

Public Finance Monitor

The Monthly Statistical Bulletin of the Ministry of Finance

August 2006

Section 1: Fiscal Overview

Highlights:

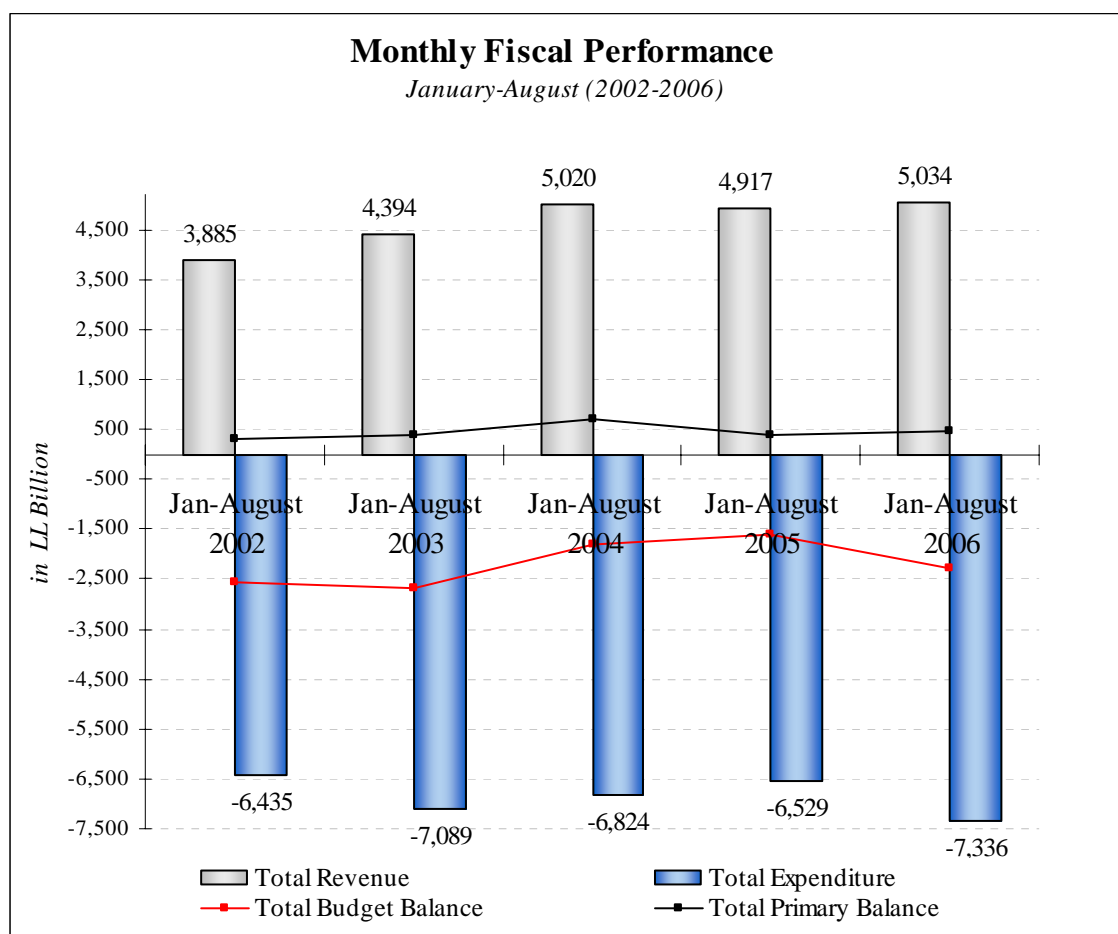
Although the war ended on August 14th 2006, its devastating effect continued to impact the Lebanese economy and specifically its public finances. The cumulative deficit reached LL 2,303 billion for January-August 2006 period - an increase of LL 691 billion when compared to the same period of 2005. This deterioration is mainly due to higher August expenditures by 54 percent when compared to August 2005, compounded by a decrease of 48 percent in August revenues for the same comparative period. In the same vein, the primary deficit deteriorated to LL 461 billion in August 2006, compared to a primary surplus of LL 151 billion in August 2005. The total primary surplus for January-August 2006 at LL 480 billion remained higher than the same period in 2005 by LL 103 billion due to the improvements achieved during the first six months of 2006.

Table 1. Summary of Fiscal Performance

(LL billion)	2005	2006	2005	2006	Change	%
	August	August	Jan-August	Jan-August	2005-2006	Change
Budget Revenue	622	331	4,641	4,718	77	1.7%
Budget Expenditures	535	683	4,856	5,339	483	9.9%
<i>o/w Debt Service</i>	245	364	1,993	2,783	790	39.6%
Budget Deficit/Surplus	87	-352	-215	-620	-406	189.1%
in % of Budget Expenditures	16.3%	-51.6%	-4.4%	-11.6%		
Budget Primary Deficit/Surplus	332	12	1,778	2,163	384	21.6%
in % of Budget Expenditures	62.1%	1.7%	36.6%	40.5%		
Treasury Receipts	42	13	276	316	40	14.5%
Treasury Payments	224	485	1,673	1,998	325	19.4%
Total Budget and Treasury Receipts	664	344	4,917	5,034	117	2.4%
Total Budget and Treasury Payments	759	1,168	6,529	7,336	807	12.4%
Total Cash Deficit/Surplus	-94	-824	-1,612	-2,303	-691	42.8%
in % of Total Expenditures	-12.4%	-70.6%	-24.7%	-31.4%		
Primary Deficit/Surplus	151	-461	381	480	99	26.1%
in % of Total Expenditures	19.9%	-39.4%	5.8%	6.6%		

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

Chart 1.



Section 2: Revenue Outcome

The Israeli offensive on Lebanon continued to impact the country's finances as evidenced by the 48 percent decrease in total revenues in August 2006. Despite the cessation of hostilities on August 14, 2006, the sea and air blockade persisted till September 6th and strongly affected the August performance. Therefore, unlike the month of July 2006 where the first half of the month had a positive outlook prior to the break of the war, the corrosion of the revenue base was witnessed throughout the whole month of August 2006.

From a cumulative perspective, the improvement in collection witnessed in the first half of the year prior to the eruption of the war offset the revenue deterioration of two months of July and August. Total revenues collected over the period of January-August 2006 reached LL 5,034 billion compared to LL 4,917 billion during the same period last year, accounting for LL 117 billion of additional revenues. In fact, the 15 percent rise in total revenue collection that was witnessed during the first half of 2006 (compared to the first half of 2005) outweighed the 13 percent and the 48 percent deterioration witnessed in the months of July 2006 and August 2006 respectively. The net result was a 2 percent overall improvement in collection over the first eight months of 2006.

Tax revenues in August 2006 decreased by LL 201 billion to reach LL 136 billion a 60 percent decline compared to August 2005 as detailed below:

- Revenues from international trade registered a meager LL 7 billion, a 94 percent decrease compared to the revenue level in August 2005; this was caused by the sea and air blockade as mentioned above. This LL 102 billion drop in revenues from trade stems from a near LL 38 billion loss of revenues from customs duties, and LL 64 billion less revenues from excises, partly caused by maintaining the cap on the domestic retail price of car gasoline in the face of international fuel price hikes.
- Domestic taxes on goods and services decreased by 55 percent (VAT revenues dropped to LL 55 billion, 50 percent below the collection level in August 2005; private car registration fees raised LL 3 billion, a 75 percent decrease compared to same period last year; passenger departure tax dropped by 87 percent compared to August 2005 registering LL 1 billion in August 2006.
- Revenues from fiscal stamps and from property taxes also decreased by 63 percent and 59 percent respectively compared to the equivalent month a year earlier.

Similarly, **non-tax revenues** collected in August 2006 dropped significantly to LL 195 billion, i.e. total decline of 32 percent. The decrease is mainly caused by: a) an LL 80 billion fall in revenues from entrepreneurial income namely attributed to a LL 73 billion loss in revenues from the Telecom Budget Surplus in August 2006, compared to the amount received in August 2005; b) a LL 10 billion decline in administrative fees and charges in August 2006 compared to 2005 particularly due to lower administrative fees which decreased by LL 8 billion in the same comparative period. The decrease in administrative fees occurred despite higher public security fees which collected LL 11 billion in August 2006, a 24 percent rise compared to same period last year, owing to higher collection of passport fees - which could be the result of the issuance of a higher number of new passports.

Treasury revenues for August 2006 cumulated at LL 13 billion, compared to LL 42 billion in August 2005. The main reason behind this 69 percent drop in Treasury revenues is a 93 percent fall in Municipalities revenues. It is worth noting that of the total amount of Treasury revenues collected during August 2006, LL 2 billion are grants received during the war by the Treasury for humanitarian aid and relief.

Table 2. Total Revenue

(LL billion)	2005 August	2006 August	2005 Jan-August	2006 Jan-August	% Change
Budget Revenues, of which:	622	331	4,641	4,718	1.7%
<i>Tax Revenues</i>	337	136	3,332	3,339	0.2%
<i>Non-Tax Revenues</i>	286	195	1,310	1,379	5.3%
Treasury Receipts	42	13	276	316	14.5%
<i>of which: Grants</i>	0	2	0	76	
Total Revenues	664	344	4,917	5,034	2.4%

Source: MOF, DGF

Table 3. Tax Revenue

(LL billion)	2005	2006	2005	2006	%
	August	August	Jan-August	Jan-August	Change
Tax Revenues:	337	136	3,332	3,339	0.2%
Taxes on Income, Profits, & Capital Gains, of which:	41	49	822	924	12.5%
Income Tax on Profits	7	4	372	409	10.1%
Income Tax on Wages and Salaries	2	6	141	148	5.1%
Income Tax on Capital Gains & Dividends	8	2	73	85	15.9%
Tax on Interest Income (5%)	23	36	222	270	21.8%
Penalties on Income Tax	1	0	11	10	-11.0%
Taxes on Property, of which:	35	14	247	439	77.8%
Built Property Tax	5	2	63	68	8.4%
Real Estate Registration Fees	27	9	162	185	14.4%
Domestic Taxes on Goods & Services, of which:	134	60	1,246	1,178	-5.4%
Value Added Tax	111	55	1,120	1,047	-6.5%
Other Taxes on Goods and Services, of which:	22	4	116	122	5.4%
Private Car Registration Fees	11	3	68	76	12.0%
Passenger Departure Tax	11	1	47	45	-3.9%
Taxes on International Trade, of which:	109	7	861	618	-28.2%
Customs	42	5	310	286	-7.7%
Excises, of which:	66	2	551	332	-39.7%
Petroleum Tax	27	0	291	90	-69.1%
Tobacco Tax	18	0	122	96	-8.4%
Tax on Cars	21	2	136	145	6.4%
Other Tax Revenues (namely fiscal stamp fees)	19	7	157	179	14.2%

Source: MOF, DGF

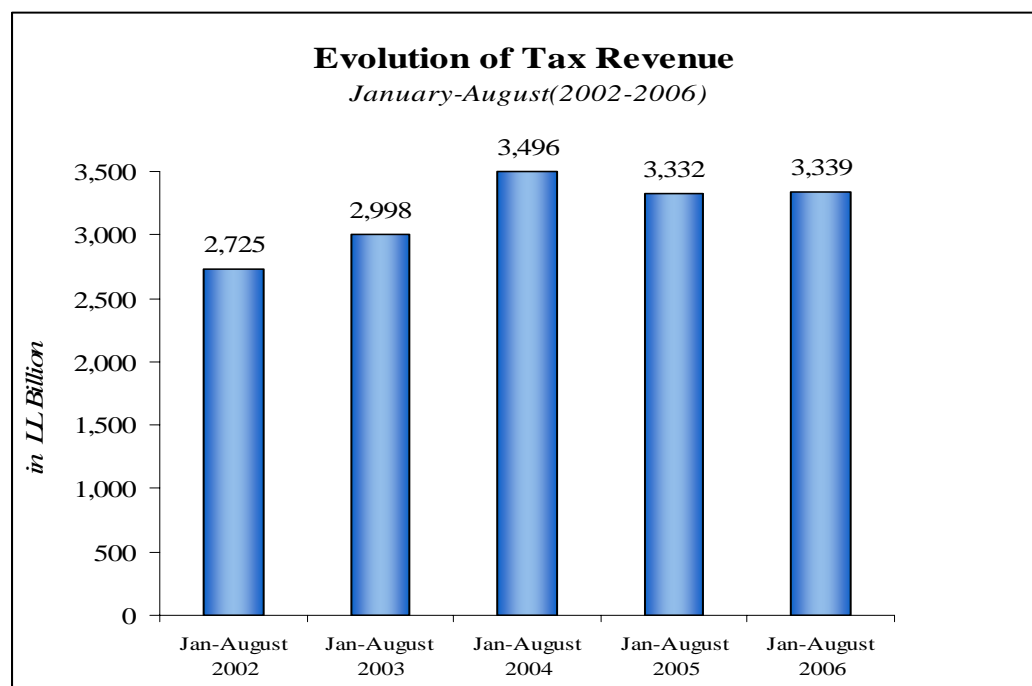
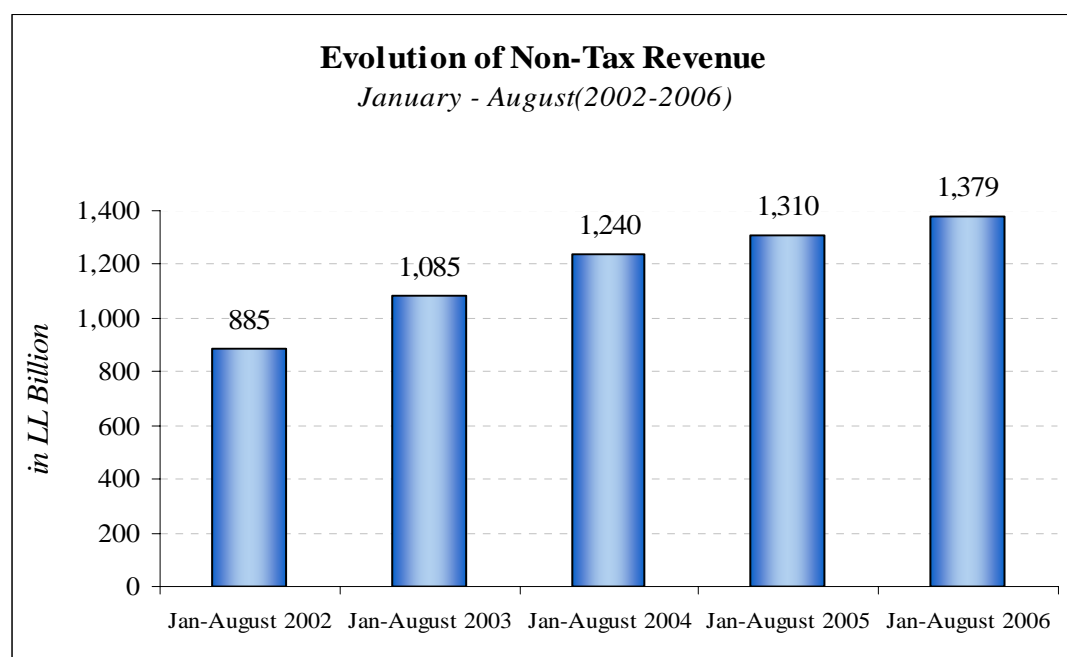
Chart 2.

Table 4. Non-Tax Revenue

(LL billion)	2005	2006	2005	2006	
	August	August	Jan-August	Jan-August	% Change
Non-Tax Revenues	286	195	1,310	1,379	5.3%
Income from Public Institutions and Government Properties, of which:	248	167	1,033	1,025	-0.8%
Income from Non-Financial Public Enterprises, of which:	243	165	1,003	1,002	-0.1%
<i>Revenues from Casino Du Liban</i>	4	2	35	27	-20.5%
<i>Revenues from Port of Beirut</i>	0	0	33	0	-100.0%
<i>Budget Surplus of National Lottery</i>	6	3	26	47	80.8%
<i>Transfer from the Telecom Surplus</i>	234	160	909	927	2.0%
Property Income (namely rent of Rafic Hariri International Airport)	4	2	27	19	-28.4%
Other Income from Public Institutions (interests)	0	0	3	4	13.2%
Administrative Fees & Charges, of which:	31	21	217	294	35.2%
Administrative Fees, of which:	27	18	175	237	34.9%
<i>Notary Fees</i>	2	1	11	11	3.9%
<i>Passport Fees/ Public Security</i>	9	11	59	83	42.4%
<i>Vehicle Control Fees</i>	9	4	72	103	43.1%
<i>Judicial Fees</i>	3	1	14	13	-8.7%
<i>Driving License Fees</i>	2	1	10	15	54.7%
Administrative Charges	1	0	10	9	-7.7%
Sales (Official Gazette and License Number)	0	0	2	2	4.8%
Permit Fees (mostly work permit fees)	3	2	25	36	46.2%
Other Administrative Fees & Charges	1	0	5	9	90.0%
Penalties & Confiscations	0	0	2	3	27.2%
Other Non-Tax Revenues (mostly retirement deductibles)	7	6	57	58	1.9%

Source: MOF, DGF

Chart 3.

Section 3: Expenditure Outcome

Total spending during the period January-August 2006, rose by 807 billion, of which 790 billion are in interest payments. It is worth mentioning that during the period January-June 2006, non-interest spending was on the decline, with the average monthly spending over the period standing at LL 511 billion, compared to an average of LL 550 billion during the corresponding period of 2005. The trend was reversed upward starting July to report an increase in the average monthly spending to approximately LL 570 billion over the first eight months of 2006, bringing back this average to almost the same level reported during the same period of 2005.

Total expenditures for August 2006 amounted to LL 1,168 billion, as compared to LL 759 billion for the same period of 2005, increasing by approximately 54 percent. This increase is mainly due to a rise in both interest payments and non-interest payments by 49 percent and 54 percent respectively. This rising trend in spending, mainly non-interest spending, continued for the second consecutive month, and is attributed mainly to the war. The following are details of the different expenditure items:

1. Debt service registered LL 2,783 billion in January-August 2006 compared to LL 1,993 billion for the same period of 2005, increasing by approximately 40 percent. This rise resulted from higher local currency debt service and foreign currency debt service which rose by 77 percent and 13 percent respectively. This increase in the cost of debt is mainly due to the maturity of all the Zero interest Treasury bills, initially issued in the context of the Paris II conference to the Lebanese commercial banks back in 2003.

2. Non-interest expenditures registered LL 4,553 billion in January-August 2006, against LL 4,536 billion for January-August 2005, an increase of LL 17 billion.

a. *Current primary budget expenditures* decreased by LL 184 billion. The increase in some items was offset by the decrease in other items as it is explained below:

- ✚ Various transfers (27 percent decrease): This decrease is mainly due to the transfer of LL 290 billion to the NSSF reported during January-August 2005 period, against a transfer of LL 150 billion reported during the same period of 2006.
- ✚ Materials and supplies (46 percent decrease): This decrease was due to higher spending that occurred in 2005 particularly a LL 93 billion payment of accrued electricity bills of public administrations due to EDL
- ✚ Other current (2 percent increase): The decrease of 60 percent in "others" is a result of higher spending in 2005 due to the payment of LL 34 billion to settle the arbitration decisions relating to the Ministries of Public Works and Education. However, spending on hospitals, considered as the major component of "other current", increased by approximately 30 percent, mainly due to higher transfers of LL 8 billion during the war (July and August 2006) to accommodate the high number of casualties received by the hospitals.

b. *Capital spending* decreased in August 2006 by LL 4 billion when compared to August 2005 due the war. However, the period of January-August 2006 reported an increase of LL 18 billion when compared to the same period of last year, due to the increase of LL 20 billion in "construction under progress".

c. Other treasury expenditures increased by LL 192 billion mainly due to the increase in direct transfers to EDL by LL 130 billion. In fact, In August 2006 alone, spending on EDL peaked at LL 371 billion, against LL 145 billion in the corresponding month of 2005. Out of August spending, an amount of LL 185 billion was paid in settlement of oil suppliers arrears (please refer to table 7). The remaining amount was in settlement of fuel oil and gas oil agreement. Additionally, municipalities registered an increase of LL 30 billion in January-August when compared to the same period of last year, mainly to support the relief effort during the war of July-August 2006.

Table 5. Expenditures by Transaction Classification

(LL billion)	2005 August	2006 August	2005 Jan-August	2006 Jan-August	% Change
Total Expenditures	759	1,168	6,529	7,336	12.4%
Budget Expenditures	535	683	4856	5,339	9.9%
Expenditures Excluding Debt Service	290	319	2,863	2,556	-10.7%
Debt Service, of which:	245	364	1,993	2,783	39.6%
Local Currency Debt	107	185	842	1,486	76.5%
Foreign Currency Debt, of which:	137	179	1,151	1,297	12.7%
Eurobond Coupon Interest*	111	137	980	1,100	12.3%
Special bond Coupon Interest*				13	
Concessional Loans Principal					
Payments	3	13	91	105	15.1%
Concessional Loans Interest					
Payments	24	29	80	79	-1.0%
Treasury Expenditures , of which:	224	485	1,673	1,998	19.4%
Municipalities	52	57	245	275	12.6%
Previous Years' Appropriations	1	0	470	468	-0.4%
Non-Interest Expenditures (Total Expenditures minus Debt Service)	514	805	4,536	4,553	0.4%

Source: MOF, DGF

* Includes general expenses related to the transactions

Chart 4.

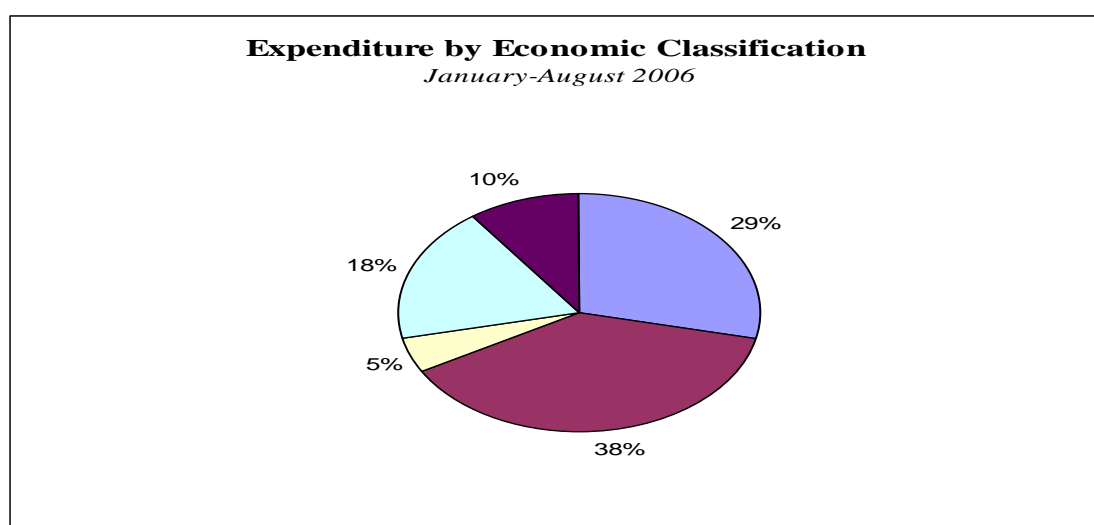


Table 6. Expenditures by Economic Classification

(LL billion)	2005 Jan- August	2006 Jan- August	% Change
1. Current expenditures	4,990	5,596	12.1%
1.a Personnel cost, <i>of which</i>	2,088	2,098	0.5%
<i>Article 13: Salaries and wages</i>	1,394	1,368	-1.8%
<i>Retirement and end of service compensations</i>	559	595	6.4%
1.b Debt Service payments	1,993	2,783	39.6%
1.c Materials and supplies	156	84	-46.4%
1.d External services	56	60	7.4%
1.e Various transfers	475	344	-27.4%
<i>o/w NSSF</i>	290	150	-48.3%
1.f Other current	168	171	1.9%
<i>Hospitals</i>	114	149	30.1%
<i>Others</i>	54	21	-60.3%
1.g Reserves (3)	55	56	1.8%
<i>Interest subsidy</i>	55	56	1.8%
2. Capital expenditures	346	364	5.1%
2.a Acquisitions of land, buildings, for the construction of roads, ports, airports, and water networks	10	11	18.0%
2.b Equipment	17	15	-14.0%
2.c Construction in Progress	261	276	5.7%
2.d Maintenance	31	33	7.7%
2.e Other Expenditures Related to Fixed Capital Assets	28	29	4.8%
3. Other treasury expenditures, of which	1,163	1,355	16.5%
Municipalities	245	275	12.6%
EDL	605	735	21.4%
Treasury advances for water authorities	48	0	-100.0%
Treasury advances for diesel oil subsidy	12	52	345.4%
Treasury advances for Telecom companies	15	0	
4. Unclassified expenditures	3	1	-70.2%
5. Customs cashiers	27	21	-23.0%
6. Total expenditures (excluding CDR foreign financed)	6,529	7,336	12.4%

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

Table 7. Transfers to EDL

(LL billion)	2005 Jan-August	2006 Jan-August	% Change
EDL of which:	746	735	-1.45%
Debt Service of which:	158	735	365.00%
C-Loans and Eurobonds, of which:	158	134	-15.19%
Principal Repayment	111	96	-13.90%
Interest Payment	47	38	-19.36%
Loans for Fuel Oil Payment	0	17	100.00%
BDL Guaranteed Loan Payment	0	0	0.00%
Treasury Advance for Fuel Purchase*	127	0	-100.00%
Treasury Advance for EDL' s Losses**	165	0	-100.00%
Treasury Advance for EDL' s Losses***	155	0	-100.00%
Material and Supplies (Electricity bills)	93	0	-100.00%
Treasury advance to Water Authorities	48	0	-100.00%
Kuwait & Alg. Petrol	0	399	100.00%
Repayment of oil suppliers arrears ****	0	185	100.00%
Expropriations	0	0	-100.00%

Source: MOF, DGF

* Paid for Fuel /From Decree Nbr. 14310 date 2/4/2005

**Paid from decree Nbr.14561 (220 billion LL)

***Paid from decree Nbr.14917 (155 billion LL)

****Paid from decree Nbr.16084 Dec 2005(152 billion LL)

& disburse an amount of 32 billion LL from the decree Nbr 14308 dated 02/04/05 LL 90 billion,

Section 4: Public Debt

Highlights:

1. By the end of August 2006, gross public debt reached LL 59,340 billion (equivalent to US\$ 39 billion), registering an increase of LL 1,322 billion (or 2.28 percent) over the end-December 2005 debt level.
2. Local currency debt amounted to LL 28,539 billion (equivalent to US\$ 19 billion), decreasing by LL 602 billion or 2.07 percent over the end-December 2005 level. This decrease is due to the large amounts of Lebanese Pounds denominated treasury bills that matured during March and April 2006 and were financed by the surplus which existed in the Treasury accounts at the Central Bank.
3. By end-August 2006, foreign currency debt amounted to LL 30,801 billion (equivalent to US\$ 20 billion), increasing by LL 1,924 billion (or 6.66 percent) over the end-December 2005 level. This increase is due to the new issuance, during August 2006, of two simultaneous Eurobond transactions amounting to US\$ 207 million and US\$ 450 million.
4. Paris II loans decreased by LL 45 billion, mainly due to the payment of Euro 30 million in maturing AFD principal (French loan). Note that this is the first principle payment on loans issued in the context of Paris II.
5. As of end August 2006, local currency debt held by BDL decreased by LL 2,117 billion as compared to end of December 2005. This is an increase of LL 1,717 billion (or 22%) compared to June 2006 (prior to the war). On the other hand, local currency debt held by commercial banks increased by LL 766 billion as of end August 2006. This rise in commercial banks' treasury bills holding is also reflected in the 7.61 percent increase in gross market debt ratio compared to December 2005. In comparison with June 2006, local currency debt held by commercial banks decreased by LL 1,994 billion (or 12%) in August 2006. This decrease is explained by the feeble market appetite for treasury bills following the July war period.
6. Treasury bills held by the public increased by LL 187 billion in August 2006. The reason behind this increase stems from the issuance of LL 185 billion of special one year T-bills for oil suppliers to settle EDL's arrears.
7. Public sector deposits amounted to LL 4,583 billion, decreasing by approximately LL 1,007 billion from their December 2005 level. The main reason behind the decrease is the repayment of some of the local currency debt that matured in March, April, June, July and August 2006.

Table 8. Public Debt Outstanding by Holder as of End-August 2006

Assumes full LL Replacement	Dec-03	Dec-04	Jan-05	Dec-05	Aug-06	Change Dec 05 - Aug 06	% change Dec 05 - Aug 06
Gross Public debt	50,285	54,048	53,629	58,018	59,340	1,322	2.28%
Local currency debt	26,843	26,371	26,123	29,141	28,539	-602	-2.07%
a. Central Bank (including REPOs and Loans to EDL to finance fuel purchases)*	8,938	10,652	10,545	11,686	9,569	-2,117	-18.12%
b. Commercial Banks	12,303	12,220	12,255	14,130	14,896	766	5.42%
c. Other Local Currency Debt (T- bills)	5,603	3,500	3,322	3,325	4,074	749	22.53%
o/w Public entities	2,564	2,187	2,188	2,446	3,055	609	24.90%
Foreign currency debt	23,442	27,677	27,506	28,877	30,801	1,924	6.66%
a. Bilateral, Multilateral and Foreign Private sector loans	2,934	2,970	2,935	2,822	2,940	118	4.18%
b. Paris II related debt (Eurobonds and Loans)*****	3,731	3,814	3,771	3,682	3,700	18	0.49%
c. BDL Eurobond (Paris II)	2,819	2,819	2,819	2,819	2,819	0	0.00%
d. Market Eurobonds	13,631	17,686	17,507	18,729	20,377	1,648	8.80%
e. Accrued Interest on foreign currency debt	327	388	475	406	546	140	34.52%
f. Special Tbls in Foreign currency**				419	419	0	0.00%
Public sector deposits	3,019	4,360	4,026	5,590	4,583	-1,007	-18.01%
Net debt	47,266	49,688	49,603	52,428	54,757	2,329	4.44%
Gross Market debt***	29,638	31,861	31,621	34,759	37,403	2,644	7.61%
% of total debt	59%	59%	59%	60%	63%	0	5.21%

Source: Ministry of Finance, Banque du Liban

Notes:

* 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.

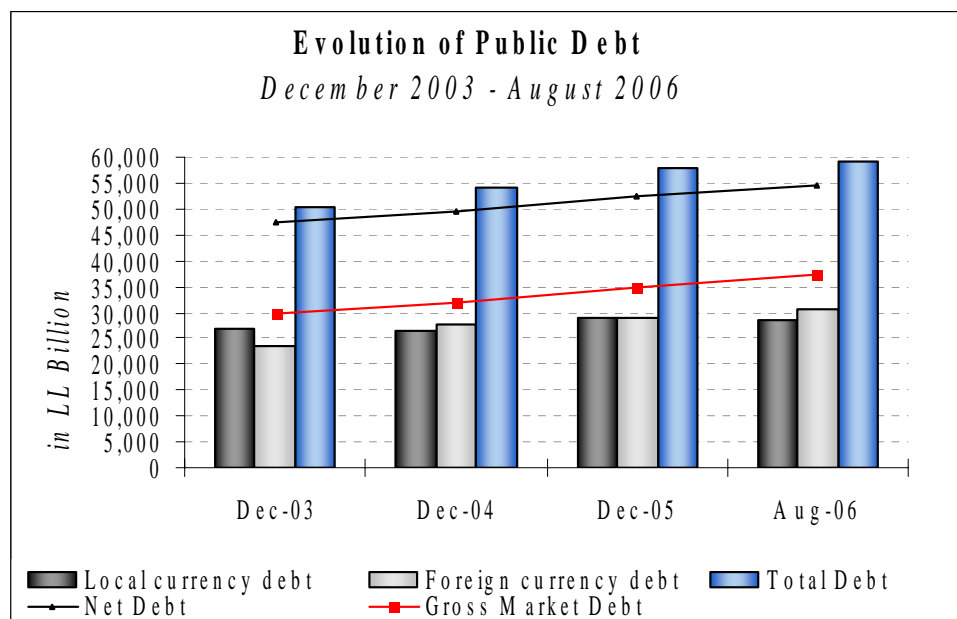
** Special Tbs in Foreign currency
(expropriation bonds)

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

**** Figures of Dec03- Dec04 -Jan06 may have changed from previously published information due to the exchange rate of Euro

***** Paris II related debt (Eurobonds and Loans) declined in August because payment of first principal 30M EURO

Chart 5.





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