

Public Finance Monitor

The Monthly Statistical Bulletin of the Ministry of Finance

March 2006

Section 1: Fiscal Overview

Highlights:

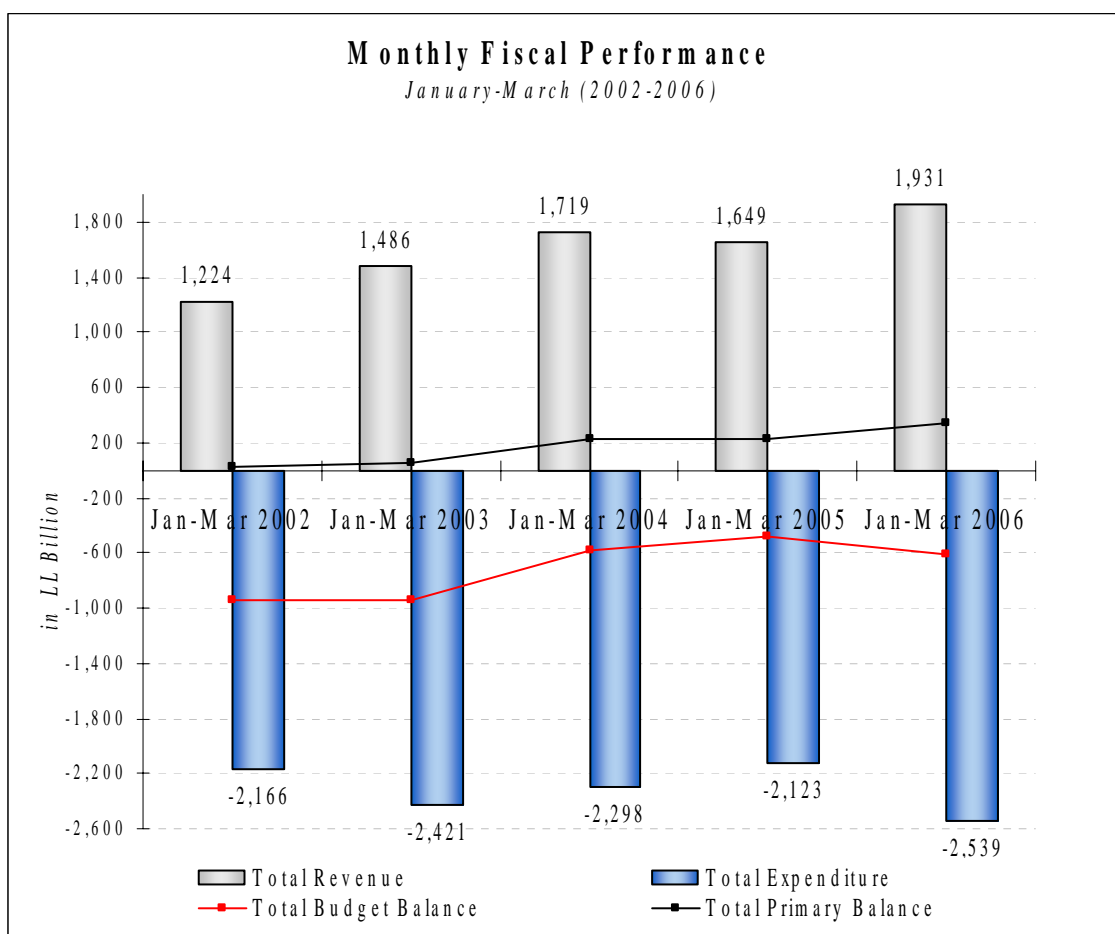
The first quarter of 2006 registered an improvement of LL 119 billion in the total primary surplus which amounted to LL 339 billion, compared to LL 220 billion for the same period of 2005. Meanwhile, the total fiscal deficit increased by 28 percent compared to January-March 2005, reaching LL 608 billion for the period of January-March 2006. This increase in the total deficit occurred mainly due to the 36 percent increase in debt service.

Table 1. Summary of Fiscal Performance

(LL billion)	2005	2006	2005	2006	Change 2005- 2006	% Change
	March	March	Jan-Mar	Jan-Mar		
Budget Revenue	584	713	1,585	1,823	239	15.1%
Budget Expenditures	669	690	1,436	1,706	270	18.8%
<i>o/w Debt Service</i>	320	373	694	946	252	36.3%
Budget Deficit/Surplus	-85	23	149	117	-31	-21.2%
in % of Budget Expenditures	-12.7%	3.4%	10.3%	6.9%		
Budget Primary Deficit/Surplus	236	396	843	1,063	220	26.1%
in % of Budget Expenditures	35.2%	57.5%	58.7%	62.3%		
Treasury Receipts	24	27	64	108	43	67.7%
Treasury Payments	177	287	687	832	145	21.1%
Total Budget and Treasury Receipts	608	740	1,649	1,931	282	17.1%
Total Budget and Treasury Payments	846	976	2,123	2,539	415	19.5%
Total Cash Deficit/Surplus	-238	-237	-475	-608	-133	28.0%
in % of Total Expenditures	-28.1%	-24.2%	-22.4%	-23.9%		
Primary Deficit/Surplus	82	137	220	339	119	54.1%
in % of Total Expenditures	9.7%	14.0%	10.3%	13.3%		

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

Chart 1.



Section 2: Revenue Outcome

Highlights:

Total revenues collected over the first quarter of 2006 reached LL 1,931 billion compared to LL 1,649 billion during the same period last year. The 17 percent increase is mainly due to:

- a) A 15 percent increase in **budget revenues** due to an increase in tax and non-tax components:
 - 8 percent increase in **tax revenues**, which totaled LL 1,217 billion by the end of March 2006. This is due to higher collection on most tax fronts, namely, taxes on income, profits, and capital gains (by LL 38 billion), taxes on property (by LL 37 billion), domestic taxes on goods and services, particularly VAT (by LL 14 billion) and other tax revenues (stamp fees by LL 21 billion). These increases have more than offset the 12 percent decrease in revenues from taxes on international trade (customs and excises), which was mainly caused by the 43 percent loss in fuel excise revenues, resulting from the cap on gasoline prices imposed since May 2004.

- 34 percent increase in **non-tax revenues**, which totaled LL 607 billion during January-March 2006, mainly owing to LL 150 billion higher transfers from the Telecom Budget Surplus, and LL 11 billion and LL 21 billion increases in the collection of public security fees / passport fees and vehicle control fees (period of settlement and reduction of penalties)¹ respectively.
- b) A 68 percent increase in **Treasury receipts**, mainly due to a LL 23 billion rise in municipalities' revenues, and LL 12 billion higher amounts of Guarantees received.

Table 2. Total Revenue

(LL billion)	2005 March	2006 March	2005 Jan-Mar	2006 Jan-Mar	% Change
Budget Revenues, of which:	584	713	1,585	1,823	15.1%
<i>Tax Revenues</i>	357	384	1,131	1,217	7.5%
<i>Non-Tax Revenues</i>	227	329	453	607	33.9%
Treasury Receipts	24	27	64	108	67.7%
Total Revenues	608	740	1,649	1,931	17.1%

Source: MOF, DGF

Table 3. Tax Revenue

(LL billion)	2005 March	2006 March	2005 Jan-Mar	2006 Jan-Mar	% Change
Tax Revenues:	357	384	1,131	1,217	7.5%
Taxes on Income, Profits, & Capital Gains, of which:	53	71	212	250	17.7%
<i>Income Tax on Profits</i>	25	39	68	77	14.3%
<i>Income Tax on Wages and Salaries</i>	4	4	52	59	12.8%
<i>Income Tax on Capital Gains & Dividends</i>	2	3	17	24	42.4%
<i>Tax on Interest Income (5%)</i>	20	23	70	84	20.2%
<i>Penalties on Income Tax</i>	1	1	4	4	-3.7%
Taxes on Property, of which:	38	59	82	119	46.0%
<i>Built Property Tax</i>	20	25	28	36	25.6%
<i>Real Estate Registration Fees</i>	16	29	46	72	57.3%
Domestic Taxes on Goods & Services, of which:	127	127	451	479	6.2%
<i>Value Added Tax</i>	110	107	410	424	3.4%
<i>Other Taxes on Goods and Services, of which:</i>	16	20	38	48	26.4%
<i>Private Car Registration Fees</i>	7	11	21	29	36.8%
<i>Passenger Departure Tax</i>	9	9	16	19	14.0%
Taxes on International Trade, of which:	124	102	333	294	-11.7%
<i>Customs</i>	44	42	113	114	0.4%
<i>Excises, of which:</i>	79	60	220	180	-18.0%
<i>Petroleum Tax</i>	45	18	130	73	-43.4%
<i>Tobacco Tax</i>	14	17	42	45	7.3%
<i>Tax on Cars</i>	20	25	47	60	30.0%
Other Tax Revenues (namely fiscal stamp fees)	16	24	53	74	40.0%

Source: MOF, DGF

¹ Budget law 2005, Law number 715 dated February 3, 2006 article 29

Chart 2.

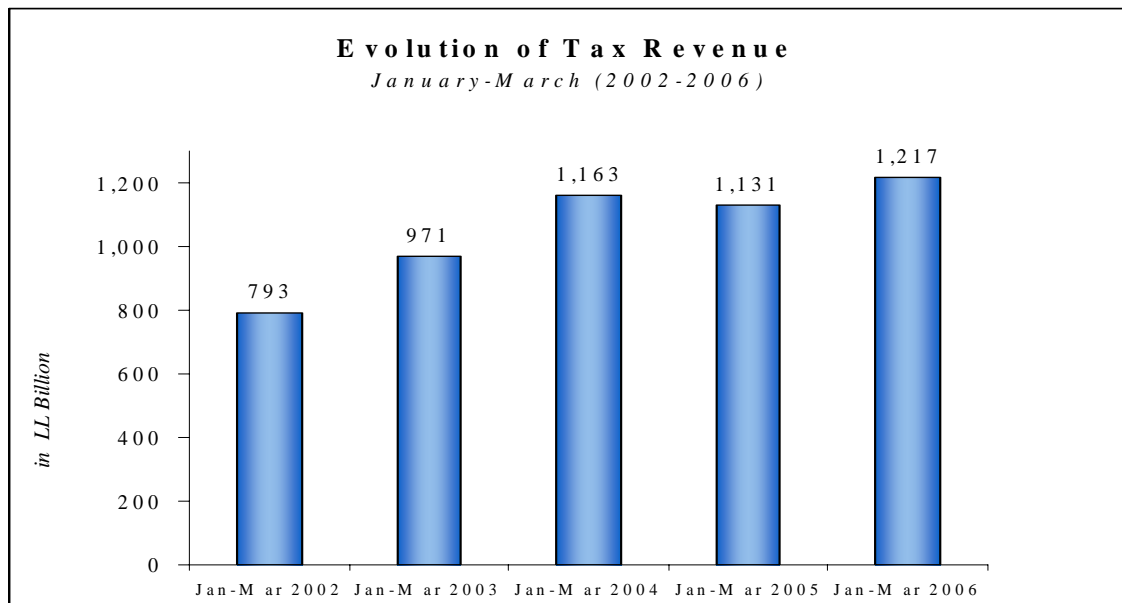
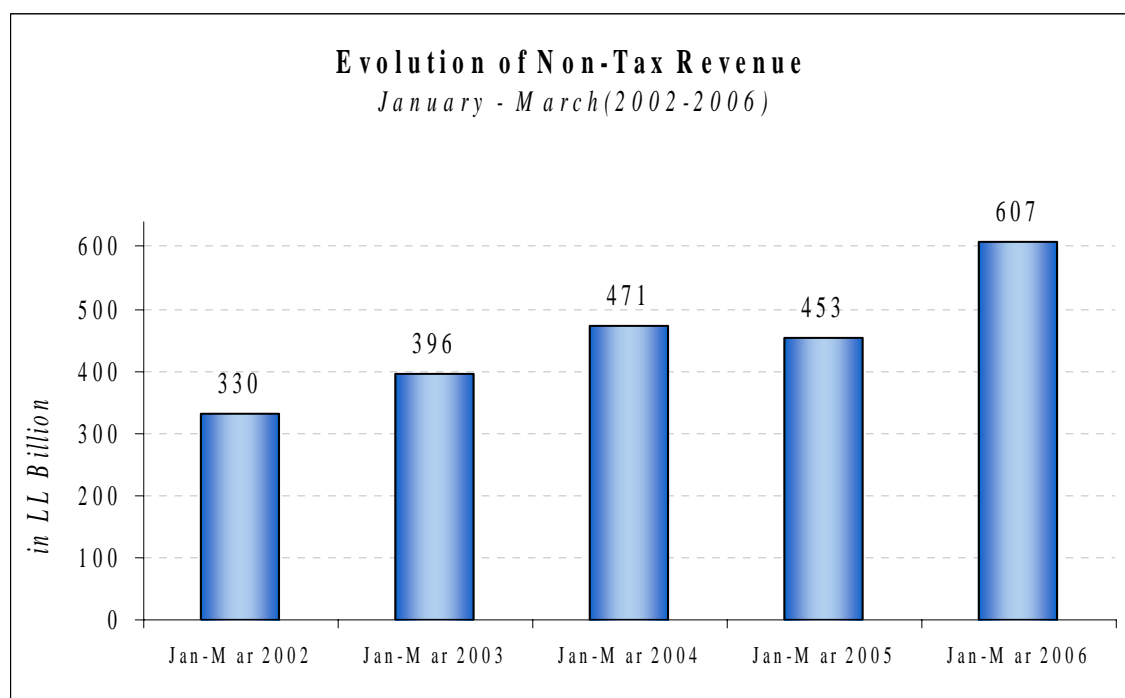


Table 4. Non-Tax Revenue

(LL billion)	2005 March	2006 March	2005 Jan-Mar	2006 Jan-Mar	% Change
Non-Tax Revenues	227	329	453	607	33.9%
Income from Public Institutions and Government Properties, of which:	186	267	358	469	30.9%
Income from Non-Financial Public Enterprises, of which:	181	263	344	458	32.9%
<i>Revenues from Casino Du Liban</i>	2	4	19	8	-56.1%
<i>Revenues from Port of Beirut</i>	33	0	33	0	-100.0%
<i>Budget Surplus of National Lottery</i>	3	8	8	15	87.5%
<i>Transfer from the Telecom Surplus</i>	143	251	284	434	52.8%
Property Income (namely rent of Rafic Hariri International Airport)	5	4	13	10	-19.4%
Other Income from Public Institutions (interests)	0	0	1	1	19.8%
Administrative Fees & Charges, of which:	33	53	73	112	52.4%
Administrative Fees, of which:	26	45	55	91	65.3%
<i>Notary Fees</i>	1	2	4	5	16.0%
<i>Passport Fees/ Public Security</i>	7	11	19	30	51.7%
<i>Vehicle Control Fees</i>	14	26	22	43	91.4%
<i>Judicial Fees</i>	2	3	4	6	40.8%
<i>Driving License Fees</i>	1	2	3	4	55.2%
Administrative Charges	2	2	6	6	-5.8%
Sales (Official Gazette and License Number)	0	0	1	1	22.3%
Permit Fees (mostly work permit fees)	3	5	9	12	30.8%
Other Administrative Fees & Charges	1	0	2	1	-26.3%
Penalties & Confiscations	0	1	1	1	52.3%
Other Non-Tax Revenues (mostly retirement deductibles)	8	8	21	25	18.5%

Source: MOF, DGF

Chart 3.



Section 3: Expenditure Outcome

Total expenditures for January-March 2006 amounted to LL 2,539 billion, as compared to LL 2,123 billion for the same period of 2005, increasing by 22 percent. This increase resulted mainly from an increase in both interest and non-interest payments by 36 percent and 10 percent respectively, as explained below:

1. Debt service reported LL 946 billion in January-March 2006, increasing by around 36 percent as compared to the period of January-March 2005. This rise in the interest bill is mainly coming from the 68 percent increase in the interest payments on local currency debt and, to a lesser extent, from interest payments on foreign currency debt which rose by 9 percent.

2. Non-debt expenditures registered LL 1,592 billion in January-March 2006, against LL 1,429 billion for the same period of 2005, an increase of LL 163 billion due to a rise in the following three major items: current primary expenditures, capital expenditures and other treasury expenditures.

a. The overall increase in current primary budget expenditures reached LL 19 billion.

✚ Personnel cost (6 percent increase): both components, wages and salaries as well as retirement and end of service compensations registered increases of LL 30 billion and LL 17 billion respectively for the QI 2006 when compared to the same period of last year.

The increase in wages and salaries is coming from higher transfer for school allowances by LL 29 billion and to civil servants' cooperative by LL 10 billion. The reason of the discrepancy between the two years occurred

because the transfers occurred during the second quarter of 2005. On the contrary, hospitalization allowances decreased by LL 5 billion in Jan-March 2006 compared to Jan-March 2005.

As for the retirement and end of service indemnities, the upsurge is a result of the monthly average increase of LL 2 billion for retirement, and of the LL 10 billion cumulative increase in end of service indemnities for the period Jan-March 2006.

- ✚ Various transfers (29 percent increase): This increase is mainly due to the transfer of LL 100 billion to the NSSF reported during the first quarter of 2006, against a transfer of LL 50 billion reported during the same period of 2005. This increase was partially counter-balanced by a decrease in other items reported as "Various Transfers".

- ✚ Other current (6 percent decrease): Although transfers to hospitals increased by 58 percent, the overall decrease in "other current" resulted from a drop of 78 percent in the item entitled "others".

b. Capital spending increased by LL 51 billion when compared to the same period of last year, explained by two major factors:

- ✚ Increase of LL 22 billion in construction under progress owing to a transfer of LL 35 billion to the Displaced Fund in the first quarter of 2006, while no transfer was recorded during the same period of last year.

- ✚ Increase of LL 23 billion in other expenditures related to fixed capital assets, mainly due to an LL 18 billion transfer to IDAL for the Export Plus Program.

c. Other treasury expenditures increased by LL 91 billion mainly due to two major factors:

- ✚ Increase in transfers to municipalities by LL 65 billion

- ✚ Increase in treasury advances for diesel oil subsidy by LL 36 billion:

In the first three months of 2006, treasury advances for diesel oil subsidy² totaled LL 50 billion representing the subsidized diesel oil amount for the period January 2006 - February 2006. However, the LL 14 billion paid in Jan-March 2005 represented the remaining amounts of the treasury advances for diesel oil subsidy³ related to the period end November 2004 until February 2005.

d. Direct transfers to EDL increased by LL 17 billion when compared to January-March 2005. However, this increase is offset by the indirect transfer to EDL that took place during the month of January 2005 in the form of treasury advances to water authorities in settlement of unpaid accrued electricity bills (Refer to Table 7).

² Decree number 16165, dated January 20, 2006

³ Decree number 13651, dated November 24, 2004

Table 5. Expenditures by Transaction Classification

(LL billion)	2005	2006	2005	2006	%
	March	March	Jan-Mar	Jan-Mar	Change
Total Expenditures	846	976	2,123	2,539	19.5%
Budget Expenditures	669	690	1436	1,706	18.8%
Expenditures Excluding Debt Service	349	316	742	760	2.5%
Debt Service, of which:	320	373	694	946	36.3%
<i>Local Currency Debt</i>	97	197	318	535	68.3%
<i>Foreign Currency Debt, of which:</i>	223	176	377	411	9.2%
<i>Eurobond Coupon Interest*</i>	200	163	308	344	37.1%
<i>Concessional Loans Principal</i>					
<i>Payments</i>	18	13	35	36	8.5%
<i>Concessional Loans Interest</i>					
<i>Payments</i>	6	0	35	31	269.4%
Treasury Expenditures , of which:	177	287	687	832	21.1%
<i>Municipalities</i>	23	21	36	101	182.7%
<i>Previous Years' Appropriations</i>	92	197	457	475	4.1%
Non-Interest Expenditures (Total Expenditures minus Debt Service)	526	603	1,429	1,592	9.9%

Source: MOF, DGF

Chart 4.

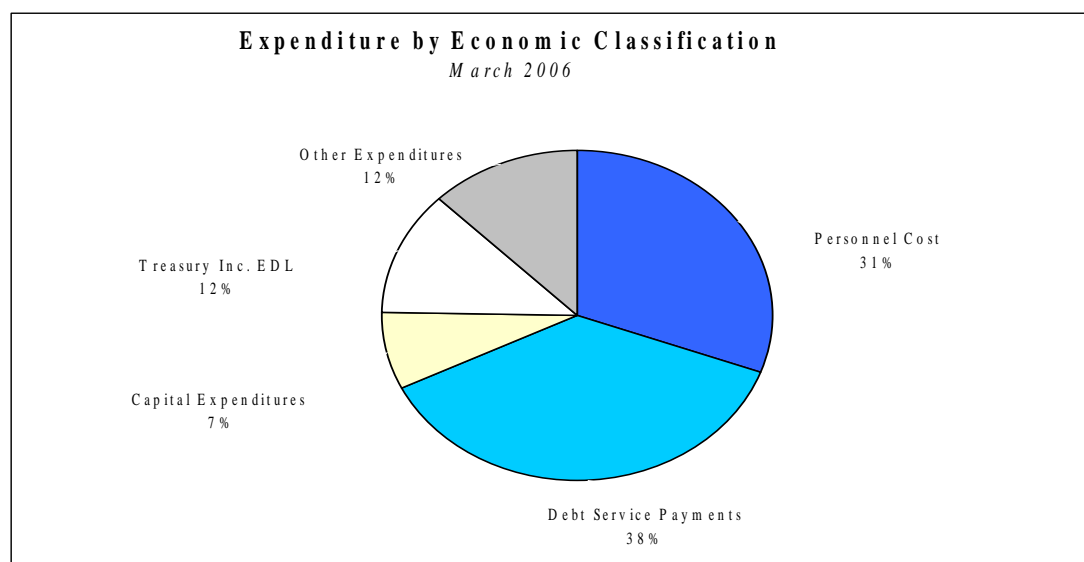


Table 6. Expenditures by Economic Classification

(LL billion)	2005 Jan-Mar	2006 Jan-Mar	% Change
1. Current expenditures	1,757	2,028	15.4%
1.a Personnel cost, <i>of which</i>	729	775	6.3%
<i>Article 13: Salaries and wages</i>	489	519	6.2%
<i>Retirement and end of service compensations</i>	190	207	9.3%
1.b Debt Service payments	694	946	36.3%
1.c Materials and supplies	86	25	-70.6%
1.d External services	18	22	21.9%
1.e Various transfers	123	158	28.5%
<i>o/w NSSF</i>	50	100	100.0%
1.f Other current	87	82	-6.0%
<i>Hospitals</i>	46	72	57.9%
<i>Others</i>	41	9	-78.2%
1.g Reserves	19	19	0.2%
<i>Interest subsidy</i>	19	19	0.2%
2. Capital expenditures	139	190	36.6%
2.a Acquisitions of land, buildings, for the construction of roads, ports, airports, and water networks	0	6	2963.7%
2.b Equipment	6	5	-19.0%
2.c Construction in Progress	109	131	19.7%
2.d Maintenance	21	22	5.9%
2.e Other Expenditures Related to Fixed Capital Assets	2	25	1052.4%
3. Other treasury expenditures, of which	222	313	40.7%
Municipalities	36	101	182.7%
EDL	49	66	33.6%
Treasury advances for water authorities	48		-100.0%
Treasury advances for diesel oil subsidy	14	50	254.3%
4. Unclassified expenditures	0	1	56.6%
5. Customs cashiers	5	7	51.7%
6. Total expenditures (excluding CDR foreign financed)	2,123	2,539	19.5%

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

Table 7. Transfers to EDL

(LBP billion)	2005	2006	
	Jan-Mar	Jan-Mar	% Change
EDL of which:	97	66	-32.53%
Debt Service of which:	49	66	33.30%
C-Loans and Eurobonds, of which:	49	49	-0.64%
Principal Repayment	36	35	-1.73%
Interest Payment	13	14	2.33%
Loans for Fuel Oil Payment		17	100.00%
BDL Guaranteed Loan Payment	0	0	0.00%
Treasury Advance for Fuel Purchase	0	0	0.00%
Treasury Advance for EDL' s Losses	0	0	0.00%
Material and Supplies (Electricity bills)			0.00%
Treasury advance to Water Authorities	48	0	-100.00%
Expropriations	0	0	0.00%

Source: MOF, DGF

Section 4: Public Debt

Highlights:

1. By the end of March 2006, gross public debt reached LL 57,273 billion (equivalent to US\$ 38 billion), registering a decrease of LL 758 billion (or 1.31 percent) over the end-December 2005 debt level. This decrease is due to the 3.2 percent drop in local currency debt that outweighed the 0.6 percent increase in foreign currency debt.
2. Local currency debt amounted to LL 28,207 billion (equivalent to US\$ 19 billion), decreasing by LL 934 billion or 3.21 percent over the end- December 2005 level. This decrease is due to the large amounts of LL T-bills that matured during March 2006 and were financed by the surplus of the treasury account.
3. By end-March 2006 foreign currency debt amounted to LL 29,066 billion (equivalent to US\$ 19 billion), increasing by LL 176 billion (or 0.61 percent) over the end-December 2005 level. This increase is mostly coming from the accrued interest accounted for in the gross debt figures.
4. BDL portfolio of Treasury bills continued to decline as appetite for Lebanese Pound denominated Treasury bills during March continued to be strong, especially by commercial banks. Accordingly, local currency debt held by BDL decreased by LL 2,864 billion in March 2006 compared to end of December 2005. Meanwhile, local currency debt held by commercial banks increased by LL 1,742 billion during the month of March 2006. This led to the 5.45 percent increase in gross market debt.
5. Public sector deposits amounted to LL 4,100 billion, decreasing by around LL 1,490 billion from their December 2005 level. The main reason behind the decrease is the repayment of the local currency debt that matured in March 2006.

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

(LBP billion)	Dec-03	Dec-04	Dec-05	Mar-06	Change Dec 05 - Mar 06	% change Dec 05 - Mar 06
Gross Public debt	50,285	54,048	58,031	57,273	-758	-1.31%
Local currency debt	26,843	26,371	29,141	28,207	-934	-3.21%
a. Central Bank (including REPOs and Loans to EDL to finance fuel purchases)*	8,938	10,652	11,686	8,822	-2,864	-24.51%
b. Commercial Banks	12,303	12,220	14,130	15,872	1,742	12.33%
c. Other Local Currency Debt (T-bills)	5,603	3,500	3,325	3,513	188	5.65%
<i>o/w Public entities</i>	2,564	2,187	2,446	2,637	191	7.81%
Foreign currency debt	23,442	27,677	28,890	29,066	176	0.61%
Ratio to total debt	46.6%	51.2%	49.8%	50.7%	0	1.94%
a. Bilateral, Multilateral and Foreign Private sector loans	2,934	2,970	2,835	2,834	-1	-0.04%
b. Paris II related debt (Eurobonds and Loans)	3,731	3,814	3,682	3,702	20	0.54%
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	18,749	20	0.11%
e. Accrued Interest on foreign currency debt	327	388	406	543	137	33.78%
f. Special Tbls in Foreign currency**			419	419	0	0.00%
Public sector deposits	3,019	4,360	5,590	4,100	-1,490	-26.65%
Net debt	47,266	49,688	52,441	53,173	732	1.40%
Gross Market debt***	29,638	31,861	34,759	36,655	1,896	5.45%
% of total debt	59%	59%	60%	64%	0	6.85%

Source: Ministry of Finance, Banque du Liban

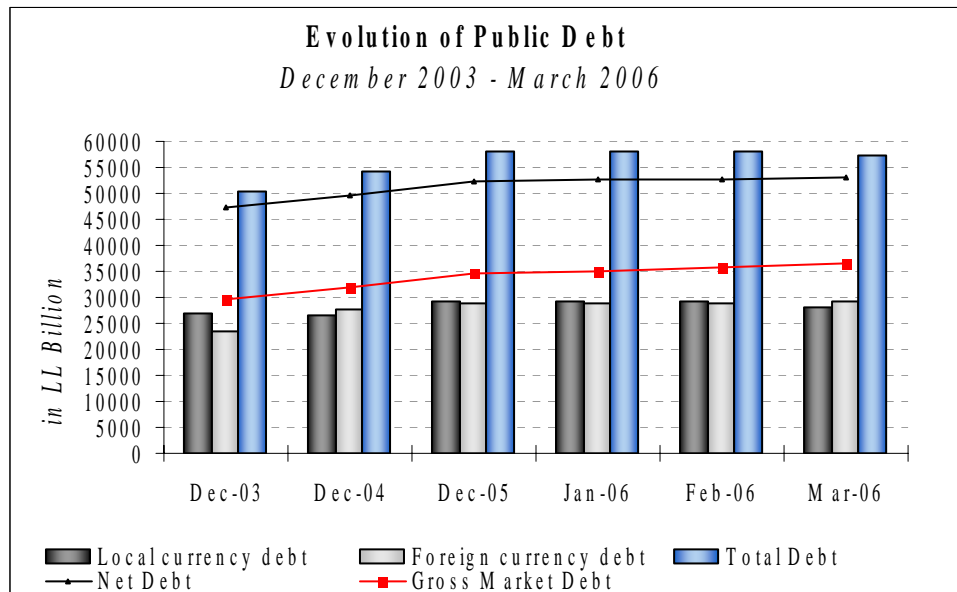
Notes:

* 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.

Chart 5.





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