

General Overview

TABLE OF CONTENTS

Revenues

Page 2

Expenditure

Page 2-3

Public Debt Development

Page 3

Public finances registered an improvement in the first five months of 2016, despite the predominantly unfavorable economic conditions, partly owing to inconsistencies in the timing of revenue collections and expenditures compared to previous years. Government revenues increased by LL 767 billion from the same period in 2015, mostly owing to early collections of income taxes on profits (which are usually made during the months of May and June), whereas expenditures increased by LL 696 billion largely reflecting one-off transfers to municipalities¹, in addition to higher interest payments and personnel cost.

The **total fiscal balance** recorded a deficit of LL 2,522 billion, down by 3 percent from Jan-May 2015, and the **primary surplus** expanded to LL 591 billion from LL 280 billion (Table 1-a). Adjusting for the one-off transfers to municipalities in Jan-May 2016, the fiscal deficit shows a substantially larger annual drop of 26 percent year-on-year to LL 1,931 billion, outlining the unexpected rise in revenues. With the adjustment, primary balance registered a surplus of LL 1,182 billion (Table 1-b)², compared to a surplus of LL 280 billion in Jan-May 2015 and a surplus of LL 672 billion in Jan-May 2014.

Table 1-a: Summary of Fiscal Performance

(LL billion)	2015 Jan-May	2016 Jan-May	% Change 2016/2015
Total Budget and Treasury Receipts	6,083	6,850	12.6%
Total Budget and Treasury Payments, of which	8,676	9,372	8.0%
•Interest Payments	2,732	2,994	9.6%
•Concessional loans principal payment ¹	141	119	-15.1%
•Primary Expenditures ²	5,803	6,259	7.9%
Total (Deficit)/Surplus	(2,593)	(2,522)	-2.7%
Primary (Deficit)/Surplus	280	591	110.8%

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-May	2016 Jan-May	% Change 2016/2015
Total Budget and Treasury Receipts	6,083	6,850	12.6%
Total Budget and Treasury Payments, of which	8,676	8,780	1.2%
•Interest Payments	2,732	2,994	9.6%
•Concessional loans principal payment	141	119	-15.1%
•Primary Expenditures	5,803	5,667	-2.3%
Total (Deficit)/Surplus	(2,593)	(1,931)	-25.5%
Primary (Deficit)/Surplus	280	1,182	321.9%

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-May 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-May 2016.

² Table 1-b does not represent an indication of 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 13 percent in the first five months of 2016 to reach LL 6,850 billion, up from LL 6,083 billion in the same period of 2015.

Tax revenues exceptionally rose by LL 617 billion (14 percent), to reach LL 5,125 billion in Jan-May 2016. Most importantly, **taxes on income, profits and capital gains** were up by LL 525 billion as the bulk of income taxes on profits were collected early during May 2016, noting that it is usually collected between the months of May and June of the year.

Property taxes rose by LL 39 billion owing to a rise in both real estate registration fees and inheritance taxes by LL 27 billion and LL 11 billion respectively. **Domestic taxes on goods and services** increased by LL 34 billion driven mainly by a LL 48 billion (4 percent) rise in VAT collections that was partly counterbalanced by a LL 21 billion drop in transfers from Régie³ due to a discrepancy in timing. In detail, internal and customs VAT rose by 5 percent and 2 percent respectively.

Taxes on international trade increased by LL 16 billion driven by higher excises (LL 24 billion), which were slightly counterbalanced by lower customs duties (LL 8 billion). Moreover, **fiscal stamps** inched up by LL 4 billion over the period.

Non-tax revenues increased by LL 34 billion to reach LL 1,328 billion in Jan-May 2016, due to increases in **other non-tax revenues** (mostly retirement deductibles) and **administrative fees and charges** by LL 17 billion and LL 11 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 2 percent over the period.

Treasury receipts rose by LL 116 billion (41 percent) to reach LL 397 billion by May 2016.

Expenditure

Total expenditures recorded a significant increase of LL 696 billion (8 percent), standing at LL 9,372 billion in Jan-May 2016.

Current primary expenditures⁴ rose by LL 158 billion to LL 4,589 billion by end May 2016, as a result of increases in (i) **personnel cost** by LL 185 billion, mainly driven by an increase in **salaries, wages and social benefits** of LL 118 billion and **retirement and end of service compensations** of LL 55 billion, (ii) **payments to hospitals** by LL 75 billion, and (iii) **material and supplies** by LL 49 billion. These increases were partly counterbalanced by a significant drop of LL 279 billion in **transfers to EDL**.

Interest payments rose by LL 261 billion to reach LL 2,994 billion. **Foreign debt principal repayment** amounted to LL 119 billion in Jan-May 2016, down from the LL 141 billion registered in Jan-May 2015.

Capital expenditures increased by LL 35 billion in Jan-May 2016, chiefly due to (i) a LL 37 billion increase in **other construction in progress** mainly driven by an increase in transfers to the Ministry of Energy, (ii) a LL 35 billion increase in **other expenditures related to fixed capital assets**, (iii) a LL 29 billion rise in transfers to the **Ministry of Public Work and Transport**, and (iv) a LL 17 billion higher payments for **maintenance**. A decrease of LL 84 billion in transfers to **CDR** partly offset the increase in capital expenditures.

³ Transfers from Régie amounted to LL 50 billion in Jan-May 2016, compared to LL 71 billion in Jan-May 2015.

⁴ Current primary expenditures represent current expenditures excluding interest payments and Foreign Debt Principal Repayment.

Treasury expenditures witnessed a significant increase of LL 189 billion to reach LL 1,057 billion in Jan-May 2016, mainly due to higher payments to Municipalities – from LL 549 billion in Jan-May 2015 to LL 830 billion in Jan-May 2016. This increase was slightly counterbalanced by a LL 59 billion drop in deposits and a LL 43 billion decline in VAT refund.

Public Debt

Gross public debt reached LL 107,776 billion as of end-May 2016, increasing by LL 1,761 billion (1.7 percent) from end-2015; however, net debt increased at a slightly faster pace of 1.9 percent, as public sector deposits remained almost the same over the period.

Local currency debt dropped to LL 64,041 billion as of end-May 2016 down from LL 65,195 billion as of end-2015, mainly as a result of a debt replacement agreement⁵ with the Central Bank (BDL) in May 2016, whereby the Ministry of Finance issued US\$ 2 billion in Eurobonds and BDL redeemed the equivalent amount from its LL portfolio. As a result, the share of local currency debt from total debt decreased to 59 percent, from 61 percent before the transaction. The drop in local currency debt following the debt replacement agreement was partly counterbalanced by a LL 1,718 billion surplus registered in the TB auctions of Jan-May 2016. Local Currency Debt holdings by the Central Bank increased by LL 124 billion, whereas Commercial Banks' holdings decreased by LL 1,133 billion.

The stock of **foreign currency debt** grew by the equivalent of LL 2,915 billion to LL 43,735 billion, mostly owing to an increase of the equivalent of LL 3,030 billion increase in the value of outstanding Eurobonds ensuing from the debt replacement agreement. As part of the transaction, the Ministry of Finance issued three series, a US\$ 500 million 6.25 percent coupon Eurobond due May 2022, a US\$ 500 million 6.40 percent coupon Eurobond due May 2023, and a US\$ 1,000 million 6.85 percent coupon Eurobond due May 2029. "Bilateral, multilateral and foreign private sector loans" rose by LL 74 billion, whereas Paris II and Paris III related bonds and loans decreased by LL 84 billion and LL 66 billion respectively, mainly due to amortized principal repayments.

⁵ For more information on the Debt Replacement Agreement between the Ministry of Finance and the Central Bank, please refer to the note titled, "Triple-Tranche: 6.25% USD note due May 2022, 6.40% USD note due May 2023, and 6.85% USD note due 2029, in LL/FX Debt Replacement Agreement with BDL, Issued 27 May 2016" on MoF's website: <http://www.finance.gov.lb/en-US/finance/PublicDebt/Pages/DebtTransactions.aspx>

SECTION 1: REVENUE OUTCOME

Table 2: Total Revenues

(LL billion)	2015 Jan-May	2016 Jan-May	% Change 2016/2015
Budget Revenues, of which	5,801	6,453	11.2%
Tax Revenues	4,508	5,125	13.7%
Non-Tax Revenues	1,294	1,328	2.6%
Treasury Receipts	281	397	41.2%
Total Revenues	6,083	6,850	12.6%

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

Table 3: Tax Revenues

(LL billion)	2015 Jan-May	2016 Jan-May	% Change 2016/2015
Tax Revenues:	4,508	5,125	13.7%
Taxes on Income, Profits, & Capital Gains, of which	1,395	1,920	37.6%
Income Tax on Profits	576	1,025	78.0%
Income Tax on Wages and Salaries	352	367	4.3%
Income Tax on Capital Gains & Dividends	120	154	29.2%
Tax on Interest Income (5%)	319	348	9.0%
Penalties on Income Tax	29	25	-11.3%
Taxes on Property, of which:	512	551	7.6%
Built Property Tax	161	161	0.1%
Real Estate Registration Fees	286	313	9.6%
Domestic Taxes on Goods & Services, of which:	1,581	1,614	2.1%
Value Added Tax	1,365	1,413	3.5%
Other Taxes on Goods and Services, of which:	140	146	4.8%
Private Car Registration Fees	89	92	3.6%
Passenger Departure Tax	50	54	7.9%
Taxes on International Trade, of which:	818	834	2.0%
Customs	293	286	-2.6%
Excises, of which:	525	549	4.6%
Gasoline Excise	249	273	9.9%
Tobacco Excise	99	84	-14.8%
Cars Excise	174	189	8.2%
Other Tax Revenues (namely fiscal stamp fees)	202	206	1.8%

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

Table 4: Non-Tax Revenue

(LL billion)	2015 Jan-May	2016 Jan-May	% Change 2016/2015
Non-Tax Revenues	1,294	1,328	2.6%
Income from Public Institutions and Government Properties, of which	891	886	-0.5%
Income from Non-Financial Public Enterprises, of which:	781	769	-1.6%
<i>Revenues from Casino Du Liban</i>	47	44	-6.3%
<i>Revenues from Port of Beirut</i>	60	65	8.3%
<i>Budget Surplus of National Lottery</i>	0	0	-
<i>Transfer from the Telecom Surplus ^{1/}</i>	674	660	-2.1%
Transfer from Public Financial Institution (BDL)	61	61	-0.2%
Property Income (namely rent of Rafic Hariri International Airport)	47	53	12.1%
Other Income from Public Institutions (interests)	2	3	91.4%
Administrative Fees & Charges, of which:	325	335	3.3%
Administrative Fees, of which:	265	265	0.1%
<i>Notary Fees</i>	15	15	-0.5%
<i>Passport Fees/ Public Security</i>	99	109	10.6%
<i>Vehicle Control Fees</i>	101	93	-8.2%
<i>Judicial Fees</i>	13	14	3.2%
<i>Driving License Fees</i>	13	9	-31.3%
Administrative Charges	20	21	4.8%
Sales (Official Gazette and License Number)	1	1	-1.9%
Permit Fees (mostly work permit fees)	30	40	31.1%
Other Administrative Fees & Charges	8	8	-0.4%
Penalties & Confiscations	8	19	142.0%
Other Non-Tax Revenues (mostly retirement deductibles)	71	88	24.4%

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

SECTION 2: EXPENDITURE OUTCOME

Table 5: Expenditure by Economic Classification

(LL billion)	2015 Jan-May	2016 Jan-May	% Change 2016/2015
1. Current Expenditures	7,305	7,702	5.4%
1.a Personnel Cost, of which	2,907	3,092	6.4%
Salaries, Wages and Related Items	1,930	2,047	6.1%
Retirement and End of Service Compensations, of which:	817	873	6.8%
Retirement	709	742	4.6%
End of Service	109	131	20.8%
Transfers to Public Institutions to Cover Salaries 1/	160	172	7.9%
1.b Interest Payments 2/, of which:	2,732	2,994	9.6%
Domestic Interest Payments	1,751	1,887	7.8%
Foreign Interest Payments	982	1,106	12.7%
1.c Accounting Adjustments 3/	1	43	-
1.d Foreign Debt Principal Repayment	141	119	-15.1%
1.e Materials and Supplies, of which:	109	159	45.4%
Nutrition	33	28	-16.7%
Fuel Oil	3	14	429.4%
Medicaments	49	86	76.7%
1.f External Services	66	68	2.4%
1.g Various Transfers, of which:	992	837	-15.6%
EDL 4/	712	433	-39.2%
NSSF	0	20	-
Higher Council of Relief	28	1	-97.0%
Contributions to non-public sectors	123	157	28.2%
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:	280	331	18.2%
Hospitals	201	276	37.1%
Others(judgments & reconciliations, mission costs, other)	73	53	-27.7%
1.i Interest Subsidy	77	60	-22.2%
2. Capital Expenditures	368	403	9.5%
2.a Acquisitions of Land, Buildings, for the Construction of Roads, Ports, Airports, and Water Networks	0	0	41.7%
2.b Equipment	23	30	27.4%
2.c Construction in Progress, of which:	259	235	-9.2%
Displaced Fund	0	0	-
Council of the South	20	11	-45.3%
CDR	165	81	-50.8%
Ministry of Public Work and Transport	22	52	132.0%
Other of which:	50	87	75.5%
Higher Council of Relief	4	2	-50.0%
2.d Maintenance	74	91	23.5%
2.e Other Expenditures Related to Fixed Capital Assets	12	47	290.7%
3. Budget Advances 6/	98	151	53.7%
4. Customs Administration (exc. Salaries and Wages) 7/	36	56	55.3%
5. Treasury Expenditures 8/	868	1,057	21.8%
Municipalities	549	830	51.2%
Guarantees	28	28	1.3%
Deposits 9/	119	60	-49.4%
Other, of which:	173	139	-19.5%
VAT Refund	142	99	-30.5%
6. Unclassified Expenditures	0	3	-
7. Total Expenditures (Excluding CDR Foreign Financed)	8,676	9,372	8.0%

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. 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-May	2016 Jan-May	% Change 2016/2015
Transfer to Council of the South	2	3	20.7%
Transfer to CDR	6	16	190.8%
Transfer to the Displaced Fund	2	2	0.0%
Transfer to the Lebanese University	150	144	-3.7%
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-May	2016 Jan-May	% Change 2016/2015
Interest Payments	2,732	2,994	9.6%
Local Currency Debt	1,751	1,887	7.8%
Foreign Currency Debt, of which:	982	1,106	12.7%
Eurobond Coupon Interest*	934	1,066	14.1%
Special bond Coupon Interest*	2	1	-40.3%
Concessional Loans Interest Payments	45	39	-14.9%
Foreign Debt Principal Repayment	141	119	-15.1%

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-May	2016 Jan-May	% Change 2016/2015
EDL, of which:	712	433	-39.2%
Debt Service	13	9	-26.1%
Reimbursement for purchase of Natural Gas, Fuel & Gas Oil	699	423	-39.4%

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

SECTION 3: PUBLIC DEBT

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

(LL billion)	Dec-14	Dec-15	May-16	% Change May 16-Dec 15
Gross Public Debt	100,356	106,015	107,776	1.66%
Local Currency Debt	61,752	65,195	64,041	-1.77%
* Accrued Interest Included in Debt	1,029	997	1,057	6.02%
a. Central Bank (Including REPOs)	19,855	24,308	24,432	0.51%
b. Commercial Banks	31,468	29,878	28,745	-3.79%
c. Other Local Currency Debt (T-bills), of which:	10,429	11,009	10,864	-1.32%
Public Entities	7,701	8,461	8,409	-0.61%
Contractor bonds 1/	180	180	180	0.00%
Foreign Currency Debt 2/	38,604	40,820	43,735	7.14%
a. Bilateral, Multilateral and Foreign Private Sector Loans	2,752	2,479	2,553	2.97%
b. Paris II Related Debt (Eurobonds and Loans) 3/	1,743	1,182	1,098	-7.09%
c. Paris III Related Debt (Eurobonds and Loans) 4/	986	810	743	-8.18%
d. Market-Issued Eurobonds	32,584	35,846	38,877	8.45%
e. Accrued Interest on Eurobonds	425	435	398	-8.51%
f. Special T-bills in Foreign Currency 5/	114	68	66	-2.94%
Public Sector Deposits	13,965	13,227	13,225	-0.02%
Net Debt 6/	86,391	92,788	94,551	1.90%
Gross Market Debt 7/	67,373	68,799	70,565	2.57%
% of Total Debt	67%	65%	65%	0.89%

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