

Public Finance Monitor

The Monthly Statistical Bulletin of the Ministry of Finance

September 2007

Section 1: Fiscal Overview

For the first nine months of 2007, the total fiscal deficit decreased by LL 236 billion reaching LL 2,735 billion compared to 2,971 billion registered during January-September 2006. This improvement is due to the increase in total receipts by LL 1,155 billion which offset the LL 918 billion increase in total payments. In turn, total primary surplus continued to improve scoring a total of LL 866 billion by end of September 2007 compared to LL 191 billion registered in January-September 2006.

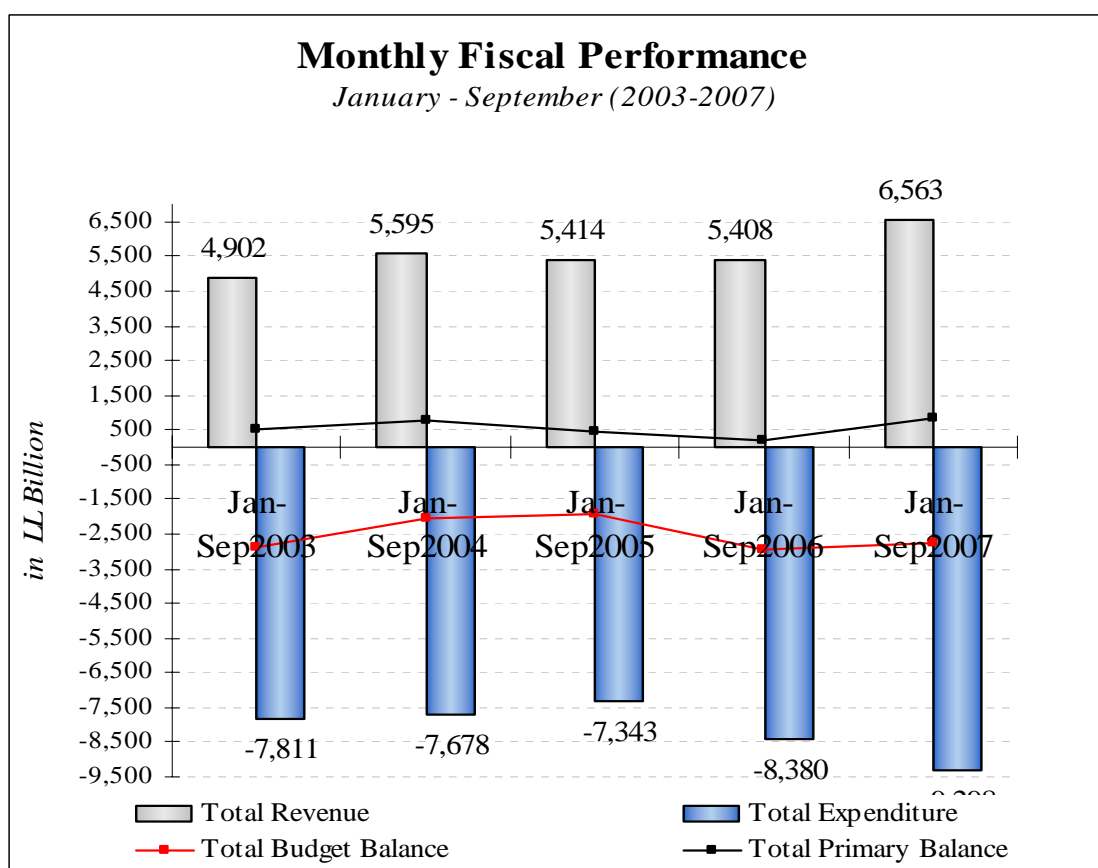
In the month of September 2007, the total deficit improved by 41% reaching LL 408 billion when compared to LL 686 billion in September 2006. As for the primary balance, it went from a primary deficit of LL 306 in September 2006, to a primary surplus of LL 48 billion in September 2007.

Table 1. Summary of Fiscal Performance

(LL billion)	2006	2007	2006	2007	Change	%
	September	September	Jan-Sept	Jan-Sept	2006-2007	Change
Budget Revenue	334	526	5,072	6,037	965	19.0%
Budget Expenditures	713	822	6,641	7,485	844	12.7%
<i>o/w Previous Years Appropriations</i>	1	2	490	568	77	15.8%
<i>o/w Debt Service</i>	379	456	3,162	3,600	438	13.8%
Budget Deficit/Surplus	-379	-296	-1,569	-1,448	121	-7.7%
in % of Budget Expenditures	-53.1%	-36.1%	-23.6%	-19.3%		
Budget Primary Deficit/Surplus	0	160	1,594	2,153	559	35.1%
in % of Budget Expenditures	0.1%	19.5%	24.0%	28.8%		
Treasury Receipts	20	56	336	526	190	56.6%
Treasury Payments	327	168	1,738	1,813	74	4.3%
Total Budget and Treasury Receipts	355	582	5,408	6,563	1,155	21.3%
Total Budget and Treasury Payments	1,040	990	8,380	9,298	918	11.0%
Total Cash Deficit/Surplus	-686	-408	-2,971	-2,735	236	-8.0%
in % of Total Expenditures	-65.9%	-41.2%	-35.5%	-29.4%		
Primary Deficit/Surplus	-306	48	191	866	674	352.6%
in % of Total Expenditures	-29.5%	4.9%	2.3%	9.3%		

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

Chart 1.



Section 2: Revenue Outcome

Total revenues collected during January – September 2007, reached LL 6,563 billion compared to LL 5,408 during the same period last year, registering a 21 percent increase due to increase in both budget revenues and treasury receipts.

- a) **Budget revenues** increased by 19 percent and registered a total of LL 6,037 billion due to amelioration in both tax and non-tax revenues which increased by 14 and 32 percent respectively in comparison to the same period last year.

Tax Revenue improvements were apparent in all tax aggregate components:

- ❖ **Taxes on Income Profits and Capital Gains** totaled LL 1,055 billion during January – September 2007 compared to LL 983 billion collected during the same period last year. The 7 percent increase was mainly due to the following: 33 percent higher Income Tax on Capital Gains and Dividends, 6 percent higher Income Tax on Profits, 5 percent higher Income Tax on Wages and Salaries and 4 percent higher Tax on Interest Income .
- ❖ **Domestic tax on Goods and Services** increased by 24 percent registering LL 1,614 billion. This is mainly due to a 25 percent higher collection in VAT revenues (LL 1,053 billion VAT from customs and LL 400 billion VAT from internal activity) and 18 percent increase in "Other Taxes on

goods and services" (revenues from Private Car Registration Fees and Passenger departure tax increased by 16 and 22 percent respectively).

- ❖ **Taxes on International trade** (customs duties and excises) increased by 34 percent and totaled LL 938 billion (LL 409 billion customs duties and LL 529 billion excises). This increase is attributed to 28 percent higher Customs Duties and 40 percent higher excise taxes namely due to: 56 percent higher petroleum tax, 45 percent higher tobacco tax and 24 percent higher tax on cars.
- ❖ **Recurrent taxes on built property and Property registration fees** witnessed 20 percent and 15 percent higher collection respectively over the period January-September 2007, due to the ongoing administrative reforms for the former and higher activity on the real estate market for the latter.

Non-tax revenue totaled LL 1,872 billion compared to LL 1,421 billion in January-September 2006 registering an increase of 32 percent. This is mainly due to:

- ❖ **Income from Public Institutions and Government Properties** increased by 46 percent due to improved revenues from Casino Du Liban¹ (by 55 percent), from the Telecom Budget Surplus² (by 33 percent) and from the rent of Rafic Hariri International Airport (by 40 percent), together with the LL 113 billion (representing the 80 percent transfer to the Treasury of the BDL net profit according to the Article 113 of the Code of Money and Credit).

The increased Income from Public Institutions and Government Properties has more than offset the 5 percent deterioration in the collection from **Administrative Fees and Charges** (Vehicle Control Fees³ decreased by 11 percent, revenues from the Driving License Fees by 28 percent and the Work Permit Fees by 14 percent), and the 10 percent decrease in **Other Non Tax Revenues** (mostly retirement deductibles).

- b) **Treasury Receipts** increased by 57 percent compared to January- September of last year. This is due to a LL 151 billion grant received from Saudi Arabia during April 2007⁴. Further note that an amount equivalent to LL 38 billion was reported under "other Treasury revenues" which represents adjustment entries (in

¹ As per the Government economic reform program presented at Paris III, and as per the Government's aim at revenue enhancement, and particularly from public properties, a new phase of the agreement with Casino Management entered into effect, whereby Treasury's share of casino revenues increased from 30% to 40% as of 2007.

² Please note that an amount equivalent to LL 139 billion of arbitration settlement was paid to France Telecom in April 2007. Further note that LL 48 billion and LL 226 billion of arbitration settlements to France Telecom were also paid in April and September 2006 respectively.

³ Please note that the higher collection of vehicle control or road usage fees in 2006 may be attributed to the amnesty on penalties on unsettled dues, as per Article 29 of Budget Law 2005 (Law 715, February 3rd, 2006).

⁴ Note that the Treasury revenue figure of 2006 further records LL 78 billion grants received in July-August 2006 for post war reconstruction and rehabilitation.,

the months of January and June 2007) regularizing a treasury advance payments⁵. In addition, the month of September 2007 registered an exceptionally high amount of guarantees which pertains to the Public Institution for Housing.

Table 2. Total Revenue

(LL billion)	2006	2007	2006	2007	%
	September	September	Jan-Sep	Jan-Sep	Change
Budget Revenues, of					
<i>which:</i>	334	526	5,072	6,037	19.0%
<i>Tax Revenues</i>	292	357	3,651	4,165	14.1%
<i>Non-Tax Revenues</i>	42	168	1,421	1,872	31.7%
Treasury Receipts	20	56	336	526	56.6%
Total Revenues	355	582	5,408	6,563	21.3%

Source: MOF, DGF

⁵ Note that the amount is further recorded in treasury expenditure reported under the items "Materials and Supplies" and "Various Transfers" (Please refer to section 3: Expenditure Outcome). Therefore, from a fiscal deficit perspective it has no impact.

Table 3. Tax Revenue

(LL billion)	2006	2007	2006	2007	%
	September	September	Jan-Sep	Jan-Sep	Change
Tax Revenues:	292	357	3,651	4,165	14.1%
Taxes on Income, Profits, & Capital Gains, of which:	41	52	983	1,055	7.2%
Income Tax on Profits	5	13	426	453	6.3%
Income Tax on Wages and Salaries	4	3	154	162	5.1%
Income Tax on Capital Gains & Dividends	2	5	89	119	33.1%
Tax on Interest Income (5%)	30	29	301	313	3.7%
Penalties on Income Tax	0	2	10	7	-28.9%
Taxes on Property, of which:	25	39	465	357	-23.1%
Built Property Tax	4	8	72	86	20.1%
Real Estate Registration Fees	17	28	202	233	15.2%
Domestic Taxes on Goods & Services, of which:	127	147	1,307	1,614	23.5%
Value Added Tax	115	124	1,164	1,453	24.8%
Other Taxes on Goods and Services, of which:	10	23	132	155	17.6%
Private Car Registration Fees	6	11	82	95	15.8%
Passenger Departure Tax	4	11	49	60	21.7%
Taxes on International Trade, of which:	81	101	700	938	34.1%
Customs	34	45	320	409	27.7%
Excises, of which:	47	56	379	529	39.5%
Petroleum Tax	20	14	110	172	56.1%
Tobacco Tax	13	15	109	158	45.1%
Tax on Cars	14	26	158	197	24.4%
Other Tax Revenues (namely fiscal stamp fees)	18	18	197	201	2.2%

Source: MOF, DGF

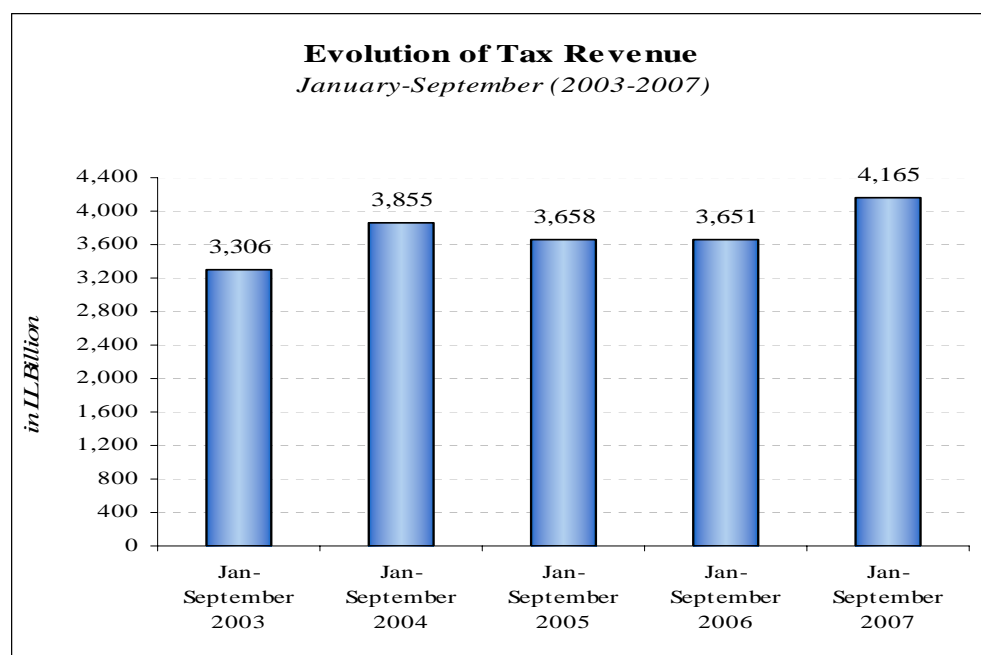
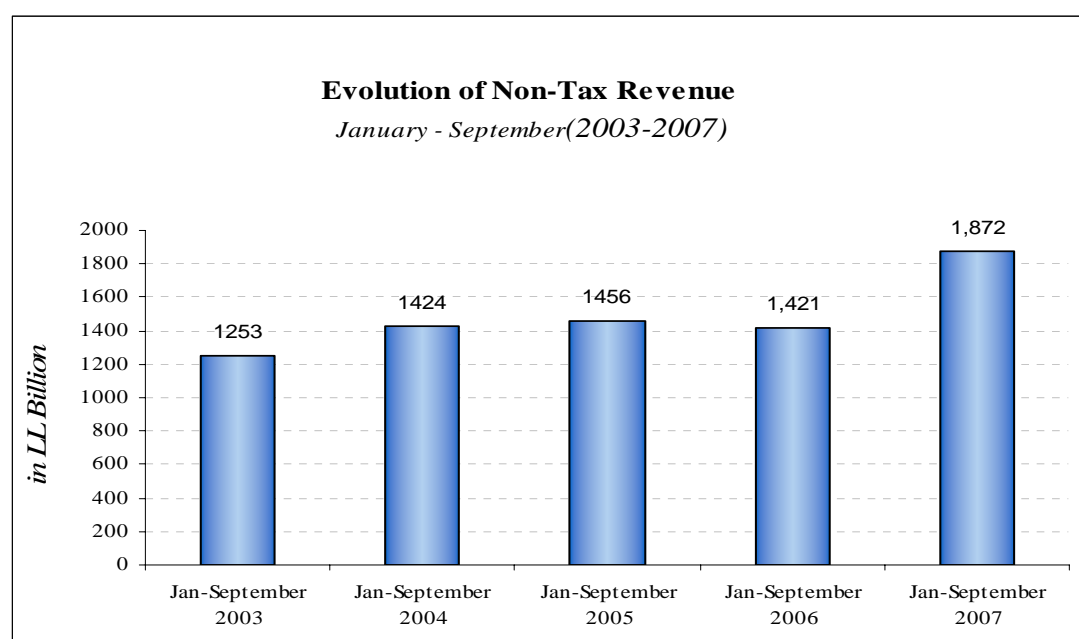
Chart 2.

Table 4. Non-Tax Revenue

(LL billion)	2006 September	2007 September	2006 Jan-Sep	2007 Jan-Sep	% Change
Non-Tax Revenues	42	168	1,421	1,872	31.7%
Income from Public Institutions and Government Properties, of which:	4	129	1,029	1,503	46.1%
Income from Non-Financial Public Enterprises, of which:	2	127	1,004	1,357	35.1%
<i>Revenues from Casino Du Liban</i>	2	7	29	45	55.4%
<i>Revenues from Port of Beirut</i>	0	0	0	30	-
<i>Budget Surplus of National Lottery</i>	0	4	47	44	-6.4%
<i>Transfer from the Telecom Surplus</i>	0	115	927	1,237	33.4%
Property Income (namely rent of Rafic Hariri International Airport)	2	2	21	29	40.0%
Other Income from Public Institutions (interests)	0	1	4	4	5.1%
Administrative Fees & Charges, of which:	29	30	322	305	-5.4%
Administrative Fees, of which:	23	25	260	245	-5.5%
<i>Notary Fees</i>	1	2	13	15	18.4%
<i>Passport Fees/ Public Security</i>	8	9	92	88	-4.5%
<i>Vehicle Control Fees</i>	9	10	112	100	-10.9%
<i>Judicial Fees</i>	1	1	14	14	-1.1%
<i>Driving License Fees</i>	2	1	17	12	-28.4%
Administrative Charges	0	1	10	13	31.5%
Sales (Official Gazette and License Number)	0	0	2	2	-2.7%
Permit Fees (mostly work permit fees)	5	4	41	36	-13.6%
Other Administrative Fees & Charges	1	1	10	9	-5.8%
Penalties & Confiscations	0	0	3	4	23.7%
Other Non-Tax Revenues (mostly retirement deductibles)	9	9	67	60	-10.0%

Source: MOF, DGF

Chart 3.

Section 3: Expenditure Outcome

In January-September 2007, **total expenditures** witnessed an increase of LL 918 billion reaching LL 9,298 billion when compared to LL 8,380 billion in January-September 2006, i.e., by around 11 percent. This increase remains as a consequence of the rise in both interest payments and non-interest payments by LL 438 billion and LL 480 billion respectively. The different levels of expenditures are detailed as follows:

1. Debt service registered a total of LL 3,600 billion in January-September 2007 increasing by 14 percent compared to LL 3,162 billion for the same period of 2006. This rise was due to higher interest payments in both local and foreign currency debt by around 19 and 9 percent respectively.

2. Non-interest expenditures increased by 9 percent in January – September 2007 reaching a total of LL 5,697 billion compared to LL 5,218 billion registered in the same period of last year. Unlike the previous months, the rise is due to an increase in both current primary expenditures and capital expenditures while other treasury expenditures scored a slight decrease. The details of each level of spending are explained as follows:

a. **Current primary budget expenditures** registered a total of LL 3,582 billion in January-September 2007 when compared to LL 3,122 billion for the same period of 2006, increasing by LL 460 billion, mainly due to the exceptional payments that took place during the first quarter of 2007 such as the additional salary to the armed forces in addition to the adjustment of the payments of treasury advances as explained below:

i. **"Wages and Salaries"** increased by LL 304 billion, mainly due to four major factors:

- Basic salaries increased by LL 199 billion mainly due to the additional salary paid to the armed forces during February 2007 (decision of the Council of Ministers dated 4/1/2007) in addition to the increase resulting from the new recruit in the armed forces that took place in the last quarter of 2006;
- Salaries-related allowances increased by LL 10.6 billion mainly due to the increase in family allowances by LL 1.6 billion and the allowances of transportation by LL 4.6 billion;
- A further increase was generated from the higher payment of health allowances (maternity, sickness and hospitalization) which rose by LL 35 billion during January-September 2007 when compared to the same period of last year;
- The Civil Servants Cooperatives and the mutual funds received additional transfers of LL 45.5 billion and LL 2 billion respectively as compared to the same period last year.

ii. **"Materials and Supplies"** increased by LL 75 billion. Out of this amount, a total of around LL 23 billion resulted from an accounting entry to adjust the

payments of treasury advances. This adjustment was netted out by including a similar amount in the revenues.

iii. **"Various Transfers"** increased by LL 108 billion mainly due to the higher transfer of LL 70 billion to the NSSF which received a total amount of LL 220 billion during January-September when compared to the LL 150 billion for the same period of 2006. Also a slight increase was reported in the transfers to the "Non-Governmental Organizations" by LL 3 billion and in the contributions to public institutions by LL 2.5 .

iv. **"Other current expenditures"** registered a decrease of LL 31 billion, mainly due to the decrease of its major component "Hospitals" by LL 37 billion for the period of January-September 2007 when compared to the same period of last year.

b. **Capital expenditures** registered an increase of LL 13 billion in January-September 2007 when compared to the same period of 2006. While "Construction in Progress" and "Other Expenditures Related to Fixed Capital Assets" decreased by LL 7 billion and LL 6 billion respectively, "Acquisition of Land", "Equipment" and "Maintenance" increased by LL 5 billion, LL 17 billion and LL 4 billion respectively.

c. **Other treasury expenditures** decreased by LL 4 billion for January-September 2007 when compared to the same period of last year. Despite the increase in transfers to EDL by LL 237 billion, the other major components of this item witnessed a decrease:

- i. Transfers to municipalities decreased by LL 143 billion. This big decrease in transfers to municipalities is in part related to higher transfer reported last year, as transfers to municipalities were speeded up during the war of July 2006, when around LL 40 billion were paid in order to support the relief efforts. It should be noted also that the transfers to municipalities for their dues on 2005 revenues was undeliberatly delayed started to take place in September 2007.
- ii. The Higher relief Commission received only LL 16 billion during the past period 2007, as opposed to LL 98 billion transferred in the same period of 2006, recalling that of 2006 transfer LL 79 billion were from the special donation account that was opened upon the war of July.
- iii. No treasury advances for diesel oil subsidy were paid during 2007, noting that in 2006, the subsidy amount reached LL 52 billion.

Transfers to EDL reached 1,139 billion LL during January-September 2007, compared to 902 billion LL for the same period in 2006. This increase can be explained by the following two reasons:

- i. An increase of payments to Kuwait Petroleum Corporation and Algeria's Sonatrach for fuel and gas oil purchases by LL 323 billion.
- ii. An increase in debt service by LL 56 billion

Table 5. Expenditures by Transaction Classification

(LL billion)	2006	2007	2006	2007	%
	September	September	Jan-Sept	Jan-Sept	Change
Total Expenditures	1,040	990	8,380	9,298	11.0%
Budget Expenditures	713	822	6,641	7,485	12.7%
Expenditures Excluding Debt Service, of which:	334	365	3,479	3,885	11.7%
<i>Previous Years' Appropriations</i>	<i>1</i>	<i>2</i>	<i>490</i>	<i>568</i>	<i>15.8%</i>
Debt Service, of which:	379	456	3,162	3,600	13.9%
<i>Domestic Debt</i>	<i>170</i>	<i>235</i>	<i>1,656</i>	<i>1,965</i>	<i>18.6%</i>
<i>Foreign Debt, of which:</i>	<i>209</i>	<i>221</i>	<i>1,506</i>	<i>1,635</i>	<i>8.6%</i>
<i>Eurobond Coupon Interest*</i>	<i>163</i>	<i>160</i>	<i>1,263</i>	<i>1,357</i>	<i>7.4%</i>
<i>Specialbond Coupon Interest*</i>			<i>13</i>	<i>13</i>	
<i>Concessional Loans Principal Payments</i>	<i>40</i>	<i>50</i>	<i>144</i>	<i>168</i>	<i>16.6%</i>
<i>Concessional Loans Interest Payments</i>	<i>7</i>	<i>11</i>	<i>86</i>	<i>98</i>	<i>13.4%</i>
Treasury Expenditures , of which:	327	168	1,738	1,813	4.3%
<i>Municipalities</i>	<i>61</i>	<i>44</i>	<i>337</i>	<i>194</i>	-42.4%
Non-Interest Expenditures (Total Expenditures minus Debt Service)	661	533	5,218	5,697	9.2%

Source: MOF, DGF

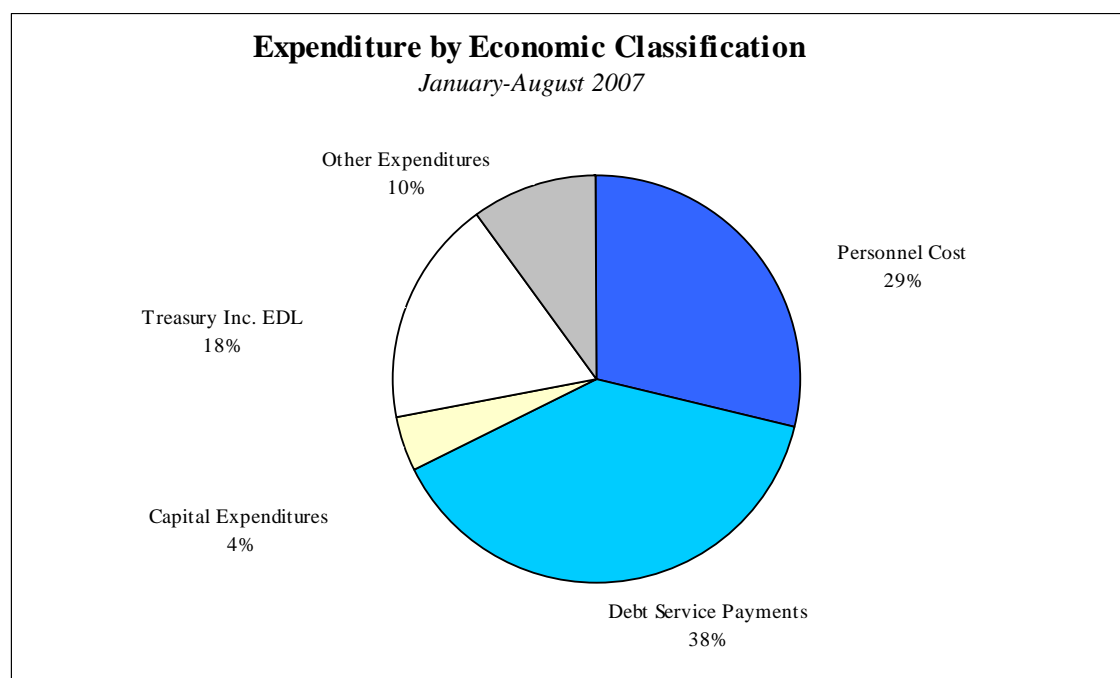
Chart 4.

Table 6. Expenditures by Economic Classification

(LL billion)	2006 Jan-Sept	2007 Jan-Sept	% Change
1. Current expenditures	6,284	7,182	14.30%
1.a Personnel cost, <i>of which</i>	2,378	2,678	12.59%
<i>Article 13: Salaries and wages</i>	1,545	1,849	19.68%
<i>Retirement and end of service compensations</i>	686	668	-2.52%
1.b Debt Service payments	3,162	3,600	13.84%
1.c Materials and supplies	87	163	86.27%
1.d External services	64	71	9.89%
1.e Various transfers	350	458	30.74%
<i>o/w NSSF</i>	150	220	46.67%
1.f Other current	182	152	-16.81%
<i>Hospitals</i>	159	122	-23.23%
<i>Others</i>	23	27	20.13%
1.g Reserves (3)	59	61	4.09%
<i>Interest subsidy</i>	59	61	4.09%
2. Capital expenditures	387	401	3.41%
2.a Acquisitions of land, buildings, for the construction of roads, ports, airports, and water networks	11	16	42.24%
2.b Equipment	15	32	115.01%
2.c Construction in Progress	298	291	-2.44%
2.d Maintenance	34	38	11.93%
2.e Other Expenditures Related to Fixed Capital Assets	29	23	-19.62%
3. Other treasury expenditures, of which	1,685	1,681	-0.24%
Municipalities	337	194	-42.35%
EDL	895	1,139	27.30%
Transfers to NSSF		10	-100.00%
Transfers to Higher Council of Relief	98	16	100.00%
Treasury advances for diesel oil subsidy	52	0	-100.00%
4. Unclassified expenditures	1	4	307.16%
5. Customs cashiers	22	30	33.03%
6. Total expenditures (excluding CDR foreign financed)	8,380	9,298	10.96%

Source : statement of account 36, cashier spendings, Public Debt Department figures , Fiscal performance gross adjustment figures

Table 7. Transfers to EDL

(LBP billion)	2006 Jan-Sept	2007 Jan-Sept	Change
EDL of which:	902	1,139	237
Debt Service of which:	219	275	56
C-Loans and Eurobonds, <i>of which:</i>	219	266	47
Principal repayments	175	229	54
Interest payments	44	36	-8
BDL guaranteed loan payments	0	10	10
Repayment of loans for fuel oil and gas oil purchase (principal and interest)	17	67	50
Reimbursement of KPC and Sonatrach agreements	474	797	323
Repayment of oil supplier arrears	191	0	-191

Source: MOF, DGF

Section 4: Public Debt

Highlights:

1. By the end of September 2007, gross public debt reached LL 61,346 billion (equivalent to US\$ 40.69 billion), registering a increase of LL 508 billion (or 0.84 percent) over the end-December 2006 debt level.
2. Local currency debt amounted to LL 30,280 billion (equivalent to US\$ 20.08 billion), increasing by LL 76 billion or 0.25 percent over the end-December 2006 level.
3. As of end- September 2007, local currency debt held by BDL decreased by LL 169 billion as compared to end of December 2006. The decrease was primarily due to the early redemption of LL 2,380 billion in T-bills (LL 2,343 billion in principal and LL 38 billion in accrued interest) using proceeds resulting from the re-evaluation of the BDL's gold reserves. The early redemption transaction took place on June 18, 2007.⁶ Nevertheless, due to the prevailing political environment, BDL's portfolio of local currency debt increased by LL 916 billion in the first quarter of 2007. In the 2nd quarter of 2007, there was an improvement of market subscriptions and hence a reduced pace of increase in BDL's T-bills holding. In August and September, BDL's stock of T-bills increased by LL 348 billion and LL 308 billion, respectively.
4. Meanwhile, local currency debt held by commercial banks decreased by LL 1,042 billion as compared to end-December 2006 due to the political environment which has led to a lower level of commercial banks' subscriptions in the T-bills auctions during the first quarter of 2007. The downward trend saw the commercial banks' portfolio of local currency debt fall in the first quarter by LL 650 billion. It fell a further LL 19 billion in the 2nd quarter. In July, their holdings fell by a further LL 280 billion. However, this trend reversed as their holdings increased in August by LL 129 billion, followed by a decreased in September by LL 224 billion.
5. By end- September 2007 foreign currency debt amounted to LL 31.066 billion (equivalent to US\$ 20.60 billion), increasing by LL 432 billion (or 1.41 percent) over the end-December 2006 level. In September, Lebanon received a USD 100 million Reform Implementation Development Policy Loan from the International Bank for Reconstruction and Development as part of the Paris III Conference pledges. The loan is earmarked for budgetary support.
6. Public sector deposits amounted to LL 3,453 billion, decreasing by approximately LL 991 billion from their December 2006 level.

⁶This transaction was done pursuant to Articles 115 and 116 of the Code of Money and Credit.

Table 8. Public Debt Outstanding by Holder as of End-September 2007

Assumes full LBP Replacement	Dec-04	Dec-05	Dec-06	Sep-07	Change Dec 06 - Sep 07	% change Dec 06-Sep 07
Gross Public debt	54,082	57,987	60,838	61,346	508	0.84%
Local currency debt	26,371	29,141	30,204	30,280	76	0.25%
a. Central Bank (including REPOs and Loans to EDL to finance fuel purchases) ⁽¹⁾	10,652	11,686	9,588	9,419	-169	-1.76%
b. Commercial Banks	12,220	14,130	16,487	15,445	-1,042	-6.32%
c. Other Local Currency Debt (T-bills)	3,500	3,325	4,129	5,416	1,287	31.17%
<i>o/w Public entities</i>	2,187	2,446	3,313	4,654	1,341	40.48%
Foreign currency debt⁽²⁾	27,711	28,846	30,634	31,066	432	1.41%
a. Bilateral, Multilateral and Foreign Private sector loans	3,003	2,791	2,855	3,065	210	7.36%
b. Paris II related debt (Eurobonds and Loans) ⁽³⁾	6,634	6,501	6,540	6,032	-508	-7.77%
c. Paris III related debt (Eurobonds and Loans) ⁽⁴⁾				905	905	
d. Market-issued Eurobonds	17,686	18,729	20,386	20,089	-297	-1.46%
e. Accrued Interest on foreign currency debt	388	406	434	557	123	28.34%
f. Special Tbls in Foreign currency ⁽⁵⁾		419	419	419		0.00%
Public sector deposits	4,359	5,590	4,444	3,453	-991	-22.30%
Net debt	49,723	52,397	56,394	57,893	1,499	2.66%
Gross Market debt⁽⁶⁾	31,861	34,726	38,649	37,372	-1,277	-3.30%
% of total debt	59%	60%	64%	61%		

Source: Ministry of Finance, Banque du Liban

Notes:

⁽¹⁾ The BDL has extended loans to EDL for the equivalent amount of US\$ 300 million to purchase fuel oil. These loans are listed as Public debt as they are government guaranteed.

⁽²⁾ Figures of Dec04 -Jan06 change because of exchange rate of Euro

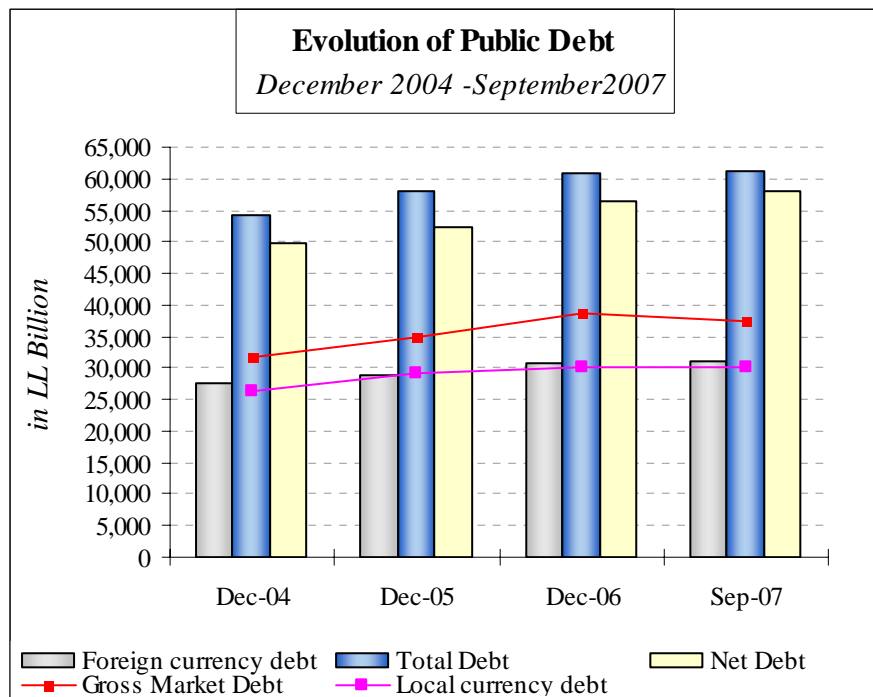
⁽³⁾ Paris II related debt (Eurobonds and Loans) declined due to the re-profiling of debt held by Malaysia as part of that country's Paris III contribution and because of a payment of principal of 30M EURO on AFD debt in February.

⁽⁴⁾ Includes USD 500 million in Eurobonds issued to Malaysia as part of its Paris III contribution; also includes USD 100 million Reform Development Loan from the International Bank for Reconstruction and Development.

⁽⁵⁾ Special Tbls in Foreign currency (expropriation bonds)

⁽⁶⁾ Gross market debt equals gross debt less the portfolios of the BDL, NSSF, bilateral and multilateral loans, Paris II and Paris III related debt.

Chart 5.





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