

# Public Finance Monitor

The Monthly Statistical Bulletin of the Ministry of Finance

## February 2007

### Section 1: Fiscal Overview

#### Highlights:

For the first two months of 2007, total primary surplus decreased by 39 percent to LL 125 billion compared to the primary surplus of LL 204 billion registered by end of February 2006. In turn, the total fiscal deficit increased by 41 percent reaching LL 520 billion by end of February compared to the first two months of 2006. This deterioration in the total deficit represents a 16 percent increase in payments which offset the near 9 percent increase in receipts.

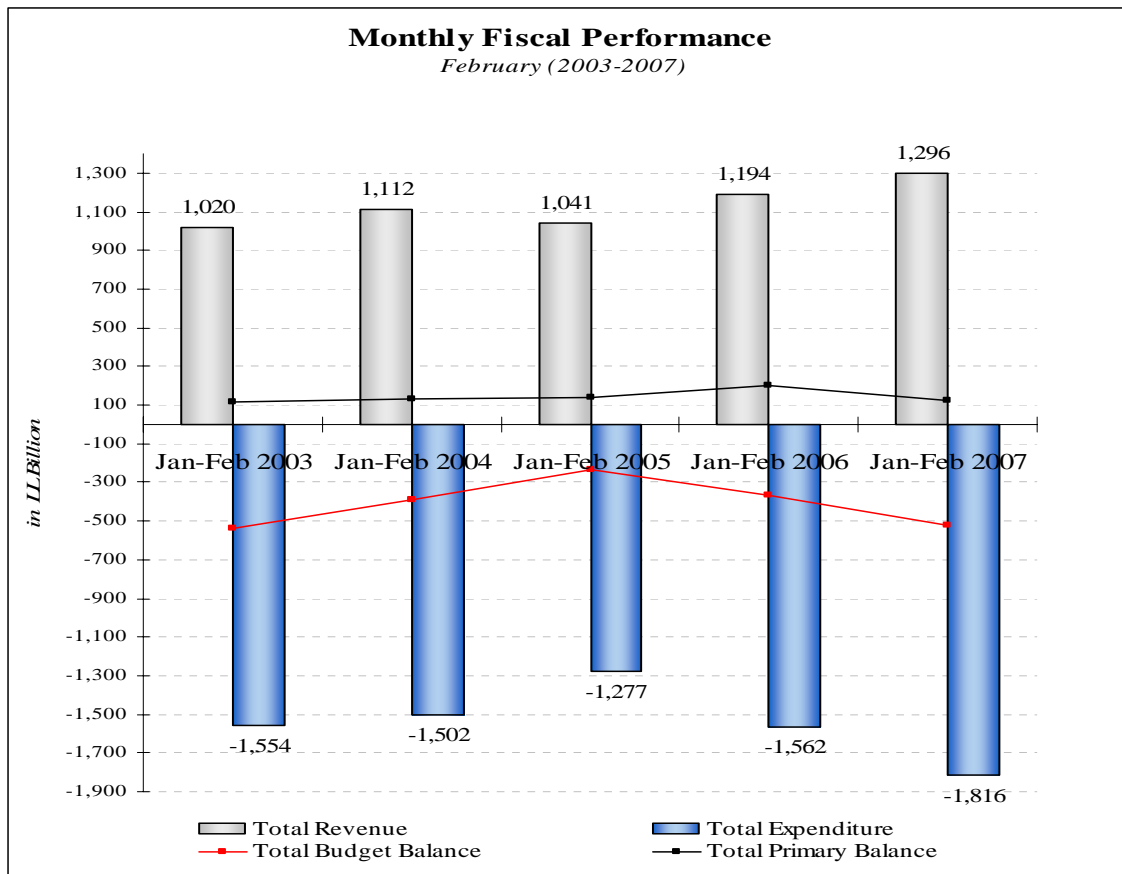
In the month of February, total payments of LL 1,003 billion were LL 188 billion higher than the LL 815 billion registered in February 2006. Meanwhile total receipts increased by LL 54 billion reaching LL 502 billion. As a result, the primary deficit increased by LL 71 billion reaching LL 140 billion in February 2007.

**Table 1. Summary of Fiscal Performance**

(LL billion)	2006 February	2007 February	2006 Jan-Feb	2007 Jan-Feb	Change 2006- 2007	% Change
Budget Revenue	421	480	1,113	1,199	86	7.8%
Budget Expenditures	690	909	1,294	1,536	241	18.7%
<i>o/w Previous Years Appropriations</i>	151	207	278	390	112	40.3%
<i>o/w Debt Service</i>	298	361	572	645	73	12.7%
<b>Budget Deficit/Surplus</b>	<b>-269</b>	<b>-429</b>	<b>-181</b>	<b>-337</b>	<b>-155</b>	<b>85.5%</b>
in % of Budget Expenditures	-39.0%	-47.2%	-14.0%	-21.9%		
<b>Budget Primary Deficit/Surplus</b>	<b>29</b>	<b>-67</b>	<b>391</b>	<b>308</b>	<b>-83</b>	<b>-21.1%</b>
in % of Budget Expenditures	4.2%	-7.4%	30.2%	20.1%		
Treasury Receipts	27	21	81	97	16	20.4%
Treasury Payments	126	94	267	280	13	4.9%
Total Budget and Treasury Receipts	448	502	1,194	1,296	103	8.6%
Total Budget and Treasury Payments	815	1,003	1,562	1,816	254	16.3%
<b>Total Cash Deficit/Surplus</b>	<b>-367</b>	<b>-501</b>	<b>-368</b>	<b>-520</b>	<b>-152</b>	<b>41.2%</b>
in % of Total Expenditures	-45.0%	-50.0%	-23.6%	-28.6%		
<b>Primary Deficit/Surplus</b>	<b>-69</b>	<b>-140</b>	<b>204</b>	<b>125</b>	<b>-79</b>	<b>-38.7%</b>
in % of Total Expenditures	-8.4%	-14.0%	13.1%	6.9%		

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

Chart 1.



## Section 2: Revenue Outcome

**Total revenues** collected over the first two months of 2007 reached LL 1,296 billion compared to LL 1,194 billion during the same period last year, an increase of 9 percent, which is mainly due to:

- 12 percent or LL 97 billion increase in **tax revenues** which totaled LL 932 billion by the end of February 2007, rendering it the highest level achieved over the past 5 years. This is a result of higher collection in taxes on income, profits, and capital gains by LL 23 billion, taxes on property by LL 2 billion (although the registration fees receded by 13 percent), VAT by LL 49 billion (VAT at imports increased by 22 percent, while VAT collected internally increased by 7 percent), and taxes on international trade by LL 33 billion (of which LL 10 billion from customs and LL 23 billion from excises taxes). These increases have offset the LL 5 billion decline in other tax revenues (namely stamp fees).
- 4 percent decrease in **non-tax revenues**, which totaled LL 267 billion during January-February 2007. The decrease was due to lower transfers from the budget surplus of telecom by 40 billion, which offset the rise of revenues from Casino du Liban by LL 2 billion, transfer from port of Beirut by LL 30 billion<sup>1</sup> and transfer from the Budget Surplus of National Lottery by LL 3 billion. Administrative Fees

<sup>1</sup> The LL 30 billion transfer from the Port of Beirut was received in early January 2007, and pertains to their profit in 2006.

and Charges decreased by 5 percent (LL 3 billion) due to a 30 percent drop in the collection of passport fees.

**Table 2. Total Revenue**

(LL billion)	2006 February	2007 February	2006 Jan-Feb	2007 Jan-Feb	% Change
<b>Budget Revenues, of which:</b>	<b>421</b>	<b>480</b>	<b>1,113</b>	<b>1,199</b>	<b>7.7%</b>
<i>Tax Revenues</i>	304	334	835	932	11.7%
<i>Non-Tax Revenues</i>	117	147	278	267	-4.1%
<b>Treasury Receipts</b>	<b>27</b>	<b>21</b>	<b>81</b>	<b>97</b>	<b>20.3%</b>
<b>Total Revenues</b>	<b>448</b>	<b>502</b>	<b>1,194</b>	<b>1,296</b>	<b>8.6%</b>

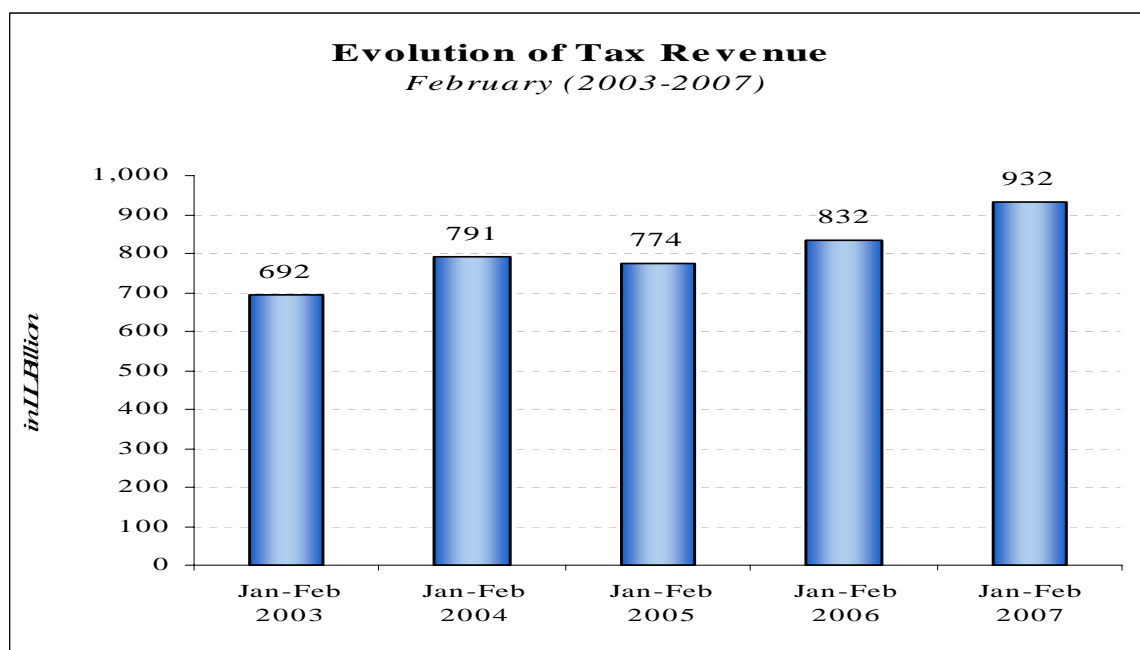
Source: MOF, DGF

**Table 3. Tax Revenue**

(LL billion)	2006 February	2007 February	2006 Jan-Feb	2007 Jan-Feb	% Change
<b>Tax Revenues:</b>	<b>304</b>	<b>334</b>	<b>832</b>	<b>932</b>	<b>12.0%</b>
<b>Taxes on Income, Profits, &amp; Capital Gains, of which:</b>	<b>45</b>	<b>45</b>	<b>179</b>	<b>202</b>	<b>12.9%</b>
<i>Income Tax on Profits</i>	7	5	38	43	11.6%
<i>Income Tax on Wages and Salaries</i>	5	5	55	61	10.7%
<i>Income Tax on Capital Gains &amp; Dividends</i>	2	2	21	24	19.1%
<i>Tax on Interest Income (5%)</i>	29	33	61	72	18.2%
<i>Penalties on Income Tax</i>	1	0	3	2	-43.2%
<b>Taxes on Property, of which:</b>	<b>28</b>	<b>25</b>	<b>60</b>	<b>62</b>	<b>3.3%</b>
<i>Built Property Tax</i>	6	6	11	16	46.8%
<i>Real Estate Registration Fees</i>	20	16	44	38	-12.5%
<b>Domestic Taxes on Goods &amp; Services, of which:</b>	<b>115</b>	<b>137</b>	<b>352</b>	<b>398</b>	<b>13.1%</b>
<i>Value Added Tax</i>	96	120	317	366	15.5%
<i>Other Taxes on Goods and Services, of which:</i>	18	15	28	29	3.5%
<i>Private Car Registration Fees</i>	9	8	17	16	-7.6%
<i>Passenger Departure Tax</i>	9	7	10	13	23.2%
<b>Taxes on International Trade, of which:</b>	<b>91</b>	<b>108</b>	<b>192</b>	<b>225</b>	<b>17.3%</b>
<i>Customs</i>	36	41	72	82	13.5%
<i>Excises, of which:</i>	56	68	120	143	19.5%
<i>Petroleum Tax</i>	28	37	55	80	44.9%
<i>Tobacco Tax</i>	12	18	28	32	12.8%
<i>Tax on Cars</i>	16	12	36	31	-14.4%
<b>Other Tax Revenues (namely fiscal stamp fees)</b>	<b>24</b>	<b>19</b>	<b>51</b>	<b>46</b>	<b>-8.4%</b>

Source: MOF, DGF

**Chart 2.**

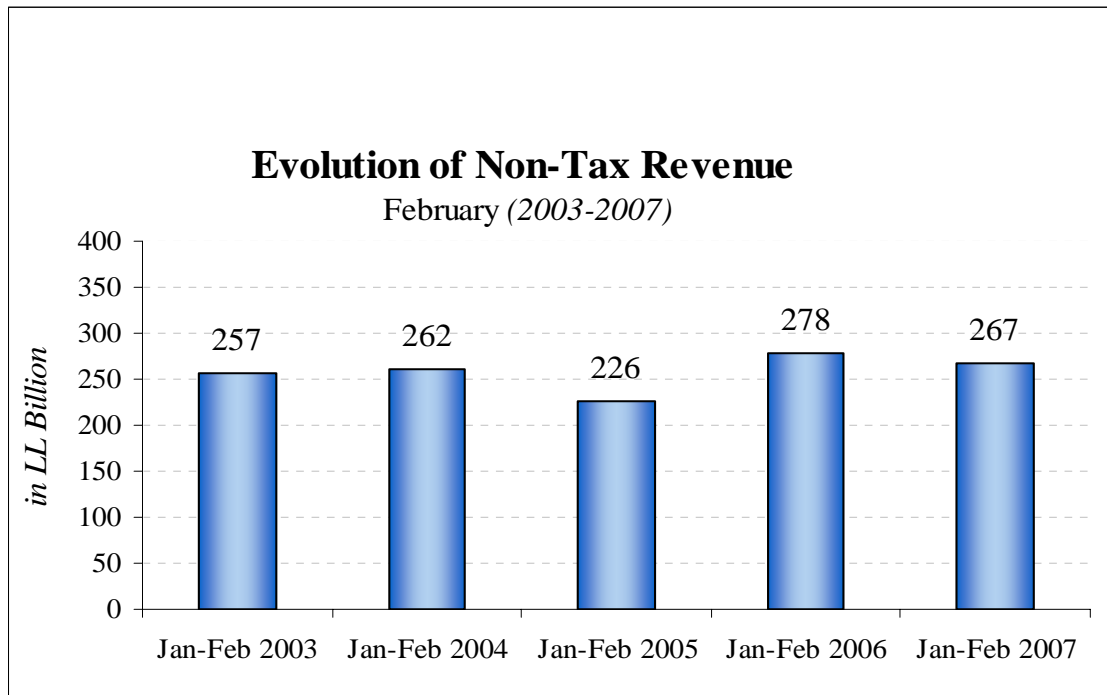


**Table 4. Non-Tax Revenue**

(LL billion)	2006 February	2007 February	2006 Jan-Feb	2007 Jan-Feb	% Change
<b>Non-Tax Revenues</b>	<b>117</b>	<b>147</b>	<b>278</b>	<b>267</b>	<b>-4.1%</b>
<b>Income from Public Institutions and Government Properties, of which:</b>	<b>76</b>	<b>111</b>	<b>203</b>	<b>198</b>	<b>-2.3%</b>
Income from Non-Financial Public Enterprises, of which:	72	108	195	191	-2.1%
Revenues from Casino Du Liban	5	5	5	7	52.6%
Revenues from Port of Beirut	0	0	0	30	
Budget Surplus of National Lottery	4	5	7	10	42.9%
Transfer from the Telecom Surplus	63	98	183	143	-21.6%
Property Income (namely rent of Rafic Hariri International Airport)	4	2	7	6	-4.7%
Other Income from Public Institutions (interests)	0	0	1	1	-14.8%
<b>Administrative Fees &amp; Charges, of which:</b>	<b>32</b>	<b>29</b>	<b>58</b>	<b>55</b>	<b>-5.0%</b>
Administrative Fees, of which:	26	22	46	42	-9.3%
Notary Fees	1	1	3	3	-0.9%
Passport Fees/ Public Security	10	7	19	13	-30.1%
Vehicle Control Fees	10	9	17	18	6.7%
Judicial Fees	1	1	3	2	-21.1%
Driving License Fees	2	1	2	3	34.6%
Administrative Charges	2	2	4	6	46.0%
Sales (Official Gazette and License Number)	0	0	0	0	-8.7%
Permit Fees (mostly work permit fees)	4	4	7	6	-9.4%
Other Administrative Fees & Charges	0	0	1	1	59.3%
<b>Penalties &amp; Confiscations</b>	<b>0</b>	<b>0</b>	<b>1</b>	<b>1</b>	<b>55.0%</b>
<b>Other Non-Tax Revenues (mostly retirement deductibles)</b>	<b>9</b>	<b>7</b>	<b>17</b>	<b>13</b>	<b>-24.9%</b>

Source: MOF, DGF

**Chart 3.**



### Section 3: Expenditure Outcome

For the period of January-February 2007, total expenditures registered an amount of LL 1,816 billion, increasing by 16 percent compared to LL 1,562 billion for the same period of 2006. This increase is due to a rise in both interest and non-interest expenditures by LL 73 billion and LL 182 billion respectively as explained below:

1. Debt service registered a total of LL 645 billion in January-February 2007 increasing by 13 percent compared to LL 572 billion for the same period of 2006. This rise was due to higher interest payments in both local currency debt and foreign currency debt of around 10 and 17 percent respectively. The main reason behind the increase in interest payment on local currency debt pertains to higher coupon payments resulting from an increase in the stock of long term T-bills. The increase in interest payment on foreign currency debt was due to higher stock of Eurobonds during the period August and December 2006 and hence higher Eurobonds coupon payments.

2. Non-interest expenditures increased by 18 percent to reach LL 1,171 billion in January-February 2007, compared to LL 989 billion for the same period of 2006. This rise is due to an increase in the three components of this item: current primary budget expenditures, capital expenditures, and other treasury expenditures, as follows:

a. Current primary budget expenditures: A net increase of LL 123 billion was reported in this item, mainly due to the following:

- i) An increase in "wages and salaries" due to the payment of an additional salary to the armed forces equivalent to LL 47 billion as per the decision taken by the Council of Ministers (Cabinet meeting of 04/01/2007). Also, the period January-February 2007 witnessed a relatively high transfer of health allowances to the armed forces, of

approximately LL 59 billion (for hospitalization, sickness and maternity), against LL 28 billion during the same period of 2006, noting that there is no specific monthly pattern that governs the flow of these expenditures. Lastly, during February 2007, the civil servant cooperatives received a transfer of LL 10 billion.

ii) An increase in "materials and supplies" by LL 28 billion. The increase in "materials and supplies" is not a result of additional spending, but is an accounting entry to adjust for payment of treasury advances. It should be noted that this adjustment was netted out by including a similar amount in the revenues.

Against this increase, the other items under "current primary budget expenditures" reported a decrease as follows:

i) "various transfers" dropped by LL 37 billion in the first two months of 2007 resulting from the fact that no transfers was reported to NSSF during this period, while the corresponding period of 2006 witnessed a transfer of LL 50 billion.

ii) A decrease in "other current" by LL 8 billion related to LL 11 billion less payment to hospitals in the period of January-February 2007 when compared to the same period of last year.

b. Capital expenditures increased by LL 23 billion in January-February 2007 compared to January-February 2006. The increase is mainly due to the higher "construction under progress", "maintenance" and "other expenditures" related to fixed capital assets which increased by LL 4 billion, LL 13 billion and LL 6 billion respectively.

c. 'Other treasury expenditures' increased by LL 33 billion for the first two months of 2007 compared to the same period of last year. This increase of 14 percent was mainly due to the increase in direct transfers to EDL by LL 127 billion compared to the same period of last year. In fact, direct transfers to EDL reached LL 181 billion by end of February compared to LL 54 billion the first two months of 2006. This rise was due to the payments made to Sonatrach (Algeria) and Kuwait Petroleum Corporation (Kuwait) in settlement of the agreements between the two companies and EDL. It should be recalled that these transfers started effectively in June 2006.

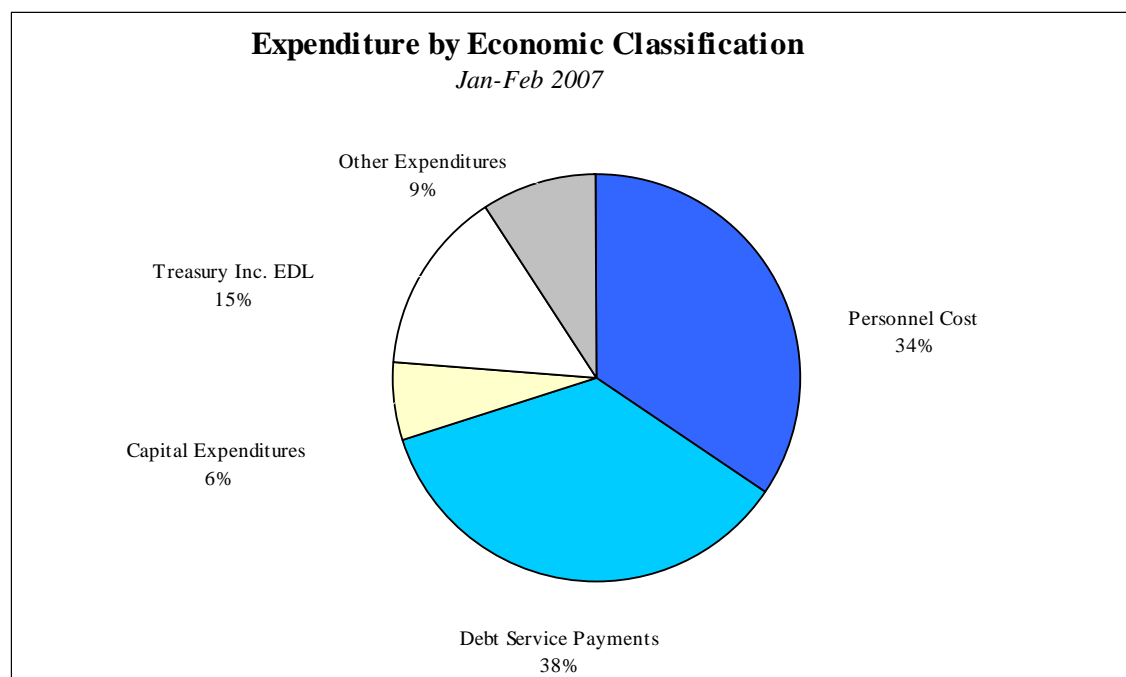
The increase in transfers to EDL offset the LL 52 billion lower transfers to municipalities and the lack of treasury advances for diesel oil subsidy compared to LL 30 billion in 2006.

**Table 5. Expenditures by Transaction Classification**

(LL billion)	2006	2007	2006	2007	%
	February	February	Jan-Feb	Jan-Feb	Change
<b>Total Expenditures</b>	<b>815</b>	<b>1,003</b>	<b>1,562</b>	<b>1,816</b>	<b>16.3%</b>
<b>Budget Expenditures</b>	<b>690</b>	<b>909</b>	<b>1,294</b>	<b>1,536</b>	<b>18.7%</b>
Expenditures Excluding Debt Service, of which:	392	547	722	891	23.4%
<i>Previous Years' Appropriations</i>	<i>151</i>	<i>207</i>	<i>278</i>	<i>390</i>	<i>40.3%</i>
Debt Service, of which:	<b>298</b>	<b>361</b>	<b>572</b>	<b>645</b>	<b>12.7%</b>
<i>Domestic Debt</i>	<i>157</i>	<i>171</i>	<i>337</i>	<i>370</i>	<i>9.8%</i>
<i>Foreign Debt, of which:</i>	<i>142</i>	<i>190</i>	<i>235</i>	<i>275</i>	<i>16.9%</i>
<i>Eurobond Coupon Interest*</i>	<i>106</i>	<i>152</i>	<i>181</i>	<i>226</i>	<i>24.5%</i>
<i>Specialbond Coupon Interest*</i>					
<i>Concessional Loans Principal</i>	<i>9</i>	<i>10</i>	<i>23</i>	<i>19</i>	<i>-16.8%</i>
Payments					
<i>Concessional Loans Interest Payments</i>	<i>27</i>	<i>28</i>	<i>31</i>	<i>30</i>	<i>-2.7%</i>
<b>Treasury Expenditures , of which:</b>	<b>126</b>	<b>94</b>	<b>267</b>	<b>280</b>	<b>4.9%</b>
<i>Municipalities</i>	<i>22</i>	<i>28</i>	<i>80</i>	<i>28</i>	<i>-64.6%</i>
<b>Non-Interest Expenditures (Total Expenditures minus Debt Service)</b>	<b>517</b>	<b>642</b>	<b>989</b>	<b>1,171</b>	<b>18.4%</b>

Source: MOF, DGF

\* Includes general expenses related to the transaction

**Chart 4.**

**Table 6. Expenditures by Economic Classification**

(LL billion)	2006 Jan-Feb	2007 Jan-Feb	% Change
<b>1. Current expenditures</b>	<b>1,232</b>	<b>1,427</b>	<b>15.78%</b>
1.a Personnel cost, <i>of which</i>	487	625	28.27%
<i>Article 13: Salaries and wages</i>	325	451	38.83%
<i>Retirement and end of service compensations</i>	135	148	9.78%
1.b Debt Service payments	572	645	12.56%
1.c Materials and supplies	15	42	189.35%
1.d External services	16	18	14.95%
1.e Various transfers	78	41	-47.91%
<i>o/w NSSF</i>	50	0	-100.00%
1.f Other current	48	40	-17.04%
<i>Hospitals</i>	40	29	-27.72%
<i>Others</i>	7	10	43.35%
1.g Reserves	16	16	3.37%
<i>Interest subsidy</i>	16	16	3.37%
<b>2. Capital expenditures</b>	<b>91</b>	<b>114</b>	<b>25.51%</b>
2.a Acquisitions of land, buildings, for the construction of roads, ports, airports, and water networks	6	3	-59.53%
2.b Equipment	4	8	99.87%
2.c Construction in Progress	63	66	6.03%
2.d Maintenance	13	26	102.71%
2.e Other Expenditures Related to Fixed Capital Assets	5	11	119.47%
<b>3. Other treasury expenditures, <i>of which</i></b>	<b>234</b>	<b>267</b>	<b>14.25%</b>
Municipalities	80	28	-64.57%
EDL	54	181	234.15%
Transfers to High Relief Council	0	6	100.00%
Treasury advances for diesel oil subsidy	30	0	-100.00%
<b>4. Unclassified expenditures</b>	<b>0</b>	<b>0</b>	<b>213.33%</b>
<b>5. Customs cashiers</b>	<b>4</b>	<b>8</b>	<b>51.68%</b>
<b>6. Total expenditures (excluding CDR foreign financed)</b>	<b>1,562</b>	<b>1,816</b>	<b>16.24%</b>

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



**Table 7. Transfers to EDL**

(LBP billion)	2006	2007	%
	Jan-Feb	Jan-Feb	Change
<b>EDL of which:</b>	<b>54</b>	<b>181</b>	<b>235.37%</b>
<b>Debt Service of which:</b>	<b>54</b>	<b>30</b>	<b>-43.74%</b>
C-Loans and Eurobonds, of which:	<b>37</b>	<b>28</b>	<b>-24.14%</b>
Principal Repayment	27	23	<b>-16.18%</b>
Interest Payment	10	5	<b>-45.88%</b>
Loans for Fuel Oil Payment	17	0	<b>100.00%</b>
BDL Guaranteed Loan Payment (Syria)	0	2	<b>100.00%</b>
<b>Kuwait &amp; Alg. Petrole</b>	<b>0</b>	<b>151</b>	<b>100.00%</b>

Source: MOF, DGF

## Section 4: Public Debt

### Highlights:

1. By the end of February 2007, gross public debt reached LL 61,586 billion (equivalent to US\$ 41 billion), registering an increase of LL 586 billion (or 0.96 percent) over the end-December 2006 debt level.
2. Local currency debt amounted to LL 30,734 billion (equivalent to US\$ 20 billion), increasing by LL 530 billion or 1.75 percent over the end-December 2006 level.
3. As of end- February 2007, local currency debt held by BDL increased by LL 542 billion as compared to end of December 2006.
4. Meanwhile, local currency debt held by commercial banks decreased by LL 535 billion as compared to end-December 2006 due to the political environment which has led to a lower level of commercial banks' subscriptions in the T-bills auctions during the first two months of 2007.
5. By end-February 2007 foreign currency debt amounted to LL 30,852 billion (equivalent to US\$ 20 billion), increasing by LL 56 billion (or 0.18 percent) over the end-December 2006 level The overall increase is mostly explained by the combined result of an increase of LL 116 billion in the accrued interest included in the debt figure and the repayment of the maturing principal installment of the Paris II French loan amounting to Euro 30 million. During February 2007, US\$ 1 billion of maturing Eurobonds were refinanced by two new simultaneous issuances of US\$ 569 million and US\$ 431 million.
6. Public sector deposits amounted to LL 4,193 billion, decreasing by approximately LL 251 billion from their December 2006 level.

**Table 8. Public Debt Outstanding by Holder as of End-February 2007**

Assumes full LBP Replacement	Dec-04	Dec-05	Dec-06	Jan-07	Feb-07	Change Dec 06 - Feb 07	% change Dec 06-Feb 07
<b>Gross Public debt</b>	<b>54,082</b>	<b>57,987</b>	<b>61,000</b>	<b>61,302</b>	<b>61,586</b>	<b>586</b>	<b>0.96%</b>
<b>Local currency debt</b>	<b>26,371</b>	<b>29,141</b>	<b>30,204</b>	<b>30,441</b>	<b>30,734</b>	<b>530</b>	<b>1.75%</b>
a. Central Bank (including REPOs and Loans to EDL to finance fuel purchases)*	10,652	11,686	9,588	10,022	10,130	542	5.65%
b. Commercial Banks	12,220	14,130	16,487	16,051	15,952	-535	-3.24%
c. Other Local Currency Debt (T-bills)	3,500	3,325	4,129	4,368	4,652	523	12.67%
o/w Public entities	2,187	2,446	3,313	3,501	3,810	497	15.00%
<b>Foreign currency debt</b>	<b>27,711</b>	<b>28,846</b>	<b>30,796</b>	<b>30,861</b>	<b>30,852</b>	<b>56</b>	<b>0.18%</b>
a. Bilateral, Multilateral and Foreign Private sector loans	3,003	2,791	3,004	2,988	2,998	-6	-0.20%
b. Paris II related debt (Eurobonds and Loans)**	3,815	3,682	3,721	3,705	3,664	-57	-1.53%
c. BDL Eurobond (Paris II)	2,819	2,819	2,819	2,819	2,819	0	0.00%
d. Market Eurobonds	17,686	18,729	20,399	20,381	20,402	3	0.01%
e. Accrued Interest on foreign currency debt	388	406	434	549	550	116	26.73%
f. Special Tbls in Foreign currency***		419	419	419	419	0	0.00%
<b>Public sector deposits</b>	<b>4,359</b>	<b>5,590</b>	<b>4,444</b>	<b>4,372</b>	<b>4,193</b>	<b>-251</b>	<b>-5.65%</b>
<b>Net debt</b>	<b>49,723</b>	<b>52,397</b>	<b>56,556</b>	<b>56,930</b>	<b>57,393</b>	<b>837</b>	<b>1.48%</b>
<b>Gross Market debt****</b>	<b>31,861</b>	<b>34,726</b>	<b>38,683</b>	<b>38,395</b>	<b>38,295</b>	<b>-388</b>	<b>-1.00%</b>
<b>% of total debt</b>	<b>59%</b>	<b>60%</b>	<b>63%</b>	<b>63%</b>	<b>62%</b>	<b>0</b>	<b>-1.94%</b>

Source: Ministry of Finance, Banque du Liban

Figures of Dec. 04 – Jan. 06 may have changed from previously published due to changed in the exchange rates

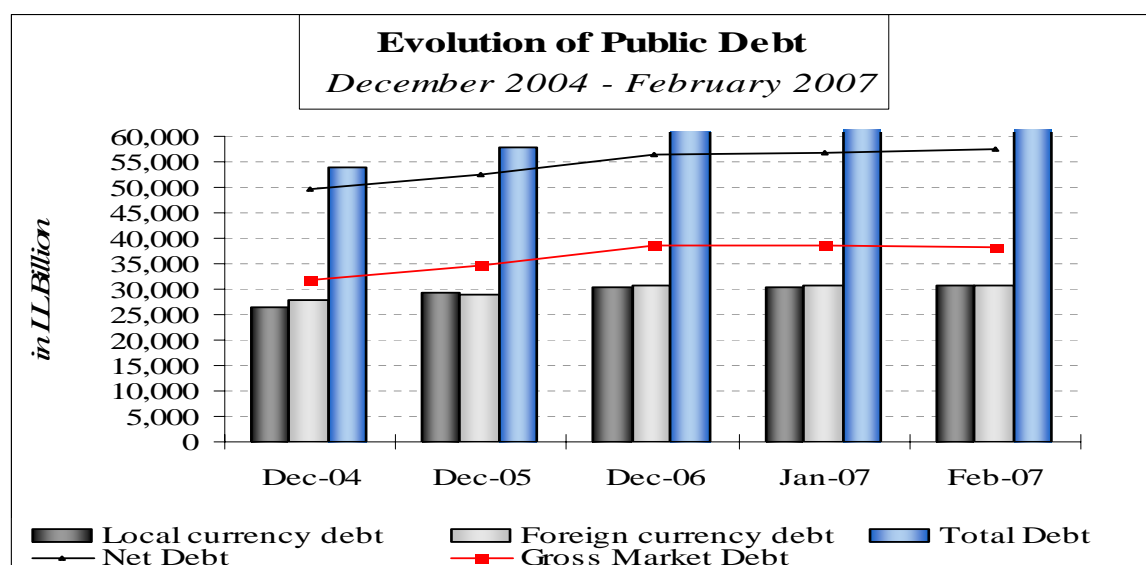
\* BDL has extended loans to EDL for the equivalent amount of US\$300 million to purchase fuel oil. These loans are listed as public debt as they are government guaranteed

\*\*Paris II related debt (Eurobonds and Loans) decline in February because payment of principal of 30M EURO

\*\*\* Special Tbls 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

**Chart 5.**





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