

Fiscal Overview

The **total fiscal balance** registered a deficit of LL 3,351 billion at the end of September 2009 compared to a deficit of LL 3,032 billion in the same period last year. This 10.5 percent deterioration is explained by the increase in total expenditures by LL 2,156 billion, offsetting the increase in total receipts by LL 1,836 billion. At the same time, the **primary balance** registered a surplus of LL 1,045 billion, improving by 16.5 percent compared to last year's primary surplus of LL 897 billion because the amelioration in total receipts surpassed the LL 1,688 billion increase in primary expenditures.

The collection during the month of September 2009 is in line with the trend witnessed throughout the year; as such **total revenues** cumulated at LL 9,449 billion by the end of September 2009, 24 percent higher than total revenues collected during the same period in 2008.

With cumulative revenues of LL 6,736 billion by end of September 2009, **taxes** collected LL 1,557 billion in additional receipts when compared to end September 2008, explained by (i) LL 953 billion (equivalent to 92 percent) more receipts from **taxes on international trade**, mainly due to LL 752 billion more revenues from **gasoline excises**¹, and LL 108 billion higher collection of **car excises**; (ii) LL 274 billion more VAT revenues, and (iii) LL 260 billion higher **income tax receipts**, of which LL 132 billion from the **income tax on profit**, LL 68 billion from the **wages and salaries tax**², and LL 47 billion from the **interest income tax**.³

With LL 2,225 billion by end of September 2009, **non-tax revenues** have accumulated LL 370 billion higher receipts than during the same period in 2008, mainly explained by (i) LL 269 billion higher transfers from the **budget surplus of telecom**, (ii) LL 62 billion transfer from **Port of Beirut** in January 2009 against zero transfers in 2008, and (iii) LL 30 billion higher collection of **administrative fees and charges** (of which LL 26 billion are higher receipts from **vehicle control fees**).

Treasury receipts collected LL 487 billion in January-September 2009, including LL 88 billion of grants received from PIII Donors, compared to LL 579 billion in the same period of 2008, which then accounted for LL 168 billion of grants⁴.

¹ 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 uncapped 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 23rd, 2009), restoring a regular stream of revenues to the Treasury.

² The rise in the wage and salaries tax receipts may be explained by the higher tax base owing to Law 63 which raised the minimum wage and granted LL 200,000 additional salary in the public sector.

³ The rise in the interest tax receipts in Jan-Sept 2009 mirrors the 21 %year on year growth in the private sector deposits witnessed over the period January- September 2009, and is further explained by the 6.10 percentage points drop in the dollarization rate which reached 65.87% by end of September 09.

⁴ By end of September 2008, the Treasury received LL 168 billion of grants for budget support, of which LL 165 billion from US and LL 3 billion from Iraq, whereas the Treasury received a total of LL 89.6 billion of grants by the end of September 2009, of which LL 10.5 billion of project grant from Oman for the reconstruction of Nahr El Bared, 1.9 billion of budget support grant from Greece, LL 75.4 billion of budget support grant from US aid, and LL 1.78 billion grants from the Ministry of Commerce in China for Palestinian Refugees and Nahr El Bared.

For the period of January-September 2009, **total expenditures** increased by LL 2,155 billion, mainly driven by higher **other treasury expenditures, current primary expenditures** and **interest payments** by 30 percent, 23.8 percent, 14.6percent, respectively

Current primary expenditures registered an increase of LL 915 billion mainly coming from rises in **personnel cost, various Transfers and remaining current expenditures** by LL 722 billion, 101 billion and LL 93 billion respectively.

The augmentation in personnel cost is mainly due to the government's policy of granting a wage increase to 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 525 billion, LL 116 billion and LL 81 billion, respectively.

Higher Various Transfers is the result of the payment of LL 110 billion to the NSSF during the month of September 2009. Total Transfer to the NSSF reached LL 160 billion for the period Jan-September 2009 compared to LL 40 billion in January-September 2009.

Other current primary expenditures payments, such as **hospitals, other current expenditures and interest subsidies** registered rises of LL 28 billion, LL 22 billion and LL 12 billion, respectively

Interest payments were higher by LL 533 billion, mainly driven by a larger interest payments' bill on domestic currency debt due to an increase in the stock of domestic currency TBs. Interest payments on foreign currency debt also increased by LL 51 billion compared to January-September 2008.

Principal repayment of foreign project loans decreased by LL 65 billion compared to January-September 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 with the proceeds of the USAID grant pledged at the Paris III conference.

Other treasury expenditures increased by LL 749 billion, mainly due to higher transfers to EDL (LL 53 billion), High Relief Committee (+LL 511 billion), VAT refund (+LL 31 billion) and municipalities (+LL 113 billion).

At the end of September 2009, **gross public debt** reached LL 74,144 billion, registering an increase of LL 3,256 billion compared to the end-December 2008 debt level. This increase is a result of higher **local and foreign currency debt** by LL 2,967 billion and LL 289 billion, respectively. From end-2008 until end of September 2009, BDL's domestic debt portfolio rose by LL 1,626 billion, 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 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 TBs worth USD 18.5 million were issued on 25 March

2009 for the settlement of expropriations. Moreover, two loans negotiated in the context of the Paris III Conference were disbursed in June 2009.⁵

Table 1. Summary of Fiscal Performance

(LL billion)	2007 Sep	2008 Sep	2009 Sep	2007 Jan-Sep	2008 Jan-Sep	2009 Jan-Sep
Total Budget and Treasury Receipts	582	836	879	6,563	7,613	9,449
Total Budget and Treasury Payments, of which	990	1,318	1,453	9,298	10,645	12,800
Interest Payments	406	491	603	3,432	3,648	4,180
Concessional loans principal payments ^{1/}	50	40	42	168	282	217
Primary Expenditures ^{2/}	533	787	809	5,697	6,715	8,403
Total Cash Deficit/Surplus	-408	-481	-574	-2,735	-3,032	-3,351
Primary Deficit/Surplus	48	49	70	866	897	1,045

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

^{1/} Includes only Principal repayments of concessional loans earmarked for project financing

^{2/} Primary expenditures exclude debt related payments (Interest payments and Concessional loans principal repayment)

⁵ 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 Sep	2008 Sep	2009 Sep	2007 Jan-Sep	2008 Jan-Sep	2009 Jan-Sep
Budget Revenues, of which:	526	804	843	6,037	7,034	8,962
<i>Tax Revenues</i>	357	483	605	4,165	5,179	6,736
<i>Non-Tax Revenues</i>	168	321	238	1,872	1,855	2,225
Treasury Receipts	56	32	36	526	579	487
Total Revenues	582	836	879	6,563	7,613	9,449

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

Table 3. Tax Revenue

(LL billion)	2007 Sep	2008 Sep	2009 Sep	2007 Jan-Sep	2008 Jan-Sep	2009 Jan-Sep
Tax Revenues:	357	483	605	4,165	5,179	6,736
Taxes on Income, Profits, & Capital Gains, of which:	52	51	61	1,055	1,266	1,526
<i>Income Tax on Profits</i>	13	7	8	453	567	700
<i>Income Tax on Wages and Salaries</i>	3	4	2	162	201	269
<i>Income Tax on Capital Gains & Dividends</i>	5	5	7	119	133	143
<i>Tax on Interest Income (5%)</i>	29	35	43	313	354	401
<i>Penalties on Income Tax</i>	2	1	1	7	10	13
Taxes on Property, of which:	39	69	62	357	555	526
<i>Built Property Tax</i>	8	7	4	86	89	82
<i>Real Estate Registration Fees</i>	28	59	53	233	410	389
Domestic Taxes on Goods & Services, of which:	147	197	226	1,614	2,071	2,406
<i>Value Added Tax</i>	124	168	184	1,453	1,861	2,136
<i>Other Taxes on Goods and Services, of which:</i>	23	28	42	155	204	264
<i>Private Car Registration Fees</i>	11	18	22	95	140	180
<i>Passenger Departure Tax</i>	11	10	19	60	63	83
Taxes on International Trade, of which:	101	140	227	938	1,038	1,991
<i>Customs</i>	45	62	66	409	495	568
<i>Excises, of which:</i>	56	77	161	529	543	1,423
<i>Gasoline Excise</i>	14	0	80	172	5	757
<i>Tobacco Excise</i>	15	19	28	158	175	195
<i>Cars Excise</i>	26	58	53	197	359	468
Other Tax Revenues (namely fiscal stamp fees)	18	27	29	201	248	288

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

Table 4. Non-Tax Revenue

(LL billion)	2007 Sep	2008 Sep	2009 Sep	2007 Jan-Sep	2008 Jan-Sep	2009 Jan-Sep
Non-Tax Revenues	131	321	238	1,520	1,855	2,225
Income from Public Institutions and Government Properties, of which:	129	277	190	1,503	1,447	1,783
Income from Non-Financial Public Enterprises, of which:	127	275	184	1,357	1,368	1,691
<i>Revenues from Casino Du Liban</i>	7	11	13	45	123	114
<i>Revenues from Port of Beirut</i>	0	0	0	30	0	62
<i>Budget Surplus of National Lottery</i>	4	0	5	44	37	38
<i>Transfer from the Telecom Surplus</i>	115	263	166	1,237	1,207	1,475
Transfer from Public Financial Institution (BDL)					41	40
Property Income (namely rent of Rafic Hariri International Airport)	2	2	5	29	32	43
Other Income from Public Institutions (interests)	1	0	0	4	7	8
Administrative Fees & Charges, of which:	30	36	39	305	331	360
Administrative Fees, of which:	25	31	34	245	270	297
<i>Notary Fees</i>	2	2	2	15	17	20
<i>Passport Fees/ Public Security</i>	9	9	10	88	91	89
<i>Vehicle Control Fees</i>	10	13	15	100	113	138
<i>Judicial Fees</i>	1	2	2	14	16	14
<i>Driving License Fees</i>	1	2	2	12	14	17
Administrative Charges	1	0	1	13	13	15
Sales (Official Gazette and License Number)	0	0	0	2	2	2
Permit Fees (mostly work permit fees)	4	4	4	36	39	36
Other Administrative Fees & Charges	1	1	0	9	6	10
Penalties & Confiscations	0	1	0	4	4	5
Other Non-Tax Revenues (mostly retirement deductibles)	9	7	8	60	73	77

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

Section 3: Expenditure Outcome

Table 5. Expenditure by Economic Classification

(LL billion)	2007 Jan-Sept	2008 Jan-Sept	2009 Jan-Sept
1. Current Expenditures	7,182	7,773	9,156
1.a Personnel Cost, of which	2,678	2,859	3,581
<i>Salaries, Wages and Related Items (Article 13)</i>	1,849	1,916	2,440
<i>Retirement and End of Service Compensations, of which:</i>	668	796	912
<i>Retirement</i>	582	626	780
<i>End of Service</i>	87	170	133
<i>Transfers to Public Institutions to Cover Salaries ^{1/}</i>	161	147	228
1.b Interest Payments, of which: ^{2/}	3,432	3,647	4,180
<i>Domestic Interest Payments</i>	1,965	2,123	2,605
<i>Foreign Interest Payments</i>	1,467	1,524	1,575
1.c Foreign Debt Principal Repayment	168	282	217
1.d Materials and Supplies, of which:	163	165	186
<i>Nutrition</i>	21	33	42
<i>Fuel Oil</i>	24	31	12
<i>Medicaments</i>	56	48	85
<i>Accounting Adjustments for Treasury</i>	36	31	25
1.e External Services	71	85	90
1.f Various Transfers, of which:	458	433	534
<i>NSSF</i>	220	40	160
<i>Wheat Subsidy</i>	13	142	10
<i>Special Tribunal for Lebanon</i>	0	18	12
1.g Other Current, of which:	152	242	296
<i>Hospitals</i>	122	210	237
<i>Others</i>	27	30	52
1.h Reserves	61	61	73
<i>Interest subsidy</i>	61	61	73
2. Capital Expenditures	401	378	398
2.a Acquisitions of Land, Buildings, for the Construction of Roads, Ports, Airports, and Water Networks	16	7	4
2.b Equipment	32	26	27
2.c Construction in Progress, of which:	291	258	265
<i>Displaced Fund</i>	41	30	60
<i>Council of the South</i>	30	20	27
<i>CDR</i>	164	159	142
<i>Ministry of Public Work and Transport</i>	30	24	20
<i>Other</i>	26	26	15
2.d Maintenance	38	52	58
2.e Other Expenditures Related to Fixed Capital Assets	23	35	45
3. Other Treasury Expenditures	1,681	2,462	3,211
Municipalities	194	287	400
Guarantees	37	44	77
Deposits :	66	57	70
Other, of which:	244	366	917
<i>VAT Refund</i>	132	188	219
<i>High Relief Committee</i>	16	9	520
EDL ^{3/}	1,139	1,690	1,743
Treasury advances for water authorities	0	0	4
Treasury Advances for Diesel Oil Subsidy	0	19	0

4. Unclassified Expenditures	4	2	2
5. Customs Cashiers	30	29	33
6. Total Expenditures (Excluding CDR Foreign Financed)	9,298	10,645	12,800

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-Sep	2008 Jan-Sep	2009 Jan-Sep
Transfer to Council of the South	4	5	3
Transfer to Council for Development and Reconstruction (CDR)	27	17	31
Transfer to the Displaced Fund	5	4	6
Transfer to the Lebanese University	119	115	177
Transfer to the Educational Center for Research and Development	7	7	10

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

Table 7. Details of Debt Service Transactions

(LL billion)	2007 September	2008 September	2009 September	2007 Jan-Sep	2008 Jan-Sep	2009 Jan-Sep
Interest Payments 1/	406	491	603	3,432	3,647	4,180
Local Currency Debt	235	257	286	1,965	2,123	2,605
Foreign Currency Debt, of which:	171	234	317	1,467	1,524	1,575
Eurobond Coupon Interest*	160	228	312	1,357	1,410	1,473
Specialbond Coupon Interest*	0	0	0	13	8	10
Concessional Loans Interest Payments	11	6	5	98	107	92
Concessional Loans Principal Payments**	50	40	42	168	282	217

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 full payment of IBRD loans from USAID grant during 2008.

** Includes LL 75 billion full payment of IBRD loans from USAID grant during 2009.

Table 8. Transfers to EDL

(LL billion)	2007 Jan-Sep	2008 Jan -Sep	2009 Jan -Sep	Value Change
EDL, of which:	1,139	1,690	1,743	53
• Debt Service, of which:	342	128	108	-20
– C-Loans and Eurobonds, of which:	266	103	82	-21
Principal repayments	230	83	69	-14
Interest Payments	36	20	14	-6
– BDL Guaranteed Loan payments	77	25	26	1
• Reimbursement of KPC and Sonatrach Agreements	797	1,562	1,635	72

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

Section 4: Public Debt

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

(LL billion)	Dec-05	Dec-06	Dec-07	Dec-08	Sep-09	Change Dec 08 - Sep 09	% Change Dec 08- Sep 09
Gross Public Debt	57,985	60,851	63,350	70,888	74,144	3,256	4.59%
Local Currency Debt	29,141	30,204	31,373	39,007	41,974	2,967	7.61%
a. Central Bank (Including REPOs and Loans to EDL to Finance Fuel Purchases) ⁽¹⁾	11,686	9,588	9,052	8,781	10,407	1,626	18.52%
b. Commercial Banks	14,130	16,487	16,847	24,320	24,568	248	1.02%
c. Other Local Currency Debt (T-bills), of which:	3,325	4,129	5,474	5,906	6,999	1,093	18.51%
<i>Public Entities</i>	2,446	3,313	4,796	5,062	5,816	754	14.90%
* <i>Accrued Interest Included in Debt</i>	517	685	754	1,001	1,027	26	2.60%
Foreign Currency Debt (2)	28,844	30,647	31,977	31,881	32,170	289	0.91%
a. Bilateral, Multilateral and Foreign Private Sector Loans	2,789	2,855	2,953	2,802	2,762	-39	-1.40%
b. Paris II Related Debt (Eurobonds and Loans) ⁽³⁾	6,501	6,540	6,063	5,456	5,038	-418	-7.65%
c. Paris III Related Debt (Eurobonds and Loans) ⁽⁴⁾			1,357	1,849	1,973	124	6.71%
d. Market-Issued Eurobonds	18,729	20,399	20,776	20,925	21,462	537	2.56%
e. <i>Accrued Interest on Eurobonds</i>	406	434	410	430	487	57	13.26%
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	8,391	65	0.78%
Net Debt	52,395	56,407	58,823	62,562	65,753	3,191	5.10%
Gross Market Debt⁽⁶⁾	34,721	38,670	39,216	46,992	48,177	1,185	2.52%
% of Total Debt	60%	64%	62%	66%	65%	0	-1.98%

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 Tbs 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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