

Fiscal Overview

For January 2009, **total fiscal balance** registered a deficit of LL 460 billion compared to a deficit of LL 276 billion in January 2008. This widening of the deficit was due to a rise in total payments by LL 392 billion, which offset the LL 207 billion improvement in total receipts. On the other hand, the **primary balance** registered a deficit of LL 10 billion, a decrease of LL 273 billion compared to the surplus of LL 263 billion in the same month of last year explained by 64 percent increase in the primary expenditures.

Total revenues increased by 20 percent due to improved collection of both **tax revenues** and **non-tax revenues** by LL 239 billion and LL 114 billion respectively, whereas **treasury receipts** were 70 percent lower.

In general, January 2009 **tax revenues** figures depict the strength in collection witnessed in 2008, namely concerning (i) Income taxes on Profits and Capital Gains (22 percent rise in receipts), (ii) Domestic Consumption and Transactions taxes (26 percent rise in VAT and 38 percent rise in fiscal stamps), and (iii) Taxes on International Trade (17 percent higher tariff revenues and an 80 percent increase in car excises). On the other hand, three major developments stand out from the tax collection trend witnessed throughout 2008: (i) 31 percent increase in wages and salaries tax receipts of the month of January 2009¹ reflects the impact of Law number 63 dated 31/12/2008, which granted public sector wage increase and minimum wage increase; (ii) LL 83 billion collection of car gasoline excises reflecting the Council of Ministers' Decision number 9 dated January 23, 2009, which uncapped the retail price of gasoline at pump stations and fixed the excise rate level, returning to the pre-May 2004 pricing regime, whereby domestic prices reflect international price fluctuations (iii) 3 percent decline in the collection of property registration fees, following a yearly growth rate of 52 percent in 2008, most likely attributed to the languishing real estate market following the global financial crisis and the world economic recession.

On the other hand, **non-tax revenues**, registered an increase of 66 percent in January 2009 compared to the collection level of January 2008, explained mainly by 75 percent higher Entrepreneurial Income stemming from LL 62 billion transfers received from the **Port of Beirut**, against zero transfers in 2008, LL 30 billion higher transfers from the **Telecom Budget surplus** and LL 5 billion higher receipts from **Casino du Liban**. The main reason behind the 35 percent increase in **Administrative Fees and Charges** is the 62 percent hike in **Vehicle Control Fees** collected during January 2009. Concerning the **Treasury receipts**, a total amount of LL 63 billion was registered in January 2009, of which LL 40 billion for the Independent Municipal Fund, compared to LL 208 billion in January 2008 of which LL 32 billion for the Independent Municipal Fund, and 148 billion of grants².

¹ The month of January accounts for the last quarter of the previous year's filing and settlement of the wages and salaries tax. As such, January 09 accounts for QIV 08 tax dues on a higher wages and salaries base.

² In January 2008, the treasury received a grant of LL 145 billion from US AID pertaining to Paris III pledge, and LL 3 billion grant from Iraq to Iraqi refugees in Lebanon.

In January 2009, **total expenditures** increased by 30 percent. This rise resulted from increases in **current primary expenditures**, **interest payments**, **capital expenditures** and **treasury expenditures** by 22 percent, 14 percent, 53 percent and 118, percent respectively, offsetting the decrease in the **concessional loans' principal payments** by 94 percent. For the current primary expenditures, the increase of LL 87 billion resulted from increases in (a) salaries and wages by LL 42 billion due to the LL 200,000 monthly raise in basic salaries³, (b) retirement and end-of-service compensations by LL 15 billion mainly due to the LL 170,000 monthly raise in retirement salaries, (c) transfer to the Lebanese University by LL 8 billion, and (d) payments to hospitals by LL 30 billion. These increases largely offset the LL12 billion decrease in various transfers that resulted mainly from the following payments made in January 2009: LL 5 billion for wheat subsidy⁴ and LL 18 billion to contribute to the expenses of the Special Tribunal for Lebanon⁵. **Interest payments** were up by LL 54 billion resulting mainly from the increase in interest payments on domestic debt, and **concessional loans' principal payments** decreased by LL 143 billion. This decrease is due to the early retirement of three World Bank loans against USAID grant disbursement in January 2008.

Capital expenditures witnessed a LL 20 billion increase, resulting from higher construction-in-progress spending by LL 7 billion and a LL 9 billion increase in other capital expenditures resulting from a LL 10 billion payment to the Export Plus program. **Treasury expenditures** increased by LL 370 billion, mainly due to increases in a) transfers to EDL by LL 171 billion and b) transfers to High Relief Committee by LL 197 billion following a LL 200 billion treasury advance⁶ granted to the Committee to pay the indemnities of the July 2006 war victims.

By the end of January 2009, **gross public debt** reached LL 70,846 billion, registering a decrease of LL 28 billion compared to the end-December 2008 debt level. The LL 285 decrease in **foreign currency debt** offset the LL 257 billion increase in **local currency debt**. For the latter category, BDL's domestic debt portfolio was bigger by LL 834 billion largely due to purchases of Treasury Bills on the secondary market compensating the reduction in commercial banks portfolio by LL 632 billion.

Table 1. Summary of Fiscal Performance

(LL billion)	2007 January	2008 January	2009 January
Total Budget and Treasury Receipts	795	1,019	1,226
Total Budget and Treasury Payments, <i>of which:</i>	813	1,295	1,687
<i>Interest Payments</i>	274	386	440
<i>Concessional loans' principal payments 1/</i>	9	153	10
<i>Primary Expenditures 2/</i>	530	756	1,237
Total Cash Deficit/Surplus	-18	-276	-460
Primary Deficit/Surplus	265	263	-10

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

1/ Includes only Principal repayments of concessional loan's earmarked for project financing

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

³ Law number 63 dated 31/12/2008

⁴ The wheat subsidy policy ended on 15 November 2008 as per Council of Minister Decision #71 (dated 8/11/2008) and the last payment to the Directorate General of Cereals and Beetroot was made in September 2008.

⁵ Decree number 1015 dated 24/11/2007

⁶ Decree number 1168 dated 5/1/2009

Section 2: Revenue Outcome

Table 2. Total Revenue

(LL billion)	2007 January	2008 January	2009 January
Budget Revenues, of which:	719	811	1,164
<i>Tax Revenues</i>	598	638	877
<i>Non-Tax Revenues</i>	121	173	287
Treasury Receipts	76	208	63
Total Revenues	795	1,019	1,226

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

Table 3. Tax Revenue

(LL billion)	2007 January	2008 January	2009 January
Tax Revenues:	598	638	877
Taxes on Income, Profits, & Capital Gains, of which:	156	160	195
<i>Income Tax on Profits</i>	38	44	48
<i>Income Tax on Wages and Salaries</i>	56	67	88
<i>Income Tax on Capital Gains & Dividends</i>	22	11	11
<i>Tax on Interest Income (5%)</i>	39	36	45
<i>Penalties on Income Tax</i>	1	2	3
Taxes on Property, of which:	37	44	46
<i>Built Property Tax</i>	10	6	8
<i>Real Estate Registration Fees</i>	23	34	33
Domestic Taxes on Goods & Services, of which:	261	304	381
<i>Value Added Tax</i>	246	285	359
<i>Other Taxes on Goods and Services, of which:</i>	<i>14</i>	<i>17</i>	<i>20</i>
<i>Private Car Registration Fees</i>	8	14	15
<i>Passenger Departure Tax</i>	6	4	5
Taxes on International Trade, of which:	116	100	213
<i>Customs</i>	41	50	59
<i>Excises, of which:</i>	<i>75</i>	<i>50</i>	<i>155</i>
<i>Petroleum Tax</i>	43	0	83
<i>Tobacco Tax</i>	14	20	18
<i>Tax on Cars</i>	19	29	52
Other Tax Revenues (Namely Fiscal Stamp Fees)	28	30	42

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

Table 4. Non-Tax Revenue

(LL billion)	2007 January	2008 January	2009 January
Non-Tax Revenues	121	173	287
Income from Public Institutions and Government Properties, of which:	87	132	230
Income from Non-Financial Public Enterprises, of which:	83	127	224
<i>Revenues from Casino Du Liban</i>	3	6	11
<i>Revenues from Port of Beirut</i>	30	0	62
<i>Budget Surplus of National Lottery</i>	5	0	0
<i>Transfer from the Telecom Surplus</i>	45	120	151
<i>Transfer from Public Financial Institution (BDL)</i>	0	0	0
Property Income (Namely Rent of Rafic Hariri International Airport)	4	4	4
Other Income from Public Institutions (Interests)	1	1	2
Administrative Fees & Charges, of which:	26	35	46
Administrative Fees, of which:	20	27	37
<i>Notary Fees</i>	1	2	2
<i>Passport Fees/ Public Security</i>	6	8	8
<i>Vehicle Control Fees</i>	8	13	21
<i>Judicial Fees</i>	1	1	2
<i>Driving License Fees</i>	2	1	1
Administrative Charges	3	3	5
Sales (Official Gazette and License Number)	0	0	0
Permit Fees (Mostly Work Permit Fees)	3	3	4
Other Administrative Fees & Charges	1	1	1
Penalties & Confiscations	1	1	1
Other Non-Tax Revenues (Mostly Retirement Deductibles)	6	6	9

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

Section 3: Expenditure Outcome

Table 5. Expenditure by Economic Classification

(LL billion)	2007 January	2008 January	2009 January
1. Current Expenditures	600	940	938
1.a Personnel Cost, of which	216	297	369
<i>Salaries, Wages and Related Items (Article 13) 1/</i>	145	200	242
<i>Retirement and End of Service Compensations, of which:</i>	66	85	100
<i>Retirement</i>	64	67	90
<i>End of Service</i>	2	18	10
<i>Transfers to Public Institutions to Cover Salaries 2/</i>	4	12	27
1.b Interest Payments, of which: 3/	274	386	440
<i>Domestic Interest Payments</i>	198	253	307
<i>Foreign Interest Payments</i>	76	133	134
1.c Foreign Debt Principal Repayment	9	153	10
1.d Materials and Supplies, of which:	27	21	19
<i>Nutrition</i>	2	4	5
<i>Fuel Oil</i>	1	3	2
<i>Medicaments</i>	4	4	5
<i>Accounting Adjustments for Treasury</i>	18	9	4
1.e External Services	9	6	8
1.f Various Transfers, of which:	25	57	45
<i>NSSF</i>	0	0	0
<i>Wheat Subsidy</i>	0	5	0
<i>Special Tribunal for Lebanon</i>	0	18	0
1.g Other Current, of which:	30	11	43
<i>Hospitals</i>	27	7	37
<i>Others</i>	3	3	5
1.h Reserves	10	9	5
<i>Interest subsidy</i>	10	9	5
2. Capital Expenditures	32	38	58
2.a Acquisitions of Land, Buildings, for the Construction of Roads, Ports, Airports, and Water Networks	2	0	0
2.b Equipment	6	2	3
2.c Construction in Progress, of which:	16	29	37
<i>Displaced Fund</i>	6	0	0
<i>Council of the South</i>	0	0	0
<i>CDR</i>	0	24	33
<i>Ministry of Public Work and Transport</i>	5	3	1
<i>Other</i>	5	3	2
2.d Maintenance	8	5	8
2.e Other Expenditures Related to Fixed Capital Assets	0	1	10
3. Other Treasury Expenditures	177	314	684
Municipalities	0	26	34
Guarantees	4	2	4
Deposits :	3	4	6
Other, of which:	11	19	226
<i>VAT Refund</i>	8	8	6
<i>Higher Council of Relief</i>		3	200
EDL 4/	159	244	415
Treasury Advances for Diesel Oil Subsidy	0	19	
4. Unclassified Expenditures	0	0	0
5. Customs Cashiers	3	3	7

6. Total Expenditures (Excluding CDR Foreign Financed) 813 1,295 1,687

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 January	2008 January	2009 January
Transfer to Council of the South	0	0	1
Transfer to Council for Development and Reconstruction (CDR)	0	1	5
Transfer to the Displaced Fund	0	0	1
Transfer to the Lebanese University	4	11	19
Transfer to the Educational Center for Research and Development	0	0	2

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

Table 7. Details of Debt Service Transactions

(LL billion)	2007 January	2008 January	2009 January
Interest Payments 1/	274	386	440
Local Currency Debt	198	253	307
Foreign Currency Debt, of which:	76	133	134
Eurobond Coupon Interest*	73	124	124
Special Bond Coupon Interest*	0	0	0
Concessional Loans' Interest Payments	2	8	9
Concessional Loans' Principal Payments**	9	153	10

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 paid in 2008 of IBRD loans from US Aid Grant

Table 8. Transfers to EDL

(LL billion)	2007 January	2008 January	2009 January	Change
EDL of which:	159	244	415	171
• Debt Service of which:	9	11	10	-1
– C-Loans and Eurobonds, of which:	6	11	4	-7
Principal repayments	5	9	4	-6
Interest Payments	2	2	1	-2
– BDL Guaranteed Loan payments	2	0	6	6
• Repayment of loans for fuel oil and gas oil purchase (principal and interest)	0	0	0	0
• Reimbursement of KPC and Sonatrach agreements	151	232	405	172

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

Section 4: Public Debt

Table 9. Public Debt Outstanding by Holder as of End-January 09

(LL billion)	Dec-07	Dec-08	Jan-09	Change Dec 08 - Jan 09	% Change Dec 08- Jan 09
Gross Public Debt	63,364	70,874	70,846	-28	-0.04%
Local Currency Debt	31,373	39,006	39,263	257	0.66%
a. Central Bank (Including REPOs and Loans to EDL to Finance Fuel Purchases) ⁽¹⁾	9,052	8,781	9,615	834	9.50%
b. Commercial Banks	16,847	24,319	23,687	-632	-2.60%
c. Other Local Currency Debt (T-bills), of which:	5,474	5,906	5,961	55	0.93%
<i>Public Entities</i>	4,796	5,062	5,095	33	0.65%
* <i>Accrued Interest Included in Debt</i>	754	1,001	960	-41	-4.10%
Foreign Currency Debt (2)	31,991	31,868	31,583	-285	-0.89%
a. Bilateral, Multilateral and Foreign Private Sector Loans	2,963	2,789	2,687	-102	-3.65%
b. Paris II Related Debt (Eurobonds and Loans) ⁽³⁾	6,063	5,456	5,386	-70	-1.28%
c. Paris III Related Debt (Eurobonds and Loans) ⁽⁴⁾	1,357	1,849	1,820	-29	-1.58%
d. Market-Issued Eurobonds	20,780	20,925	20,814	-111	-0.53%
e. <i>Accrued Interest on Eurobonds</i>	410	430	457	27	6.28%
f. Special T-bills in Foreign Currency ⁽⁵⁾	419	419	419	0	0.00%
Public Sector Deposits	4,527	8,282	8,302	20	0.24%
Net Debt	58,837	62,592	62,544	-48	-0.08%
Gross Market Debt⁽⁶⁾	39,221	46,990	46,293	-697	-1.48%
% of Total Debt	62%	66%	65%	0	-1.44%

Source: Ministry of Finance (MOF), Banque du Liban (BDL)

- (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 07 - 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, and IMF loans.
- (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.

For further information please contact:

Ministry of Finance

UNDP Project

Tel: 961 1 981057/8

Fax: 961 1 981059

E-mail: infocenter@finance.gov.lb

Website: www.finance.gov.lb



REPUBLIC OF LEBANON
MINISTRY OF FINANCE