

Public Finance Monitor

The Monthly Statistical Bulletin of the Ministry of Finance

February 2008

Section 1: Fiscal Overview

In the first two months of 2008, the total fiscal balance registered a deficit of LL 561 billion compared to a deficit of LL 520 billion in the same period of 2007. This deterioration of the fiscal deficit is due to an increase in total payments, by LL 444 billion, which offset the LL 403 billion improvement in total receipts. The increase in spending was due to higher primary expenditures by LL 290 billion and interest payment by LL 73 billion. In addition, principal payments on concessional loans increased by LL 81 billion, reflecting the prepayment of three World Bank loans on January 23¹ 2008, settled through the partial disbursement of USAID grant pledged in Paris III¹.

The primary balance of January-February 2008 registered a surplus of LL 239 billion, an increase of LL 114 billion compared to the surplus of LL 125 billion realized in the same period of last year.

Table 1. Summary of Fiscal Performance

(LL billion)	2006 February	2007 February	2008 February	2006 Jan-Feb	2007 Jan-Feb	2008 Jan-Feb
Total Budget and Treasury Receipts	448	502	672	1,194	1,296	1,699
Total Budget and Treasury Payments, of which	815	1,003	1,098	1,562	1,816	2,260
Interest Payments	290	352	313	572	626	699
Concessional loans principal payments 1/	9	10	80	23	19	100
Primary Expenditures 2/	517	642	705	966	1,171	1,461
Total Cash Deficit/Surplus	-367	-501	-426	-368	-520	-561
Primary Deficit/Surplus	-69	-140	-33	227	125	239

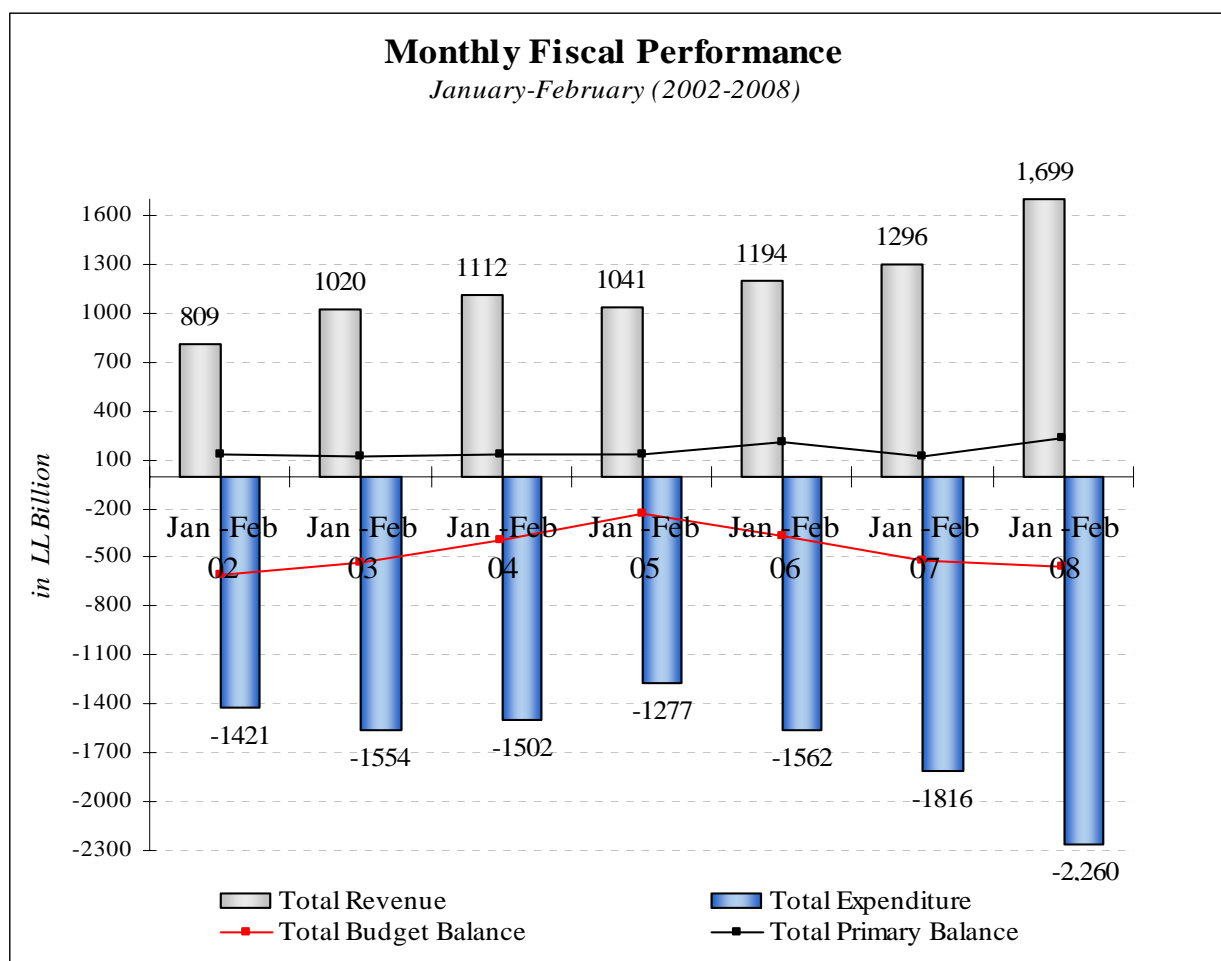
Source: Ministry of Finance (MOF), Directorate General of Finance (DGF)

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).

¹ For more details, please refer to Paris III Fifth Progress Report posted on www.finance.gov.lb

Chart 1.



Section 2: Revenue Outcome

Total revenues collected in January-February 2008 summed up to LL 1,699 billion, representing a 31 percent increase compared to the same period of 2007. This was due to higher collection of both Budget revenues and Treasury receipts, by 20 and 164 percent, respectively.

1- Budget revenues amounted to LL 1,443 billion in January-February 2008 compared to LL 1,199 billion registered in the same period of last year. This was mainly due to increases in both Tax revenues and Non-tax revenues, of 10 and 58 percent, respectively.

a) Tax revenues registered an increase of LL 90 billion from LL 932 billion to LL 1,022 billion, detailed as follows:

- **Taxes on income, profits and capital gains** totaled LL 218 billion, increasing by LL 17 billion compared to the same period of last year. This improvement was mainly due to the increase in income taxes on profits, on wages & salaries and on interest income (5%), which increased by LL 11 billion, LL 12 billion and LL 4 billion, respectively, offsetting the decrease in income tax on capital gains and dividends by LL 11 billion.

- **Taxes on Property** totaled LL 84 billion increasing by LL 22 billion compared to January-February 2007, mainly due to an increase of LL 26 billion in real estate registration fees, which offset the LL 4 billion decrease in built property taxes.
- **Domestic taxes on goods and services** amounted to LL 475 billion, an increase of LL 78 billion or 19 percent. This is mainly due to the increase in both VAT and private car registration fees of LL 71 billion and LL 8 billion, respectively.
- **Taxes on international trade** totaled LL 194 billion, decreasing by LL 30 billion, mainly due to the decrease in fuel oil excise by LL 76 billion, which offset the increase in revenues from customs duties , excise tax on cars and tobacco excise tax by LL 18 billion, LL 26 billion and LL 3 billion, respectively. This loss in fuel revenues is mainly due to the rise in the international fuel prices and the government policy to maintain the cap on gasoline prices.

b) Non-tax revenues increased by LL 154 billion, from LL 267 billion in January-February 2007 to LL 421 billion in January-February 2008, mainly attributed to the following:

- With LL 343 billion registered in January-February 2008, **Income from Public Institutions and Government Properties** increased by LL 144 billion due to higher transfer from the Telecom Surplus of LL 178 billion. In February 2008, no transfers were recorded from the Port of Beirut and the surplus of National Lottery.
- With LL 65 billion collected in January-February 2008, **Administrative fees and charges** registered an increase of LL 10 billion due to the increase in passport fees by LL 3 billion and in vehicle control fees by LL 5 billion.
- **Penalties and confiscations** remained almost the same when compared to 2007, whereas other non-tax revenues decreased by LL 1 billion.

2- Treasury Receipts totaled LL 256 billion in January-February 2008 increasing by LL 158 billion compared to January-February 2007. This rise is due to the LL 148 billion grants received from US AID pertaining to the Paris III pledge.

Table 2. Total Revenue

(LL billion)	2006 February	2007 February	2008 February	2006 Jan-Feb	2007 Jan-Feb	2008 Jan-Feb
Budget Revenues, of which:						
<i>Tax Revenues</i>	421	480	633	1,111	1,199	1,443
<i>Non-Tax Revenues</i>	304	334	384	832	932	1,022
Treasury Receipts	117	147	248	278	267	421
Total Revenues	27	21	39	81	97	256
	448	502	672	1,191	1,296	1,699

Source: MOF, DGF

Table 3. Tax Revenue

(LL billion)	2006 February	2007 February	2008 February	2006 Jan-Feb	2007 Jan-Feb	2008 Jan-Feb
Tax Revenues	529	334	384	832	932	1,022
Taxes on Income, Profits, & Capital Gains, of which:	45	45	58	179	202	218
Income Tax on Profits	8	5	10	38	43	54
Income Tax on Wages and Salaries	5	5	5	55	61	72
Income Tax on Capital Gains & Dividends	2	2	3	21	24	14
Tax on Interest Income (5%)	29	33	40	61	72	76
Penalties on Income Tax	1	0	0	3	2	2
Taxes on Property, of which:	28	25	39	60	62	84
Built Property Tax	6	6	6	11	16	12
Real Estate Registration Fees	20	16	30	44	38	65
Domestic Taxes on Goods & Services, of which:	115	137	171	352	398	475
Value Added Tax	96	120	152	317	366	438
Other Taxes on Goods and Services, of which:	18	15	17	28	29	35
Private Car Registration Fees	9	8	10	17	16	24
Passenger Departure Tax	9	7	7	10	13	11
Taxes on International Trade, of which:	91	108	94	192	225	194
Customs	36	41	49	72	82	99
Excises, of which:	56	68	45	120	143	95
Petroleum Tax	28	37	4	55	80	4
Tobacco Tax	12	18	14	28	32	35
Tax on Cars	16	12	27	36	31	56
Other Tax Revenues (namely fiscal stamp fees)	24	19	21	51	46	51

Source: MOF, DGF

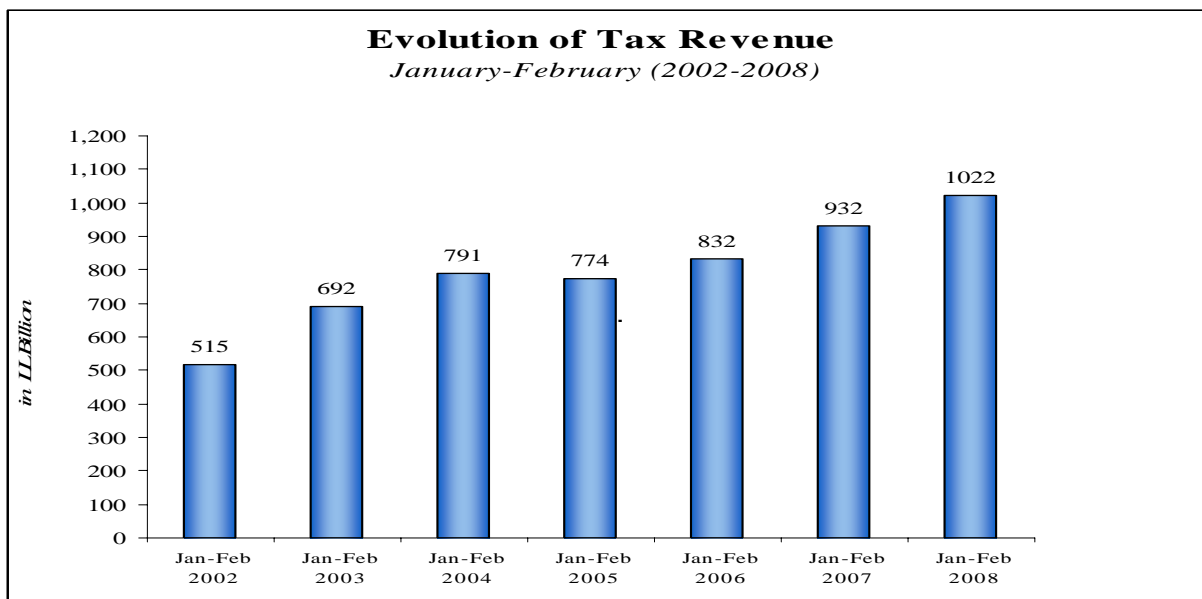
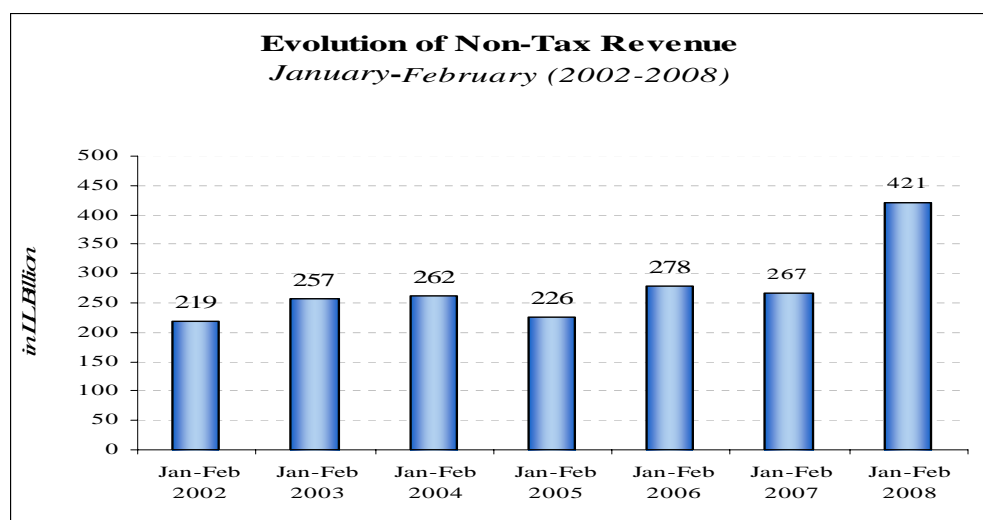
Chart 2.

Table 4. Non-Tax Revenue

(LL billion)	2006 February	2007 February	2008 February	2006 Jan-Feb	2007 Jan-Feb	2008 Jan-Feb
Non-Tax Revenues	117	147	248	278	267	421
Income from Public Institutions and Government Properties, of which:	76	111	211	203	198	343
Income from Non-Financial Public Enterprises, of which:	72	108	207	195	191	334
Revenues from Casino Du Liban	5	5	7	5	7	13
Revenues from Port of Beirut	0	0	0	0	30	0
Budget Surplus of National Lottery	4	5	0	7	10	0
Transfer from the Telecom Surplus	63	98	201	183	143	321
Property Income (namely rent of Rafic Hariri International Airport)	4	2	4	7	6	7
Other Income from Public Institutions (interests)	0	0	0	1	1	1
Administrative Fees & Charges, of which:	32	29	31	58	55	65
Administrative Fees, of which:	26	22	24	46	42	52
Notary Fees	1	1	2	3	3	3
Passport Fees/ Public Security	10	7	8	19	13	16
Vehicle Control Fees	10	9	9	17	18	22
Judicial Fees	1	1	1	3	2	3
Driving License Fees	2	1	1	2	3	2
Administrative Charges	2	2	3	4	6	6
Sales (Official Gazette and License Number)	0	0	0	0	0	0
Permit Fees (mostly work permit fees)	4	4	3	7	6	7
Other Administrative Fees & Charges	0	0	0	1	1	1
Penalties & Confiscations	0	0	0	1	1	1
Other Non-Tax Revenues (mostly retirement deductibles)	9	7	6	17	13	12

Source: MOF, DGF

Chart 3.

Section 3: Expenditure Outcome

In the first two months of 2008, **total expenditures** reached LL 2,260 billion, increasing by LL 444 billion compared to LL 1,816 billion registered in 2007, mainly due to the following reasons:

1. Increase in **Interest payments** by LL 73 billion. This rise is explained by higher interest payments on both local and foreign currency debt by around 30 and 15 percent, respectively. Also, **the concessional loans' principal repayments** increased by LL 81 billion in January-February 2008 when compared to the same period of last year. *(Please refer to table 6 for more details).*

2. Increase in **non-interest expenditures** by LL 289 billion, due to higher current primary expenditures and treasury expenditures by LL 25 billion and LL 288 billion, respectively, which offset the decrease in capital expenditures by LL 23 billion. The details of each level of spending are explained, as follows:

a) **Current primary expenditures** increased by LL 25 billion in January-February 2008 when compared to January-February 2007, mainly due to:

- Increase in **various transfers** of LL 50 billion due to: a) additional payment of LL 18 billion to the international court to judge the assassination of Prime Minister Rafic Hariri and b) LL 23 billion for the wheat subsidy.
- Increase in **other current expenditures** by LL 15 billion due to higher payments to hospitals by LL 20 billion against a LL 5 billion decrease in other items.
- The item **personnel cost** witnessed a decline of LL 37 billion, explained by LL 68 billion lower Article 13 (salaries and wages) due to: a) the additional bonus salary of LL 47 billion paid to the armed forces in February 2007 as per the decision taken by the Council of Ministers (Cabinet meeting of 4 January 2007) and b) the lower hospitalization bill of LL 10 billion. On the other hand, retirement and end of service compensations increased by LL 28 billion.

b) **Capital expenditures** decreased by LL 23 billion due to the fact that all its sub-components were lower, especially **construction in progress** and **maintenance** with decreases of LL 9 billion and LL 12 billion, respectively.

c) **Other treasury expenditures** increased by LL 288 billion due to the rise in all items under this classification, detailed as follows:

- **EDL payments** increased by LL 185 billion or 102 percent, reaching LL 366 billion during January-February 2008 as compared to LL 181 billion during the same period of 2007. Out of the LL 185 billion increase, the increase in payments to KPC and Sonatrach for oil purchases registered LL 188 billion. *(Please refer to table 7 for more details).*
- Transfers to **municipalities** increased by LL 69 billion of which LL 43 billion were due to the payment of the third part of the 2005 revenues.
- Treasury advances for **diesel oil subsidy** increased by LL 19 billion as no transfers took place during the first two months of 2007.

Table 5. Expenditures by Economic Classification

	Jan-Feb 06	Jan-Feb 07	Jan-Feb 08
1. Current expenditures	1,232	1,427	1,606
1.a Personnel cost, of which	487	625	588
<i>Article 13: Salaries and wages</i>	325	451	384
<i>Retirement and end of service compensations</i>	135	148	176
1.b Debt Service payments	573	626	699
1.c Concessional loans principal payments		19	100
1.d Materials and supplies	15	42	37
1.e External services	16	18	15
1.f Various transfers	78	41	91
<i>o/w NSSF</i>	50	0	0
1.g Other current	48	40	55
<i>Hospitals</i>	40	29	49
<i>Others</i>	7	10	6
1.h Reserves (3)	16	16	22
<i>Interest subsidy</i>	16	16	22
2. Capital expenditures	91	114	91
2.a Acquisitions of land, buildings, for the construction of roads, ports, airports, and water networks	6	3	1
2.b Equipment	4	8	7
2.c Construction in Progress	63	66	57
2.d Maintenance	13	26	14
2.e Other Expenditures Related to Fixed Capital Assets	5	11	12
3. Other treasury expenditures, of which	234	267	555
Municipalities	80	28	98
EDL	54	181	366
Transfers to Higher Council of Relief	0	6	7
Treasury advances for diesel oil subsidy	30	0	19
4. Unclassified expenditures	0	0	1
5. Customs cashiers	5	8	6
6. Total expenditures (excluding CDR foreign financed)	1,562	1,816	2,260

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

Table 6. Details of Debt Service Transactions

(LL billion)	2006	2007	2008	2006	2007	2008
	February	February	February	Jan-Feb	Jan-Feb	Jan-Feb
Interest payments^{1/}	290	352	313	549	626	699
Local Currency Debt	157	171	227	337	370	480
Foreign Currency Debt, of which:	133	180	86	212	256	219
Eurobond Coupon Interest*	106	152	57	181	226	182
Special bond Coupon Interest*						
Concessional Loans Interest Payments	27	28	29	31	30	37
Concessional Loans Principal Payments	9	10	80	23	19	100

Source: MOF, DGF

1/ Please note that the classification of debt service expenditures is now broken down 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

Table 7. Transfers to EDL

(LL billion)	2006	2007	2008	2007- 2008
	Jan-Feb	Jan-Feb	Jan-Feb	Change
EDL of which:	54	181	366	185
Debt Service of which:	37	30	27	-4
C-Loans and Eurobonds, of which:	37	28	27	-1
Principal repayments	27	23	23	0
Interest Payments	10	5	4	-1
BDL Guaranteed Loan payments	0	2	0	-2
Repayment of loans for fuel oil and gas oil purchase (principal and interest)	17	0	0	0
Reimbursement of KPC and Sonatrach agreements	0	151	339	188
Repayment of oil suppliers arrears	0	0	0	0

Source: MOF, DGF

Section 4: Public Debt

1. By the end of February 2008, **gross public debt** reached LL 64,643 billion (equivalent to US\$ 42.88 billion), registering an increase of LL 1,279 billion (or 2.02 percent) over the end-December 2007 debt level.
2. **Local currency debt** amounted to LL 32,271 billion (equivalent to US\$ 21.40 billion), increasing by LL 898 billion or 2.86 percent over the end-December 2007 level.
3. As of end- February 2008, **local currency debt held by BDL** decreased by LL 70 billion compared to end of December 2007.
4. Meanwhile, **local currency debt held by commercial banks** increased by LL 851 billion compared to end-December 2007. The increase was the result of greater market appetite for Treasury bills by commercial banks.

5. By end-February 2008, **foreign currency debt** amounted to LL 32,372 billion (equivalent to US\$ 21.47 billion), increasing by LL 381 billion (or 1.19 percent) over the end-December 2007 level.
6. **Public sector deposits** amounted to LL 5,154 billion, increasing by approximately LL 627 billion from their December 2007 level.

Table 8. Public Debt Outstanding by Holder as of End-February 2008

(in LL billion)	Dec-05	Dec-06	Dec-07	Feb-08	Change Dec 07 - Feb 08	% change Dec 07- Feb 08
Gross Public debt	57,985	60,851	63,364	64,643	1,279	2.02%
Local currency debt	29,141	30,204	31,373	32,271	898	2.86%
a. Central Bank (including REPOs and Loans to EDL to finance fuel purchases) ⁽¹⁾	11,686	9,588	9,052	8,982	-70	-0.77%
b. Commercial Banks	14,130	16,487	16,847	17,698	851	5.05%
c. Other Local Currency Debt (T-bills)	3,325	4,129	5,474	5,591	117	2.14%
<i>o/w Public entities</i>	<i>2,446</i>	<i>3,313</i>	<i>4,796</i>	<i>4,896</i>	<i>100</i>	<i>2.09%</i>
Foreign currency debt	28,844	30,647	31,991	32,372	381	1.19%
a. Bilateral, Multilateral and Foreign Private sector loans	2,789	2,855	2,963	2,822	-141	-4.75%
b. Paris II related debt (Eurobonds and Loans) ⁽²⁾	6,501	6,540	6,063	6,027	-36	-0.59%
c. Paris III related debt (Eurobonds and Loans) ⁽³⁾			1,357	1,700	344	25.33%
d. Market-issued Eurobonds	18,729	20,399	20,780	20,824	44	0.21%
<i>o/w Zero interest Eurobonds issued to Comm. Bnks</i>	<i>0</i>				<i>0</i>	
e. Accrued Interest on foreign currency debt	406	434	410	580	170	41.46%
f. Special Tbls in Foreign currency ⁽⁴⁾	419	419	419	419	0	0.00%
Public sector deposits	5,590	4,444	4,527	5,154	627	13.85%
Net debt	52,395	56,407	58,828	59,489	661	1.12%
Gross Market debt⁽⁵⁾	34,721	38,670	39,221	40,302	1,081	2.76%
% of total debt	60%	64%	62%	62%	0	0.72%

Source: Ministry of Finance, Banque du Liban

Notes:

⁽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⁾ Paris II related debt (Eurobonds and Loans) including Eurobond of USD 1,870 billion originally issued to BDL in the context of Paris II conference

⁽³⁾ Issued to Malaysia as part of its Paris III contribution, IBRD Loans, UAE Loan and first tranche of the French loan received in February 2008

⁽⁴⁾ Special Tbls in Foreign currency (expropriation bonds)

⁽⁵⁾ Gross market debt equals gross debt less the portfolios of the BDL, NSSF, bilateral and multilateral loans, Paris II and Paris III related debt.



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