

## Fiscal Overview

The **total fiscal balance** registered a deficit of LL 4,462 billion at end-December 2009, a LL 58 billion increase compared to the recorded deficit of LL 4,404 billion in 2008. The stabilization in the deficit resulted from the LL 2,210 billion additional spending, which was mostly offset by the LL 2,152 billion increase in total receipts. Correspondingly, the **primary balance** achieved a surplus of LL 1,625 billion, an 80 percent increase from the previous year's primary surplus of LL 900 billion, largely brought about by the upswing in total receipts that surpassed the LL 1,428 billion increase in primary expenditures.

**Total revenues** amounted to LL 12,705 billion by the end of 2009, which is 20 percent above the 2008 level. This increase is attributed to the combined improvement in **tax revenues** and **non-tax revenues** by 25 percent and 17 percent, respectively. **Treasury receipts** decreased by around 12 percent from the 2008 level, down to LL 669 billion.

**Tax revenues** increased by 25 percent against 2008, amounting to LL 8,967 billion by the end of December 2009, reflecting the strong performance of most of its components, and most especially the steady inflow of **taxes on international trade**, which improved by 68 percent between 2008 and 2009. The increase was largely driven by solid international trade activity, on the one hand, and the policy to uncap gasoline excises on the other. In fact, **gasoline excises**<sup>1</sup> generated LL 999 billion against LL 112 billion in 2008.

**Taxes on income, profits and capital gains** also showed a solid advance in 2009, mainly due to the strong performance of a number of taxes, namely the profit tax, the income tax on wages and salaries, and the five-percent tax on interest income. Indeed, **income tax on wages and salaries** increased by 28 percent between January-December 2009 and 2008, which is mainly attributed to the implementation of Law 63<sup>2</sup>.

**Domestic taxes on goods and services** also improved in 2009, owing to increases in all of its sub-components, mainly **VAT** collection accumulated to LL 2,889 billion, which is equivalent to 12 percent higher receipts. Overall receipts from **taxes on property** in 2009 recorded a 3 percent increase from the 2008 level.

With respect to **non-tax revenues**, the main developments over the period January-December 2009 are mainly led by the increase in the following items: (i) 19 percent rise in **budget transfers from the telecom surplus** (accumulating to LL 2,055 billion by end of December 2009), (ii) 63 percent higher transfers from **Rafik Hariri International Airport** (amounting to LL 78 billion for 2009), and (iii) 8 percent increase in **vehicle control fees** (totaling LL 203 billion by the end of December 2009).

<sup>1</sup> 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 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<sup>rd</sup>, 2009), restoring a regular stream of revenues to the Treasury.

<sup>2</sup> Law 63, dated 31/12/2009, granted wage increases in the private and public sectors.

For the period of January-December 2009, **total expenditures** increased by 15 percent, equivalent to LL 2,210 billion, mainly driven by higher **current primary expenditures**, **interest payments** and **capital expenditures**, by 22 percent, 17 percent and 7 percent, respectively

**Current primary expenditures** increased by LL 1,196 billion mainly driven by higher **personnel cost**, **various transfers** and **remaining current expenditures** by LL 966 billion, LL 149 billion and LL 96 billion, respectively.

The increase in personnel cost was mainly due to the implementation of the wage increase in 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 649 billion, LL 199 billion and LL 118 billion, respectively.

Other current primary expenditures payments, such as **hospitals**, **other current expenditures** and **interest subsidies** registered rises of LL 62 billion, LL 25 billion and LL 13 billion, respectively

The **interest payments' bill** was larger by LL 827 billion, mostly driven by an increase of LL 816 billion in the stock of domestic currency treasury bills. Interest payments on foreign currency debt also increased by LL 11 billion compared to 2008. **Principal repayment of foreign project loans** decreased by LL 44 billion compared to 2008, reflecting the repayment of World Bank loans amounting to USD 50 million in June 2009 and the repayment of World Bank loans amounting to USD 88 million in January 2008, both through the proceeds of the USAID grant pledged at the Paris III conference.

**Other treasury expenditures** increased by LL 189 billion, mainly due to higher transfers to the High Relief Committee (+LL 473 billion) and VAT refund (+LL 20 billion). This was coupled with lower transfers to EDL by LL 172 billion, reflecting notably lower transfers in December 2009 compared to December 2008 - explained mainly by the lower oil prices prevailing at the time the letters of credit were opened and thus priced<sup>3</sup>. Additionally, treasury transfers to municipalities decreased by LL 70 billion over the same period<sup>4</sup>.

At the end of 2009, **gross public debt** reached LL 77,024 billion, registering an increase of LL 6,136 billion compared to the end-2008 debt level. This increase is primarily a result of higher **local currency debt** of LL 5,969 billion and higher foreign currency debt of LL 167 billion over this period. The higher stock of local currency debt was led by an increase of LL 2,969 billion in holdings by commercial banks mainly due to a larger Treasury Bill portfolio, coupled by an increase of LL 1,553 in BDL's domestic debt portfolio largely due to purchases of TBs on the secondary market in the first quarter of 2009 and subscriptions in the primary market in the second quarter of 2009. The stock of **foreign currency debt** decreased mainly as a result of the redemption of Eurobonds issued in the context of the Paris II conference that have an amortized payment structure. The LL 811 billion increase in market-issued Eurobonds is partly the result of the issuance of USD 500 million dual-tranche offering on December 3<sup>rd</sup> 2009. Additionally, the Lebanese Republic issued USD

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<sup>3</sup> Fuel oil and gas oil bills are settled six and nine months - for Sonatrach and KPC, respectively - after purchase (and thus consumption), based on Letters of Credit opened at the time of purchase.

<sup>4</sup> Each year, the treasury transfers to municipalities their share of revenues from treasury accounts. The 2009 transfers cover the treasury's full share of revenues accruing to municipalities over the 2007 period, while transfers in 2008 exceptionally covered an unpaid share of 2005 period, in addition to the full 2006 share. As a result, actual transfers to municipalities recorded a lower level in 2009, by LL 70 billion, as compared to 2008.

444.7 million of new cash in conjunction with the Eurobond voluntary exchange transaction carried out in March 2009. In parallel, special TBs worth USD 18.5 million were issued on 25 March 2009 for the settlement of expropriations. Also, two PIIL loans were received in June 2009.<sup>5</sup>

**Table 1. Summary of Fiscal Performance**

(LL billion)	2007 Dec	2008 Dec	2009 Dec	2007 Jan- Dec	2008 Jan- Dec	2009 Jan- Dec
Total Budget and Treasury Receipts	717	1,005	1,071	8,749	10,553	12,705
Total Budget and Treasury Payments, of which	950	1,505	1,626	12,587	14,957	17,167
Interest Payments	329	391	623	4,695	4,957	5,784
Concessional loans principal payments 1/	42	35	42	246	347	303
Primary Expenditures 2/	579	1,078	962	7,647	9,652	11,080
<b>Total Cash Deficit/Surplus</b>	<b>-233</b>	<b>-500</b>	<b>-555</b>	<b>-3,838</b>	<b>-4,404</b>	<b>-4,462</b>
<b>Primary Deficit/Surplus</b>	<b>138</b>	<b>-73</b>	<b>109</b>	<b>1,102</b>	<b>900</b>	<b>1,625</b>

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

<sup>1/</sup> Includes only Principal repayments of concessional loans earmarked for project financing

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

<sup>5</sup> 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	2008	2009	2007	2008	2009
	Dec	Dec	Dec	Jan- Dec	Jan-Dec	Jan- Dec
<b>Budget Revenues, of which:</b>	<b>649</b>	<b>907</b>	<b>1,027</b>	<b>8,094</b>	<b>9,795</b>	<b>12,036</b>
<i>Tax Revenues</i>	410	591	694	5,583	7,182	8,967
<i>Non-Tax Revenues</i>	238	316	332	2,511	2,613	3,069
<b>Treasury Receipts</b>	<b>68</b>	<b>98</b>	<b>44</b>	<b>655</b>	<b>758</b>	<b>669</b>
<b>Total Revenues</b>	<b>717</b>	<b>1,005</b>	<b>1,071</b>	<b>8,749</b>	<b>10,553</b>	<b>12,705</b>

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

**Table 3. Tax Revenue**

(LL billion)	2007	2008	2009	2007	2008	2009
	Dec	Dec	Dec	Jan- Dec	Jan- Dec	Jan- Dec
<b>Tax Revenues:</b>	<b>410</b>	<b>591</b>	<b>694</b>	<b>5,583</b>	<b>7,182</b>	<b>8,967</b>
<b>Taxes on Income, Profits, &amp; Capital Gains, of which:</b>	<b>80</b>	<b>67</b>	<b>89</b>	<b>1,308</b>	<b>1,564</b>	<b>1,839</b>
<i>Income Tax on Profits</i>	32	18	14	501	616	731
<i>Income Tax on Wages and Salaries</i>	8	5	8	219	273	350
<i>Income Tax on Capital Gains &amp; Dividends</i>	6	6	13	140	170	179
<i>Tax on Interest Income (5%)</i>	32	32	50	437	485	558
<i>Penalties on Income Tax</i>	2	5	4	10	20	21
<b>Taxes on Property, of which:</b>	<b>65</b>	<b>97</b>	<b>126</b>	<b>532</b>	<b>786</b>	<b>809</b>
<i>Built Property Tax</i>	9	15	8	103	130	101
<i>Real Estate Registration Fees</i>	51	73	106	380	580	626
<b>Domestic Taxes on Goods &amp; Services, of which:</b>	<b>154</b>	<b>197</b>	<b>220</b>	<b>2,224</b>	<b>2,895</b>	<b>3,260</b>
<i>Value Added Tax</i>	136	161	185	2,003	2,584	2,889
<i>Other Taxes on Goods and Services, of which:</i>	18	36	35	215	305	363
<i>Private Car Registration Fees</i>	11	18	20	130	197	238
<i>Passenger Departure Tax</i>	7	17	14	84	107	123
<b>Taxes on International Trade, of which:</b>	<b>93</b>	<b>206</b>	<b>225</b>	<b>1,247</b>	<b>1,588</b>	<b>2,664</b>
<i>Customs</i>	46	60	70	561	686	768
<i>Excises, of which:</i>	46	146	155	686	902	1,896
<i>Gasoline Excise</i>	0	67	74	185	112	999
<i>Tobacco Excise</i>	16	23	30	211	246	277
<i>Cars Excise</i>	30	55	50	286	539	614
<b>Other Tax Revenues (namely fiscal stamp fees)</b>	<b>19</b>	<b>24</b>	<b>33</b>	<b>271</b>	<b>350</b>	<b>396</b>

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

**Table 4. Non-Tax Revenue**

(LL billion)	2007 Dec	2008 Dec	2009 Dec	2007 Jan- Dec	2008 Jan- Dec	2009 Jan- Dec
<b>Non-Tax Revenues</b>	<b>238</b>	<b>316</b>	<b>332</b>	<b>2,511</b>	<b>2,613</b>	<b>3,069</b>
<b>Income from Public Institutions and Government Properties, of which:</b>	<b>189</b>	<b>247</b>	<b>257</b>	<b>2,003</b>	<b>2,028</b>	<b>2,456</b>
Income from Non-Financial Public Enterprises, of which:	187	243	251	1,842	1,931	2,327
<i>Revenues from Casino Du Liban</i>	7	10	11	64	142	151
<i>Revenues from Port of Beirut</i>	40	0	0	70	0	62
<i>Budget Surplus of National Lottery</i>	0	7	14	47	54	57
<i>Transfer from the Telecom Surplus</i>	140	226	226	1,660	1,734	2,055
<i>Transfer from Public Financial Institution (BDL)</i>	0	0	0	113	41	40
Property Income (namely rent of Rafic Hariri International Airport)	2	4	5	42	48	78
Other Income from Public Institutions (interests)	1	1	0	6	8	10
<b>Administrative Fees &amp; Charges, of which:</b>	<b>41</b>	<b>62</b>	<b>66</b>	<b>422</b>	<b>484</b>	<b>505</b>
Administrative Fees, of which:	33	56	54	336	398	415
<i>Notary Fees</i>	2	2	2	20	23	27
<i>Passport Fees/ Public Security</i>	7	8	9	112	117	114
<i>Vehicle Control Fees</i>	18	37	34	146	189	203
<i>Judicial Fees</i>	2	2	2	18	21	19
<i>Driving License Fees</i>	1	2	2	16	20	24
Administrative Charges	3	2	6	24	22	25
Sales (Official Gazette and License Number)	1	1	1	3	3	3
Permit Fees (mostly work permit fees)	4	3	4	47	51	48
Other Administrative Fees & Charges	1	1	2	11	9	13
<b>Penalties &amp; Confiscations</b>	<b>1</b>	<b>1</b>	<b>1</b>	<b>6</b>	<b>7</b>	<b>7</b>
<b>Other Non-Tax Revenues</b> (mostly retirement deductibles)	<b>7</b>	<b>7</b>	<b>8</b>	<b>80</b>	<b>94</b>	<b>100</b>

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

## Section 3: Expenditure Outcome

**Table 5. Expenditure by Economic Classification**

(LL billion)	2007 Jan-Dec	2008 Jan-Dec	2009 Jan-Dec
<b>1. Current Expenditures</b>	<b>9,661</b>	<b>10,639</b>	<b>12,617</b>
1.a Personnel Cost, of which	3,583	3,970	4,936
Salaries, Wages and Related Items (Article 13)	2,473	2,676	3,325
Retirement and End of Service Compensations, of which:	889	1,087	1,286
Retirement	778	893	1,055
End of Service	108	195	232
Transfers to Public Institutions to Cover Salaries 1/	221	206	324
1.b Interest Payments, of which: 2/	4,695	4,957	5,784
Domestic Interest Payments	2,515	2,847	3,663
Foreign Interest Payments	2,179	2,110	2,121
1.c Foreign Debt Principal Repayment	246	347	303
1.d Materials and Supplies, of which:	198	273	238
Nutrition	25	52	52
Fuel Oil	28	37	9
Medicaments	68	94	104
Accounting Adjustments for Treasury	52	57	39
1.e External Services	84	106	114
1.f Various Transfers, of which:	563	568	717
NSSF	220	100	240
Wheat Subsidy	32	142	10
Special Tribunal for Lebanon	0	18	12
1.g Other Current, of which:	209	332	428
Hospitals	172	289	351
Others	34	40	65
1.h Reserves	83	85	99
Interest subsidy	83	85	99
<b>2. Capital Expenditures</b>	<b>558</b>	<b>514</b>	<b>550</b>
2.a Acquisitions of Land, Buildings, for the Construction of Roads, Ports, Airports, and Water Networks	18	7	4
2.b Equipment	41	33	35
2.c Construction in Progress, of which:	416	366	356
Displaced Fund	76	49	60
Council of the South	40	40	41
CDR	214	210	192
Ministry of Public Work and Transport	39	33	34
Other	47	33	28
2.d Maintenance	48	72	103
2.e Other Expenditures Related to Fixed Capital Assets	35	36	50
<b>3. Other Treasury Expenditures</b>	<b>2,319</b>	<b>3,757</b>	<b>3,947</b>
Municipalities	305	527	457
Guarantees	59	57	54
Deposits :	79	82	90
Other, of which:	377	612	1,083
VAT Refund	200	306	326
High Relief Committee	29	47	520
EDL 3/	1,479	2,430	2,259
Treasury Advances for Water Authorities	0	0	4
Treasury Advances for Diesel Oil Subsidy	20	49	0
<b>4. Unclassified Expenditures</b>	<b>5</b>	<b>4</b>	<b>3</b>
<b>5. Customs Cashiers</b>	<b>43</b>	<b>43</b>	<b>50</b>
<b>6. Total Expenditures (Excluding CDR Foreign Financed)</b>	<b>12,587</b>	<b>14,957</b>	<b>17,167</b>

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-Dec	Jan-Dec	Jan-Dec
Transfer to Council of the South	6	7	7
Transfer to Council for Development and Reconstruction (CDR)	38	21	45
Transfer to the Displaced Fund	6	6	8
Transfer to the Lebanese University	161	162	251
Transfer to the Educational Center for Research and Development	10	10	13

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	% Change
	Dec	Dec	Dec	Jan-Dec	Jan-Dec	Jan-Dec	2009 - 2008
<b>Interest Payments 1/</b>	<b>374</b>	<b>391</b>	<b>623</b>	<b>4,695</b>	<b>4,957</b>	<b>5,784</b>	<b>16.7%</b>
Local Currency Debt	152	231	486	2,515	2,847	3,663	28.7%
Foreign Currency Debt, of which:	222	161	137	2,179	2,110	2,121	0.5%
Eurobond Coupon Interest*	214	145	121	2,039	1,950	1,972	1.1%
Specialbond Coupon Interest*	0	7	8	13	16	18	11.9%
Concessional Loans Interest	8	8	8	127	144	131	-9.3%
<b>Concessional Loans Principal Payments**</b>	<b>18</b>	<b>35</b>	<b>42</b>	<b>246</b>	<b>347</b>	<b>302</b>	<b>-13.0%</b>

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 133 Billions LL Fully paid of IBRD Loans from USAID Grant during 2008

\*\* includes 75 Billions LL Fully paid of IBRD Loans from USAID Grant during 2009

**Table 8. Transfers to EDL**

(LL billion)	2007	2008	2009	Change	% Change
	Jan-Dec	Jan-Dec	Jan-Dec	2009-2008	2009-2008
<b>EDL of which:</b>	<b>1,479</b>	<b>2,430</b>	<b>2,259</b>	<b>-172</b>	<b>-7%</b>
• <b>Debt Service of which:</b>	357	155	127	-28	-18%
- C-Loans and Eurobonds, of which:	272	115	93	-22	-19%
Principal repayments	235	94	79	-15	-16%
Interest Payments	37	22	15	-7	-33%
- BDL Guaranteed Loan payments	84	40	34	-6	-16%
• <b>Reimbursement of KPC and Sonatrach Agreements</b>	<b>1,122</b>	<b>2,275</b>	<b>2,131</b>	<b>-144</b>	<b>-6%</b>

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

## Section 4: Public Debt

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

(LL billion)	2005 Dec	2006 Dec	2007 Dec	2008 Dec	2009 Dec	Change Dec 08 - Dec 09	% Change Dec 08- Dec 09
<b>Gross Public Debt</b>	<b>57,985</b>	<b>60,851</b>	<b>63,350</b>	<b>70,888</b>	<b>77,024</b>	<b>6,136</b>	<b>8.66%</b>
<b>Local Currency Debt</b>	<b>29,141</b>	<b>30,204</b>	<b>31,373</b>	<b>39,007</b>	<b>44,976</b>	<b>5,969</b>	<b>15.30%</b>
a. Central Bank (Including REPOs and Loans to EDL to Finance Fuel Purchases) <sup>(1)</sup>	11,686	9,588	9,052	8,781	10,334	<b>1,553</b>	17.69%
b. Commercial Banks	14,130	16,487	16,847	24,320	27,289	<b>2,969</b>	12.21%
c. Other Local Currency Debt (T-bills), of which:	3,325	4,129	5,474	5,906	7,353	<b>1,447</b>	24.50%
<i>Public Entities</i>	2,446	3,313	4,796	5,062	6,078	<b>1,016</b>	20.07%
* <i>Accrued Interest Included in Debt</i>	517	685	754	1,001	999	<b>-2</b>	-0.20%
<b>Foreign Currency Debt (2)</b>	<b>28,844</b>	<b>30,647</b>	<b>31,977</b>	<b>31,881</b>	<b>32,048</b>	<b>167</b>	<b>0.52%</b>
a. Bilateral, Multilateral and Foreign Private Sector Loans	2,789	2,855	2,953	2,802	2,622	<b>-179</b>	-6.39%
b. Paris II Related Debt (Eurobonds and Loans) <sup>(3)</sup>	6,501	6,540	6,063	5,456	4,819	<b>-637</b>	-11.67%
c. Paris III Related Debt (Eurobonds and Loans) <sup>(4)</sup>			1,357	1,849	1,963	<b>114</b>	6.17%
d. Market-Issued Eurobonds	18,729	20,399	20,776	20,925	21,736	<b>811</b>	3.87%
e. <i>Accrued Interest on Eurobonds</i>	406	434	410	430	460	<b>30</b>	6.98%
f. Special T-bills in Foreign Currency <sup>(5)</sup>	419	419	419	419	447	<b>28</b>	6.68%
<b>Public Sector Deposits</b>	<b>5,590</b>	<b>4,444</b>	<b>4,527</b>	<b>8,326</b>	<b>10,347</b>	<b>2,021</b>	<b>24.27%</b>
<b>Net Debt</b>	<b>52,395</b>	<b>56,407</b>	<b>58,823</b>	<b>62,562</b>	<b>66,677</b>	<b>4,115</b>	<b>6.58%</b>
<b>Gross Market Debt<sup>(6)</sup></b>	<b>34,721</b>	<b>38,670</b>	<b>39,216</b>	<b>46,992</b>	<b>51,234</b>	<b>4,242</b>	<b>9.03%</b>
<b>% of Total Debt</b>	<b>60%</b>	<b>64%</b>	<b>62%</b>	<b>66%</b>	<b>67%</b>	<b>0</b>	<b>0.34%</b>

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 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](mailto:infocenter@finance.gov.lb)

Website: [www.finance.gov.lb](http://www.finance.gov.lb)

