

Fiscal Overview

The **total fiscal balance** registered a deficit of LL 2,777 billion at the end of August 2009 compared to a deficit of LL 2,550 billion in the same period last year. This 9 percent deterioration is explained by the increase in total expenditures by LL 2,020 billion, offsetting the increase in total receipts by LL 1,794 billion. At the same time, the **primary balance** registered a surplus of LL 975 billion, improving by 15 percent compared to last year's primary surplus of LL 848 billion because the amelioration in total receipts surpassed the LL 1,666 billion increase in primary expenditures.

Total revenues cumulated at LL 8,570 billion during the first eight months of 2009, 26 percent higher than the previous year. This performance is explained by the 30 percent rise in **budget revenues**; more specifically, higher tax and non tax collection by 31 percent and 30 percent respectively. **Treasury receipts** collected LL 451 billion in January-August 2009, including LL 88 billion of grants received from PIII Donors, compared to LL 546 billion in the same period of 2008, including LL 168 billion of grants¹.

With cumulative revenues of LL 6,131 billion, **taxes** improved by LL 1,435 billion when compared to last year, owing to (i) LL 865 billion (equivalent to 96 percent) more receipts from **taxes on international trade**, mainly explained by LL 677 billion of **gasoline excises**², and LL 113 billion higher collection of **car excises**; (ii) LL 305 billion more revenues from **domestic taxes on goods and services** of which LL 258 billion higher **VAT** collection, and LL 35 billion more receipts from **car registration fees** mirroring the increase in car imports; and (iii) LL 250 billion higher **income tax receipts**, of which LL 131 billion from the **income tax on profit**, LL 69 billion from the **wages and salaries tax**³, and LL 40 billion from the **interest income tax**.⁴

With LL 1,988 billion received, **non-tax revenues** were LL 453 billion higher during the first eight months of 2009 compared to 2008. Behind this rise in revenues stands a higher income from **government properties** amounting to LL 424 billion. This is mainly explained by LL 366 billion more transfers from the **budget surplus of telecom**, and a transfer of LL 62 billion from the **Port of**

¹ In Jan-August 08, the Treasury received LL 168 billion of grants for budget support, of which LL 165 billion from US and LL 3 billion from Iraq, whereas in Jan-August 09, the Treasury received LL 87.8 billion, of which LL 10.5 billion of project grant from Oman for the reconstruction of Nahr El Bared, 1.9 billion of budget support grant from Greece, and LL 75.4 billion of budget support grant from US aid.

² The hike in the international fuel prices during the second and third quarters of 2008, in the context of the domestic price capping regime prevailing throughout 2008 reduced significantly the petroleum excise rate, reaching 0 LL/liter of gasoline for 6 months in a row starting April 08. The substantial drop in international fuel prices by the end of 2008 provided an opportunity to the Government to uncapping 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 23rd, 2009), restoring a regular stream of revenues to the Treasury.

³ The rise in the wage and salaries tax receipts may be explained by the higher tax base owing to Law 63 which raised the minimum wage and granted LL 200,000 additional salary in the public sector.

⁴ The rise in the interest tax receipts in Jan-Aug 2009 mirrors the 19 % year on year growth in the private sector deposits witnessed as of end August 2009.

Beirut⁵. Administrative fees and charges collected LL 27 billion more receipts in Jan-Aug 2009, of which LL 24 billion are higher receipts from **vehicle control fees**.

For the period of January-August 2009, **total expenditures** increased by LL 2,020 billion, due to higher **current primary expenditures, interest payments, capital expenditures and other treasury expenditures** by 23 percent, 13 percent, 12 percent and 38 percent, respectively

Current primary expenditures registered an increase of LL 787 billion mainly coming from rises in **personnel cost, materials and supplies and remaining current expenditures** by LL 677 billion, 26 billion and LL 83 billion respectively.

The augmentation in personnel cost is mainly due to the government's policy of granting a wage increase to the public sector. As a result, all items under the personnel cost component, namely **salaries, wages and related items, retirement and end of service compensations and transfers to public institutions to cover salaries** rose by LL 498 billion, LL 103 billion and LL 77 billion, respectively. Of the LL498 billion enlargement in salaries, wages and related items, LL 95 billion resulted from the payments in May-June 2009 of the retroactive amounts related to the years 1996-1998 following the salary and wage increase granted in 1999.⁶ Out of the LL103 billion increase in retirement and end of service compensations, LL 5 billion were due to the payment of the retroactive amount related to the salary and wage increase granted in 1999.

Other current primary expenditures payments, such as **hospitals, other current expenditures and interest subsidies** registered rises of LL 52 billion, LL 20 billion and LL 10 billion, respectively.

Interest payments were higher by LL 421 billion, driven by higher interest payments on domestic currency debt due to an increase in the stock of domestic currency TBs. Interest payments on foreign currency debt decreased LL 32 billion compared to January-August 2008.

Principal repayment of foreign project loans decreased by LL 67 billion compared to January-August 2008, reflecting the repayment of World Bank loans amounting to USD 50 million in June 2009 and USD 88 million in January 2008, both from the proceeds of the USAID grant pledged at the Paris III conference.

Other treasury expenditures increased by LL 841 billion, mainly due to higher transfers to EDL (LL 177 billion), High Relief Committee (LL 511 billion), VAT refund (LL 28 billion) and municipalities (LL 66 billion).

At the end of August 2009, **gross public debt** reached LL 73,136 billion, registering an increase of LL 2,248 billion compared to the end-December 2008 debt level. This increase is a result of higher **local and foreign currency debt** of LL 1,943 billion and LL 305 billion, respectively. From end-2008 until end of August 2009, BDL's domestic debt portfolio rose by LL 1,691 billion, largely due to purchases of TBs on the secondary market in the first quarter of 2009 and subscriptions in the primary market since then. This increase compensated the reduction in commercial banks' domestic debt portfolio by LL 651 billion over the eight months of the year despite commercial banks' purchase of more than half of subscriptions in Q1 2009 and since June 2009. The stock of foreign

⁵ 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 3 years, as follows: LL 42 billion paid in 2008, LL 14 billion/ year over the three years period 2009-2011.

⁶ The breakdown shows that LL 68.5 billion were paid to the army, LL 12.3 billion were paid to the Internal Security Forces, LL 3.9 billion were paid to the General Security Forces, LL 1.2 billion were paid to the State Security Forces and LL 8.9 billion were paid to Civil Servants.

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 TBs worth USD 18.5 million were issued on 25 March 2009 for the settlement of expropriations. Moreover, two loans negotiated in the context of the Paris III Conference were disbursed in June 2009.⁷

Table 1. Summary of Fiscal Performance

(LL billion)	2007	2008	2009	2007	2008	2009
	August	August	August	Jan-August	Jan-August	Jan-August
Total Budget and Treasury Receipts	632	647	902	5,981	6,776	8,570
Total Budget and Treasury Payments, of which	1,039	1,019	1,093	8,308	9,327	11,347
Interest Payments	366	314	366	3,026	3,156	3,577
Concessional loans principal payments ^{1/}	11	17	8	118	242	175
Primary Expenditures ^{2/}	662	687	718	5,164	5,928	7,595
Total Cash Deficit/Surplus	-407	-372	-191	-2,327	-2,550	-2,777
Primary Deficit/Surplus	-30	-40	183	817	848	975

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)

⁷ The Arab Monetary Fund disbursed US\$ 32 million and the European Commission disbursed €25 million as part of the first tranche of the Macro-Financial Assistance.

Section 2: Revenue Outcome

Table 2. Total Revenue

(LL billion)	2007 August	2008 August	2009 August	2007 Jan-Aug	2008 Jan-Aug	2009 Jan-Aug
Budget Revenues, of which:	605	597	863	5,512	6,230	8,119
<i>Tax Revenues</i>	361	535	619	3,808	4,696	6,131
<i>Non-Tax Revenues</i>	244	62	244	1,704	1,534	1,988
Treasury Receipts	27	50	38	470	546	451
Total Revenues	632	647	902	5,981	6,776	8,570

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

Table 3. Tax Revenue

(LL billion)	2007 Aug	2008 Aug	2009 Aug	2007 Jan-Aug	2008 Jan-Aug	2009 Jan-Aug
Tax Revenues:	361	535	619	3,808	4,696	6,131
Taxes on Income, Profits, & Capital Gains, of which:	43	81	77	1,003	1,215	1,465
<i>Income Tax on Profits</i>	4	9	6	440	561	691
<i>Income Tax on Wages and Salaries</i>	2	2	2	159	197	266
<i>Income Tax on Capital Gains & Dividends</i>	4	18	18	114	129	136
<i>Tax on Interest Income (5%)</i>	33	52	50	284	319	358
<i>Penalties on Income Tax</i>	0	1	0	6	9	12
Taxes on Property, of which:	40	91	63	318	486	464
<i>Built Property Tax</i>	3	9	3	79	82	78
<i>Real Estate Registration Fees</i>	32	63	56	205	351	336
Domestic Taxes on Goods & Services, of which:	143	203	215	1,466	1,875	2,180
<i>Value Added Tax</i>	123	180	185	1,328	1,693	1,951
<i>Other Taxes on Goods and Services, of which:</i>	19	23	28	133	176	222
<i>Private Car Registration Fees</i>	13	17	21	84	122	158
<i>Passenger Departure Tax</i>	6	5	7	49	53	63
Taxes on International Trade, of which:	112	135	237	837	899	1,763
<i>Customs</i>	49	64	67	363	433	501
<i>Excises, of which:</i>	63	71	170	473	466	1,262
<i>Gasoline Excise</i>	13	0	96	157	5	677
<i>Tobacco Excise</i>	23	18	19	142	156	167
<i>Cars Excise</i>	27	52	54	171	302	415
Other Tax Revenues (namely fiscal stamp fees)	22	25	28	183	222	259

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

Table 4. Non-Tax Revenue

(LL billion)	2007 Aug	2008 Aug	2009 Aug	2007 Jan-Aug	2008 Jan-Aug	2009 Jan-Aug
Non-Tax Revenues	244	62	244	1,704	1,534	1,988
Income from Public Institutions and Government Properties, of which:	201	21	201	1,374	1,170	1,593
Income from Non-Financial Public Enterprises, of which:	196	16	200	1,230	1,093	1,507
<i>Revenues from Casino Du Liban</i>	6	10	14	38	112	101
<i>Revenues from Port of Beirut</i>	0	0	0	30	0	62
<i>Budget Surplus of National Lottery</i>	4	5	5	40	37	33
<i>Transfer from the Telecom Surplus</i>	186	0	181	1,121	943	1,310
Transfer from Public Financial Institution (BDL)					41	40
Property Income (namely rent of Rafic Hariri International Airport)	4	3	1	28	30	38
Other Income from Public Institutions (interests)	0	2	0	3	6	8
Administrative Fees & Charges, of which:	36	35	35	275	294	321
Administrative Fees, of which:	29	29	29	220	239	263
<i>Notary Fees</i>	2	2	2	13	15	17
<i>Passport Fees/ Public Security</i>	13	12	11	79	82	79
<i>Vehicle Control Fees</i>	10	11	10	89	99	124
<i>Judicial Fees</i>	1	1	1	13	14	12
<i>Driving License Fees</i>	1	2	2	11	12	15
Administrative Charges	1	0	1	12	12	14
Sales (Official Gazette and License Number)	0	0	0	2	2	2
Permit Fees (mostly work permit fees)	5	4	5	32	35	32
Other Administrative Fees & Charges	1	1	1	8	6	10
Penalties & Confiscations	0	0	1	4	4	5
Other Non-Tax Revenues (mostly retirement deductibles)	7	6	8	52	67	69

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

Section 3: Expenditure Outcome

Table 5. Expenditure by Economic Classification

(LL billion)	2007 Jan- August	2008 Jan- August	2009 Jan- August
1. Current Expenditures	6,384	6,785	7,925
1.a Personnel Cost, of which	2,404	2,507	3,184
<i>Salaries, Wages and Related Items (Article 13)</i>	1,668	1,684	2,182
<i>Retirement and End of Service Compensations, of which:</i>	594	693	796
<i>Retirement</i>	516	547	696
<i>End of Service</i>	78	146	100
<i>Transfers to Public Institutions to Cover Salaries ^{1/}</i>	141	130	207
1.b Interest Payments, of which: ^{2/}	3,026	3,156	3,577
<i>Domestic Interest Payments</i>	1,730	1,866	2,319
<i>Foreign Interest Payments</i>	1,296	1,290	1,258
1.c Foreign Debt Principal Repayment	118	242	175
1.d Materials and Supplies, of which:	148	151	178
<i>Nutrition</i>	19	30	41
<i>Fuel Oil</i>	23	28	12
<i>Medicaments</i>	49	46	82
<i>Accounting Adjustments for Treasury</i>	33	30	24
1.e External Services	67	77	80
1.f Various Transfers, of which:	419	390	383
<i>NSSF</i>	220	40	50
<i>Wheat Subsidy</i>	0	129	10
<i>Special Tribunal for Lebanon</i>	0	18	12
1.g Other Current, of which:	141	205	281
<i>Hospitals</i>	114	176	227
<i>Others</i>	25	28	47
1.h Reserves	61	57	67
<i>Interest subsidy</i>	61	57	67
2. Capital Expenditures	365	308	344
2.a Acquisitions of Land, Buildings, for the Construction of Roads, Ports, Airports, and Water Networks	15	3	4
2.b Equipment	30	23	24
2.c Construction in Progress, of which:	263	213	231
<i>Displaced Fund</i>	41	20	60
<i>Council of the South</i>	30	10	10
<i>CDR</i>	145	136	129
<i>Ministry of Public Work and Transport</i>	25	23	17
<i>Other</i>	22	25	14
2.d Maintenance	34	45	51
2.e Other Expenditures Related to Fixed Capital Assets	22	24	34
3. Other Treasury Expenditures	1,530	2,205	3,046
Municipalities	150	233	299
Guarantees	28	41	74
Deposits :	53	44	67
Other, of which:	228	333	890
<i>VAT Refund</i>	127	188	216
<i>High Relief Committee</i>	6	9	520
EDL ^{3/}	1,071	1,536	1,713
Treasury advances for water authorities	0	0	4
Treasury Advances for Diesel Oil Subsidy	0	19	0

4. Unclassified Expenditures	4	2	2
5. Customs Cashiers	25	27	30
6. Total Expenditures (Excluding CDR Foreign Financed)	8,308	9,327	11,347

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	2008	2009
	Jan-August	Jan-August	Jan-August
Transfer to Council of the South	3	5	3
Transfer to Council for Development and Reconstruction (CDR)	24	17	31
Transfer to the Displaced Fund	4	4	5
Transfer to the Lebanese University	104	98	159
Transfer to the Educational Center for Research and Development	6	7	9

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

Table 7. Details of Debt Service Transactions

(LL billion)	2007	2008	2009	2007	2008	2009
	Aug	Aug	Aug	Jan-Aug	Jan-Aug	Jan-Aug
Interest Payments 1/	366	314	366	3,026	3,156	3,577
Local Currency Debt	218	253	313	1,730	1,866	2,319
Foreign Currency Debt, of which:	148	62	53	1,296	1,290	1,258
Eurobond Coupon Interest*	123	36	32	1,197	1,182	1,161
Specialbond Coupon Interest*	0	0	0	13	7	10
Concessional Loans Interest Payments	26	26	21	87	101	87
Concessional Loans Principal Payments**	11	17	8	118	242	175

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 full payment of IBRD loans from USAID grant during 2008.

** Includes LL 75 billion full payment of IBRD loans from USAID grant during 2009.

Table 8. Transfers to EDL

(LL billion)	2007	2008	2009	Value
	Jan-Aug	Jan -Aug	Jan -Aug	Change
EDL, of which:	1,071	1,536	1,713	177
• Debt Service, of which:	330	122	107	-16
– C-Loans and Eurobonds, of which:	253	97	81	-17
Principal repayments	221	78	67	-11
Interest Payments	32	19	13	-6
– BDL Guaranteed Loan payments	77	25	26	1
• Reimbursement of KPC and Sonatrach Agreements	741	1,414	1,606	192

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

Section 4: Public Debt

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

	Dec-05	Dec-06	Dec-07	Dec-08	Aug-09	Change Dec 08 -Aug 09	% Change Dec 08- Aug 09
Gross Public Debt	57,985	60,851	63,350	70,888	73,136	2,248	3.17%
Local Currency Debt	29,141	30,204	31,373	39,007	40,950	1,943	4.98%
a. Central Bank (Including REPOs and Loans to EDL to Finance Fuel Purchases) ⁽¹⁾	11,686	9,588	9,052	8,781	10,472	1,691	19.26%
b. Commercial Banks	14,130	16,487	16,847	24,320	23,669	-651	-2.68%
c. Other Local Currency Debt (T-bills), of which:	3,325	4,129	5,474	5,906	6,809	903	15.29%
<i>Public Entities</i>	2,446	3,313	4,796	5,062	5,693	631	12.47%
<i>* Accrued Interest Included in Debt</i>	517	685	754	1,001	1,028	27	2.70%
Foreign Currency Debt (2)	28,844	30,647	31,977	31,881	32,186	305	0.96%
a. Bilateral, Multilateral and Foreign Private Sector Loans	2,789	2,855	2,953	2,802	2,663	-139	-4.96%
b. Paris II Related Debt (Eurobonds and Loans) ⁽³⁾	6,501	6,540	6,063	5,456	5,074	-382	-7.00%
c. Paris III Related Debt (Eurobonds and Loans) ⁽⁴⁾			1,357	1,849	1,961	112	6.06%
d. Market-Issued Eurobonds	18,729	20,399	20,776	20,925	21,431	506	2.42%
e. Accrued Interest on Eurobonds	406	434	410	430	610	180	41.86%
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	7,809	-517	-6.21%
Net Debt	52,395	56,407	58,823	62,562	65,327	2,765	4.42%
Gross Market Debt⁽⁶⁾	34,721	38,670	39,216	46,992	47,311	319	0.68%
% of Total Debt	60%	64%	62%	66%	65%	0	-2.42%

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, IMF loans, first tranche EC/EU loan, and AMF loan disbursed in June 2009.

⁽⁵⁾ Special Tbs 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.

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