



Fiscal Overview

For the first half of 2009, the **total fiscal balance** registered a deficit of LL 2,349 billion compared to LL 1,991 billion in January-June 2008, worsening by 18 percent. This was due to the LL 1,575 billion increase in total expenditures, which exceeded the LL 1,217 billion increase in total receipts by LL 358 billion. The **primary balance** revealed a surplus of LL 586 billion, a decrease of 9 percent compared to last year's primary surplus of LL 646 billion. This outcome was the result of an increase of LL 1,277 billion in primary expenditures that neutralized the LL 1,217 billion increase in total revenues.

For the first six months of 2009, **total revenues** increased by 23 percent totaling LL 6,417 billion compared to LL 5,200 billion during the same period in 2008 as a result of the improvement in **tax revenues** by LL 1,153 billion and in **non-tax revenues** by LL 157 billion. These increases largely compensated for the LL 94 billion reduction in **treasury receipts** owing to lower transfer of grants¹.

Nearly all tax components witnessed improvements during the first half of the year, except for **real estate registration fees**, which slightly declined. The main enhancement in tax collection originated from **taxes on international trade**, with an overall 101 percent increase in receipts resulting from a hike in **petroleum tax** receipts², and increases in revenues from **car excises**³ and from **customs duties**⁴. **Taxes on income, profits and capital gains** also registered a LL 236 billion increase, due to enhanced collection of (i) **income tax on profits** - mostly explained by the 8.5 percent estimated real growth in 2008, (ii) **income tax on wages and salaries** - owing to Law 63, and (iii) **tax on interest income** - due to a 19 percent year-on-year growth in private sector bank deposits. With nearly the same magnitude of increase as that of income taxes, collection of **domestic taxes on goods and services** totaled LL 234 billion, explained by the rise in **value added tax** and in **private car registration fees**.

Non-tax revenues increased by almost 12 percent in the first half of this year compared to 2008, mainly due to 12 percent improvement in each of its two major components: **income from public institutions and government properties** and **administrative fees and charges**. The breakdown of the income from public institutions and government properties shows a decrease in receipts from **Casino du Liban** - explained by lower dispute settlement dues in

¹ In Jan-June 08, 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 in Jan-June 09, the Treasury received LL 87.8 billion, of which LL 10.5 billion of project grant from Oman for the reconstruction of Nahr El Bared Camp, LL 1.9 billion of budget support grant from Greece, and LL 75.4 billion of budget support grant from USAID.

² The hike in the international fuel prices in 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 six months consecutively starting April 08. The substantial drop in international fuel prices by the end of 2008, following the onset of the international financial crisis, provided an opportunity to the Government to uncap the retail price of gasoline and to set 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.

³ Explained by 37 percent rise in car imports

⁴ Explained by 7 percent higher imports

2009⁵. Under the same heading, revenues **from Port of Beirut** were higher - representing the surplus transfer of the year 2008, received early January 2009. As for the **transfer from the Telecom Budget surplus**, although it was higher for the period, it should be noted that no Telecom surplus transfer was received during the month of June 2009. As for the **administrative fees and charges**, the rise in receipts came mainly from the **vehicle control fees**.

Until the end of June 2009, **total expenditures** increased by 22 percent, due to higher **current primary expenditures, interest payments, capital expenditures and treasury expenditures** by 20 percent, 15 percent, 6 percent and 44 percent, respectively. **Current primary expenditures** increased by LL 507 billion following the increases in **personnel cost and other current expenditures**, which offset the decreases in **materials and supplies and various transfers**.

The increase in personnel cost is due to augmentations in its three components: **salaries, wages and related items, retirement and transfers to public institutions to cover salaries**. Other current primary expenditures payments, such as **hospitals, other current expenditures and interest subsidies** also rose, whereas **various transfers** decreased following the LL 106 billion⁶ decrease in wheat subsidy to cap the price of bread and the drop in transfers to the Special Tribunal for Lebanon, offsetting the increases in transfers to non-profit organizations and primary public schools contractual teachers, respectively.

Interest payments increased by LL 356 billion, driven by higher interest payments on domestic currency debt due to an increase in the stock of domestic currency TBs. Interest payments on foreign currency debt decreased LL 7 billion compared to January-June 2008.

Principal repayment of foreign project loans decreased by LL 58 billion compared to January-June 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 658 billion, mainly due to higher transfers to EDL, High Relief Committee and VAT refund, whereas transfers to municipalities witnessed a decrease.

At the end of June 2009, **gross public debt** reached LL 71,346 billion, registering an increase of LL 458 billion compared to the end-December 2008 debt level. This increase is a result of higher **local and foreign currency debt** of LL 154 billion and LL 304 billion, respectively. From end-2008 until end of June 2009, BDL's domestic debt portfolio rose by LL 1,749 billion, largely due to purchases of TBs on the secondary market in the first quarter of 2009. This increase compensated the reduction in commercial banks' domestic debt portfolio by LL 2,065 billion over the same period. 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

⁵ The agreement signed in February 2008, which settled past years' dispute between the Government and Casino du Liban Management over the scope of the Treasury revenue-sharing right, stipulated a settlement amount of LL 83 billion to be installed over 3 years, as follows: LL 42 billion paid in 2008, LL 14 billion/ year over the three year period 2009-2011.

⁶ The policy to subsidize wheat purchases by flour producing mills to cap the price of bread at LL1,500 per 1.15 Kg was ended in November 2008. However, in June 2009, LL 10 billion was paid by treasury advance to the Directorate General of Cereals and Beetroot (Decree # 2018 dated 22/5/2009) to subsidize this time the production of wheat by local farmers following the decrease in wheat prices on international markets.

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 2009⁷.

Table 1. Summary of Fiscal Performance

(LL billion)	2007	2008	2009	2007	2008	2009
	June	June	June	Jan- June	Jan- June	Jan- June
Total Budget and Treasury Receipts	587	1,142	1,256	4,498	5,200	6,417
Total Budget and Treasury Payments, of which	1,161	1,083	1,483	6,346	7,191	8,766
<i>Interest Payments</i>	369	331	375	2,358	2,432	2,787
<i>Concessional loans principal payments 1/</i>	24	7	94	90	206	148
<i>Primary Expenditures 2/</i>	768	744	1,013	3,898	4,554	5,831
Total Cash Deficit/Surplus	-574	59	-227	-1,848	-1,991	-2,349
Primary Deficit/Surplus	-180	397	242	600	646	586

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 payments)

⁷ 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 June	2008 June	2009 June	2007 Jan-June	2008 Jan-June	2009 Jan-June
Budget Revenues, of which:	550	1,085	1,139	4,117	4,764	6,075
<i>Tax Revenues</i>	370	829	1,064	2,901	3,433	4,586
<i>Non-Tax Revenues</i>	179	256	74	1,216	1,331	1,489
Treasury Receipts	38	57	117	381	436	342
Total Revenues	587	1,142	1,256	4,498	5,200	6,417

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

Table 3. Tax Revenue

(LL billion)	2007 June	2008 June	2009 June	2007 Jan-June	2008 Jan-June	2009 Jan-June
Tax Revenues:	370	829	1,064	2,901	3,433	4,586
Taxes on Income, Profits, & Capital Gains, of which:	105	417	529	848	1,004	1,240
<i>Income Tax on Profits</i>	62	352	453	427	537	672
<i>Income Tax on Wages and Salaries</i>	2	7	5	112	140	195
<i>Income Tax on Capital Gains & Dividends</i>	13	25	32	86	98	103
<i>Tax on Interest Income (5%)</i>	28	31	36	217	222	259
<i>Penalties on Income Tax</i>	0	1	3	5	6	10
Taxes on Property, of which:	33	67	69	240	327	335
<i>Built Property Tax</i>	2	11	7	70	65	70
<i>Real Estate Registration Fees</i>	28	51	50	144	234	229
Domestic Taxes on Goods & Services, of which:	129	196	212	1,058	1,312	1,546
<i>Value Added Tax</i>	110	170	174	955	1,186	1,377
<i>Other Taxes on Goods and Services, of which:</i>	19	26	37	99	123	164
<i>Private Car Registration Fees</i>	9	18	24	58	83	12
<i>Passenger Departure Tax</i>	10	8	13	40	39	52
Taxes on International Trade, of which:	85	123	224	624	636	1,279
<i>Customs</i>	42	55	65	265	309	364
<i>Excises, of which:</i>	43	68	159	359	327	915
<i>Petroleum Tax</i>	2	0	85	140	5	492
<i>Tobacco Tax</i>	20	21	20	100	112	123
<i>Tax on Cars</i>	21	47	54	116	208	298
Other Tax Revenues (namely fiscal stamp fees)	19	26	31	131	154	187

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

Table 4. Non-Tax Revenue

(LL billion)	2007 June	2008 June	2009 June	2007 Jan-June	2008 Jan-June	2009 Jan-June
Non-Tax Revenues	179	256	74	1,216	1,331	1,489
Income from Public Institutions and Government Properties, of which:	139	202	27	972	1,056	1,187
Income from Non-Financial Public Enterprises, of which:	135	159	21	836	987	1,109
<i>Revenues from Casino Du Liban</i>	5	15	11	28	93	77
<i>Revenues from Port of Beirut</i>	0	0	0	30	0	62
<i>Budget Surplus of National Lottery</i>	0	9	10	28	26	28
<i>Transfer from the Telecom Surplus</i>	130	136	0	750	868	941
<i>Transfer from Public Financial Institution (BDL)</i>		41	0		41	40
Property Income (namely rent of Rafic Hariri International Airport)	3	2	5	21	24	32
Other Income from Public Institutions (interests)	1	1	1	3	3	6
Administrative Fees & Charges, of which:	34	36	38	202	219	247
Administrative Fees, of which:	26	29	31	161	177	202
<i>Notary Fees</i>	2	2	2	10	11	12
<i>Passport Fees/ Public Security</i>	11	11	11	52	57	55
<i>Vehicle Control Fees</i>	9	11	13	70	77	102
<i>Judicial Fees</i>	1	2	1	9	11	9
<i>Driving License Fees</i>	1	1	2	8	8	10
Administrative Charges	1	1	1	22	11	12
Sales (Official Gazette and License Number)	0	0	0	1	2	1
Permit Fees (mostly work permit fees)	4	5	4	22	25	22
Other Administrative Fees & Charges	2	1	2	6	4	9
Penalties & Confiscations	1	0	1	3	3	3
Other Non-Tax Revenues (mostly retirement deductibles)	7	16	9	38	54	52

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

Section 3: Expenditure Outcome

Table 5. Expenditure by Economic Classification

(LL billion)	2007 Jan-June	2008 Jan-June	2009 Jan-June
1. Current Expenditures	4,890	5,193	5,997
1.a Personnel Cost, <i>of which</i>	1,788	1,905	2,425
<i>Salaries, Wages and Related Items</i> (Article 13)	1,232	1,268	1,670 ⁸
<i>Retirement and End of Service Compensations, of which:</i>	451	537	595
<i>Retirement</i>	386	409	527 ⁹
<i>End of Service</i>	64	128	68
<i>Transfers to Public Institutions to Cover Salaries 1/</i>	105	100	160
1.b Interest Payments, <i>of which: 2/</i>	2,358	2,432	2,787
<i>Domestic Interest Payments</i>	1,299	1,334	1,698
<i>Foreign Interest Payments</i>	1,058	1,097	1,090
1.c Foreign Debt Principal Repayment	90	206	148
1.d Materials and Supplies, <i>of which:</i>	99	113	108
<i>Nutrition</i>	12	25	25
<i>Fuel Oil</i>	17	19	10
<i>Medicaments</i>	24	33	47
<i>Accounting Adjustments for Treasury</i>	27	21	17
1.e External Services	49	56	56
1.f Various Transfers, <i>of which:</i>	362	291	246
<i>NSSF</i>	220	0	0
<i>Wheat Subsidy</i>	0	116	10
<i>Special Tribunal for Lebanon</i>	0	18	12
1.g Other Current, <i>of which:</i>	103	147	180
<i>Hospitals</i>	80	130	142
<i>Others</i>	21	15	33
1.h Reserves	41	44	47
<i>Interest subsidy</i>	41	44	47
2. Capital Expenditures	271	265	281
2.a Acquisitions of Land, Buildings, for the Construction of Roads, Ports, Airports, and Water Networks	13	2	3
2.b Equipment	24	17	17
2.c Construction in Progress, <i>of which:</i>	182	188	192
<i>Displaced Fund</i>	21	20	55
<i>Council of the South</i>	20	10	10
<i>CDR</i>	107	120	102
<i>Ministry of Public Work and Transport</i>	19	18	14
<i>Other</i>	16	22	11
2.d Maintenance	30	35	36
2.e Other Expenditures Related to Fixed Capital Assets	22	23	33
3. Other Treasury Expenditures	1,164	1,714	2,463
Municipalities	101	196	136
Guarantees	21	25	69
Deposits :	47	26	39
Other, <i>of which:</i>	148	260	704

⁸ The increase between 2008 and 2009 amounts to LL 401 billion, of which LL 94.5 billion resulted from the payments in May-June 2009 of the retroactive amounts related to the years 1996-1998 following the salary and wage increase granted in 1999. The breakdown shows that LL 68.5 billion were paid to the army, LL 12.3 billion were paid to the Internal Security Forces, 3.9 billion were paid to the General Security Forces, LL 1.2 billion were paid to the State Security Forces and LL 8.9 billion were paid to the Civil Servants employees.

⁹ Retirement and end of service compensations increased by LL 59 billion. Out of this augmentation, LL 4.9 billion is due to the payment of the retroactive amount related to the salary and wage increase granted in 1999.

VAT Refund	87	149	184
High Relief Committee	6	9	415
EDL 3/	847	1,187	1,511
Treasury Advances for Water Authorities	0	0	4
Treasury Advances for Diesel Oil Subsidy	0	19	0
4. Unclassified Expenditures	2	2	1
5. Customs Cashiers	19	18	24
6. Total Expenditures (Excluding CDR Foreign Financed)	6,346	7,191	8,766

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-June	2008 Jan-June	2009 Jan-June
Transfer to Council of the South	3	5	3
Transfer to Council for Development and Reconstruction (CDR)	18	15	27
Transfer to the Displaced Fund	3	4	4
Transfer to the Lebanese University	76	72	120
Transfer to the Educational Center for Research and Development	5	5	7

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

Table 7. Details of Debt Service Transactions

(LL billion)	2007 June	2008 June	2009 June	2007 Jan-June	2008 Jan-June	2009 Jan-June
Interest Payments 1/	369	331	375	2,358	2,432	2,787
Local Currency Debt	201	165	235	1,300	1,334	1,698
Foreign Currency Debt, of which:	168	166	140	1,058	1,097	1,090
Eurobond Coupon Interest*	148	155	124	991	1,021	1,020
Special bond Coupon Interest*	13	7	8	13	7	9
Concessional Loans Interest Payments	8	4	8	55	69	61
Concessional Loans Principal Payments**	24	7	94	90	206	148

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 and LL 75 billion paid in June 2009 of IBRD loans from USAID Grant.

Table 8. Transfers to EDL

(LL billion)	2007 Jan-June	2008 Jan -June	2009 Jan -June	Value Change
EDL, of which:	847	1,187	1,511	323
• Debt Service, of which:	287	73	61	-13
– C-Loans and Eurobonds, of which:	210	48	41	-8
Principal repayments	188	39	35	-4
Interest Payments	22	10	6	-4
– BDL Guaranteed Loan payments	77	25	20	-5
• Reimbursement of KPC and Sonatrach Agreements	560	1,114	1,450	336

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

Section 4: Public Debt

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

(LL billion)	Dec-05	Dec-06	Dec-07	Dec-08	Jun-09	Change Dec 08 - June 09	% Change Dec 08 - June 09
Gross Public Debt	57,985	60,851	63,350	70,888	71,346	458	0.65%
Local Currency Debt	29,141	30,204	31,373	39,007	39,161	154	0.39%
a. Central Bank (Including REPOs and Loans to EDL to Finance Fuel Purchases) ⁽¹⁾	11,686	9,588	9,052	8,781	10,530	1,749	19.92%
b. Commercial Banks	14,130	16,487	16,847	24,320	22,255	-2,065	-8.49%
c. Other Local Currency Debt (T-bills), of which:	3,325	4,129	5,474	5,906	6,376	470	7.96%
<i>Public Entities</i>	2,446	3,313	4,796	5,062	5,398	336	6.64%
* <i>Accrued Interest Included in Debt</i>	517	685	754	1,001	1,058	57	5.69%
Foreign Currency Debt (2)	28,844	30,647	31,977	31,881	32,185	304	0.95%
a. Bilateral, Multilateral and Foreign Private Sector Loans	2,789	2,855	2,953	2,802	2,676	-126	-4.50%
b. Paris II Related Debt (Eurobonds and Loans) ⁽³⁾	6,501	6,540	6,063	5,456	5,131	-325	-5.95%
c. Paris III Related Debt (Eurobonds and Loans) ⁽⁴⁾			1,357	1,849	1,955	106	5.73%
d. Market-Issued Eurobonds	18,729	20,399	20,776	20,925	21,551	626	2.99%
e. <i>Accrued Interest on Eurobonds</i>	406	434	410	430	425	-5	-1.16%
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	6,559	-1,767	-21.22%
Net Debt	52,395	56,407	58,823	62,562	64,787	2,225	3.56%
Gross Market Debt⁽⁶⁾	34,721	38,670	39,216	46,992	45,697	-1,295	-2.76%
% of Total Debt	60%	64%	62%	66%	64%	0	-3.38%

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 – Jun 09 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 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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