

Public Finance Monitor

The Monthly Statistical Bulletin of the Ministry of Finance

June 2006

Section 1: Fiscal Overview

Highlights:

The total fiscal balance registered a deficit of LL 1,167 billion for the January–June 2006 period compared to LL 1,335 billion for the same period in 2005, an improvement of LL 168 billion. The decrease in total deficit was due to 15 percent increase in total receipts which offset the 8 percent increase in total payments. The total primary surplus increased by LL 770 billion or by 344 percent registering LL 994 billion compared to LL 224 billion for the same period in 2005.

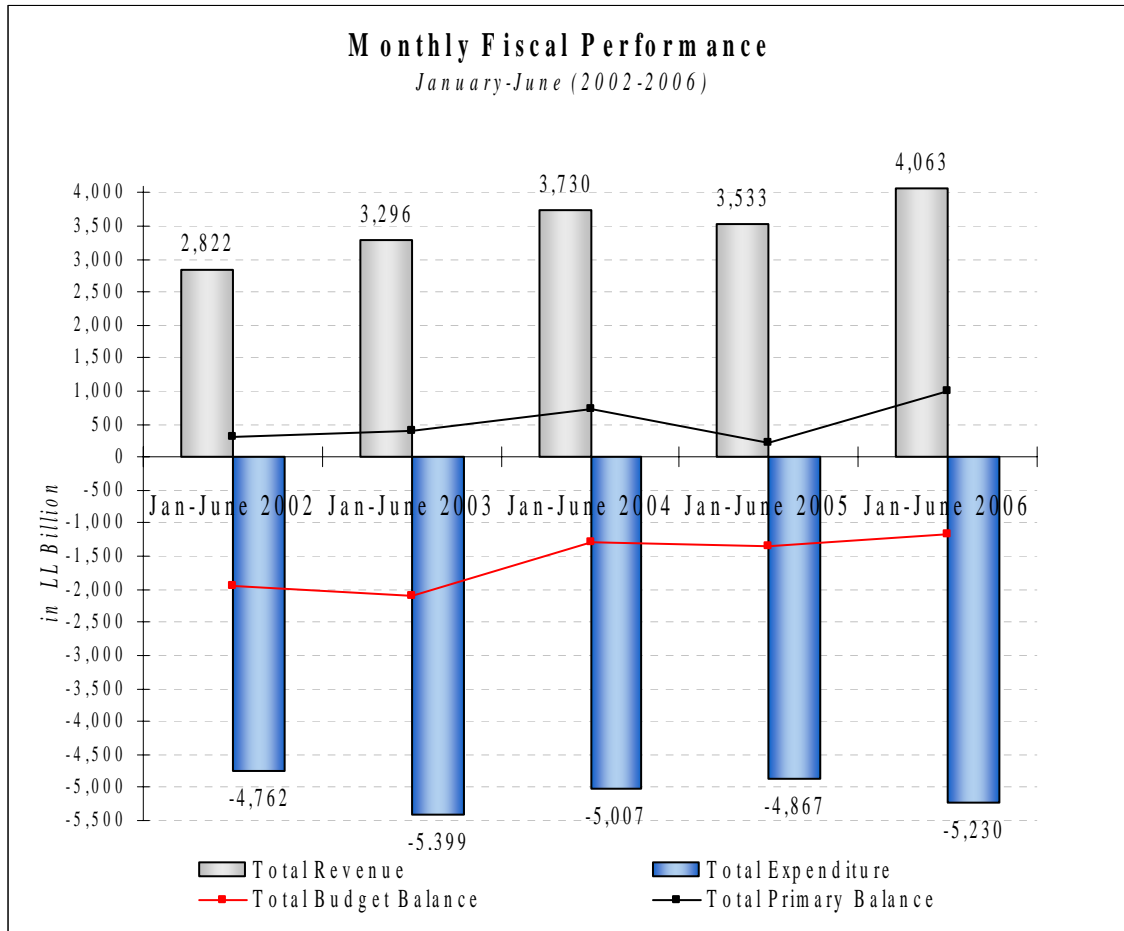
A total deficit of LL 627 billion was recorded in June 2006, compared to a total deficit of LL 554 billion for the same month of 2005. The increase in the total deficit by LL 73 billion occurred although there was a decrease of LL 80 billion in total payments and was mainly due to a decrease in total receipts by LL 153 billion for June 2006, compared to June 2005.

Table 1. Summary of Fiscal Performance

(LL billion)	2005	2006	2005	2006	Change 2005- 2006	% Change
	June	June	Jan-June	Jan-June		
Budget Revenue	543	390	3,327	3,877	550	16.5%
Budget Expenditures	933	854	3,653	4,098	444	12.2%
<i>o/w Debt Service</i>	290	409	1,559	2,161	602	38.6%
Budget Deficit/Surplus	-390	-463	-327	-221	106	-32.4%
in % of Budget Expenditures	-41.8%	-54.3%	-8.9%	-5.4%		
Budget Primary Deficit/Surplus	-100	-54	1,232	1,940	708	57.5%
in % of Budget Expenditures	-10.7%	-6.4%	33.7%	47.3%		
Treasury Receipts	25	25	206	186	-20	-9.5%
Treasury Payments	190	189	1,214	1,132	-82	-6.7%
Total Budget and Treasury Receipts	569	415	3,533	4,063	531	15.0%
Total Budget and Treasury Payments	1,123	1,043	4,867	5,230	363	7.5%
Total Cash Deficit/Surplus	-554	-627	-1,335	-1,167	168	-12.6%
in % of Total Expenditures	-49.4%	-60.2%	-27.4%	-22.3%		
Primary Deficit/Surplus	-264	-218	224	994	770	343.6%
in % of Total Expenditures	-23.5%	-20.9%	4.6%	19.0%		

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

Chart 1.



Section 2: Revenue Outcome

Highlights:

Total revenues collected over the period of January-June 2006 reached LL 4,063 billion compared to LL 3,533 billion during the same period last year, registering an increase of 15 percent mainly due to:

A 17 percent increase in **budget revenues** due to an increase in both tax and non-tax components:

- 16 percent increase in **tax revenues**, which totaled LL 2,882 billion in January-June 2006 period compared to LL 2,493 billion for the same period of 2005. This is due to higher collection on most tax fronts, namely, taxes on income, profits, and capital gains (by LL 80 billion), taxes on property (by LL 220 billion¹), domestic taxes on goods and services, (by LL 130 billion) stemming particularly from the VAT and other tax revenues (stamp fees by LL 38 billion). The increases in the

¹ The increase in taxes on property was mainly due to an exceptional collection in inheritance taxes of LL 163 billion during Jan – June 2006 compared to the same period in 2005.

above mentioned tax revenues have more than offset the 12 percent decrease in revenues from taxes on international trade, which was mainly caused by the 62 percent loss in fuel excise revenues, resulting from the cap on gasoline prices and the ever increasing international prices of fuel. It is worth noting that as of the month of June 2006 the Treasury is no longer collecting revenues from fuel excises².

- 19 percent rise in non-tax revenues, which totaled LL 995 billion during January-June 2006, mainly owing to LL 91 billion higher transfers from the Telecom Budget Surplus, and LL 71 billion increased collection of administrative fees namely LL 19 billion and LL 39 billion increases in the collection of public security fees/passport fees and vehicles control fees (period of settlement and reduction of penalties)³ respectively.

The increase in budget revenues occurred despite a 10 percent decrease in **treasury receipts**, mainly due to a LL 40 billion decrease in municipalities' revenues.

Table 2. Total Revenues

(LL billion)	2005 June	2006 June	2005 Jan-June	2006 Jan-June	% Change
Budget Revenues, of					
<i>which:</i>	543	390	3,327	3,877	16.5%
<i>Tax Revenues</i>	499	335	2,493	2,882	15.6%
<i>Non-Tax Revenues</i>	44	55	834	995	19.3%
Treasury Receipts	25	25	206	186	-9.5%
Total Revenues	569	415	3,533	4,063	15.0%

Source: MOF, DGF

² Increase in oil prices in May 2006 led the Council of Ministers to revise its previous decision to cap the retail price of gasoline at LL 22,300 per tank. The retail price of gasoline will increase to reflect increases in international oil prices if the excise can no longer be decreased to maintain the cap. If international oil prices are low enough to allow maintaining the cap of LL22,300 per liter, that cap will continue to stand

³ Budget law 2005, Law number 715 dated February 3, 2006 article 29

Table 3. Tax Revenues

(LL billion)	2005	2006	2005	2006	%
	June	June	Jan-June	Jan-June	Change
Tax Revenues:	499	337	2,493	2,882	15.6%
Taxes on Income, Profits, & Capital Gains, of which:	219	51	691	771	11.6%
<i>Income Tax on Profits</i>	181	12	353	397	12.5%
<i>Income Tax on Wages and Salaries</i>	4	3	102	104	1.3%
<i>Income Tax on Capital Gains & Dividends</i>	14	7	54	66	22.2%
<i>Tax on Interest Income (5%)</i>	19	28	173	194	12.0%
<i>Penalties on Income Tax</i>	1	1	6	9	33.3%
Taxes on Property, of which:	33	39	178	398	123.7%
<i>Built Property Tax</i>	5	6	50	63	25.9%
<i>Real Estate Registration Fees</i>	23	28	112	156	39.6%
Domestic Taxes on Goods & Services, of which:	121	133	866	995	15.0%
<i>Value Added Tax</i>	106	114	783	886	13.3%
<i>Other Taxes on Goods and Services, of which:</i>	15	19	79	100	27.8%
<i>Private Car Registration Fees</i>	10	13	47	65	38.0%
<i>Passenger Departure Tax</i>	5	7	31	35	12.9%
Taxes on International Trade, of which:	109	93	648	569	-12.2%
<i>Customs</i>	38	47	228	254	11.2%
<i>Excises, of which:</i>	71	46	420	315	-25.0%
<i>Petroleum Tax</i>	36	0	233	90	-61.5%
<i>Tobacco Tax</i>	18	17	91	93	3.2%
<i>Tax on Cars</i>	18	29	95	130	37.9%
Other Tax Revenues (namely fiscal stamp fees)	18	20	110	148	35.0%

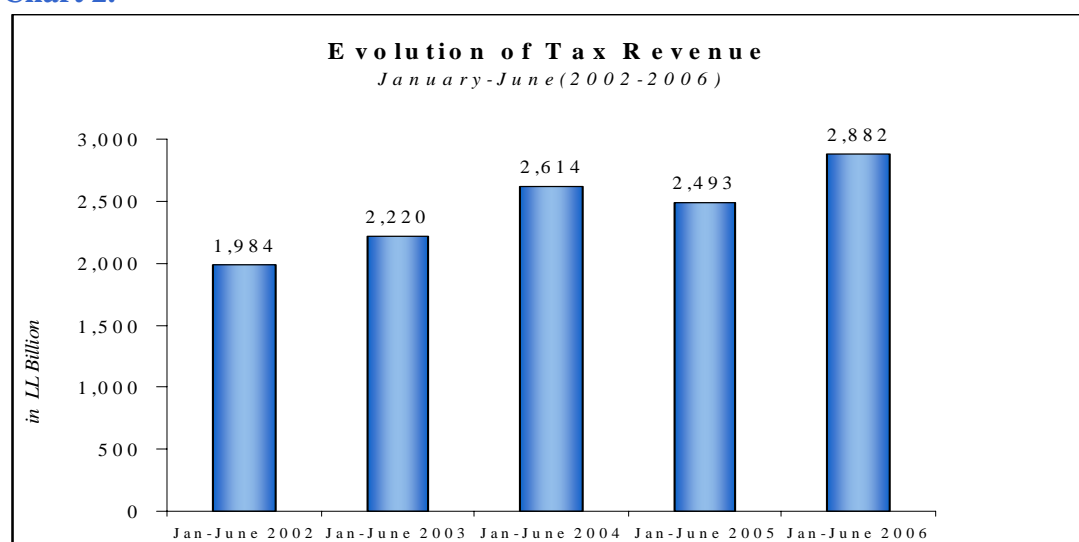
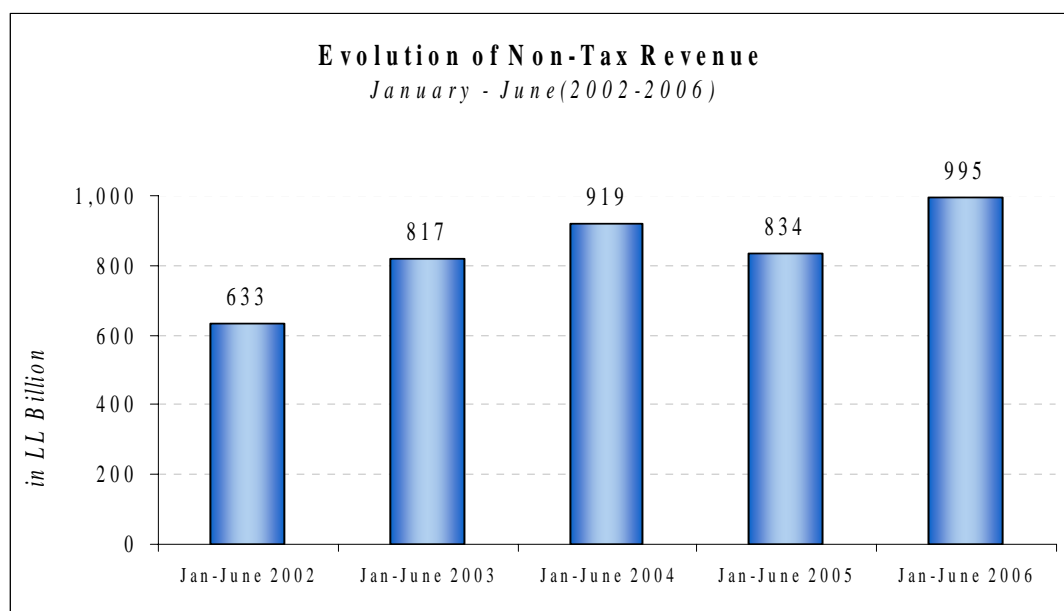
Chart 2.

Table 4. Non-Tax Revenues

(LL billion)	2005 June	2006 June	2005 Jan-June	2006 Jan-June	% Change
Non-Tax Revenues	44	55	834	995	19.3%
Income from Public Institutions and Government Properties, of which:	9	11	631	697	10.5%
Income from Non-Financial Public Enterprises, of which:	7	8	609	677	11.1%
<i>Revenues from Casino Du Liban</i>	4	4	31	21	-32.4%
<i>Revenues from Port of Beirut</i>	0	0	33	0	-100.0%
<i>Budget Surplus of National Lottery</i>	3	4	20	40	100.0%
<i>Transfer from the Telecom Surplus</i>	0	0	525	616	17.2%
Property Income (namely rent of Rafic Hariri International Airport)	2	2	19	17	-10.1%
Other Income from Public Institutions (interests)	1	0	2	3	16.8%
Administrative Fees & Charges, of which:	28	35	158	247	55.9%
Administrative Fees, of which:	23	29	125	196	56.3%
<i>Notary Fees</i>	1	2	8	10	19.9%
<i>Passport Fees/ Public Security</i>	8	10	40	59	46.6%
<i>Vehicle Control Fees</i>	9	10	55	94	71.9%
<i>Judicial Fees</i>	2	2	10	11	16.5%
<i>Driving License Fees</i>	1	3	6	13	103.1%
Administrative Charges	1	1	9	9	-3.8%
Sales (Official Gazette and License Number)	0	0	1	2	18.8%
Permit Fees (mostly work permit fees)	3	5	19	32	68.5%
Other Administrative Fees & Charges	1	0	4	9	141.8%
Penalties & Confiscations	0	1	2	3	77.0%
Other Non-Tax Revenues (mostly retirement deductibles)	7	8	43	48	11.2%

Source: MOF, DGF

Chart 3.

Section 3: Expenditure Outcome

Total expenditures for January-June 2006 amounted to LL 5,230 billion, as compared to LL 4,867 billion for the same period in 2005, increasing by 8 percent. This increase is mainly due to a rise in interest payments by 39 percent offsetting the decrease of 7 percent in non-interest payments, as explained below:

1. Debt service registered LL 2,161 billion in January-June 2006 compared to LL 1,559 billion for the same period in 2005, increasing by around 39 percent. This increase resulted from an increase in both local currency debt service and foreign currency debt service which rose by 79 percent and 12 percent respectively. This increase in the cost of debt is mainly due to the maturity of all the Zero interest Treasury bills, initially issued in the context of the Paris II conference to the Lebanese commercial banks back in 2003.

2. Non-interest expenditures registered LL 3,070 billion in January-June 2006, against LL 3,309 billion for January-June 2005, scoring a decrease of LL 239 billion. This decrease was attributed to a decline in current primary budget expenditures and other treasury expenditures, offsetting the increase in capital expenditures.

a. Current primary budget expenditures decreased by LL 164 billion. The increase in some items was offset by the decrease in other items as it is explained below:

- ✚ Materials and supplies (42 percent decrease): This decrease was due to the inclusion of an exceptional LL 90 billion payment that occurred in 2005 for accrued electricity bills of public administrations due to EDL. As a result of the inclusion of this payment, January-June 2006 data is higher when compared to the same period in 2005.
- ✚ Various transfers (43 percent decrease): This decrease is mainly due to the transfer of LL 290 billion to the NSSF reported during January-June 2005 period, against a lower transfer of LL 100 billion reported during the same period of 2006.
- ✚ Other current (3 percent decrease): This decrease occurred although spending on hospitals which are included in this category increased by approximately 33 percent. However, 2005 included a settlement payment of LL 34 billion due to arbitration decisions relating to the Ministries of Public Works and Education. As a result, there is a decrease of 64 percent in the remaining items under “other current” when comparing 2006 to 2005.

b. Capital spending increased by LL 67 billion when compared to the same period last year, due to three major factors:

- ✚ Increase of LL 8 billion in acquisition of lands, buildings for the construction of roads, ports, airports and water networks
- ✚ Increase of LL 48 billion in Construction under progress, resulting mainly from a high transfer to the displaced fund standing at LL 55 billion since the beginning of the year, while no transfers occurred during this period of last year.

- ✚ Increase of LL 8 billion in other expenditures related to fixed capital assets, mainly due to LL 18 billion transfer to Export Plus (IDAL).

c. Other treasury expenditures decreased by LL 134 billion mainly due to the following major factors:

- ✚ Decrease in direct transfers to EDL by LL 145 billion compared to January-June 2005 (please refer to Table 7). Since September 2005 EDL has been obtaining its fuel oil and gas oil consumption through agreements with Sonatrach (Algeria) and Kuwait Petroleum Corporation (Kuwait). According to the credit facilities stipulated in the above mentioned agreements, the settlement of the fuel oil and gas oil purchases started in June 2006 with a payment of LL 38 billion.
- ✚ Decrease due to some exceptional payments that were reported in 2005, namely the transfer to water authorities of LL 48 billion to pay for their accrued electricity bills.

On the other hand, an increase of LL 40 billion was reported in treasury advances for diesel oil subsidy⁴, which partially offset the decrease in other treasury expenditures.

Table 5. Expenditures by Transaction Classification

(LL billion)	2005	2006	2005	2006	%
	June	June	Jan-June	Jan-June	Change
Total Expenditures	1,123	1,043	4,867	5,230	7.5%
Budget Expenditures	933	854	3653	4,098	12.2%
Expenditures Excluding Debt Service	643	445	2,095	1,937	-7.5%
Debt Service, of which:	290	409	1,559	2,161	38.6%
Local Currency Debt	124	221	620	1,108	78.7%
Foreign Currency Debt, of which:	166	188	939	1,053	12.1%
Eurobond Coupon Interest*	148	147	814	916	12.4%
Specialbond Coupon Interest*		13		13	
Concessional Loans Principal					
Payments	14	23	74	78	6.2%
Concessional Loans Interest Payments	4	4	50	46	-9.3%
Treasury Expenditures, of which:	190	189	1214	1132	-6.7%
Municipalities	23	60	166	163	-1.7%
Previous Years' Appropriations	1	1	468	467	-0.1%
Non-Interest Expenditures (Total Expenditures minus Debt Service)	833	634	3,309	3,070	-7.2%

Source: MOF, DGF

⁴ Decree number 16165, dated January 20, 2006 & Decree number 13651, dated November 24, 2004

Chart 4.

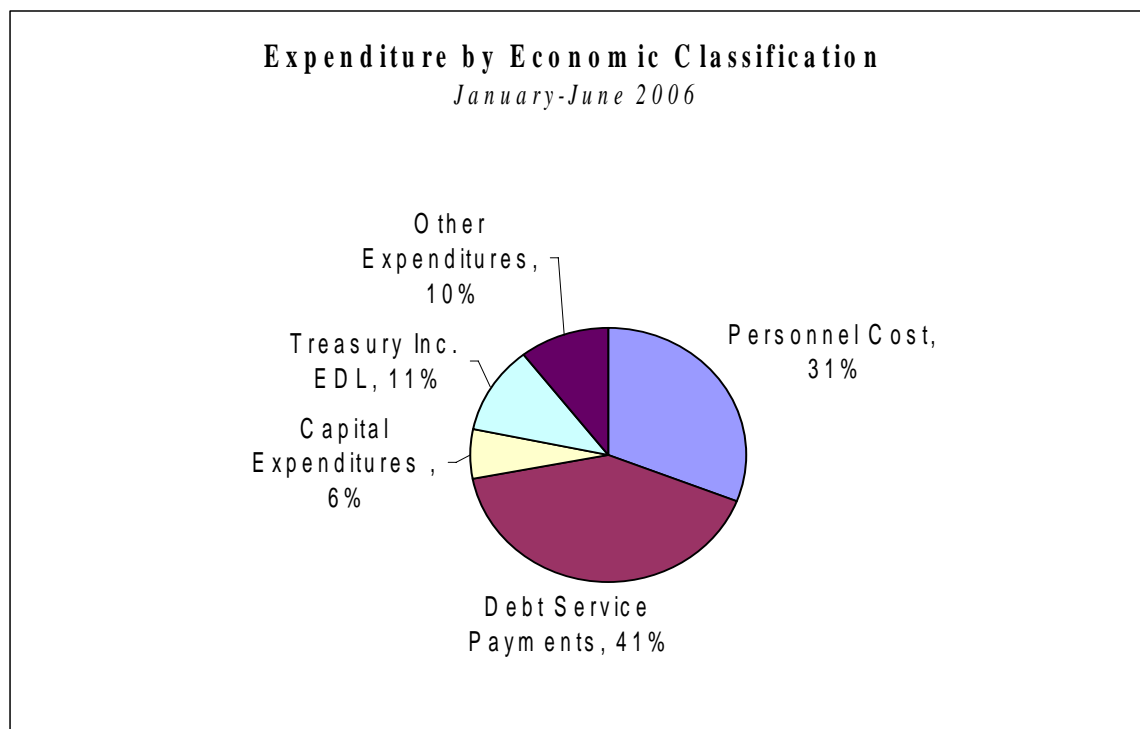


Table 6. Expenditures by Economic Classification

(LL billion)	2005 Jan-June	2006 Jan-June	% Change
1. Current expenditures	3,861	4,299	11.3%
1.a Personnel cost, <i>of which</i>	1,540	1,607	4.4%
<i>Article 13: Salaries and wages</i>	1,030	1,056	2.5%
<i>Retirement and end of service compensations</i>	416	446	7.1%
1.b Debt Service payments	1,559	2,161	38.6%
1.c Materials and supplies	121	71	-41.8%
1.d External services	43	53	22.0%
1.e Various transfers	434	247	-43.1%
<i>o/w NSSF</i>	290	100	-65.5%
1.f Other current	127	123	-3.4%
<i>Hospitals</i>	79	105	32.5%
<i>Others</i>	48	17	-64.1%
1.g Reserves (3)	37	38	3.7%
<i>Interest subsidy</i>	37	38	3.7%
2. Capital expenditures	269	336	25.0%
2.a Acquisitions of land, buildings, for the construction of roads, ports, airports, and water networks	3	11	252.6%
2.b Equipment	11	12	11.1%
2.c Construction in Progress	206	254	23.6%
2.d Maintenance	28	30	5.4%
2.e Other Expenditures Related to Fixed Capital Assets	21	29	37.5%
3. Other treasury expenditures, of which	713	579	-18.8%
Municipalities	166	163	-1.7%
EDL	295	151	-49.0%
Treasury advances for water authorities	48	0	-100.0%
Treasury advances for diesel oil subsidy	12	52	345.4%
Treasury advances for Telecom companies	15		
4. Unclassified expenditures	3	1	-73.3%
5. Customs cashiers	21	15	-29.8%
6. Total expenditures (excluding CDR foreign financed)	4,867	5,230	7.5%

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

Table 7. Transfers to EDL

(LBP billion)	2005 Jan-June	2006 Jan-June	% Change
EDL of which:	434	151	-65.3%
Debt Service of which:	113	112	-0.6%
C-Loans and Eurobonds, <i>of which:</i>	113	96	-15.4%
Principal Repayment	77	68	-12.3%
Interest Payment	36	28	-21.9%
Loans for Fuel Oil Payment	0	17	100.0%
BDL Guaranteed Loan Payment	0	0	0.0%
Treasury Advance for Fuel Purchase	127	0	0.0%
Treasury Advance for EDL' s Losses	55	0	0.0%
Material and Supplies (Electricity bills)	91		0.0%
Treasury advance to Water Authorities	48	0	-100.0%
Payments of Sonatrach and Kuwait Oil Agreement⁵	0	38	0.0%
Expropriations	0	0	0.0%

Source: MOF, DGF

⁵ These payments cover principles and interests in relation to KPC (Kuwait Petroleum Corporation) and Sonatrach Petroleum Corporation.

Section 4: Public Debt

Highlights:

1. By the end of June 2006, gross public debt reached LL 58,524 billion (equivalent to US\$ 39 billion), registering an increase of LL 506 billion (or 0.87 percent) over the end-December 2005 debt level.
2. Local currency debt amounted to LL 28,556 billion (equivalent to US\$ 19 billion), decreasing by LL 585 billion or 2.01 percent over the end-December 2005 level. This decrease is due to the large amounts of LL T-bills that matured during March and April 2006 and were financed by the surplus which existed in the Treasury accounts at the Central Bank.
3. By end-June 2006 foreign currency debt amounted to LL 29,968 billion (equivalent to US\$ 20 billion), increasing by LL 1,091 billion (or 3.78 percent) over the end-December 2005 level. This increase is due to the new issuance in April 2006 of two simultaneous Eurobond transactions amounting to €175 million and US\$ 750 million.
4. As of end June 2006, BDL portfolio of Treasury bills continued to decline as appetite for Lebanese Pound denominated T-bills continued to be strong, especially by commercial banks. Accordingly, local currency debt held by BDL decreased by LL 3,851 billion up till June 2006 compared to end of December 2005. At the same time, local currency debt held by commercial banks increased by LL 2,780 billion as of end June 2006. This rise in commercial bank T-bills holding is also reflected in the 10.62 percent increase in gross market debt ratio
5. Public sector deposits amounted to LL 5,153 billion, decreasing by around LL 437 billion from their December 2005 level due to the repayment of the local currency debt that matured in March and April 2006.

Table 8. Public Debt Outstanding by Holder as of End-June 2006

Assumes full LBP Replacement	Dec-03	Dec-04	Dec-05	Jun-06	Change Dec 05 - June 06	% change Dec 05 - June 06
Gross Public debt	50,285	54,048	58,018	58,524	506	0.87%
Local currency debt	26,843	26,371	29,141	28,556	-585	-2.01%
a. Central Bank (including REPOs and Loans to EDL to finance fuel purchases)*	8,938	10,652	11,686	7,835	-3,851	-32.95%
b. Commercial Banks	12,303	12,220	14,130	16,910	2,780	19.67%
c. Other Local Currency Debt (T-bills)	5,603	3,500	3,325	3,811	486	14.62%
<i>o/w Public entities</i>	2,564	2,187	2,446	2,957	511	20.89%
Foreign currency debt	23,442	27,677	28,877	29,968	1,091	3.78%
Ratio to total debt	46.6%	51.2%	49.8%	51.2%		
a. Bilateral, Multilateral and Foreign Private sector loans	2,934	2,970	2,822	2,892	70	2.48%
b. Paris II related debt (Eurobonds and Loans)	3,731	3,814	3,682	3,748	66	1.79%
c. BDL Eurobond (Paris II)	2,819	2,819	2,819	2,819	0	0.00%
d. Market Eurobonds	13,631	17,686	18,729	19,684	955	5.10%
e. Accrued Interest on foreign currency debt	327	388	406	406	0	0.02%
f. Special Tbs in Foreign currency**			419	419	0	0.00%
Public sector deposits	3,019	4,360	5,590	5,153	-437	-7.82%
Net debt	47,266	49,688	52,428	53,371	943	1.80%
Gross Market debt***	29,638	31,861	34,759	38,451	3,692	10.62%
% of total debt	59%	59%	60%	66%		

Source: Ministry of Finance, Banque du Liban

Notes:

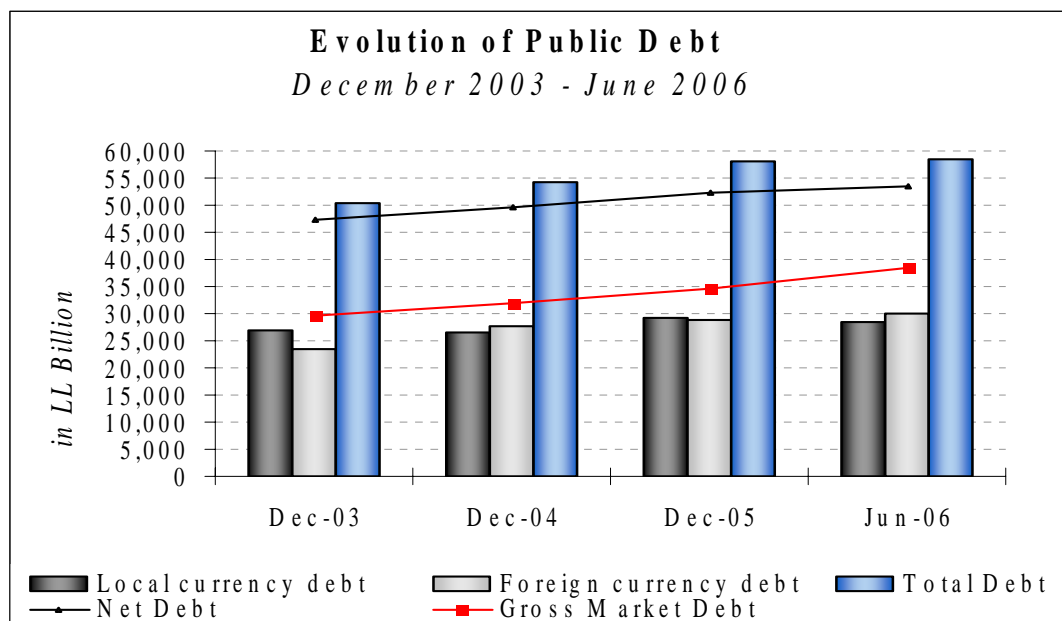
* The BDL has extended loans to EDL for the equivalent amount of US\$ 300 million to purchase fuel oil. These loans are listed as Public debt as they are government guaranteed.

** Special Tbs 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.

**** Figures of Dec03- Dec04 -Jan06 change because of exchange rate of Euro

Chart 5.





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