

General Overview

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Higher government expenditures outweighed the rise in revenues and resulted in a widening deficit during the first seven months of 2016 compared to the same period a year earlier. This mainly reflected the effect of a one-off transfer made to municipalities¹ and the generally low growth environment that kept tax collections below potential. Furthermore, the increase in the deficit occurred despite the drop in international oil prices² that reduced transfers to Electricité du Liban and helped cushion increases in other spending items, and a boost in non-tax revenues owing to a discrepancy in the timing of collections from the Telecom Surplus.

The **total fiscal balance** recorded a deficit of LL 2,994 billion in Jan-Jul 2016, up by 7 percent from the same period in 2015, while the **primary surplus** inched down by 1 percent to reach LL 1,006 billion (Table 1-a). Adjusting for the one-off transfer to municipalities in Jan-Jul 2016, results show a 14 percent year-on-year contraction in the fiscal deficit to LL 2,402 billion, and an increase in the primary surplus to LL 1,598 billion (Table 1-b)³.

Table 1-a: Summary of Fiscal Performance

(LL billion)	2015 Jan-Jul	2016 Jan-Jul	% Change 2016/2015
Total Budget and Treasury Receipts	8,857	9,480	7.0%
Total Budget and Treasury Payments, of which	11,657	12,474	7.0%
•Interest Payments	3,619	3,822	5.6%
•Concessional loans principal payment ¹	198	178	-9.8%
•Primary Expenditures ²	7,840	8,474	8.1%
Total (Deficit)/Surplus	(2,800)	(2,994)	6.9%
Primary (Deficit)/Surplus	1,016	1,006	-1.0%

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-Jul	2016 Jan-Jul	% Change 2016/2015
Total Budget and Treasury Receipts	8,857	9,480	7.0%
Total Budget and Treasury Payments, of which	11,657	11,882	1.9%
•Interest Payments	3,619	3,822	5.6%
•Concessional loans principal payment	198	178	-9.8%
•Primary Expenditures	7,840	7,882	0.5%
Total (Deficit)/Surplus	(2,800)	(2,402)	-14.2%
Primary (Deficit)/Surplus	1,016	1,598	57.3%

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

¹ Excluding LL 592 billion in Treasury transfers to Municipalities from Total Budget and Treasury Payments for Jan-Jul 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-Jul 2016 and accounted as Treasury expenditures.

² According to the US Energy Information Administration, the average monthly Europe Brent Spot Price dropped by 30 percent to U.S.\$ 40.4 per barrel during Jan-Jul 2016, compared to U.S.\$ 57.6 per barrel in Jan-Jul 2015. It is worth mentioning that average Europe Brent Spot Price amounted to U.S.\$ 108.6 per barrel in Jan-Jul 2014.

³ 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 7 percent in Jan-Jul 2016 to reach LL 9,480 billion, compared to LL 8,857 billion in the same period of 2015.

Tax revenues inched up by LL 154 billion (2 percent) in the first seven months of 2016.

Taxes on income, profits and capital gains were up by LL 110 billion (5 percent). Most notably, tax on interest income rose by LL 41 billion (9 percent) primarily as a result of a higher deposit base⁴ coupled with an increase in interest rates on USD denominated deposits⁵, noting that interest rates on LL denominated deposits remained broadly the same over the period.

Domestic taxes on goods and services increased by LL 32 billion driven by a LL 29 billion (1 percent) increase in the Value-added Tax. In detail, internal VAT rose by 4 percent, while VAT at customs inched down by 1 percent partly due to lower international oil prices that reduced VAT collections on gasoline products.

Property taxes rose by LL 21 billion (3 percent) as of end-July 2016 as real estate registration fees and inheritance taxes rose by LL 13 billion and LL 8 billion respectively. It is worth mentioning that built property taxes were almost unchanged over the period.

Taxes on international trade increased by LL 13 billion driven by higher excises (LL 26 billion), which were slightly counterbalanced by lower customs duties (LL 13 billion). Moreover, **fiscal stamps** dropped by LL 23 billion over the period.

Non-tax revenues increased by LL 262 billion to reach LL 1,927 billion in Jan-Jul 2016, mainly due to higher Transfers from the Telecom Surplus owing to a discrepancy in timing of collections.

Moreover, **other non-tax revenues** (mostly retirement deductibles) rose by LL 17 billion, while **administrative fees and charges** dropped by LL 11 billion as a result of lower vehicle control fees (-LL 18 billion) and driving license fees (-LL 8 billion), which were mostly offset by increases in permit fees (+LL 10 billion) and passport fees (+LL 9 billion).

Treasury receipts rose by LL 209 billion to reach LL 643 billion by end-July 2016.

Expenditures

Total expenditures recorded a significant increase of LL 818 billion (7 percent), standing at LL 12,474 billion in Jan-Jul 2016.

Current primary expenditures⁶ increased by LL 23 billion mainly as a result of increases in (i) **various transfers – excluding transfers to EDL** - by LL 269 billion mainly as a result of an increase in Lebanon's contribution to the International Monetary Fund by LL 194 billion, (ii) **personnel cost** by LL 105 billion, mainly driven by an increase in **salaries, wages and social benefits** of LL 82 billion and **retirement and end of service compensations** of LL 39 billion (iii) **material and supplies** by LL 56 billion, and (iv) **payments to hospitals** by LL 37 billion. These increases were almost counterbalanced by a LL 449 billion drop in **transfers to EDL**.

⁴ Residential and non-residential private sector deposits at commercial banks.

⁵ It is worth mentioning that as of end-July 2016, 64.9 percent of deposits were denominated in USD currency.

⁶ Current primary expenditures represent current expenditures excluding interest payments and foreign debt principal repayment.

Interest payments rose by LL 203 billion to reach LL 3,822 billion. **Foreign debt principal repayment** amounted to LL 178 billion in Jan-Jul 2016, down from the LL 198 billion registered in Jan-Jul 2015.

Capital expenditures increased by LL 136 billion in Jan-Jul 2016, chiefly due to (i) a LL 38 billion increase in **other construction in progress** mainly driven by an increase in transfers to the Ministry of Energy, (ii) a LL 37 billion rise in transfers to the **Ministry of Public Work and Transport**, (iii) a LL 36 billion increase in **other expenditures related fixed capital assets** mainly relating to IDAL's Export Plus program, and (iv) a LL 24 billion higher payments for **maintenance**. A decrease of LL 15 billion in transfers to **CDR** partly offset increases in the above mentioned spending categories.

Treasury expenditures witnessed a significant increase of LL 399 billion to reach LL 1,366 billion in Jan-Jul 2016, mainly due to higher payments to Municipalities – from LL 575 billion in Jan-Jul 2015 to LL 995 billion in Jan-Jul 2016.

Public Debt Developments

Gross public debt reached LL 110,631 billion as of end-July 2016, increasing by LL 4,616 billion (4.4 percent) from end-2015, while net debt increased by only 3.3 percent as public sector deposits rose by 12.1 percent over the period.

Local currency debt increased by 2.6 percent to reach LL 66,894 billion as of end-July 2016, compared to LL 65,195 billion as of end-2015. In detail, Local Currency Debt holdings by the Central Bank increased by LL 5,715 billion, whereas Commercial Banks' holdings decreased by LL 4,047 billion. The change in holdings by Commercial banks and the Central Bank do not reflect TB Auction results over the same period, suggesting large secondary market operations particularly during the months of January, June and July 2016. Local currency debt holdings by Public Entities increased by LL 302 billion to reach LL 8,763 billion.

The stock of **foreign currency debt** grew by the equivalent of LL 2,917 billion to LL 43,737 billion, mostly owing to a LL 3,015 billion increase in the value of outstanding Eurobonds. Moreover, "Bilateral, multilateral and foreign private sector loans" rose by LL 55 billion, whereas Paris II and Paris III related bonds and loans decreased by LL 274 billion and LL 90 billion respectively, mainly due to amortized principal repayments.

SECTION 1: REVENUE OUTCOME

Table 2: Total Revenues

(LL billion)	2015 Jan-Jul	2016 Jan-Jul	% Change 2016/2015
Budget Revenues, of which	8,422	8,838	4.9%
Tax Revenues	6,756	6,910	2.3%
Non-Tax Revenues	1,666	1,927	15.7%
Treasury Receipts	434	643	48.0%
Total Revenues	8,857	9,480	7.0%

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

Table 3: Tax Revenues

(LL billion)	2015 Jan-Jul	2016 Jan-Jul	% Change 2016/2015
Tax Revenues:	6,756	6,910	2.3%
Taxes on Income, Profits, & Capital Gains, of which	2,228	2,338	4.9%
Income Tax on Profits	1032	1065	3.2%
Income Tax on Wages and Salaries	507	535	5.6%
Income Tax on Capital Gains & Dividends	210	222	5.7%
Tax on Interest Income (5%)	443	484	9.2%
Penalties on Income Tax	35	32	-10.5%
Taxes on Property, of which:	698	719	3.0%
Built Property Tax	181	182	0.3%
Real Estate Registration Fees	425	438	3.0%
Domestic Taxes on Goods & Services, of which:	2,345	2,377	1.4%
Value Added Tax	2,015	2,044	1.4%
Other Taxes on Goods and Services, of which:	209	217	3.6%
Private Car Registration Fees	138	136	-1.2%
Passenger Departure Tax	70	80	13.9%
Taxes on International Trade, of which:	1,178	1,191	1.1%
Customs	417	405	-3.0%
Excises, of which:	760	786	3.4%
Gasoline Excise	356	385	8.4%
Tobacco Excise	134	123	-7.9%
Cars Excise	268	275	2.6%
Other Tax Revenues (namely fiscal stamp fees)	308	285	-7.4%

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

Table 4: Non-Tax Revenues

(LL billion)	2015 Jan-Jul	2016 Jan-Jul	% Change 2016/2015
Non-Tax Revenues	1,666	1,927	15.7%
Income from Public Institutions and Government Properties, of which	1,098	1,343	22.3%
Income from Non-Financial Public Enterprises, of which:	966	1,203	24.4%
<i>Revenues from Casino Du Liban</i>	56	60	7.4%
<i>Revenues from Port of Beirut</i>	60	65	8.3%
<i>Budget Surplus of National Lottery</i>	21	10	-50.7%
<i>Transfer from the Telecom Surplus</i>	829	1,067	28.6%
Transfer from Public Financial Institution (BDL)	61	61	-0.2%
Property Income (namely rent of Rafic Hariri International Airport)	67	75	11.2%
Other Income from Public Institutions (interests)	3	4	50.8%
Administrative Fees & Charges, of which:	456	445	-2.4%
Administrative Fees, of which:	378	358	-5.4%
<i>Notary Fees</i>	21	21	-1.3%
<i>Passport Fees/ Public Security</i>	149	157	5.8%
<i>Vehicle Control Fees</i>	136	118	-13.0%
<i>Judicial Fees</i>	18	18	-3.0%
<i>Driving License Fees</i>	20	12	-38.5%
Administrative Charges	22	23	5.1%
Sales (Official Gazette and License Number)	2	2	-4.5%
Permit Fees (mostly work permit fees)	42	52	24.7%
Other Administrative Fees & Charges	12	10	-15.2%
Penalties & Confiscations	14	25	74.5%
Other Non-Tax Revenues (mostly retirement deductibles)	98	114	17.2%

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

SECTION 2: EXPENDITURE OUTCOME

Table 5: Expenditure by Economic Classification

(LL billion)	2015 Jan-Jul	2016 Jan-Jul	% Change 2016/2015
1. Current Expenditures	10,083	10,289	2.0%
1.a Personnel Cost, of which	4,085	4,190	2.6%
Salaries, Wages and Related Items	2,653	2,736	3.1%
Retirement and End of Service Compensations, of which:	1,200	1,239	3.3%
Retirement	1,001	1,043	4.3%
End of Service	199	195	-1.8%
Transfers to Public Institutions to Cover Salaries 1/	232	216	-7.1%
1.b Interest Payments 2/, of which:	3,619	3,822	5.6%
Domestic Interest Payments	2,371	2,523	6.4%
Foreign Interest Payments	1,248	1,298	4.0%
1.c Accounting Adjustments 3/	1	43	-
1.d Foreign Debt Principal Repayment	198	178	-9.8%
1.e Materials and Supplies, of which:	167	223	33.3%
Nutrition	58	49	-15.3%
Fuel Oil	8	23	197.3%
Medicaments	65	102	58.7%
1.f External Services	84	89	6.2%
1.g Various Transfers, of which:	1,492	1,312	-12.1%
EDL 4/	1,111	662	-40.4%
NSSF	0	20	-
Higher Council of Relief	28	1	-97.0%
Contributions to non-public sectors	194	172	-11.5%
Transfers to Directorate General of Cereals and Beetroot 5/	10	0	-100.0%
Contributions to water authorities	0	0	-
Special Tribunal for Lebanon	0	0	-
1.h Other Current, of which:	341	348	2.0%
Hospitals	241	278	15.2%
Others(judgments & reconciliations, mission costs, other)	91	67	-26.9%
1.i Interest Subsidy	97	85	-12.9%
2. Capital Expenditures	426	562	31.8%
2.a Acquisitions of Land, Buildings, for the Construction of Roads, Ports, Airports, and Water Networks	0	0	-74.1%
2.b Equipment	30	37	23.0%
2.c Construction in Progress, of which:	298	366	22.9%
Displaced Fund	0	0	-
Council of the South	20	27	34.3%
CDR	187	172	-8.1%
Ministry of Public Work and Transport	28	65	130.1%
Other of which:	59	97	64.0%
Higher Council of Relief	4	2	-50.0%
2.d Maintenance	86	110	28.0%
2.e Other Expenditures Related to Fixed Capital Assets	12	49	293.1%
3. Budget Advances	138	187	35.5%
4. Customs Administration (exc. Salaries and Wages) 6/	41	67	62.6%
5. Treasury Expenditures	967	1,366	41.3%
Municipalities	575	995	73.0%
Guarantees	34	42	23.8%
Deposits 7/	137	127	-7.3%
Other, of which:	221	202	-8.5%
VAT Refund	172	138	-19.7%
6. Unclassified Expenditures	1	3	182.1%
7. Total Expenditures (Excluding CDR Foreign Financed)	11,657	12,474	7.0%

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-Jul	2016 Jan-Jul	% Change 2016/2015
Transfer to Council of the South	4	5	15.5%
Transfer to CDR	6	22	290.8%
Transfer to the Displaced Fund	3	3	0.0%
Transfer to the Lebanese University	215	178	-17.0%
Transfer to the Educational Center for Research and Development	4	7	75.0%

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

Table 7: Details of Debt Service Transactions¹

(LL billion)	2015 Jan-Jul	2016 Jan-Jul	% Change 2016/2015
Interest Payments	3,619	3,822	5.6%
Local Currency Debt	2,371	2,523	6.4%
Foreign Currency Debt, of which:	1,248	1,298	4.0%
Eurobond Coupon Interest*	1,182	1,242	5.0%
Special bond Coupon Interest*	4	2	-45.2%
Concessional Loans Interest Payments	62	55	-11.2%
Foreign Debt Principal Repayment	198	178	-9.8%

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 8: Transfers to EDL

(LL billion)	2015 Jan-Jul	2016 Jan-Jul	% Change 2016/2015
EDL, of which:	1,111	662	-40.4%
Debt Service	18	14	-19.1%
Reimbursement for purchase of Natural Gas, Fuel & Gas Oil	1,093	647	-40.8%

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

SECTION 3: PUBLIC DEBT

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

(LL billion)	Dec-14	Dec-15	Jul-16	% Change Jul 16-Dec 15
Gross Public Debt	100,356	106,015	110,631	4.35%
Local Currency Debt	61,752	65,195	66,894	2.61%
* Accrued Interest Included in Debt	1,029	997	1,092	9.53%
a. Central Bank (Including REPOs)	19,855	24,308	30,023	23.51%
b. Commercial Banks	31,468	29,878	25,831	-13.55%
c. Other Local Currency Debt (T-bills), of which:	10,429	11,009	11,040	0.28%
Public Entities	7,701	8,461	8,763	3.57%
Contractor bonds 1/	180	180	180	0.00%
Foreign Currency Debt 2/	38,604	40,820	43,737	7.15%
a. Bilateral, Multilateral and Foreign Private Sector Loans	2,752	2,479	2,534	2.21%
b. Paris II Related Debt (Eurobonds and Loans) 3/	1,743	1,182	908	-23.16%
c. Paris III Related Debt (Eurobonds and Loans) 4/	986	810	720	-11.11%
d. Market-Issued Eurobonds	32,584	35,846	38,861	8.41%
e. Accrued Interest on Eurobonds	425	435	646	48.51%
f. Special T-bills in Foreign Currency 5/	114	68	68	0.00%
Public Sector Deposits	13,965	13,227	14,829	12.11%
Net Debt 6/	86,391	92,788	95,802	3.25%
Gross Market Debt 7/	67,373	68,799	67,703	-1.59%
% of Total Debt	67%	65%	61%	-5.70%

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 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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