

## Fiscal Overview

The **total fiscal balance** registered a deficit of LL 3,907 billion at the end of November 2009, a LL 3 billion increase compared to the recorded deficit of LL 3,904 billion over the same period of 2008. This stabilization in the deficit resulted from the LL 2,089 billion additional spending, which was almost absorbed by the LL 2,087 billion increase in total receipts. Correspondingly, the **primary balance** achieved a 56 percent increase from last year's primary surplus of LL 974 billion. The primary surplus of LL 1,516 billion was largely brought about by the upswing in total receipts that surpassed the LL 1,544 billion increase in primary expenditures.

With LL 11,634 billion collected one month before year-end, **total revenues** over January-November 2009 are 22 percent higher than the 2008 level, which is attributed to the combined increase of **tax revenues** by 26 percent and **non-tax revenues** by 19 percent. **Treasury receipts** decreased by around 5 percent down to LL 625 billion, mainly due to the lower grants over January-November 2009 compared to same period in 2008, even though November 2009 recorded an increase of around LL 58 billion compared to that of 2008.

**Tax revenues** increased by 26 percent against last year, amounting to LL 8,273 billion by the end of November 2009. This increase was driven by the strong performance of most of its components, and most especially by the steady inflow of **taxes on international trade**, which increased by 77 percent between January-November 2008 and January-November 2009, reflecting solid international trade activity on the one hand and the policy to uncap gasoline excises on the other. Indeed, **gasoline excises**<sup>1</sup> generated LL 925 billion against LL 45 billion during the same period of 2008.

**Taxes on income, profits and capital gains** also showed a solid improvement in the period ending November 2009, mainly due to the sturdy performance of a number of taxes, namely the profit tax, the income tax on wages and salaries, and the five percent tax on interest income. Indeed, **income tax on wages and salaries** increased by 28 percent between January-November 2009 and 2008, which is mainly attributed to the implementation of Law 63<sup>2</sup>.

**Domestic taxes on goods and services** also improved over the period under consideration owing to increases in all of its components, most especially the **VAT** pertaining which accumulated to LL 2,704 billion, equivalent to 12 percent higher receipts.

Remarkably, the month of November witnessed an increase of 41 percent in the collection of **property registration fees**, when compared to the same month of last year. As a result,

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<sup>1</sup> The hike in the international fuel prices during the second and third quarters of 2008, in the context of the domestic price capping regime prevailing throughout 2008 reduced significantly the petroleum excise rate, reaching 0 LL/liter of gasoline for 6 months in a row starting April 08. The substantial drop in international fuel prices by the end of 2008 provided an opportunity to the Government to uncap the retail price of gasoline and to fix the excise rate at an average of LL 470/liter (as per COM decision # 9 dated January 23<sup>rd</sup>, 2009), restoring a regular stream of revenues to the Treasury.

<sup>2</sup> Law 63, dated 31/12/2009, granted wage increases in the private and public sectors.

overall receipts from property registration fees for the first eleven months of 2009 recorded a 3 percent increase from those of January-November 2008.

With respect to **non-tax revenues**, the major developments over the period January-November 2009 are mainly led by the increase in the following items: (i) 21 percent rise in **budget transfers from the Telecom** (cumulating at LL1,829 billion by end of November 2009<sup>3</sup>), (ii) 64 percent higher transfer from **Rafik Hariri International Airport** (amounting to LL 73 billion for January-November 2009), and (iii) 12 percent increase in **vehicle control fees** (totaling 169 billion by end of November 2009).

For the period of January-November 2009, **total expenditures** increased by 16 percent, equivalent to LL 2,091 billion, mainly driven by higher **current primary expenditures**, **interest payments** and **other treasury expenditures**, by 22 percent, 13 percent and 15 percent, respectively

**Current primary expenditures** increased by LL 1,079 billion mainly driven by higher **personnel cost**, **various transfers and remaining current expenditures** by LL 920 billion, LL 70 billion and LL 101 billion, respectively.

The increase in personnel cost was mainly due to the implementation of the wage increase in the public sector. As a result, all items under the personnel cost component, namely **salaries, wages and related items**, **retirement** and **end of service compensations and transfers to public institutions** to cover salaries rose by LL 634 billion, LL 191 billion and LL 92 billion, respectively.

Other current primary expenditures payments, such as **hospitals**, **other current expenditures and interest subsidies** registered rises of LL 69 billion, LL 24 billion and LL 11 billion, respectively

The **interest payments' bill** was larger by LL 595 billion, mainly driven by an increase in the stock of domestic currency treasury bills. Interest payments on foreign currency debt also increased by LL 35 billion compared to January-November 2008. **Principal repayment of foreign project loans** decreased by LL 50 billion compared to January-November 2008, reflecting the repayment of World Bank loans amounting to USD 50 million in June 2009 and the repayment of World Bank loans amounting to USD 88 million in January 2008, both through the proceeds of the USAID grant pledged at the Paris III conference.

**Other treasury expenditures** increased by LL 476 billion, mainly due to higher transfers to the High Relief Committee (+LL 496 billion), VAT refund (+LL 26 billion) and municipalities (+LL 43 billion). This was coupled with lower transfers to EDL by LL 112 billion, reflecting notably lower transfers in November 2009 compared to November 2008. This development is explained mainly by the lower oil prices prevailing at the time the letters of credit were opened and thus priced<sup>4</sup>.

At the end of November 2009, **gross public debt** reached LL 76,064 billion, registering an increase of LL 5,176 billion compared to the end-December 2008 debt level. This increase is a result of higher **local currency debt** of LL 5,223 billion as foreign currency debt was reduced by LL 47 billion over this period. The higher stock of local currency debt was led by an

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<sup>3</sup> In November 2008, the transfer from the telecom surplus was negligible. During November 2009, telecom recorded a LL 173 billion transfer.

<sup>4</sup> Fuel oil and gas oil bills are settled six and nine months - for Sonatrach and KPC, respectively - after purchase (and thus consumption), based on Letters of Credit opened at the time of purchase.

increase of LL 2,370 billion in holdings by commercial banks mainly due to a larger Treasury Bill portfolio, followed by an increase of LL 1,584 in BDL's domestic debt portfolio largely due to purchases of TBs on the secondary market in the first quarter of 2009 and subscriptions in the primary market in the second quarter of 2009. The stock of **foreign currency debt** decreased mainly as a result of the redemption of Eurobonds issued in the context of the Paris II conference that have an amortized payment structure. The LL 311 billion increase in market-issued Eurobonds is 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 TBs worth USD 18.5 million were issued on 25 March 2009 for the settlement of expropriations. Moreover, two PIII loans were received in June 2009.<sup>5</sup>

**Table 1. Summary of Fiscal Performance**

(LL billion)	2007	2008	2009	2007	2008	2009
	Nov	Nov	Nov	Jan-Nov	Jan-Nov	Jan-Nov
Total Budget and Treasury Receipts	661	685	914	8,032	9,548	11,634
Total Budget and Treasury Payments, of which	1,134	1,456	1,184	11,637	13,452	15,541
<i>Interest Payments</i>	409	378	393	4,366	4,566	5,161
<i>Concessional loans principal payments 1/</i>	18	21	30	203	312	261
<i>Primary Expenditures 2/</i>	707	1,057	761	7,068	8,574	10,118
<b>Total Cash Deficit/Surplus</b>	<b>-473</b>	<b>-770</b>	<b>-270</b>	<b>-3,605</b>	<b>-3,904</b>	<b>-3,907</b>
<b>Primary Deficit/Surplus</b>	<b>-46</b>	<b>-371</b>	<b>153</b>	<b>964</b>	<b>974</b>	<b>1,516</b>

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

<sup>1/</sup> Includes only Principal repayments of concessional loans earmarked for project financing

<sup>2/</sup> Primary expenditures exclude debt related payments (Interest payments and Concessional loans principal repayment)

<sup>5</sup> The Arab Monetary Fund disbursed US\$ 32 million and the European Commission disbursed €25 million as part of the first tranche of the Macro-Financial Assistance.

## Section 2: Revenue Outcome

**Table 2. Total Revenue**

(LL billion)	2007	2008	2009	2007	2008	2009
	Nov	Nov	Nov	Jan-Nov	Jan-Nov	Jan-Nov
<b>Budget Revenues, of which:</b>	<b>634</b>	<b>649</b>	<b>821</b>	<b>7,445</b>	<b>8,888</b>	<b>11,010</b>
<i>Tax Revenues</i>	412	581	581	5,172	6,592	8,273
<i>Non-Tax Revenues</i>	222	68	240	2,273	2,296	2,737
<b>Treasury Receipts</b>	<b>27</b>	<b>36</b>	<b>94</b>	<b>587</b>	<b>660</b>	<b>625</b>
<b>Total Revenues</b>	<b>661</b>	<b>685</b>	<b>914</b>	<b>8,032</b>	<b>9,548</b>	<b>11,634</b>

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

**Table 3. Tax Revenue**

(LL billion)	2007	2008	2009	2007	2008	2009
	Nov	Nov	Nov	Jan-Nov	Jan-Nov	Jan-Nov
<b>Tax Revenues:</b>	<b>412</b>	<b>581</b>	<b>581</b>	<b>5,172</b>	<b>6,592</b>	<b>8,273</b>
<b>Taxes on Income, Profits, &amp; Capital Gains, of which:</b>	<b>64</b>	<b>87</b>	<b>79</b>	<b>1,228</b>	<b>1,498</b>	<b>1,750</b>
<i>Income Tax on Profits</i>	11	9	10	469	597	717
<i>Income Tax on Wages and Salaries</i>	2	3	3	210	267	342
<i>Income Tax on Capital Gains &amp; Dividends</i>	6	11	6	134	163	166
<i>Tax on Interest Income (5%)</i>	45	60	58	405	454	508
<i>Penalties on Income Tax</i>	0	4	2	8	16	16
<b>Taxes on Property, of which:</b>	<b>67</b>	<b>59</b>	<b>76</b>	<b>467</b>	<b>689</b>	<b>682</b>
<i>Built Property Tax</i>	6	8	5	94	115	93
<i>Real Estate Registration Fees</i>	59	46	65	330	507	520
<b>Domestic Taxes on Goods &amp; Services, of which:</b>	<b>156</b>	<b>205</b>	<b>190</b>	<b>2,070</b>	<b>2,698</b>	<b>3,039</b>
<i>Value Added Tax</i>	137	182	161	1,867	2,422	2,704
<i>Other Taxes on Goods and Services, of which:</i>	19	23	29	197	269	328
<i>Private Car Registration Fees</i>	11	16	17	120	178	218
<i>Passenger Departure Tax</i>	7	7	12	77	89	109
<b>Taxes on International Trade, of which:</b>	<b>105</b>	<b>194</b>	<b>207</b>	<b>1,154</b>	<b>1,382</b>	<b>2,439</b>
<i>Customs</i>	52	65	62	514	626	698
<i>Excises, of which:</i>	53	129	145	640	756	1,741
<i>Gasoline Excise</i>	2	38	75	185	45	925
<i>Tobacco Excise</i>	20	24	25	195	223	247
<i>Cars Excise</i>	31	67	45	256	484	564
<b>Other Tax Revenues (namely fiscal stamp fees)</b>	<b>19</b>	<b>36</b>	<b>29</b>	<b>253</b>	<b>326</b>	<b>362</b>

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

**Table 4. Non-Tax Revenue**

(LL billion)	2007 Nov	2008 Nov	2009 Nov	2007 Jan-Nov	2008 Jan-Nov	2009 Jan-Nov
<b>Non-Tax Revenues</b>	<b>222</b>	<b>68</b>	<b>240</b>	<b>2,273</b>	<b>2,296</b>	<b>2,737</b>
<b>Income from Public Institutions and Government Properties, of which:</b>	<b>175</b>	<b>9</b>	<b>193</b>	<b>1,813</b>	<b>1,781</b>	<b>2,199</b>
Income from Non-Financial Public Enterprises, of which:	169	5	187	1,655	1,689	2,076
<i>Revenues from Casino Du Liban</i>	7	0	14	57	132	140
<i>Revenues from Port of Beirut</i>	0	0	0	30	0	62
<i>Budget Surplus of National Lottery</i>	0	5	0	47	47	43
<i>Transfer from the Telecom Surplus</i>	163	0	173	1,520	1,508	1,829
<i>Transfer from Public Financial Institution (BDL)</i>	0	0	0	113	41	40
Property Income (namely rent of Rafic Hariri International Airport)	5	4	4	39	44	73
Other Income from Public Institutions (interests)	0	0	1	5	8	10
<b>Administrative Fees &amp; Charges, of which:</b>	<b>39</b>	<b>51</b>	<b>39</b>	<b>381</b>	<b>422</b>	<b>439</b>
Administrative Fees, of which:	29	40	31	303	343	361
<i>Notary Fees</i>	2	2	2	19	21	24
<i>Passport Fees/ Public Security</i>	8	8	7	105	109	105
<i>Vehicle Control Fees</i>	14	24	16	128	152	169
<i>Judicial Fees</i>	1	2	2	16	19	17
<i>Driving License Fees</i>	1	2	2	15	18	21
Administrative Charges	6	6	3	22	20	19
Sales (Official Gazette and License Number)	0	0	0	2	3	3
Permit Fees (mostly work permit fees)	3	4	4	43	47	45
Other Administrative Fees & Charges	1	1	1	10	9	12
<b>Penalties &amp; Confiscations</b>	<b>1</b>	<b>1</b>	<b>1</b>	<b>5</b>	<b>6</b>	<b>7</b>
<b>Other Non-Tax Revenues</b> (mostly retirement deductibles)	<b>7</b>	<b>6</b>	<b>7</b>	<b>74</b>	<b>87</b>	<b>92</b>

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

## Section 3: Expenditure Outcome

**Table 5. Expenditure by Economic Classification**

(LL billion)	2007 Jan-Nov	2008 Jan-Nov	2009 Jan-Nov
<b>1. Current Expenditures</b>	<b>8,935</b>	<b>9,676</b>	<b>11,300</b>
1.a Personnel Cost, of which	3,280	3,539	4,459
<i>Salaries, Wages and Related Items (Article 13) 1/</i>	2,271	2,357	2,991
<i>Retirement and End of Service Compensations, of which:</i>	808	995	1,186
<i>Retirement</i>	647	715	967
<i>End of Service</i>	93	191	219
<i>Transfers to Public Institutions to Cover Salaries 2/</i>	201	190	282
1.b Interest Payments, of which: 3/	4,366	4,566	5,161
<i>Domestic Interest Payments</i>	2,363	2,617	3,177
<i>Foreign Interest Payments</i>	2,003	1,950	1,984
1.c Foreign Debt Principal Repayment	203	312	261
1.d Materials and Supplies, of which:	185	249	221
<i>Nutrition</i>	23	49	48
<i>Fuel Oil</i>	28	35	8
<i>Medicaments</i>	66	87	97
<i>Accounting Adjustments for Treasury</i>	39	46	36
1.e External Services	81	100	105
1.f Various Transfers, of which:	546	532	602
<i>NSSF</i>	220	80	160
<i>Wheat Subsidy</i>	32	142	10
<i>Special Tribunal for Lebanon</i>	0	18	12
1.g Other Current, of which:	191	295	396
<i>Hospitals</i>	156	258	327
<i>Others</i>	33	35	59
1.h Reserves	82	84	95
<i>Interest subsidy</i>	82	84	95
<b>2. Capital Expenditures</b>	<b>513</b>	<b>463</b>	<b>452</b>
2.a Acquisitions of Land, Buildings, for the Construction of Roads, Ports, Airports, and Water Networks	17	7	4
2.b Equipment	40	31	31
2.c Construction in Progress, of which:	376	322	290
<i>Displaced Fund</i>	66	40	60
<i>Council of the South</i>	40	30	27
<i>CDR</i>	194	189	152
<i>Ministry of Public Work and Transport</i>	36	31	29
<i>Other</i>	40	32	22
2.d Maintenance	45	67	80
2.e Other Expenditures Related to Fixed Capital Assets	34	36	46
<b>3. Other Treasury Expenditures</b>	<b>2,147</b>	<b>3,269</b>	<b>3,745</b>
Municipalities	282	410	452
Guarantees	55	54	85
Deposits :	75	78	77
Other, of which:	339	539	1,069
<i>VAT Refund</i>	188	298	324
<i>High Relief Committee</i>	26	24	520
EDL 4/	1,396	2,169	2,057
Treasury Advances for Water Authorities	0	0	4
Treasury Advances for Diesel Oil Subsidy	0	19	0
<b>4. Unclassified Expenditures</b>	<b>5</b>	<b>4</b>	<b>3</b>
<b>5. Customs Cashiers</b>	<b>38</b>	<b>40</b>	<b>42</b>
<b>6. Total Expenditures (Excluding CDR Foreign Financed)</b>	<b>11,637</b>	<b>13,452</b>	<b>15,542</b>

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-Nov	2008 Jan-Nov	2009 Jan-Nov
Transfer to Council of the South	5	7	5
Transfer to Council for Development and Reconstruction (CDR)	38	22	39
Transfer to the Displaced Fund	6	6	6
Transfer to the Lebanese University	145	146	220
Transfer to the Educational Center for Research and Development	9	10	11

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

**Table 7. Details of Debt Service Transactions**

(LL billion)	2007 Nov	2008 Nov	2009 Nov	2007 Jan-Nov	2008 Jan-Nov	2009 Jan-Nov	% Change 2009 - 2008
<b>Interest Payments 1/</b>	<b>409</b>	<b>378</b>	<b>393</b>	<b>4366</b>	<b>4566</b>	<b>5161</b>	<b>13.0%</b>
Local Currency Debt	187	195	234	2,363	2,617	3177	21.4%
Foreign Currency Debt, of which:	222	183	159	2,003	1,950	1,984	1.8%
Eurobond Coupon Interest*	214	167	139	1,876	1,804	1851	2.6%
Specialbond Coupon Interest*	0	1	0	13	9	10	15.3%
Concessional Loans Interest Payments	8	14	20	114	136	123	-9.9%
<b>Concessional Loans Principal Payments**</b>	<b>18</b>	<b>21</b>	<b>30</b>	<b>203</b>	<b>312</b>	<b>261</b>	<b>-16.2%</b>

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 133 Billions LL Fully paid of IBRD Loans from USAID Grant during 2008

\*\* includes 75 Billions LL Fully paid of IBRD Loans from USAID Grant during 2009

**Table 8. Transfers to EDL**

(LL billion)	2007 Jan-Nov	2008 Jan-Nov	2009 Jan-Nov	Change 2009-2008	% Change 2009-2008
<b>EDL of which:</b>	<b>1,396</b>	<b>2,169</b>	<b>2,057</b>	<b>-112</b>	<b>-5.2%</b>
• <b>Debt Service of which:</b>	285	145	119	-26	-18.2%
- C-Loans and Eurobonds, of which:	268	105	85	-20	-19.1%
Principal repayments	232	84	71	-13	-15.6%
Interest Payments	37	21	14	-7	-33.5%
- BDL Guaranteed Loan payments	84	40	34	-6	-15.8%
• <b>Reimbursement of KPC and Sonatrach Agreements</b>	1,044	2,024	1,938	-86	-4.2%

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

## Section 4: Public Debt

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

(LL billion)	Dec-05	Dec-06	Dec-07	Dec-08	Nov-09	Change Dec 08 - Nov 09	% Change Dec 08 - Nov 09
<b>Gross Public Debt</b>	<b>57,985</b>	<b>60,851</b>	<b>63,350</b>	<b>70,888</b>	<b>76,064</b>	<b>5,176</b>	<b>7.30%</b>
<b>Local Currency Debt</b>	<b>29,141</b>	<b>30,204</b>	<b>31,373</b>	<b>39,007</b>	<b>44,230</b>	<b>5,223</b>	<b>13.39%</b>
a. Central Bank (Including REPOs and Loans to EDL to Finance Fuel Purchases) <sup>(1)</sup>	11,686	9,588	9,052	8,781	10,365	1,584	18.04%
b. Commercial Banks	14,130	16,487	16,847	24,320	26,690	2,370	9.75%
c. Other Local Currency Debt (T-bills), <i>of which:</i>	3,325	4,129	5,474	5,906	7,175	1,269	21.49%
<i>Public Entities</i>	2,446	3,313	4,796	5,062	5,995	933	18.43%
* <i>Accrued Interest Included in Debt</i>	517	685	754	1,001	1,113	112	11.19%
<b>Foreign Currency Debt (2)</b>	<b>28,844</b>	<b>30,647</b>	<b>31,977</b>	<b>31,881</b>	<b>31,834</b>	<b>-47</b>	<b>-0.15%</b>
a. Bilateral, Multilateral and Foreign Private Sector Loans	2,789	2,855	2,953	2,802	2,734	-68	-2.42%
b. Paris II Related Debt (Eurobonds and Loans) <sup>(3)</sup>	6,501	6,540	6,063	5,456	5,039	-417	-7.64%
c. Paris III Related Debt (Eurobonds and Loans) <sup>(4)</sup>			1,357	1,849	1,988	139	7.50%
d. Market-Issued Eurobonds	18,729	20,399	20,776	20,925	21,236	311	1.48%
e. <i>Accrued Interest on Eurobonds</i>	406	434	410	430	420	-10	-2.33%
f. Special T-bills in Foreign Currency <sup>(5)</sup>	419	419	419	419	417	-2	-0.48%
<b>Public Sector Deposits</b>	<b>5,590</b>	<b>4,444</b>	<b>4,527</b>	<b>8,326</b>	<b>9,757</b>	<b>1,431</b>	<b>17.19%</b>
<b>Net Debt</b>	<b>52,395</b>	<b>56,407</b>	<b>58,823</b>	<b>62,562</b>	<b>66,307</b>	<b>3,745</b>	<b>5.99%</b>
<b>Gross Market Debt<sup>(6)</sup></b>	<b>34,721</b>	<b>38,670</b>	<b>39,216</b>	<b>46,992</b>	<b>49,972</b>	<b>2,980</b>	<b>6.34%</b>
<b>% of Total Debt</b>	<b>60%</b>	<b>64%</b>	<b>62%</b>	<b>66%</b>	<b>66%</b>	<b>0</b>	<b>-0.90%</b>

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, IMF loans, first tranche EC/EU loan, and AMF loan disbursed in June 2009.
- (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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