

General Overview

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Public finances registered a significant improvement in the first five months of 2017 following a correction in primary expenditures from the same period in 2016 and a jump in revenues boosted by income tax on profits. The **total fiscal balance** recorded a deficit of LL 411 billion, down by 84 percent from Jan-May 2016, and the **primary surplus** expanded to LL 2,773 billion from LL 591 billion (Table 1). Income tax on profits surged by 91 percent year-on-year as financial institutions transferred their one-off profit taxes from the Central Bank's 2016 financial engineering¹. Along with improvements in other major tax and non-tax revenues, total government receipts climbed by 21 percent year-on-year. Expenditures decreased by LL 648 billion or almost 7 percent largely reflecting lower transfers to municipalities² and hospitals.

Table 1: Summary of Fiscal Performance

(LL billion)	2016 Jan-May	2017 Jan-May	% Change 2017/2016
Total Budget and Treasury Receipts	6,850	8,313	21.4%
Total Budget and Treasury Payments, of which	9,372	8,724	-6.9%
•Interest Payments	2,994	3,063	2.3%
•Concessional loans principal payment ¹	119	121	1.6%
•Primary Expenditures ²	6,259	5,540	-11.5%
Total (Deficit)/Surplus	(2,522)	(411)	-83.7%
Primary (Deficit)/Surplus	591	2,773	369.6%

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

¹ Includes only Principal repayments of concessional loans earmarked for project financing

² Primary expenditures exclude debt related payments (Interest payments and Concessional loans principal repayment)

Revenues

Total revenues increased by 21 percent in the first five months of 2017 to reach LL 8,313 billion, up from LL 6,850 billion in the same period of 2016.

Tax revenues rose by LL 1,319 billion (26 percent) to reach LL 6,444 billion in Jan-May 2017. Most importantly, **taxes on income, profits and capital gains** were up by LL 994 billion as income taxes on profits, of which the bulk is usually collected in the months of May and June, were boosted by the exceptional transfer of taxes on financial institutions' profits from the Central Bank's 2016 financial engineering.

Property taxes rose by LL 102 billion owing to a rise in both real estate registration fees and built property tax by LL 68 billion and LL 37 billion respectively. **Domestic taxes on goods and services** increased by LL 174 billion driven mainly by a LL 118 billion (8 percent) rise in VAT collections. In detail, internal and customs VAT rose by 6 percent and 10 percent respectively.

Taxes on international trade increased by LL 39 billion driven by higher excises (LL 27 billion), in particular cars excise increasing by LL 17 billion in Jan-May 2017. Moreover, **fiscal stamps** inched up by LL 10 billion over the period.

¹ 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>

² 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-May 2016.

Non-tax revenues increased by LL 133 billion to reach LL 1,460 billion in Jan-May 2017, due to increases in revenues from Port of Beirut and vehicle controls fees by LL 78 billion and LL 82 billion respectively. It is worth mentioning that transfers from the Telecom Surplus, historically the largest sub-item of non-tax revenues, dropped by a minor 1.6 percent over the period.

Treasury receipts rose by LL 12 billion (3 percent) to reach LL 409 billion by May 2017.

Expenditures

Total expenditures recorded a significant decrease of LL 648 billion (7 percent), standing at LL 8,724 billion in Jan-May 2017.

Current primary expenditures³ rose by LL 37 billion to LL 4,626 billion by end May 2017, as a result of increases in (i) transfers to EDL by LL 261 billion, (ii) **Retirement compensations** by LL 36 billion, and (iii) **end of service compensations** by LL 30 billion. These increases were partly counterbalanced by a significant drop of LL 116 billion in **transfers to hospitals** and LL 98 billion in contributions to non-public sectors.

Interest payments rose by LL 69 billion to reach LL 3,063 billion. **Foreign debt principal repayment** amounted to LL 121 billion in Jan-May 2017, up from the LL 119 billion registered in Jan-May 2016.

Capital expenditures increased by LL 32 billion in Jan-May 2017, primarily due to a LL 54 billion increase in **construction in progress** mainly driven by a LL 64 billion increase in transfers to CDR. The increase in capital expenditures was partially offset by a decrease in maintenance costs and other expenditures related to fixed capital assets by LL 18 billion and LL 6 billion respectively.

Treasury expenditures witnessed a major decrease of LL 718 billion to reach LL 339 billion in Jan-May 2017, mainly due to lower payments to Municipalities – from LL 830 billion in Jan-May 2016 to LL 111 billion in Jan-May 2017. This decrease was slightly counterbalanced by an increase of LL 20 billion in guarantees, LL 37 billion in deposits, and LL 18 billion in VAT refund.

Public Debt

Gross public debt reached LL 115,663 billion as of end-May 2017, increasing by LL 2,753 billion (2.4 percent) from end-2016; however, net debt increased at a slightly slower pace of 1.7 percent, as public sector deposits rose by 7.7 percent.

Local currency debt slightly increased to LL 70,919 billion in end-May 2017 up from LL 70,528 billion as of end-2016, mainly as a result of an increase in commercial banks' holdings by LL 2,839 billion which was offset by a decrease of LL 2,383 in local currency debt holdings by the central bank and LL 59 billion in contractor bonds issued. As a result, the share of local currency debt from total debt decreased to 61 percent from 62 percent.

The stock of **foreign currency debt** grew by the equivalent of LL 2,362 billion to LL 44,744 billion, mostly owing to a LL 2,303 billion increase in the value of outstanding Eurobonds. "Bilateral, multilateral and foreign private sector loans" rose by LL 313

³ Current primary expenditures represent current expenditures excluding interest payments and Foreign Debt Principal Repayment.

billion, whereas Paris II and Paris III related bonds and loans decreased by LL 83 billion and LL 59 billion respectively, mainly due to amortized principal repayments.

SECTION 1: REVENUE OUTCOME

Table 2: Total Revenues

(LL billion)	2016 Jan-May	2017 Jan-May	% Change 2017/2016
Budget Revenues, of which	6,453	7,905	22.5%
Tax Revenues	5,125	6,444	25.7%
Non-Tax Revenues	1,328	1,460	10.0%
Treasury Receipts	397	409	2.9%
Total Revenues	6,850	8,313	21.4%

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

Table 3: Tax Revenues

(LL billion)	2016 Jan-May	2017 Jan-May	% Change 2017/2016
Tax Revenues:	5,125	6,444	25.7%
Taxes on Income, Profits, & Capital Gains, of which	1,920	2,914	51.8%
Income Tax on Profits	1025	1961	91.4%
Income Tax on Wages and Salaries	367	384	4.8%
Income Tax on Capital Gains & Dividends	154	159	2.9%
Tax on Interest Income (5%)	348	375	7.6%
Penalties on Income Tax	25	35	38.4%
Taxes on Property, of which:	551	653	18.5%
Built Property Tax	161	198	23.3%
Real Estate Registration Fees	313	381	21.6%
Domestic Taxes on Goods & Services, of which:	1,614	1,788	10.8%
Value Added Tax	1,413	1,531	8.4%
Other Taxes on Goods and Services, of which:	146	181	23.6%
Private Car Registration Fees	92	101	10.2%
Passenger Departure Tax	54	79	46.7%
Taxes on International Trade, of which:	834	874	4.7%
Customs	286	299	4.4%
Excises, of which:	549	575	4.9%
Gasoline Excise	273	272	-0.4%
Tobacco Excise	84	95	12.0%
Cars Excise	189	206	9.2%
Other Tax Revenues (namely fiscal stamp fees)	206	215	4.8%

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

Table 4: Non-Tax Revenue

(LL billion)	2016 Jan-May	2017 Jan-May	% Change 2017/2016
Non-Tax Revenues	1,328	1,460	10.0%
Income from Public Institutions and Government Properties, of which	886	969	9.3%
Income from Non-Financial Public Enterprises, of which:	769	843	9.7%
<i>Revenues from Casino Du Liban</i>	44	50	13.6%
<i>Revenues from Port of Beirut</i>	65	143	119.6%
<i>Budget Surplus of National Lottery</i>	0	1	-
<i>Transfer from the Telecom Surplus</i>	660	649	-1.6%
Transfer from Public Financial Institution (BDL)	61	61	-0.6%
Property Income (namely rent of Rafic Hariri International Airport)	53	62	17.1%
Other Income from Public Institutions (interests)	3	3	-17.5%
Administrative Fees & Charges, of which:	335	400	19.2%
Administrative Fees, of which:	265	342	28.7%
<i>Notary Fees</i>	15	15	3.1%
<i>Passport Fees/ Public Security</i>	109	112	3.1%
<i>Vehicle Control Fees</i>	93	175	88.8%
<i>Judicial Fees</i>	14	13	-4.6%
<i>Driving License Fees</i>	9	10	10.7%
Administrative Charges	21	16	-24.2%
Sales (Official Gazette and License Number)	1	1	17.9%
Permit Fees (mostly work permit fees)	40	34	-14.5%
Other Administrative Fees & Charges	8	7	-15.1%
Penalties & Confiscations	19	15	-17.9%
Other Non-Tax Revenues (mostly retirement deductibles)	88	77	-12.5%

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

SECTION 2: EXPENDITURE OUTCOME

Table 5: Expenditure by Economic Classification

(LL billion)	2016 Jan-May	2017 Jan-May	% Change 2017/2016
1. Current Expenditures	7,702	7,810	1.4%
1.a Personnel Cost, of which	3,092	3,195	3.3%
Salaries, Wages and Related Items	2,047	2,083	1.7%
Retirement and End of Service Compensations, of which:	873	939	7.6%
Retirement	742	778	4.9%
End of Service	131	161	22.6%
Transfers to Public Institutions to Cover Salaries	172	174	0.9%
1.b Interest Payments 1/, of which:	2,994	3,063	2.3%
Domestic Interest Payments	1,887	1,902	0.8%
Foreign Interest Payments	1,106	1,161	5.0%
1.c Accounting Adjustments 2/	43	0	-100.0%
1.d Foreign Debt Principal Repayment	119	121	1.6%
1.e Materials and Supplies, of which:	159	156	-1.4%
Nutrition	28	28	2.7%
Fuel Oil	14	14	-4.6%
Medicaments	86	83	-3.3%
1.f External Services	68	63	-7.7%
1.g Various Transfers, of which:	837	927	10.8%
EDL 3/	433	694	60.2%
NSSF	20	0	-100.0%
Higher Council of Relief	1	21	-
Contributions to non-public sectors	157	59	-62.3%
Transfers to Directorate General of Cereals and Beetroot 4/	0	15	-
1.h Other Current, of which:	331	229	-30.7%
Hospitals	276	160	-42.0%
Others(judgments & reconciliations, mission costs, other)	53	66	25.0%
1.i Interest Subsidy	60	55	-7.9%
2. Capital Expenditures	403	435	7.9%
2.a Acquisitions of Land, Buildings, for the Construction of Roads, Ports, Airports, and Water Networks	0	2	-
2.b Equipment	30	28	-4.9%
2.c Construction in Progress, of which:	235	289	23.1%
Displaced Fund	0	10	-
Council of the South	11	13	22.6%
CDR	81	145	79.2%
Ministry of Public Work and Transport	52	51	-2.3%
Other of which:	87	65	-25.0%
Higher Council of Relief	2	6	175.0%
2.d Maintenance	91	74	-19.4%
2.e Other Expenditures Related to Fixed Capital Assets	47	42	-11.8%
3. Budget Advances 5/	151	102	-32.8%
4. Customs Administration (exc. Salaries and Wages) 6/	56	38	-31.5%
5. Treasury Expenditures 7/	1,057	339	-67.9%
Municipalities	830	111	-86.7%
Guarantees	28	48	69.3%
Deposits 8/	60	97	61.0%
Other, of which:	139	84	-39.7%
VAT Refund	99	80	-18.6%
6. Unclassified Expenditures	3	0	-100.0%
7. Total Expenditures (Excluding CDR Foreign Financed)	9,372	8,724	-6.9%

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

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

⁽²⁾ 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.

⁽³⁾ 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.

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

⁽⁵⁾ 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.

⁽⁶⁾ 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.

⁽⁷⁾ 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.

⁽⁸⁾ 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 Transactions¹

(LL billion)	2016 Jan-May	2017 Jan-May	% Change 2017/2016
Interest Payments	2,994	3,063	2.3%
Local Currency Debt	1,887	1,902	0.8%
Foreign Currency Debt, of which:	1,106	1,161	5.0%
Eurobond Coupon Interest*	1,066	1,123	5.3%
Special bond Coupon Interest*	1	1	-13.3%
Concessional Loans Interest Payments	39	37	-3.9%
Foreign Debt Principal Repayment	119	121	1.6%

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

¹ 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-May	2017 Jan-May	% Change 2017/2016
EDL, of which:	433	694	60.2%
Debt Service	9	7	-25.0%
Reimbursement for purchase of Natural Gas, Fuel & Gas Oil	423	686	62.1%

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

SECTION 3: PUBLIC DEBT

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

(LL billion)	Dec-15	Dec-16	May-17	% Change May 17-Dec 16
Gross Public Debt	106,031	112,910	115,663	2.4%
Local Currency Debt	65,195	70,528	70,919	0.6%
* Accrued Interest Included in Debt	997	1,098	1,324	20.6%
a. Central Bank (Including REPOs)	24,308	30,150	27,767	-7.9%
b. Commercial Banks	29,878	29,581	32,420	9.6%
c. Other Local Currency Debt (T-bills), of which:	11,009	10,797	10,732	-0.6%
Public Entities	8,461	8,718	8,659	-0.7%
Contractor bonds 1/	180	139	80	-42.4%
Foreign Currency Debt 2/	40,836	42,382	44,744	5.6%
a. Bilateral, Multilateral and Foreign Private Sector Loans	2,479	2,506	2,820	12.5%
b. Paris II Related Debt (Eurobonds and Loans) 3/	1,182	631	549	-13.1%
c. Paris III Related Debt (Eurobonds and Loans) 4/	810	660	601	-8.9%
d. Market-Issued Eurobonds	35,846	38,063	40,366	6.1%
e. Accrued Interest on Eurobonds	435	458	371	-19.0%
f. Special T-bills in Foreign Currency 5/	68	63	37	-41.3%
Public Sector Deposits	13,227	14,268	15,364	7.7%
Net Debt 6/	92,804	98,642	100,299	1.7%
Gross Market Debt 7/	68,799	70,303	75,348	7.2%
% of Total Debt	65%	62%	65%	4.6%

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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