

General Overview

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A drop in international oil prices and contained discretionary spending curbed the negative effects of regional turmoil and low growth environment on Lebanon's fiscal finances in January-October 2015. Despite that, the fiscal deficit widened by 7 percent from the same period in 2014 when one-off collections of telecom revenues had boosted revenues to a historic high of LL 13,311 billion.

The **total fiscal balance** thus recorded a deficit of LL 3,916 billion in Jan-Oct 2015, compared to a deficit of LL 3,675 billion during the same period in 2014. However, the primary balance registered a slightly larger surplus of LL 1,746 billion (3 percent).

Table 1: Summary of Fiscal Performance

(LL billion)	2014 Jan-Oct	2015 Jan-Oct	% Change 2015/2014
Total Budget and Treasury Receipts¹	13,311	12,461	-6.4%
Total Budget and Treasury Payments, of which	16,986	16,377	-3.6%
•Interest Payments	5,143	5,426	5.5%
•Concessional loans principal payment ²	230	236	2.8%
•Primary Expenditures ³	11,614	10,715	-7.7%
Total (Deficit)/Surplus	-3,675	-3,916	6.5%
Primary (Deficit)/Surplus	1,697	1,746	2.9%

Source: Ministry of Finance, Directorate General of Finance

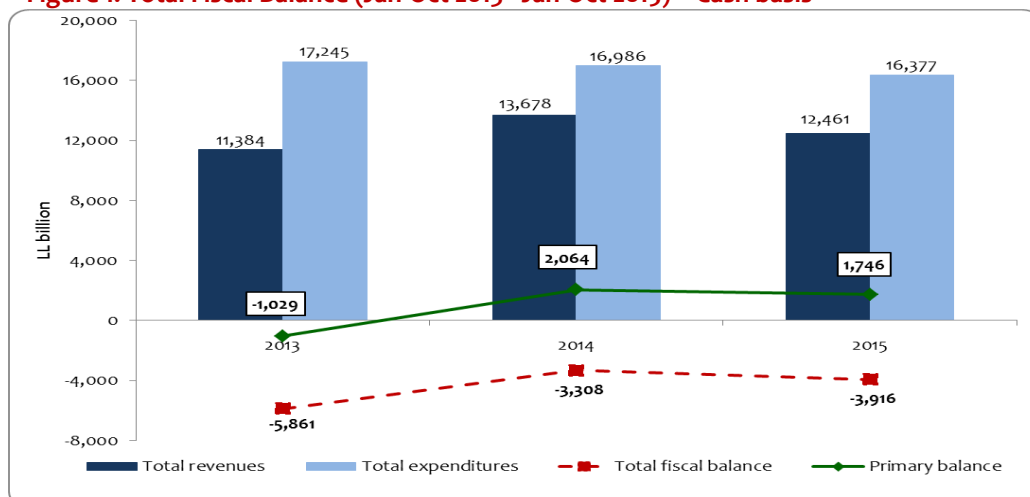
¹ Transfers from the Telecom Surplus in 2015 are recorded on a cash basis in the Fiscal Performance, whereas for previous years, they remain those that were estimated at the time by the Ministry of Telecommunication and MOF.

² Includes only Principal repayments of concessional loans earmarked for project financing

³ Primary expenditures exclude debt related payments (Interest payments and Concessional loans principal repayment)

On a **cash basis** - i.e. after removing the Telecom transfers that were calculated on an accrual basis (LL 1,613 billion) from the fiscal results of Jan-Oct 2014, and including the period's actual transfers (LL 1,980 billion), the change in the total deficit shows an increase of 18 percent year-on-year by end-October 2015. This weaker fiscal performance compared to accrual accounting, highlights the collection of Telecom arrears in 2014 which inflated revenues over the period. Likewise, primary balance cash-basis calculations show a surplus of LL 1,746 billion by end-October 2015 compared to a larger surplus of LL 2,064 billion in the same period of 2014.

Figure 1: Total Fiscal Balance (Jan-Oct 2013 - Jan-Oct 2015) – Cash basis^{1/}



Source: Ministry of Finance, Directorate General of Finance

^{1/} On a cash basis, transfers from the Telecom Surplus were LL 972 billion in Jan-Oct 2013, LL 1,980 billion during Jan- Oct 2014 and LL 1,605 billion in Jan- Oct 2015.

Revenues

Total revenues¹ regressed by LL 850 billion (6 percent) to LL 12,461 billion in Jan-Oct 2015, compared to LL 13,311 billion during the same period of 2014. Aside from one-off collections of telecom revenues in 2014, lower commodity prices negatively weighted on import related taxes during 2015 and the sluggish performance of the real estate sector weakened property tax collections.

Tax revenues decreased by LL 73 billion (1 percent) by end-October 2015, amounting to LL 9,078 billion compared to the same period of 2014. This was mainly the result of a drop in **value-added tax** by LL 128 billion (4 percent), reflecting lower VAT at customs (LL 190 billion) that was partly counterbalanced by an increase in VAT collected internally (LL 62 billion). Moreover, **real estate registration fees** declined by LL 89 billion (13 percent), primarily the result of a 12 percent drop in the number of sold properties during this period, and **customs** decreased by LL 49 billion (8 percent) over the period under consideration. In contrast, **taxes on income, profits and capital gains** rose by LL 71 billion and **excises** gained LL 52 billion.

Non-tax revenues² increased by LL 22 billion (1 percent) year-on-year to LL 2,722 billion in Jan-Oct 2015, primarily as a result of an LL 84 billion (62 percent) higher **passport fees**. Of other non-tax revenues **property income** dropped by LL 38 billion, **vehicle control fees** by LL 31 billion and **revenues from Port of Beirut** by LL 22 billion.

Treasury receipts plunged by LL 799 billion (55 percent) to reach LL 660 billion by end-October 2015, mainly as a result of an exceptional LL 673 billion collection of Telecom revenues on behalf of municipalities in July 2014.

Expenditure

Total expenditures retreated by LL 610 billion to reach LL 16,377 billion in the first ten months of 2015, from LL 16,986 billion in the same period of 2014.

¹ Transfers from the Telecom Surplus in 2015 are recorded on a cash basis in the Fiscal Performance, whereas for previous years, they remain those that were estimated at the time by the Ministry of Telecommunication and MOF.

² Idem

Current primary expenditures³ stood at LL 8,658 billion by end-October 2015, diminishing by LL 894 billion (9 percent) from 2014. This was mainly the result of a decrease in (i) **transfers to EDL** by LL 997 billion as international oil prices recorded a sharp drop from the previous year reducing the cost of petroleum imports, (ii) **transfers to NSSF** by LL 100 billion, and (iii) **transfers to Directorate General of Cereals and Beetroot** by LL 60 billion. Also, **medicaments** and **contributions to water authorities** decreased by LL 40 billion and LL 12 billion in Jan-Oct 2015, respectively. These drops were partially offset by (i) a LL 102 billion increase in **retirement and end-of-service** compensation, and (ii) a LL 52 billion increase in payments to **salaries, wages and social benefits** mainly driven by LL 73 billion higher allowances to the army personnel, LL 64 billion increase in basic salaries of education personnel, alongside a LL 7 billion rise in allowances to the general security forces.

Interest payments surged by LL 283 billion to reach LL 5,426 billion in Jan-Oct 2015, due to higher debt service payments on the domestic currency component (LL 288 billion). **Foreign debt principal repayments** registered a 3 percent (LL 6 billion) increase, reaching LL 236 billion by end-October 2015.

Capital expenditures declined by LL 20 billion to reach LL 657 billion in Jan-Oct 2015, mainly due to a LL 27 billion drop in construction in progress. In detail, payments for CDR, the Displaced Fund, and the Ministry of Public Work and Transport dropped by LL 27 billion, LL 20 billion, and LL 9 billion respectively. Moreover, maintenance decreased by LL 23 billion reaching LL 101 billion in Jan-Oct 2015. These decreases were partly counterbalanced by a LL 53 billion increase in spending on Higher Council of Relief and LL 27 billion higher spending in other expenditure related to Fixed Capital Assets.

Treasury expenditures⁴ increased by LL 37 billion to reach LL 1,158 billion in the first ten months of 2015 compared to LL 1,121 billion in the same period of 2014. This was mainly the result of a LL 107 billion rise in deposits, and a LL 33 billion increase in other treasury expenditures, mainly VAT refund by LL 17 billion. These increases were partly offset by a LL 57 billion decline in payments to Municipalities and a LL 47 billion decrease in guarantees.

Public Debt

Gross public debt reached LL 104,086 billion by end-October 2015, up by LL 3,730 billion (3.7 percent) from end-2014. Net debt increased at a faster pace of 5.4 percent (LL 4,679 billion) to LL 91,070 billion, as public sector deposits dropped by LL 949 billion (6.8 percent) to LL 13,016 billion.

Local currency debt reached LL 64,720 billion, up by 4.8 percent from end-2014, accounting for 62 percent of total debt. Local currency debt holdings by the Central Bank increased by LL 3,508 billion, followed by other holders of local currency debt (including public entities, financial institutions, and the general public) with an increase of LL 431 billion, while holdings by Commercial Banks contracted by LL 971 billion to LL 30,497 billion, remaining the largest among holdings with 47 percent of the local currency debt stock.

³ Current primary expenditures represent current expenditures excluding interest payment and debt service.

⁴ Starting December 2011, the Treasury expenditures section in the monthly, quarterly and yearly reports and its corresponding figures differ from the same 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.

Outstanding **foreign currency debt** recorded an expansion of LL 762 billion by end-October 2015 to reach LL 39,366 billion. Outstanding market Eurobonds increased by LL 1,345 billion to LL 33,929 billion. Outstanding Eurobonds and loans related to Paris II and Paris III, decreased by LL 356 billion and LL 156 billion respectively, mainly as a result of amortized principal repayments. Outstanding “bilateral, multilateral and foreign private sector loans” dropped by LL 261 billion to LL 2,492 billion.

SECTION 1: REVENUE OUTCOME

Table 2: Total Revenues

(LL billion)	2014 Jan-Oct	2015 Jan-Oct	% Change 2015/2014
Budget Revenues, of which	11,852	11,801	-0.4%
Tax Revenues	9,152	9,078	-0.8%
Non-Tax Revenues	2,700	2,722	0.8%
Treasury Receipts	1,459	660	-54.7%
Total Revenues	13,311	12,461	-6.4%

Source: Ministry of Finance, Directorate General of Finance

Table 3: Tax Revenues

(LL billion)	2014 Jan-Oct	2015 Jan-Oct	% Change 2015/2014
Tax Revenues:	9,152	9,078	-0.8%
Taxes on Income, Profits, & Capital Gains, of which	2,598	2,669	2.7%
Income Tax on Profits	1,075	1,075	0.0%
Income Tax on Wages and Salaries	634	656	3.5%
Income Tax on Capital Gains & Dividends	243	241	-1.0%
Tax on Interest Income (5%)	595	642	7.9%
Penalties on Income Tax	51	55	8.7%
Taxes on Property, of which:	1,027	957	-6.8%
Built Property Tax	193	213	10.5%
Real Estate Registration Fees	704	616	-12.6%
Domestic Taxes on Goods & Services, of which:	3,399	3,316	-2.4%
Value Added Tax	2,966	2,838	-4.3%
Other Taxes on Goods and Services, of which:	309	328	6.4%
Private Car Registration Fees	181	198	9.0%
Passenger Departure Tax	126	129	2.8%
Taxes on International Trade, of which:	1,707	1,710	0.2%
Customs	646	597	-7.6%
Excises, of which:	1,061	1,112	4.9%
Gasoline Excise	429	527	22.7%
Tobacco Excise	276	204	-26.1%
Cars Excise	349	377	8.1%
Other Tax Revenues (namely fiscal stamp fees)	421	427	1.4%

Source: Ministry of Finance, Directorate General of Finance

Table 4: Non-Tax Revenues

(LL billion)	2014 Jan-Oct	2015 Jan-Oct	% Change 2015/2014
Non-Tax Revenues	2,700	2,722	0.8%
Income from Public Institutions and Government Properties, of which:	2,015	1,940	-3.7%
Income from Non-Financial Public Enterprises, of which:	1,824	1,792	-1.8%
Revenues from Casino Du Liban	100	84	-16.3%
Revenues from Port of Beirut	82	60	-26.9%
Budget Surplus of National Lottery	28	41	46.9%
Transfer from the Telecom Surplus ^{1/}	1,613	1,605	-0.5%
Transfer from Public Financial Institution (BDL)	61	61	0.2%
Property Income (namely rent of Rafic Hariri International Airport)	122	83	-31.4%
Other Income from Public Institutions (interests)	8	4	-45.7%
Administrative Fees & Charges, of which:	533	632	18.6%
Administrative Fees, of which:	443	528	19.2%
Notary Fees	26	31	17.5%
Passport Fees/ Public Security	136	219	61.6%
Vehicle Control Fees	213	182	-14.6%
Judicial Fees	23	25	7.5%
Driving License Fees	17	28	66.7%
Administrative Charges	20	25	21.8%
Sales (Official Gazette and License Number)	2	2	-1.8%
Permit Fees (mostly work permit fees)	55	61	10.0%
Other Administrative Fees & Charges	12	16	37.7%
Penalties & Confiscations	9	23	141.7%
Other Non-Tax Revenues (mostly retirement deductibles)	144	128	-11.4%

Source: Ministry of Finance, Directorate General of Finance

^{1/} Transfers from the Telecom Surplus in 2015 are recorded on a cash basis in the Fiscal Performance, whereas for previous years, they remain those that were estimated at the time by the Ministry of Telecommunication and MOF.

SECTION 2: EXPENDITURE OUTCOME

Table 5: Expenditure by Economic Classification

(LL billion)	2014 Jan-Oct	2015 Jan-Oct	% Change 2015/2014
1. Current Expenditures	14,924	14,319	-4.0%
1.a Personnel Cost, of which	5,510	5,731	4.0%
Salaries, Wages and Related Benefits	3,679	3,731	1.4%
Retirement and End of Service Compensations, of which:	1,596	1,698	6.4%
Retirement	1,372	1,436	4.7%
End of Service	224	262	16.6%
Transfers to Public Institutions to Cover Salaries 1/	235	302	28.6%
1.b Interest Payments, 2/	5,143	5,426	5.5%
Domestic Interest Payments	3,317	3,605	8.7%
Foreign Interest Payments	1,826	1,821	-0.3%
1.c Accounting adjustments*	0	1	
1.d Foreign Debt Principal Repayment	230	236	2.8%
1.e Materials and Supplies, of which:	314	271	-13.5%
Nutrition	64	75	15.9%
Fuel Oil	7	10	50.2%
Medicaments	160	120	-25.3%
1.f External Services	122	115	-6.0%
1.g Various Transfers, of which:	3,100	1,977	-36.2%
EDL 3/	2,456	1,458	-40.6%
NSSF	100	0	-100.0%
Higher Council of Relief	20	29	45.8%
Contributions to non-public sectors	224	226	0.7%
Transfers to Directorate General of Cereals and Beetroot 4/	70	10	-86.4%
Contributions to water authorities	12	0	-100.0%
1.h Other Current, of which:	357	426	19.2%
Hospitals	245	302	23.5%
Others (judgments & reconciliations, mission costs, other)	106	114	7.6%
1.i Interest subsidy	149	137	-7.9%
2. Capital Expenditures	677	657	-2.9%
2.a Acquisitions of Land, Buildings, for the Construction of Roads, Ports, Airports, and Water Networks	0	0	-72.5%
2.b Equipment	42	46	8.4%
2.c Construction in Progress, of which:	484	456	-5.7%
Displaced Fund	30	10	-66.7%
Council of the South	39	49	25.5%
CDR	241	214	-11.0%
Ministry of Public Work and Transport	46	37	-19.3%
Other of which	61	141	131.2%
Higher Council of Relief	2	55	N.M
2.d Maintenance	123	101	-18.4%
2.e Other Expenditures Related to Fixed Capital Assets	27	54	98.4%
3. Budget Advances 5/	225	191	-14.9%
4. Customs Administration (exc. Salaries and Wages) 6/	38	48	27.7%
5. Treasury Expenditures 7/	1,121	1,158	3.3%
Municipalities	660	603	-8.7%
Guarantees	99	52	-47.1%
Deposits 8/	99	206	108.9%
Other, of which:	264	297	12.6%
VAT Refund	204	222	8.4%
6. Unclassified Expenditures	2	2	41.5%
7. Total Expenditures (Excluding CDR Foreign Financed)	16,986	16,377	-3.6%

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

* Including capitalized interest of 1,059,632,935 LBP that was drawn from the loan and paid directly to the creditor for EKF Loan

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

(LL billion)	2014 Jan-Oct	2015 Jan-Oct	% Change 2015/2014
Transfer to Council of the South	10	6	-33.4%
Transfer to CDR	17	9	-49.0%
Transfer to the Displaced Fund	3	4	27.2%
Transfer to the Lebanese University	195	275	41.0%
Transfer to the Educational Center for Research and Development	10	8	-23.6%

Source: Ministry of Finance, Directorate General of Finance

Table 7: Details of Debt Service Transactions¹

(LL billion)	2014 Jan-Oct	2015 Jan-Oct	% Change 2015/2014
Interest Payments	5,143	5,426	5.5%
Local Currency Debt	3,317	3,605	8.7%
Foreign Currency Debt, of which:	1,826	1,821	-0.3%
Eurobond Coupon Interest*	1,719	1,738	1.1%
Special bond Coupon Interest*	6	5	-22.4%
Concessional Loans Interest Payments	101	78	-22.6%
Concessional Loans Principal Repayments	230	236	2.8%

Source: Ministry of Finance, Directorate General of Finance

⁽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^{1,2}

(LL billion)	2014 Jan-Oct	2015 Jan-Oct	% Change 2015/2014
EDL of which:	2,456	1,458	-40.6%
Debt Service	30	27	-10.0%
Reimbursement for purchase of Natural Gas, Fuel & Gas Oil	2,426	1,431	-41.0%

Source: Ministry of Finance, Directorate General of Finance

⁽¹⁾ 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 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 are reclassified under "budget expenditures".

⁽²⁾ In 2015, new contracts were signed between the Lebanese Republic and petroleum suppliers, Sonatrach and KPC, specifying new payment mechanisms for fuel oil and gasoil imports. Under the new contracts, reimbursements for imports were set to be made 30 to 45 days from the opening date of letters of credit, compared to previous periods of 180 to 270 days for Sonatrach and KPC respectively. This new structure reduces interest payments due to suppliers and results on the fiscal front in a direct pass-through from the change in international oil prices to Treasury transfers to EDL. Correspondingly, payments made in 2015 compare to a different structure of payments in previous years, when actual payments pertained to imports 180 to 270 days earlier.

SECTION 3: PUBLIC DEBT

Table 9: Public Debt Outstanding by Holder as of End-October 2015

(LL billion)	Dec-13	Dec-14	Oct-15	% Change Dec 14 – Oct 15
Gross Public Debt	95,710	100,356	104,086	3.7%
Local Currency Debt	56,312	61,752	64,720	4.8%
* Accrued Interest Included in Debt	877	1,029	988	-4.0%
a. Central Bank (Including REPOs)	17,171	19,855	23,363	+17.7%
b. Commercial Banks	29,905	31,468	30,497	-3.1%
c. Other Local Currency Debt (T-bills), of which:	9,236	10,429	10,860	+4.1%
Public Entities	7,117	7,701	8,303	+7.8%
Contractor bonds 1/	134	180	180	0.0%
Foreign Currency Debt 2/	39,398	38,604	39,366	2.0%
a. Bilateral, Multilateral and Foreign Private Sector Loans	2,606	2,752	2,492	-9.5%
b. Paris II Related Debt (Eurobonds and Loans) 3/	2,338	1,743	1,387	-20.4%
c. Paris III Related Debt (Eurobonds and Loans) 4/	1,187	986	830	-15.8%
d. Market-Issued Eurobonds	32,688	32,584	33,929	4.1%
e. Accrued Interest on Eurobonds	444	425	648	52.5%
f. Special T-bills in Foreign Currency 5/	136	114	80	-29.8%
Public Sector Deposits	15,495	13,965	13,016	-6.8%
Net Debt 6/	80,215	86,391	91,070	5.4%
Gross Market Debt 7/	65,386	67,373	67,747	0.6%
% of Total Debt	68%	67%	65%	-3.0%

Source: Ministry of Finance, Banque du Liban

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

⁽²⁾ Figures for Dec 13- Dec 14 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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