

Fiscal Overview

The **total fiscal balance** registered a deficit of LL 951 billion in the period January-February 2009 compared to a deficit of LL 643 billion for the same period in 2008. The increased deficit is due to larger total payments, by LL 656 billion, which offset the improvement of LL 349 million in total receipts. The **primary balance** showed a deficit of LL 134 billion in January-February 2009 compared to a surplus of LL 223 billion in the corresponding period in 2008, due to an increase in primary expenditures, by LL 705 billion.

Total revenues increased by 21 percent due to improved collection of both **tax revenues** and **non-tax revenues**, by LL 370 billion and LL 124 billion, respectively, and **treasury receipts** decreased by LL 145 billion.

Until the end of February 2009, **tax revenues** demonstrated an increase, explained by (i) Income taxes on Profits and Capital Gains (32 percent increase in receipts), (ii) Domestic taxes on goods and services (17 percent increase in receipts), and (iii) Taxes on International Trade (106 percent increase in revenues). A detailed breakdown of the increase includes: (i) LL 20 billion increase in income tax on profits, which was collected mainly from the lump sum tax¹, reflecting the improvement of the economic activities in 2008 compared to 2007²; (ii) LL 35 billion increase in wages and salaries tax receipts of the months of January-February 2009, reflecting the impact of Law number 63 dated 31 December 2008, which provides for public sector wage increase and minimum wage increase; (iii) LL 73 billion increase in VAT; (iv) LL 151 billion collection of car gasoline excises, reflecting the fixed excise rate of LL 9,400 per 20 liters of gasoline import as per Council of Ministers' Decision number 9 dated January 23, 2009; and, (v) LL 38 billion increase in the excise tax on cars reflecting the 55 percent rise in imports of Vehicles as per February 09 trade figures.

Non-tax revenues registered a rise of 29 percent in January-February 2009 compared to the same period in 2008. This improvement resulted from 27 percent higher Entrepreneurial Income due to LL 23 billion increased revenues from **Casino du Liban**³, LL 62 billion transfers received from the **Port of Beirut** (compared to zero transfers in 2008), and higher transfers by LL 10 billion from the **Telecom Budget surplus**. As for the **Administrative Fees and Charges**, the 35 percent increase came mainly from LL 18 billion increase in revenues of the **Vehicle Control Fees**, which is most probably explained by the boom in the car sales. **Treasury receipts** amounted to LL 94 billion in January-February 2009, of which LL 52 billion for the Independent Municipal Fund and around LL 2 billion grants from Greece compared to LL 240 billion for the

¹ The deadline for declaration of the lump sum tax was extended until the end of February 2009, Ministerial decisions n° 18/1 dated 23 January 2009 and n° 71/1 dated 11 February 2009

² The collected lump sum tax in the current year relates to the turnover of the previous year

³ The February 09 Casino transfer of LL 25 billion accounts most probably for the LL 14 billion second year installment of the settlement agreement signed in February 2008, as per Paris III reform plan.

same period in 2008, of which LL 42 billion for the Independent Municipal Fund and 151 billion of grants⁴.

In January-February 2009, **total expenditures** increased by 28 percent compared to the same period in 2008. All the major components witnessed increases: **current primary expenditures**, **interest payments**, **capital expenditures** and treasury **expenditures** went up by 24 percent, 14 percent, 35 percent and 87 percent, respectively, whereas the **concessional loans' principal payments** registered a decrease of 89 percent. The LL 190 billion increase in current primary expenditures resulted from higher spending on (a) salaries and wages by LL139 billion due to the LL 200,000 monthly raise in basic salaries⁵, (b) retirement and end-of- service compensations by LL 32 billion, mainly due to the LL 170,000 monthly raise in retirement salaries⁶, (c) transfer to the Lebanese University by LL 14 billion, following the LL 200,000 monthly increase in basic salaries⁷, and (d) payments to hospitals by LL 13 billion. Various transfers decreased by LL 16 billion due to the LL 23 billion decrease in payments for the wheat subsidy⁸ and LL 6 billion decrease in contributions to the expenses of the Special Tribunal for Lebanon⁹, offsetting the increase in other various transfers by LL 11 billion. **Interest payments** were up by LL 99 billion, resulting mainly from the increase in interest payments on domestic debt by LL 131 billion. Interest payments on foreign currency debt dropped by LL 32 billion, mostly due to lower payments on Eurobond coupon by LL 26 billion in February 2009. This is explained by a lower stock of Eurobonds with coupon maturities falling due in February 2009. Principal payments on concessional loans dropped significantly, by LL148 billion, due to the early retirement of three World Bank loans against USAID grant disbursement in January 2008.

Capital expenditures witnessed an increase of LL 32 billion, resulting from higher construction-in-progress spending by LL 13 billion and LL 9 billion increase in other expenditures related to fixed capital assets due to LL 10 billion payment to the Export Plus program. **Treasury expenditures** increased by LL 482 billion, mainly due to increases in transfers to EDL by LL 310 billion, and transfers to the High Relief Committee by LL 193 billion, following LL 200 billion treasury advance¹⁰ to the Committee to pay indemnities to July 2006 war victims. Payments to municipalities decreased by LL 51 billion.

By the end of February 2009, **gross public debt** reached LL 71,164 billion, registering an increase of LL 290 billion compared to the end December 2008 debt level. The rise in **local currency debt** of LL 578 billion offset the decrease of LL 288 billion in **foreign currency debt**. From end 2008 until the end of February 2009, BDL's domestic debt portfolio was bigger by LL 779 billion, largely due to purchases of Treasury Bills on the secondary market in January 2009. This increase compensated the reduction in commercial banks' domestic debt portfolio by LL 344 billion in the first two months of 2009.

⁴ In January-February 2008, the Treasury received a grant of LL 148 billion from USAID pertaining to Paris III pledge, and LL 3 billion grant from Iraq for Iraqi refugees in Lebanon.

⁵ As per Law #63 dated 31 December 2008

⁶ As per Law # 63 dated 31 December 2008

⁷ The Lebanese University is also covered by Law 63 dated 31 December 2008

⁸ The wheat subsidy policy ended on 15 November 2008 as per Council of Minister Decision #71 (dated 8 November 2008) and the last payment to the Directorate General of Cereals and Beetroots was made in September 2008.

⁹ Decree number 1015 dated 24 November 2007

¹⁰ Decree number 1168 dated 5 January 2009

Table 1. Summary of Fiscal Performance

(LL billion)	2007	2008	2009	2007	2008	2009
	February	February	February	Jan-Feb	Jan-Feb	Jan-Feb
Total Budget and Treasury Receipts	502	664	806	1,296	1,683	2,032
Total Budget and Treasury Payments, <i>of which:</i>	1,003	1,031	1,296	1,816	2,326	2,983
<i>Interest Payments</i>	352	313	358	626	699	798
<i>Concessional loans' Principal Payments 1/</i>	10	14	9	19	167	19
<i>Primary Expenditures 2/</i>	642	705	929	1,171	1,461	2,166
Total Cash Deficit/Surplus	-501	-367	-490	-520	-643	-951
Primary Deficit/Surplus	-140	-41	-124	125	223	-134

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)

Section 2: Revenue Outcome

Table 2. Total Revenue

(LL billion)	2007	2008	2009	2007	2008	2009
	February	February	February	Jan-Feb	Jan-Feb	Jan-Feb
Budget Revenues, of which:	480	633	774	1,199	1,444	1,938
<i>Tax Revenues</i>	334	380	512	932	1,019	1,389
<i>Non-Tax Revenues</i>	147	252	263	267	425	549
Treasury Receipts	21	31	31	97	239	94
Total Revenues	502	664	806	1,296	1,683	2,032

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

Table 3. Tax Revenue

(LL billion)	2007	2008	2009	2007	2008	2009
	February	February	February	Jan-Feb	Jan-Feb	Jan-Feb
Tax Revenues:	334	380	512	932	1,019	1,389
Taxes on Income, Profits, & Capital Gains, of which:	45	54	88	202	214	283
<i>Income Tax on Profits</i>	5	6	22	43	50	70
<i>Income Tax on Wages and Salaries</i>	5	5	19	61	72	107
<i>Income Tax on Capital Gains & Dividends</i>	2	3	2	24	14	13
<i>Tax on Interest Income (5%)</i>	33	40	44	72	76	89
<i>Penalties on Income Tax</i>	0	0	1	2	2	4
Taxes on Property, of which:	25	39	41	62	84	88
<i>Built Property Tax</i>	6	6	8	16	12	16
<i>Real Estate Registration Fees</i>	16	30	30	38	65	63
Domestic Taxes on Goods & Services, of which:	137	171	175	398	475	556
<i>Value Added Tax</i>	120	152	151	366	438	510
<i>Other Taxes on Goods and Services, of which:</i>	15	17	23	29	35	43
<i>Private Car Registration Fees</i>	8	10	15	16	24	30
<i>Passenger Departure Tax</i>	7	7	8	13	11	13
Taxes on International Trade, of which:	108	94	187	225	194	400
<i>Customs</i>	41	49	53	82	99	112
<i>Excises, of which:</i>	68	45	134	143	95	288
<i>Petroleum Tax</i>	37	4	71	80	4	155
<i>Tobacco Tax</i>	18	14	20	32	35	38
<i>Tax on Cars</i>	12	27	42	31	56	94
Other Tax Revenues (namely fiscal stamp fees)	19	21	21	46	51	62

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

Table 4. Non-Tax Revenue

(LL billion)	2007 February	2008 February	2009 February	2007 Jan-Feb	2008 Jan-Feb	2009 Jan-Feb
Non-Tax Revenues	147	252	263	267	425	549
Income from Public Institutions and Government Properties, of which:	111	215	210	198	347	440
Income from Non-Financial Public Enterprises, of which:	108	211	205	191	338	429
<i>Revenues from Casino Du Liban</i>	5	7	25	7	13	36
<i>Revenues from Port of Beirut</i>	0	0	0	30	0	62
<i>Budget Surplus of National Lottery</i>	5	4	0	10	4	0
<i>Transfer from the Telecom Surplus</i>	98	201	181	143	321	331
Property Income (namely rent of Rafic Hariri International Airport)	2	4	3	6	8	8
Other Income from Public Institutions (interests)	0	0	0	1	1	2
Administrative Fees & Charges, of which:	29	31	42	55	65	88
Administrative Fees, of which:	22	24	35	42	52	72
<i>Notary Fees</i>	1	2	2	3	3	4
<i>Passport Fees/ Public Security</i>	7	8	7	13	16	15
<i>Vehicle Control Fees</i>	9	9	20	18	22	41
<i>Judicial Fees</i>	1	1	2	2	3	3
<i>Driving License Fees</i>	1	1	2	3	2	3
Administrative Charges	2	3	3	6	6	7
Sales (Official Gazette and License Number)	0	0	0	0	0	1
Permit Fees (mostly work permit fees)	4	3	3	6	7	7
Other Administrative Fees & Charges	0	0	0	1	1	2
Penalties & Confiscations	0	0	0	1	1	1
Other Non-Tax Revenues (mostly retirement deductibles)	7	6	10	13	12	20

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

Section 3: Expenditure Outcome

Table 5. Expenditure by Economic Classification

(LL billion)	2007 Jan-Feb	2008 Jan-Feb	2009 Jan-Feb
1. Current Expenditures	1,427	1,673	1,813
1.a Personnel Cost, of which	625	588	775
<i>Salaries, Wages and Related Items (Article 13) 1/</i>	451	384	522
<i>Retirement and End of Service Compensations, of which:</i>	148	176	207
<i>Retirement</i>	128	136	194
<i>End of Service</i>	20	40	14
<i>Transfers to Public Institutions to Cover Salaries 2/</i>	25	28	45
1.b Interest Payments, of which: 3/	626	699	798
<i>Domestic Interest Payments</i>	370	480	611
<i>Foreign Interest Payments</i>	256	219	187
1.c Foreign Debt Principal Repayment	19	167	19
1.d Materials and Supplies, of which:	42	37	41
<i>Nutrition</i>	4	9	17
<i>Fuel Oil</i>	10	6	3
<i>Medicaments</i>	5	6	9
<i>Accounting Adjustments for Treasury</i>	18	12	6
1.e External Services	18	15	12
1.f Various Transfers, of which:	41	91	75
<i>NSSF</i>	0	0	0
<i>Wheat Subsidy</i>	0	23	0
<i>Special Tribunal for Lebanon</i>	0	18	12
1.g Other Current, of which:	40	55	74
<i>Hospitals</i>	29	49	62
<i>Others</i>	10	6	12
1.h Reserves	16	22	20
<i>Interest subsidy</i>	16	22	20
2. Capital Expenditures	114	91	123
2.a Acquisitions of Land, Buildings, for the Construction of Roads, Ports, Airports, and Water Networks	3	1	0
2.b Equipment	8	7	6
2.c Construction in Progress, of which:	66	57	71
<i>Displaced Fund</i>	6	0	10
<i>Council of the South</i>	0	0	10
<i>CDR</i>	34	41	34
<i>Ministry of Public Work and Transport</i>	15	6	12
<i>Other</i>	11	10	4
2.d Maintenance	26	14	25
2.e Other Expenditures Related to Fixed Capital Assets	11	12	21
3. Other Treasury Expenditures	267	555	1,037
Municipalities	28	98	47
Guarantees	8	4	6
Deposits :	6	7	18
Other, of which:	44	62	290
<i>VAT Refund</i>	22	40	56
<i>High Relief Committee</i>	6	7	200
EDL 3/	181	366	676
Treasury Advances for Diesel Oil Subsidy	0	19	0
4. Unclassified Expenditures	0	1	0
5. Customs Cashiers	8	6	10

6. Total Expenditures (Excluding CDR Foreign Financed) **1,816** **2,326** **2,983**

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 Jan-Feb	2008 Jan-Feb	2009 Jan-Feb
Transfer to Council of the South	1	2	1
Transfer to Council for Development and Reconstruction (CDR)	8	1	5
Transfer to the Displaced Fund	1	1	1
Transfer to the Lebanese University	16	23	37
Transfer to the Educational Center for Research and Development	1	2	2

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

Table 7. Details of Debt Service Transactions

(LL billion)	2007 Feb	2008 Feb	2009 Feb	2007 Jan-Feb	2008 Jan-Feb	2009 Jan-Feb
Interest Payments 1/	352	313	358	626	699	798
Local Currency Debt	171	227	305	370	480	611
Foreign Currency Debt, of which:	180	86	53	256	219	187
Eurobond Coupon Interest*	152	57	32	226	182	156
Special bond Coupon Interest*			0			1
Concessional Loans Interest Payments	28	29	21	30	37	30
Concessional Loans Principal Payments**	10	14	9	19	167	19

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 135 billion paid in Jan-Feb 2008 of IBRD loans from US Aid Grant

Table 8. Transfers to EDL

(LL billion)	2007 Jan-Feb	2008 Jan -Feb	2009 Jan -Feb	Change
EDL, of which:	181	366	676	310
• Debt Service, of which:	30	26	24	-3
– C-Loans and Eurobonds, of which:	28	26	18	-9
Principal repayments	23	23	16	-6
Interest Payments	5	4	2	-2
– BDL Guaranteed Loan payments	2	0	6	6
• Repayment of Loans for Fuel oil and Gas Oil Purchase (Principal and Interest)	0	0	0	0
• Reimbursement of KPC and Sonatrach Agreements	151	339	652	313

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

Section 4: Public Debt

Table 9. Public Debt Outstanding by Holder as of End-February 09

(LL billion)	Dec-07	Dec-08	Feb-09	Change Dec 08 - Feb 09	% Change Dec 08 - Feb 09
Gross Public Debt	63,364	70,874	71,164	290	0.41%
Local Currency Debt	31,373	39,006	39,584	578	1.48%
a. Central Bank (Including REPOs and Loans to EDL to Finance Fuel Purchases) ⁽¹⁾	9,052	8,781	9,560	779	8.87%
b. Commercial Banks	16,847	24,319	23,975	-344	-1.41%
c. Other Local Currency Debt (T-bills), of which:	5,474	5,906	6,049	143	2.42%
<i>Public Entities</i>	4,796	5,062	5,170	108	2.13%
* <i>Accrued Interest Included in Debt</i>	754	1,001	930	-71	-7.09%
Foreign Currency Debt⁽²⁾	31,991	31,868	31,580	-288	-0.90%
a. Bilateral, Multilateral and Foreign Private Sector Loans	2,963	2,789	2,653	-136	-4.88%
b. Paris II Related Debt (Eurobonds and Loans) ⁽³⁾	6,063	5,456	5,319	-137	-2.51%
c. Paris III Related Debt (Eurobonds and Loans) ⁽⁴⁾	1,357	1,849	1,812	-37	-2.00%
d. Market-Issued Eurobonds	20,780	20,925	20,800	-125	-0.60%
e. <i>Accrued Interest on Eurobonds</i>	410	430	577	147	34.19%
f. Special T-bills in Foreign Currency ⁽⁵⁾	419	419	419	0	0.00%
Public Sector Deposits⁽⁶⁾	4,527	8,326	8,019	-307	-3.69%
Net Debt	58,837	62,548	63,145	597	0.95%
Gross Market Debt⁽⁷⁾	39,221	46,990	46,689	-301	-0.64%
% of Total Debt	62%	66%	66%	0	-1.05%

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⁾ P 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, and IMF loans.

⁽⁵⁾ Special Treasury bills in foreign currency (expropriation bonds)

⁽⁶⁾ Public sector deposits as of the end of December 2008 have been revised from the originally published figure of LL 8,282 billion to LL 8,326 billion.

⁽⁷⁾ Gross market debt equals gross debt less the portfolios of the BDL, NSSF, bilateral and multilateral loans, Paris II and Paris III related debt.