

General Overview

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Exceptional transfers to municipalities¹ alongside higher interest payments and personnel cost, significantly increased government outlays during the first ten months of 2016, largely offsetting the drop in transfers to Electricité du Liban which were reduced for the second consecutive year by lower international oil prices. On the other hand, the low growth environment continued to impact tax revenues, while non-tax revenues registered a minor decline mostly due to lower transfers from the telecom surplus.

As a result, the **total fiscal balance** registered a deficit of LL 5,015 billion, widening by 28 percent from the same period in 2015, while the **primary surplus** declined by 51 percent to reach LL 861 billion (Table 1-a). Adjusting for the one-off transfer to municipalities in Jan-Oct 2016, results show a lower increase of 13 percent in the fiscal deficit to LL 4,423 billion, along with a 17 percent decrease in the primary surplus to LL 1,452 billion (Table 1-b)².

Table 1-a: Summary of Fiscal Performance

(LL billion)	2015 Jan-Oct	2016 Jan-Oct	% Change 2016/2015
Total Budget and Treasury Receipts	12,461	12,750	2.3%
Total Budget and Treasury Payments, of which:	16,377	17,765	8.5%
• Interest Payments	5,426	5,658	4.3%
• Concessional loans principal payment ¹	236	218	-7.7%
• Primary Expenditures ²	10,715	11,890	11.0%
Total (Deficit)/Surplus	(3,916)	(5,015)	28.1%
Primary (Deficit)/Surplus	1,746	861	-50.7%

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)

Table 1-b: Summary of Fiscal Performance - Including Adjustments¹

(LL billion)	2015 Jan-Oct	2016 Jan-Oct	% Change 2016/2015
Total Budget and Treasury Receipts	12,461	12,750	2.3%
Total Budget and Treasury Payments, of which:	16,377	17,173	4.9%
• Interest Payments	5,426	5,658	4.3%
• Concessional loans principal payment	236	218	-7.7%
• Primary Expenditures	10,715	11,298	5.4%
Total (Deficit)/Surplus	(3,916)	(4,423)	13.0%
Primary (Deficit)/Surplus	1,746	1,452	-16.8%

Source: MOF, DGF

¹ Excluding LL 592 billion in Treasury transfers to Municipalities from Total Budget and Treasury Payments for Jan-Oct 2016, and which pertain to Municipalities' share of telecommunication revenues

¹ 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-Oct 2016 and accounted as Treasury expenditures.

² Table 1-b does not represent actual government figures, but makes broad adjustments in extraordinary one-off payments and collections to more accurately reflect structural fiscal dynamics.

Revenues

Total revenues increased by 2 percent to reach LL 12,750 billion in Jan-Oct 2016, compared to LL 12,461 billion in the same period of 2015.

Tax revenues were up by LL 221 billion (2 percent), reaching LL 9,299 billion by end-October 2016.

Taxes on income, profits and capital gains rose by LL 121 billion (5 percent). Most of this increase could be attributed to higher taxes on interest income by LL 51 billion (8 percent), owing in turn to an increase in the value of interest earning instruments and to a lesser extent a modest rise in average interest rates.

Taxes on international trade increased by LL 53 billion driven by higher excises (LL 62 billion), which were slightly counterbalanced by an LL 8 billion drop in customs duties. Gasoline excises rose by LL 45 billion (9 percent) mirroring the increase in the volume of imported gasoline. In contrast, tobacco excises dropped by LL 11 billion (6 percent) owing mostly to a 10 percent decrease in the value of cigarettes imports, which has been historically the largest category of tobacco imports.

Domestic taxes on goods and services increased by LL 39 billion (1 percent) driven mainly by a LL 54 billion increase in the Value-added Tax along an LL 8 billion rise in Passenger Departure Tax, which were partly counterbalanced by lower transfers from Régie by LL 20 billion³.

Property taxes rose by LL 35 billion (4 percent) as of end-October 2016, mainly as real estate registration fees rose by LL 17 billion and built property taxes by LL 10 billion. Moreover, **fiscal stamps** dropped by LL 27 billion over the period.

Non-tax revenues decreased by LL 64 billion to reach LL 2,659 billion in Jan-Oct 2016 (2 percent), mainly driven by lower transfers from the Telecom Surplus.

Treasury receipts rose by LL 132 billion to reach LL 792 billion by end-October 2016.

Expenditures

Total expenditures recorded a significant increase of LL 1,389 billion (8 percent), standing at LL 17,765 billion in Jan-Oct 2016.

Current primary expenditures⁴ increased by LL 382 billion mainly as a result of increases in (i) **various transfers – excluding transfers to EDL** - by LL 313 billion mainly due to an increase in Lebanon's contribution to the International Monetary Fund by LL 194 billion, and a rise in contributions to the non-public sector by LL 62 billion, and (ii) **personnel cost** by LL 339 billion, mainly driven by an increase in **salaries, wages and social benefits** of LL 243 billion and **retirement and end of service compensations** of LL 86 billion. These increases were partly counterbalanced by a LL 384 billion drop in **transfers to EDL**.

Interest payments rose by LL 232 billion to reach LL 5,658 billion, mainly driven by higher domestic interest payments. **Foreign debt principal repayment** dropped by 8 percent to reach LL 218 billion in Jan-Oct 2016.

Capital expenditures increased by LL 171 billion in Jan-Oct 2016, chiefly due to (i) a LL 71 billion increase in transfers to **CDR**, (ii) LL 54 billion rise in transfers to the **Ministry of**

³ Transfers from Régie amounted to LL 141 billion in Jan-Oct 2015, compared to only LL 121 billion in Jan-Oct 2016.

⁴ Current primary expenditures represent current expenditures excluding interest payments and foreign debt principal repayment.

Public Work and Transport, and (iii) LL 48 billion higher payments for **maintenance**. A decrease of LL 51 billion in transfers to the Higher Council of Relief and of LL 22 billion in payments to the Council of the South partly offset increases in the above mentioned spending categories.

Treasury expenditures witnessed a significant increase of LL 492 billion to reach LL 1,650 billion in Jan-Oct 2016, mainly due to higher payments to Municipalities – from LL 603 billion in Jan-Oct 2015 to LL 1,046 billion in Jan-Oct 2016.

Public Debt Developments

Gross public debt reached LL 112,338 billion as of end-October 2016, increasing by LL 6,323 billion (6.0 percent) from end-2015, while net debt increased by only 4.6 percent as public sector deposits rose by 15.3 percent over the period.

Local currency debt increased by 5.2 percent to reach LL 68,586 billion as of end-October 2016, compared to LL 65,195 billion as of end-2015. In detail, local currency debt holdings by the Central Bank increased by LL 5,907 billion, whereas Commercial Banks' holdings decreased by LL 2,338 billion. Local currency debt holdings by Public Entities increased by LL 234 billion to reach LL 8,695 billion.

The stock of **foreign currency debt** grew by the equivalent of LL 2,932 billion to LL 43,752 billion, mostly owing to a LL 3,006 billion increase in the value of outstanding Eurobonds. Moreover, "Bilateral, multilateral and foreign private sector loans" rose by LL 88 billion, whereas Paris II and Paris III related bonds and loans decreased by LL 344 billion and LL 123 billion respectively, mainly due to amortized principal repayments.

SECTION 1: REVENUE OUTCOME

Table 2: Total Revenues

(LL billion)	2015 Jan-Oct	2016 Jan-Oct	% Change 2016/2015
Budget Revenues, of which:	11,801	11,958	1.3%
Tax Revenues	9,078	9,299	2.4%
Non-Tax Revenues	2,722	2,659	-2.3%
Treasury Receipts	660	792	20.0%
Total Revenues	12,461	12,750	2.3%

Source: MOF, DGF

Table 3: Tax Revenues

(LL billion)	2015 Jan-Oct	2016 Jan-Oct	% Change 2016/2015
Tax Revenues	9,078	9,299	2.4%
Taxes on Income, Profits, & Capital Gains, of which:	2,669	2,790	4.5%
Income Tax on Profits	1,075	1,103	2.6%
Income Tax on Wages and Salaries	656	690	5.1%
Income Tax on Capital Gains & Dividends	241	255	5.7%
Tax on Interest Income (5%)	642	693	8.0%
Penalties on Income Tax	55	49	-10.7%
Taxes on Property, of which:	957	992	3.6%
Built Property Tax	213	224	4.9%
Real Estate Registration Fees	616	633	2.8%
Domestic Taxes on Goods & Services, of which:	3,316	3,355	1.2%
Value Added Tax	2,838	2,893	1.9%
Other Taxes on Goods and Services, of which:	328	335	1.9%
Private Car Registration Fees	198	196	-0.9%
Passenger Departure Tax	129	137	6.5%
Taxes on International Trade, of which:	1,710	1,763	3.1%
Customs	597	589	-1.4%
Excises, of which:	1,112	1,174	5.5%
Gasoline Excise	527	572	8.6%
Tobacco Excise	204	192	-5.6%
Cars Excise	377	405	7.5%
Other Tax Revenues (namely fiscal stamp fees)	427	400	-6.3%

Source: MOF, DGF

Table 4: Non-Tax Revenues

(LL billion)	2015 Jan-Oct	2016 Jan-Oct	% Change 2016/2015
Non-Tax Revenues	2,722	2,659	-2.3%
Income from Public Institutions and Government Properties, of which:	1,940	1,842	-5.1%
Income from Non-Financial Public Enterprises, of which:	1,792	1,681	-6.2%
<i>Revenues from Casino Du Liban</i>	84	85	1.8%
<i>Revenues from Port of Beirut</i>	60	65	8.3%
<i>Budget Surplus of National Lottery</i>	41	40	-2.0%
<i>Transfer from the Telecom Surplus</i>	1,605	1,489	-7.3%
Transfer from Public Financial Institution (BDL)	61	61	-0.2%
Property Income (namely rent of Rafic Hariri International Airport)	83	93	12.0%
Other Income from Public Institutions (interests)	4	6	54.1%
Administrative Fees & Charges, of which:	632	624	-1.2%
Administrative Fees, of which:	528	510	-3.3%
<i>Notary Fees</i>	31	31	-0.3%
<i>Passport Fees/ Public Security</i>	219	232	5.7%
<i>Vehicle Control Fees</i>	182	165	-9.1%
<i>Judicial Fees</i>	25	24	-4.0%
<i>Driving License Fees</i>	28	18	-35.9%
Administrative Charges	25	25	3.6%
Sales (Official Gazette and License Number)	2	2	-0.4%
Permit Fees (mostly work permit fees)	61	72	18.7%
Other Administrative Fees & Charges	16	14	-14.6%
Penalties & Confiscations	23	36	61.1%
Other Non-Tax Revenues (mostly retirement deductibles)	128	156	22.6%

Source: MOF, DGF

SECTION 2: EXPENDITURE OUTCOME

Table 5: Expenditure by Economic Classification

(LL billion)	2015 Jan-Oct	2016 Jan-Oct	% Change 2016/2015
1. Current Expenditures	14,319	14,915	4.2%
1.a Personnel Cost, of which	5,731	6,070	5.9%
Salaries, Wages and Related Items	3,731	3,975	6.5%
Retirement and End of Service Compensations, of which:	1,698	1,783	5.0%
Retirement	1,436	1,501	4.5%
End of Service	262	282	7.7%
Transfers to Public Institutions to Cover Salaries 1/	302	312	3.4%
1.b Interest Payments 2/, of which:	5,426	5,658	4.3%
Domestic Interest Payments	3,605	3,809	5.7%
Foreign Interest Payments	1,821	1,849	1.5%
1.c Accounting Adjustments 3/	1	43	N.M.
1.d Foreign Debt Principal Repayment	236	218	-7.7%
1.e Materials and Supplies, of which:	271	308	13.4%
Nutrition	75	67	-10.2%
Fuel Oil	10	38	278.5%
Medicaments	120	129	8.0%
1.f External Services	115	120	4.7%
1.g Various Transfers, of which:	1,977	1,905	-3.6%
EDL 4/	1,458	1,074	-26.3%
NSSF	0	20	N.M.
Higher Council of Relief	29	1	-95.3%
Contributions to non-public sectors	226	288	27.5%
Transfers to Directorate General of Cereals and Beetroot 5/	10	0	-100.0%
Contributions to water authorities	0	0	N.M.
Special Tribunal for Lebanon	0	0	N.M.
1.h Other Current, of which:	426	465	9.2%
Hospitals	302	364	20.3%
Others (judgments & reconciliations, mission costs, other)	114	94	-17.4%
1.i Interest Subsidy	137	128	-6.6%
2. Capital Expenditures	657	828	26.1%
2.a Acquisitions of Land, Buildings, for the Construction of Roads, Ports, Airports, and Water Networks	0	0	-36.4%
2.b Equipment	46	57	22.9%
2.c Construction in Progress, of which:	456	562	23.1%
Displaced Fund	10	15	50.0%
Council of the South	49	27	-45.5%
CDR	214	286	33.2%
Ministry of Public Work and Transport	37	91	147.7%
Other of which:	141	136	-3.2%
Higher Council of Relief	55	4	-92.7%
2.d Maintenance	101	149	47.9%
2.e Other Expenditures Related to Fixed Capital Assets	54	61	13.1%
3. Budget Advances	191	286	49.8%
4. Customs Administration (exc. Salaries and Wages) 6/	48	80	66.5%
5. Treasury Expenditures	1,158	1,650	42.5%
Municipalities	603	1,046	73.6%
Guarantees	52	69	32.4%
Deposits 7/	206	225	9.2%

Other, of which:	297	310	4.2%
VAT Refund	222	218	-1.7%
6. Unclassified Expenditures	2	5	117.1%
7. Total Expenditures (Excluding CDR Foreign Financed)	16,377	17,765	8.5%

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

¹ For a detailed breakdown of those transfers, kindly refer to table 6.

² For a detailed breakdown of interest payments, kindly refer to table 7.

³ Figure for 2015 includes capitalized interest of LL1.1 billion that was drawn from the loan and paid directly to the creditor for EKF Loan. Figure for 2016 includes LL41.4 billion in coupons and LL1.9 billion in discounted interest payments due on 31/12/2015 but recorded in the accounting system on 2/1/2016.

⁴ For a detailed breakdown of transfers to EDL, kindly refer to table 8.

⁵ Transfers to Directorate General of Cereals and Beetroot include both administrative expenses and payments for wheat subsidy.

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 Deposit payments are payments made by the treasury to public administrations, institutions, municipalities, funds, from revenues it has collected on their behalf.

Table 6: Breakdown of Transfers to Public Institutions for the Coverage of Salaries

(LL billion)	2015 Jan-Oct	2016 Jan-Oct	% Change 2016/2015
Transfer to Council of the South	6	12	87.9%
Transfer to CDR	9	28	222.2%
Transfer to the Displaced Fund	4	4	0.0%
Transfer to the Lebanese University	275	247	-10.0%
Transfer to the Educational Center for Research and Development	8	20	171.4%

Source: MOF, DGF

Table 7: Details of Debt Service Transactions¹

(LL billion)	2015 Jan-Oct	2016 Jan-Oct	% Change 2016/2015
Interest Payments	5,426	5,658	4.3%
Local Currency Debt	3,605	3,809	5.7%
Foreign Currency Debt, of which:	1,821	1,849	1.5%
Eurobond Coupon Interest*	1,738	1,775	2.1%
Special bond Coupon Interest*	5	3	-35.4%
Concessional Loans Interest Payments	78	70	-9.7%
Foreign Debt Principal Repayment	236	218	-7.7%

Source: MOF, 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 8: Transfers to EDL

(LL billion)	2015 Jan-Oct	2016 Jan-Oct	% Change 2016/2015
EDL, of which:	1,458	1,074	-26.3%
Debt Service	27	20	-26.2%
Reimbursement for purchase of Natural Gas, Fuel & Gas Oil	1,431	1,054	-26.3%

Source: MOF, DGF

SECTION 3: PUBLIC DEBT

Table 9: Public Debt Outstanding by Holder as of End-October 2016

(LL billion)	Dec-14	Dec-15	Oct-16	% Change Oct 16-Dec 15
Gross Public Debt	100,356	106,015	112,338	5.96%
Local Currency Debt	61,752	65,195	68,586	5.20%
* <i>Accrued Interest Included in Debt</i>	1,029	997	1,169	17.25%
a. Central Bank (Including REPOs)	19,855	24,308	30,215	24.30%
b. Commercial Banks	31,468	29,878	27,540	-7.83%
c. Other Local Currency Debt (T-bills), of which:	10,429	11,009	10,831	-1.62%
Public Entities	7,701	8,461	8,695	2.77%
Contractor bonds ^{1/}	180	180	180	0.00%
Foreign Currency Debt ^{2/}	38,604	40,820	43,752	7.18%
a. Bilateral, Multilateral and Foreign Private Sector Loans	2,752	2,479	2,568	3.56%
b. Paris II Related Debt (Eurobonds and Loans) ^{3/}	1,743	1,182	838	-29.07%
c. Paris III Related Debt (Eurobonds and Loans) ^{4/}	986	810	686	-15.25%
d. Market-Issued Eurobonds	32,584	35,846	38,852	8.39%
e. Accrued Interest on Eurobonds	425	435	746	71.49%
f. Special T-bills in Foreign Currency ^{5/}	114	68	62	-8.82%
Public Sector Deposits	13,965	13,227	15,249	15.29%
Net Debt ^{6/}	86,391	92,788	97,089	4.64%
Gross Market Debt ^{7/}	67,373	68,799	69,392	0.86%
% of Total Debt	67%	65%	62%	-4.82%

Source: MOF, 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 14-Dec 15 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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