

General Overview

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Government finances weakened in the first eight months of 2016 from the same period a year earlier, as government spending registered a sharp increase owing to a one-off transfer made to municipalities¹ as well as higher personnel cost and interest payments, while revenues continued to be negatively affected by the low growth environment amid an ongoing geopolitical crisis.

The **total fiscal balance** recorded a deficit of LL 3,811 billion, up by 27 percent from the same period in 2015, while the **primary surplus** declined by 49 percent to reach LL 611 billion (Table 1-a). Adjusting for the one-off transfer to municipalities in Jan-Aug 2016, results show a 7 percent year-on-year increase in the fiscal deficit to LL 3,219 billion, and an improvement in the primary surplus to LL 1,202 billion (Table 1-b)².

Table 1-a: Summary of Fiscal Performance

(LL billion)	2015	2016	% Change 2016/2015
	Jan-Aug	Jan-Aug	
Total Budget and Treasury Receipts	9,955	10,366	4.1%
Total Budget and Treasury Payments, of which	12,953	14,177	9.5%
•Interest Payments	3,987	4,234	6.2%
•Concessional loans principal payment ¹	207	187	-9.4%
•Primary Expenditures ²	8,758	9,755	11.4%
Total (Deficit)/Surplus	(2,998)	(3,811)	27.1%
Primary (Deficit)/Surplus	1,197	611	-49.0%

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)

Table 1-b: Summary of Fiscal Performance - Including Adjustments¹

(LL billion)	2015	2016	% Change 2016/2015
	Jan-Aug	Jan-Aug	
Total Budget and Treasury Receipts	9,955	10,366	4.1%
Total Budget and Treasury Payments, of which	12,953	13,585	4.9%
•Interest Payments	3,987	4,234	6.2%
•Concessional loans principal payment	207	187	-9.4%
•Primary Expenditures	8,758	9,164	4.6%
Total (Deficit)/Surplus	(2,998)	(3,219)	7.4%
Primary (Deficit)/Surplus	1,197	1,202	0.5%

Source: MOF, DGF

¹ Excluding LL 592 billion in Treasury transfers to Municipalities from Total Budget and Treasury Payments for Jan-Aug 2016, and which pertain to Municipalities' share of telecommunication revenues

Revenues

Total revenues increased by 4 percent in Jan-Aug 2016 to reach LL 10,366 billion, compared to LL 9,955 billion in the same period of 2015.

Tax revenues inched up by LL 104 billion (1 percent) over the period under consideration.

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-Aug 2016 and accounted as Treasury expenditures.

² Table 1-b does not represent actual government figures, but makes broad adjustments in extraordinary one-off payments and collections to more accurately reflect structural fiscal dynamics.

Taxes on income, profits and capital gains were up by LL 44 billion (2 percent). Most of the increase stemmed from higher Income Tax on Wages & Salaries as well as Income Tax on Profits. It is worth noting that Income Tax on Capital Gains & Dividends and Tax on Interest Income were almost unchanged from last year, as discrepancies in timing significantly reduced tax collections during the month of August 2016.

Domestic taxes on goods and services increased by LL 28 billion driven by a LL 43 billion (2 percent) increase in the Value-added Tax. In detail, internal VAT rose by 4 percent, while VAT at customs remained the same over the period despite lower international oil prices that reduced VAT collections on gasoline products. Moreover, Passenger Departure Tax was up LL 8 billion (9 percent). These increases were partly counterbalanced by lower transfers from Régie by LL 20 billion³.

Property taxes rose by LL 20 billion (3 percent) as of end-August 2016, mainly as real estate registration fees rose by LL 18 billion (4 percent). It is worth mentioning that both the number of sale transactions and average price of properties were up by respectively 2 percent and 3 percent.

Taxes on international trade increased by LL 37 billion driven by higher excises (LL 44 billion), which were slightly counterbalanced by lower customs duties (LL 7 billion). Moreover, **fiscal stamps** dropped by LL 25 billion over the period.

Non-tax revenues increased by LL 97 billion to reach LL 2,168 billion in Jan-Aug 2016, mainly due to higher Transfers from the Telecom.

Moreover, **other non-tax revenues** (mostly retirement deductibles) rose by LL 19 billion, while **administrative fees and charges** dropped by LL 5 billion as a result of lower vehicle control fees (-LL 15 billion) and driving license fees (-LL 9 billion), which were mostly offset by increases in permit fees (+LL 12 billion) and passport fees (+LL 12 billion).

Treasury receipts rose by LL 211 billion to reach LL 693 billion by end-August 2016.

Expenditures

Total expenditures recorded a significant increase of LL 1,225 billion (9 percent), standing at LL 14,177 billion in Jan-Aug 2016.

Current primary expenditures⁴ increased by LL 253 billion mainly as a result of increases in (i) **various transfers – excluding transfers to EDL** - by LL 321 billion mainly due to an increase in Lebanon's contribution to the International Monetary Fund by LL 194 billion, and (ii) **personnel cost** by LL 261 billion, mainly driven by an increase in **salaries, wages and social benefits** of LL 199 billion and **retirement and end of service compensations** of LL 54 billion. These increases were partly counterbalanced by a LL 401 billion drop in **transfers to EDL**.

Interest payments rose by LL 247 billion to reach LL 4,234 billion. **Foreign debt principal repayment** amounted to LL 187 billion in Jan-Aug 2016, down from the LL 207 billion registered in Jan-Aug 2015.

Capital expenditures increased by LL 145 billion in Jan-Aug 2016, chiefly due to (i) a LL 50 billion increase in **other construction in progress** mainly driven by an increase in transfers to the Ministry of Energy, (ii) a LL 39 billion rise in transfers to the **Ministry of**

³ Transfers from Régie amounted to LL 141 billion in Jan-Aug 2015, compared to only LL 121 billion in Jan-Aug 2016.

⁴ Current primary expenditures represent current expenditures excluding interest payments and foreign debt principal repayment.

Public Work and Transport, (iii) a LL 36 billion higher payments for **maintenance**, and (iv) a LL 19 billion increase in **other expenditures related fixed capital assets**. A decrease of LL 15 billion in transfers to **CDR** partly offset increases in the above mentioned spending categories.

Treasury expenditures witnessed a significant increase of LL 513 billion to reach LL 1,528 billion in Jan-Aug 2016, mainly due to higher payments to Municipalities – from LL 575 billion in Jan-Aug 2015 to LL 1,041 billion in Jan-Aug 2016.

Public Debt Developments

Gross public debt reached LL 111,632 billion as of end-August 2016, increasing by LL 5,617 billion (5.3 percent) from end-2015, while net debt increased by only 4.1 percent as public sector deposits rose by 13.4 percent over the period.

Local currency debt increased by 4.0 percent to reach LL 67,771 billion as of end-August 2016, compared to LL 65,195 billion as of end-2015. In detail, Local Currency Debt holdings by the Central Bank increased by LL 6,134 billion, whereas Commercial Banks' holdings decreased by LL 3,724 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 473 billion to reach LL 8,934 billion.

The stock of **foreign currency debt** grew by the equivalent of LL 3,041 billion to LL 43,861 billion, mostly owing to a LL 3,018 billion increase in the value of outstanding Eurobonds. Moreover, "Bilateral, multilateral and foreign private sector loans" rose by LL 88 billion, whereas Paris II and Paris III related bonds and loans decreased by LL 291 billion and LL 89 billion respectively, mainly due to amortized principal repayments.

SECTION 1: REVENUE OUTCOME

Table 2: Total Revenues

(LL billion)	2015 Jan-Aug	2016 Jan-Aug	% Change 2016/2015
Budget Revenues, of which	9,472	9,673	2.1%
Tax Revenues	7,401	7,505	1.4%
Non-Tax Revenues	2,072	2,168	4.7%
Treasury Receipts	482	693	43.6%
Total Revenues	9,955	10,366	4.1%

Source: MOF, DGF

Table 3: Tax Revenues

(LL billion)	2015 Jan-Aug	2016 Jan-Aug	% Change 2016/2015
Tax Revenues:	7,401	7,505	1.4%
Taxes on Income, Profits, & Capital Gains, of which	2,338	2,382	1.9%
Income Tax on Profits	1049	1073	2.3%
Income Tax on Wages and Salaries	512	539	5.2%
Income Tax on Capital Gains & Dividends	221	222	0.7%
Tax on Interest Income (5%)	507	507	-0.1%
Penalties on Income Tax	48	40	-16.4%
Taxes on Property, of which:	783	802	2.5%
Built Property Tax	190	191	0.5%
Real Estate Registration Fees	488	506	3.7%
Domestic Taxes on Goods & Services, of which:	2,582	2,611	1.1%
Value Added Tax	2,188	2,231	2.0%
Other Taxes on Goods and Services, of which:	246	253	2.7%
Private Car Registration Fees	158	158	-0.2%
Passenger Departure Tax	86	94	8.8%
Taxes on International Trade, of which:	1,354	1,390	2.7%
Customs	475	468	-1.5%
Excises, of which:	879	922	5.0%
Gasoline Excise	414	453	9.4%
Tobacco Excise	155	148	-4.8%
Cars Excise	306	319	4.2%
Other Tax Revenues (namely fiscal stamp fees)	344	319	-7.2%

Source: MOF, DGF

Table 4: Non-Tax Revenues

(LL billion)	2015 Jan-Aug	2016 Jan-Aug	% Change 2016/2015
Non-Tax Revenues	2,072	2,168	4.7%
Income from Public Institutions and Government Properties, of which	1,431	1,501	4.9%
Income from Non-Financial Public Enterprises, of which:	1,297	1,358	4.7%
<i>Revenues from Casino Du Liban</i>	66	69	5.0%
<i>Revenues from Port of Beirut</i>	60	65	8.3%
<i>Budget Surplus of National Lottery</i>	31	20	-34.7%
<i>Transfer from the Telecom Surplus</i>	1,140	1,202	5.5%
Transfer from Public Financial Institution (BDL)	61	61	-0.2%
Property Income (namely rent of Rafic Hariri International Airport)	70	78	11.5%
Other Income from Public Institutions (interests)	3	5	40.1%
Administrative Fees & Charges, of which:	515	510	-1.0%
Administrative Fees, of which:	429	414	-3.6%
<i>Notary Fees</i>	25	25	0.1%
<i>Passport Fees/ Public Security</i>	174	186	7.0%
<i>Vehicle Control Fees</i>	150	134	-10.2%
<i>Judicial Fees</i>	20	20	-3.6%
<i>Driving License Fees</i>	23	14	-38.1%
Administrative Charges	23	24	4.3%
Sales (Official Gazette and License Number)	2	2	-1.4%
Permit Fees (mostly work permit fees)	48	59	24.1%
Other Administrative Fees & Charges	13	11	-18.1%
Penalties & Confiscations	17	30	78.5%
Other Non-Tax Revenues (mostly retirement deductibles)	109	128	17.9%

Source: MOF, DGF

SECTION 2: EXPENDITURE OUTCOME

Table 5: Expenditure by Economic Classification

(LL billion)	2015 Jan-Aug	2016 Jan-Aug	% Change 2016/2015
1. Current Expenditures	11,259	11,739	4.3%
1.a Personnel Cost, of which	4,648	4,909	5.6%
Salaries, Wages and Related Items	3,023	3,221	6.6%
Retirement and End of Service Compensations, of which:	1,361	1,415	3.9%
Retirement	1,146	1,196	4.4%
End of Service	215	219	1.7%
Transfers to Public Institutions to Cover Salaries 1/	264	272	3.2%
1.b Interest Payments 2/, of which:	3,987	4,234	6.2%
Domestic Interest Payments	2,595	2,824	8.8%
Foreign Interest Payments	1,393	1,411	1.3%
1.c Accounting Adjustments 3/	1	43	-
1.d Foreign Debt Principal Repayment	207	187	-9.4%
1.e Materials and Supplies, of which:	217	254	17.2%
Nutrition	60	54	-10.0%
Fuel Oil	8	26	225.6%
Medicaments	98	113	14.7%
1.f External Services	91	100	9.9%
1.g Various Transfers, of which:	1,601	1,520	-5.0%
EDL 4/	1,187	786	-33.8%
NSSF	0	20	-
Higher Council of Relief	28	1	-97.0%
Contributions to non-public sectors	204	236	16.0%
Transfers to Directorate General of Cereals and Beetroot 5/	10	0	-100.0%
Contributions to water authorities	0	0	-
Special Tribunal for Lebanon	0	0	-
1.h Other Current, of which:	386	387	0.2%
Hospitals	281	308	9.6%
Others(judgments & reconciliations, mission costs, other)	97	75	-22.1%
1.i Interest Subsidy	121	104	-14.2%
2. Capital Expenditures	467	612	31.0%
2.a Acquisitions of Land, Buildings, for the Construction of Roads, Ports, Airports, and Water Networks	0	0	-30.1%
2.b Equipment	31	48	54.0%
2.c Construction in Progress, of which:	314	387	23.4%
Displaced Fund	0	0	-
Council of the South	30	27	-9.7%
CDR	187	172	-8.1%
Ministry of Public Work and Transport	29	68	133.4%
Other of which:	64	114	79.1%
Higher Council of Relief	4	2	-50.0%
2.d Maintenance	91	127	40.0%
2.e Other Expenditures Related to Fixed Capital Assets	31	50	59.0%
3. Budget Advances	167	224	34.5%
4. Customs Administration (exc. Salaries and Wages) 6/	44	70	58.9%
5. Treasury Expenditures	1,015	1,528	50.5%
Municipalities	575	1,041	80.8%
Guarantees	37	48	28.6%
Deposits 7/	165	205	23.9%
Other, of which:	237	235	-1.0%
VAT Refund	182	159	-12.8%
6. Unclassified Expenditures	1	4	290.3%
7. Total Expenditures (Excluding CDR Foreign Financed)	12,953	14,177	9.5%

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 Figure for 2015 includes capitalized interest of LL1.1 billion that was drawn from the loan and paid directly to the creditor for EKF Loan. Figure for 2016 includes LL4.4 billion in coupons and LL1.9 billion in discounted interest payments due on 31/12/2015 but recorded in the accounting system on 2/1/2016.

⁴ For a detailed breakdown of transfers to EDL, kindly refer to table 8.

⁵ Transfers to Directorate General of Cereals and Beetroot include both administrative expenses and payments for wheat subsidy.

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

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

(LL billion)	2015 Jan-Aug	2016 Jan-Aug	% Change 2016/2015
Transfer to Council of the South	4	10	129.2%
Transfer to CDR	6	22	290.8%
Transfer to the Displaced Fund	3	3	0.0%
Transfer to the Lebanese University	245	224	-8.4%
Transfer to the Educational Center for Research and Development	6	13	116.7%

Source: MOF, DGF

Table 7: Details of Debt Service Transactions¹

(LL billion)	2015 Jan-Aug	2016 Jan-Aug	% Change 2016/2015
Interest Payments	3,987	4,234	6.2%
Local Currency Debt	2,595	2,824	8.8%
Foreign Currency Debt, of which:	1,393	1,411	1.3%
Eurobond Coupon Interest*	1,322	1,350	2.1%
Special bond Coupon Interest*	4	2	-51.5%
Concessional Loans Interest Payments	66	59	-11.5%
Foreign Debt Principal Repayment	207	187	-9.4%

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 8: Transfers to EDL

(LL billion)	2015 Jan-Aug	2016 Jan-Aug	% Change 2016/2015
EDL, of which:	1,187	786	-33.8%
Debt Service	26	20	-24.0%
Reimbursement for purchase of Natural Gas, Fuel & Gas Oil	1,161	766	-34.0%

Source: MOF, DGF

SECTION 3: PUBLIC DEBT

Table 9: Public Debt Outstanding by Holder as of End-August 2016

(LL billion)	Dec-14	Dec-15	Aug-16	% Change Aug 16-Dec 15
Gross Public Debt	100,356	106,015	111,632	5.30%
Local Currency Debt	61,752	65,195	67,771	3.95%
* <i>Accrued Interest Included in Debt</i>	1,029	997	1,193	19.66%
a. Central Bank (Including REPOs)	19,855	24,308	30,442	25.23%
b. Commercial Banks	31,468	29,878	26,154	-12.46%
c. Other Local Currency Debt (T-bills), of which:	10,429	11,009	11,175	1.51%
<i>Public Entities</i>	7,701	8,461	8,934	5.59%
<i>Contractor bonds 1/</i>	180	180	180	0.00%
Foreign Currency Debt 2/	38,604	40,820	43,861	7.45%
a. Bilateral, Multilateral and Foreign Private Sector Loans	2,752	2,479	2,567	3.54%
b. Paris II Related Debt (Eurobonds and Loans) 3/	1,743	1,182	891	-24.60%
c. Paris III Related Debt (Eurobonds and Loans) 4/	986	810	721	-11.00%
d. Market-Issued Eurobonds	32,584	35,846	38,864	8.42%
e. Accrued Interest on Eurobonds	425	435	751	72.64%
f. Special T-bills in Foreign Currency 5/	114	68	67	-1.47%
Public Sector Deposits	13,965	13,227	15,003	13.43%
Net Debt 6/	86,391	92,788	96,629	4.14%
Gross Market Debt 7/	67,373	68,799	68,115	-0.99%
% of Total Debt	67%	65%	61%	-5.98%

Source: MOF, DGF

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

² Figures for Dec 14- Dec 15 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.



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