

Fiscal Overview

In the first quarter of 2009, the **total fiscal balance** registered a deficit of LL 1,716 billion compared to a deficit of LL 892 billion in the same period of 2008. The 14 percent rise in revenues did not offset the 35 percent increase in total expenditures. The **primary balance** was in deficit of LL 300 billion compared to a surplus of LL 386 billion in the first three months of 2008, due to an increase in primary expenditures by LL 1,040 billion.

Total revenues increased by 14 percent or LL 355 billion, due to 34 percent improvement in **Tax revenues**, which over compensated the 1.5 percent and 51 percent decreases in **non-tax revenues** and **treasury revenues**, respectively. This enhancement in tax collection is mostly due to the revenues from **Taxes on international trade** that more than doubled compared to the revenues in the first quarter of 2008. In detail, Petroleum excise collected LL 240 billion compared to LL 5 billion in January- March 2008¹ ; likewise, revenues from **excises on cars** improved by 60 percent, reflecting the 51 percent rise of imports of vehicles in the first quarter of the year, **customs** revenues rose by 17 percent, and the **tobacco** excise receipts were higher by 7 percent. At the same time, revenues from **taxes on income, profits and capital gains** were up by LL 67 billion, owing to (i) 50 percent higher **income tax on wages and salaries**, and (ii) 19 percent increase in **tax on interest income**. Similarly, revenues from **domestic taxes on goods and services** were up by LL 104 billion, mainly due to 14 percent increase in the **value added tax** collection.

Non-tax revenues registered a slight decrease of 1.5 percent, due to the LL 130 billion decrease in the transfer from the **telecom surplus**². **Revenues from Casino du Liban** were LL 25 billion less than in the first quarter of 2008 because of a smaller settlement amount due in 2009. **Port of Beirut** transferred LL 62 billion, against zero transfers recorded in the first quarter of 2008, and the transfers from the **National Lottery** were up by LL 9 billion. As for the **administrative fees and charges**, 26 percent increase in receipts came mainly from 57 percent rise in revenues from the **vehicle control fees**. At end of March 2009, **Treasury receipts** decreased by LL 149 billion compared to the same period of 2008, because of lesser amounts of grants received: LL 154 billion of grants, mostly pertaining to PIII pledges, in January-March 2008 (of which LL 151 billion from US and LL 3 billion from Iraq) compared to LL 12 billion in January-March 2009 (of which about LL 2 billion from Greece, and LL 11 billion from Oman for Nahr El Bared).

Expenditures increased by LL 1,180 billion in the first quarter of 2009 compared to the same period one year earlier, due to higher **current expenditures**, **capital expenditures** and **treasury expenditures** by 16 percent, 10 percent and 101 percent, respectively.

The LL 393 billion increase in **current expenditures** can be detailed as follows: (a) salaries and wages went up by LL196 billion, following LL 200,000 monthly increase in basic salaries³ , (b)

¹ Lower petroleum receipts were registered throughout 2008 as a result of the hike in the international fuel prices coupled with a price capped regime.

² March telecom transfers were made on 1 and 2 April 2009

³ As per Law 63 dated 31 December 2008

retirement and end-of- service compensations witnessed LL 40 billion increase, mainly due to LL 170,000 monthly raise in retirement salaries⁴, (c) transfers to the Lebanese University increased by LL 21 billion, following the monthly increase in basic salaries⁵, and (d) payments to hospitals registered an increase of LL 7 billion. These increases absorbed the decrease in various transfers by LL 32 billion which is explained by the ending of the wheat subsidy policy⁶ and a LL 6 billion decrease in contribution to the expenses of the Special Tribunal for Lebanon⁷ among others. **Interest payments** were up by LL 278 billion resulting mainly from the increase in interest payments on domestic currency debt and interest payments on foreign currency debt by LL 180 billion and LL 98 billion, respectively. The latter pertains to the payment of accrued interest and cash premium following the Eurobond exchange transaction settlement on March 19, 2009. The **foreign debt principal repayment** decreased by LL 138 billion due to the early retirement of three World Bank loans against USAID grant disbursement in January 2008.

The rise in **capital expenditures** by LL 14 billion is explained by higher transfer to the Displaced Fund by LL 20 billion, additional spending on maintenance by LL 5 billion, and LL 10 billion payment to the Export Plus program that led to LL 8 billion increase in other expenditures related to fixed capital assets. **Treasury expenditures** increased by LL 770 billion, mainly due to higher transfers to EDL by LL 569 billion and LL 200 billion treasury advance⁸ to the High Relief Committee to pay indemnities to July 2006 war victims.

At the end of March 2009, **gross public debt** reached LL 72,249 billion, registering an increase of LL 1,361 billion compared to the end-December 2008 debt level. This increase is a result of higher **local and foreign currency debt** of LL 962 billion and LL 399 billion, respectively. From end-2008 until end of March 2009, BDL's domestic debt portfolio rose by LL 1,263 billion, largely due to purchases of Treasury Bills on the secondary market in the first quarter of 2009. This increase compensated the reduction in commercial banks' domestic debt portfolio by LL 552 billion over the same period. The stock of foreign currency debt increased as a result of the issuance of USD 444.7 million of new cash in conjunction with the Eurobond voluntary exchange transaction carried out in March 2009. In addition, special treasury bills worth USD 18.5 million were issued on 25 March 2009 for the settlement of expropriations.

⁴ As per Law 63 dated 31 December 2008

⁵ The Lebanese University is also covered by Law 63 dated 31 December 2008

⁶ 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.

⁷ Decree number 1015 dated 24 November 2007

⁸ Decree number 1168 dated 5 January 2009

Table 1. Summary of Fiscal Performance

(LL billion)	2007	2008	2009	2007	2008	2009
	March	March	March	Jan-Mar	Jan-Mar	Jan-Mar
Total Budget and Treasury Receipts	826	790	796	2,122	2,474	2,828
Total Budget and Treasury Payments, of which	1,299	1,039	1,562	3,096	3,365	4,545
<i>Interest Payments</i>	443	401	579	1,050	1,099	1,377
<i>Concessional loans principal payments 1/</i>	26	11	21	45	178	39
<i>Primary Expenditures 2/</i>	831	627	962	2,002	2,088	3,128
Total Cash Deficit/Surplus	-473	-249	-766	-974	-892	-1,716
Primary Deficit/Surplus	-5	163	-165	120	386	-300

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

1/ Includes only Principal repayments of concessional loan's 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 March	2008 March	2009 March	2007 Jan-Mar	2008 Jan-Mar	2009 Jan-Mar
Budget Revenues, of which:	797	738	747	1,996	2,181	2,685
<i>Tax Revenues</i>	422	481	625	1,354	1,500	2,014
<i>Non-Tax Revenues</i>	375	257	122	642	682	672
Treasury Receipts	29	53	49	126	292	143
Total Revenues	826	790	796	2,122	2,474	2,828

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

Table 3. Tax Revenue

(LL billion)	2007 March	2008 March	2009 March	2007 Jan-Mar	2008 Jan-Mar	2009 Jan-Mar
Tax Revenues	422	481	625	1,354	1,500	2,014
Taxes on Income, Profits, & Capital Gains, of which:	71	92	91	273	306	373
<i>Income Tax on Profits</i>	37	92	91	79	104	111
<i>Income Tax on Wages and Salaries</i>	4	3	6	64	75	114
<i>Income Tax on Capital Gains & Dividends</i>	4	4	4	29	17	17
<i>Tax on Interest Income (5%)</i>	26	30	38	98	107	127
<i>Penalties on Income Tax</i>	1	1	1	3	3	5
Taxes on Property, of which:	64	77	82	125	161	170
<i>Built Property Tax</i>	34	34	37	50	46	54
<i>Real Estate Registration Fees</i>	25	38	40	63	103	102
Domestic Taxes on Goods & Services, of which:	150	184	206	547	659	763
<i>Value Added Tax</i>	133	163	176	499	601	686
<i>Other Taxes on Goods and Services, of which:</i>	16	20	30	45	55	73
<i>Private Car Registration Fees</i>	10	11	20	26	35	50
<i>Passenger Departure Tax</i>	6	9	10	19	20	23
Taxes on International Trade, of which:	119	107	220	344	302	620
<i>Customs</i>	49	50	63	131	149	175
<i>Excises, of which:</i>	70	57	157	213	153	446
<i>Petroleum Tax</i>	33	1	85	113	5	240
<i>Tobacco Tax</i>	15	21	21	47	55	59
<i>Tax on Cars</i>	21	35	52	52	91	146
Other Tax Revenues (namely fiscal stamp fees)	18	21	25	64	72	88

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

Table 4. Non-Tax Revenue

(LL billion)	2007 March	2008 March	2009 March	2007 Jan-Mar	2008 Jan-Mar	2009 Jan-Mar
Non-Tax Revenues	375	257	122	642	682	672
Income from Public Institutions and Government Properties, of which:	326	202	67	524	549	506
Income from Non-Financial Public Enterprises, of which:	209	198	22	400	536	452
<i>Revenues from Casino Du Liban</i>	5	57	9	13	70	45
<i>Revenues from Port of Beirut</i>	0			30	0	62
<i>Budget Surplus of National Lottery</i>	8	0	13	18	4	13
<i>Transfer from the Telecom Surplus</i>	198	140	0	339	462	331
Property Income (namely rent of Rafic Hariri International Airport)	4	3	4	10	11	11
Other Income from Public Institutions (interests)	0	1	1	1	2	3
Administrative Fees & Charges, of which:	42	42	47	98	107	135
Administrative Fees, of which:	34	34	38	76	86	110
<i>Notary Fees</i>	2	2	2	5	5	6
<i>Passport Fees/ Public Security</i>	9	10	10	22	27	25
<i>Vehicle Control Fees</i>	18	17	21	36	39	62
<i>Judicial Fees</i>	2	2	1	4	5	5
<i>Driving License Fees</i>	2	1	2	5	4	5
Administrative Charges	3	2	3	8	8	10
Sales (Official Gazette and License Number)	0	0	0	1	1	1
Permit Fees (mostly work permit fees)	4	4	4	10	11	11
Other Administrative Fees & Charges	1	1	2	2	2	4
Penalties & Confiscations	0	0	0	1	1	2
Other Non-Tax Revenues (mostly retirement deductibles)	6	13	8	19	25	28

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

Section 3: Expenditure Outcome

Table 5. Expenditure by Economic Classification

(LL billion)	2007 Jan-Mar	2008 Jan-Mar	2009 Jan-Mar
1. Current Expenditures	2,435	2,455	2,848
1.a Personnel Cost, of which	914	882	1,142
<i>Salaries, Wages and Related Items</i> (Article 13) 1/	642	574	770
<i>Retirement and End of Service Compensations, of which:</i>	232	264	303
<i>Retirement</i>	193	204	275
<i>End of Service</i>	38	60	28
<i>Transfers to Public Institutions to Cover Salaries</i> 2/	40	44	69
1.b Interest Payments, of which: 3/	1,050	1,099	1,377
<i>Domestic Interest Payments</i>	622	711	890
<i>Foreign Interest Payments</i>	428	389	487
1.c Foreign Debt Principal Repayment	45	178	39
1.d Materials and Supplies, of which:	47	54	59
<i>Nutrition</i>	4	18	18
<i>Fuel Oil</i>	10	9	4
<i>Medicaments</i>	6	10	23
<i>Accounting Adjustments for Treasury</i>	21	12	8
1.e External Services	24	20	25
1.f Various Transfers, of which:	293	127	96
<i>NSSF</i>	220	0	0
<i>Wheat Subsidy</i>	0	43	0
<i>Special Tribunal for Lebanon</i>	0	18	12
1.g Other Current, of which:	42	72	85
<i>Hospitals</i>	29	63	70
<i>Others</i>	13	8	15
1.h Reserves	20	22	25
<i>Interest subsidy</i>	20	22	25
2. Capital Expenditures (Excluding CDR Foreign Financed Spending)	137	136	150
2.a Acquisitions of Land, Buildings, for the Construction of Roads, Ports, Airports, and Water Networks	3	1	2
2.b Equipment	10	11	11
2.c Construction in Progress, of which:	86	90	90
<i>Displaced Fund</i>	6	0	20
<i>Council of the South</i>	0	10	10
<i>CDR</i>	53	53	42
<i>Ministry of Public Work and Transport</i>	15	12	13
<i>Other</i>	12	15	5
2.d Maintenance	27	21	26
2.e Other Expenditures Related to Fixed Capital Assets	11	13	21
3. Other Treasury Expenditures	512	764	1,533
Municipalities	52	118	107
Guarantees	11	13	11
Deposits :	35	12	23
Other, of which:	62	86	308
<i>VAT Refund</i>	28	53	64
<i>High Relief Committee</i>	6	7	200
EDL 4/	352	515	1,085
Treasury Advances for Diesel Oil Subsidy	0	19	0
4. Unclassified Expenditures	0	1	0

5. Customs Cashiers	12	9	13
6. Total Expenditures (Excluding CDR Foreign Financed)	3,095	3,365	4,545

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-Mar	2008 Jan-Mar	2009 Jan-Mar
Transfer to Council of the South	1	3	1
Transfer to Council for Development and Reconstruction (CDR)	8	3	8
Transfer to the Displaced Fund	2	1	1
Transfer to the Lebanese University	28	34	56
Transfer to the Educational Center for Research and Development	3	3	4

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

Table 7. Details of Debt Service Transactions

(LL billion)	2007 Mar	2008 Mar	2009 Mar	2007 Jan-Mar	2008 Jan-Mar	2009 Jan-Mar
Interest Payments 1/	424	401	579	1,050	1,099	1,377
Local Currency Debt	252	231	279	622	711	890
Foreign Currency Debt, of which:	172	170	300	428	389	487
Eurobond Coupon Interest*	165	168	295	391	349	452
Special Bond Coupon Interest*			0			1
Concessional Loans Interest Payments	7	2	5	37	39	35
Concessional Loans Principal Payments**	26	11	21	45	178	39

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 133 billion paid in 2008 of IBRD loans from US Aid Grant

Table 8. Transfers to EDL

(LL billion)	2007 Jan-Mar	2008 Jan-Mar	2009 Jan-Mar	Change
EDL, of which:	352	515	1,085	569
• Debt Service, of which:	109	39	36	-3
– C-Loans and Eurobonds, of which:	40	39	31	-8
Principal repayments	31	31	26	-6
Interest Payments	9	8	5	-3
– BDL Guaranteed Loan payments	69	0	6	6
• Reimbursement of KPC and Sonatrach Agreements	243	476	1,048	572

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

Section 4: Public Debt

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

	Dec-05	Dec-06	Dec-07	Dec-08	Mar-09	Change Dec 08 - Mar 09	% Change Dec 08-Mar 09
Gross Public Debt	57,985	60,851	63,350	70,888	72,249	1,361	1.92%
Local Currency Debt	29,141	30,204	31,373	39,007	39,969	962	2.47%
a. Central Bank (Including REPOs and Loans to EDL to Finance Fuel Purchases) ⁽¹⁾	11,686	9,588	9,052	8,781	10,044	1,263	14.38%
b. Commercial Banks	14,130	16,487	16,847	24,320	23,768	-552	-2.27%
c. Other Local Currency Debt (T-bills), of which:	3,325	4,129	5,474	5,906	6,157	251	4.25%
<i>Public Entities</i>	2,446	3,313	4,796	5,062	5,265	203	4.01%
* <i>Accrued Interest Included in Debt</i>	517	685	754	1,001	947	-54	-5.39%
Foreign Currency Debt (2)	28,844	30,647	31,977	31,881	32,280	399	1.25%
a. Bilateral, Multilateral and Foreign Private Sector Loans	2,789	2,855	2,953	2,802	2,678	-124	-4.43%
b. Paris II Related Debt (Eurobonds and Loans) ⁽³⁾	6,501	6,540	6,063	5,456	5,298	-158	-2.89%
c. Paris III Related Debt (Eurobonds and Loans) ⁽⁴⁾	-	-	1,357	1,849	1,829	-20	-1.08%
d. Market-Issued Eurobonds	18,729	20,399	20,776	20,925	21,526	601	2.87%
e. <i>Accrued Interest on Eurobonds</i>	406	434	410	430	502	72	16.74%
f. Special T-bills in Foreign Currency ⁽⁵⁾	419	419	419	419	447	28	6.68%
Public Sector Deposits	5,590	4,444	4,527	8,326	8,314	-12	-0.14%
Net Debt	52,395	56,407	58,823	62,562	63,935	1,373	2.19%
Gross Market Debt⁽⁶⁾	34,721	38,670	39,216	46,992	47,176	184	0.39%
% of Total Debt	60%	64%	62%	66%	65%	0	-1.50%

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, and IMF loans.
- (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.

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