

## Fiscal Overview

Till the end of October 2008, the **total fiscal balance** registered a deficit of LL 3,134 billion compared to a deficit of 3,132 billion for the same period of 2007, resulting from an approximately equal increase in both payments and receipts by LL 1,493 billion and LL 1,491 respectively.

Although, the total fiscal deficit over the period Jan-Oct registered almost the same amount in both 2007 and 2008, the **primary balance** of Jan-Oct 2008 registered a surplus of LL 1,345 billion, scoring an increase of LL 335 billion when compared to the surplus of LL 1,010 billion realized in the same period of last year, which means that the year on year rise in interest payments was roughly covered by the increase in the primary surplus, therefore not causing a worsening of the overall balance.

For the period of January – October 2008, **total revenues** increased by 20 percent due to the increase of the three main categories, **tax revenues**, **non-tax revenues** and **treasury receipts** by LL 1,250 billion, LL 177 billion and LL 63 billion respectively. In fact, most of the **taxes** registered an improvement in collection mainly (i) 21 percent higher revenues from **income taxes on profits and capital gains** as well as (ii) 70 percent increase in the **collection of property registration fees**, and (iii) 30 percent rise in **VAT** receipts. On the international trade front, collection of **import duties** increased by 22 percent. At the same time, **excise revenues** were up by only 7 percent despite the 85 percent rise in revenues from **excises on cars** which was largely offset by the near absence of collection of **excise duties on fuel**. On the other hand, **non-tax revenues**, registered an increase of 9 36 percent in Jan-Oct 2008 compared to the collection level in Jan-Oct 2007, explained by LL 151 billion higher transfer from the **Budget Surplus of the Telecom** and LL 82 billion **higher Casino** receipts<sup>1</sup>, offsetting the LL 72 billion lower transfer from BDL, the LL 5 billion decrease in the transfer from the **National Lottery**, and the zero transfer from the **Port of Beirut**. By the end of October 2008, **Treasury receipts** were LL 63 billion higher than during the same period of 2007, explained by LL 40 billion higher revenues for the Independent Municipal Fund, and LL 43 billion higher receipts in "other Treasury revenues"; this latter may be explained by LL 17 billion higher amount of grants received and LL 53 billion of wheat subsidy refund in 2008.

Till the end of October 2008, **total expenditures** increased by LL 1,493 billion. This rise resulted from increases in current primary expenditures, interest payments, foreign debt principal repayment and treasury expenditures by 9 percent, 6 percent, 56 percent and 45 percent respectively, offsetting the decline in capital expenditures by 8 percent. **Current primary expenditures** increased by LL 352 billion mainly due to (a) a LL 98 billion increase in salaries,

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<sup>1</sup> For further clarification, kindly refer to previously published Public Finance Monitor reports.

wages resulting i) from higher **allowances** by LL 72 billion, ii) higher transfers to **civil servants cooperatives** by LL 14 billion and a LL 17 billion increase in **basic salaries** that is due to the LL 200,000 monthly raise in basic salaries approved by the Council of Ministers and paid as an advance to the civil servants and armed forces until the relative law is issued<sup>2</sup> (b) a LL 161 billion increase in retirement and end of service compensations mainly due to the resuming of end of service payments to the military after the temporary halt that followed the Nahr el Bared events and the LL 150,000 monthly retirement salary increase , (c) a LL 111 billion increase in treasury advance to the General Directorate of Cereals and Sugar to subsidize wheat and maintain the price of 1.12 kg of bread capped at LL 1,500, and (d) a LL96 billion increase in hospitalization bills which offset the LL 180 billion lower transfers to NSSF. **Interest payments** were up by LL 232 billion; payments on domestic debt registered an increase of LL 245 billion while payments on foreign debt registered a decrease of LL 13 billion. Also, foreign debt principal payment increased by LL 105 billion<sup>3</sup>. The increase in **treasury expenditures** by LL 839 billion is mostly due to higher payments to/on behalf of EDL by LL 553 billion as well as additional payments to municipalities by LL 68 billion, diesel oil subsidy by LL 19 billion and other treasury expenditures by LL 198 billion. The main increase in this last item comes mainly from the increase in VAT refunds, treasury advances and budget advances by LL 110 billion, LL 29 billion and LL 32 billion respectively.

By the end of October 2008, gross public debt reached LL 69,461 billion, registering an increase of LL 6,097 billion (9.62 percent) since the end-December 2007 debt level. As in previous months, most of this increase came from commercial banks increasing their LL Treasury Bills portfolio by LL 6,274 billion compared to December 2007 offsetting the decrease of the BDL portfolio and Paris II related debt (Eurobonds and loans) by LL 353 billion and LL 477 billion respectively. The increase of the public sector deposits of LL 3,492 billion, mostly reflects the surplus in the commercial banks subscriptions for LL Tbills.

**Table 1. Summary of Fiscal Performance**

(LL billion)	2006	2007	2008	2006	2007	2008
	October	October	October	Jan-Oct	Jan-Oct	Jan-Oct
Total Budget and Treasury Receipts	695	809	1,250	6,103	7,372	8,862
Total Budget and Treasury Payments, of which	1,206	1,206	1,352	9,586	10,503	11,996
<i>Interest Payments</i>	454	524	541	3,472	3,956	4,188
<i>Concessional loans principal payments 1/</i>	20	17	8	164	186	290
<i>Primary Expenditures 2/</i>	733	664	802	5,950	6,361	7,517
<b>Total Cash Deficit/Surplus</b>	<b>-511</b>	<b>-397</b>	<b>-102</b>	<b>-3,482</b>	<b>-3,132</b>	<b>-3,134</b>
<b>Primary Deficit/Surplus</b>	<b>-38</b>	<b>145</b>	<b>448</b>	<b>154</b>	<b>1,010</b>	<b>1,345</b>

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)

<sup>2</sup> In October the LL 200,000 raise were paid with a retroactive month as the council of ministers approved the effect of the raise will tack the salaries starting May 2008

<sup>3</sup> For more information, please refer to PFM July 2008.

## Section 2: Revenue Outcome

**Table 2. Total Revenue**

(LL billion)	2006 October	2007 October	2008 October	2006 Jan-Oct	2007 Jan-Oct	2008 Jan-Oct
<b>Budget Revenues, of which:</b>	<b>658</b>	<b>774</b>	<b>1,205</b>	<b>5,730</b>	<b>6,811</b>	<b>8,239</b>
<i>Tax Revenues</i>	504	595	832	4,155	4,760	6,011
<i>Non-Tax Revenues</i>	153	179	373	1,575	2,051	2,228
<b>Treasury Receipts</b>	<b>38</b>	<b>35</b>	<b>45</b>	<b>373</b>	<b>560</b>	<b>624</b>
<b>Total Revenues</b>	<b>695</b>	<b>809</b>	<b>1,250</b>	<b>6,103</b>	<b>7,372</b>	<b>8,862</b>

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

**Table 3. Tax Revenue**

(LL billion)	2006 October	2007 October	2008 October	2006 Jan-Oct	2007 Jan-Oct	2008 Jan-Oct
<b>Tax Revenues:</b>	<b>504</b>	<b>595</b>	<b>832</b>	<b>4,155</b>	<b>4,760</b>	<b>6,011</b>
<b>Taxes on Income, Profits, &amp; Capital Gains, of which:</b>						
<i>Income Tax on Profits</i>	4	5	21	430	458	588
<i>Income Tax on Wages and Salaries</i>	38	46	64	192	209	264
<i>Income Tax on Capital Gains &amp; Dividends</i>	4	10	19	93	128	152
<i>Tax on Interest Income (5%)</i>	44	47	39	346	360	393
<i>Penalties on Income Tax</i>	1	0	2	11	8	12
<b>Taxes on Property, of which:</b>	<b>25</b>	<b>43</b>	<b>75</b>	<b>490</b>	<b>400</b>	<b>630</b>
<i>Built Property Tax</i>	3	2	18	75	88	107
<i>Real Estate Registration Fees</i>	19	38	51	221	271	461
<b>Domestic Taxes on Goods &amp; Services, of which:</b>	<b>235</b>	<b>300</b>	<b>421</b>	<b>1,541</b>	<b>1,914</b>	<b>2,492</b>
<i>Value Added Tax</i>	223	277	378	1,387	1,730	2,240
<i>Other Taxes on Goods and Services, of which:</i>	11	23	42	144	178	246
<i>Private Car Registration Fees</i>	10	13	22	92	108	162
<i>Passenger Departure Tax</i>	2	10	20	51	69	83
<b>Taxes on International Trade, of which:</b>	<b>127</b>	<b>111</b>	<b>149</b>	<b>826</b>	<b>1,049</b>	<b>1,187</b>
<i>Customs</i>	49	53	66	369	462	561
<i>Excises, of which:</i>	78	58	83	457	587	627
<i>Petroleum Tax</i>	41	12	2	151	183	7
<i>Tobacco Tax</i>	15	18	24	123	175	199
<i>Tax on Cars</i>	22	28	57	180	225	417
<b>Other Tax Revenues (Namely Fiscal Stamp Fees)</b>	<b>27</b>	<b>33</b>	<b>42</b>	<b>224</b>	<b>234</b>	<b>290</b>

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

**Table 4. Non-Tax Revenue**

(LL billion)	2006 October	2007 October	2008 October	2006 Jan-Oct	2007 Jan-Oct	2008 Jan-Oct
<b>Non-Tax Revenues</b>	<b>153</b>	<b>179</b>	<b>373</b>	<b>1,575</b>	<b>2,051</b>	<b>2,228</b>
<b>Income from Public Institutions and Government Properties, of which:</b>	<b>118</b>	<b>135</b>	<b>325</b>	<b>1,147</b>	<b>1,638</b>	<b>1,772</b>
Income from Non-Financial Public Enterprises, of which:	113	129	316	1,117	<b>1,485</b>	<b>1,684</b>
<i>Revenues from Casino Du Liban</i>	4	5	10	33	50	132
<i>Revenues from Port of Beirut</i>	0	0	0	0	30	0
<i>Budget Surplus of National Lottery</i>	5	3	5	52	47	42
<i>Transfer from the Telecom Surplus</i>	105	120	301	1,032	1,357	1,508
Transfer from Public Financial Institutions (BDL)					113	41
Property Income (Namely Rent of Rafic Hariri International Airport)	4	6	8	25	34	40
Other Income from Public Institutions (Interests)	0	0	1	4	5	7
<b>Administrative Fees &amp; Charges, of which:</b>	<b>28</b>	<b>37</b>	<b>40</b>	<b>351</b>	<b>342</b>	<b>370</b>
Administrative Fees, of which:	24	29	32	283	275	303
<i>Notary Fees</i>	1	2	2	14	17	19
<i>Passport Fees/ Public Security</i>	7	9	10	99	97	101
<i>Vehicle Control Fees</i>	11	13	15	123	113	128
<i>Judicial Fees</i>	2	1	1	15	15	17
<i>Driving License Fees</i>	2	1	2	19	14	16
Administrative Charges	1	2	2	10	15	14
Sales (Official Gazette and License Number)	0	0	0	2	2	3
Permit Fees (Mostly Work Permit Fees)	3	4	4	44	40	43
Other Administrative Fees & Charges	0	1	1	10	10	7
<b>Penalties &amp; Confiscations</b>	<b>0</b>	<b>0</b>	<b>1</b>	<b>4</b>	<b>4</b>	<b>5</b>
<b>Other Non-Tax Revenues (Mostly Retirement Deductibles)</b>	<b>7</b>	<b>6</b>	<b>7</b>	<b>74</b>	<b>67</b>	<b>81</b>

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

## Section 3: Expenditure Outcome

**Table 5. Expenditure by Economic Classification**

(LL billion)	2006 Jan-Oct	2007 Jan-Oct	2008 Jan-Oct
<b>1. Current Expenditures</b>	<b>7,201</b>	<b>8,141</b>	<b>8,830</b>
1.a Personnel Cost, of which	2,726	2,997	3,240
<i>Salaries, Wages and Related Items (Article 13) 1/</i>	1,777	2,076	2,175
<i>Retirement and End of Service Compensations, of which:</i>	785	739	901
<i>Retirement</i>	616	647	715
<i>End of Service</i>	168	92	186
<i>Transfers to Public Institutions to Cover Salaries 2/</i>	164	182	164
1.b Interest Payments, of which: 3/	3,471	3,956	4,188
<i>Domestic Interest Payments</i>	1,842	2,176	2,421
<i>Foreign Interest Payments</i>	1,629	1,780	1,767
1.c Foreign Debt Principal Repayment	164	186	290
1.d Materials and Supplies, of which:	118	178	210
<i>Nutrition</i>	16	21	45
<i>Fuel Oil</i>	15	27	32
<i>Medicaments</i>	56	64	64
<i>Accounting Adjustments for Treasury</i>	13	39	43
1.e External Services	71	75	95
1.f Various Transfers, of which:	382	515	468
<i>NSSF</i>	150	220	40
<i>Treasury Advance for Wheat Subsidy</i>	0	32	142
1.g Other Current, of which:	197	171	268
<i>Hospitals</i>	171	138	234
<i>Others</i>	25	30	32
1.h Reserves	71	64	70
<i>Interest subsidy</i>	71	64	70
<b>2. Capital Expenditures</b>	<b>436</b>	<b>445</b>	<b>409</b>
2.a Acquisitions of Land, Buildings, for the Construction of Roads, Ports, Airports, and Water Networks	11	16	7
2.b Equipment	18	38	28
2.c Construction in Progress, of which:	340	326	279
<i>Displaced Fund</i>	55	51	30
<i>Council of the South</i>	30	30	20
<i>CDR</i>	194	178	173
<i>Ministry of Public Work and Transport</i>	33	32	31
<i>Other</i>	27	35	28
2.d Maintenance	38	41	61
2.e Other Expenditures Related to Fixed Capital Assets	29	24	35
<b>3. Other Treasury Expenditures</b>	<b>1,922</b>	<b>1,879</b>	<b>2,718</b>
Municipalities	362	219	287
Guarantees	90	51	50
Deposits, of which:	47	70	71
<i>NSSF</i>		10	
Other, of which:	298	282	480
<i>VAT Refund</i>	94	163	273
<i>Higher Council of Relief</i>	95	16	24
EDL 4/	1,074	1,257	1,811
Treasury Advances for Diesel Oil Subsidy	52	0	19
<b>4. Unclassified Expenditures</b>	<b>1</b>	<b>5</b>	<b>4</b>
<b>5. Customs Cashiers</b>	<b>25</b>	<b>34</b>	<b>35</b>

<b>6. Total Expenditures (Excluding CDR Foreign Financed)</b>	<b>9,586</b>	<b>10,503</b>	<b>11,996</b>
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Source : Statement of Account 36, Cashier Spending, Public Debt Department Figures , Fiscal Performance Gross Adjustment Figures

1/ For a detailed breakdown of salaries and wages, and related items, otherwise referred to as Article 13 in the Lebanese Budgets, kindly refer to table 6.

2/ For a detailed breakdown of those transfers, kindly refer to table 7.

3/ For a detailed breakdown of interest payments, kindly refer to table 8.

4/ For a detailed breakdown of transfers to EDL, kindly refer to table 9.

**Table 6. Breakdown of Article 13: Salaries, Wages and Related Items**

(LL billion)	Basic Salaries		Allowances		Other		Total	
	2007	2008	2007	2008	2007	2008	2007	2008
	Jan-Oct	Jan-Oct	Jan-Oct	Jan-Oct	Jan-Oct	Jan-Oct	Jan-Oct	Jan-Oct
<b>Military Personnel of which:</b>	<b>888</b>	<b>893</b>	<b>241</b>	<b>313</b>	<b>56</b>	<b>56</b>	<b>1,184</b>	<b>1,262</b>
Army	585	578	145	170	36	35	767	783
Internal Security Forces	242	254	79	123	15	15	336	392
General Security Forces	45	46	11	15	3	4	60	64
State Security Forces	15	15	5	6	2	2	22	23
<b>Education Personnel</b>	<b>430</b>	<b>436</b>	<b>0</b>	<b>0</b>	<b>39</b>	<b>36</b>	<b>469</b>	<b>472</b>
<b>Civil Personnel, of which:</b>	<b>189</b>	<b>194</b>	<b>2</b>	<b>2</b>	<b>218</b>	<b>228</b>	<b>410</b>	<b>424</b>
Employees Cooperative					150	164		
<b>Customs Salaries</b>							<b>14</b>	<b>17</b>
<b>Total</b>	<b>1,506</b>	<b>1,524</b>	<b>243</b>	<b>315</b>	<b>313</b>	<b>319</b>	<b>2,076</b>	<b>2,175</b>

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

**Table 7. Breakdown of Transfers to Public Institutions for the Coverage of Salaries**

(LL billion)	2006	2007	2008
	Jan-Oct	Jan-Oct	Jan-Oct
Transfer to Council of the South	4	4	6
Transfer to Council for Development and Reconstruction (CDR)	18	32	17
Transfer to the Displaced Fund	4	5	5
Transfer to the Lebanese University	129	134	128
Transfer to the Educational Center for Research and Development	10	8	9

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

**Table 8. Details of Debt Service Transactions**

(LL billion)	2006	2007	2008	2006	2007	2008
	October	October	October	Jan-Oct	Jan-Oct	Jan-Oct
<b>Interest Payments 1/</b>	<b>454</b>	<b>524</b>	<b>541</b>	<b>3,471</b>	<b>3,956</b>	<b>4,188</b>
<i>Local Currency Debt</i>	186	211	298	1,842	2,176	2,421
<i>Foreign Currency Debt, of which:</i>	267	313	243	1,629	1,780	1,767
<i>Eurobond Coupon Interest*</i>	258	305	228	1,521	1,662	1,637
<i>Special Bond Coupon Interest*</i>	0	0	0	13	13	8
<i>Concessional Loans Interest</i>	10	8	15	96	106	122
<b>Payments</b>						
<b>Concessional Loans Principal Payments</b>	<b>20</b>	<b>17</b>	<b>8</b>	<b>164</b>	<b>186</b>	<b>290</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

**Table 9. Transfers to EDL**

(LL billion)	2006	2007	2008	
	Jan-Oct	Jan-Oct	Jan-Oct	Change
<b>EDL of which:</b>	<b>1,074</b>	<b>1,257</b>	<b>1,811</b>	<b>555</b>
<b>Debt Service of which:</b>	<b>227</b>	<b>285</b>	<b>145</b>	<b>-140</b>
<i>C-Loans and Eurobonds, of which:</i>	<b>222</b>	<b>268</b>	<b>105</b>	<b>-163</b>
<i>Principal Repayments</i>	176	231	84	-147
<i>Interest Payments</i>	46	36	21	-15
<i>BDL Guaranteed Loan Payments</i>	5	18	40	22
<b>Repayment of Loans for Fuel Oil and Gas Oil Purchase</b>	<b>17</b>	<b>67</b>	<b>0</b>	<b>-67</b>
<b>(Principal and Interest)</b>				
<b>Reimbursement of KPC and Sonatrach Agreements</b>	<b>619</b>	<b>904</b>	<b>1,666</b>	<b>762</b>
<b>Repayment of Oil Suppliers Arrears</b>	<b>211</b>	<b>0</b>	<b>0</b>	<b>0</b>

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



## Section 4: Public Debt

**Table 10. Public Debt Outstanding by Holder as of End-October 08**

(LL billion)	Dec-06	Dec-07	Oct-08	Change Dec 07 - Oct 08	% Change Dec 07- Oct 08
<b>Gross Public Debt</b>	<b>60,851</b>	<b>63,364</b>	<b>69,461</b>	<b>6,097</b>	<b>9.62%</b>
<b>Local Currency Debt</b>	<b>30,204</b>	<b>31,373</b>	<b>37,675</b>	<b>6,302</b>	<b>20.09%</b>
a. Central Bank (Including REPOs and Loans to EDL to Finance Fuel Purchases) <sup>(1)</sup>	9,588	9,052	8,699	-353	-3.90%
b. Commercial Banks	16,487	16,847	23,138	6,291	37.34%
c. Other Local Currency Debt (T-bills), of which:	4,129	5,474	5,838	364	6.65%
<i>Public Entities</i>	3,313	4,796	4,991	195	4.07%
<i>* Accrued Interest Included in Debt</i>	685	754	867	113	14.99%
<b>Foreign Currency Debt</b> <sup>(2)</sup>	<b>30,647</b>	<b>31,991</b>	<b>31,786</b>	<b>-205</b>	<b>-0.64%</b>
a. Bilateral, Multilateral and Foreign Private Sector Loans	2,855	2,963	2,781	-182	-6.16%
b. Paris II Related Debt (Eurobonds and Loans) <sup>(3)</sup>	6,540	6,063	5,586	-477	-7.86%
c. Paris III Related Debt (Eurobonds and Loans) <sup>(4)</sup>		1,357	1,761	404	29.81%
d. Market-Issued Eurobonds	20,399	20,780	20,817	38	0.18%
e. <i>Accrued Interest on Eurobonds</i>	434	410	422	12	2.93%
f. Special T-bills in Foreign Currency <sup>(5)</sup>	419	419	419	0	0.00%
<b>Public Sector Deposits</b>	<b>4,444</b>	<b>4,527</b>	<b>8,019</b>	<b>3,492</b>	<b>77.14%</b>
<b>Net Debt</b>	<b>56,407</b>	<b>58,837</b>	<b>61,442</b>	<b>2,605</b>	<b>4.43%</b>
<b>Gross Market Debt</b> <sup>(6)</sup>	<b>38,670</b>	<b>39,221</b>	<b>45,696</b>	<b>6,476</b>	<b>16.51%</b>
<b>% of Total Debt</b>	<b>64%</b>	<b>62%</b>	<b>66%</b>		

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 05 - Dec 07 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 of USD 1,870 billion originally issued to BDL in the context of the Paris II conference.
- (4) Issued to Malaysia as part of its Paris III contribution, IBRD loans, UAE loan, first tranche of the French loan received in February 2008, and IMF loan.
- (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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