

Public Finance Monitor

The Monthly Statistical Bulletin of the Ministry of Finance

October 2006

Section 1: Fiscal Overview

Highlights:

The period of January-October 2006 registered a fiscal deficit of LL 3,500 billion compared to LL 2,056 billion for the same period of 2005, deteriorating by 70 percent. This was the direct result of the July 2006 war which negatively affected revenues and expenditures. In fact, during the first 10 months of 2006, total payments increased by 16 percent and total receipts decreased by 2 percent. Since the July War, the primary surplus has declined reaching LL 136 billion at the end of October 2006 a decrease of 82 percent when compared to the same period of last year.

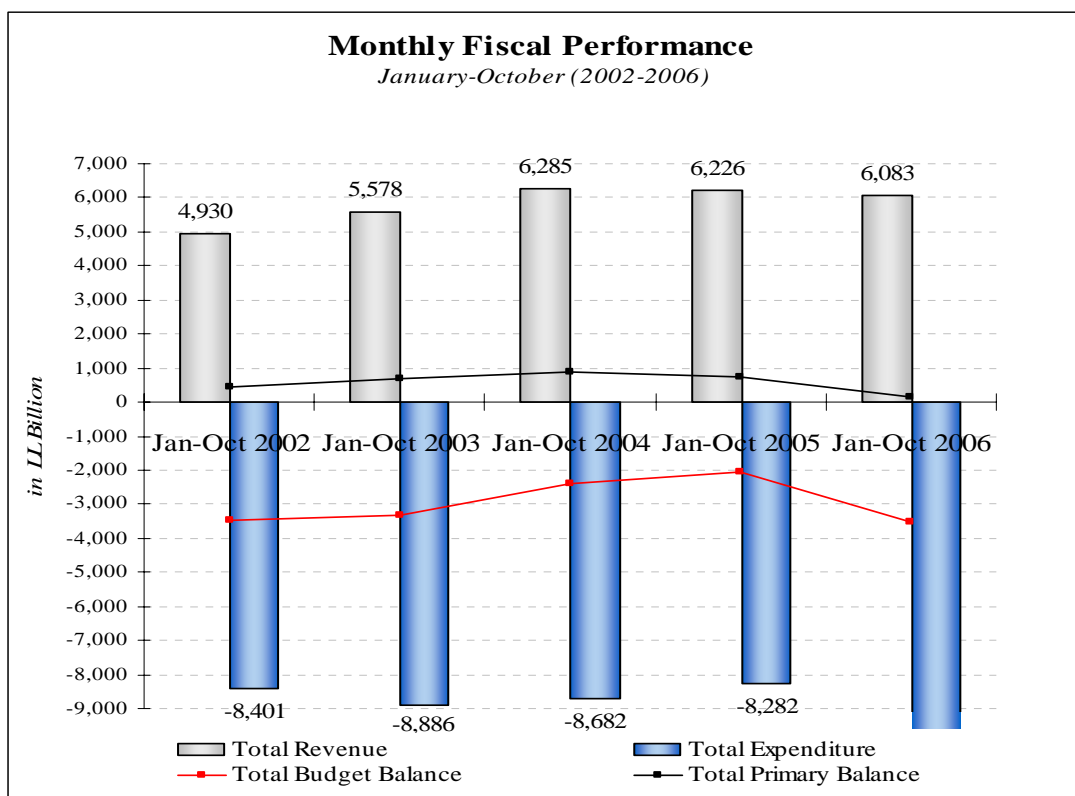
In October 2006, total revenues decreased by 14 percent compared to the same month in 2005 totaling LL 695 billion. Total expenditures reached LL 1,206 billion, an increase of approximately 28 percent compared to LL 939 billion in October 2005. As a result, and for the fourth consecutive month, the primary balance registered a deficit. The primary deficit of LL 38 billion compares to a primary surplus of LL 323 billion in October 2005.

Table 1. Summary of Fiscal Performance

(LL billion)	2005 Oct	2006 Oct	2005 Jan-Oct	2006 Jan-Oct	Change 2005-2006	% Change
Budget Revenue	749	658	5,863	5,710	-153	-2.6%
Budget Expenditures	857	939	6,432	6,988	556	8.6%
<i>o/w Debt Service</i>	451	473	2,805	3,636	831	29.6%
Budget Deficit/Surplus	-108	-281	-569	-1278	-709	124.6%
in % of Budget Expenditures	-12.6%	-30.0%	-8.8%	-18.3%		
Budget Primary Deficit/Surplus	343	192	2,236	2,358	122	5.5%
in % of Budget Expenditures	40.0%	20.5%	34.8%	33.7%		
Treasury Receipts	62	38	363	373	11	2.9%
Treasury Payments	82	267	1,850	2,595	745	40.2%
Total Budget and Treasury Receipts	812	695	6,226	6,083	-143	-2.3%
Total Budget and Treasury Payments	939	1,206	8,282	9,583	1,300	15.7%
Total Cash Deficit/Surplus	-128	-511	-2,056	-3,500	-1,443	70.2%
in % of Total Expenditures	-13.6%	-42.4%	-24.8%	-36.5%		
Primary Deficit/Surplus	323	-38	748	136	-612	-81.8%
in % of Total Expenditures	34.4%	-3.1%	9.0%	1.4%		

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

Chart 1.

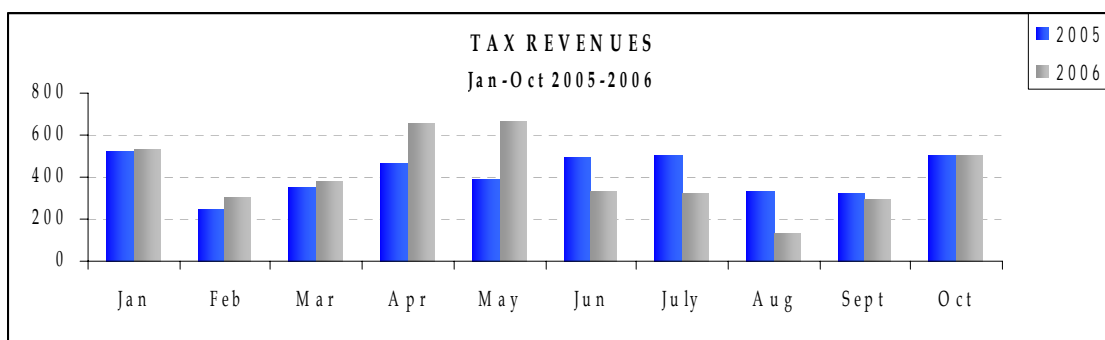


Section 2: Revenue Outcome

During January-October 2006, **total revenues** reached LL 6,083 billion compared to LL 6,226 billion during the same period last year (LL 143 billion less revenues), a decline of 2 percent. This decrease is mainly due to 1 and 7 percent decreases (equivalent to LL 31 billion and LL 122 billion) in tax revenues and non tax revenues respectively, despite the 3 percent increase (equivalent to LL 11 billion) in treasury receipts.

During October 2006, **tax revenues** decreased by merely 1 percent compared to the collection level of October 2005 and totaled LL 504 billion. As can be seen in the graph below, the month of October witnessed an enhancement in revenue collection compared to post-war months.

Chart 2.



The main improvements were apparent in the 7 percent and 30 percent increases in revenues from international trade taxes and revenues from taxes on income, profits, and

capital gains, respectively, compared to October 2005. These increases did not offset the near 12 percent decline in revenues from domestic taxes on goods & services, the 4 percent decline in revenues from fiscal stamps and the 24 percent fall in property taxes collection.

- **Revenues from Taxes on International Trade** (customs duties and excises) increased by 30 percent and totaled LL 127 billion, an improvement of LL 29 billion compared to same month last year. This increase is mainly due to LL 3 billion and LL 26 billion higher revenues from customs duties and excises respectively. The improved collection of excises on petroleum products was witnessed last month and continued this month reaching an LL 41 billion for the month of October 2006 and registered a 227 percent increase compared to equivalent month last year (LL 29 billion of additional revenues) despite the continuous cap on gasoline retail prices. This is due to the significant fall in international oil prices. In fact the import price of car gasoline fell from a high level of around LL 19,000 per 20 liters in August 2006, to around LL 13,000 per 20 liters as of October 2006. Whereas gasoline excises witnessed a rise in collection, collection of excises on car receded by 13 percent (totaling LL 22 billion for October 2006). The depressed activity in the car market is further suggested by the 15 percent deterioration in the collection of car registration fees.
- **Taxes on Income, Profits, and Capital Gains** increased by 7 percent during the month of October 2006 compared to the collection level of October 2005 and totaled LL 91 billion. The increase was mainly due the 23 percent rise in revenues from 5% interest income tax (which totaled LL 44 billion) and the 4 percent increase in the collection amount of the fourth quarter declaration and filing of the tax on wages and salaries. These increases offset the 35 and 26 percent decreases in revenues from tax on profits (which totaled LL 4 billion) and from tax on capital gains & dividends (which totaled approximately LL 4 billion) respectively.
- **Domestic Taxes on Goods & Services** revenue registered LL 235 billion, representing a 12 percent decrease compared to the equivalent month last year. This is mainly due to an 8 percent drop in VAT revenues (equivalent to LL 19 billion), which totaled LL 223 billion for October 2006 (LL 105 billion from internal economic activity and LL 118 billion from imports); and a 50 percent decrease in “other taxes on goods and services” (private car registration fees and passenger departure tax decreased by 15 percent and 85 percent respectively).
- **Fiscal stamps and Property taxes** also witnessed 4 percent and 24 percent decreases in revenues respectively during October 2006 compared to the same month last year.

Non-tax revenues sustained the declining path which characterized their monthly behavior since the July War. In fact, **non tax revenues** collected in October 2006 were LL 153 billion, a 36 percent less than the same month last year, mainly caused by a) a 40 percent decrease in **income from public institutions and government properties** (a loss of LL 79 billion) attributed to LL 53 billion lower Transfer from the Telecom Budget Surplus and the zero collection of revenues from Beirut Port in October 2006, compared to a LL 25 billion collection in October 2005 b) a 23 percent decrease in **Administrative Fees and Charges** (equivalent to LL 8 billion less revenues) arising mainly from LL 3 billion less revenues from vehicle control fees, and LL 4 billion less administrative charges.

Treasury revenues decreased to LL 38 billion in October 2006 a decline of 40 percent compared LL 62 billion in October 2005.

Chart 3.

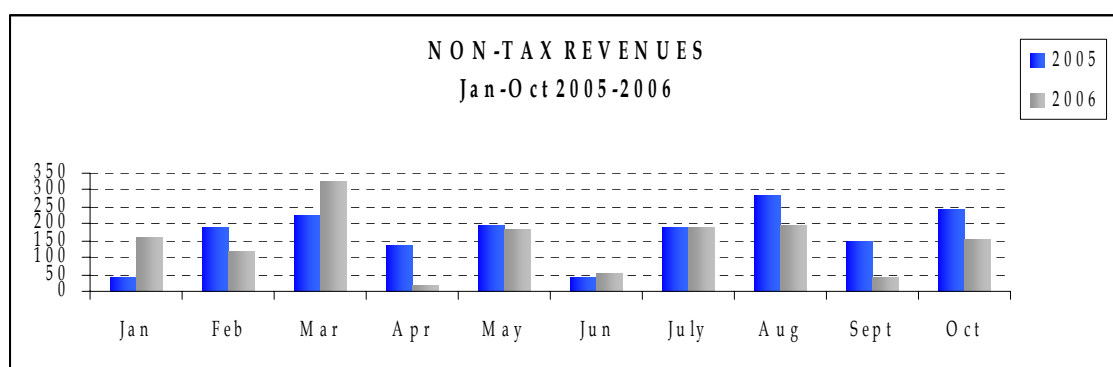


Table 2. Total Revenue

(LL billion)	2005 Oct	2006 Oct	2005 Jan-Oct	2006 Jan-Oct	% Change
Budget Revenues, of which:	749	658	5,863	5,710	-2.6%
<i>Tax Revenues</i>	<i>509</i>	<i>504</i>	<i>4,166</i>	<i>4,135</i>	<i>-0.7%</i>
<i>Non-Tax Revenues</i>	<i>241</i>	<i>153</i>	<i>1,697</i>	<i>1,575</i>	<i>-7.2%</i>
Treasury Receipts	62	38	363	373	2.9%
Total Revenues	812	695	6,226	6,083	-2.3%

Source: MOF, DGF

Table 3. Tax Revenue

(LL billion)	2005	2006	2005	2006	%
	Oct	Oct	Jan-Oct	Jan-Oct	Change
Tax Revenues:	509	504	4,166	4,135	-0.7%
Taxes on Income, Profits, & Capital Gains, of which:	85	91	953	1,056	10.9%
Income Tax on Profits	6	4	388	419	7.9%
Income Tax on Wages and Salaries	37	38	180	190	5.6%
Income Tax on Capital Gains & Dividends	5	4	90	90	0.5%
Tax on Interest Income (5%)	36	44	278	344	23.6%
Penalties on Income Tax	1	1	13	11	-16.7%
Taxes on Property, of which:	33	25	312	489	56.8%
Built Property Tax	6	3	75	75	-1.0%
Real Estate Registration Fees	23	19	208	221	6.3%
Domestic Taxes on Goods & Services, of which:	265	235	1,648	1,540	-6.6%
Value Added Tax	242	223	1,477	1,386	-6.2%
Other Taxes on Goods and Services, of which:	23	11	161	143	-10.7%
Private Car Registration Fees	11	10	88	92	3.9%
Passenger Departure Tax	12	2	71	51	-28.9%
Taxes on International Trade, of which:	98	127	1,050	826	-21.3%
Customs	46	49	396	369	-6.8%
Excises, of which:	52	78	654	457	-30.1%
Petroleum Tax	13	41	314	151	-51.8%
Tobacco Tax	14	15	154	123	-8.4%
Tax on Cars	25	22	182	180	-1.4%
Other Tax Revenues (namely fiscal stamp fees)	28	27	204	224	9.8%

Source: MOF, DGF

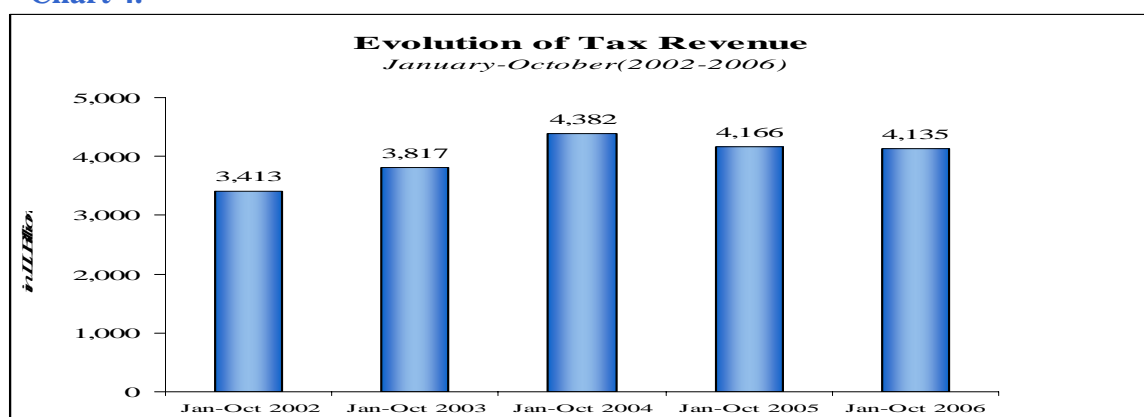
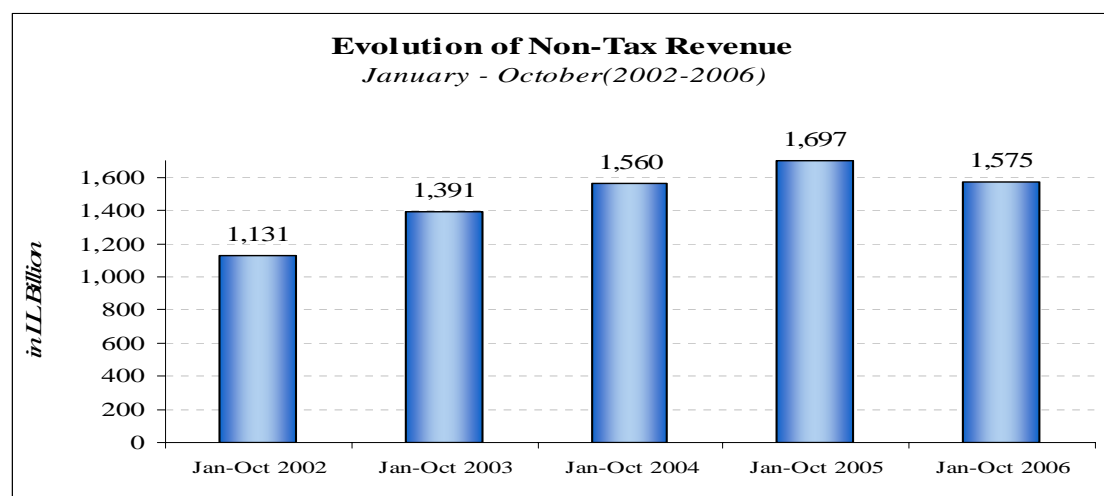
Chart 4.

Table 4. Non-Tax Revenue

(LL billion)	2005 Oct	2006 Oct	2005 Jan-Oct	2006 Jan-Oct	% Change
Non-Tax Revenues	241	153	1,697	1,575	-7.2%
Income from Public Institutions and Government Properties, of which:	197	118	1,339	1,147	-14.3%
Income from Non-Financial Public Enterprises, of which:	191	113	1,298	1,117	-13.9%
<i>Revenues from Casino Du Liban</i>	4	4	44	33	-25.3%
<i>Revenues from Port of Beirut</i>	25	0	58	0	-100.0%
<i>Budget Surplus of National Lottery</i>	3	5	32	52	60.9%
<i>Transfer from the Telecom Surplus</i>	158	105	1,162	1,032	-11.2%
Property Income (namely rent of Rafic Hariri International Airport)	5	4	37	25	-31.6%
Other Income from Public Institutions (interests)	1	0	5	4	-4.4%
Administrative Fees & Charges, of which:	36	28	284	351	23.5%
Administrative Fees, of which:	27	24	228	283	24.2%
<i>Notary Fees</i>	2	1	14	14	0.2%
<i>Passport Fees/ Public Security</i>	7	7	74	99	34.2%
<i>Vehicle Control Fees</i>	14	11	96	123	27.4%
<i>Judicial Fees</i>	1	2	17	15	-7.8%
<i>Driving License Fees</i>	2	2	13	19	44.3%
Administrative Charges	4	1	16	10	-33.6%
Sales (Official Gazette and License Number)	0	0	2	2	6.7%
Permit Fees (mostly work permit fees)	4	3	32	44	38.2%
Other Administrative Fees & Charges	0	0	6	10	74.7%
Penalties & Confiscations	0	0	3	4	8.7%
Other Non-Tax Revenues (mostly retirement deductibles)	7	7	71	74	3.9%

Source: MOF, DGF

Chart 5.



Section 3: Expenditure Outcome

Total expenditures reached LL 9,583 billion in January-October 2006, increasing by 16 percent from LL 8,282 billion in the same period of 2005. In October 2006, non-interest and interest payments increased by LL 244 billion and LL 22 billion respectively compared with October 2005. The expenditure increase in October added further to the already amplified cumulative increase over the period January-October 2006. In fact, for the first ten months of 2006, interest expenditures rose by LL 831 billion and non-interest expenditures augmented by LL 469 billion as compared to the corresponding period in 2005. It should be noted that non-interest payments registered a decline during the first seven months of 2006 when compared to 2005. However, the trend was reversed starting August 2006 following the July War.

The increase in total spending of non-interest payments for January-October 2006, was mainly driven by the increase in treasury expenditure which rose by LL 908 billion and, to a much lesser extent by capital expenditures, which rose by a mere LL 7 billion, relative to the same period of 2005. Meanwhile, current non-interest expenditures dropped by LL 130 billion. A detailed analysis of the trends reported in major items of expenditures is as follows:

1. Debt service registered LL 3,636 billion in January-October 2006 compared to LL 2,805 billion for the same period of 2005, increasing by around 30 percent. This increase resulted from the 54 percent higher local currency debt service and 12 percent rise in foreign currency debt service. The main reason¹ behind the increase in the debt service for 2006 stems from the matured stock of:

- ⇒ Domestic currency zero-rated special treasury bills and
- ⇒ Foreign currency zero-rated special bonds.

These Bonds were issued to the Commercial banks in the context of the Paris II Conference and matured during the period January-July 2005.

2. Non-interest expenditures registered LL 5,947 billion in January-October 2006, against LL 5,477 billion for January-October 2005, an increase of around 9 percent.

a. 'Other treasury expenditures' were the major drivers of increase in non-interest expenditures as they rose by LL 602 billion during the period January-October 2006. The increase was mainly due to three major factors:

- ⇒ The increase in direct transfers to EDL by LL 407 billion. A total amount of LL 211 billion (please refer to table 7) was disbursed in August and October 2006 to settle arrears for oil suppliers, in addition to LL 131 billion higher transfers for fuel oil purchases and higher EDL debt payments by LL 60 billion.
- ⇒ The rise in spending on municipalities by LL 82 billion in January-October 2006 compared to the same period last year, mainly to support the relief effort during the war of July-August 2006.
- ⇒ Transfers to Higher Relief Council of LL 98 billion. During the war, a total amount of LL 19 billion was transferred in the form of treasury advances to the Higher Relief Council in order to allow the relief

¹Please refer to previous "Public Finance Monitor" monthly publications, all published on MOF website, www.finance.gov.lb.

operations to take place. In addition, a special donation account was created in order to support the Lebanese Government in relief operations. The total donated amount of LL 79 billion was transferred in September 2006 to Higher Relief Council.

b. Capital spending increased in January-October 2006 by LL 7 billion compared to the same period last year mainly due to LL 9 billion increase in construction in progress.

c. Meanwhile, current primary budget expenditures decreased by LL 130 billion, mainly due major and exceptional expenses paid during 2005 such as the LL 93 billion in payments of accrued electricity bills of public administrations due to EDL (materials and supplies). In addition, payments to the NSSF were higher in January-October 2005 (LL 290 billion) compared to 2006 payments which amounted to LL 150 billion (Various transfers). New army and security forces recruitment started to be reflected on the wages and salaries as they increased by LL 20 billion during the period January-October 2006.

Table 5. Expenditures by Transaction Classification

(LL billion)	2005	2006	2005	2006	
	Oct	Oct	Jan-Oct	Jan-Oct	% Change
Total Expenditures	939	1,206	8,282	9,583	15.7%
Budget Expenditures	857	939	6,432	6,988	8.6%
Expenditures Excluding Debt Service	406	465	3,627	3,352	-7.6%
Debt Service, of which:	451	473	2,805	3,636	29.6%
<i>Local Currency Debt</i>	204	186	1198	1,842	53.8%
<i>Foreign Currency Debt, of which:</i>	247	287	1607	1,794	11.6%
<i>Eurobond Coupon Interest*</i>	232	258	1393	1,521	9.2%
<i>Specialbond Coupon Interest*</i>				13	
<i>Concessional Loans Principal Payments</i>	10	20	121	164	35.5%
<i>Concessional Loans Interest Payments</i>	6	10	92	96	3.4%
Treasury Expenditures , of which:	82	267	1,850	2,595	40.2%
<i>Municipalities</i>	20	54	761	471	-38.1%
<i>Previous Years' Appropriations</i>	0	0	471	468	-0.5%
Non-Interest Expenditures (Total Expenditures minus Debt Service)	488	733	5,477	5,947	8.6%

Source: MOF, DGF

* Includes general expenses related to the transaction

Table 6. Expenditures by Economic Classification

(LL billion)	2005 Jan-Oct	2006 Jan-Oct	% Change
1. Current expenditures	6,500	7,201	10.8%
1.a Personnel cost, of which	2,636	2,726	3.4%
Article 13: Salaries and wages	1,757	1,777	1.1%
Retirement and end of service compensations	714	785	9.9%
1.b Debt Service payments	2,805	3,636	29.6%
1.c Materials and supplies	187	118	-37.1%
1.d External services	69	71	3.5%
1.e Various transfers	516	382	-26.0%
o/w NSSF	290	150	-48.3%
1.f Other current	215	197	-8.6%
Hospitals	156	171	9.3%
Others	59	25	-58.0%
1.g Reserves (3)	72	71	-0.9%
Interest subsidy	72	71	-0.9%
2. Capital expenditures	429	436	1.8%
2.a Acquisitions of land, buildings, for the construction of roads, ports, airports, and water networks	11	11	4.8%
2.b Equipment	21	18	-13.0%
2.c Construction in Progress	331	340	2.7%
2.d Maintenance	38	38	0.9%
2.e Other Expenditures Related to Fixed Capital Assets	28	29	2.6%
3. Other treasury expenditures, of which	1,317	1,919	45.7%
Municipalities	280	362	29.1%
EDL	667	1,074	60.9%
Transfers to Higher Relief Council		98	
Treasury advances for water authorities	48	0	-100.0%
Treasury advances for diesel oil subsidy	14	52	269.0%
Treasury advances for Telecom companies	15	0	
4. Unclassified expenditures	4	1	-72.0%
5. Customs cashiers	33	25	-24.0%
6. Total expenditures (excluding CDR foreign financed)	8,282	9,583	15.7%

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

Table 7. Transfers to EDL

(LL billion)	2005	2006	
	Jan-Oct	Jan-Oct	% Change
EDL of which:	808	1,074	32.96%
Debt Service of which:	162	244	50.34%
<i>C-Loans and Eurobonds, of which:</i>	<i>162</i>	<i>222</i>	<i>37.23%</i>
Principal Repayment	113	177	56.89%
Interest Payment	49	45	-8.12%
Loans for Fuel Oil Payment	0	17	100.00%
BDL Guaranteed Loan Payment	0	5	0.00%
Treasury Advance for Fuel Purchase	130	0	-100.00%
Treasury Advance for EDL' s Losses	220	0	-100.00%
Treasury Advance for EDL' s Losses	155	0	-100.00%
Material and Supplies (Electricity bills)	93	0	-100.00%
Treasury advance to Water Authorities	48	0	-100.00%
Kuwait & Alg. Petrole	0	619	100.00%
Repayment of oil suppliers arrears*	0	211	100.00%
Expropriations	0	0	-100.00%

Source: MOF, DGF

*Paid from decree Nbr.16084 Dec 2005(152 billion LL) and decree no 14308 dated 02/04/05 LL 90 billion

Section 4: Public Debt

Highlights:

1. By the end of October 2006, gross public debt reached LL 61,304 billion (equivalent to US\$ 41 billion), registering an increase of LL 3,286 billion (or 5.66 percent) over the end-December 2005 debt level.
2. Local currency debt amounted to LL 30,865 billion (equivalent to US\$ 20 billion), increasing by LL 1,724 billion or 6 percent over the end-December 2005 level. This increase reflects the rise in the total debt during the period of January-October 2006.
3. As of end October 2006, local currency debt held by BDL decreased by LL 2,184 billion as compared to end of December 2005.
4. Meanwhile, local currency debt held by commercial banks increased by LL 2,844 billion as of end October 2006. While the first half of the year witnessed an improvement in commercial banks' appetite to purchase treasury bills, the war of July 2006 put a halt of two months to this amelioration and reversed this progress. Indeed, commercial banks' holding of treasury bills decreased by LL 1,512 billion during July and by LL 1,994 billion during August 2006. The trend resumed its positive path in September and October 2006 when it increased by LL 876 billion and LL 1,200 billion respectively. In general, when compared to the month of June 2006, commercial banks' holding of Treasury bills increased by LL 83 billion by the end of October 2006.
5. By end-October 2006 foreign currency debt amounted to LL 30,439 billion (equivalent to US\$ 20 billion), increasing by LL 1,562 billion (or 5.41 percent) over the end-December 2005 level. The last Eurobond principal maturing in 2006 was settled during the month of October amounting to USD 145 million.

6. Public sector deposits amounted to LL 5,963 billion, increasing by approximately LL 373 billion from their December 2005 level. During September and October 2006, the treasury started to build-up deposits, returning to almost the same level of deposits of end 2005.

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

Assumes full LL Replacement	Dec-03	Dec-04	Dec-05	Oct-06	Change Dec 05 - Oct 06	% change Dec 05 - Oct 06
Gross Public debt	50,285	54,048	58,018	61,304	3,286	5.66%
Local currency debt	26,843	26,371	29,141	30,865	1,724	5.92%
a. Central Bank (including REPOs and Loans to EDL to finance fuel purchases)*	8,938	10,652	11,686	9,502	-2,184	-18.69%
b. Commercial Banks	12,303	12,220	14,130	16,974	2,844	20.13%
c. Other Local Currency Debt (T-bills)	5,603	3,500	3,325	4,389	1,064	32.00%
<i>o/w Public entities</i>	2,564	2,187	2,446	3,505	1,059	43.30%
d. Accrued interest included in domestic debt	566	356	517	622		
Foreign currency debt	23,442	27,677	28,877	30,439	1,562	5.41%
a. Bilateral, Multilateral and Foreign Private sector loans	2,934	2,970	2,822	2,940	118	4.18%
b. Paris II related debt (Eurobonds and Loans)*****	3,731	3,814	3,682	3,688	6	0.16%
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	20,143	1,414	7.55%
e. Accrued Interest on foreign currency debt	327	388	406	430	24	5.94%
f. Special Tbills in Foreign currency**			419	419	0	0.00%
Public sector deposits	3,019	4,360	5,590	5,963	373	6.67%
Net debt	47,266	49,688	52,428	55,341	2,913	5.56%
Gross Market debt***	29,638	31,861	34,759	38,996	4,237	12.19%
% of total debt	59%	59%	60%	64%	0	6.18%

Source: Ministry of Finance, Banque du Liban

Notes:

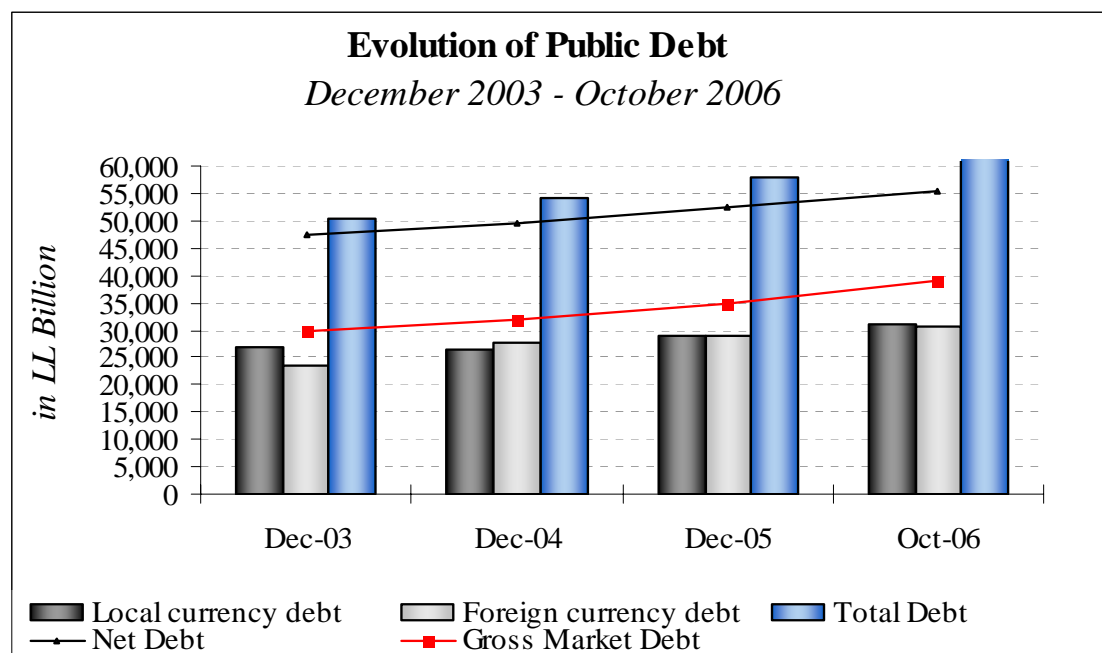
* The BDL has extended loans to EDL for the equivalent amount of US\$ 300 million to purchase fuel oil. These loans are listed as Public debt as they are government guaranteed.

** 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 may have changed from previously published information due to the exchange rate of Euro

Chart 6.





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