

Public Finance Monitor

The Monthly Statistical Bulletin of the Ministry of Finance

April 2007

Section 1: Fiscal Overview

Highlights:

For the period January-April 2007, total fiscal balance decreased by LL 519 billion, registering a deficit of LL 1,102 billion compared to LL 582 billion for the same period of 2006. The increase in the total deficit occurred from 23 percent increase in total payments offsetting the 9 percent increase in total receipts. The total primary surplus for January-April 2007 decreased by 36 percent recording a total surplus of LL 498 billion when compared to LL 780 billion for the same period of 2006.

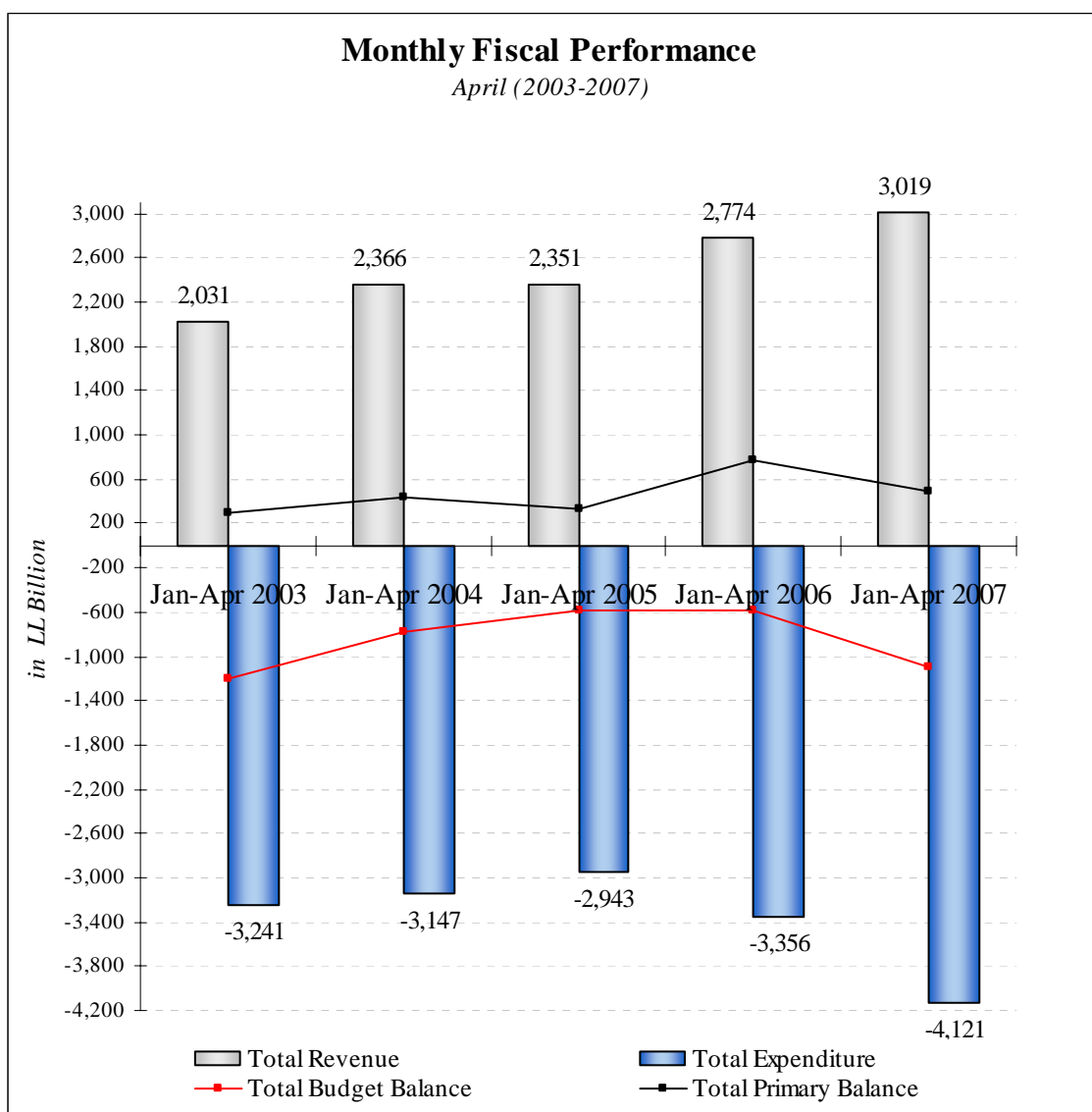
In April 2007, both payments and receipts increased by LL 188 billion and LL 57 billion respectively. This led to a total deficit of LL 109 billion, while the primary surplus of LL 378 billion, decreased by LL 61 billion when compared to LL 439 billion registered in April 2006.

Table 1. Summary of Fiscal Performance

(LL billion)	2006	2007	2006	2007	Change 2006- 2007	% Change
	April	April	Jan-Apr	Jan-Apr		
Budget Revenue	815	715	2,640	2,711	70	2.7%
Budget Expenditures	774	854	2,955	3,425	470	15.9%
<i>o/w Previous Years Appropriations</i>	4	4	479	544	65	13.6%
<i>o/w Debt Service</i>	417	486	1,362	1,600	237	17.4%
Budget Deficit/Surplus	41	-140	-314	-714	-400	127.2%
in % of Budget Expenditures	5.3%	-16.3%	-10.6%	-20.9%		
Budget Primary Deficit/Surplus	458	347	1,048	885	-162	-15.5%
in % of Budget Expenditures	59.1%	40.6%	35.5%	25.9%		
Treasury Receipts	26	182	133	308	175	131.0%
Treasury Payments	44	151	401	696	294	73.3%
Total Budget and Treasury Receipts	840	897	2,774	3,019	245	8.8%
Total Budget and Treasury Payments	818	1,006	3,356	4,121	765	22.8%
Total Cash Deficit/Surplus	22	-109	-582	-1,102	-519	89.2%
in % of Total Expenditures	2.7%	-10.8%	-17.3%	-26.7%		
Primary Deficit/Surplus	439	378	780	498	-282	-36.2%
in % of Total Expenditures	53.7%	37.6%	23.2%	12.1%		

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

Chart 1.



Section 2: Revenue Outcome

Total revenues collected over the period of January-April 2007 reached LL 3,019 billion compared to LL 2,774 billion during the same period last year, registering a 9 percent increase mainly due to:

- a) A 3 percent increase in **budget revenues** due to a rise in non-tax revenues outweighing the decrease in tax revenues.
 - **Tax revenues** totaled LL 1,878 billion and fell by 0.3 percent by the end of April 2007. The first four months of the year witnessed an enhancement in the collection of (i) **Taxes on income, profits, and capital gains** by 7 percent (arising mainly from 7 and 15 percent higher revenues from the withheld tax on wages and salaries and from the 5% tax on interest income respectively); (ii) **Domestic taxes on goods and services (excluding excises)** by 9 percent (namely 11 percent higher VAT) and (iii) **Taxes on international trade** by 18 percent (of which LL 22 billion from customs and

LL 47 billion from excise taxes mainly fuel excise). On the property tax front, the 19 percent rise in revenues from the recurrent tax was offset by 12 percent decline in property registration fees. A year on year comparison of inheritance tax revenues is misleading because of the one off exceptional inheritance tax receipt of LL 153 billion in April 2006. Revenues from fiscal stamp fees decreased by 11 percent when compared to last year.

- **Non tax revenues** totaled LL 833 billion compared to LL 757 billion in 2006 registering an increase of 10 percent, owing mainly to 19 percent higher income from **Public Institutions and Government Properties**; attributed largely to the LL 113 billion surplus transfer from Banque Du Liban in March 2007, and to a lesser extent the 40 percent higher collection from Casino du Liban¹, and the 33 percent higher Property Income (namely rent of Rafic Hariri International Airport). This came despite an 8 percent decrease in transfer from the budget surplus of the telecommunication², and a 15 percent decrease in **Administrative fees and charges** (collection from passport fees were reduced by 20 percent and that from vehicle control or road usage fees by 22 percent³).

- b) A 131 percent enhancement in **treasury revenues** owing mainly to LL 151 billion in grants received from the Kingdom of Saudi Arabia in April 2007.

Table 2. Total Revenue

(LL billion)	2006 April	2007 April	2006 Jan-Apr	2007 Jan-Apr	% Change
Budget Revenues, of which:	815	715	2,640	2,711	2.7%
<i>Tax Revenues</i>	<i>664</i>	<i>524</i>	<i>1,883</i>	<i>1,878</i>	-0.3%
<i>Non-Tax Revenues</i>	<i>150</i>	<i>191</i>	<i>757</i>	<i>833</i>	10.0%
Treasury Receipts	26	182	133	308	131.0%
Total Revenues	840	897	2,774	3,019	8.8%

Source: MOF, DGF

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 \$ 92.5 million of arbitration settlement was paid to France Telecom in April 2007.

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).

Table 3. Tax Revenue

(LL billion)	2006	2007	2006	2007	%
	April	April	Jan-Apr	Jan-Apr	Change
Tax Revenues:	664	524	1,883	1,878	-0.3%
Taxes on Income, Profits, & Capital Gains, of which:	105	108	355	381	7.2%
Income Tax on Profits	11	12	88	91	3.5%
Income Tax on Wages and Salaries	43	44	101	108	6.9%
Income Tax on Capital Gains & Dividends	9	5	33	34	2.1%
Tax on Interest Income (5%)	40	46	125	144	15.0%
Penalties on Income Tax	2	0	6	3	-45.6%
Taxes on Property, of which:	203	40	322	166	-48.6%
Built Property Tax	14	10	50	60	19.2%
Real Estate Registration Fees	27	24	99	87	-12.3%
Domestic Taxes on Goods & Services, of which:	241	241	721	789	9.3%
Value Added Tax	225	225	650	724	11.4%
Other Taxes on Goods and Services, of which:	16	16	63	61	-4.1%
Private Car Registration Fees	11	11	40	37	-7.1%
Passenger Departure Tax	5	5	23	24	2.2%
Taxes on International Trade, of which:	87	107	381	451	18.3%
Customs	40	46	154	176	14.2%
Excises, of which:	47	61	227	274	21.0%
Petroleum Tax	14	20	87	133	52.2%
Tobacco Tax	12	20	58	67	16.9%
Tax on Cars	20	21	81	72	-10.0%
Other Tax Revenues (namely fiscal stamp fees)	29	28	103	92	-10.8%

Source: MOF, DGF

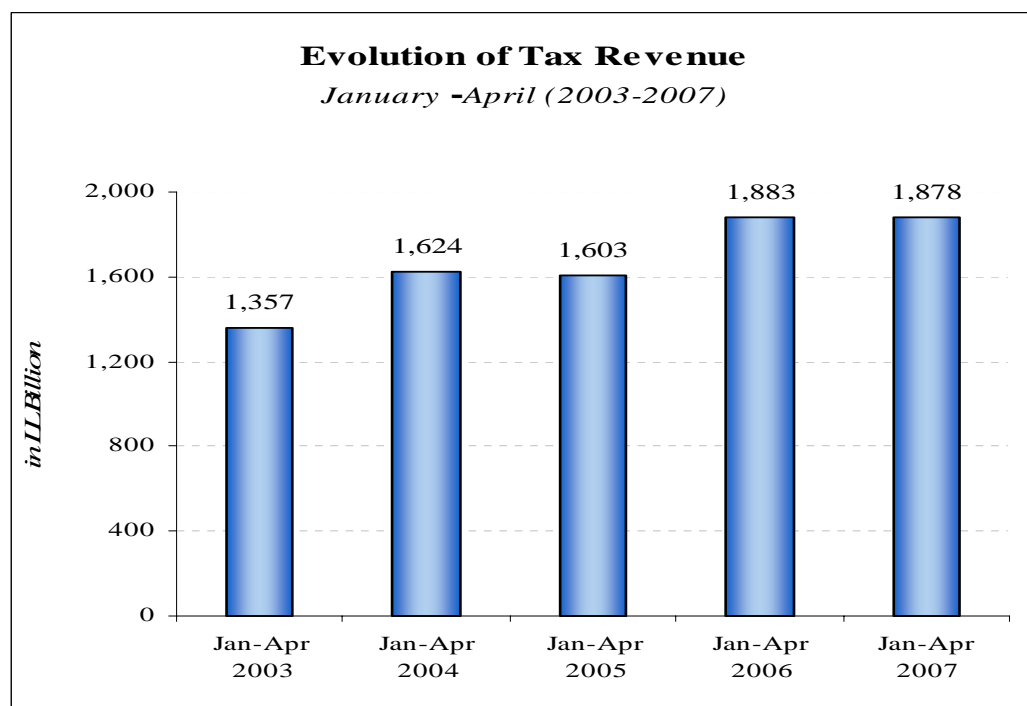
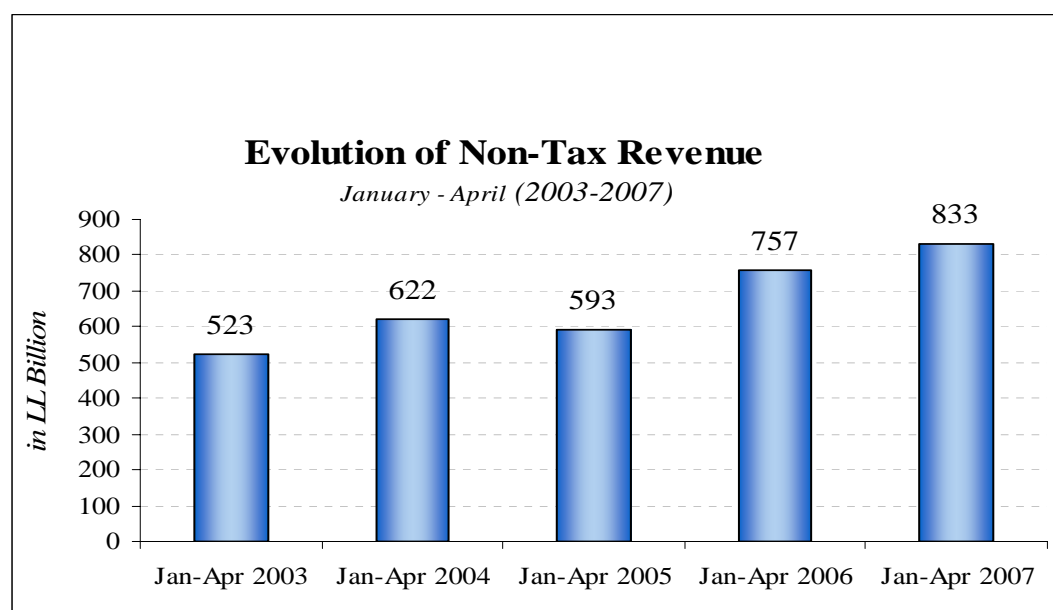
Chart 2.

Table 4. Non-Tax Revenue

(LL billion)	2006 April	2007 April	2006 Jan-Apr	2007 Jan-Apr	% Change
Non-Tax Revenues	150	191	757	833	10.0%
Income from Public Institutions and Government Properties, of which:	99	151	568	674	18.7%
Income from Non-Financial Public Enterprises, of which:	97		554	544	-1.8%
<i>Revenues from Casino Du Liban</i>	4	5	13	18	40.2%
<i>Revenues from Port of Beirut</i>	0	0	0	30	-
<i>Budget Surplus of National Lottery</i>	7	2	22	20	-9.1%
<i>Transfer from the Telecom Surplus</i>	85	137	519	476	-8.3%
Property Income (namely rent of Rafic Hariri International Airport)	2	6	12	16	32.9%
Other Income from Public Institutions (interests)	1	0	2	2	-10.4%
Administrative Fees & Charges, of which:	43	34	155	131	-15.0%
Administrative Fees, of which:	35	28	127	104	-17.8%
<i>Notary Fees</i>	2	2	6	6	2.2%
<i>Passport Fees/ Public Security</i>	9	9	39	31	-20.2%
<i>Vehicle Control Fees</i>	19	12	62	48	-22.1%
<i>Judicial Fees</i>	1	2	7	6	-12.7%
<i>Driving License Fees</i>	2	1	7	5	-18.7%
Administrative Charges	1	1	7	9	26.1%
Sales (Official Gazette and License Number)	0	0	1	1	-7.0%
Permit Fees (mostly work permit fees)	6	3	18	14	-23.5%
Other Administrative Fees & Charges	0	1	2	3	108.3%
Penalties & Confiscations	0	0	2	2	14.2%
Other Non-Tax Revenues (mostly retirement deductibles)	8	6	33	25	-22.8%

Source: MOF, DGF

Chart 3.

Section 3: Expenditure Outcome

For the period of January-April 2007, total expenditures registered a total amount of LL 4,121 billion, increasing by 23 percent compared to LL 3,356 billion during the same period of 2006. This increase is due to a rise in both interest and non-interest expenditures respectively by LL 238 billion and LL 527 billion (of which LL 412 billion is the increase in spending on EDL). This is explained as follows:

1. Debt service registered a total of LL 1,600 billion in January-April 2007 increasing by 17 percent compared to LL 1,362 billion for the same period of 2006. This rise was due to higher interest payments in both local currency debt and foreign currency debt of around 20 and 14 percent respectively. The main reason behind the increase in interest payment on local currency debt is attributed to higher coupon payments resulting from an increase in the stock of long term T-bills. The increase in interest payment on foreign currency debt was due to higher stock of Eurobonds during the period August - December 2006 and hence higher Eurobonds coupon payments.

2. Non-interest expenditures increased by 26 percent to reach LL 2,521 billion in January-April 2007, compared to LL 1,994 billion for the same period of 2006. This rise is due to an increase in two of the three components of this item: current primary budget expenditures and other treasury expenditures, as follows:

a. Current primary budget expenditures increased by LL 284 billion, scoring a total of LL 1,686 billion in January-April 2007 as compared to LL 1,402 billion for the same period of 2006, mainly due to the following:

i. An increase in "wages and salaries" of LL 124 billion, mainly to the armed forces. In fact, salaries and wages of the armed forces rose by LL 97 billion, mainly due to the new recruitment that took place in the last quarter of 2006. Also, an additional salary (bonus) was paid to the armed forces as per the decision taken by the Council of Ministers (Cabinet meeting of 04/01/2007). A further increase was generated from the relatively higher payment of health allowances to the armed forces (maternity and sickness, and hospitalization), which rose by LL 22 billion during the period January-April 2007 when compared to the same period of last year. Finally, during January-April 2007, the civil servant cooperatives received a transfer of LL 30 billion, while only LL 10 billion were transferred during the corresponding period of 2006.

ii. An increase in "materials and supplies" by LL 22 billion. The increase in "materials and supplies" is not a result of additional spending, but is an accounting entry to adjust for payment of treasury advances. It should be noted that this adjustment was netted out by including a similar amount in the revenues.

iii. An increase in "various transfers" of LL 141 billion is mainly due to the increase in transfers to the National Social Security Fund and the Non-profit organizations by LL 120 billion and LL 13 billion respectively.

Against this increase, the item "other current" decreased by LL 28 billion mainly due to less payment to hospitals in the period of January-April 2007 by LL 34 billion when compared to the same period of last year.

b. Capital expenditures decreased by LL 69 billion in January-April 2007 when compared to the same period of 2006. The major driver of this decrease was the lower level of spending reported in "Construction in Progress", mainly for the following:

- Lower transfer to the Displaced Fund that received only LL 6 billion during the first 4 months of 2007, against LL 44 billion during the same period of 2006.
- Lower transfer to the Council of the South, as no transfer was reported in the first 4 months of 2007, against LL 10 billion in the comparable period of 2007.
- Lower transfer to the CDR by around LL 21 billion

It should be noted, however, that a decree was issued (decree # 292 dated 27/04/07) which gives the right to the Council of the South and the Displaced Fund to have a treasury advance of LL 100 billion (LL 40 billion for the former and LL 60 billion for the latter). The disbursement of this advance will start in May 2007.

For other capital-related spending, a decline was reported in "Other Expenditures Related to Fixed Capital Assets" by LL 14 billion respectively, as no payments were realized during January-April 2007 for Export Plus program while LL 19 billion were paid in the same period of 2006. On the other hand, increases were reported in "Equipment" and "Maintenance" by LL 8 billion and LL 4 billion respectively.

c. Other treasury expenditures increased by LL 308 billion for January-April 2007 when compared to the same period of last year. The increase in transfers of EDL by LL 412 billion is the major reason behind the rise in "other treasury expenditures", as well as the increase of LL 20 billion in "Deposits" of which, LL 10 billion was paid to NSSF, offsetting the decrease in transfers to municipalities and in treasury advances for diesel oil subsidy by LL 48 billion and LL 50 billion respectively.

Transfers to EDL reached in January-April 2007 LL 480 billion when compared to LL 68 billion for the same period of 2006. This rise is due to the payments made to Sonatrach (Algeria) and Kuwait Petroleum Corporation (Kuwait) of LL 358 billion and the payment of fuel oil related to ULOC loan of LL 67 billion.

Table 5. Expenditures by Transaction Classification

(LL billion)	2006	2007	2006	2007	%
	April	April	Jan-Apr	Jan-Apr	Change
Total Expenditures	818	1,006	3,356	4,121	22.8%
Budget Expenditures	774	854	2,955	3,425	15.9%
Expenditures Excluding Debt Service, of which:					
<i>Previous Years' Appropriations</i>	357	368	1,593	1,825	14.6%
Debt Service, of which:					
<i>Domestic Debt</i>	417	486	1,362	1,600	17.4%
<i>Foreign Debt, of which:</i>					
<i>Eurobond Coupon Interest*</i>	196	237	730	877	20.1%
<i>Specialbond Coupon Interest*</i>	220	249	632	722	14.3%
<i>Concessional Loans Principal</i>	206	236	550	627	13.9%
Payments					
<i>Concessional Loans Interest Payments</i>	11	9	46	54	17.0%
Treasury Expenditures , of which:	44	151	401	696	73.3%
<i>Municipalities</i>	4	4	35	41	16.9%
<i>Municipalities</i>	44	151	401	696	73.3%
<i>Municipalities</i>	1	2	102	54	-47.5%
Non-Interest Expenditures (Total Expenditures minus Debt Service)	402	519	1,994	2,521	26.4%

Source: MOF, DGF

*Includes general expenses related to the transaction

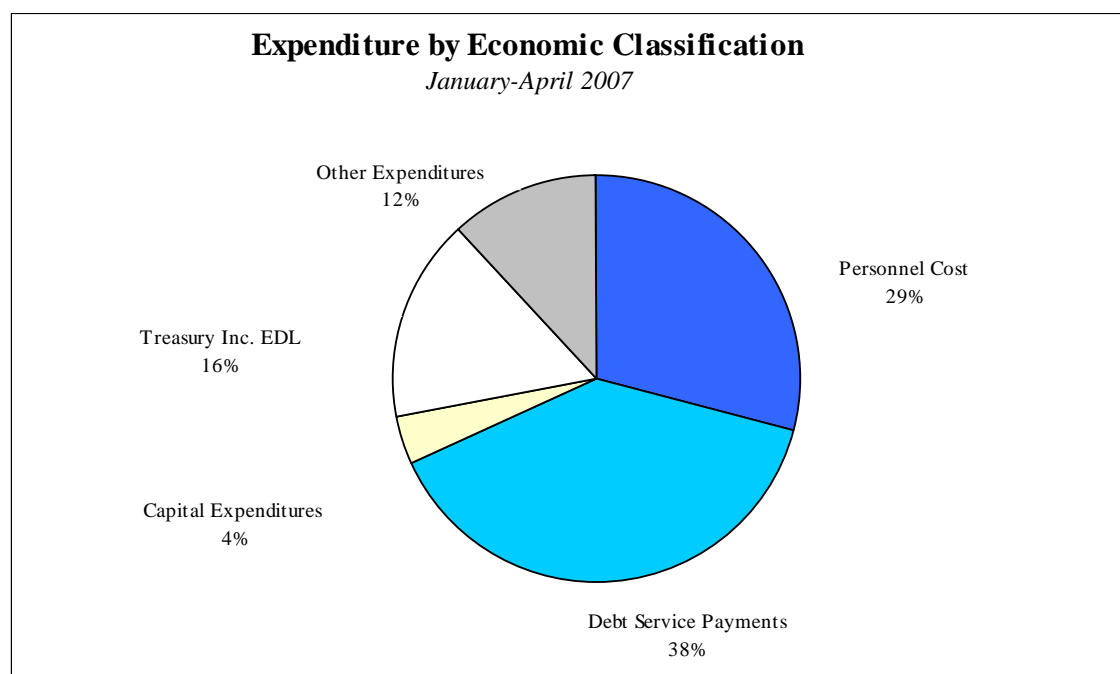
Chart 4.

Table 6. Expenditures by Economic Classification

(LL billion)	2006 Jan-Apr	2007 Jan-Apr	% Change
1. Current expenditures	2,765	3,286	18.82%
1.a Personnel cost, <i>of which</i>	1,053	1,204	14.33%
<i>Article 13: Salaries and wages</i>	711	834	17.38%
<i>Retirement and end of service compensations</i>	279	310	11.33%
1.b Debt Service payments	1,362	1,600	17.36%
1.c Materials and supplies	33	55	65.66%
1.d External services	31	32	2.09%
1.e Various transfers	172	314	82.11%
<i>o/w NSSF</i>	100	220	120.00%
1.f Other current	84	56	-33.05%
<i>Hospitals</i>	73	39	-46.24%
<i>Others</i>	11	17	57.22%
1.g Reserves (3)	29	26	-11.87%
<i>Interest subsidy</i>	29	26	-11.87%
2. Capital expenditures	230	161	-29.92%
2.a Acquisitions of land, buildings, for the construction of roads, ports, airports, and water networks	6	4	-40.34%
2.b Equipment	6	14	130.96%
2.c Construction in Progress	169	105	-38.07%
2.d Maintenance	24	27	16.24%
2.e Other Expenditures Related to Fixed Capital Assets	25	12	-53.99%
3. Other treasury expenditures, of which	351	659	87.74%
Municipalities	102	54	-47.48%
EDL	68	480	608.84%
Transfers to Higher Council of Relief		6	100.00%
Treasury advances for diesel oil subsidy	50	0	-100.00%
4. Unclassified expenditures	2	0	-59.52%
5. Customs cashiers	9	15	58.21%
6. Total expenditures (excluding CDR foreign financed)	3,356	4,121	22.78%

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-April	2007 Jan-April	% Change
EDL of which:	68	480	609.03%
Debt Service of which:	68	54	-20.28%
C-Loans and Eurobonds, <i>of which:</i>	51	44	-13.06%
Principal Repayment	37	34	-8.56%
Interest Payment	13	10	-25.55%
Loans for Fuel Oil Payment	17	0	-100.00%
BDL Guaranteed Loan Payment (Syria)	0	10	100.00%
Fuel Oil Payment (ULOC loan)	0	67	100.00%
Kuwait & Alg. Petrole	0	358	100.00%

Source: MOF, DGF

Section 4: Public Debt

Highlights:

1. By the end of April 2007, gross public debt reached LL 62,247 billion (equivalent to US\$ 41 billion), registering an increase of LL 1,336 billion (or 2.19 percent) over the end-December 2006 debt level.
2. Local currency debt amounted to LL 31,478 billion (equivalent to US\$ 20.9 billion), increasing by LL 1,274 billion or 4.22 percent over the end-December 2006 level.
3. As of end- April 2007, local currency debt held by BDL increased by LL 915 billion as compared to end of December 2006. Due to the prevailing political environment, the trend over the last four months saw BDL's portfolio of local currency debt increase in January by LL 437 billion, in February by LL 103 billion, in March by LL 376 billion, and in April by LL 13 billion.
4. Meanwhile, local currency debt held by commercial banks decreased by LL 681 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 four months of 2007. The downward trend over the last 4 months saw the commercial banks' portfolio of local currency fall in January by LL 436 billion, in February by LL 91 billion, in March by LL 93 billion and in April by LL 61 billion.
5. In contrast, local currency debt held by public institutions increased by LL 987 billion, or 29.79 percent, as compared to end-December 2006. The upward trend was consistent throughout the first 4 months of the year, with an increases in public entities' portfolio of LL 188 billion in January, LL 309 billion in February, LL 288 billion in March, and LL 202 billion in April.
6. By end- April 2007, foreign currency debt amounted to LL 30,769 billion (equivalent to US\$ 20 billion), increasing by LL 62 billion (or 0.09 percent) over the end-December 2006 level. In February, USD 1 billion of maturing Eurobonds were refinanced by 2 new issuances of USD 569 million and USD 431 million.
7. Public sector deposits amounted to LL 3,989 billion, decreasing by approximately LL 455 billion from their December 2006 level.

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

Assumes full LBP Replacement	Dec-04	Dec-05	Dec-06	Apr-07	Change Dec 06 - April 07	% change Dec 06- April 07
Gross Public debt	54,082	57,987	60,911	62,247	1,336	2.19%
Local currency debt	26,371	29,141	30,204	31,478	1,274	4.22%
a. Central Bank (including REPOs and Loans to EDL to finance fuel purchases)*	10,652	11,686	9,588	10,503	915	9.54%
b. Commercial Banks	12,220	14,130	16,487	15,806	-681	-4.13%
c. Other Local Currency Debt (T-bills)	3,500	3,325	4,129	5,169	1,040	25.19%
<i>o/w Public entities</i>	2,187	2,446	3,313	4,300	987	29.79%
Foreign currency debt	27,711	28,846	30,707	30,769	62	0.20%
a. Bilateral, Multilateral and Foreign Private sector loans	3,003	2,791	2,915	2,937	-67	0.75%
b. Paris II related debt (Eurobonds and Loans)*****	3,815	3,682	3,721	3,692	-29	-0.78%
c. BDL Eurobond (Paris II)	2,819	2,819	2,819	2,819	0	0.00%
d. Market Eurobonds	17,686	18,729	20,399	20,438	39	0.19%
e. Accrued Interest on foreign currency debt	388	406	434	464	30	6.91%
f. Special Tbls in Foreign currency**		419	419	419	0	0.00%
Public sector deposits	4,359	5,590	4,444	3,989	-455	-10.24%
Net debt	49,723	52,397	56,467	58,258	1,791	3.17%
Gross Market debt***	31,861	34,726	38,683	38,111	-483	-1.48%
% of total debt	59%	60%	64%	61%		

Source: Ministry of Finance, Banque du Liban

* 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.

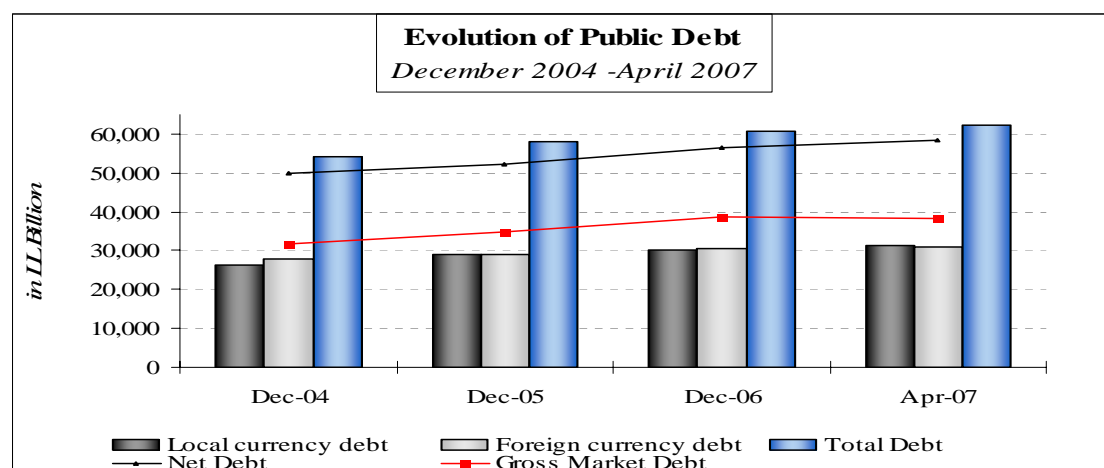
** Special Tbls in Foreign currency (expropriation bonds)

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

**** Figures of Dec04 -Dec06 change because of exchange rate of Euro

***** Paris II related debt (Eurobonds and Loans) declined in February due to payment of principal of 30M EURO

Chart 5.





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