

Public Finance Monitor

The Monthly Statistical Bulletin of the Ministry of Finance

September 2006

Section 1: Fiscal Overview

Highlights:

The ravaging impact of the July War continues to have its ramifications on public finance. In September 2006, total expenditures increased by LL 226 billion (or 28 percent) compared to September 2005, reaching LL 1,040 billion. Total receipts decreased to LL 354 billion, a decline of LL 143 billion (or 29 percent) for the same comparative period. As a result, September 2006 total deficit reached LL 686 billion - more than doubling from LL 369 billion in September 2005. The primary deficit deteriorated to LL 307 billion compared to a surplus of LL 44 billion in September 2005.

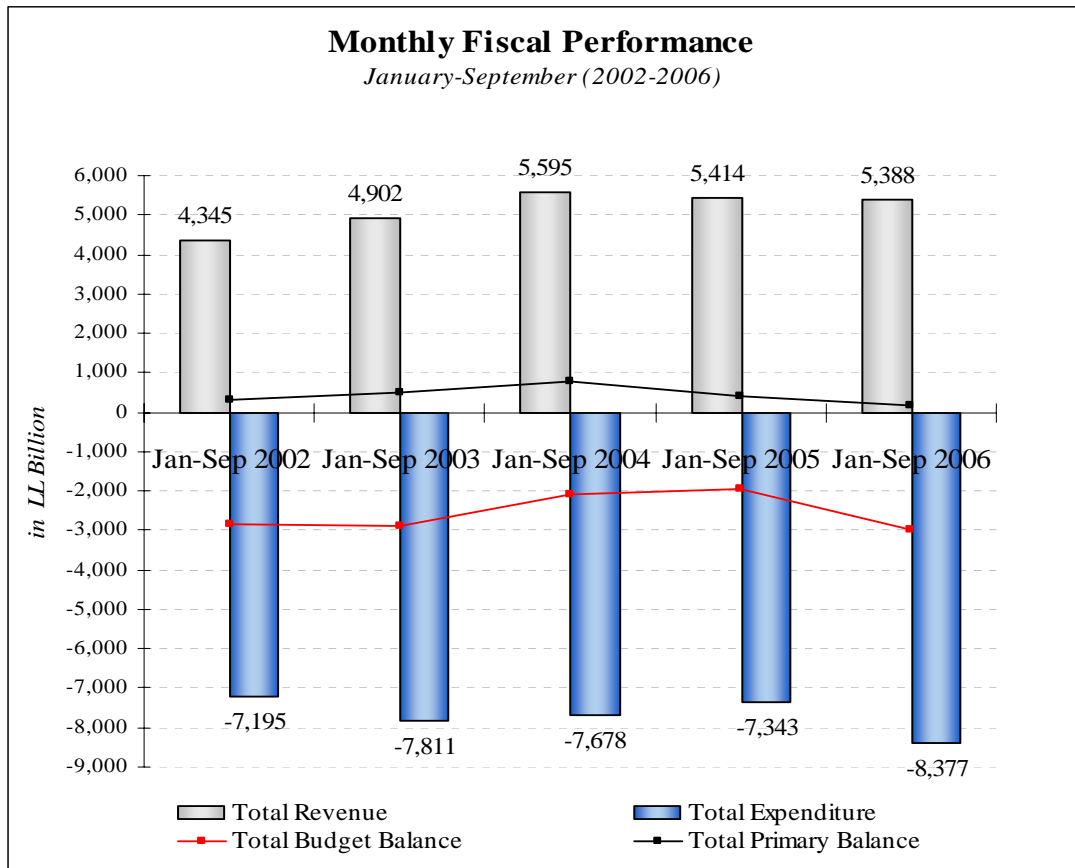
The cumulative deficit for January-September period reached LL 2,988 billion increasing by approximately 55 percent when compared to the same period in 2005. This is mainly due to 14 percent increase in total expenditures. Total receipts scored a slight decrease of 0.5 percent in the same comparative period. The deterioration of the public finances was also reflected by in the cumulative primary surplus. The surplus of LL 174 billion realized in the January-September 2006 period reflects a decrease of 59 percent when compared to January- September 2005.

Table 1. Summary of Fiscal Performance

(LL billion)	2005	2006	2005	2006	Change 2005- 2006	% Change
	Sep	Sep	Jan-Sep	Jan-Sep		
Budget Revenue	472	334	5,114	5,052	-61	-1.2%
Budget Expenditures	719	710	5,575	6,049	474	8.5%
<i>o/w Debt Service</i>	361	379	2,354	3,162	808	34.3%
Budget Deficit/Surplus	-247	-376	-461	-997	-535	116.1%
in % of Budget Expenditures	-34.3%	-52.9%	-8.3%	-16.5%		
Budget Primary Deficit/Surplus	114	3	1,893	2,166	273	14.4%
in % of Budget Expenditures	15.9%	0.5%	34.0%	35.8%		
Treasury Receipts	25	20	301	336	35	11.7%
Treasury Payments	95	330	1,768	2,328	559	31.6%
Total Budget and Treasury Receipts	497	354	5,414	5,388	-26	-0.5%
Total Budget and Treasury Payments	814	1,040	7,343	8,377	1,034	14.1%
Total Cash Deficit/Surplus	-317	-686	-1,929	-2,988	-1,060	54.9%
in % of Total Expenditures	-38.9%	-65.9%	-26.3%	-35.7%		
Primary Deficit/Surplus	44	-307	425	174	-251	-59.1%
in % of Total Expenditures	5.4%	-29.5%	5.8%	2.1%		

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

Chart 1.



Section 2: Revenue Outcome

After the 48 percent revenue decrease in August 2006 (compared to August 2005), the country's finances seem to rebound slightly in September with revenues decreasing by 29 percent compared to the same month in 2005. This is due to the uplifting of the Israeli sea and air blockade on September 6th, whereby revenues from international trade started to improve along with the VAT collections on imports; and to a substantial decline in international fuel prices which permitted the Treasury to resume its collection of excises after a three months of no collection.

From a cumulative perspective, **total revenues** collected over the period of January-September 2006 reached LL 5,388 billion compared to LL 5,414 billion during the same period last year. This decline of 0.5 percent is mainly due to the impact of the war on July, August and September revenues.

Tax revenues in September 2006 dropped to LL 292 billion, a 10% decrease when compared to the collection level during September 2005. This is mainly due to a decrease in all tax revenue aggregate components as stated below:

- Taxes on income, profits, and capital gains totaled LL 41 billion, a 10 percent decrease (equivalent to approximately LL 5 billion) compared to September 2005. The decline is owing to the 83 percent deterioration in income tax on capital gains & dividends and the 48 percent fall in income tax on profits. These decreases were not offset by the increase in tax on interest income (5%) and taxes on wages and salaries, which rose by 46 and 57 percent respectively.
- Domestic taxes on goods & services registered LL 127 billion. This represents an 8 percent decrease compared to the equivalent month last year, mainly caused by the 54 percent drop in other taxes on goods and services (private car registration fees and passenger departure tax decreased by 32 percent and 70 percent respectively). On the other hand, VAT revenues collected LL 115 billion registering a 1 percent rise compared to the collection level during September 2005. The rebound in VAT collection comes after an approximate 50 percent year on year deterioration witnessed during July and August 2006¹.
- Revenues from international trade decreased by 11 percent and totaled LL 81 billion. This represents an improvement compared to the situation of the two previous months, which witnessed 60 and 94 percent deteriorations respectively caused by the war and the sea and air blockade. The LL 10 billion loss compared to same period last year is explained by LL 6 billion and LL 4 billion losses of revenues from customs duties and excises respectively. The most significant development this month was the increase in collection of excises on petroleum products by 82 percent (LL 9 billion of additional revenues compared to the collection amount in September 2005). The increase is due to a significant fall in international oil prices, which allowed the excise rates to rise² while maintaining the retail gasoline price at LL 23,500 per tank (for the Gasoline 98 Octane). Additionally, a large quantity of fuel entered the country to replenish decreasing supplies due to the blockade.
- Fiscal stamps and property taxes also witnessed 6 percent and 22 percent decreases in revenues respectively during September 2006, compared to the collection level in September 2005. However these represent less severe deteriorations compared to the situation during the conflict period, further suggesting a slow recovery in collection.

Non tax revenues collected in September 2006 were LL 42 billion, a 71 percent decrease compared to same month last year. This is mainly caused by:

- a) 97 percent decrease in income from public institutions and government properties (a loss of LL 104 billion) attributed to the absence of transfer from the telecom budget surplus in September 2006.
- b) 5 percent decrease in administrative fees and charges stemming mainly from the 10 percent drop in administrative fees

Treasury revenues totaled LL 20 billion in September 2006, a 19 percent drop compared to same month last year, mainly due to less guarantees and municipalities' revenues by 65 percent and 27 percent respectively.

¹ Note that Decision number 826 dated September 14, 2006 postponed the deadline for the second quarter of the year internal VAT declaration and filing till 19/09/2006. In addition, this Decision granted taxpayers the possibility of settling their tax obligations in four installments.

² The capping mechanism that was put in place in May 2004, is such that the Treasury collects higher excises as oil prices at imports are lower, and vice versa.

Table 2. Total Revenue

(LL billion)	2005	2006	2005	2006	
	Sep	Sep	Jan-Sep	Jan-Sep	% Change
Budget Revenues, of which:	472	334	5,114	5,052	-1.2%
<i>Tax Revenues</i>	326	292	3,658	3,631	-0.7%
<i>Non-Tax Revenues</i>	147	42	1,456	1,421	-2.4%
Treasury Receipts	25	20	301	336	11.7%
Total Revenues	497	354	5,414	5,388	-0.5%

Source: MOF, DGF

Table 3. Tax Revenue

(LL billion)	2005	2006	2005	2006	
	Sep	Sep	Jan-Sep	Jan-Sep	% Change
Tax Revenues:	326	292	3,658	3,631	-0.7%
Taxes on Income, Profits, & Capital Gains, of which:	46	41	868	965	11.3%
<i>Income Tax on Profits</i>	10	5	382	415	8.6%
<i>Income Tax on Wages and Salaries</i>	3	4	143	152	6.0%
<i>Income Tax on Capital Gains & Dividends</i>	12	2	85	87	2.1%
<i>Tax on Interest Income (5%)</i>	20	30	242	300	23.8%
<i>Penalties on Income Tax</i>	1	0	12	10	-16.3%
Taxes on Property, of which:	32	25	279	464	66.2%
<i>Built Property Tax</i>	7	4	69	71	3.1%
<i>Real Estate Registration Fees</i>	23	17	185	202	9.1%
Domestic Taxes on Goods & Services, of which:	137	127	1,383	1,305	-5.6%
<i>Value Added Tax</i>	114	115	1,235	1,163	-5.8%
<i>Other Taxes on Goods and Services, of which:</i>	22	10	138	132	-4.1%
<i>Private Car Registration Fees</i>	9	6	77	82	6.6%
<i>Passenger Departure Tax</i>	13	4	60	49	-18.0%
Taxes on International Trade, of which:	91	81	953	700	-26.6%
<i>Customs</i>	41	34	351	320	-8.7%
<i>Excises, of which:</i>	51	47	602	379	-37.0%
<i>Petroleum Tax</i>	11	20	301	110	-63.5%
<i>Tobacco Tax</i>	17	13	139	109	-8.4%
<i>Tax on Cars</i>	22	14	157	158	0.4%
Other Tax Revenues (namely fiscal stamp fees)	19	18	175	197	12.0%

Source: MOF, DGF

Chart 2.

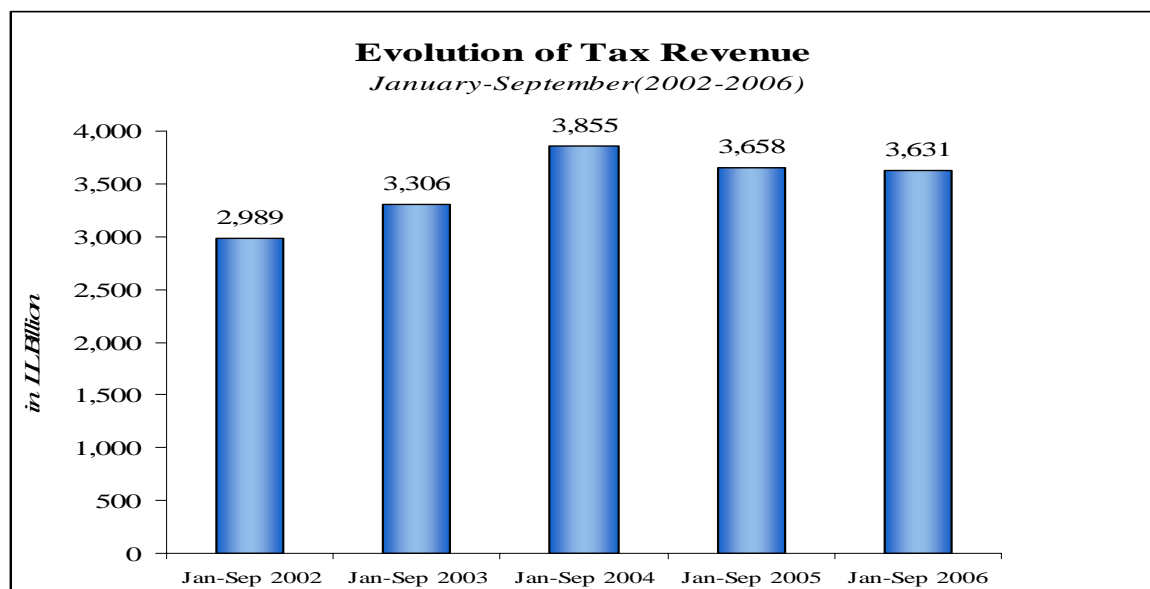
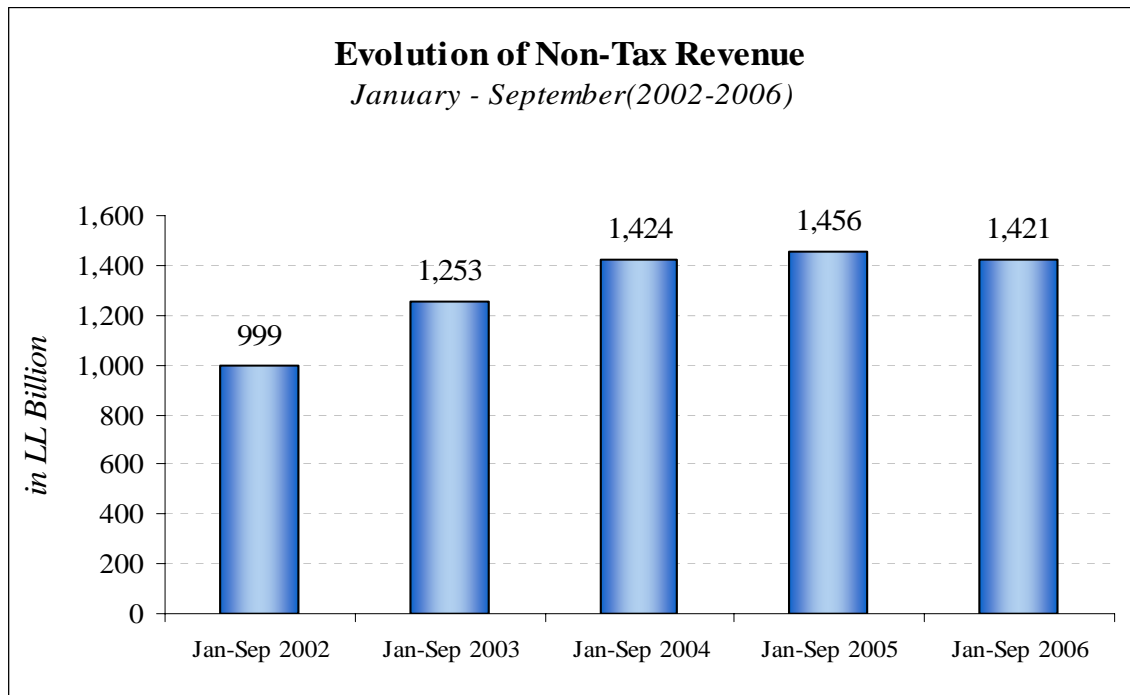


Table 4. Non-Tax Revenue

(LL billion)	2005 Sep	2006 Sep	2005 Jan-Sep	2006 Jan-Sep	% Change
Non-Tax Revenues	147	42	1,456	1,421	-2.4%
Income from Public Institutions and Government Properties, of which:	108	4	1,141	1,029	-9.9%
Income from Non-Financial Public Enterprises, of which:	103	2	1,107	1,004	-9.3%
<i>Revenues from Casino Du Liban</i>	5	2	39	29	-26.3%
<i>Revenues from Port of Beirut</i>	0	0	33	0	-100.0%
<i>Budget Surplus of National Lottery</i>	3	0	29	47	62.1%
<i>Transfer from the Telecom Surplus</i>	95	0	1,004	927	-7.7%
Property Income (namely rent of Rafic Hariri International Airport)	4	2	31	21	-33.2%
Other Income from Public Institutions (interests)	1	0	4	4	9.3%
Administrative Fees & Charges, of which:	30	29	248	323	30.3%
Administrative Fees, of which:	26	23	201	259	29.1%
<i>Notary Fees</i>	2	1	13	13	1.3%
<i>Passport Fees/ Public Security</i>	8	8	67	92	37.5%
<i>Vehicle Control Fees</i>	11	9	83	112	35.3%
<i>Judicial Fees</i>	2	1	16	14	-10.8%
<i>Driving License Fees</i>	1	2	11	17	50.2%
Administrative Charges	1	0	11	10	-12.2%
Sales (Official Gazette and License Number)	0	0	2	2	5.7%
Permit Fees (mostly work permit fees)	3	5	28	41	46.8%
Other Administrative Fees & Charges	1	1	6	10	82.2%
Penalties & Confiscations	0	0	3	3	14.9%
Other Non-Tax Revenues (mostly retirement deductibles)	8	9	64	67	4.1%

Source: MOF, DGF

Chart 3.



Section 3: Expenditure Outcome

During the first nine months of the year, total expenditures reached LL 8,377 billion, increasing by 14 percent from LL 7,343 billion for the same period of 2005. In September 2006, the impact of the July War continues to be felt on public expenditures. Both interest and non-interest payments increased by LL 808 billion and LL 225 billion respectively for January-September 2006 when compared to the same period of last year. Non-interest expenditure reported the highest increase in "other treasury expenditures" by LL 425 billion, which was partially offset by the decrease in current non-interest expenditures of LL 193 billion.

1. Debt service registered LL 3,162 billion in January-September 2006 compared to LL 2,354 billion for the same period of 2005, increasing by approximately 34 percent. This increase reflected higher local currency and foreign currency debt service by 67 percent and 11 percent respectively. This rise in the cost of local debt is mainly due to the maturity of all the Zero Interest Treasury Bills during the period of January-July 2005, initially issued in the context of the Paris II conference to the Lebanese commercial banks back in 2003. The rise in the cost of foreign currency debt is mainly due to the maturity of approximately USD 680 million of special Zero interest foreign currency bonds issued in the context of the Paris II conference between the months of January and May 2005.

2. Non-interest expenditures registered LL 5,214 billion in January-September 2006, against LL 4,989 billion for January-September 2005, scoring an increase of 5 percent.

a. Current primary budget expenditures decreased by LL 193 billion. It should be noted that during the war, only urgent and limited payments were spent in regular

expenditures such as wages and salaries, materials and supplies, external services, various transfers and other expenditures. Some of these items reported an increase which was offset by the decrease in other items as it is explained below:

- ✚ Wages and salaries (2 percent decrease): This decrease is due to the fact that part of September salaries were paid beginning of October (Education personnel and part of civil servants), otherwise, total wages and salaries during January-September 2006 would have reported the same level as January-September 2005.
- ✚ Various transfers (28 percent decrease): Various transfers dropped by 139 billion, to LL 350 billion in January-September 2006 from LL 489 billion in January-September 2005. The decrease is mainly due to the exceptional transfer of LL 290 billion to the NSSF reported during the January-September 2005 period, against a transfer of LL 150 billion reported during the same period of 2006.
- ✚ Materials and supplies (49 percent decrease): In September 2006, material and supplies registered a decrease of LL 11 billion compared to the same period of 2005. The decline in spending in September adds to the yearly cumulative decrease which was a result of exceptionally higher spending in 2005 due to LL 93 billion payment of accrued electricity bills of public administrations due to EDL.
- ✚ Other current (2 percent decrease): Despite this decrease in overall expenditures in this item, spending on hospitals - considered a major component of "other current" - increased by LL 29 billion mainly due to the transfers that occurred in the past three months to the hospitals which received a high number of casualties. Against this increase, a decrease of 60 percent was reported in "others", explained by exceptionally higher spending in 2005 resulting from the payment of LL 34 billion to settle the arbitration decisions relating to the Ministries of Public Works and Education.

b. Capital expenditures in the period January-September 2006 scored an increase of LL 2 billion when compared to the same period of last year, due to the increase of LL 5 billion in construction under progress.

c. Other treasury expenditures increased by LL 425 billion mainly due to three factors:

- ✚ The increase in direct transfers to EDL by LL 229 billion. An amount of LL 185 billion in settlement of arrears to oil suppliers (refer to table 7) was disbursed in August 2006 in addition to LL 474 billion settlement of fuel oil and gas oil agreement, reported during the months June-September 2006.
- ✚ Municipalities scored an increase of LL 76 billion in January-September 2006 when compared to the same period of last year, mainly to support the relief efforts during the war of July-August 2006.
- ✚ Transfers to the 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 Higher Relief Council for relief operations. In addition, a

special donation account was created in order to support the Lebanese government in its relief operations. The total donated amount of LL 79 billion was transferred in September 2006 to Higher Relief Council.

Table 5. Expenditures by Transaction Classification

(LL billion)	2005	2006	2005	2006	%
	Sep	Sep	Jan-Sep	Jan-Sep	Change
Total Expenditures	814	1,040	7,343	8,377	14.1%
Budget Expenditures	719	710	5,575	6,049	8.5%
Expenditures Excluding Debt Service	358	331	3,221	2,887	-10.4%
Debt Service, of which:	361	379	2,354	3,162	34.3%
<i>Local Currency Debt</i>	153	170	995	1,656	66.5%
<i>Foreign Currency Debt, of which:</i>	208	209	1,359	1,506	10.8%
<i>Eurobond Coupon Interest*</i>	181	163	1,161	1,263	8.8%
<i>Specialbond Coupon Interest*</i>				13	
<i>Concessional Loans Principal Payments</i>	6	40	111	144	29.5%
<i>Concessional Loans Interest Payments</i>	20	7	86	86	-0.3%
Treasury Expenditures , of which:	95	330	1,768	2,328	31.6%
<i>Municipalities</i>	16	61	261	337	29.0%
<i>Previous Years' Appropriations</i>	1	0	470	468	-0.5%
Non-Interest Expenditures (Total Expenditures minus Debt Service)	453	661	4,989	5,214	4.5%

Source: MOF, DGF

* Includes general expenses related to the transaction

Chart 4.

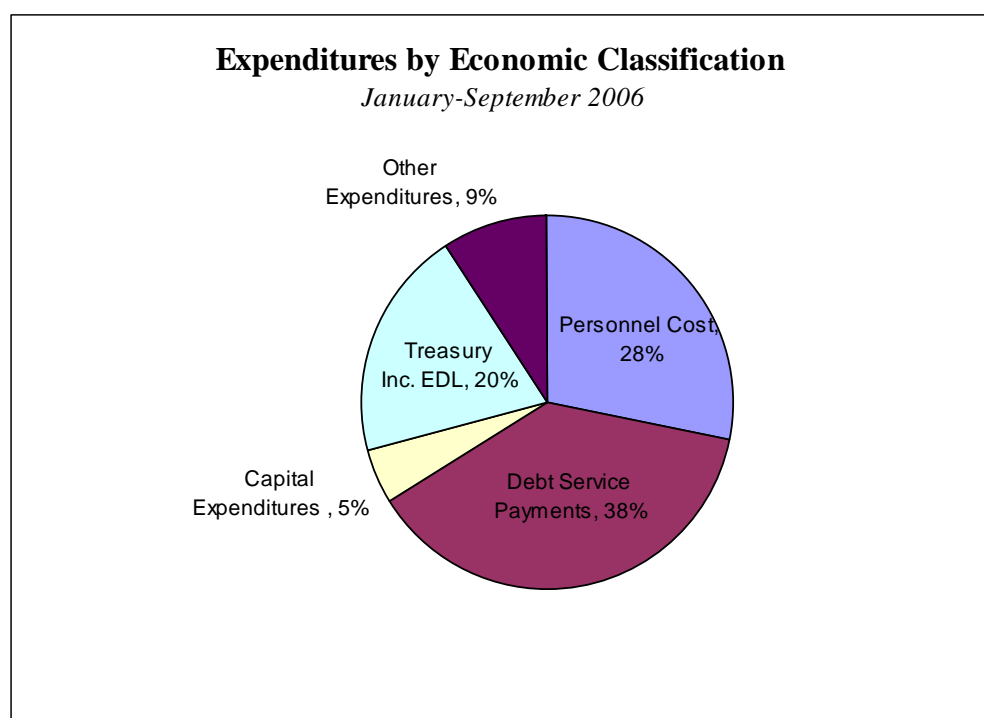


Table 6. Expenditures by Economic Classification

(LL billion)	2005 Jan-Sep	2006 Jan-Sep	% Change
1. Current expenditures	5,668	6,284	10.9%
1.a Personnel cost, of which	2,349	2,378	1.2%
Article 13: Salaries and wages	1,583	1,545	-2.4%
Retirement and end of service compensations	627	686	9.3%
1.b Debt Service payments	2,354	3,162	34.3%
1.c Materials and supplies	171	87	-49.0%
1.d External services	63	64	1.4%
1.e Various transfers	489	350	-28.3%
o/w NSSF	290	150	-48.3%
1.f Other current	187	182	-2.3%
Hospitals	130	159	22.0%
Others	57	23	-60.0%
1.g Reserves (3)	55	59	7.0%
Interest subsidy	55	59	7.0%
2. Capital expenditures	385	387	0.7%
2.a Acquisitions of land, buildings, for the construction of roads, ports, airports, and water networks	10	11	9.1%
2.b Equipment	20	15	-23.6%
2.c Construction in Progress	293	298	1.7%
2.d Maintenance	34	34	1.0%
2.e Other Expenditures Related to Fixed Capital Assets	28	29	3.8%
3. Other treasury expenditures, of which	1,257	1,682	33.8%
Municipalities	261	337	29.0%
EDL	665	895	34.5%
Transfers to Higher Council of Relief ³		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	-71.9%
5. Customs cashiers	28	22	-21.8%
6. Total expenditures (excluding CDR foreign financed)	7,342	8,377	14.1%

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

³ LL 19 billion of the Transfers are Treasury Advances and LL 79 billion are transfers from the grants accounts

Table 7. Transfers to EDL

(LBP billion)	2005	2006	
	Jan-Sep	Jan-Sep	% Change
EDL of which:	806	895	11.07%
Debt Service of which:	160	235	47.18%
C-Loans and Eurobonds, of which:	160	219	36.74%
Principal Repayment	111	175	57.35%
Interest Payment	49	44	-9.95%
Loans for Fuel Oil Payment	0	17	100.00%
BDL Guaranteed Loan Payment	0	0	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	474	100.00%
Repayment of oil suppliers arrears ****	0	185	100.00%

Source: MOF, DGF

* Paid for Fuel /From Decree Nbr. 14310 date 2/4/2005

**Paid from decree Nbr.14561 (220 billion LL)

***Paid from decree Nbr.14917 (155 billion LL)

****Paid from decree Nbr.16084 Dec 2005(152 billion LL)

& disburse an amount of 32 billion LL from the decree no 14308 dated 02/04/05 LL 90 billion,

Section 4: Public Debt

Highlights:

1. By the end of September 2006, gross public debt reached LL 60,347 billion (equivalent to US\$ 40 billion), registering an increase of LL 2,329 billion (or 4.01 percent) over the end-December 2005 debt level.
2. Local currency debt amounted to LL 29,582 billion (equivalent to US\$ 20 billion), increasing by LL 441 billion or 1.51 percent over the end-December 2005 level. This increase reflects the rise in the total debt during the period of January-September 2006 but particularly in the past two months.
3. By end-September 2006 foreign currency debt amounted to LL 30,765 billion (equivalent to US\$ 20 billion), increasing by LL 1,888 billion (or 6.54 percent) over the end-December 2005 level. During the period January-September 2006 the total Eurobond issuance was equal to USD 3.41 billion and the total principal payment was equal to USD 2.37 billion, including the exchange transaction in April 2006.
4. As of end September 2006, local currency debt held by BDL decreased by LL 2,181 billion as compared to end of December 2005. Meanwhile, local currency debt held by commercial banks increased by LL 1,642 billion as of end September 2006. However, when compared to the month of June 2006, commercial banks' holding of Treasury bills decreased by LL 1,118 billion in September. This decrease started in the month of July registering LL 1,512 billion and further declining by LL 1,994 billion in August 2006. The appetite for local currency debt resumed its improvement in September when T-bills

holding by commercial banks increased by LL 876 billion when compared to August 2006.

5. Public sector deposits amounted to LL 5,394 billion, decreasing by around LL 196 billion from their December 2005 level. The main reason behind the decrease is the repayment of some of the local currency debt that matured and the decrease of movement in commercial banks deposits from January-September 2006

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

Assumes full LBP Replacement	Dec-03	Dec-04	Dec-05	Sep-06	Change Dec 05 - Sep 06	% change Dec05 – Sep 06
Gross Public debt	50,285	54,048	58,018	60,347	2,329	4.01%
Local currency debt	26,843	26,371	29,141	29,582	441	1.51%
a. Central Bank (including REPOs and Loans to EDL to finance fuel purchases)*	8,938	10,652	11,686	9,505	-2,181	-18.66%
b. Commercial Banks	12,303	12,220	14,130	15,772	1,642	11.62%
c. Other Local Currency Debt (T-bills)	5,603	3,500	3,325	4,305	980	29.47%
<i>o/w Public entities</i>	2,564	2,187	2,446	3,445	999	40.84%
d. Accrued interest included in domestic debt	566	356	517	601	84	-16.25%
Foreign currency debt	23,442	27,677	28,877	30,765	1,888	6.54%
Ratio to total debt	46.6%	51.2%	49.8%	51.0%	0	2.43%
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	3,687	5	0.14%
c. BDL Eurobond (Paris II)	2,819	2,819	2,819	2,819		0.00%
d. Market Eurobonds	13,631	17,686	18,729	20,359	1,630	8.70%
e. Accrued Interest on foreign currency debt	327	388	406	541	135	33.28%
f. Special Tbls in Foreign currency**			419	419		0.00%
Public sector deposits	3,019	4,360	5,590	5,394	-196	-3.51%
Net debt	47,266	49,688	52,428	54,953	2,525	4.82%
Gross Market debt***	29,638	31,861	34,759	38,097	3,338	9.60%
% of total debt	59%	59%	60%	63%		

Source: Ministry of Finance, Banque du Liban

Notes:

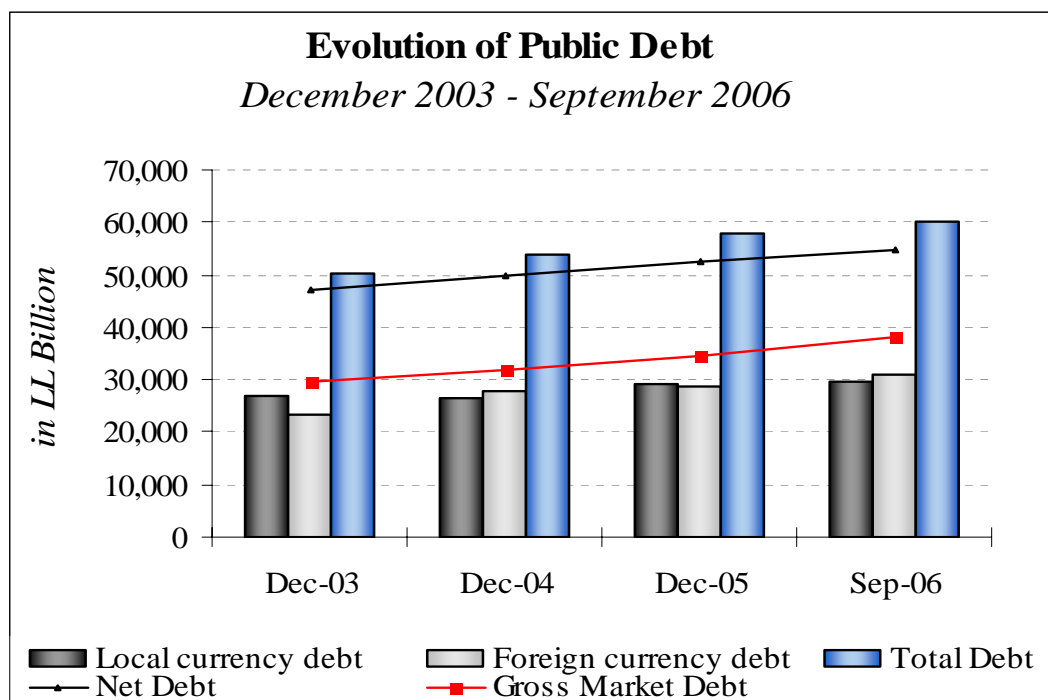
* The BDL has extended loans to EDL for the equivalent amount of US\$ 300 million to purchase fuel oil. These loans are listed as Public debt as they are government guaranteed.

** Special Tbls 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 5.





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