

General Overview

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Unfavorable macroeconomic conditions and an impasse in domestic policy stemming from the geopolitical crisis, now in its sixth year, weighed down on government finances in the first half of 2016. Government revenues still registered a 7 percent year-on-year increase, mostly owing to discrepancies in the timing of collection of some revenue items, including in Treasury Revenues and Telecom Receipts. However, this was not sufficient to match the growth in expenditures, boosted by higher debt service, personnel cost, and a large one-off transfer made to municipalities¹, which together outweighed the effect of lower transfers to Electricité Du Liban.

As a result, the **total fiscal balance** recorded a deficit of LL 2,919 billion in the first half of 2016, up by 9 percent from the same period in 2015, while the **primary surplus** registered a modest increase of LL 30 billion to LL 747 billion (Table 1-a). Adjusting for the one-off transfer to municipalities in Jan-Jun 2016, results show a 13 percent year-on-year contraction in the fiscal deficit to LL 2,327 billion, and an increase in the primary surplus to LL 1,338 billion (Table 1-b)².

Table 1-a: Summary of Fiscal Performance

(LL billion)	2015 Jan-Jun	2016 Jan-Jun	% Change 2016/2015
Total Budget and Treasury Receipts	7,546	8,045	6.6%
Total Budget and Treasury Payments, of which	10,237	10,964	7.1%
• Interest Payments	3,235	3,514	8.6%
• Concessional loans principal payment ¹	171	152	-11.4%
• Primary Expenditures ²	6,830	7,298	6.9%
Total (Deficit)/Surplus	(2,690)	(2,919)	8.5%
Primary (Deficit)/Surplus	716	747	4.2%

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-Jun	2016 Jan-Jun	% Change 2016/2015
Total Budget and Treasury Receipts	7,546	8,045	6.6%
Total Budget and Treasury Payments, of which	10,237	10,372	1.3%
• Interest Payments	3,235	3,514	8.6%
• Concessional loans principal payment	171	152	-11.4%
• Primary Expenditures	6,830	6,707	-1.8%
Total (Deficit)/Surplus	(2,690)	(2,327)	-13.5%
Primary (Deficit)/Surplus	716	1,338	86.8%

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-Jun 2016.

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-June 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 7 percent in the first half of 2016 to reach LL 8,045 billion, compared to LL 7,546 billion in the same period of 2015.

Tax revenues inched up by LL 146 billion (3 percent) in the first six months of 2016 in line with the slow growth environment³, and supported by lower deflationary pressure⁴ as well as mild signs of improvement in the real estate sector.

Taxes on income, profits and capital gains were up by LL 91 billion (5 percent), mirroring their average increase over the period Jan-Jun 2011 to 2016. Most importantly, tax on interest income and income tax on profits were up by LL 35 billion and LL 32 billion respectively.

Property taxes rose only by 4 percent in the first half of 2016, compared to a relatively strong performance during the first quarter of the year. In fact, real estate registration fees increased by 5 percent in Jan-Jun 2016, noting that these were up by 17 percent year-on-year (y-o-y) in Jan-Mar 2016 before subsequently dropping by 4 percent y-o-y in Apr-Jun 2016.

Domestic taxes on goods and services increased by LL 30 billion driven mainly by a LL 28 billion (2 percent) increase in the Value-added Tax, whereby internal VAT rose by 4 percent and VAT at customs remained constant over the period.

Taxes on international trade increased by LL 13 billion driven by higher excises (LL 25 billion), which were slightly counterbalanced by lower customs duties (LL 12 billion). Moreover, **fiscal stamps** dropped by LL 11 billion over the period.

Non-tax revenues increased by LL 149 billion to reach LL 1,710 billion in Jan-Jun 2016, mainly due to higher Transfers from the Telecom Surplus.

Moreover, **other non-tax revenues** (mostly retirement deductibles) rose by LL 19 billion, while **administrative fees and charges** dropped by LL 3 billion as a result of lower vehicle control fees (-LL 15 billion) and driving license fees (-LL 6 billion), which were mostly offset by increases in permit fees (+LL 10 billion) and passport fees (+LL 9 billion).

Treasury receipts rose by LL 203 billion to reach LL 535 billion by end-June 2016.

Expenditures

Total expenditures recorded a significant increase of LL 728 billion (7 percent), standing at LL 10,964 billion in the first half of 2016.

Current primary expenditures⁵ dropped by LL 29 billion mainly as a result of lower transfers to EDL by LL 442 billion that were almost counterbalanced by increases in (i) **personnel cost** by LL 156 billion, mainly driven by an increase in **salaries, wages and social benefits** of LL 91 billion and **retirement and end of service compensations** of LL 65 billion (ii) **payments to hospitals** by LL 66 billion, and (iii) **material and supplies** by LL 56 billion.

³ According to the October 2016 World Economic Outlook published by the International Monetary Fund, real economic growth for 2016 is forecasted at 1.0 percent.

⁴ Year-on-year inflation (as measured by the Consumer Price Index published by the Central Administration of Statistics) amounted to -1.0 percent as of end-June 2016, compared to -3.4 percent as of end-December 2015.

⁵ Current primary expenditures represent current expenditures excluding interest payments and foreign debt principal repayment.

Interest payments rose by LL 279 billion to reach LL 3,514 billion. **Foreign debt principal repayment** amounted to LL 152 billion in Jan-Jun 2016, down from the LL 171 billion registered in Jan-Jun 2015.

Capital expenditures increased by LL 116 billion in Jan-Jun 2016, chiefly due to (i) a LL 39 billion rise in transfers to the **Ministry of Public Work and Transport**, (ii) a LL 38 billion increase in **other construction in progress** mainly driven by an increase in transfers to the Ministry of Energy, (iii) a LL 37 billion increase in **other expenditures related fixed capital assets**, and (iv) a LL 23 billion higher payments for **maintenance**. A decrease of LL 33 billion in transfers to **CDR** partly offset the increase in capital expenditure.

Treasury expenditures⁶ witnessed a significant increase of LL 317 billion to reach LL 1,244 billion in Jan-Jun 2016, mainly due to higher payments to Municipalities – from LL 573 billion in Jan-Jun 2015 to LL 906 billion in Jan-Jun 2016.

Public Debt Developments

Gross public debt reached LL 109,890 billion as of end-June 2016, increasing by LL 3,875 billion (3.7 percent) from end-2015, while net debt increased by only 2.6 percent as public sector deposits rose by 11.2 percent over the period.

Local currency debt increased by 2 percent to reach LL 66,276 billion as of end-June 2016, compared to LL 65,195 billion as of end-2015. Despite the debt replacement agreement with the Central Bank in May 2016 (*for more information, kindly refer to the May 2016 Public Finance Monitor*), local currency debt was back on the rise owing to a strong performance during the weekly auctions of June, which recorded a surplus⁷ of LL 2,342 billion. In detail, Local Currency Debt holdings by the Central Bank increased by LL 4,252 billion, whereas Commercial Banks' holdings decreased by LL 3,129 billion. The change in holdings by Commercial banks and the Central Bank do not reflect TB Auction results for the first half of 2016, suggesting large secondary market operations during the month of June. Local currency debt holdings by Public Entities increased by LL 113 billion to reach LL 8,574 billion.

The stock of **foreign currency debt** grew by the equivalent of LL 2,794 billion to LL 43,614 billion, mostly owing to a LL 3,018 billion increase in the value of outstanding Eurobonds. Moreover, "Bilateral, multilateral and foreign private sector loans" rose by LL 68 billion, whereas Paris II and Paris III related bonds and loans decreased by LL 274 billion and LL 66 billion respectively, mainly due to amortized principal repayments.

⁶ 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.

⁷ A surplus in weekly TB Auctions indicates that total accepted offers exceeded maturities over the same period.

SECTION 1: REVENUE OUTCOME

Table 2: Total Revenues

(LL billion)	2015 Jan-Jun	2016 Jan-Jun	% Change 2016/2015
Budget Revenues, of which	7,215	7,510	4.1%
Tax Revenues	5,654	5,800	2.6%
Non-Tax Revenues	1,561	1,710	9.5%
Treasury Receipts	332	535	61.3%
Total Revenues	7,546	8,045	6.6%

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

Table 3: Tax Revenues

(LL billion)	2015 Jan-Jun	2016 Jan-Jun	% Change 2016/2015
Tax Revenues:	5,654	5,800	2.6%
Taxes on Income, Profits, & Capital Gains, of which	1,969	2,060	4.6%
Income Tax on Profits	1,024	1,056	3.1%
Income Tax on Wages and Salaries	357	372	4.1%
Income Tax on Capital Gains & Dividends	181	194	7.1%
Tax on Interest Income (5%)	374	408	9.3%
Penalties on Income Tax	33	30	-10.7%
Taxes on Property, of which:	613	636	3.7%
Built Property Tax	175	173	-1.1%
Real Estate Registration Fees	355	374	5.5%
Domestic Taxes on Goods & Services, of which:	1,824	1,855	1.7%
Value Added Tax	1,559	1,587	1.8%
Other Taxes on Goods and Services, of which:	174	183	4.9%
Private Car Registration Fees	115	115	0.1%
Passenger Departure Tax	58	67	15.4%
Taxes on International Trade, of which:	1,003	1,016	1.3%
Customs	360	348	-3.2%
Excises, of which:	643	668	3.9%
Gasoline Excise	302	325	7.5%
Tobacco Excise	115	106	-7.5%
Cars Excise	223	234	5.1%
Other Tax Revenues (namely fiscal stamp fees)	245	234	-4.6%

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

Table 4: Non-Tax Revenue

(LL billion)	2015 Jan-Jun	2016 Jan-Jun	% Change 2016/2015
Non-Tax Revenues	1,561	1,710	9.5%
Income from Public Institutions and Government Properties, of which	1,071	1,194	11.5%
Income from Non-Financial Public Enterprises, of which:	956	1,059	10.8%
<i>Revenues from Casino Du Liban</i>	56	52	-6.5%
<i>Revenues from Port of Beirut</i>	60	65	8.3%
<i>Budget Surplus of National Lottery</i>	11	10	-2.9%
<i>Transfer from the Telecom Surplus</i>	829	931	12.3%
Transfer from Public Financial Institution (BDL)	61	61	-0.2%
Property Income (namely rent of Rafic Hariri International Airport)	52	70	35.4%
Other Income from Public Institutions (interests)	2	4	66.1%
Administrative Fees & Charges, of which:	396	393	-0.8%
Administrative Fees, of which:	328	314	-4.2%
<i>Notary Fees</i>	18	18	-0.4%
<i>Passport Fees/ Public Security</i>	124	133	6.9%
<i>Vehicle Control Fees</i>	122	107	-12.0%
<i>Judicial Fees</i>	16	16	-1.7%
<i>Driving License Fees</i>	16	11	-36.0%
Administrative Charges	21	22	5.7%
Sales (Official Gazette and License Number)	1	1	-1.4%
Permit Fees (mostly work permit fees)	36	47	29.0%
Other Administrative Fees & Charges	10	9	-11.4%
Penalties & Confiscations	12	22	91.9%
Other Non-Tax Revenues (mostly retirement deductibles)	82	101	22.8%

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

SECTION 2: EXPENDITURE OUTCOME

Table 5: Expenditure by Economic Classification

(LL billion)	2015 Jan-Jun	2016 Jan-Jun	% Change 2016/2015
1. Current Expenditures	8,741	8,971	2.6%
1.a Personnel Cost, of which	3,472	3,628	4.5%
Salaries, Wages and Related Items	2,279	2,370	4.0%
Retirement and End of Service Compensations, of which:	1,001	1,066	6.5%
Retirement	855	892	4.4%
End of Service	147	174	18.5%
Transfers to Public Institutions to Cover Salaries 1/	192	192	0.1%
1.b Interest Payments 2/, of which:	3,235	3,514	8.6%
Domestic Interest Payments	2,100	2,279	8.5%
Foreign Interest Payments	1,136	1,235	8.8%
1.c Accounting Adjustments 3/	1	43	-
1.d Foreign Debt Principal Repayment	171	152	-11.4%
1.e Materials and Supplies, of which:	133	189	41.9%
Nutrition	36	39	7.0%
Fuel Oil	7	17	147.1%
Medicaments	61	97	60.4%
1.f External Services	73	82	11.6%
1.g Various Transfers, of which:	1,261	936	-25.8%
EDL 4/	946	504	-46.7%
NSSF	0	20	-
Higher Council of Relief	28	1	-97.0%
Contributions to non-public sectors	149	162	8.6%
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:	301	342	13.5%
Hospitals	212	278	31.1%
Others(judgments & reconciliations, mission costs, other)	83	62	-25.1%
1.i Interest Subsidy	93	85	-8.5%
2. Capital Expenditures	405	521	28.7%
2.a Acquisitions of Land, Buildings, for the Construction of Roads, Ports, Airports, and Water Networks	0	0	30.0%
2.b Equipment	29	31	7.6%
2.c Construction in Progress, of which:	282	336	19.2%
Displaced Fund	0	0	-
Council of the South	20	28	40.3%
CDR	183	150	-18.1%
Ministry of Public Work and Transport	23	62	166.8%
Other of which:	53	91	71.1%
Higher Council of Relief	4	2	-50.0%
2.d Maintenance	82	105	28.2%
2.e Other Expenditures Related to Fixed Capital Assets	12	49	301.1%
3. Budget Advances 6/	125	165	32.4%
4. Customs Administration (exc. Salaries and Wages) 7/	39	61	56.2%
5. Treasury Expenditures 8/	927	1,244	34.2%
Municipalities	573	906	58.3%
Guarantees	31	37	17.6%
Deposits 9/	126	121	-3.7%
Other, of which:	197	179	-8.9%
VAT Refund	159	125	-21.3%
6. Unclassified Expenditures	1	3	-
7. Total Expenditures (Excluding CDR Foreign Financed)	10,237	10,964	7.1%

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. 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.

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

⁶ 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.

⁷ 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.

⁸ 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.

⁹ 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-Jun	2016 Jan-Jun	% Change 2016/2015
Transfer to Council of the South	4	5	38.6%
Transfer to CDR	6	22	290.8%
Transfer to the Displaced Fund	3	3	0.0%
Transfer to the Lebanese University	180	155	-13.7%
Transfer to the Educational Center for Research and Development	0	7	-

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

Table 7: Details of Debt Service Transactions¹

(LL billion)	2015 Jan-Jun	2016 Jan-Jun	% Change 2016/2015
Interest Payments	3,235	3,514	8.6%
Local Currency Debt	2,100	2,279	8.5%
Foreign Currency Debt, of which:	1,136	1,235	8.7%
Eurobond Coupon Interest*	1,081	1,189	10.0%
Special bond Coupon Interest*	3	2	-46.1%
Concessional Loans Interest Payments	52	45	-14.2%
Foreign Debt Principal Repayment	171	152	-11.4%

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-Jun	2016 Jan-Jun	% Change 2016/2015
EDL, of which:	946	504	-46.7%
Debt Service	13	10	-25.0%
Reimbursement for purchase of Natural Gas, Fuel & Gas Oil	933	494	-47.0%

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

SECTION 3: PUBLIC DEBT

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

(LL billion)	Dec-14	Dec-15	Jun-16	% Change Jun 16- Dec 15
Gross Public Debt	100,356	106,015	109,890	3.66%
Local Currency Debt	61,752	65,195	66,276	1.66%
* Accrued Interest Included in Debt	1,029	997	960	-3.71%
a. Central Bank (Including REPOs)	19,855	24,308	28,560	17.49%
b. Commercial Banks	31,468	29,878	26,749	-10.47%
c. Other Local Currency Debt (T-bills), of which:	10,429	11,009	10,967	-0.38%
Public Entities	7,701	8,461	8,574	1.34%
Contractor bonds 1/	180	180	180	0.00%
Foreign Currency Debt 2/	38,604	40,820	43,614	6.84%
a. Bilateral, Multilateral and Foreign Private Sector Loans	2,752	2,479	2,547	2.73%
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	743	-8.20%
d. Market-Issued Eurobonds	32,584	35,846	38,865	8.42%
e. Accrued Interest on Eurobonds	425	435	485	11.49%
f. Special T-bills in Foreign Currency 5/	114	68	66	-2.94%
Public Sector Deposits	13,965	13,227	14,708	11.20%
Net Debt 6/	86,391	92,788	95,182	2.58%
Gross Market Debt 7/	67,373	68,799	68,576	-0.33%
% of Total Debt	67%	65%	62%	-3.84%

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.



For further information please contact:

Ministry of Finance

UNDP Project

Tel: 961 1 981057/8

Fax: 961 1 981059

E-mail: infocenter@finance.gov.lb

Website: www.finance.gov.lb