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General Overview

A return to normalcy in fiscal spending following a large one-off payment in 2016 and an increase in revenues mostly owing to timing discrepancies and improved tax collection propped up government finances in the first quarter of 2017. The primary balance recorded a surplus of LL 471 billion compared to a deficit of LL 604 in the same period of 2016 and the **total fiscal balance** declined by 50.3% to LL 1,079 billion. Government expenditures had surged in the first quarter of 2016 owing to a one-off payment made to municipalities, a correction which resulted in a 12.5% decrease in Q1 2017 spending¹, while higher tax and non-tax revenue collections boosted total government receipts by 10 percent y-o-y.

Table 1: Summary of Fiscal Performance

(LL billion)	2016	2017	% Change 2017/2016
	Jan-Mar	Jan-Mar	
Total Budget and Treasury Receipts	3,666	4,031	9.9%
Total Budget and Treasury Payments, of which	5,839	5,110	-12.5%
•Interest Payments	1,524	1,504	-1.3%
•Concessional loans principal payment ¹	44	46	6.6%
•Primary Expenditures ²	4,271	3,560	-16.7%
Total (Deficit)/Surplus	-2,172	-1,079	-50.3%
Primary (Deficit)/Surplus	-604	471	-

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 amounted to LL 4,031 billion in Q1 2017, increasing by LL 365 billion from LL 3,666 billion in Q1 2016.

Tax revenues jumped by almost 11 percent year-on-year (LL 274 billion) to reach LL 2,786 billion with increases recorded in all major sub-categories.

Domestic taxes on goods and services increased by LL 117 billion, mainly due to a LL 72 billion increase in value-added tax collections. In detail, VAT collected internally and at customs both increased with the pickup in economic activity and consumer prices compared to the previous year, rising by around 8 percent and 10 percent respectively, and accounting for 26 percent of the increase in tax revenues.

Taxes on property climbed by LL 60 billion (16 percent y-o-y) from Q1 2016. Real estate registration fees rose by LL 45 billion as the number of sold properties jumped by 9 percent.

Taxes on Income, Profits, and Capital Gains increased by LL 72 billion with growth registered in all sub-components. Income tax on capital gains and dividends increased by 44 percent to reach LL 53 billion, income tax on profits rose by LL 16 billion to LL 216

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). In Jan-Mar 2016, around LL 592 billion of those were transferred back to municipalities.

billion and tax on interest income increased by LL 19 billion to LL 221 billion reflecting growth in the value of interest paying instruments. Moreover, income tax on wages and salaries increased by LL 9 billion or 5 percent.

Taxes on international trade (customs duties and excises) were up by LL 16 billion with the increase resulting from higher collections of excises by LL 14 billion. Most notably, cars excise rose by LL 16 billion mirroring a 21 percent increase in the number of imported cars. Additionally, customs increased by LL 2 billion, to reach LL 170 billion in Q1 2017. In contrast, Gasoline Excises decreased by LL 5 billion to LL 157 billion.

Non-tax revenues amounted to LL 1,028 billion in Q1 2017, rising by LL 155 billion from Q1 2016 and were boosted by a LL 61 billion transfer from the Central Bank, and a LL 25 billion increase in transfers from the Telecom surplus. **Administrative fees and charges** rose by LL 64 billion and were mainly driven by increases in Vehicle Control Fees (LL 86 billion). In return, Administrative charges and Permit Fees decreased by LL 6 billion and LL 7 billion respectively. Moreover, penalties & confiscations decreased by LL 5 billion and retirement deductibles decreased by LL 7 billion in Q1 2017.

Treasury receipts recorded a drop of LL 65 billion (23 percent) to reach LL 217 billion in Jan-Mar 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.

Expenditure

Total expenditures amounted to LL 5,110 billion in Q1 2017 after a large drop of LL 729 billion (12.5 percent), mainly due to a LL 683 billion decrease in transfers to municipalities owing to the redistribution of the funds collected on behalf of municipalities in 2016.

Current primary expenditures² shrank by LL 17 billion (0.6 percent), reaching LL 2,855 billion in Jan-Mar 2017. This was mainly the result of (i) a 78 billion drop in transfers to hospitals, (ii) a LL 20 billion drop in end of service costs, (iii) a LL 42 billion decrease in contributions to non-public sectors, (iv) a LL 20 billion decrease in transfer to NSSF and (v) a LL 43 billion drop for accounting adjustments. In return, transfers to Electricite Du Liban recorded a sharp increase of LL 190 billion, and transfers to the Directorate General of Cereals and Beetroot increased by LL 15 billion. In addition, retirement costs and salaries, wages, and social benefits recorded increases of LL 23 billion and LL 45 billion respectively.

Interest payments dropped by LL 20 billion to reach LL 1,504 billion in Q1 2017. **Foreign debt principal repayments** slightly increased by LL 3 billion from the LL 44 billion registered in Q1 2016.

Capital expenditures reached LL 359 billion, increasing by LL 16 billion in Jan-Mar 2017 from LL 343 billion in Jan-Mar 2016, with a LL 30 billion rise in construction in progress, with transfers to the CDR and Ministry of Public Work and Transport increasing by LL 35 billion and LL 8 billion respectively. In the first quarter of 2017, Capital expenditures accounted for 7 percent of total government expenditures.

Treasury expenditures fell by LL 656 billion to reach LL 250 billion in Jan-March 2017, primarily as a result of a drop of LL 683 billion in transfers to municipalities, while guarantees and deposits increased by LL 16 billion and LL 35 billion to reach LL 36 billion and LL 84 billion respectively.

² Current primary expenditures represent current expenditures excluding interest payment and debt service.

Public Debt

Gross public debt amounted to LL 116,358 billion by end-March 2017, up by LL 3,448 billion (3 percent) from end-2016, whereas Net debt increased at a slower pace of 1.3 percent, as public sector deposits increased by 15.5 percent to LL 16,473 billion.

Local currency debt increased by LL 771 billion (1.1 percent) to LL 71,299 billion by end-March 2017 accounting for almost 61 percent of total debt. Local currency debt held by the Central Bank decreased by LL 2,208 billion. In contrast, Commercial Banks increased their LL debt holdings by LL 2,812 billion, and their overall share of outstanding LL debt to 45 percent from 42 percent. LL debt holdings by Public Entities increased by LL 114 billion, or almost 1.3 percent to reach LL 8,832 billion.

The stock of **foreign currency debt** increased by LL 2,677 billion to LL 45,059 billion in the first quarter of 2017, mainly owing to a LL 2,268 billion increase in outstanding market Eurobonds and accrued interest on Eurobonds of LL 308 billion. Moreover, “Bilateral, multilateral and foreign private sector loans” rose by LL 215 billion, while Paris II and Paris III related bonds and loans decreased by LL 69 billion and LL 20 billion respectively, mainly due to amortized principal repayments. In the month of March, the Lebanese Republic issued a US\$ 3 Billion triple-tranche Eurobond. The issuance represented the Republic’s first tap of international capital markets in 2017 and was its largest ever new cash market issuance³.

³ More information on the March 2017 Eurobond transaction can be found on the Ministry of Finance website under “Triple-tranche: US\$ 1250 million 6.85% notes due March 2027, US\$ 1000 million 7.00% notes due March 2032 and US\$ 750 million 7.25% notes due March 2037, issued 23 March 2017”, <http://www.finance.gov.lb/en-us/Finance/PublicDebt/DebtT/Pages/default.aspx>

SECTION 1: REVENUE OUTCOME

Table 2: Total Revenues

(LL billion)	2016 Jan-Mar	2017 Jan-Mar	% Change 2017/2016
Budget Revenues, of which	3,384	3,814	12.7%
Tax Revenues	2,511	2,786	10.9%
Non-Tax Revenues	873	1,028	17.7%
Treasury Receipts	282	217	-22.9%
Total Revenues	3,666	4,031	9.9%

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

Table 3: Tax Revenues

(LL billion)	2016 Jan-Mar	2017 Jan-Mar	% Change 2017/2016
Tax Revenues:	2,511	2,786	10.9%
Taxes on Income, Profits, & Capital Gains, of which	655	727	11.0%
Income Tax on Profits	200	216	8.1%
Income Tax on Wages and Salaries	199	208	4.8%
Income Tax on Capital Gains & Dividends	37	53	44.4%
Tax on Interest Income (5%)	203	221	9.2%
Penalties on Income Tax	17	28	66.5%
Taxes on Property, of which:	371	431	16.2%
Built Property Tax	138	156	13.2%
Real Estate Registration Fees	191	237	23.7%
Domestic Taxes on Goods & Services, of which:	883	1,000	13.2%
Value Added Tax	796	868	9.1%
Other Taxes on Goods and Services, of which:	83	102	22.8%
Private Car Registration Fees	52	59	14.1%
Passenger Departure Tax	30	42	38.1%
Taxes on International Trade, of which:	485	501	3.3%
Customs	169	170	0.9%
Excises, of which:	317	331	4.5%
Gasoline Excise	162	157	-3.2%
Tobacco Excise	58	62	6.3%
Cars Excise	95	111	16.7%
Other Tax Revenues (namely fiscal stamp fees)	117	127	8.5%

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

Table 4: Non-Tax Revenues

(LL billion)	2016 Jan-Mar	2017 Jan-Mar	% Change 2017/2016
Non-Tax Revenues	873	1,028	17.7%
Income from Public Institutions and Government Properties, of which:	594	697	17.3%
Income from Non-Financial Public Enterprises, of which:	551	581	5.5%
<i>Revenues from Casino Du Liban</i>	27	31	16.1%
<i>Revenues from Port of Beirut</i>	0	0	-
<i>Budget Surplus of National Lottery</i>	0	1	-
<i>Transfer from the Telecom Surplus</i>	524	549	4.8%
Transfer from Public Financial Institution (BDL)	0	61	-
Property Income (namely rent of Rafic Hariri International Airport)	42	53	26.2%
Other Income from Public Institutions (interests)	1	2	76.5%
Administrative Fees & Charges, of which:	216	280	29.6%
Administrative Fees, of which:	163	242	47.8%
<i>Notary Fees</i>	9	9	4.9%
<i>Passport Fees/ Public Security</i>	64	66	2.8%
<i>Vehicle Control Fees</i>	58	144	147.4%
<i>Judicial Fees</i>	8	7	-5.9%
<i>Driving License Fees</i>	5	6	7.4%
Administrative Charges	19	13	-32.9%
Sales (Official Gazette and License Number)	1	1	13.6%
Permit Fees (mostly work permit fees)	28	21	-25.4%
Other Administrative Fees & Charges	5	4	-20.1%
Penalties & Confiscations	14	9	-34.1%
Other Non-Tax Revenues (mostly retirement deductibles)	49	42	-14.6%

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

SECTION 2: EXPENDITURE OUTCOME

Table 5: Expenditure by Economic Classification

(LL billion)	2016 Jan-Mar	2017 Jan-Mar	% Change 2017/2016
1. Current Expenditures	4,439	4,405	-0.8%
1.a Personnel Cost, of which	1,812	1,841	1.6%
Salaries, Wages and Related Benefits	1,179	1,224	3.8%
Retirement and End of Service Compensations, of which:	511	514	0.6%
Retirement	441	464	5.2%
End of Service	70	50	-28.8%
Transfers to Public Institutions to Cover Salaries	123	104	-15.4%
1.b Interest Payments, 1/	1,524	1,504	-1.3%
Domestic Interest Payments	1,153	1,161	0.7%
Foreign Interest Payments	371	343	-7.6%
1.c Accounting adjustments 2/	43	0	-100.0%
1.d Foreign Debt Principal Repayment	44	46	6.6%
1.e Materials and Supplies, of which:	134	143	7.3%
Nutrition	22	24	7.0%
Fuel Oil	14	13	-4.6%
Medicaments	71	83	16.1%
1.f External Services	41	39	-5.8%
1.g Various Transfers, of which:	529	606	14.6%
EDL 3/	230	420	82.8%
NSSF	20	0	-100.0%
Higher Council of Relief	1	1	-20.0%
Contributions to non-public sectors	94	52	-45.0%
Transfers to Directorate General of Cereals and Beetroot 4/	0	15	-
1.h Other Current, of which:	273	192	-29.7%
Hospitals	227	149	-34.2%
Others (judgments & reconciliations, mission costs, other)	45	40	-11.4%
1.i Interest subsidy	40	34	-14.3%
2. Capital Expenditures	343	359	4.7%
2.a Acquisitions of Land, Buildings, for the Construction of Roads, Ports, Airports, and Water Networks	0	0	-
2.b Equipment	28	21	-24.9%
2.c Construction in Progress, of which:	199	229	14.9%
Displaced Fund	0	0	-
Council of the South	0	0	-
CDR	81	116	43.4%
Ministry of Public Work and Transport	42	50	18.8%
Other of which	73	58	-20.5%
Higher Council of Relief	2	6	175.0%
2.d Maintenance	70	69	-2.6%
2.e Other Expenditures Related to Fixed Capital Assets	45	40	-11.8%
3. Budget Advances 5/	113	71	-36.8%
4. Customs Administration (exc. Salaries and Wages) 6/	36	25	-30.1%
5. Treasury Expenditures 7/	906	250	-72.4%
Municipalities	757	73	-90.3%
Guarantees	20	36	82.7%
Deposits 8/	49	84	72.6%
Other, of which:	81	56	-30.3%
VAT Refund	61	47	-23.1%
6. Unclassified Expenditures	2	0	-100.0%
7. Total Expenditures (Excluding CDR Foreign Financed)	5,839	5,110	-12.5%

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, funds, from revenues it has collected on their behalf.

Table 6: Details of Debt Service Transactions¹

(LL billion)	2016 Jan-Mar	2017 Jan-Mar	% Change 2017/2016
Interest Payments	1524	1504	-1.3%
Local Currency Debt	1153	1161	0.7%
Foreign Currency Debt, of which:	371	343	-7.6%
Eurobond Coupon Interest*	354	327	-7.9%
Special bond Coupon Interest*	1	1	-13.8%
Concessional Loans Interest Payments	15	15	0.0%

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 7: Transfers to EDL

(LL billion)	2016 Jan-Mar	2017 Jan-Mar	% Change 2017/2016
EDL of which:	230	420	82.8%
Debt Service	7	7	-5.2%
Reimbursement for purchase of Natural Gas, Fuel & Gas Oil	222	413	85.8%

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

SECTION 3: PUBLIC DEBT

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

(LL billion)	Dec-15	Dec-16	Mar-17	% Change Mar 17 - Dec 16
Gross Public Debt	106,031	112,910	116,358	3.1%
Local Currency Debt	65,195	70,528	71,299	1.1%
* <i>Accrued Interest Included in Debt</i>	997	1,098	1,149	4.6%
a. Central Bank (Including REPOs)	24,308	30,150	27,942	-7.3%
b. Commercial Banks	29,878	29,581	32,393	9.5%
c. Other Local Currency Debt (T-bills), of which:	11,009	10,797	10,964	1.5%
<i>Public Entities</i>	8,461	8,718	8,832	1.3%
<i>Contractor bonds 1/</i>	180	139	139	0.0%
Foreign Currency Debt 2/	40,836	42,382	45,059	6.3%
a. Bilateral, Multilateral and Foreign Private Sector Loans	2,479	2,506	2,721	8.6%
b. Paris II Related Debt (Eurobonds and Loans) 3/	1,182	631	563	-10.9%
c. Paris III Related Debt (Eurobonds and Loans) 4/	810	660	640	-3.1%
d. Market-Issued Eurobonds	35,846	38,063	40,331	6.0%
e. Accrued Interest on Eurobonds	435	458	766	67.2%
f. Special T-bills in Foreign Currency 5/	68	63	38	-39.7%
Public Sector Deposits	13,227	14,268	16,473	15.5%
Net Debt 6/	92,804	98,642	99,885	1.3%
Gross Market Debt 7/	68,799	70,303	75,720	7.7%
% of Total Debt	65%	62%	65%	4.5%

Source: Ministry of Finance, Banque du Liban

⁽¹⁾ Contractor bonds issued in LBP. Contractor bonds issued in USD are listed under "Special T-bills in foreign currency".

⁽²⁾ 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.

⁽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⁾ 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.

⁽⁵⁾ Special Tbs in foreign currency (expropriation and contractor bonds).

⁽⁶⁾ Net Debt is obtained by subtracting Public Sector Deposits from Gross Public Debt.

⁽⁷⁾ Gross market debt equals gross debt less the portfolios of the BDL, NSSF, bilateral and multilateral loans, Paris II and Paris III related debt.



For further information please contact:
Ministry of Finance
UNDP Project
Tel: 961 1 981057/8
Fax: 961 1 981059