

General Overview

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The **total fiscal balance** registered a deficit of LL 1,266 billion in the first quarter of 2014, up by LL 87 billion (7.3 percent) from the same period in 2013 (Table 1). This deterioration in the deficit occurred despite a notable 9 percent improvement in total revenues, owing to a larger increase in the sum of Treasury Expenditures, Interest Payments, and Capital Expenditures over the period. In contrast, the primary balance recorded a surplus of LL 58 billion by end-March 2014, compared to a deficit of LL 7 billion in Q1 2013.

Table 1: Summary of Fiscal Performance

(LL billion)	2013 Jan-Mar	2014 Jan-Mar	% Change 2014/2013
Total Budget and Treasury Receipts¹	3,354	3,657	9.0%
Total Budget and Treasury Payments, of which	4,534	4,923	8.6%
• Interest Payments	1,124	1,272	13.2%
• Concessional loans principal payment ²	49	51	5.8%
• Primary Expenditures ³	3,362	3,599	7.1%
Total (Deficit)/Surplus	(1,180)	(1,266)	7.3%
Primary (Deficit)/Surplus	(7)	58	NM⁴

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

¹ Includes the expected transfer from Telecom Surplus

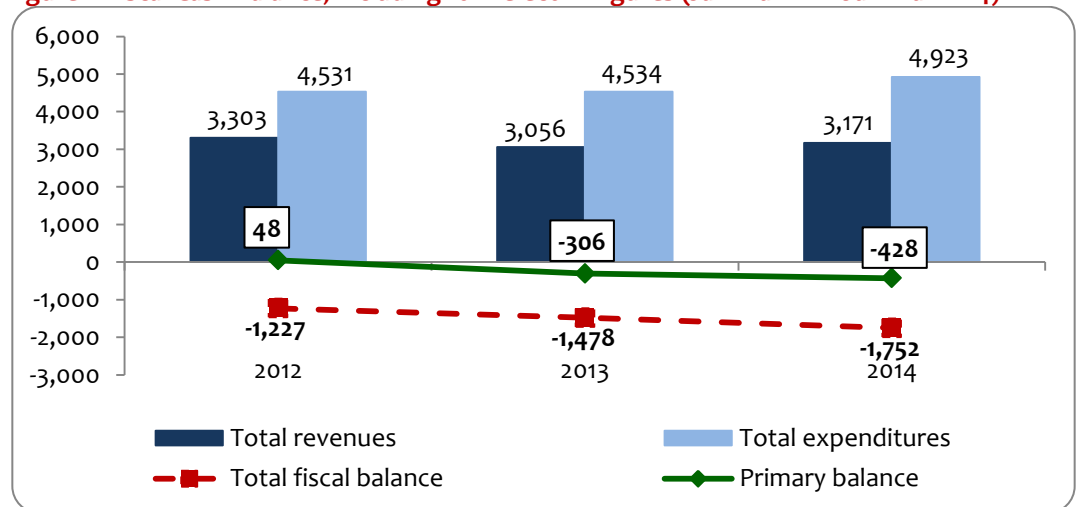
² Includes only Principal repayments of concessional loans earmarked for project financing

³ Primary expenditures exclude debt related payments (Interest payments and Concessional loans principal repayment)

⁴ Not Meaningful.

On a **cash basis** - i.e. after excluding the LL 525 billion and LL 485 billion expected transfers from the telecom surplus in Q1 2013 and Q1 2014 respectively¹ and adding the actual transferred amount, the total deficit widened by 18 percent, from LL 1,478 billion in the first quarter of 2013 to LL 1,752 billion in 2014. Correspondingly, the primary balance recorded a larger deficit of LL 428 billion in Jan-Mar 2014, compared to a deficit of LL 306 billion in Jan-Mar 2013.

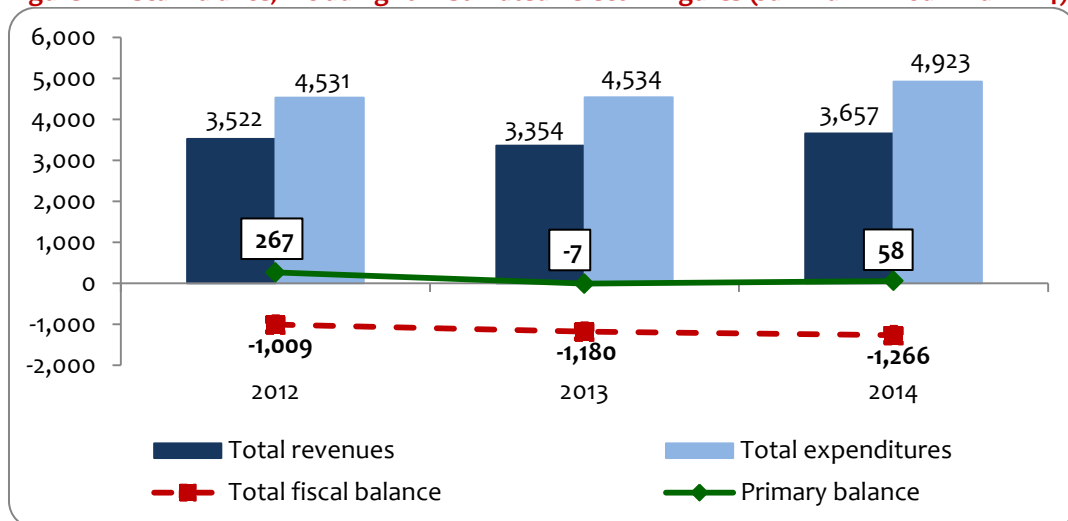
Figure 1: Fiscal Cash Balance, Including for Telecom Figures (Jan-Mar 2012-Jan-Mar 2014)



¹ On a cash basis, transfers from the Telecom surplus were LL 226 billion in Jan-Mar 2013, and nil in Jan-Mar 2014.

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

Figure 2: Fiscal Balance, Including for Estimated Telecom Figures (Jan-Mar 2012-Jan-Mar 2014)



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

Note: Telecom Surplus figures represent estimates prepared by Ministry of Finance, whereas these used to be provided by Ministry of Telecommunication.

Revenues

Total revenues² amounted to LL 3,657 billion in the first quarter of 2014, increasing by 9 percent annually from the LL 3,354 billion collected in the same period in 2013. On a cash basis, total revenues climbed by 4 percent to reach LL 3,171 billion.

Tax revenues increased by LL 106 billion year-on-year to LL 2,496 billion as (i) **Taxes on income, profits and capital gains** jumped by LL 102 billion, owing to improvements in all sub-categories, with Income tax on profits³ adding LL 49 billion, (ii) **Taxes on property** spiked by LL 76 billion as Real Estate Registration Fees rose by LL 39 billion, outlining a 16 percent expansion in average prices of sold properties, and a 17 percent jump in the number of sold properties. Moreover, the Built Property Tax was up by LL 30 billion. (iii) Revenues collected from **fiscal stamp fees** improved by LL 11 billion.

Improvements in Tax revenues were partly offset by declines in: (i) **Taxes on international trade** by LL 79 billion to LL 454 billion, due to lower revenues from customs and excises. In detail, the sharp 42 percent decrease in tobacco excises is due to a reversal effect of the previous expansion of tobacco sales into Syrian Market, believed to be currently supplied by other neighbouring countries. (ii) **Domestic taxes on goods and services** inched down by LL 5 billion, despite a LL 45 billion increase in VAT collections, owing to a LL 50 billion drop in transfers from Régie⁴. It is worth mentioning that VAT collected from internal activities was up by 12 percent over the period, while VAT collected at customs grew at a lower rate of 2 percent.

Non-tax revenues⁵ rose by LL 87 billion year-on-year, amounting to LL 853 billion in Q1 2014. On a cash basis, non-tax revenues dropped by LL 100 billion to LL 368 billion, mainly as cash transfers from the Telecom Surplus were nil during Jan-Mar 2014, after having amounted to LL 226 billion in Jan-Mar 2013. Of other non-tax revenues, receipts from Property Income and Port of Beirut rose by LL 66 billion and LL 50 billion

² On an expected basis.

³ Income taxes on profits typically denote companies' profits collected in the previous year.

⁴ Transfers from Régie amounted to LL 50 billion in Jan-Mar 2013 (representing the portion of Régie's profits for the year of 2012), against nil in Jan-Mar 2014.

⁵ On an expected basis.

respectively (for more information, kindly refer to the January 2014 Public Finance Monitor), while revenues from the National Lottery declined by LL 12 billion. Transfers from the Port to the Treasury generally depend on the Port's expenses and its performance during the previous year, which had improved in both 2012 and 2013⁶.

Treasury receipts increased by LL 110 billion annually to reach LL 308 billion in Jan-Mar 2014 owing to a rise in receipts from "Other Accounts" (for more information, kindly refer to the January 2014 Public Finance Monitor).

Expenditures

Total expenditures recorded a rise of LL 389 billion, standing at LL 4,923 billion in Q1 2014 compared to LL 4,534 billion in Q1 2013.

Current primary expenditures⁷ decreased by LL 41 billion, reaching LL 2,945 billion in Q1 2014. This was mainly the result of lower transfers to Electricité du Liban and contributions to non-public sectors by LL 71 billion and LL 37 billion respectively. In contrast, Salaries, wages and social benefits increased by LL 56 billion while materials and supplies climbed by LL 26 billion. The latter was mainly driven by a LL 11 billion increase in food supplies mainly to military personnel, amounting to LL 22 billion in Q1 2014.

Interest payments rose by LL 149 billion to reach LL 1,272 billion, due to higher debt service payments on both the local and foreign currency components. **Foreign debt principal repayments** amounted to LL 51 billion in first three months of 2014, showing a minor increase of LL 3 billion compared to the same period of 2013.

Capital expenditures jumped by LL 99 billion to LL 286 billion in Q1 2014, chiefly as a result of (i) 112 percent (LL 38 billion) increase in payments to **CDR**, totalling LL 72 billion, of which LL 43 billion were transferred for counterpart funding for foreign financed projects, LL 18 billion represent payments to contractors for road projects, and LL 11 billion for water projects, (ii) LL 30 billion higher payment to the **Council of the South**, and (iii) LL 12 billion rise in **other expenditures related to fixed capital assets**, namely representing a payment to IDAL for the Export Plus program. These increases were partially offset by lower spending on **maintenance** and **acquisition of land and buildings** over the period under review, by LL 22 billion and LL 14 billion respectively.

Treasury expenditures⁸ increased by LL 151 billion, reaching LL 320 billion in Jan-Mar 2014. This surge in treasury expenditure was mainly due to the LL 206 billion increase in transfers to municipalities, mainly resulting from increases in (i) distribution of revenues accruing to municipalities by LL 145 billion and (ii) payments for solid waste management by LL 61 billion. However, those were slightly counterbalanced by declines in deposits and VAT refund by LL 35 billion and LL 12 billion respectively.

Public Debt

Gross public debt stood at LL 98,206 billion by end-March 2014, adding LL 2,510 billion from end-2013. Whereas net debt increased by only LL 1,770 billion to reach LL 81,971

⁶ According to published data, total volume of merchandise handled by the port increased by 4.2 percent in 2012 and 8.4 percent in 2013. The improvement in the port's performance could be explained by the disruption of alternative trade routes, due to the Arab uprising.

⁷ Current primary expenditures represent current expenditures excluding interest payment and debt service.

⁸ Starting December 2011, the Treasury expenditures section in the monthly, quarterly and yearly reports and its corresponding figures differ from the same 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.

billion, as a result of the expansion in public sector deposits by LL 740 billion (4.8 percent) to LL 16,235 billion.

Local currency debt climbed by LL 2,129 billion to reach LL 58,441 billion, accounting for almost 60 percent of total debt by end-March 2014, compared to 59 percent as at end-2013. This increase was in line with the solid participation levels observed in weekly auctions of Treasury bills and bonds, which were marked by improved appetite from the general Public and Financial Institutions. Commercial Banks remained by far the largest holders of TBs with 53 percent of the total outstanding amount, having added LL 829 billion to their portfolio in Q1 2014. The value of TBs held by the ‘Public’ surged LL 424 billion to reach LL 2,362 billion, while BDL and Financial Institutions increased their holdings by LL 373 billion and LL 340 billion respectively. Of other local currency debt, outstanding contractor bonds reached LL 167 billion by the end of Q1 2014 following the issuance of LL 33 billion in January 2014.⁹

Outstanding **foreign currency debt** ended the Q1 2014 at LL 39,765 billion, increasing by 1 percent from end-2013. Outstanding “Bilateral, multilateral and foreign private sector loans” grew by LL 262 billion, mostly owing to the disbursement of a portion of the loan provided by Danish export credit agency, EKF, to Ministry of Energy and Water, for the installation of new electricity generation units in Zouk and Jieh power plants. Another major increase was registered in ‘Accrued interest on Eurobonds’, which jumped by LL 248 billion to LL 692 billion. Those were partially offset by declines in outstanding Eurobonds and loans issued in the context of Paris II and Paris III by LL 95 billion and LL 21 billion respectively, mainly as a result of amortized principal repayments and due to the redemption of € 20 million of the Agence Française de Développement (AFD) Paris II loan in March 2014.

⁹ Refer to January 2014 Public Finance Monitor for details.

SECTION 1: REVENUE OUTCOME

Table 2: Total Revenues

(LL billion)	2013 Jan-March	2014 Jan-March	% Change 2014/2013
Budget Revenues, of which	3,157	3,349	6.1%
Tax Revenues	2,390	2,496	4.4%
Non-Tax Revenues	767	853	11.3%
Treasury Receipts	198	308	55.6%
Total Revenues	3,354	3,657	9.0%

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

Table 3: Tax Revenues

(LL billion)	2013 Jan-Mar	2014 Jan-Mar	% Change 2014/2013
Tax Revenues:	2,390	2,496	4.4%
Taxes on Income, Profits, & Capital Gains, of which	550	652	18.6%
Income Tax on Profits	163	213	30.1%
Income Tax on Wages and Salaries	175	199	13.8%
Income Tax on Capital Gains & Dividends	36	43	19.3%
Tax on Interest Income (5%)	165	171	3.7%
Penalties on Income Tax	10	26	153.1%
Taxes on Property, of which:	270	347	28.2%
Built Property Tax	90	120	33.5%
Real Estate Registration Fees	148	187	26.7%
Domestic Taxes on Goods & Services, of which:	930	925	-0.6%
Value Added Tax	802	847	5.6%
Other Taxes on Goods and Services, of which:	74	74	-0.2%
Private Car Registration Fees	46	47	3.0%
Passenger Departure Tax	28	26	-6.1%
Taxes on International Trade, of which:	533	454	-14.8%
Customs	198	185	-6.5%
Excises, of which:	335	269	-19.7%
Gasoline Excise	114	120	4.9%
Tobacco Excise	115	66	-42.2%
Cars Excise	104	81	-21.8%
Other Tax Revenues (namely fiscal stamp fees)	107	118	10.6%

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

Table 4: Non-Tax Revenues

(LL billion)	2013 Jan-Mar	2014 Jan-Mar	% Change 2014/2013
Non-Tax Revenues	767	853	11.3%
Income from Public Institutions and Government Properties, of which	588	653	11.1%
Income from Non-Financial Public Enterprises, of which:	577	575	-0.2%
<i>Revenues from Casino Du Liban</i>	32	32	-0.2%
<i>Revenues from Port of Beirut</i>	0	50	-
<i>Budget Surplus of National Lottery</i>	20	8	-60.0%
<i>Transfer from the Telecom Surplus</i>	525	485	-7.5%
Property Income (namely rent of Rafic Hariri International Airport)	10	76	633.1%
Other Income from Public Institutions (interests)	1	1	14.9%
Administrative Fees & Charges, of which:	142	162	14.1%
Administrative Fees, of which:	112	129	15.5%
<i>Notary Fees</i>	7	8	9.6%
<i>Passport Fees/ Public Security</i>	30	39	28.7%
<i>Vehicle Control Fees</i>	55	59	7.4%
<i>Judicial Fees</i>	6	6	1.3%
<i>Driving License Fees</i>	4	4	1.1%
Administrative Charges	13	13	0.7%
Sales (Official Gazette and License Number)	1	1	11.1%
Permit Fees (mostly work permit fees)	14	16	16.6%
Other Administrative Fees & Charges	3	3	9.6%
Penalties & Confiscations	2	3	14.1%
Other Non-Tax Revenues (mostly retirement deductibles)	34	35	4.2%

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

SECTION 2: EXPENDITURE OUTCOME

Table 5: Expenditure by Economic Classification

(LL billion)	2013 Jan-Mar	2014 Jan-Mar	% Change 2014/2013
1. Current Expenditures	4,158	4,269	2.7%
1.a Personnel Cost, of which	1,489	1,537	3.2%
Salaries, Wages and social benefits	976	1,033	5.8%
Retirement and End of Service Compensations, of which:	423	428	1.1%
Retirement	400	404	1.1%
End of Service	23	24	0.3%
Transfers to Public Institutions to Cover Salaries 1/	89	76	-14.6%
1.b Interest Payments, of which: 2/	1,124	1,272	13.2%
Domestic Interest Payments	795	930	16.9%
Foreign Interest Payments	329	343	4.2%
1.c Foreign Debt Principal Repayment	49	51	5.8%
1.d Materials and Supplies, of which:	83	109	32.1%
Nutrition (Food supplies)	11	22	97.0%
Fuel Oil	2	2	11.0%
Medicaments	50	48	-2.9%
1.e External Services	35	53	49.9%
1.f Various Transfers, of which:	1,160	1,069	-7.8%
EDL 3/	862	791	-8.3%
NSSF	100	100	0.0%
Higher Council of Relief	8	5	-34.8%
Contributions to non-public sectors	104	67	-35.9%
Transfers to Directorate General of Cereals and Beetroot	0	12	-
Contributions to water authorities	0	12	-
1.g Other Current, of which:	167	132	-21.0%
Hospitals	118	106	-10.8%
Others (judgments & reconciliations, mission costs, other)	47	25	-47.8%
1.h Interest subsidy	53	46	-13.0%
2. Capital Expenditures	187	286	53.3%
2.a Acquisitions of Land, Buildings, for the Construction of Roads, Ports, Airports, and Water Networks	14	0	-100.0%
2.b Equipment	18	16	-15.2%
2.c Construction in Progress, of which:	96	221	131.5%
Council of the South	0	30	-
CDR	34	72	112.1%
Ministry of Public Work and Transport	34	28	-17.4%
Other of which:	25	29	16.9%
Higher Council of Relief	12	0	-100.0%
2.d Maintenance	58	37	-37.1%
2.e Other Expenditures Related to Fixed Capital Assets	1	13	1373.0%
3. Budget Advances 4/	9	33	248.8%
4. Customs Administration (exc. Salaries and Wages) 5/	11	15	40.0%
5. Treasury Expenditures 6/	168	320	89.9%
Municipalities	8	214	2717.9%
Guarantees	16	7	-60.1%
Deposits 7/	51	16	-67.7%
Other, of which:	93	83	-11.2%
VAT Refund	67	55	-18.6%
6. Unclassified Expenditures	0	0	-61.8%
7. Total Expenditures (Excluding CDR Foreign Financed)	4,534	4,923	8.6%

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

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. 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/ 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.

5/ Customs administration 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

6/ 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.

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

Table 6: Breakdown of Transfers to Public Institutions for the Coverage of Salaries

(LL billion)	2013	2014	% Change 2014/2013
	Jan-Mar	Jan-Mar	
Transfer to Council of the South	1	5	276.1%
Transfer to CDR	15	3	-82.4%
Transfer to the Displaced Fund	1	1	6.5%
Transfer to the Lebanese University	67	65	-3.8%
Transfer to the Educational Center for Research and Development	4	2	-50.0%
Total Transfers to Public Institutions to Cover Salaries	88	76	-13.6%

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

Table 7: Details of Debt Service Transactions¹

(LL billion)	2013	2014	% Change 2014/2013
	Jan-Mar	Jan-Mar	
Interest Payments	1124	1272	13.2%
Local Currency Debt	795	930	16.9%
Foreign Currency Debt, of which:	329	343	4.2%
Eurobond Coupon Interest*	304	317	4.3%
Special bond Coupon Interest*	1.8	2	34.6%
Concessional Loans Interest Payments	23	23	1.0%
Concessional Loans Principal Repayments	49	51	5.8%

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 8: Transfers to EDL¹

(LL billion)	2013	2014	% Change 2014/2013
	Jan-Mar	Jan-Mar	
EDL of which:	862	791	-8.3%
Debt Service	19	12	-39.0%
Reimbursement for purchase of Natural Gas, Fuel & Gas Oil	843	780	-7.6%

Source: Ministry of Finance (MOF), Directorate General of Finance (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 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 are reclassified under "budget expenditures".

SECTION 3: PUBLIC DEBT

Table 9: Public Debt Outstanding by Holder as of End-March 2014

(LL billion)	Dec-12	Dec-13	Mar-14	% Change Dec 13-Mar 14
Gross Public Debt	86,959	95,696	98,206	2.6%
Local Currency Debt	50,198	56,312	58,441	3.8%
* <i>Accrued Interest Included in Debt</i>	789	877	886	1.0%
a. Central Bank (Including REPOs)	15,049	17,171	17,535	2.1%
b. Commercial Banks	27,267	29,905	30,738	2.8%
c. Other Local Currency Debt (T-bills), of which:	7,882	9,236	10,168	10.1%
<i>Public Entities</i>	6,479	7,117	7,285	2.4%
<i>Contractor bonds 1/</i>	134	134	167	24.6%
Foreign Currency Debt 2/	36,761	39,384	39,765	1.0%
a. Bilateral, Multilateral and Foreign Private Sector Loans	2,584	2,592	2,854	10.1%
b. Paris II Related Debt (Eurobonds and Loans) 3/	2,925	2,338	2,243	-4.1%
c. Paris III Related Debt (Eurobonds and Loans) 4/	1,313	1,187	1,165	-1.8%
d. Market-Issued Eurobonds	29,427	32,688	32,690	0.0%
e. <i>Accrued Interest on Eurobonds</i>	400	444	692	55.9%
f. Special T-bills in Foreign Currency 5/	112	136	121	-11.0%
Public Sector Deposits	12,916	15,495	16,235	4.8%
Net Debt 6/	74,043	80,201	81,971	2.2%
Gross Market Debt 7/	58,623	65,386	67,216	2.8%
% of Total Debt	67%	68%	68%	0.2%

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 06- Dec 12 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 tranche of the French loan received in February 2008, and first tranche EC/EU loan.

(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.

MINISTRY OF FINANCE PUBLICATIONS

2014

Aid Coordination Monthly Newsletter, Issues 74-80
Public Finance Monitor Monthly Update, January-February 2014
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Public Finance Quarterly Review, QII 2013
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Transfers to EDL: A Monthly Snapshot, October-December 2013
Salaries and Wages and Related Benefits-The Article 13 Monthly Bulletin, January 2014
Salaries and Wages and Related Benefits-The Article 13 Monthly Bulletin, October-December 2013
Debt and Debt Markets Quarterly, QI 2014
Debt and Debt Markets Quarterly, QIV 2013

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Public Finance Monitor Monthly Update, November-December 2012
Public Finance Annual Review, 2012
Public Finance Quarterly Review, QI 2013
Public Finance Quarterly Review, QII 2012 and QIII 2012
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