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General Overview

Lebanon's fiscal position weakened in the first two months of 2016 compared to the same period a year earlier, mainly as a result of the repayment of some of the funds owed to municipalities and that had been collected on their behalf in 2014¹. The **total fiscal balance** recorded a deficit of LL 1,097 billion, up by 31 percent from the same period of 2015, while the primary deficit increased to LL 369 billion from LL 174 billion (Table 1-a). Expenditures rose by LL 911 billion while revenues increased by a smaller LL 652 billion, noting that transfers from the telecom surplus amounted to LL 394 billion compared to nil in the same period of 2015.

Adjusting for both the transfers to municipalities and collections from the telecom surplus, the total fiscal deficit increased by only 7.3 percent to LL 899 billion while the primary balance contracted by 1.4 percent (Table 1-b)².

Table 1-a: Summary of Fiscal Performance

(LL billion)	2015	2016	% Change 2016/2015
	Jan-Feb	Jan-Feb	
Total Budget and Treasury Receipts	1,981	2,633	32.9%
Total Budget and Treasury Payments, of which	2,819	3,730	32.3%
•Interest Payments	631	695	10.1%
•Concessional loans principal payment ¹	33	33	0.4%
•Primary Expenditures ²	2,155	3,002	39.3%
Total (Deficit)/Surplus	(838)	(1,097)	30.9%
Primary (Deficit)/Surplus	(174)	(369)	112.3%

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-Feb	Jan-Feb	
Total Budget and Treasury Receipts	1,981	2,239	13.0%
Total Budget and Treasury Payments, of which	2,819	3,138	11.3%
•Interest Payments	631	695	10.1%
•Concessional loans principal payment	33	33	0.4%
•Primary Expenditures	2,155	2,410	11.9%
Total (Deficit)/Surplus	(838)	(899)	7.3%
Primary (Deficit)/Surplus	(174)	(171)	-1.4%

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

¹ Excluding LL 394 billion in Telecom Revenues in Jan-Feb 2016 from Total Budget and Treasury Receipts, and excluding LL 591 billion in Treasury transfers to Municipalities from Total Budget and Treasury Payments.

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 the period of Jan-Feb 2016, the Treasury transferred around LL 591 billion of those funds back to municipalities.

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

Revenues

Total revenues registered a year-on-year increase of LL 652 billion (33 percent) to reach LL 2,633 billion in Jan-Feb 2016, as compared to LL 1,981 billion in Jan-Feb 2015.

Tax revenues added LL 107 billion (6 percent) year-on-year to reach LL 1,763 billion with small increases recorded in all major sub-categories.

Domestic taxes on goods and services grew by LL 33 billion, with the Value-added tax adding almost LL 30 billion. In detail, VAT collected internally rose by 7 percent, while VAT at customs inched up by 2 percent. **Taxes on Income, Profits, and Capital Gains** increased by LL 32 billion with income tax on wages and salaries rising by LL 21 billion from the same period in 2015. Tax on interest income increased by LL 12 billion to LL 143 billion possibly reflecting growth in the value of interest paying instruments at a time when interest rates remained relatively stable, namely private sector deposits and gains from interest on government fixed-income instruments. In contrast, income tax on profits decreased by LL 3 billion.

Taxes on property grew by LL 23 billion owing to higher Real Estate Registration fees by LL 22 billion (22 percent), recovering from a sharp drop in the same period of 2015, driven mainly by a 26 percent increase in the number of sale transactions.

Taxes on international trade jumped by LL 14 billion with most of the increase resulting from higher collections of excises, noting that Customs remained flat at LL 109 billion. Excises on cars grew by LL 8 billion reflecting the 14 percent increase in the value of car imports over the period, while gasoline excises added LL 4 billion and tobacco excises LL 1 billion.

Non-tax revenues surged by LL 444 billion year-on-year and amounted to LL 634 billion in Jan-Feb 2016 as cash **transfers from the Telecom Surplus** reached LL 394 billion and compared to nil in Jan-Feb 2015. **Administrative fees and charges** rose by LL 29 billion or 27 percent and were mainly driven by increases in Passport fees (LL 11 billion) and Permit fees (LL 9 billion).

Treasury receipts recorded a LL 101 billion (74 percent) jump to reach LL 236 billion in Jan-Feb 2016. 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 reached LL 3,730 billion in Jan-Feb 2016, up by LL 911 billion (32 percent) from Jan-Feb 2015, mainly owing to the transfer of funds collected on behalf of municipalities in 2014.

Current primary expenditures³ increased by LL 33 billion, reaching LL 1,838 billion in Jan-Feb 2016. This was mainly the result of (i) a LL 54 billion increase in transfers to hospitals, (ii) a LL 42 billion accounting adjustment, (iii) a LL 22 billion increase in materials and supplies due to increases in payments for medicaments and fuel and (iv) a LL 22 billion increase in contributions to non-public sectors. In contrast, transfers to Electricite Du Liban plunged by LL 178 billion owing to the decrease in international oil prices, and salaries, wages and social benefits fell by LL 51 billion.

Interest payments rose by LL 64 billion to reach LL 695 billion in Jan-Feb 2016, with higher debt service payments on the local and foreign currency components. **Foreign**

³ Current primary expenditures represent current expenditures excluding interest payment and debt service.

debt principal repayments amounted to LL 33 billion remaining almost unchanged from the previous year.

Capital expenditures increased by LL 71 billion to reach LL 234 billion in Jan-Feb 2016, up from LL 163 billion in Jan-Feb 2015, with (i) a LL 33 billion rise in construction in progress with transfers to the Ministry of Public Work and Transport rising by LL 19 billion, and a (ii) LL 31 billion increase in **other expenditures related to fixed capital assets**. In the first two months of 2016, capital expenditures accounted for 6.3 percent of total government expenditures.

Treasury expenditures⁴ surged by LL 709 billion to reach LL 858 billion in Jan-Feb 2016, as compared to LL 149 billion in Jan-Feb 2015, mainly as a result of a LL 720 billion increase in transfers to municipalities of which (i) LL 591 billion relate to telecom revenues that were collected in 2014⁵, and (ii) LL 126 billion relate to revenues and fees accruing to municipalities.

Public Debt

Gross public debt amounted to LL 107,361 billion at end-February 2016, up by 1.3 percent from end-2015, whereas net debt increased at a slightly slower pace of 1.0 percent, owing to the 3.5 percent rise in public sector deposits to LL 13,692 billion.

Local currency debt reached LL 66,324 billion, up by 1.7 percent from end-2015, accounting for almost 62 percent of total debt. Local currency debt holdings by the Central Bank increased by LL 1,455 billion, and holdings by Public Entities increased by LL 112 billion. In contrast, Commercial Banks reduced their LL debt holdings by LL 423 billion, and their overall share of outstanding LL debt to 44 percent from 46 percent.

The stock of **foreign currency debt** increased by LL 218 billion to LL 41,037 billion in the first two months of 2016, mainly owing to a LL 252 billion rise in accrued interest on Eurobonds. Other notable changes included an LL 11 billion rise in “Bilateral, multilateral and foreign private sector loans”, and decreases in Paris II and Paris III related bonds and loans by LL 17 billion and LL 24 billion respectively, mainly due to amortized principal repayments. Outstanding market Eurobonds stood at LL 35,844 billion by end-February, almost unchanged from end-2015.

⁴ 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.

⁵ As per decree 2339 dated 30 November 2015, the total amount to be transferred is LL 667 billion and pertains to arrears from the telecom surplus covering the period 1 January 2010 – 31 May 2014.

SECTION 1: REVENUE OUTCOME

Table 2: Total Revenues

(LL billion)	2015 Jan-Feb	2016 Jan-Feb	% Change 2016/2015
Budget Revenues, of which	1,846	2,397	29.9%
Tax Revenues	1,656	1,763	6.5%
Non-Tax Revenues	189	634	234.4%
Treasury Receipts	136	236	74.1%
Total Revenues	1,981	2,633	32.9%

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

Table 3: Tax Revenues

(LL billion)	2015 Jan-Feb	2016 Jan-Feb	% Change 2016/2015
Tax Revenues:	1,656	1,763	6.5%
Taxes on Income, Profits, & Capital Gains, of which	465	497	6.9%
Income Tax on Profits	129	126	-2.2%
Income Tax on Wages and Salaries	169	191	12.6%
Income Tax on Capital Gains & Dividends	26	27	4.5%
Tax on Interest Income (5%)	131	143	8.9%
Penalties on Income Tax	9	10	7.1%
Taxes on Property, of which:	156	179	14.6%
Built Property Tax	34	28	-18.0%
Real Estate Registration Fees	102	124	21.8%
Domestic Taxes on Goods & Services, of which:	646	679	5.2%
Value Added Tax	597	627	5.0%
Other Taxes on Goods and Services, of which:	45	48	7.9%
Private Car Registration Fees	28	31	10.8%
Passenger Departure Tax	16	17	4.1%
Taxes on International Trade, of which:	308	321	4.4%
Customs	109	109	0.2%
Excises, of which:	198	212	6.8%
Gasoline Excise	98	102	4.3%
Tobacco Excise	42	44	3.5%
Cars Excise	57	65	14.0%
Other Tax Revenues (namely fiscal stamp fees)	81	87	6.5%

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

Table 4: Non-Tax Revenues

(LL billion)	2015 Jan-Feb	2016 Jan-Feb	% Change 2016/2015
Non-Tax Revenues	189	634	234.4%
Income from Public Institutions and Government Properties, of which:	54	453	N.M
Income from Non-Financial Public Enterprises, of which:	20	412	N.M
<i>Revenues from Casino Du Liban</i>	20	18	-9.9%
<i>Revenues from Port of Beirut</i>	0	0	-
<i>Budget Surplus of National Lottery</i>	0	0	-
<i>Transfer from the Telecom Surplus</i>	0	394	N.M
Property Income (namely rent of Rafic Hariri International Airport)	33	40	22.3%
Other Income from Public Institutions (interests)	1	1	20.9%
Administrative Fees & Charges, of which:	108	137	26.9%
Administrative Fees, of which:	76	95	24.9%
<i>Notary Fees</i>	5	6	5.1%
<i>Passport Fees/ Public Security</i>	29	41	38.7%
<i>Vehicle Control Fees</i>	29	31	9.1%
<i>Judicial Fees</i>	4	5	26.5%
<i>Driving License Fees</i>	3	3	-4.2%
Administrative Charges	15	16	7.8%
Permit Fees (mostly work permit fees)	12	21	79.3%
Other Administrative Fees & Charges	4	3	-15.2%
Penalties & Confiscations	2	6	147.4%
Other Non-Tax Revenues (mostly retirement deductibles)	25	37	48.0%

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

SECTION 2: EXPENDITURE OUTCOME

Table 5: Expenditure by Economic Classification

(LL billion)	2015 Jan-Feb	2016 Jan-Feb	% Change 2016/2015
1. Current Expenditures	2,469	2,566	3.9%
1.a Personnel Cost, of which	1,116	1,071	-4.0%
Salaries, Wages and Related Benefits	749	698	-6.8%
Retirement and End of Service Compensations, of which:	306	330	7.7%
Retirement	281	294	4.6%
End of Service	25	36	43.3%
Transfers to Public Institutions to Cover Salaries 1/	61	44	-28.0%
1.b Interest Payments, 2/	631	695	10.1%
Domestic Interest Payments	466	493	5.8%
Foreign Interest Payments	166	203	22.4%
1.c Accounting adjustments 3/	1	43	N.M.
1.d Foreign Debt Principal Repayment	33	33	0.4%
1.e Materials and Supplies, of which:	58	80	38.2%
Nutrition	17	12	-27.3%
Fuel Oil	2	10	N.M.
Medicaments	27	40	44.9%
1.f External Services	20	25	24.5%
1.g Various Transfers, of which:	433	367	-15.2%
EDL 4/	314	136	-56.6%
NSSF	0	0	N.M.
Higher Council of Relief	20	1	-96.5%
Contributions to non-public sectors	46	68	49.0%
Transfers to Directorate General of Cereals and Beetroot 5/	10	0	-100.0%
1.h Other Current, of which:	164	234	42.3%
Hospitals	145	199	37.0%
Others (judgments & reconciliations, mission costs, other)	15	33	126.7%
1.i Interest subsidy	13	17	36.0%
2. Capital Expenditures	163	234	43.6%
2.a Acquisitions of Land, Buildings, for the Construction of Roads, Ports, Airports, and Water Networks	0	0	12.5%
2.b Equipment	9	16	76.7%
2.c Construction in Progress, of which:	102	135	31.8%
Displaced Fund	0	0	N.M.
Council of the South	0	0	N.M.
CDR	65	42	-34.7%
Ministry of Public Work and Transport	14	33	134.2%
Other of which	22	57	162.9%
Higher Council of Relief	0	0	N.M.
2.d Maintenance	50	50	-0.1%
2.e Other Expenditures Related to Fixed Capital Assets	1	32	N.M.
3. Budget Advances 6/	14	45	207.9%
4. Customs Administration (exc. Salaries and Wages) 7/	23	26	11.9%
5. Treasury Expenditures 8/	149	858	476.4%
Municipalities	33	753	N.M.
Guarantees	6	7	26.1%
Deposits 9/	28	28	0.7%
Other, of which:	82	69	-16.1%
VAT Refund	45	43	-4.9%
6. Unclassified Expenditures	0	2	N.M.
7. Total Expenditures (Excluding CDR Foreign Financed)	2,819	3,730	32.3%

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/ 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.

4/ 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.

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

6/ 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.

7/ 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.

8/ 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.

9/ 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-Feb	2016 Jan-Feb	% Change 2016/2015
Transfer to Council of the South	0	0	N.M.
Transfer to CDR	0	11	N.M.
Transfer to the Displaced Fund	0	0	N.M.
Transfer to the Lebanese University	61	29	-51.6%
Transfer to the Educational Center for Research and Development	0	3	N.M.

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

Table 7: Details of Debt Service Transactions¹

(LL billion)	2015 Jan-Feb	2016 Jan-Feb	% Change 2016/2015
Interest Payments	631	695	10.1%
Local Currency Debt	466	493	5.8%
Foreign Currency Debt, of which:	166	203	22.4%
Eurobond Coupon Interest*	147	188	28.5%
Special bond Coupon Interest*	2	1	-20.6%
Concessional Loans Interest Payments	17	13	-25.4%

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)	2015 Jan-Feb	2016 Jan-Feb	% Change 2016/2015
EDL of which:	314	136	-56.6%
Debt Service	10	7	-30.6%
Reimbursement for purchase of Natural Gas, Fuel & Gas Oil	304	129	-57.4%

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-February 2016

(LL billion)	Dec-14	Dec-15	Feb-16	% Change Dec 15 - Feb 16
Gross Public Debt	100,356	106,014	107,361	1.3%
Local Currency Debt	61,752	65,195	66,324	1.7%
* <i>Accrued Interest Included in Debt</i>	1,029	997	1,177	18.1%
a. Central Bank (Including REPOs)	19,855	24,308	25,763	6.0%
b. Commercial Banks	31,468	29,878	29,455	-1.4%
c. Other Local Currency Debt (T-bills), of which:	10,429	11,009	11,106	0.9%
<i>Public Entities</i>	7,701	8,461	8,573	1.3%
<i>Contractor bonds 1/</i>	180	180	180	0.0%
Foreign Currency Debt 2/	38,604	40,819	41,037	0.5%
a. Bilateral, Multilateral and Foreign Private Sector Loans	2,752	2,478	2,489	0.4%
b. Paris II Related Debt (Eurobonds and Loans) 3/	1,743	1,182	1,165	-1.4%
c. Paris III Related Debt (Eurobonds and Loans) 4/	986	810	786	-2.9%
d. Market-Issued Eurobonds	32,584	35,846	35,844	0.0%
e. Accrued Interest on Eurobonds	425	435	687	57.9%
f. Special T-bills in Foreign Currency 5/	114	68	66	-2.9%
Public Sector Deposits	13,965	13,227	13,692	3.5%
Net Debt 6/	86,391	92,787	93,669	1.0%
Gross Market Debt 7/	67,373	68,799	68,609	-0.3%
% of Total Debt	67%	65%	64%	-1.5%

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 13- Dec 14 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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