

Fiscal Overview

The **total fiscal balance** registered a deficit of LL 1,824 billion at the end of April 2009 compared to a deficit of LL 1,493 billion in the same period of 2008, an increase of 22 percent. The increase in total expenditures of 26 percent outweighed the increase in total revenues of 28 percent. The **primary balance** registered a surplus of LL 248 billion in the first four months of 2009 compared to a surplus of LL 367 billion in January-April 2008, showing a decrease of 32 percent mainly due to an increase in primary expenditures of 36 percent.

In the period of January-April 2009, **total revenues** increased by LL 911 billion, due to improvement in both tax and non-tax revenues, by LL 747 billion and LL 316 billion respectively, which overcompensates the decrease of LL 151 billion in treasury revenues.

Tax revenues increased by 36 percent as a result of improvements in all its components, except for the real estate registration fees, which decreased by LL 5 billion, or 4 percent, from their January-April 2008 collection level: **taxes on international trade** increased more than twofold compared to January-April 2008, fueled by the petroleum excise, which collected LL 319 billion in the first four months of 2009 compared to LL 5 billion in January-April 2008¹. Similarly, revenues from **customs, excises on tobacco and excises on cars** scored 18 percent, 19 percent and 57 percent increases, respectively. **Income, profits and capital gains** taxes were up by LL 116 billion, owing to (i) 42 percent higher receipts from **the wages and salaries tax**², (ii) 23 percent increase from **income tax on profits**, and (iii) 16 percent increase from **interest income tax** explained by high deposit growth rates³. As well, revenues from **domestic taxes on goods and services** were up by LL160 billion, mainly due to 16 percent increase in the **value added tax** collection.

The increase in **non-tax revenues** collection is mainly due to 43 percent rise in entrepreneurial income, namely: (i) LL 193 billion increase in transfer from the **telecom surplus**⁴ (ii) LL 62 billion transfer from **Port of Beirut**, against zero transfer recorded in the period of January-April 2008, (iii) LL 40 billion transfer of the 80% revenue sharing right of the Treasury in BDL

¹ The hike in the international fuel prices in the second and third quarters of 2008, in the context of the domestic price capping regime that prevailed throughout that year, reduced significantly the petroleum excise rate, which dropped to 0 LL/liter of gasoline for six months starting April 08. The substantial drop in international fuel prices later in the year (by the end of the fourth quarter) provided an opportunity to the Government to uncap the retail price of gasoline and to fix the excise rate at an average of LL 470/liter (as per COM decision # 9 dated January 23, 2009), restoring a regular stream of revenues to the Treasury.

² The salary and wage tax declarations that occurred in January and April 2009 accounted for higher salaries and wages payments following the cost of living adjustment of LL 200,000 per month and the setting of the minimum wage at LL500,000 per month in both the private and public sectors.

³ By end of April 2009, total deposits in commercial banks were 18 percent higher than one year earlier (end of April 08).

⁴ The Ministry of Telecommunications transferred LL 429 billion in April 09, which accounted for transfers due in March 09 and April 09.

surplus in March 09⁵, and (iv) LL 9 billion more transfers from the **National Lottery**. Revenues from **Casino du Liban** were LL 22 billion less than in the first four months of 2008 because of a smaller settlement amount due in 2009⁶. As for the **administrative fees and charges**, the LL 26 billion increase came mainly from 40 percent rise in revenues from the **vehicle control fees**. At end of April 2009, **treasury receipts** were LL 151 billion below those of the same period of 2008. This is explained by the decrease in grants: in January-April 2008, LL 160 billion of grants were received, mostly pertaining to PIII pledges (of which LL 151 billion from US and LL 3 billion from Iraq), while only LL 12 billion were received in January-April 2009 (of which about LL 2 billion from Greece, and LL 11 billion from Oman for Nahr El Bared). Note that Treasury revenues of the month of April 09 account for LL 8.6 billion of wheat subsidy refund (pertaining to the wheat subsidy scheme of 2008).

Until the end of April 2009, **total expenditures** increased by LL 1,242 billion compared to the same period of 2008, due to higher **current expenditures**, **capital expenditures** and **treasury expenditures** by 16 percent, 4 percent and 59 percent, respectively.

The LL 352 billion increase in **current primary expenditures** is mostly related to the LL 369 billion increase in **personnel cost** due to the raise in salaries that took place in the second half on 2008⁷. This increase is reflected by a rise in (a) salaries and wages by LL 314 billion, (b) retirement and end-of-service compensations by LL 21 billion, and (c) transfers to the Lebanese University by LL 28 billion. Other current primary expenditures, such as **materials and supplies** and **hospitals** also registered an increase of LL 14 billion and LL 12 billion, respectively, whereas **various transfers** registered a drop of LL 51 billion, which is explained by the ending of the wheat subsidy policy⁸ and LL 6 billion decrease in contribution to the expenses of the Special Tribunal for Lebanon⁹, among others.

Interest payments were up by LL 355 billion, resulting mainly from the increase in interest payments on domestic currency debt and interest payments on foreign currency debt by LL 261 billion and LL 94 billion, respectively. The increase in interest payments on foreign currency debt still reflects the payment of accrued interest and cash premium following the Eurobond exchange transaction settlement on March 19, 2009. The **foreign debt principal repayment** decreased by LL 143 billion, mainly because of the early retirement of three World Bank loans against USAID grant disbursement in January 2008.

The rise in **capital expenditures** by LL 7 billion is explained by higher transfer in **construction in progress** and **other expenditures related to fixed capital assets**. The LL 2 billion increase in construction in progress is due to higher transfer to the Fund for the Displaced and Council for the South, by LL 20 billion and LL 10 billion, respectively, offsetting the decrease in transfers to CDR and other construction in progress, by LL 12 billion and LL 14 billion, respectively. The LL

⁵ In 2008, the share of the Treasury from BDL surplus amounting to LL 41 billion was transferred in the month of June.

⁶ The agreement signed in February 2008, which settled past years dispute between the Government and Casino du Liban Management over the scope of the Treasury revenue sharing right, stipulated a settlement amount of LL 83 billion to be installed over three years, as follows: LL 42 billion paid in 2008, and LL 14 billion/ year over the three-year period 2009-2011.

⁷ As per Law 63 dated 31 December 2008

⁸ The wheat subsidy policy ended on 15 November 2008 as per Council of Minister Decision #71 (dated 8 November 2008) and the last payment to the Directorate General of Cereals and Beetroots was made in September 2008.

⁹ Decree number 1015 dated 24 November 2007

10 billion payment to the Export Plus program led to LL 8 billion increase in other expenditures related to fixed capital assets. **Treasury expenditures** increased by LL 667 billion, mainly due to higher transfers to EDL by LL 446 billion and LL 208 billion increase in the value of the treasury advances¹⁰ to the High Relief Committee, which were mainly provided to cover the housing compensations for the July 2006 war victims.

Gross public debt reached LL 72,015 billion at the end of April 2009, registering an increase of LL 1,127 billion compared to the end-December 2008 debt level. This increase is a result of higher **local and foreign currency debt** of LL 792 billion and LL 335 billion, respectively. From end-2008 until end of April 2009, BDL's domestic debt portfolio rose by LL 1,287 billion, largely due to purchases of treasury bills on the secondary market in the first quarter of 2009. This increase compensated the reduction in commercial banks' domestic debt portfolio by LL 798 billion over the same period. The stock of foreign currency debt increased as a result of the issuance of USD 444.7 million of new cash in conjunction with the Eurobond voluntary exchange transaction carried out in March 2009. In addition, special treasury bills worth USD 18.5 million were issued on 25 March 2009 for the settlement of expropriations.

¹⁰ Decree number 1168 dated 5 January 2009 provided LL200 billion and Decree number 1670 dated 7 April 2009 provided LL15 billion.

Table 1. Summary of Fiscal Performance

(LL billion)	2007	2008	2009	2007	2008	2009
	April	April	April	Jan- April	Jan- April	Jan- April
Total Budget and Treasury Receipts	897	793	1,349	3,019	3,266	4,177
Total Budget and Treasury Payments, of which	1,006	1,394	1,464	4,121	4,759	6,001
Interest Payments	477	574	659	1,545	1,674	2,029
Concessional loans principal payments 1/	9	8	4	54	186	43
Primary Expenditures 2/	519	812	802	2,521	2,900	3,930
Total Cash Deficit/Surplus	-109	-601	-115	-1,102	-1,493	-1,824
Primary Deficit/Surplus	378	-19	547	498	367	248

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

1/ Includes only Principal repayments of concessional loan's earmarked for project financing

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

Section 2: Revenue Outcome

Table 2. Total Revenue)

(LL billion)	2007	2008	2009	2007	2008	2009
	April	April	April	Jan-April	Jan-April	Jan-April
Budget Revenues, of which:	715	746	1,305	2,711	2,928	3,991
<i>Tax Revenues</i>	524	578	811	1,878	2,078	2,824
<i>Non-Tax Revenues</i>	191	168	495	833	850	1,166
Treasury Receipts	182	46	44	308	338	187
Total Revenues	897	793	1,349	3,019	3,266	4,177

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

Table 3. Tax Revenue

(LL billion)	2007	2008	2009	2007	2008	2009
	April	April	April	Jan-April	Jan-April	Jan-April
Tax Revenues:	524	578	811	1,878	2,078	2,824
Taxes on Income, Profits, & Capital Gains, of which:	108	111	160	381	417	533
<i>Income Tax on Profits</i>	12	11	30	91	114	141
<i>Income Tax on Wages and Salaries</i>	44	55	71	108	130	185
<i>Income Tax on Capital Gains & Dividends</i>	5	6	14	34	24	31
<i>Tax on Interest Income (5%)</i>	46	39	42	144	145	169
<i>Penalties on Income Tax</i>	0	1	1	3	3	6
Taxes on Property, of which:	40	46	46	166	207	215
<i>Built Property Tax</i>	10	3	5	60	49	59
<i>Real Estate Registration Fees</i>	24	38	33	87	141	135
Domestic Taxes on Goods & Services, of which:	241	296	353	789	955	1115
<i>Value Added Tax</i>	225	274	328	724	875	1014
<i>Other Taxes on Goods and Services, of which:</i>	16	22	24	61	77	98
<i>Private Car Registration Fees</i>	11	17	19	37	52	69
<i>Passenger Departure Tax</i>	5	5	5	24	25	28
Taxes on International Trade, of which:	107	99	216	451	401	836
<i>Customs</i>	46	50	62	176	199	236
<i>Excises, of which:</i>	61	49	154	274	202	600
<i>Petroleum Tax</i>	20	0	80	133	5	319
<i>Tobacco Tax</i>	20	16	25	67	71	84
<i>Tax on Cars</i>	21	33	49	72	124	196
Other Tax Revenues (namely fiscal stamp fees)	28	26	37	92	98	125

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

Table 4. Non-Tax Revenue

(LL billion)	2007	2008	2009	2007	2008	2009
	April	April	April	Jan-April	Jan-April	Jan-April
Non-Tax Revenues	191	168	495	833	850	1,166
Income from Public Institutions and Government Properties, of which:	151	121	449	674	670	956
Income from Non-Financial Public Enterprises, of which:	144	118	445	544	654	897
<i>Revenues from Casino Du Liban</i>	5	8	11	18	78	56
<i>Revenues from Port of Beirut</i>	0	0	0	30	0	62
<i>Budget Surplus of National Lottery</i>	2	5	5	20	9	18
<i>Transfer from the Telecom Surplus</i>	137	105	429	476	567	760
<i>Transfer from Public Financial Institution (BDL)</i>	0	0	0	113	0	40
Property Income (namely rent of Rafic Hariri International Airport)	6	2	3	16	13	15
Other Income from Public Institutions (interests)	0	1	1	2	2	4
Administrative Fees & Charges, of which:	34	40	37	131	147	173
Administrative Fees, of which:	28	34	31	104	120	141
<i>Notary Fees</i>	2	2	2	6	7	8
<i>Passport Fees/ Public Security</i>	9	10	9	31	37	33
<i>Vehicle Control Fees</i>	12	15	15	48	55	77
<i>Judicial Fees</i>	2	2	2	6	7	6
<i>Driving License Fees</i>	1	1	2	5	5	7
Administrative Charges	1	1	1	9	9	11
Sales (Official Gazette and License Number)	0	0	0	1	1	1
Permit Fees (mostly work permit fees)	3	4	3	14	15	14
Other Administrative Fees & Charges	1	1	3	3	3	6
Penalties & Confiscations	0	0	1	2	2	2
Other Non-Tax Revenues (mostly retirement deductibles)	6	6	7	25	31	36

Source: MOF, DGF

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

Section 3: Expenditure Outcome

Table 5. Expenditure by Economic Classification

(LL billion)	2007 Jan- April	2008 Jan- April	2009 Jan- April
1. Current Expenditures	3,286	3,447	4,011
1.a Personnel Cost, of which	1,204	1,215	1,584
<i>Salaries, Wages and Related Items</i> (Article 13)	834	779	1,094
<i>Retirement and End of Service Compensations, of which:</i>	310	377	398
<i>Retirement</i>	258	272	356
<i>End of Service</i>	53	105	42
<i>Transfers to Public Institutions to Cover Salaries 1/</i>	59	59	92
1.b Interest Payments, of which: 2/	1,545	1,674	2,029
<i>Domestic Interest Payments</i>	877	972	1,234
<i>Foreign Interest Payments</i>	668	701	795
1.c Foreign Debt Principal Repayment	54	186	43
1.d Materials and Supplies, of which:	55	66	80
<i>Nutrition</i>	5	19	20
<i>Fuel Oil</i>	11	11	10
<i>Medicaments</i>	6	12	37
<i>Accounting Adjustments for Treasury</i>	25	14	8
1.e External Services	32	29	31
1.f Various Transfers, of which:	314	174	123
<i>NSSF</i>	220	0	0
<i>Wheat Subsidy</i>	0	77	0
<i>Special Tribunal for Lebanon</i>	0	18	12
1.g Other Current, of which:	56	76	95
<i>Hospitals</i>	39	64	77
<i>Others</i>	17	11	17
1.h Reserves	26	27	26
<i>Interest subsidy</i>	26	27	26
2. Capital Expenditures	161	170	177
2.a Acquisitions of Land, Buildings, for the Construction of Roads, Ports, Airports, and Water Networks	4	1	3
2.b Equipment	14	13	11
2.c Construction in Progress, of which:	105	111	113
<i>Displaced Fund</i>	6	10	30
<i>Council of the South</i>	0	0	10
<i>CDR</i>	71	68	56
<i>Ministry of Public Work and Transport</i>	16	15	13
<i>Other</i>	12	18	5
2.d Maintenance	27	30	28
2.e Other Expenditures Related to Fixed Capital Assets	12	13	21
3. Other Treasury Expenditures	659	1,129	1,796
Municipalities	54	120	109
Guarantees	15	16	57
Deposits :	38	18	26
Other, of which:	73	203	404
<i>VAT Refund</i>	33	131	129
<i>High Relief Committee</i>	6	7	215
EDL 3/	480	754	1,200
Treasury Advances for Diesel Oil Subsidy	0	19	0
4. Unclassified Expenditures	0	1	0

5. Customs Cashiers**15 12 17****6. Total Expenditures (Excluding CDR Foreign Financed)****4,121 4,759 6,001**

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.

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

(LL billion)	2007 Jan- April	2008 Jan- April	2009 Jan- April
Transfer to Council of the South	2	3	2
Transfer to Council for Development and Reconstruction (CDR)	11	4	10
Transfer to the Displaced Fund	2	2	2
Transfer to the Lebanese University	41	46	74
Transfer to the Educational Center for Research and Development	4	4	5

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

Table 7. Details of Debt Service Transactions

(LL billion)	2007 April	2008 April	2009 April	2007 Jan-April	2008 Jan-April	2009 Jan-April
Interest Payments 1/	477	574	659	1,545	1,674	2,029
Local Currency Debt	237	262	343	877	972	1,234
Foreign Currency Debt, of which:	240	313	315	668	701	795
Eurobond Coupon Interest*	236	299	302	627	649	754
Special bond Coupon Interest*	0	0	0	0	0	1
Concessional Loans Interest Payments	4	13	13	41	53	40
Concessional Loans Principal Payments**	9	8	4	54	186	43

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

** Includes LL 133 billion paid in 2008 of IBRD loans from US Aid Grant

Table 8. Transfers to EDL

(LL billion)	2007 Jan-Apr	2008 Jan-Apr	2009 Jan-Apr	Value Change
EDL of which:	480	754	1,200	446
• Debt Service of which:	121	56	52	-4
– C-Loans and Eurobonds, of which:	44	41	32	-9
Principal repayments	34	32	27	-6
Interest Payments	10	8	5	-3
– BDL Guaranteed Loan payments	77	15	20	5
• Reimbursement of KPC and Sonatrach agreements	358	698	1,148	450

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

Section 4: Public Debt

Table 9. Public Debt Outstanding by Holder as of End-April 09
(LL billion)

	Dec-05	Dec-06	Dec-07	Dec-08	Apr-09	Change Dec 08 -Apr 09	% Change Dec 08- Apr 09
Gross Public Debt	57,985	60,851	63,350	70,888	72,015	1,127	1.59%
Local Currency Debt	29,141	30,204	31,373	39,007	39,799	792	2.03%
a. Central Bank (Including REPOs and Loans to EDL to Finance Fuel Purchases) ⁽¹⁾	11,686	9,588	9,052	8,781	10,068	1,287	14.66%
b. Commercial Banks	14,130	16,487	16,847	24,320	23,522	-798	-3.28%
c. Other Local Currency Debt (T-bills), of which:	3,325	4,129	5,474	5,906	6,209	303	5.13%
<i>Public Entities</i>	2,446	3,313	4,796	5,062	5,301	239	4.72%
<i>* Accrued Interest Included in Debt</i>	517	685	754	1,001	960	-41	-4.10%
Foreign Currency Debt⁽²⁾	28,844	30,647	31,977	31,881	32,216	335	1.05%
a. Bilateral, Multilateral and Foreign Private Sector Loans	2,789	2,855	2,953	2,802	2,685	-117	-4.17%
b. Paris II Related Debt (Eurobonds and Loans) ⁽³⁾	6,501	6,540	6,063	5,456	5,296	-160	-2.93%
c. Paris III Related Debt (Eurobonds and Loans) ⁽⁴⁾			1,357	1,849	1,829	-20	-1.09%
d. Market-Issued Eurobonds	18,729	20,399	20,776	20,925	21,521	596	2.85%
e. <i>Accrued Interest on Eurobonds</i>	406	434	410	430	438	8	1.86%
f. Special T-bills in Foreign Currency ⁽⁵⁾	419	419	419	419	447	28	6.68%
Public Sector Deposits	5,590	4,444	4,527	8,326	7,631	-695	-8.35%
Net Debt	52,395	56,407	58,823	62,562	64,383	1,821	2.91%
Gross Market Debt⁽⁶⁾	34,721	38,670	39,216	46,992	46,876	-116	-0.25%
% of Total Debt	60%	64%	62%	66%	65%	0	-1.81%

Source: Ministry of Finance, Banque du Liban

- (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 for Dec 05 - Dec 08 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) Issued to Malaysia as part of its Paris III contribution, IBRD loan, UAE loan, first tranche of the French loan received in February 2008, and IMF loans.
- (5) Special T-bills 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.

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



REPUBLIC OF LEBANON
MINISTRY OF FINANCE