

TABLE OF CONTENTS

Revenues

Page 1-2

Expenditures

Page 2-3

Public Debt Developments

Page 3

General Overview

The fiscal performance recorded an improvement in the first nine months of 2017 relative to the same period of 2016. The narrowing of the deficit was attributed to lower government spending due to lower transfers made to municipalities¹ and to a growth in tax revenues of more than 18 percent owing to higher collection from income tax on profits.

On the expenditure side, the decrease in transfers made to municipalities was counterbalanced by a rise of LL 397 billion in transfers to EDL and by a LL 314 billion increase in personnel cost, as well as to higher interest payments. On the other hand, total revenues registered an improvement of almost 12 percent due in part to an increase in tax revenues. Overall, higher income tax on profits and the increase in value added tax collection were partly offset by a major drop of LL 538 billion in transfers from the Telecom surplus.

To summarize, the **total fiscal balance** registered a deficit of LL 3,020 billion in the first nine months of 2017, narrowing by 36 percent from the same period in 2016, while the **primary surplus** widened significantly from LL 456 billion in Jan-Sep 2016 to LL 2,456 billion in Jan-Sep 2017.

Table 1: Summary of Fiscal Performance

(LL billion)	2016 Jan-Sep	2017 Jan-Sep	% Change 2017/2016
Total Budget and Treasury Receipts	11,344	12,671	11.7%
Total Budget and Treasury Payments, of which	16,092	15,691	-2.5%
• Interest Payments	5,002	5,281	5.6%
• Concessional loans principal payment ¹	202	195	-3.4%
• Primary Expenditures ²	10,888	10,215	-6.2%
Total (Deficit)/Surplus	(4,748)	(3,020)	-36.4%
Primary (Deficit)/Surplus	456	2,456	438.7%

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)

Revenues

Total revenues increased by 11.7 percent to reach LL 12,671 billion in Jan-Sep 2017, compared to LL 11,344 billion in the same period of 2016.

Tax revenues were up by LL 1,486 billion (18.1 percent), reaching LL 9,678 billion in the first nine months of 2017. In fact, **taxes on income, profits and capital gains** were up by LL 1,114 billion (43.8 percent). Most of this increase could be attributed to income tax on profits and tax on interest income that grew by LL 949 billion and LL 63 billion, respectively. Most importantly, the income tax on profits grew significantly year-on-year as financial institutions transferred the exceptional taxes owed to the State on the revenues generated from the Central Bank's 2016 financial engineering. In addition,

¹ In 2014, the Treasury collected an estimated LL 739 billion of telecom revenues on behalf of municipalities (of which LL 636 billion in arrears for the period 2010-2013). Of the total amount, LL 592 billion was transferred to municipalities in Jan-Sep 2016 and accounted as Treasury expenditures.

income tax on capital gains and dividends also increased by LL 59 billion to reach LL 304 billion in the first nine months of 2017.

Property taxes rose by LL 132 billion (14.5 percent) in Jan-Sep 2017, mainly as real estate registration fees rose by LL 110 billion (19.3 percent). It is worth mentioning that both the average price of properties and the number of sale transactions were up by 3 percent and 14 percent, respectively. Moreover, **fiscal stamps** grew by LL 15 billion (4.3 percent) over the covered period.

Domestic taxes on goods and services increased by LL 199 billion (7.1 percent) driven by a LL 164 billion increase in the Value-added Tax. Internal VAT rose by 5.4 percent, while VAT at customs inched up by 7.8 percent. Moreover, Passenger Departure Tax was up by LL 14 billion in Jan-Sep 2017.

Taxes on international trade increased by LL 26 billion in the first nine months of 2017, driven by higher collection of customs (LL 13 billion) and excise taxes (LL 12 billion). In details, the collection of gasoline excise taxes rose by LL 13 billion (2.5 percent) in the covered period, mirroring the increase in the volume of imported gasoline. It is worth noting that the gasoline excise tax is per-liter and therefore is not affected by fluctuations in international oil prices. Moreover, car excise taxes increased by LL 18 billion (5 percent) owing to an increase in car imports coupled with a higher effective excise rate. In contrast, tobacco excises dropped by LL 20 billion (11.7 percent), as the imports of tobacco products dropped over the period.

Non-tax revenues decreased by LL 278 billion to reach LL 2,129 billion in Jan-Sep 2017, mainly due to lower income from public institutions and government properties, with transfers from the Telecom surplus decreasing by LL 538 billion which has more than counterbalanced the increase of LL 110 billion in Revenues from Port of Beirut.

Moreover, **penalties and confiscations** dropped by LL 7 billion, while **other non-tax revenues** rose by LL 71 billion. **Administrative fees and charges** also increased by LL 59 billion as a result of higher vehicle control fees (LL 77 billion) and passport fees (LL 2 billion).

Treasury receipts rose by LL 119 billion to reach LL 864 billion by end-September 2017. It is worth mentioning that treasury receipts are transitory in nature and as such, variations in these collections are usually not reflective of economic activity.

Expenditures

Total expenditures recorded a decrease of LL 401 billion (2.5 percent) and stood at LL 15,691 billion in Jan-Sep 2017.

Current primary expenditures² increased by LL 253 billion mainly as a result of increases in (i) **various transfers** driven by a rise of LL 397 billion in transfers to EDL, and (ii) **personnel cost** by LL 314 billion, mainly driven by an increase in **salaries, wages and social benefits** of LL 189 billion (5.3 percent) and **retirement and end of service compensations** of LL 123 billion (7.7 percent). These increases were partly counterbalanced by a LL 172 billion (47.8 percent) drop in **transfers to hospitals** and a LL 32 billion (12.4 percent) decrease in **contributions to non-public sectors**.

² Current primary expenditures represent current expenditures excluding interest payments and foreign debt principal repayment.

Interest payments rose by LL 279 billion to reach LL 5,281 billion, mainly driven by higher domestic and foreign interest payments. On the other hand, **foreign debt principal repayment** dropped by 3.4 percent to reach LL 195 billion in Jan-Sep 2017.

Capital expenditures increased by LL 16 billion in Jan-Sep 2017, chiefly due to a (i) LL 66 billion increase in transfers to **CDR**, (ii) LL 35 billion rise in transfers to **HCR**, and (iii) LL 13 billion rise in transfers to the **Council of the South**. Payments for **maintenance** decreased by LL 48 billion during the covered period.

Treasury expenditures witnessed a significant decrease of LL 907 billion to reach LL 695 billion in Jan-Sep 2017, mainly due to lower payments to Municipalities – from LL 1,046 billion in Jan-Sep 2016 to LL 215 billion in Jan-Sep 2017.

Public Debt Developments

Gross public debt reached LL 117,820 billion as of end-September 2017, increasing by LL 4,910 billion (4.3 percent) from end-2016, while net debt increased by only 3.9 percent as public sector deposits rose by 7.3 percent over the period.

Local currency debt increased by 3.3 percent to reach LL 72,856 billion as of end-September 2017, compared to LL 70,528 billion as of end-2016. In detail, Local Currency Debt holdings by the Central Bank increased by LL 4,282 billion, whereas Commercial Banks' holdings decreased by LL 2,449 billion. The change in holdings by Commercial Banks and the Central Bank do not reflect TB Auction results over the same period, suggesting large secondary market operations. Local currency debt holdings by Public Entities increased by LL 461 billion to reach LL 9,179 billion.

The stock of **foreign currency debt** grew by the equivalent of LL 2,582 billion to LL 44,964 billion, mostly owing to a LL 2,331 billion increase in the value of outstanding Eurobonds. Moreover, "Bilateral, multilateral and foreign private sector loans" rose by LL 465 billion, whereas Paris II and Paris III related bonds and loans decreased by LL 341 billion and LL 161 billion respectively, mainly due to amortized principal repayments.

SECTION 1: REVENUE OUTCOME

Table 2: Total Revenues

(LL billion)	2016 Jan-Sep	2017 Jan-Sep	% Change 2017/2016
Budget Revenues, of which:	10,599	11,806	11.4%
Tax Revenues	8,192	9,678	18.1%
Non-Tax Revenues	2,406	2,129	-11.5%
Treasury Receipts	745	864	16.0%
Total Revenues	11,344	12,671	11.7%

Source: MOF, DGF

Table 3: Tax Revenues

(LL billion)	2016 Jan-Sep	2017 Jan-Sep	% Change 2017/2016
Tax Revenues:	8,192	9,678	18.1%
Taxes on Income, Profits, & Capital Gains, of which:	2,544	3,658	43.8%
Income Tax on Profits	1,094	2,044	86.8%
Income Tax on Wages and Salaries	545	584	7.2%
Income Tax on Capital Gains & Dividends	245	304	24.3%
Tax on Interest Income (5%)	613	676	10.2%
Penalties on Income Tax	46	49	6.5%
Taxes on Property, of which:	908	1,040	14.5%
Built Property Tax	212	238	12.4%
Real Estate Registration Fees	572	682	19.3%
Domestic Taxes on Goods & Services, of which:	2,818	3,017	7.1%
Value Added Tax	2,398	2,562	6.8%
Other Taxes on Goods and Services, of which:	292	317	8.3%
<i>Private Car Registration Fees</i>	177	188	5.9%
<i>Passenger Departure Tax</i>	114	128	12.4%
Taxes on International Trade, of which:	1,573	1,599	1.6%
Customs	527	540	2.5%
Excises, of which:	1,046	1,058	1.2%
<i>Gasoline Excise</i>	512	525	2.5%
<i>Tobacco Excise</i>	167	148	-11.7%
<i>Cars Excise</i>	363	382	5.0%
Other Tax Revenues (namely fiscal stamp fees)	349	364	4.3%

Source: MOF, DGF

Table 4: Non-Tax Revenues

(LL billion)	2016 Jan-Sep	2017 Jan-Sep	% Change 2017/2016
Non-Tax Revenues	2,406	2,129	-11.5%
Income from Public Institutions and Government Properties, of which	1,664	1,264	-24.1%
Income from Non-Financial Public Enterprises, of which:	1,512	1,097	-27.4%
<i>Revenues from Casino Du Liban</i>	77	89	15.7%
<i>Revenues from Port of Beirut</i>	65	175	169.1%
<i>Budget Surplus of National Lottery</i>	30	31	3.3%
<i>Transfer from the Telecom Surplus</i>	1,338	800	-40.2%
Transfer from Public Financial Institution (BDL)	61	61	-0.6%
Property Income (namely rent of Rafic Hariri International Airport)	85	101	18.4%
Other Income from Public Institutions (interests)	6	5	-24.0%
Administrative Fees & Charges, of which:	567	626	10.3%
Administrative Fees, of which:	462	532	15.1%
<i>Notary Fees</i>	28	29	3.5%
<i>Passport Fees/ Public Security</i>	209	212	1.1%
<i>Vehicle Control Fees</i>	151	228	51.4%
<i>Judicial Fees</i>	21	21	-1.8%
<i>Driving License Fees</i>	16	17	7.2%
Administrative Charges	25	19	-22.9%
Sales (Official Gazette and License Number)	2	2	11.1%
Permit Fees (mostly work permit fees)	65	61	-6.7%
Other Administrative Fees & Charges	12	11	-11.4%
Penalties & Confiscations	33	26	-20.1%
Other Non-Tax Revenues (mostly retirement deductibles)	142	214	49.9%

Source: MOF, DGF

SECTION 2: EXPENDITURE OUTCOME

Table 5: Expenditure by Economic Classification

(LL billion)	2016 Jan-Sep	2017 Jan-Sep	% Change 2017/2016
1. Current Expenditures	13,420	13,945	3.9%
1.a Personnel Cost, of which:	5,474	5,787	5.7%
<i>Salaries, Wages and Related Items</i>	3,589	3,778	5.3%
<i>Retirement and End of Service Compensations, of which:</i>	1,607	1,730	7.7%
<i>Retirement</i>	1,348	1,466	8.8%
<i>End of Service</i>	258	263	1.8%
<i>Transfers to Public Institutions to Cover Salaries</i>	278	280	0.5%
1.b Interest Payments 1/, of which:	5,002	5,281	5.6%
<i>Domestic Interest Payments</i>	3,424	3,602	5.2%
<i>Foreign Interest Payments</i>	1,579	1,679	6.4%
1.c Accounting Adjustments 2/	43	0	0.0%
1.d Foreign Debt Principal Repayment	202	195	-3.4%
1.e Materials and Supplies, of which:	280	339	20.8%
<i>Nutrition</i>	56	61	10.0%
<i>Fuel Oil</i>	32	26	-20.1%

Medicaments	125	192	53.5%
1.f External Services	111	112	0.8%
1.g Various Transfers, of which:	1,732	1,832	5.8%
EDL 3/	952	1,350	41.7%
NSSF	20	0	-
Higher Council of Relief	1	21	-
Contributions to non-public sectors	260	228	-12.4%
Transfers to Directorate General of Cereals and Beetroot 4/	0	16	-
Contributions to water authorities	0	0	-
Special Tribunal for Lebanon	0	0	-
1.h Other Current, of which:	449	287	-36.0%
Hospitals	359	188	-47.8%
Others (judgments & reconciliations, mission costs, other)	83	92	10.6%
1.i Interest Subsidy	127	113	-11.5%
2. Capital Expenditures	762	778	2.1%
2.a Acquisitions of Land, Buildings, for the Construction of Roads, Ports, Airports, and Water Networks	0	2	-
2.b Equipment	54	44	-18.2%
2.c Construction in Progress, of which:	519	598	15.3%
Displaced Fund	0	10	-
Council of the South	27	40	50.0%
CDR	285	351	23.2%
Ministry of Public Work and Transport	76	79	3.0%
Other of which:	124	110	-11.1%
Higher Council of Relief	2	37	-
2.d Maintenance	138	90	-34.9%
2.e Other Expenditures Related to Fixed Capital Assets	51	43	-15.2%
3. Budget Advances 5/	228	209	-8.6%
4. Customs Administration (exc. Salaries and Wages) 6/	74	64	-13.6%
5. Treasury Expenditures 7/	1,602	695	-56.6%
Municipalities	1,046	215	-79.5%
Guarantees	50	72	42.9%
Deposits 8/	215	200	-6.8%
Other, of which:	291	208	-28.5%
VAT Refund	201	165	-18.0%
6. Unclassified Expenditures	5	0	-
7. Total Expenditures (Excluding CDR Foreign Financed)	16,092	15,691	-2.5%

Source: Statement of Account 36, Cashier Spending, Public Debt Department Figures, Fiscal Performance Gross Adjustment Figures

⁽¹⁾ For a detailed breakdown of interest payments, kindly refer to table 6.

⁽²⁾ It is worth noting that amounts of LL41.4 billion in coupons and 1.9 billion in discounted interest payments due on 31/12/2015 were recorded in the accounting system on 2/1/2016.

⁽³⁾ For a detailed breakdown of transfers to EDL, kindly refer to table 7. EDL has been reclassified to various transfers from "other treasury expenditures", following the reclassification of the 2009 Budget Proposal and in line with the Fiscal Performance.

⁽⁴⁾ Transfers to Directorate General of Cereals and Beetroot include both administrative expenses and payments for wheat subsidy.

⁽⁵⁾ Budget Advances were previously classified under "other". Given their growth, and in line with the Ministry of Finance's efforts to ensure transparency, they will be published in a separate line. They will be regularized at a later stage, and it is only after their regularization that they can be classified according to their economic nature in the budget system.

⁽⁶⁾ Customs administrations include payments - excluding salaries and wages - made to customs and paid from customs cashiers. They can only be classified after Customs submit the supporting documents to the Directorate General of Finance.

⁽⁷⁾ Starting December 2011, the Treasury expenditures section in the monthly, quarterly and yearly reports and its corresponding figures differ from the eponym section appearing in the Fiscal performance reports published by the Ministry of Finance because of the reclassification affecting certain payments from guarantees and treasury advances accounts which are manually reclassified in their budgetary economic classification articles.

⁽⁸⁾ Deposit payments are payments made by the treasury to public administrations, institutions, municipalities, and funds, from revenues it has collected on their behalf.

Table 6: Details of Debt Service Transactions¹

(LL billion)	2016 Jan-Sep	2017 Jan-Sep	% Change 2017/2016
Interest Payments	5,002	5,281	5.6%
Local Currency Debt	3,424	3,602	5.2%
Foreign Currency Debt, of which:	1,579	1,679	6.4%
Eurobond Coupon Interest*	1,514	1,615	6.7%
Special bond Coupon Interest*	3	2	-32.5%
Concessional Loans Interest Payments	62	62	0.1%
Foreign Debt Principal Repayment	202	195	-3.4%

Source: MOF, 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 7: Transfers to EDL¹

(LL billion)	2016 Jan-Sep	2017 Jan-Sep	% Change 2017/2016
EDL, of which:	952	1,350	41.7%
Debt Service	20	14	-28.1%
Reimbursement for purchase of Natural Gas, Fuel & Gas Oil	932	1,308	40.3%

Source: MOF, DGF

⁽¹⁾ Prior to 2005, transfers to EDL were recorded under the line item “treasury expenditures”, because they were paid through treasury advances based on decrees issued by the Council of Ministers. Starting 2005, transfers to EDL were included in the yearly budget as an allocation classified as a loan. In 2009, the said budget item was reclassified to become a subsidy to the electricity company rather than a treasury. In the fiscal performance, transfers to cover EDL’s gas and fuel oil costs remained classified under “treasury expenditures” until August 2010 when it was reclassified under “budget expenditures”. This reclassification, however, was not reflected in the 2010 PFM issues to avoid a disruption in the series and in order to keep the figures published in the PFM throughout 2010 consistent and comparable. Since January 2011, EDL transfers have been reclassified under “budget expenditures”.

SECTION 3: PUBLIC DEBT

Table 8: Public Debt Outstanding by Holder as of End-September 2017

(LL billion)	Dec-15	Dec-16	Sep-17	% Change Sep 17-Dec 16
Gross Public Debt	106,031	112,910	117,820	4.3%
Local Currency Debt	65,195	70,528	72,856	3.3%
* <i>Accrued Interest Included in Debt</i>	997	1,098	1,141	3.9%
a. Central Bank	23,907	30,150	34,432	14.2%
b. Commercial Banks(Including REPOs) 1/	30,279	29,581	27,132	-8.3%
c. Other Local Currency Debt (T-bills), of which:	11,009	10,797	11,292	4.6%
<i>Public Entities</i>	8,461	8,718	9,179	5.3%
<i>Contractor bonds 2/</i>	180	139	166	19.4%
Foreign Currency Debt 3/	40,836	42,382	44,964	6.1%
a. Bilateral, Multilateral and Foreign Private Sector Loans	2,495	2,506	2,971	18.5%
b. Paris II Related Debt (Eurobonds and Loans) 4/	1,182	631	291	-53.9%
c. Paris III Related Debt (Eurobonds and Loans) 5/	810	660	499	-24.4%
d. Market-Issued Eurobonds	35,846	38,063	40,394	6.1%
e. Accrued Interest on Eurobonds	435	458	772	68.6%
f. Special T-bills in Foreign Currency 6/	68	63	37	-41.3%
Public Sector Deposits	13,227	14,268	15,311	7.3%
Net Debt 7/	92,804	98,642	102,509	3.9%
Gross Market Debt 8/	69,200	70,303	68,530	-2.5%
% of Total Debt	65%	62%	58%	-6.6%

Source: MOF, DGF

⁽¹⁾ Since August 2017 REPOS are removed from central bank and added to commercial banks.

⁽²⁾ Contractor bonds issued in LBP. Contractor bonds issued in USD are listed under "Special T-bills in foreign currency".

⁽³⁾ Figures for Dec 15- Dec 16 may differ from previously published data due to updated information regarding bilateral and multilateral loans in the DMFAS system.

⁽⁴⁾ 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.

⁽⁵⁾ Eurobonds Issued to Malaysia as part of its Paris III contribution, IBRD loan, UAE loan, first and second tranches of the French loan received in February 2008.

⁽⁶⁾ Special Tbs in foreign currency (expropriation and contractor bonds).

⁽⁷⁾ Net Debt is obtained by subtracting Public Sector Deposits from Gross Public Debt.

⁽⁸⁾ 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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