

# Public Finance Monitor

The Monthly Statistical Bulletin of the Ministry of Finance

## December 2005

### Section 1: Fiscal Overview

#### Highlights:

By the end of December 2005, the total fiscal balance improved by 7.5 percent, registering a deficit of LL 2,798 billion, dropping from LL 3,026 billion at the end of December 2004. This overall improvement resulted mainly from a 3.2 percent decrease in total payments which compensated for the 1.4 percent decline in total receipts. Meanwhile, the primary surplus amounted to LL 737 billion for the year 2005 compared to LL 995 billion for the year 2004, declining by 26 percent. As for the total primary spending, an increase of LL 150 billion was reported for the year 2005 compared to the year 2004. This increase was driven primarily by the increased transfers to EDL and NSSF.

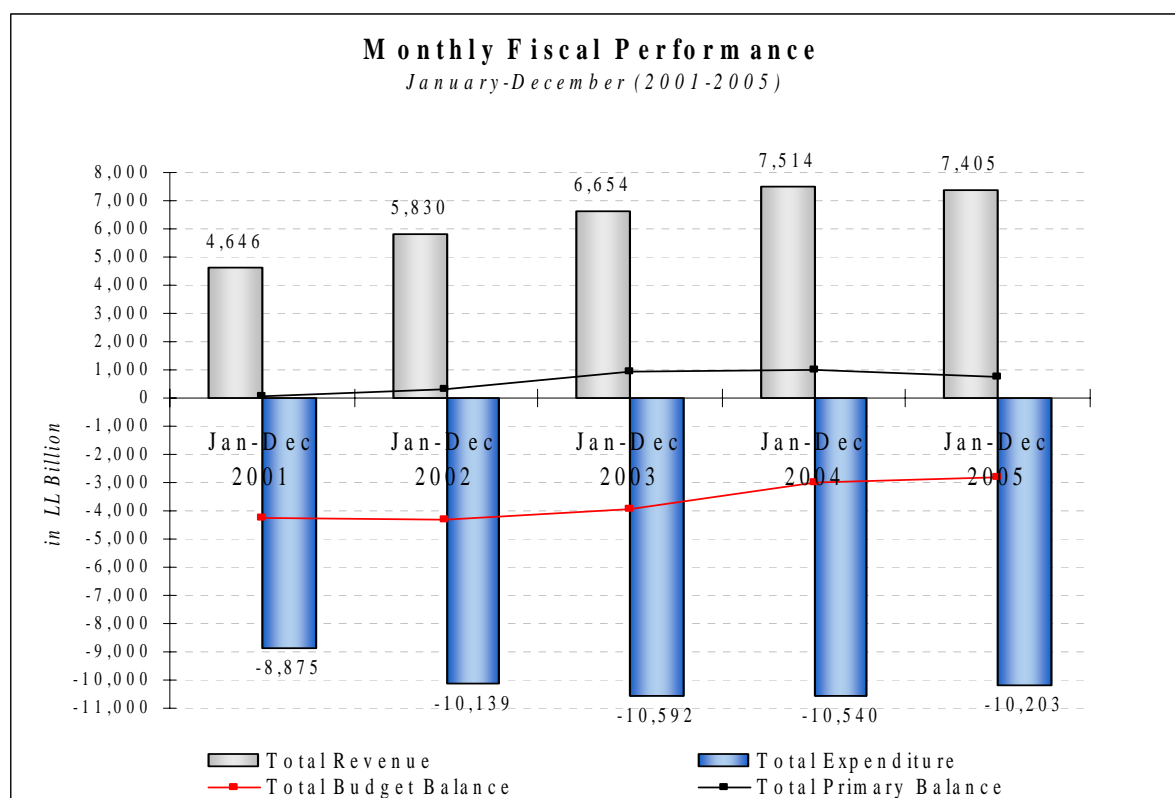
The fiscal situation showed signs of recovery after July 2005. Whereas primary expenditures had increased by 6.8% in Jan-July 05 compared to Jan-July 04, they declined by 4.6% in Aug-Dec 05 compared to Aug-Dec 04. Moreover, while revenues had declined by 3.8% in the first 7 months of 2005 against the same period of 2004, they showed an improvement of 2% in the last 5 months of the year against the comparable period of 2004. Most importantly, while the primary surplus had declined by 63% in the first 7 months of 2005 (versus the same period of 2004), it improved by 58% during the last 5 months of the year.

**Table 1. Summary of Fiscal Performance**

(LL billion)	2004	2005	2004	2005	Change 2004- 2005	% Change
	December	December	Jan-Dec	Jan-Dec		
Budget Revenue	721	568	7,075	6,984	-91	-1.3%
Budget Expenditures	638	649	8,306	7,802	-504	-6.1%
<i>o/w Debt Service</i>	389	395	4,021	3,534	-487	-12.1%
<b>Budget Deficit/Surplus</b>	<b>83</b>	<b>-81</b>	<b>-1231</b>	<b>-818</b>	<b>413</b>	<b>-33.5%</b>
in % of Budget Expenditures	13.0%	-12.5%	-14.8%	-10.5%		
<b>Budget Primary Deficit/Surplus</b>	<b>472</b>	<b>314</b>	<b>2,791</b>	<b>2,716</b>	<b>-75</b>	<b>-2.7%</b>
in % of Budget Expenditures	74.1%	48.3%	33.6%	34.8%		
Treasury Receipts	31	37	439	421	-18	-4.1%
Treasury Payments	385	363	2,235	2,401	166	7.4%
Total Budget and Treasury Receipts	752	605	7,515	7,405	-109	-1.5%
Total Budget and Treasury Payments	1,023	1013	10,541	10,203	-337	-3.2%
<b>Total Cash Deficit/Surplus</b>	<b>-271</b>	<b>-408</b>	<b>-3,026</b>	<b>-2,798</b>	<b>228</b>	<b>-7.5%</b>
in % of Total Expenditures	-26.5%	-40.2%	-28.7%	-27.4%		
<b>Primary Deficit/Surplus</b>	<b>118</b>	<b>-13</b>	<b>996</b>	<b>737</b>	<b>-259</b>	<b>-26.0%</b>
in % of Total Expenditures	11.5%	-1.2%	9.4%	7.2%		

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

**Chart 1. Fiscal Performance**



## Section 2: Revenue Outcome

### Highlights:

Total revenues in 2005 amounted to LL 7,405 billion; this represents a 1.5 percent decrease compared to 2004. This has mainly resulted from a decrease in overall tax revenues of 5.8 percent (or LL 302 billion) which was larger in magnitude than the 11 percent increase in non-tax revenues, therefore leading to an overall decline of 1.3 percent in budget revenues.

- ☒ **Tax revenues** totaled LL 4,867 billion over 2005, compared to LL 5,169 billion during 2004. Although revenues from taxes on income, profits, and capital gains increased by 15 percent compared to 2004, this increase did not offset the near 22 percent (or LL 349 billion) drop in revenues from taxes on international trade (customs and excises), owing mainly to the loss in fuel excise revenues resulting from the cap imposed on gasoline prices since May 2004, and the weaker performance of imports (those subject to customs duties) compared to last year. Furthermore, revenues from fiscal stamps also dropped by 10 percent (or LL 27 billion) in 2005 compared to last year.
- ☒ The improvement in **non-tax revenues** is mainly due to 15 percent higher transfers from government properties and public institutions, primarily from the Telecom Budget surplus and the Port of Beirut, by LL 146 billion and LL 58 billion respectively.



**Table 2. Total Revenue**

(LL billion)	2004	2005	2004	2005	
	December	December	Jan-Dec	Jan-Dec	% Change
<b>Budget Revenues, of which:</b>	<b>721</b>	<b>568</b>	<b>7,075</b>	<b>6,984</b>	<b>-1.29%</b>
<i>Tax Revenues</i>	<i>466</i>	<i>378</i>	<i>5,169</i>	<i>4,867</i>	<i>-5.84%</i>
<i>Non-Tax Revenues</i>	<i>255</i>	<i>190</i>	<i>1,907</i>	<i>2,117</i>	<i>11.06%</i>
<b>Treasury Receipts</b>	<b>31</b>	<b>37</b>	<b>439</b>	<b>421</b>	<b>-4.13%</b>
<b>Total Revenues</b>	<b>752</b>	<b>605</b>	<b>7,515</b>	<b>7,405</b>	<b>-1.45%</b>

Source: MOF, DGF

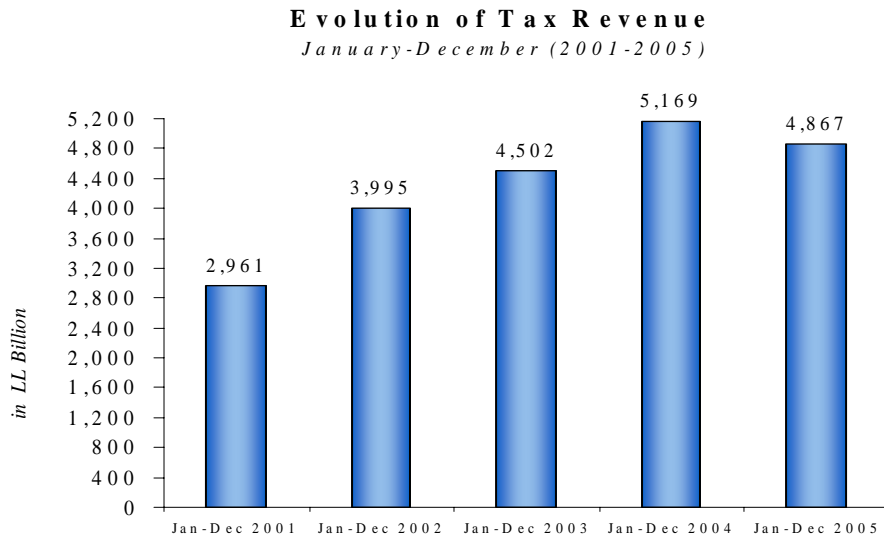
**Table 3. Tax Revenue**

(LL billion)	2004	2005	2004	2005	
	December	December	Jan-Dec	Jan-Dec	% Change
<b>Tax Revenues:</b>	<b>466</b>	<b>378</b>	<b>5,169</b>	<b>4,867</b>	<b>-5.84%</b>
<b>Taxes on Income, Profits, &amp; Capital Gains, of which:</b>	<b>52</b>	<b>45</b>	<b>908</b>	<b>1,047</b>	<b>15.35%</b>
<i>Income Tax on Profits</i>	<i>23</i>	<i>13</i>	<i>418</i>	<i>409</i>	<i>-2.03%</i>
<i>Income Tax on Wages and Salaries</i>	<i>4</i>	<i>4</i>	<i>160</i>	<i>186</i>	<i>16.10%</i>
<i>Income Tax on Capital Gains &amp; Dividends</i>	<i>2</i>	<i>3</i>	<i>79</i>	<i>95</i>	<i>19.69%</i>
<i>Tax on Interest Income (5%)</i>	<i>19</i>	<i>22</i>	<i>229</i>	<i>337</i>	<i>47.31%</i>
<i>Penalties on Income Tax</i>	<i>3</i>	<i>2</i>	<i>19</i>	<i>17</i>	<i>-8.44%</i>
<b>Taxes on Property, of which:</b>	<b>59</b>	<b>71</b>	<b>405</b>	<b>414</b>	<b>2.38%</b>
<i>Built Property Tax</i>	<i>13</i>	<i>9</i>	<i>106</i>	<i>90</i>	<i>-14.88%</i>
<i>Real Estate Registration Fees</i>	<i>42</i>	<i>60</i>	<i>261</i>	<i>291</i>	<i>11.46%</i>
<b>Domestic Taxes on Goods &amp; Services, of which:</b>	<b>185</b>	<b>134</b>	<b>1,971</b>	<b>1,896</b>	<b>-3.80%</b>
<i>Value Added Tax</i>	<i>165</i>	<i>114</i>	<i>1,763</i>	<i>1,693</i>	<i>-3.96%</i>
<i>Other Taxes on Goods and Services, of which:</i>	<i>20</i>	<i>20</i>	<i>194</i>	<i>192</i>	<i>-1.04%</i>
<i>Private Car Registration Fees</i>	<i>11</i>	<i>11</i>	<i>109</i>	<i>108</i>	<i>-1.64%</i>
<i>Passenger Departure Tax</i>	<i>9</i>	<i>9</i>	<i>82</i>	<i>83</i>	<i>0.87%</i>
<b>Taxes on International Trade, of which:</b>	<b>149</b>	<b>107</b>	<b>1,617</b>	<b>1,268</b>	<b>-21.59%</b>
<i>Customs</i>	<i>51</i>	<i>42</i>	<i>530</i>	<i>481</i>	<i>-9.19%</i>
<i>Excises, of which:</i>	<i>98</i>	<i>65</i>	<i>1,087</i>	<i>787</i>	<i>-27.63%</i>
<i>Petroleum Tax</i>	<i>52</i>	<i>22</i>	<i>644</i>	<i>362</i>	<i>-43.85%</i>
<i>Tobacco Tax</i>	<i>15</i>	<i>17</i>	<i>197</i>	<i>189</i>	<i>-3.77%</i>
<i>Tax on Cars</i>	<i>31</i>	<i>26</i>	<i>241</i>	<i>231</i>	<i>-4.21%</i>
<b>Other Tax Revenues (namely fiscal stamp fees)</b>	<b>20</b>	<b>21</b>	<b>268</b>	<b>241</b>	<b>-10.08%</b>

Source: MOF, DGF



**Chart 2.**



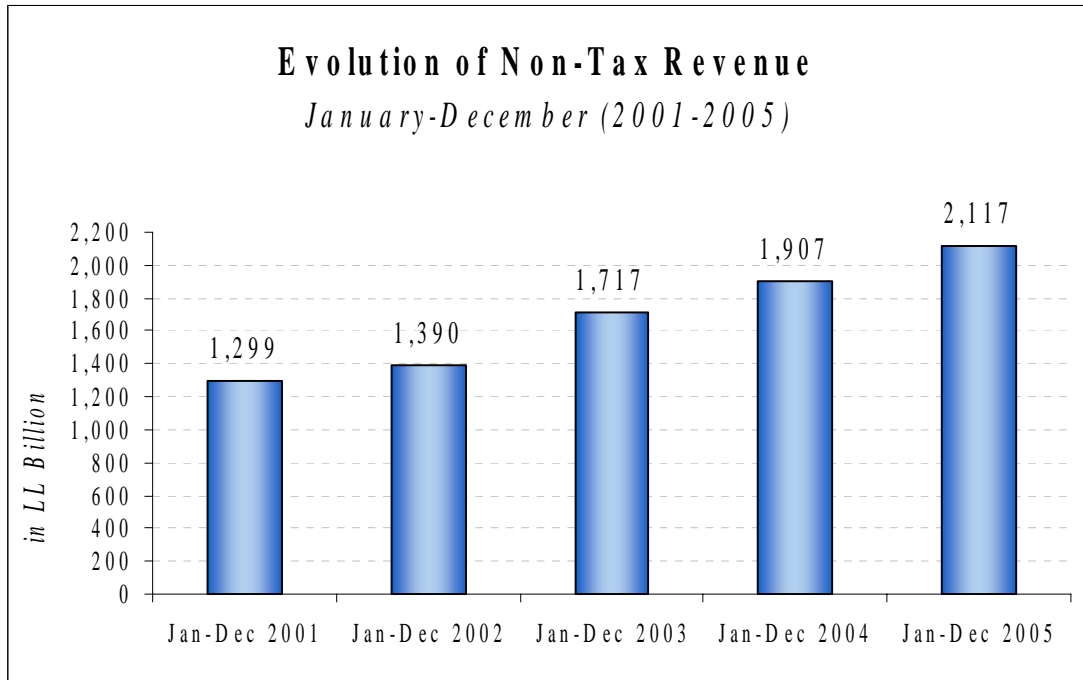
**Table 4. Non-Tax Revenue**

(LL billion)	2004	2005	2004	2005	%
	December	December	Jan-Dec	Jan-Dec	Change
<b>Non-Tax Revenues</b>	<b>255</b>	<b>190</b>	<b>1,907</b>	<b>2,117</b>	<b>11.06%</b>
<b>Income from Public Institutions and Government Properties, of which:</b>	<b>206</b>	<b>135</b>	<b>1,448</b>	<b>1,663</b>	<b>14.85%</b>
Income from Non-Financial Public Enterprises, of which:	202	131	1,391	1,614	15.99%
<i>Revenues from Casino Du Liban</i>	9	5	42	51	20.71%
<i>Revenues from Port of Beirut</i>	0	0	0	58	100.00%
<i>Budget Surplus of National Lottery</i>	3	10	37	47	28.77%
<i>Transfer from the Telecom Surplus</i>	190	116	1,310	1,456	11.12%
Property Income (namely rent of Rafic Hariri International Airport)	3	4	48	44	-9.48%
Other Income from Public Institutions (interests)	1	1	8	6	-32.95%
<b>Administrative Fees &amp; Charges, of which:</b>	<b>42</b>	<b>46</b>	<b>365</b>	<b>365</b>	<b>-0.16%</b>
Administrative Fees, of which:	32	36	284	290	2.08%
<i>Notary Fees</i>	2	2	17	17	0.69%
<i>Passport Fees/ Public Security</i>	8	8	90	88	-1.53%
<i>Vehicle Control Fees</i>	17	19	129	129	0.41%
<i>Judicial Fees</i>	2	2	20	20	-0.73%
<i>Driving License Fees</i>	1	2	15	16	6.43%
Administrative Charges	4	5	28	25	-9.72%
Sales (Official Gazette and License Number)	1	1	4	3	-24.56%
Permit Fees (mostly work permit fees)	4	4	41	39	-4.92%
Other Administrative Fees & Charges	1	1	8	8	-9.08%
<b>Penalties &amp; Confiscations</b>	<b>0</b>	<b>1</b>	<b>5</b>	<b>4</b>	<b>-14.75%</b>
<b>Other Non-Tax Revenues (mostly retirement deductibles)</b>	<b>7</b>	<b>7</b>	<b>88</b>	<b>85</b>	<b>-3.35%</b>

Source: MOF, DGF



**Chart 3.**



### **Section 3: Expenditure Outcome**

#### **Highlights:**

Total expenditures reached LL 10,203 billion for the year 2005, compared to LL 10,541 billion for 2004, registering a decline of 3.2 percent. This is mainly due to the 12.1 percent drop in debt service payments - still a direct effect of the Paris II event.

Total primary expenditures for the year 2005 increased by LL 150 billion compared to 2004, despite the decrease of almost 35 percent in capital expenditures. This 2.3 percent increase is due to two major factors:

- Higher transfers to the NSSF, amounting to LL 290 billion for 2005, compared to LL 89 billion for 2004.
- A 69 percent increase in EDL spending, which amounted to LL 974 billion in 2005 as compared to LL 577 billion in 2004. In year 2005, EDL spending comprised the following components:
  - Direct treasury transfers to EDL amounting to LL 833 billion.
  - Treasury advances to water authorities for their accrued electricity bills, amounting to LL 48 billion.
  - Budget transfers under the line item "Materials and Supplies", amounting to LL 93 billion.

*EDL's deficit amounted to LL 1,212 billion (excluding the company's delayed payments to suppliers and others), of which LL 974 billion was paid from Treasury accounts. The rest (LL 238 billion) was spent through the agreements signed with Algeria and Kuwait.*

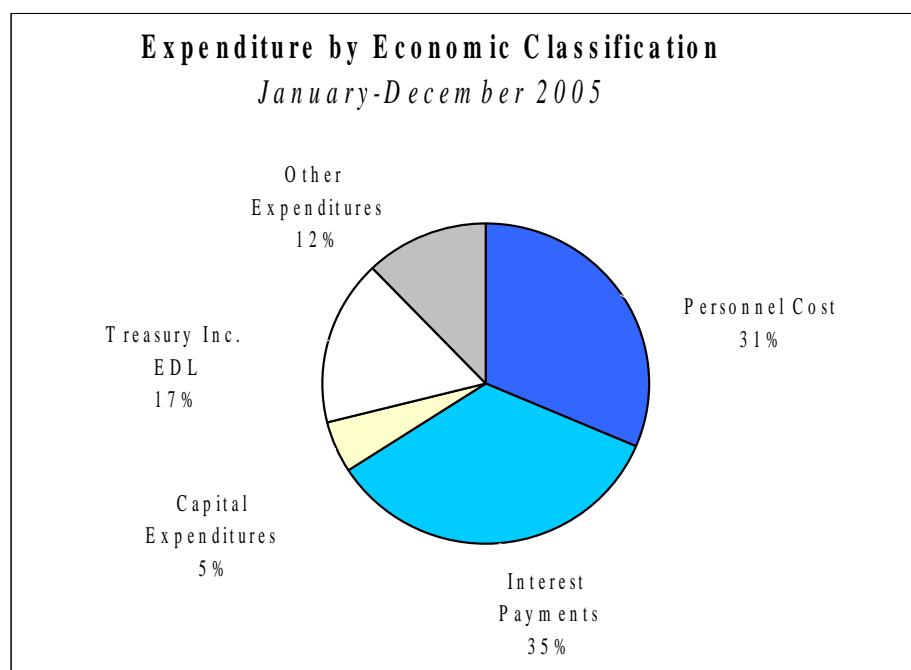
**Table 5. Expenditures by Transaction Classification**

(LL billion)	2004	2005	2004	2005	
	December	December	Jan-Dec	Jan-Dec	% Change
<b>Total Expenditures</b>	<b>1,023</b>	<b>1,013</b>	<b>10,541</b>	<b>10,203</b>	<b>-3.20%</b>
<b>Budget Expenditures</b>	<b>638</b>	<b>649</b>	<b>8,306</b>	<b>7,802</b>	<b>-6.06%</b>
Expenditures Excluding Debt Service	248	254	4,284	4,268	-0.38%
Debt Service, of which:	389	395	4,021	3,534	-12.11%
<i>Domestic Debt</i>	<i>152</i>	<i>190</i>	<i>2,246</i>	<i>1,533</i>	<i>-31.76%</i>
<i>Foreign Debt, of which:</i>	<i>237</i>	<i>205</i>	<i>1,776</i>	<i>2,002</i>	<i>12.74%</i>
<i>Eurobond Coupon Interest*</i>	<i>186</i>	<i>153</i>	<i>1,501</i>	<i>1,709</i>	<i>13.86%</i>
<i>Concessional Loans Principal Payments</i>	<i>36</i>	<i>38</i>	<i>161</i>	<i>178</i>	<i>10.56%</i>
<i>Concessional Loans Interest Payments</i>	<i>15</i>	<i>14</i>	<i>113</i>	<i>114</i>	<i>0.88%</i>
<b>Treasury Expenditures , of which:</b>	<b>385</b>	<b>363</b>	<b>2,235</b>	<b>2,401</b>	<b>7.45%</b>
<i>Municipalities</i>	<i>8</i>	<i>49</i>	<i>461</i>	<i>384</i>	<i>-16.60%</i>
<i>Previous Years' Appropriations</i>	<i>173</i>	<i>178</i>	<i>619</i>	<i>675</i>	<i>9.05%</i>
<b>Non-Interest Expenditures (Total Expenditures minus Debt Service)</b>	<b>634</b>	<b>618</b>	<b>6,519</b>	<b>6,669</b>	<b>2.30%</b>

Source: MOF, DGF

\* Includes general expenses related to Eurobond transactions

**Chart 4.**



**Table 6. Expenditures by Economic Classification**

(LL billion)

	Jan-Dec 04	Jan-Dec 05	Change in percent
<b>1. Current expenditures</b>	<b>8,051</b>	<b>7,925</b>	<b>-1.57%</b>
1.a Personnel cost, of which	3,094	3,193	3.20%
<i>Article 13: Salaries and wages</i>	2,072	2,129	2.76%
<i>Retirement and end of service compensations</i>	810	864	6.67%
1.b Debt service payments	4,021	3,534	-12.11%
1.c Materials and supplies	116	213	83.43%
1.d External services	113	82	-27.25%
1.e Various transfers	360	569	58.27%
<i>o/w NSSF</i>	89	290	225.84%
1.f Other current	275	258	-6.03%
<i>Hospitals</i>	236	192	-18.73%
<i>Others</i>	38	66	71.88%
1.g Reserves	72	75	3.93%
<i>Interest subsidy</i>	72	75	3.93%
<b>2. Capital expenditures</b>	<b>817</b>	<b>534</b>	<b>-34.64%</b>
2.a Acquisitions of land, buildings, for the construction of roads, ports, airports, and water networks	12	15	25.39%
2.b Equipment	49	25	-48.58%
2.c Construction in Progress	646	413	-36.07%
2.d Maintenance	60	46	-24.40%
2.e Other Expenditures Related to Fixed Capital Assets	49	35	-29.24%
<b>3. Other treasury expenditures, of which</b>	<b>1,477</b>	<b>1,701</b>	<b>15.13%</b>
Municipalities	461	384	-16.60%
EDL*	492	833	69.37%
Treasury advances for water authorities	85	48	-43.51%
Treasury advances for diesel oil subsidy	8	14	82.70%
Treasury advances for Telecom companies (payment of the retained guarantee amount)		15	
<b>4. Unclassified expenditures</b>	<b>69</b>	<b>5</b>	<b>-93.10%</b>
<b>5. Customs cashiers</b>	<b>126</b>	<b>39</b>	<b>-69.37%</b>
<b>6. Total expenditures (excluding CDR foreign financed)</b>	<b>10,541</b>	<b>10,203</b>	<b>-3.20%</b>

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

\* Excludes Treasury advances to water authorities for their accrued electricity bills (LL 48 billion) and Budget transfers (LL 93 billion) under the line item "Materials and Supplies" for the settlement of public administrations' accrued electricity bill.



**Table 7. Transfers to EDL**

(LL billion)	2004	2005	
	Jan-Dec	Jan-Dec	% Change
<b>EDL of which:</b>	<b>577</b>	<b>974</b>	<b>68.80%</b>
<b>Debt Service of which:</b>	<b>341</b>	<b>245</b>	<b>-28.15%</b>
C-Loans and Eurobonds, of which:	205	196	-4.20%
Principal Payment	143	143	0.00%
Interest Payment	61	53	-13.68%
Loans for Fuel Oil Payment	33	49	46.27%
BDL Guaranteed Loan Payment	103	0	-100.00%
<b>Treasury Advance for Fuel Purchase</b>	<b>150</b>	<b>130</b>	<b>-13.33%</b>
<b>Treasury Advance for EDL' s Losses*</b>	<b>-</b>	<b>458</b>	<b>100.00%</b>
<b>Material and supplies (electricity bills)</b>	<b>-</b>	<b>93</b>	<b>100.00%</b>
<b>Treasury advance to water authorities</b>	<b>85</b>	<b>48</b>	<b>-43.53%</b>
<b>Expropriations</b>	<b>2</b>	<b>-</b>	<b>-100.00%</b>

Source: MOF, DGF

\* Decree No. 14561 dated June 10,2005 - Decree No. 14917 dated July 5,2005 - Decree No.15542 dated October 5,2005

## **Section 4: Public Debt**

### **Highlights:**

By the end of December 2005, gross public debt reached LL 58,048 billion (equivalent to US\$ 39 billion), increasing by LL 3,987 billion (or 7.4 percent) over the end-December 2004 debt level.

- ✚ Domestic debt amounted to LL 29,140 billion (equivalent to US\$ 19 billion), registering an increase of LL 2,768 billion or 10.5 percent over the end-December 2004 level. This increase is largely attributed to a rise in treasury bills holdings by commercial banks, reflecting a strong market demand for these instruments.
- ✚ Foreign currency debt by end-December 2005 amounted to LL 28,909 billion (equivalent to US\$ 19 billion), increasing by LL 1,219 billion (or 4.5 percent) since the beginning of the year. Part of this increase reflects the issuance of USD 278 million (equivalent to LL 419 billion) for the settlement of expropriations pursuant to Law No.450 dated July, 29, 2002 and according to Council of Ministers resolution No.24 dated August, 18, 2002.
- ✚ BDL portfolio continued to decline as appetite for Lebanese Pound denominated treasury bills during December continued to be strong, especially by commercial banks and public institutions. Domestic debt held by BDL decreased from a peak of LL 15,236 billion in March 2005 to LL 11,686 billion in December 2005 (a 23% decrease), owing to the resumption of interest by commercial banks in Lebanese Pound denominated treasury bills, starting April 2005. Domestic debt held by commercial banks increased from a trough of LL 7,387 billion in March 2005 to 14,128 billion in December 2005 (a 91% increase).
- ✚ Public sector deposits reached LL 5,418 billion, up by LL 1,059 billion from the December 2004 level. This large surplus resulted mainly from the strong appetite for Treasury Bills.





**Table 8. Public Debt Outstanding by Holder as of End-December 2005**

LL Billion

Assumes full LL replacement	Dec-02	Dec-03	Dec-04	Dec-05	Change Year- to-date	% change Year-to- date
<b>Gross Public debt</b>	<b>47,276</b>	<b>50,285</b>	<b>54,061</b>	<b>58,048</b>	3,987	7.4%
<b>Domestic debt</b>	<b>25,302</b>	<b>26,843</b>	<b>26,371</b>	<b>29,140</b>	2,769	10.5%
a. Central Bank (including REPOs and Loans to EdL to finance fuel purchases)*	723	8,938	10,652	11,686	1,034	9.7%
b. Commercial Banks	17,211	12,303	12,220	14,128	1,909	15.6%
c. Other Domestic Debt (T-bills)	7,368	5,603	3,500	3,325	-175	-5.0%
<i>o/w Public entities</i>	3,221	2,564	2,187	2,446	259	11.8%
<b>Foreign debt</b>	<b>21,974</b>	<b>23,442</b>	<b>27,690</b>	<b>28,909</b>	1,219	4.4%
Ratio to total debt	46.5%	46.6%	51.2%	49.8%		
a. Bilateral, Multilateral and Foreign Private sector loans	2,752	2,934	2,983	2,855	-128	-4.3%
b. Paris II related debt (Eurobonds and Loans)	1,432	3,731	3,814	3,681	-134	-3.5%
c. BDL Eurobond (Paris II)	2,819	2,819	2,819	2,819		
d. Market Eurobonds	14,569	13,631	17,686	18,729	1,043	5.9%
e. Expropriation bonds				419		
f. Accrued Interest on foreign currency debt	402	327	388	406	18	4.7%
<b>Public sector deposits</b>	<b>2,964</b>	<b>3,019</b>	<b>4,360</b>	<b>5,418</b>	1,059	24.3%
<b>Net debt</b>	<b>44,312</b>	<b>47,266</b>	<b>49,702</b>	<b>52,630</b>	2,929	5.9%
<b>Gross market debt**</b>	<b>36,765</b>	<b>29,638</b>	<b>31,861</b>	<b>34,759</b>	2,898	9.1%
<b>% of total debt</b>	<b>78%</b>	<b>59%</b>	<b>59%</b>	<b>60%</b>		

Source: Ministry of Finance, Banque du Liban

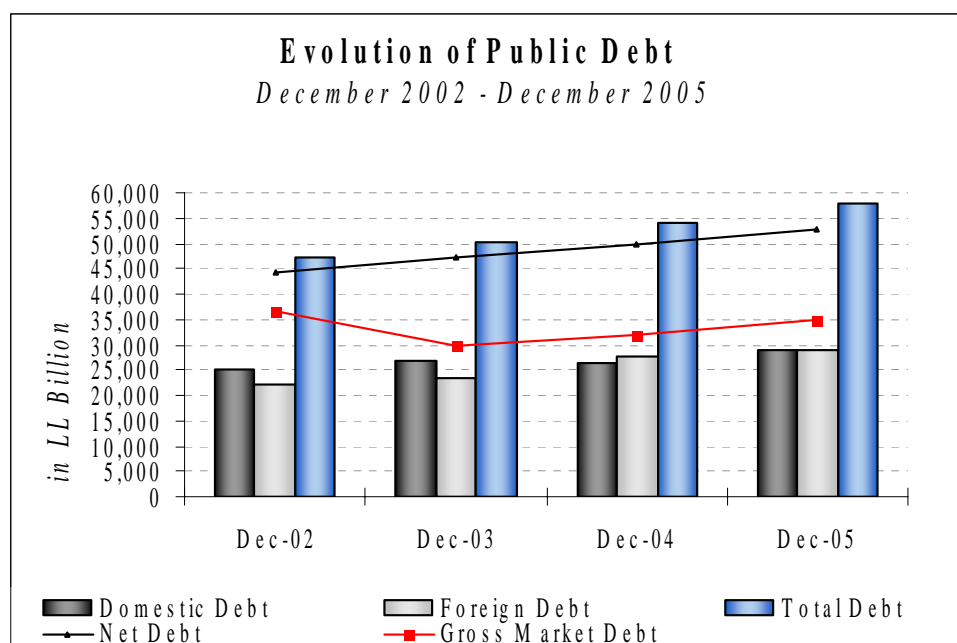
Notes:

\* 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.

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



**Chart 5.**





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