

Fiscal Overview

In the first five months of 2008, the total fiscal balance registered a deficit of LL 2,050 billion compared to a deficit of LL 1,274 billion in the same period of 2007. This deterioration is due to an increase in total payments by LL 924 billion, which offset the LL 148 billion increase in total receipts.

The 4 percent increase in total revenues over the period Jan-May 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 85 billion or 3 percent by May 2008) mostly stemming from a surge in imports and a boom in the real estate market, reflecting into a stronger performance of taxes on property (property registration fees were up by 58 percent), and taxes on international trade, except for excises on gasoline (customs duties were up by 14 percent, and excises on cars and tobacco collected 68 and 14 percent higher revenues). Domestic taxes on goods and services collected LL 188 billion of additional receipts in January-May 2008 (mostly from VAT and, to a lesser extent, from car registration fees, which witnessed 20 percent and 33 percent respective increases). Income tax collection dropped by 19 percent in Jan-May 2008 when compared to the same period of 2007, due to a delay in corporate income tax payments (because of the extension of the filing deadline¹ which granted taxpayers an additional month for settling their tax dues to the Treasury). Non-tax revenues also registered a modest increase of around LL 28 billion or 3 percent for the period January-May 2008 as a result of higher transfers from Casino du Liban by 57 percent² (net of the LL 42 billion settlement) and a larger budget surplus from telecom by 18 percent. Treasury receipts were LL 378 billion in the first five months of 2008, of which around LL 165 billion of grants received pertaining to the US pledges in PIII (compared to LL 151 billion of grants received in Jan-May 2007 pertaining to the Saudi pledge in PIII), and LL 77 billion of revenues for the Independent Municipal Fund (compared to LL 65 billion in Jan-May 2007).

The increase in total expenditures by LL 924 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 22 billion mainly due to higher retirement and end of service compensations by LL 76 billion, increase in wheat subsidy by LL 116 billion, materials and supplies by LL 8 billion and hospitalization in the private sector by LL 10 billion which offset the LL 220 billion lower transfers to NSSF. Interest payments were up by LL 112 billion of

¹ As per Decision 456 dated May 22nd 2008

² Note that no transfers were recorded from Casino du Liban and from National Lottery for the month of May 2008.

which LL 71 billion were due to higher payments on domestic debt and LL 41 billion increase in foreign debt; also foreign debt principal payment increased by LL 133 billion. The increase in treasury expenditures by LL 684 billion can be mostly explained by higher transfers to the loss-making utility, EDL, by LL 457 billion as well as additional payments to municipalities by LL 118 billion, diesel oil subsidy by LL 19 billion and VAT refund by LL 64 billion.

As a result of these developments, the primary balance of January-May 2008 registered a surplus of LL 249 billion, a decrease of LL 531 billion compared to the surplus of LL 780 billion realized in the same period of last year.

By the end of May 2008, gross public debt reached LL 65,789billion, registering an increase of LL 2,425 billion (3.83 percent) over the end-December 2007 debt level. Almost 77 percent of this increase is coming from commercial banks increasing their LL Treasury Bills portfolio by LL 1,878 billion compared to December 2007.

Table 1. Summary of Fiscal Performance

(LL billion)	2006 May	2007 May	2008 May	2006 Jan- May	2007 Jan- May	2008 Jan- May
Total Budget and Treasury Receipts	893	891	792	3,667	3,910	4,058
Total Budget and Treasury Payments, of which	831	1,064	1,349	4,187	5,185	6,108
Interest Payments	380	443	427	1,696	1,989	2,101
Concessional loans principal payments 1/	9	11	13	55	66	198
Primary Expenditures 2/	443	609	910	2,437	3,130	3,809
Total Cash Deficit/Surplus	62	-173	-557	-521	-1,274	-2,050
Primary Deficit/Surplus	450	282	-118	1,230	780	249

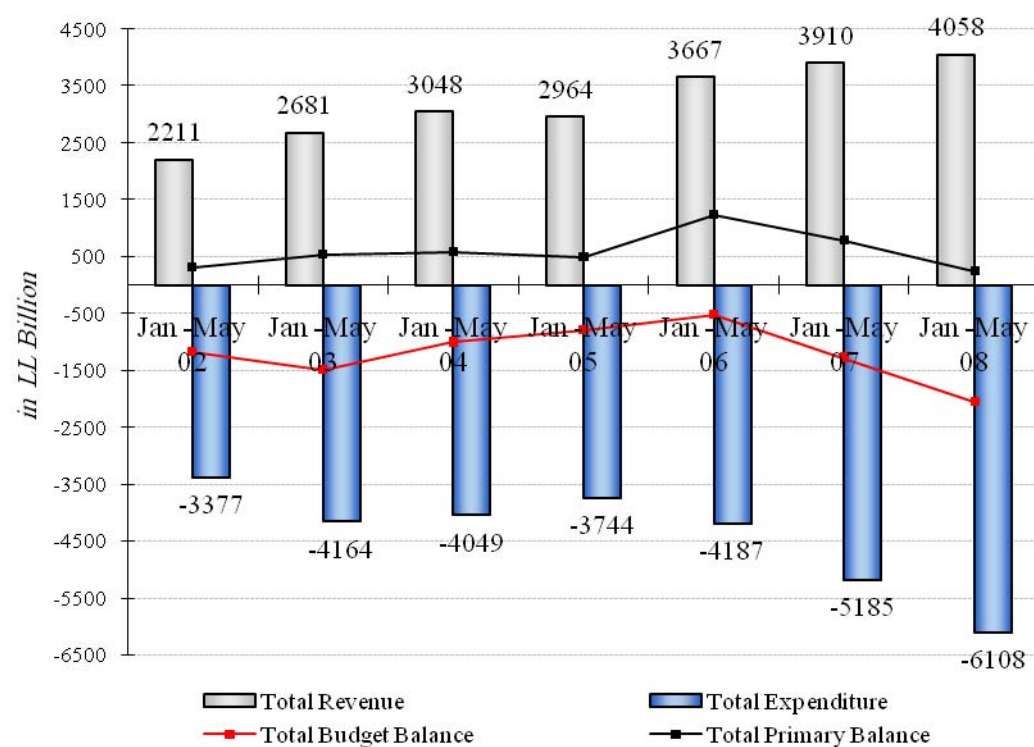
Source: Ministry of Finance (MOF), Directorate General of Finance (DGF)

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)

Monthly Fiscal Performance

January-May (2002-2008)



Section 2: Revenue Outcome

Table 2. Total Revenue

(LL billion)	2006 May	2007 May	2008 May	2006 Jan-May	2007 Jan-May	2008 Jan-May
Budget Revenues, of which:						
<i>Tax Revenues</i>	852	856	752	3,487	3,567	3,680
<i>Non-Tax Revenues</i>	669	653	534	2,547	2,531	2,616
Treasury Receipts	182	203	218	939	1,036	1,064
Total Revenues	28	35	40	161	344	378
	880	891	792	3,648	3,910	4,058

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

Table 3. Tax Revenue

(LL billion)	2006 May	2007 May	2008 May	2006 Jan-May	2007 Jan-May	2008 Jan-May
Tax Revenues:	669	653	534	2,547	2,531	2,616
Taxes on Income, Profits, & Capital Gains, of which:	368	362	178	720	743	599
<i>Income Tax on Profits</i>	297	274	79	385	365	197
<i>Income Tax on Wages and Salaries</i>	2	2	3	101	111	133
<i>Income Tax on Capital Gains & Dividends</i>	26	40	49	59	74	73
<i>Tax on Interest Income (5%)</i>	42	45	45	166	189	191
<i>Penalties on Income Tax</i>	2	1	1	7	4	5
Taxes on Property, of which:	39	42	53	361	207	259
<i>Built Property Tax</i>	7	8	5	57	67	54
<i>Real Estate Registration Fees</i>	28	29	43	127	116	183
Domestic Taxes on Goods & Services, of which:	142	140	161	862	929	1116
<i>Value Added Tax</i>	124	121	141	773	846	1016
<i>Other Taxes on Goods and Services, of which:</i>	18	19	20	81	80	97
<i>Private Car Registration Fees</i>	12	13	13	52	49	65
<i>Passenger Departure Tax</i>	5	6	7	28	30	32
Taxes on International Trade, of which:	95	88	112	476	539	513
<i>Customs</i>	52	47	55	206	223	254
<i>Excises, of which:</i>	43	42	57	270	316	259
<i>Petroleum Tax</i>	2	5	0	90	138	5
<i>Tobacco Tax</i>	19	13	20	77	80	91
<i>Tax on Cars</i>	21	23	37	102	96	161
Other Tax Revenues (namely fiscal stamp fees)	25	21	30	128	112	128

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

Table 4. Non-Tax Revenue

(LL billion)	2006 May	2007 May	2008 May	2006 Jan-May	2007 Jan-May	2008 Jan-May
Non-Tax Revenues	182	203	218	939	1,036	1,064
Income from Public Institutions and Government Properties, of which:	118	159	175	686	834	841
Income from Non-Financial Public Enterprises, of which:	115	156	166	669	700	816
<i>Revenues from Casino Du Liban</i>	4	5	0	17	23	78
<i>Revenues from Port of Beirut</i>	0	0	0	0	30	0
<i>Budget Surplus of National Lottery</i>	14	8	0	36	28	5
<i>Transfer from the Telecom Surplus</i>	96	143	166	616	619	732
Property Income (namely rent of Rafic Hariri International Airport)	3	3	9	15	19	22
Other Income from Public Institutions (interests)	0	0	0	2	2	3
Administrative Fees & Charges, of which:	57	37	36	211	168	183
Administrative Fees, of which:	41	31	28	167	135	148
<i>Notary Fees</i>	2	2	2	8	8	9
<i>Passport Fees/ Public Security</i>	10	11	10	49	42	47
<i>Vehicle Control Fees</i>	22	13	12	84	62	66
<i>Judicial Fees</i>	2	2	2	9	8	9
<i>Driving License Fees</i>	3	1	1	10	7	6
Administrative Charges	1	1	1	8	10	10
Sales (Official Gazette and License Number)	0	0	0	1	1	1
Permit Fees (mostly work permit fees)	8	4	6	27	18	21
Other Administrative Fees & Charges	7	1	0	8	4	3
Penalties & Confiscations	0	0	0	2	2	2
Other Non-Tax Revenues (mostly retirement deductibles)	7	6	6	40	32	38

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

Section 3: Expenditure Outcome

Table 5: Expenditure by Economic Classification

(LL billion)	2006 Jan-May	2007 Jan-May	2008 Jan-May
1. Current expenditures	3,499	4,154	4,421
1.a Personnel cost, of which	1,334	1,512	1,588
Salaries, wages and related items (Article 13) 1/	893	1,044	1,048
Retirement and end of service compensations, of which	361	383	459
Retirement	301	322	340
End of Service	59	61	118
Transfers to public institutions to cover salaries 2/	81	86	81
1.b Interest payments of which 3/	1,696	1,989	2,101
Domestic interest payments	886	1,099	1,170
Foreign interest payments	810	890	931
1.c Foreign debt principal repayment	55	66	198
1.d Materials and supplies of which	51	77	85
Nutrition	5	6	22
Fuel Oil	5	12	11
Medicaments	25	20	19
Accounting adjustments for treasury	5	27	18
1.e External services	40	44	43
1.f Various transfers of which	197	335	267
NSSF	100	220	0
1.g Other current of which	88	92	96
Hospitals	73	72	82
Others	14	19	14
1.h Reserves	37	40	43
Interest subsidy	37	40	43
2. Capital expenditures	267	211	185
2.a Acquisitions of land, buildings, for the construction of roads, ports, airports, and water networks	11	4	1
2.b Equipment	8	20	15
2.c Construction in Progress of/which	196	136	123
Displaced fund	45	6	15
Council of the South	10	10	0
CDR	118	91	75
Ministry of Public Work and Transport	11	16	15
Other	13	13	18
2.d Maintenance	26	29	33
2.e Other Expenditures Related to Fixed Capital Assets	25	22	13
3. Other treasury expenditures	408	803	1,486
Municipalities	103	77	195
Guarantees	54	17	22
Deposits	21	42	21
Other	112	129	236
of which VAT refund	64	80	144
of which Higher Council of Relief		6	7
EDL 4/	68	537	994

treasury advances for diesel oil subsidy	50	0	19
4. Unclassified expenditures	1	1	1
5. Customs cashiers	12	16	14
6. Total expenditures (excluding CDR foreign financed)	4,187	5,185	6,108

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

1/ For a detailed breakdown of salaries, 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: Expenditure by Economic Classification

(LL billion)	Basic salaries		Allowances		Other		Total	
	2007	2008	2007	2008	2007	2008	2007	2008
	Jan-May	Jan-May	Jan-May	Jan-May	Jan-May	Jan-May	Jan-May	Jan-May
Military Personnel	466	418	153	196	30	28	649	642
Army	305	270	83	93	19	18	407	380
Internal Security forces	129	119	59	89	8	8	196	215
General Security forces	24	22	8	11	2	2	34	34
State Security forces	8	8	3	4	1	1	12	12
Education Personnel	185	189	0	0	21	21	206	210
Civil Personnel	100	89	1	1	82	97	183	187
Customs salaries							5	8
Total	751	696	154	197	133	146	1,044	1,048

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

Table 7: Breakdown of Transfers to Public Institutions

(LL billion)	2006	2007	2008
	Jan-May	Jan-May	Jan-May
Transfer to Council of the South	2	2	3
Transfer to Council for Development and Reconstruction (CDR)	12	15	10
Transfer to the Displaced Fund	2	3	2
Transfer to the Lebanese University	61	63	61
Transfer to the Educational Center for Research and Development	5	4	5
Total	81	86	81

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

Table 8. Details of Interest Payments

(LL billion)	2006	2007	2008	2006	2007	2008
	May	May	May	Jan-May	Jan-May	Jan-May
Interest Payments 1/	380	443	427	1,696	1,989	2,101
Local Currency Debt	155	221	197	886	1,099	1,170
Foreign Currency Debt, of which:	225	222	230	810	890	931
Eurobond Coupon Interest*	218	217	217	768	843	866
Specialbond Coupon Interest*						
Concessional Loans Interest						
Payments	6	5	13	41	47	65
Concessional Loans Principal						
Payments	9	11	13	55	66	198

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*

(LBP billion)	2006	2007	2008	
	Jan-May	Jan-May	Jan-May	Change
EDL of which:	68	538	994	456
Debt Service of which:	68	54	57	3
C-Loans and Eurobonds, of which:	51	45	42	-3
Principal repayments	37	35	34	-1
Interest Payments	14	10	8	-2
BDL Guaranteed Loan payments	0	10	15	5
Repayment of loans for fuel oil and gas oil				
purchase (principal and interest)	17	67	0	-67
Reimbursement of KPC and Sonatrach agreements	0	416	937	521

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

Section 4: Public Debt

Table 10. Public Debt Outstanding by Holder as of End—May 08

(LBP billion)	Dec-05	Dec-06	Dec-07	May-08	Change Dec 07 - May 08	% change Dec 07- May 08
Gross Public debt	57,985	60,851	63,364	65,789	2,425	3.83%
Local currency debt	29,141	30,204	31,373	33,129	1,756	5.60%
a. Central Bank (including REPOs and Loans to EDL to finance fuel purchases) ⁽¹⁾	11,686	9,588	9,052	9,023	-29	-0.32%
b. Commercial Banks	14,130	16,487	16,847	18,725	1,878	11.15%
c. Other Local Currency Debt (T-bills)	3,325	4,129	5,474	5,381	-93	-1.70%
<i>o/w Public entities</i>	2,446	3,313	4,796	4,648	-148	-3.09%
* <i>Accrued interest included in debt</i>	517	685	754	787	33	4.38%
Foreign currency debt (2)	28,844	30,647	31,991	32,660	669	2.09%
a. Bilateral, Multilateral and Foreign Private sector loans	2,789	2,855	2,963	2,925	-38	-1.29%
b. Paris II related debt (Eurobonds and Loans) ⁽³⁾	6,501	6,540	6,063	6,043	-20	-0.33%
c. Paris III related debt (Eurobonds and Loans) ⁽⁴⁾			1,357	1,823	466	34.36%
d. Market-issued Eurobonds	18,729	20,399	20,780	21,057	277	1.33%
e. <i>Accrued Interest on Eurobonds</i>	406	434	410	394	-16	-3.90%
f. Special Tbls in Foreign currency ⁽⁵⁾	419	419	419	419		0.00%
Public sector deposits	5,590	4,444	4,527	5,198	671	14.82%
Net debt	52,395	56,407	58,837	60,591	1,754	2.98%
Gross Market debt⁽⁶⁾	34,721	38,670	39,221	41,402	2,181	5.56%
% of total debt	60%	64%	62%	63%	1%	1.67%

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 Tbls 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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