</b>	<b>77,300</b>	<b>4.4%</b>
* Accrued Interest Included in Debt	1,098	1,159	1,182	2.0%
a. Central Bank	30,150	35,580	40,547	14.0%
b. Commercial Banks (Including REPOs) 1/	29,581	27,756	25,908	-6.7%
c. Other Local Currency Debt (T-bills), of which:	10,797	10,741	10,845	1.0%
Public Entities	8,718	8,941	9,038	1.1%
Contractor bonds 2/	139	166	166	0.0%
<b>Foreign Currency Debt 3/</b>	<b>42,382</b>	<b>45,821</b>	<b>46,123</b>	<b>0.7%</b>
a. Bilateral, Multilateral and Foreign Private Sector Loans	2,506	2,979	3,034	1.9%
b. Paris II Related Debt (Eurobonds and Loans) 4/	631	86	15	-82.4%
c. Paris III Related Debt (Eurobonds and Loans) 5/	660	452	458	1.3%
d. Market-Issued Eurobonds	38,063	41,791	41,815	0.1%
e. Accrued Interest on Eurobonds	458	480	795	65.6%
f. Special T-bills in Foreign Currency 6/	63	33	6	-81.8%
<b>Public Sector Deposits</b>	<b>14,586</b>	<b>15,659</b>	<b>16,295</b>	<b>4.1%</b>
<b>Net Debt 7/</b>	<b>98,324</b>	<b>104,239</b>	<b>107,128</b>	<b>2.8%</b>
<b>Gross Market Debt 8/</b>	<b>70,303</b>	<b>71,944</b>	<b>70,428</b>	<b>-2.1%</b>
<b>% of Total Debt</b>	<b>62%</b>	<b>60%</b>	<b>57%</b>	<b>-4.9%</b>

Source: MOF, DGF

<sup>(1)</sup> Since August 2017 REPOs are removed from central bank and added to commercial banks.

<sup>(2)</sup> Contractor bonds issued in LBP. Contractor bonds issued in USD are listed under "Special T-bills in foreign currency".

<sup>(3)</sup> Figures for Dec 16- Dec 17 may differ from previously published data due to updated information regarding bilateral and multilateral loans in the DMFAS system.

<sup>(4)</sup> 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.

<sup>(5)</sup> Eurobonds Issued to Malaysia as part of its Paris III contribution, IBRD loan, UAE loan, the first tranche of the French loan received in February 2008 and the second tranche received in October 2012.

<sup>(6)</sup> Special Tbs in foreign currency (expropriation and contractor bonds).

<sup>(7)</sup> Net Debt is obtained by subtracting Public Sector Deposits from Gross Public Debt.

<sup>(8)</sup> 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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