

Fiscal Overview

During the first six months of 2008, the **total fiscal balance** registered a deficit of LL 1,991 billion compared to a deficit of LL 1,848 billion in the same period of 2007. This deterioration is due to an increase in total payments by LL 845 billion, which offset the LL 702 billion increase in total receipts.

Meanwhile, the **primary balance** of January-June 2008 registered a surplus of LL 646 billion, an increase of LL 46 billion compared to the surplus of LL 600 billion realized in the same period of last year.

The 16 percent increase in **total revenues** over the period Jan-June 2008 was due to improved collection of most tax and non-tax types of revenues. In fact, since the start of the year, the Treasury is witnessing a rise in **tax receipts** (tax revenues were up by LL 553 billion or 19 percent by June 2008) mostly stemming from a boom in the real estate market and a surge in imports, reflecting into a stronger performance of taxes on property (property registration fees were up by 63 percent), and taxes on international trade, except for excises on gasoline (customs duties were up by 16 percent, and excises on cars and tobacco collected 79 and 12 percent higher revenues). Domestic taxes on goods and services collected LL 255 billion of additional receipts in January- June 2008 (mostly from VAT and, to a lesser extent, from car registration fees, which witnessed 24 percent and 42 percent respective increases). At the same time, income tax on profits' collection¹ increased by 31 percent in Jan-June 2008 when compared to the same period of 2007 reflecting an increase in the profits made by the companies that filed their tax returns. **Non-tax revenues** also registered an increase of around LL 95 billion or 8 percent for the period January-June 2008 as a result of higher transfers from Casino du Liban by 232 percent² and a larger budget surplus from telecom by 16 percent. During June 2008, the Treasury received LL 41 billion representing its 80 percent share of the Banque du Liban net profits as per Article 113 of the Code of Money and Credit (compared to LL 113 billion received in March 2007). **Treasury receipts** amounted to LL 436 billion in the first half of 2008, increasing by LL 55 billion when compared against the same period of 2007. Out of the LL 436 billion,

¹ Note that income tax on profits for corporations were mostly filed and settled in June 08 (and not during the month of May as per the regular schedule of tax filing) due to the extension of the filing deadline as per Decision #456 dated May 22, 2008. That being said, because Commercial Banks have 3 days period after the filing deadline to transfer the tax payments to the Treasury, some corporate income tax profits may still accrue in the month of July.

² The increase in Casino transfers account for LL 42 billion representing the first payment of a settlement agreement with Casino Management concerning an old litigation over the Treasury's revenue sharing rights from certain gambling machine. This rise in receipts may also be attributed to the full fledged implementation of a new phase of the arrangement between Government of Lebanon and Casino Management that grants the Treasury a higher Treasury's revenue sharing right (40% in lieu of 30%).

around LL 165 billion represent grants of the US Government received mostly throughout the first 5 months of 2008 (compared to LL 151 billion grants received in April 2007 pertaining to the Kingdom of Saudi Arabia's pledge in PIII), and LL 90 billion of revenues for the Independent Municipal Fund (compared to LL 74 billion in Jan-June 2007).

The increase in **total expenditures** by LL 845 billion was mostly attributed to rises in current primary expenditures, treasury expenditures and interest payments which offset the decline in capital expenditures. **Current primary expenditures** increased by LL 113 billion mainly due to (a) higher retirement and end of service compensations by LL 86 billion mainly due to the resuming of end of service payments to the military after the temporary halt that followed the Nahr el Bared events , (b) a treasury advance to the General Directorate of Cereals and Sugar for wheat subsidy of LL 116 billion to maintain the price of KG 1.12 of bread capped at LL 1,500, (c) materials and supplies by LL 14 billion and (d) hospitalization in the private sector by LL 50 billion which offset the LL 220 billion lower transfers to NSSF. **Interest payments** were up by LL 74 billion of which LL 35 billion were due to higher payments on domestic debt and LL 39 billion increase in foreign debt; also foreign debt principal payment increased by LL 116 billion. The increase in **treasury expenditures** by LL 550 billion can be mostly explained by higher transfers to the loss-making utility, EDL, by LL 341 billion as well as additional payments to municipalities by LL 95 billion, diesel oil subsidy by LL 19 billion and VAT refunds by LL 62 billion.

By the end of June 2008, gross public debt reached LL 67,060 billion, registering an increase of LL 3,696 billion (5.83 percent) over the end-December 2007 debt level. Almost 87 percent of this increase is coming from commercial banks increasing their LL Treasury Bills portfolio by LL 3,207 billion compared to December 2007. Exchange rate valuation changes account for 7.7 percent of the increase in gross public debt.

Table 1. Summary of Fiscal Performance

(LL billion)	2006 June	2007 June	2008 June	2006 Jan-June	2007 Jan-June	2008 Jan-June
Total Budget and Treasury Receipts	416	587	1,142	4,082	4,498	5,200
Total Budget and Treasury Payments, of which	1,045	1,161	1,083	5,232	6,346	7,191
Interest Payments	386	369	331	2,081	2,358	2,432
Concessional loans principal payments 1/	23	24	7	78	90	206
Primary Expenditures 2/	636	768	744	3,072	3,898	4,554
Total Cash Deficit/Surplus	-629	-574	59	-1,150	-1,848	-1,991
Primary Deficit/Surplus	-220	-180	397	1,010	600	646

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)

Section 2: Revenue Outcome

Table 2. Total Revenue

(LL billion)	2006 June	2007 June	2008 June	2006 Jan-June	2007 Jan-June	2008 Jan-June
Budget Revenues, of which:	391	550	1,085	3,896	4,117	4,764
<i>Tax Revenues</i>	335	370	838	2,901	2,901	3,454
<i>Non-Tax Revenues</i>	55	179	247	995	1,216	1,310
Treasury Receipts	25	38	57	187	381	436
Total Revenues	416	587	1,142	4,082	4,498	5,200

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

Table 3. Tax Revenue

(LL billion)	2006 June	2007 June	2008 June	2006 Jan-June	2007 Jan-June	2008 Jan-June
Tax Revenues:	335	370	838	2,901	2,901	3,454
Taxes on Income, Profits, & Capital Gains, of which:	51	105	426	788	848	1,025
<i>Income Tax on Profits</i>	12	62	361	409	427	558
<i>Income Tax on Wages and Salaries</i>	3	2	7	106	112	140
<i>Income Tax on Capital Gains & Dividends</i>	7	13	25	68	86	98
<i>Tax on Interest Income (5%)</i>	28	28	31	195	217	222
<i>Penalties on Income Tax</i>	1	0	1	9	5	6
Taxes on Property, of which:	37	33	67	399	240	327
<i>Built Property Tax</i>	6	2	11	63	70	65
<i>Real Estate Registration Fees</i>	28	28	51	156	144	234
Domestic Taxes on Goods & Services, of which:	133	129	196	997	1,058	1312
<i>Value Added Tax</i>	114	110	169	888	955	1186
<i>Other Taxes on Goods and Services, of which:</i>	19	19	26	100	99	123
<i>Private Car Registration Fees</i>	13	9	18	65	58	83
<i>Passenger Departure Tax</i>	7	10	8	35	40	39
Taxes on International Trade, of which:	93	85	123	569	624	636
<i>Customs</i>	47	42	55	254	265	309
<i>Excises, of which:</i>	46	43	68	316	359	327
<i>Petroleum Tax</i>	0	2	0	90	140	5
<i>Tobacco Tax</i>	17	20	21	93	100	112
<i>Tax on Cars</i>	29	21	47	130	116	208
Other Tax Revenues (namely fiscal stamp fees)	20	19	26	148	131	154

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

Table 4. Non-Tax Revenue

(LL billion)	2006	2007	2008	2006	2007	2008
	June	June	June	Jan-June	Jan-June	Jan-June
Non-Tax Revenues	55	179	247	995	1,216	1,310
Income from Public Institutions and Government Properties, of which:	11	139	193	697	972	1,035
Income from Non-Financial Public Enterprises, of which:	8	135	150	677	836	966
<i>Revenues from Casino Du Liban</i>	4	5	15	21	28	93
<i>Revenues from Port of Beirut</i>	0	0	0	0	30	0
<i>Budget Surplus of National Lottery</i>	4	0	0	40	28	5
<i>Transfer from the Telecom Surplus</i>	0	130	136	616	750	868
Income from Financial Public Enterprises, (BDL):			41		113	41
Property Income (namely rent of Rafic Hariri International Airport)	2	3	2	15	21	24
Other Income from Public Institutions (interests)	0	1	1	3	3	3
Administrative Fees & Charges, of which:	35	34	36	247	202	219
Administrative Fees, of which:	29	26	29	196	161	177
<i>Notary Fees</i>	2	2	2	10	10	11
<i>Passport Fees/ Public Security</i>	10	11	11	59	52	57
<i>Vehicle Control Fees</i>	10	9	11	94	70	77
<i>Judicial Fees</i>	2	1	2	11	9	11
<i>Driving License Fees</i>	3	1	1	13	8	8
Administrative Charges	1	1	1	32	22	11
Sales (Official Gazette and License Number)	0	0	0	2	1	2
Permit Fees (mostly work permit fees)	5	4	5	32	22	25
Other Administrative Fees & Charges	0	2	1	8	6	4
Penalties & Confiscations	1	1	0	3	3	3
Other Non-Tax Revenues (mostly retirement deductibles)	8	7	16	48	38	54

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

Section 3: Expenditure Outcome

Table 5: Expenditure by Economic Classification

(LL billion)	2006 Jan-June	2007 Jan-June	2008 Jan-June
1. Current expenditures	4,299	4,890	5,193
1.a Personnel cost, of which:	1,607	1,788	1,905
<i>Salaries, wages and related items (Article 13) 1/</i>	1,056	1,232	1,268
<i>Retirement and end of service compensations, of which:</i>	446	451	537
<i>Retirement</i>	364	386	409
<i>End of Service</i>	81	64	128
<i>Transfers to public institutions to cover salaries 2/</i>	106	105	100
1.b Interest payments, of which: 3/	2,081	2,358	2,432
<i>Domestic Interest Payments</i>	1,107	1,299	1,334
<i>Foreign Interest Payments</i>	974	1,058	1,097
1.c Foreign Debt Principal Repayment	78	90	206
1.d Materials and Supplies, of which:	71	99	113
<i>Nutrition</i>	10	12	25
<i>Fuel Oil</i>	6	17	19
<i>Medicaments</i>	35	24	33
<i>Accounting Adjustments for Treasury</i>	5	27	21
1.e External Services	53	49	56
1.f Various Transfers, of which:	247	362	291
<i>National Social Security Fund</i>	100	220	0
<i>Treasury Advances for Wheat Subsidy</i>	0	0	116
1.g Other Current, of which:	123	103	147
<i>Hospitals</i>	105	80	130
<i>Others</i>	17	21	15
1.h Reserves, of which:	38	41	44
<i>Interest Subsidy</i>	38	41	44
2. Capital Expenditures	336	271	265
2.a Acquisitions of Land, Buildings, for the Construction of Roads, Ports, Airports, and Water Networks	11	13	2
2.b Equipment	12	24	17
2.c Construction in Progress, of which:	254	182	188
<i>Displaced Fund</i>	55	21	20
<i>Council of the South</i>	20	20	10
<i>CDR</i>	150	107	120
<i>Ministry of Public Work and Transport</i>	13	19	18
<i>Other</i>	16	16	22
2.d Maintenance	30	30	35
2.e Other Expenditures Related to Fixed Capital Assets	29	22	23
3. Other Treasury Expenditures	582	1,164	1,714
Municipalities	163	101	196
Guarantees	60	21	25
Deposits	27	47	26
Other, of which:	130	148	260
<i>VAT refund</i>	69	87	149
<i>Higher Council of Relief</i>	0	6	9

Treasury Advance for National Social Security Fund	0	10	0
EDL 4/	151	847	1,188
Treasury Advances for Diesel Oil Subsidy	52	0	19
4. Unclassified Expenditures	1	2	2
5. Customs Cashiers	15	19	18
6. Total Expenditures (excluding CDR and HRC Foreign Financed)	5,232	6,346	7,191

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-June	Jan-June	Jan-June	Jan-June	Jan-June	Jan-June	Jan-June	Jan-June
Military Personnel	550	503	162	213	34	34	746	750
Army	362	326	88	105	22	21	472	451
Internal Security forces	151	143	61	92	10	10	222	244
General Security forces	28	26	9	12	2	2	39	40
State Security forces	9	9	4	4	1	1	14	14
Education Personnel	226	241	0	0	25	26	251	267
Civil Personnel, of which:	112	107	1	1	115	133	228	241
Civil Servants Cooperative					70	90	70	90
Customs salaries							7	10
Total	888	851	163	214	175	193	1,232	1,268

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

(LL billion)	2006	2007	2008
	Jan-June	Jan-June	Jan-June
Transfer to Council of the South	2	3	5
Transfer to Council for Development and Reconstruction (CDR)	14	18	15
Transfer to the Displaced Fund	3	3	4
Transfer to the Lebanese University	80	76	72
Transfer to the Educational Center for Research and Development	8	5	5
Total	106	105	100

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
	June	June	June	Jan-June	Jan-June	Jan-June
Interest Payments 1/	385	369	331	2,081	2,358	2,432
Local Currency Debt	221	201	165	1,107	1,299	1,334
Foreign Currency Debt, of which:	164	168	166	974	1,058	1,097
Eurobond Coupon Interest*	147	148	155	916	991	1,021
Special bond Coupon Interest*	13	13	7	13	13	7
Concessional Loans Interest Payments	4	8	4	46	55	69
Concessional Loans Principal Payments	23	24	7	78	90	206

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-June	Jan-June	Jan-June	Change
EDL, of which:	151	847	1,188	341
Debt Service, of which:	112	220	73	-147
C-Loans and Eurobonds, of which:	96	210	48	-162
Principal repayments	68	188	39	-149
Interest Payments	28	22	9	-13
BDL Guaranteed Loan payments	0	10	25	15
Repayment of Loans for Fuel Oil and Gas Oil	17	67	0	-67
Purchase (Principal and Interest)				
Reimbursement of KPC and Sonatrach Agreements	38	560	1,114	554

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

Section 4: Public Debt

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

(LL billion)	Dec-05	Dec-06	Dec-07	Jun-08	Change Dec 07 - June 08	% Change Dec 07 - June 08
Gross Public Debt	57,985	60,851	63,364	67,060	3,696	5.83%
Local Currency Debt	29,141	30,204	31,373	34,672	3,299	10.52%
a. Central Bank (including REPOs and Loans to EDL to finance fuel purchases) ⁽¹⁾	11,686	9,588	9,052	9,054	2	0.02%
b. Commercial Banks	14,130	16,487	16,847	20,055	3,208	19.04%
c. Other Local Currency Debt (T-bills), of which:	3,325	4,129	5,474	5,563	89	1.63%
<i>Public entities</i>	2,446	3,313	4,796	4,773	-23	-0.48%
* <i>Accrued interest included in debt</i>	517	685	754	861	107	14.19%
Foreign Currency Debt (2)	28,844	30,647	31,991	32,388	397	1.24%
a. Bilateral, Multilateral and Foreign Private Sector Loans	2,789	2,855	2,963	2,983	20	0.67%
b. Paris II Related Debt (Eurobonds and Loans) ⁽³⁾	6,501	6,540	6,063	5,859	-203	-3.35%
c. Paris III Related Debt (Eurobonds and Loans) ⁽⁴⁾	0	0	1,357	1,830	473	34.87%
d. Market-Issued Eurobonds	18,729	20,399	20,780	20,927	147	0.71%
e. <i>Accrued Interest on Eurobonds</i>	406	434	410	370	-40	-9.76%
f. Special T-bills in Foreign Currency ⁽⁵⁾	419	419	419	419	0	0.00%
Public Sector Deposits	5,590	4,444	4,527	6,151	1,624	35.87%
Net Debt	52,395	56,407	58,837	60,909	2,072	3.52%
Gross Market Debt⁽⁶⁾	34,721	38,670	39,221	42,635	3,414	8.71%
% of Total Debt	60%	64%	62%	64%		

Source: Ministry of Finance, Banque du Liban

Notes:

⁽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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